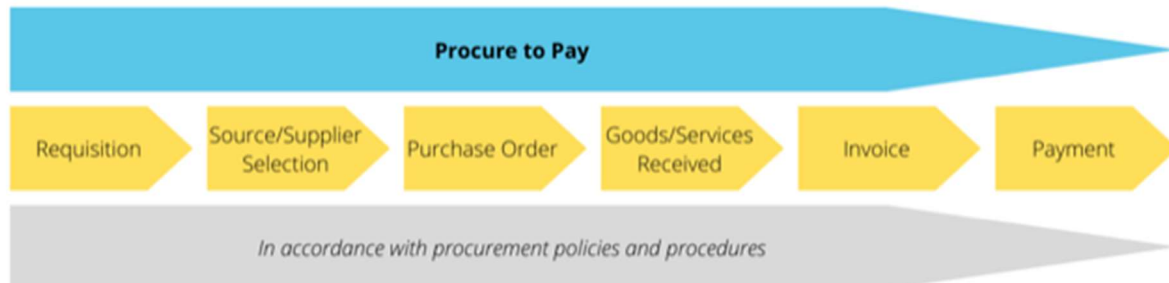


4.7 Procurement to Payment

A procurement to payment process outlines how an organisation purchases the raw materials/goods and services they need to do business, receives and manages those purchases, processes vendor invoices, and finally authorises payments. The process spans procurement, operations, and accounts payable.



Specific to local government, Part 4 — Provision of goods and services and Part 4A — Regional price preference of the F&G Regulations details specific requirements when it comes to:

- purchasing policies
- tenders for providing goods or services
- panels of pre-qualified suppliers
- regional price preference.

Whereas FM Regulations 11, 12 and 13 deals with requirements in regard to payments.

4.7.1 Purchasing

Purchasing is the process whereby a local government acquires goods or services to conduct its operations. F&G Regulations 11A require local governments to have in place a purchasing policy for the supply of goods or services where the consideration is or is worth less than \$250,000. Where the value exceeds this amount, the regulations in respect to tender's takeover.

Details of what is to be included in a local government's purchasing policy is provided in section 4.5.1 – Policies.

4.7.2 Tenders

The general provisions for calling for and accepting tenders under the legislation are summarised below:

- Section 3.57.(1) of the Act states that:
“A local government is required to invite tenders before it enters into a contract of a prescribed kind under which another person is to supply goods or services.”
- Section 5.43.(b) of the Act states that:
*“A local government cannot delegate to a CEO any of the following powers or duties –
(b) accepting a tender which exceeds an amount determined by the local government for the purpose of this paragraph”*

- Part 4 of the F&G Regulations regulates and provides the procedures for local government tenders for providing goods or services.
- Regulation 11(1) of the F&G Regulations requires tenders to be publicly invited before a local government enters into a contract for another person to supply goods or services if the consideration under the contract is worth more than \$250,000 and unless subregulation (2) states otherwise.

Meeting the required obligations and developing the frameworks that are needed to have a compliant and effective local government procurement system can be complex and resource intense. Further assistance with and resources for procurement and tendering can also be obtained through a Western Australian Local Government Association (WALGA) procurement subscription. Contact WALGA for more information.

Additionally, ensuring that the finance system in place is keeping up with technological advancements will also assist with maintaining an effective and compliant procurement system. An effective finance system or ERP will have automated workflows for approvals, checks and processing (Procure to Pay System). If the system at your local government does not have this in place, you may want to discuss the options with your system provider initially or consider as part of a system review.

4.7.3 Payment of Accounts

Local governments are required under legislation to develop proper procedures and processes for payment of accounts. The FM Regulations set out requirements for:

- procedures for making payments
- Restrictions on Payment from Municipal or Trust Funds
- reporting.

Procedures for making payments

Regulation 11 of the FM Regulations provides the minimum requirements for a local government to have procedures in regard to making payments. Minimum requirements have been used here as the making of payments is probably one of the biggest financial risk areas to a local government. The making of a payment is the final point in the process whereby, sufficient controls, checks and balances need to be in place prior to any cash leaving a local government's bank account/control.

The FM Regulations provide that a local government is to develop procedures for the authorisation and the payment of accounts to ensure that there is effective security for and properly authorised use of:

- cheques
- credit cards
- computer encryption devices and passwords
- purchasing cards and any other devices or methods by which goods, services, money or other benefits may be obtained
- petty cash systems.

