

NATIONAL E-PROCUREMENT PROJECT

E-PAYMENT SOLUTIONS

Title:	E-Payment Solutions
Identification:	This paper provides an overview of the various electronic payment (e-payment) solutions available to local authorities for the payment of goods and services. The paper outlines the benefits and challenges associated with each. The payment solutions covered here include purchasing cards (P-cards); electronic invoicing (e-invoicing); BACS; automated matching of purchase orders, delivery notes and invoices; self-billing; online transactions via supplier websites; consolidated invoicing and VAT reconciliation.
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Prepared By:	Maciej Baranski, iMPower

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1. What is e-payment?

The Office for Government Commerce (OGC) defines e-payment as:

“The use of web-based technologies and electronic communications networks for payment of goods and services. Tools include virtual or embedded GPC (Government Procurement Card), e-invoicing and self-billing.”

This document will provide information on the different types of electronic payment options available for local authorities. The paper focuses on the following e-payment solutions:

- Purchasing card
- E-invoicing
- BACS
- Automated matching
- Self-billing
- Online transaction
- Consolidated invoicing
- VAT Reconciliation

2. Purchasing card

What is it?

Purchasing cards are charge cards which work in a similar way to credit cards and can be used to purchase goods or services. One of the key differences of a purchasing card as opposed to a credit card is that the organisation for which the cardholder works gets information from the card provider (printed and/or electronic as required) about the transactions carried out using the card. This information can be used to monitor the use of cards, provide management information and update financial systems.

Purchasing cards enable purchasing directly from suppliers such as hardware stores and replace paper based purchase orders and invoices or the use of petty cash for these purchases.

They are particularly suitable for low-value items. For examples, for emergency purchases by office-based staff who cannot wait for delivery by contracted suppliers and wish to buy an item immediately from a shop. Mobile staff that do not have access to petty cash or to PCs for e-ordering can benefit from using purchasing cards.

Purchasing cards can also be used as payment mechanism for Internet purchases such as buying a book from an Internet bookshop. They can also be used in conjunction with some e-marketplace solutions to complete the purchasing cycle.

Purchasing cards can be used as a foray into electronic procurement and improved control of procurement. There is a relatively low-cost for local authorities associated with implementing them as most of the cost is borne by suppliers paying transaction fees.

Benefits

Some key benefits of purchasing cards include the following:

- Reduction in paper handling of purchase orders and invoices and the associated costs and inefficiencies
- More and better management information on spending than when using a paper based system
- Many suppliers accept card payments
- Reduces staff out-of-pocket expenses

Challenges

The main challenges associated with implementing purchasing cards include the following:

- Cultural barriers to empowering users to make purchases without the formal approval process
- Persuading some suppliers, especially smaller ones, to accept purchasing cards due to the associated transaction costs for the supplier
- Setting up the management information system to be able to use the data provided by purchasing card provider

For further information on P-cards see the NePP's Technical Overview of Purchasing Cards.

3. E-invoicing

What is it?

E-invoicing or electronic invoicing is an electronic payment solution for secure exchange of electronic invoices between suppliers and buyers.

E-invoicing usually works in two ways, either as a system, which allows the suppliers to present their invoices electronically on a web site hosted by a third party organisation, often a bank or as an integrated exchange of electronic invoice files between the supplier and buyer.

In the case of the intermediary option, the buyer is notified by email that the invoice for purchased goods has been posted on the website. The invoice can be reviewed, routed to a specific department, disputed if necessary, approved and paid on-line. Then the invoice can be downloaded, archived and integrated into an accounting application.

Some e-marketplace solutions offer e-invoicing facilities. The invoice is created by using data from the completed electronic delivery note attached to an order. In this case there can be real benefits from removing invoicing errors since the invoice is based on the buyer's confirmation of the goods they have received.

Benefits

The main benefits of e-invoicing include:

- Reduced cost of handling invoices
- Improved relationships with suppliers, because the approval and payment cycle is significantly reduced
- Increased productivity through seamless integration with back office systems
- Reduced storage space requirements and elimination of manual filing of paper invoices
- Reduced errors

Challenges

The main challenges associated with implementing purchasing cards include the following:

- Agreeing with suppliers the standard for electronic invoice data structure and format (the OGC has been investigating standards. See the OGC website at <http://www.ogc.gov.uk>)
- Integrating the system providing electronic invoicing with the local authority's financial system

For further information on e-invoicing see the NePP's Technical Overview of e-invoicing.

4. BACS

What is it?

BACS (Bankers Automated Clearing System) is an automated payment method. BACS payments are usually processed as batches using dedicated software linked in with the bank's system. BACS is a tried and tested payment method (over 70% of salaries are paid by BACS), which carries the security of using a bank to manage payment transfers. It can be used to pay suppliers as well as salaries, and can be easily automated to remove the requirement for manual inputting of payment data.

