Recipe for success

Follow the basic method for the purchase-to-pay process, explains Sigi Osagie, and buyers and sellers connected with your organisation will be happy with the result

IMAGE: ISTOCK

Purchasing has been in the spotlight as organisations have sought to manage spend tightly during the downturn. One aspect of purchasing activity that is frequently fraught with internal conflict and misunderstanding is the actual process of buying and paying for goods and services, typically referred to as the purchase-to-pay (P2P) process. In particular, what should you be responsible for and what should be left to your customers, finance and suppliers.

The P2P process is sometimes poorly understood because organisations adopt different practices for various types of spend. However the basics are straightforward.

Here's a guide to the P2P process and some potential pitfalls you could encounter.

REQUISITIONING

The process starts with a requisition raised by the person who has a supply requirement, or someone specifically nominated to raise requisitions. Requisitioning is the means by which the organisation formally stipulates a need for the purchase of goods or services.

Next, the manager responsible for the cost centre (or budget-holder) must approve the requisition. This approval signifies that the person in charge of the budget is happy for the purchase to proceed. This is the point at which the organisation approves the commitment of finances for the purchase. A widely accepted best practice is the use of "delegated financial authorities" (DFAs) to allocate appropriate levels of financial approval to managers or budget-holders.

It is appropriate for requisitions to be created and financially-approved by departments in the organisation as they are the users of the goods and services. Procurement may play a supportive role in developing the specification for the requirement.

SOURCING AND ORDERING

Once the requisition is approved sourcing can begin. Sourcing is a critical area where procurement can demonstrate its value-add to any organisation. Unfortunately too many people try to overcomplicate this rudimentary purchasing activity. Sourcing is simply finding the right supplier at the right quality for the right price.

An effective procurement function should take advantage of its expertise to ensure the organisation gets value for money from supply markets. Such expertise includes working closely with "internal customers" to better understand their current and future requirements, aggregating requirements across the organisation to exploit total spending power and maintaining robust knowledge of supply markets to augment successful negotiation of optimal sourcing arrangements.

Sometimes it may be appropriate for procurement to involve internal stakeholders in the sourcing activity, in supplier selection for specialist products or services, for example. While such collaboration can be effective, ultimate responsibility for sourcing must lie with the procurement department. Cost-effective sourcing arrangements are a core procurement responsibility and capability.

In some situations sourcing may have been completed up-front, the first time the item was purchased. In this case the purchasing activity is limited to ensuring that goods and services are purchased in line with the pre-defined arrangements, such as ordering only from the approved suppliers or at pre-agreed prices.

Ordering from suppliers is best done using formal purchase orders (POs). And issuing POs electronically is the most effective method, as this creates an audit trail which is available for query if problems occur subsequently.

As custodians of third-party expenditure procurement must control sourcing and ordering. Enforcement of this control is best done through a "delegated purchasing authority" (DPA) mechanism which sets out the specific levels and categories of purchasing spend which individual buyers can approve. DPAs are usually set to reflect organisational hierarchies within the procurement function, and may include the finance director and CEO who must approve certain spend in addition to procurement.

Effective DPA mechanisms are structured such that most expenditure is approved within procurement. Only exceptionally high levels of spend or exceptional requirements need further approval beyond the purchasing team.

DELIVERY AND RECEIPTING

A supplier can deliver the required goods or services after a PO is received. Once the goods or services have been delivered the recipient within the organisation must accurately reflect receipt of the items, including any relevant electronic transactions. The recipient may be a dedicated person who has been allocated responsibility for receiving goods such as a storeman.

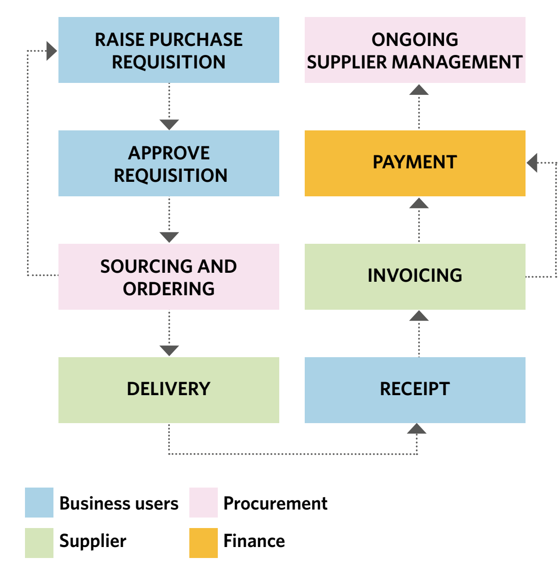
INVOICING AND PAYMENT

Suppliers should send their invoices as early as possible after the goods and services have been delivered, except where pre-agreed sourcing arrangements include specified timings for supplier invoicing, such as on a specific day each month. Supplier invoices must include accurate information such as the relevant PO number.

Suppliers should only be paid after invoices have been accurately reconciled against pertinent purchasing information. The invoice quantity must match the received quantity. Invoice reconciliation, or approval for payment, is usually best done by the personnel who received the goods or services.

The accounts payable function in finance should be responsible for paying suppliers. Payments must only be made against invoices that have been approved. Supplier payments should be done via formal transactions such as cheques or electronic bank transfers but never by cash. This ensures audit traceability and minimises the risk of fraud.

STAGES IN A BASIC P2P PROCESS



> **Challenges include lack of clarity, ineffectiveness and misunderstanding of responsibilities**

Some of the challenges around the purchasing process include lack of clarity, ineffectiveness and misunderstanding of responsibilities. As the process owner procurement must ensure the process is documented and communicated to relevant stakeholders. Automating as much of the transactional element as possible will also help improve the reliability of the process.

Clarification of responsibilities is critical to avoid maverick or fraudulent activities. Internal stakeholders of the process fall into four groups – users, budget-holders, buyers, and payers. The latter three should never be the same person. In particular, there must be clear segregation of responsibilities between buyers and payers. Procurement must always do the 'buying' and finance must always do the 'paying'.

Even where the process is clear and robust it may still be possible for maverick spend to occur. In such instances the organisation must indicate the importance of process compliance by enforcing its purchasing policy, by refusing to pay suppliers who supply without POs or sanctioning employees who breach the process. The effectiveness of the process is strongly dependent on its enforcement. SM

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