Additionally, FM Reg 11(2) states that procedures also need to be in place to ensure the proper authorisation was obtained to incur the debt prior to making the payment. Meaning, the relevant authorising officer has signed off on the purchase order, there is a three-way match between the purchase order, goods/service being received, and the invoice, and where there is a variation, the right authorisation of the variation has been approved prior to the payment. In essence, the procurement to payment policies and procedures have been adhered to.

11. Payments, procedures for making etc.

(1) A local government is to develop procedures for the authorisation of, and the payment of, accounts to ensure that there is effective security for, and properly authorised use of —

(a) cheques, credit cards, computer encryption devices and passwords, purchasing cards and any other devices or methods by which goods, services, money or other benefits may be obtained; and

(b) petty cash systems.

(2) A local government is to develop procedures for the approval of accounts to ensure that before payment of an account a determination is made that the relevant debt was incurred by a person who was properly authorised to do so.

(3) Payments made by a local government —

(a) subject to subregulation (4), are not to be made in cash; and

(b) are to be made in a manner which allows identification of —

(i) the method of payment; and

(ii) the authority for the payment; and

(iii) the identity of the person who authorised the payment.

(4) Nothing in subregulation (3)(a) prevents a local government from making payments in cash from a petty cash system.

Restrictions on Payment from Municipal or Trust Funds

A local government is not to make payments from its municipal or trust fund:

- unless it has delegated to the CEO to exercise of its power to make payment from those funds
- where it has not delegated to the CEO, unless a list of payment/s to be made has been authorised in advance by resolution of the Council. The details required in this list is set out in FM Regulations 13(2).

In practice, Councils have usually put in place a delegation to the CEO, the exercise of its power to make payment. This enables a more efficient system by which a local government is able to make to its creditors.

12. Payments from municipal fund or trust fund, restrictions on making

(1) A payment may only be made from the municipal fund or the trust fund —

(a) if the local government has delegated to the CEO the exercise of its power to make payments from those funds — by the CEO; or

(b) otherwise, if the payment is authorised in advance by a resolution of the council.

(2) The council must not authorise a payment from those funds until a list prepared under regulation 13(2) containing details of the accounts to be paid has been presented to the council.

Reporting – List of Accounts Paid

A key tool for a Council to have oversight of the payments made by a local government in carrying out its business is the 'list of accounts paid'. The FM Regulations 13 require a local government to prepare each month a list of accounts paid (and present to Council) detailing:

- (a) the payee's name
- (b) the amount of the payment
- (c) the date of the payment
- (d) sufficient information to identify the transaction.

'Sufficient information to identify the transaction' is considered to include the cheque number, or voucher number or EFT number together with a brief description of the goods or services for which the payment is made.

It is important to keep in mind that like all the data, information and reports produced by the finance team, this report forms part of information that is available to the public. Specifically, this report is to be presented to Council and professionalism, transparency and accuracy is key. Educating staff at the point of data entry that builds the basis for this report will have real time saving efficiencies when it comes time to produce this report for Council. The last thing that the report producer or reviewer should be having to do is spend surplus amounts of time fixing spelling errors and adjusting descriptions to be report-friendly.

Monthly credit card payments should not be listed as a single line entry but should list details of every credit card transaction made during the month to ensure full disclosure and openness and transparency in the use of cards.

13. Payments from municipal fund or trust fund by CEO, CEO's duties as to etc.

(1) If the local government has delegated to the CEO the exercise of its power to make payments from the municipal fund or the trust fund, a list of accounts paid by the CEO is to be prepared each month showing for each account paid since the last such list was prepared —

- (a) the payee's name; and*
- (b) the amount of the payment; and*
- (c) the date of the payment; and*
- (d) sufficient information to identify the transaction.*

(2) A list of accounts for approval to be paid is to be prepared each month showing —

- (a) for each account which requires council authorisation in that month —*
 - (i) the payee's name; and*
 - (ii) the amount of the payment; and*
 - (iii) sufficient information to identify the transaction; and*
- (b) the date of the meeting of the council to which the list is to be presented.*

(3) A list prepared under subregulation (1) or (2) is to be —

- (a) presented to the council at the next ordinary meeting of the council after the list is prepared; and*
- (b) recorded in the minutes of that meeting.*

4.7.4 Credit Cards

Corporate credit cards form part of most modern purchasing systems. They can offer significant benefits such as reduced costs and streamlined business processes. In local government they are commonly used for purchases including subscriptions, computing and other equipment, general consumables, hospitality and travel. While local governments generally use credit cards for a small proportion of their payments, it is important they are effectively managed to reduce the risk of improper or unauthorised use¹.

