

**CONFIDENTIAL TO THE POLICY COUNCIL
UNTIL AND UNLESS RELEASED BY THE COUNCIL**

Section A – 5

MEMORANDUM TO CHIEF MINISTER AND MEMBERS OF THE POLICY COUNCIL

ACCOUNTS PAYABLE (AP) SERVICE STATUS & PERFORMANCE

- 1 The implementation of the enhanced SAP system on January 1st 2013 (the ‘go live’ date) across the States, the creation of the HUB and the introduction of revised policies and procedures for the entire SoG *procure to pay* chain has fundamentally changed the way in which AP is managed, delivered and controlled.
- 2 What was previously a devolved system of ‘local’ (department based) ordering and invoice payment has been superseded with standardised control processes, designed to safeguard the use of public money for the procurement (and payment) of goods and services across our organisation. The ‘procure to pay’ system we work to within SAP was designed and delivered by the States’ Head of Procurement in conjunction with departmental colleagues during the SAP project’s delivery phase across 2012.
- 3 In the wake of the 2012 fraud incident, the new payment controls are particularly important to uphold, as they collectively provide the safeguards needed to ensure vendor details are managed correctly, and that our goods and services are effectively **ordered, receipted and invoiced** (a so called ‘three way match’). When three way matches occur, the Vendor Services Team within the HUB is able to immediately arrange payments to suppliers – making this principle central to our operations.
- 4 The basic overall procure to pay system now in use across the SoG is as follows:
 - Almost all goods/services that are ordered by our staff are approved by a separate manager (to ensure the validity of the transaction) within SAP before being sent to suppliers. SAP generates a Purchase Order which is unique to that transaction.
 - Goods / Services received are ‘receipted’ in SAP (as the buyer is often separate to the person(s) receiving the goods / services). This means that the overall order can be tracked in terms of delivery status by anyone involved in the receipt / payment chain.
 - Invoices are then raised by vendors to the HUB, where they are scanned, before a digital copy is sent to the relevant department. Staff in departments ‘code and approve’ the invoice scan within SAP which allows the HUB to pay the vendor.

Despite the clear potential of the system, and the logic behind the change to our procedures, we have experienced ongoing issues with the delivery of AP since go live, with the most pressing concern being the issue of late payments to vendors.

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5 In respect of any delays to supplier payments that have resulted because of any inaction or delay on the part of HUB staff, we would ask Members to accept our sincere apologies and note that officers are working hard to achieve a high standard of service whilst upholding the new controls. The issues we are working through are often complex however, and outside the direct control of the HUB. They include:

- Late receipt of invoices to the HUB as vendors have sent them direct to departments,
- A backlog of invoices to be scanned within the HUB (often suppliers send many separate individual invoices rather than a combined invoice document for a supply period adding to processing volumes for example),
- Delays in getting responses to scanned documents sent to department colleagues,
- Frequent structural changes in SAP leading to HUB staff having to retract invoices and re-send them to alternative processors,
- A lack of adherence to the agreed procure to pay system meaning that retrospective Purchase Orders and receipting work has to be undertaken,
- A clear indication that ongoing change management support to embed the new processes has been needed over and above the work delivered in 2012.

6 Staff from the Vendor Services team and all stakeholders are keen to achieve business as usual for supplier payments as soon as possible and have therefore met and will continue to meet regularly with departmental colleagues to:-

- Discuss openly and find collective solutions to the issues encountered,
- Drive up system use and knowledge across all users,
- Reduce the backlog that has built up in certain areas of the process by working together (egs, department staff have been working directly with the HUB AP team to manage the backlog and deal with issues that have arisen through mutual support).
- Manage escalations proactively as they arise (for example: CHAPs payments to vendors where required to ensure continuation of supply).

In addition to the above, the Central Services Director will continue to work at Chief Officer level to support and sponsor the changes we have made to the procure to pay chain. In terms of this area of work, Members may wish to note the Memo at Appendix A which has resulted in a great deal of positive activity since its original issue, though it is fully acknowledged that problems still exist to be worked through.

7 In terms of relevant statistics for the Vendor team, please note that:

- The organisation uses over 13,000 'live' SoG vendors.
- We have added 972 new vendors and amended the details of a further 6,500 vendors since January. No backlog exists regarding vendor Master Data.

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- We expect to receive apx. 100,000 individual paper invoices this calendar year for processing through the HUBs AP team.
 - The Vendor Services team expects to manage over £200m of payments to vendors on behalf of departments during the 2013 calendar year.
 - The team have made £56m of payments to vendors since January, involving 10,000 BACS runs and 4,000 individual cheques.
- 8 In terms of Purchase Order compliance for the year to date across the whole States' (a key indicator of adherence to the processes adopted), this now stands at **65%** (by number of documents processed). This is up considerably from the point of go-live in January and is thanks to the efforts and support of all associated departmental staff.
- 9 Staff within the HUB will continue to work hard with department colleagues to deliver the prescribed changes and achieve a steady state for AP as soon as possible. To deliver this successfully, we need all sponsors to continue to support the process and the reasons behind the changes we have introduced.

RECOMMENDATIONS

- 10 Members of the Policy Council are asked to note the content of this report and continue to support the required changes to the organisations' procure to pay process that have been implemented since go live of the revised SAP system in January 2013.

Central Services Director
7th May 2013.

MEMORANDUM (THIS MEMO IS TWO PAGES IN LENGTH)

To: ELT & All Chief Officers

From: Central Services Director, T&R, HUB.

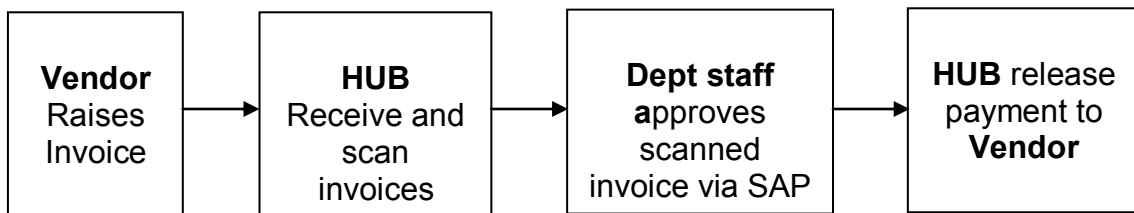
Date: 25th March 2013

Ref: Accounts Payable (AP) Service Status and Issues.

Colleagues,

Since January the 1st, an entirely new *procure to pay* process has been implemented as part of the SAP project system implementation. On the back of this change, all AP *processing* and *payments* have been centralized via the Vendor Services Team in the HUB.

A simplified view of our AP process is as follows:



Issues and Lessons Learnt since go live. In the weeks since launch, we have been operating the AP system as prescribed in the SAP blueprint. As a result of this, we have, and are currently continuing to experience, some delays in the speed that payments can be *verified*, *processed* and *paid* to our vendors. This situation must improve and the following actions are being taken / will need to be taken immediately to improve service speed:-

HUB ACTIONS

- We are making changes to our invoice processing procedures to speed up the payment of low value invoices which have a valid Purchase Order (PO) and have been Goods Received.
- We will be putting in place additional staff to manage the current high volume of work experienced by Vendor Services.
- We will be working with you to agree groups of invoices that you are happy for us to code and approve on your behalf to speed up payments.
- We have put in place weekend working to address backlog.
- We are actively explaining the changed AP process with vendors.
- We will author and publish new Quick Reference Guides to support colleagues involved with departmental aspects of the AP process. We are also happy to provide direct training for your staff, please just ask.
- We are putting in place an AP group to involve your teams in driving forward improvements in the short and longer terms.

DEPARTMENT ACTIONS.

- Please send all invoices you receive in departments direct to us without delay so we can process them. Don't hang on to them.
- Please make sure your staff raise PO numbers against every applicable order (only apx. 40% have valid POs currently across the whole States).
- There are 1,000 invoices awaiting approval in the Universal Work Lists of your staff as of today's date – please ask them to use SAP daily and approve such invoices immediately - so we can pay your invoices.
- Please look again at who you have asked for us to send invoice scans to, in one department just one individual processes every such item – clearly a bottleneck, we need to spread the load across your managers.
- Please stop raising orders against 'blank' PO numbers (whereby a PO is generated solely to provide an order number to a vendor but no detail of what the order is exists when they subsequently invoice against it).
- Please start goods receipting so a higher rate of 'three way match' (PO, Goods Receipt and invoice) can be achieved in SAP and thereby automate payments to your vendors. This is what the system is designed to do so we have to drive up three way matching.
- Please stop generating retrospective POs. POs should be used at the start of a procurement process not afterwards.
- Please continue to raise urgent issues to the Vendor Team (747392) who will help wherever possible.

Further Information.

The AP systems we run are designed to safeguard public money, and manage payments safely, so we all have an interest in ensuring they operate as intended. The whole process will improve in speed and efficiency over time as vendors, staff and processes become more familiar with the change.

Thank you for continuing to support the change in AP and contact me directly for any issues of concern you need to raise that you feel I can help with.