Local government employees and CEOs use corporate credit cards. However, the elected members that make up a local government Council cannot use these cards as the Act does not allow them to incur debts. Instead, local governments pay allowances or reimburse expenses to an elected member².

Strong controls assist in the early identification of erroneous, inappropriate or unauthorised transactions. Local governments should:

- ensure policies specify requirements for all key credit card processes
- keep adequate records of all card transactions, including information that describes the nature/purpose of the expenditure and evidence of review and approval
- cancel redundant cards in a timely manner to avoid loss and/or misuse of cards
- regularly monitor outstanding transactions to identify and follow up on long outstanding unacquitted transactions
- ensure senior management periodically reviews credit card use, to confirm compliance with policies and to identify any abnormal trends. The results of these reviews should be documented and retained.

The payment made for a credit card is to be included in the accounts for payment report to Council, required under FM Reg 13. For transparency local governments are providing an addendum to the payments report detailing the transactions of each credit card.

Further information on the use of corporate credit cards can be found in the DLGSC Local Government Operational Guidelines Number 11 – *Use of Corporate Credit Cards*. A link to this guideline has been provided in section 6.0 – *Related Guidance* of this document.

4.7.5 Identifying and Minimising Risk in Procurement

Good procurement practices centred around the principles of probity, accountability and transparency are key to managing procurement risks and the delivery of good outcomes for ratepayers. Local governments expose themselves to the risk of fraud and misconduct and reputational damage when procurement processes are not followed or are seen not to be acting in the best interests of their communities.

Having policies and controls that are appropriate, and monitoring their effectiveness is essential if local governments, and the ratepayers that they serve, are to have confidence in local government procurement activities. Procurement practices that focus solely on minimum compliance with legislation are unlikely to provide local governments with the oversight and control they need to address risks and ensure value for money in their procurement. Therefore, it is essential local governments enhance their “*procurement capability to give staff the knowledge and skills to effectively carry out their jobs*”³.

In October 2018, the OAG conducted a performance audit into local government procurement. The resulting audit report outlined what the OAG would expect to see regarding each focus area within

¹ Western Australian Auditor General’s Report – Controls Over Corporate Credit Cards – Report 7: May 2018, Page 5

² Ibid

³ Western Australian Auditor General’s Report – Local Government Procurement – Report 5: October 2018-19, Page 4

local government procurement – see below table. Completing a regular self-assessment against these items will assist your local government in maintaining an effective procurement framework.

Procurement Framework	Focus Area	What we expected to see:
Policy	Policy	<ul style="list-style-type: none"> LGs regularly review policy to assess if value thresholds and quote requirements reflect current needs policies are clear about when and how to apply exemptions
Training	Training	<ul style="list-style-type: none"> LGs provide all staff involved in the procurement process with training in relevant policy and processes training emphasises personal accountability and how probity and transparency relate to procurement LGs provide staff with refresher training
Sourcing	Seeking quotes	<ul style="list-style-type: none"> that business requirements were determined prior to engaging suppliers LG staff used the right purchasing method, as required by their own policies and the Regulations that the use of exemptions was justified and documented
	Tendering	<ul style="list-style-type: none"> that tenders were advertised, opened, assessed and recorded in line with the Regulations documentation was retained to support open, fair and transparent decisions, and show that processes have been followed that a Tenders Register was maintained in line with Regulations
	Conflict of interest	<ul style="list-style-type: none"> that tender evaluation panel members provide positive assurance declarations that declarations were retained and there was a record of how they were assessed and how any conflicts were addressed
	Purchase orders and approvals	<ul style="list-style-type: none"> that purchase orders were raised for the full expected amount of the procurement purchase orders were approved by staff with appropriate authority internal approvals were obtained before goods and services were purchased
	Segregation of duties	<ul style="list-style-type: none"> appropriate segregation of duties across the procurement process
	Reviewing invoices and payments	<ul style="list-style-type: none"> any differences between invoice charges and quoted or contracted rates had been reviewed and appropriately justified goods and services were received and approved by staff with appropriate authority that there were strong controls around payment of suppliers and access to bank accounts documentation was retained to support open, fair and transparent decisions, and show that processes have been followed

Source: <https://audit.wa.gov.au/reports-and-publications/reports/local-government-procurement/appendix-1-audit-focus-areas/>