Benefits

The main benefits of this electronic payment method include:

- Automation of regular payments
- Reduction in time and cost of administering bulk payments
- Improved management of cash flow and financial control
- Reduction in risk of loss, late payment and theft for customers
- Easy and inexpensive way to start improving procurement efficiency

Challenges

Challenges include:

- Limited capacity for including any additional data with the payment – therefore a paper remittance must be sent to the supplier to accompany the payment

For further information on BACS see the NePP's Technical Overview of BACS.

5. Automated matching

What is it?

The automated matching of order, receipt and invoice functionality is quite commonly provided as a part of electronic marketplace and catalogue e-procurement solutions. This functionality works in the following way:

Ordering

- A local authority employee places an order for a selection of goods or services from an electronic catalogue. The electronic purchase order is generated with a unique identifier and sent for approval to the employee's supervisor
- The electronic purchase order is approved and sent to the supplier via e-mail, a daily batch file, faxed or printed and posted

Receipting

- When the goods or services are delivered or carried out, a receipt is either entered into the system manually or sent by the supplier electronically
- The details of an electronic receipt are automatically matched with the corresponding electronic purchase order as described above

Invoicing

- The supplier provides an invoice electronically
- The local authority end of the system performs a three-way match for each purchased item between the electronic invoice, receipt and purchase order
- In the case of any discrepancy, the invoice is automatically flagged for manual approval
- If there are no discrepancies, payment is made to the supplier via BACS. Alternatively, a cheque can be printed and mailed

Benefits

The main benefits of this electronic payment method are streamlining of the order to payment process and eliminating of manual data entry. The human intervention is limited to raising and receipting the order, as well as handling any exceptions. Given the three-way manual input process, the number of errors removed by electronic matching can be huge.

Challenges

The main challenges associated with implementing automated matching systems include the following:

- Integration of the electronic catalogue ordering process and the local authority's back office system
- Readiness of suppliers to engage in the electronic exchange of documents

6. Self-billing

What is it?

Self-billing is a process whereby the purchasing organisation generates an invoice on behalf of a supplier for the goods or services bought from that supplier.

The self-billing process consists of the following steps:

Ordering

- Local authority raises a purchase order for goods or services
- Prices and terms of payment should be agreed beforehand at a supplier level rather than order level

Receipting

- The self-billing process is initiated by the local authority at the point of receiving the goods and updating its system with the receipt details.
- The person receiving the goods is responsible for dealing with any discrepancies in quantity. If there are discrepancies in quantity, the buyer will have to issue a complaint invoice to include information on quantities received and quantities advised. Recorded discrepancies in quality should be handled separately by issuing another complaint invoice
- The supplier should create an internal Invoice referring to a delivery note for the purpose of his own book keeping records

Invoicing

- The local authority issues and forwards a self-billing invoice regarding future payments referring to a delivery note
- The supplier is responsible for comparing his internal invoice with the self-billing invoice and is obliged to notify the local authority of any discrepancies, including discrepancies in VAT amounts
- Self-billing invoices are paid by applying the same procedures as used for the payments of other invoices

Benefits

The main benefit of this payment solution is the increased procurement process efficiency by eliminating the need to handle incoming invoices, eliminating manual data entry and therefore reducing errors. This payment method does not require substantial investment in technology, as it is more of a process change.

Challenges

The main challenge in implementing this payment solution is in overcoming the cultural barrier on both sides. This involves the supplier having confidence in the buyer and accepting that the responsibility for accuracy and timeliness of payment is on the buyer's side.

7. Online transaction

What is it?

The online transaction e-payment mechanism covers all transactions carried out through suppliers' websites. The usual payment method for a local authority to complete these transactions is by using a purchasing card. Online transactions involve the following steps:

- The local authority holder of the purchasing card enters a supplier's website
- Selects a product or service from the online catalogue
- Enters the card details to confirm the payment

This e-payment method is most suitable for one-off purchases of goods and services not covered by any existing contracts, such as cheap flight tickets.

Benefits

The main benefit of online transactions is their simplicity of use and familiarity to most users who may have purchased goods over the Internet using their personal credit cards.

Challenges

The main challenges associated with using supplier websites for online transacting include the following:

- Limited control over individual user's spending
- Inconsistency between various suppliers

8. Consolidated invoicing

What is it?

Consolidated invoicing is a mechanism for producing a single invoice for multiple orders and deliveries of goods or services.

The process of using this mechanism is that multiple deliveries, especially for low value orders are consolidated into a single, periodic invoice and payment.

The technology used for consolidated invoicing can provide different types of reporting:

- Sales invoice, which gives a total value for monthly orders
- Order summary, detailing order values, delivery dates and customer reference numbers
- Item detail, adding another level to the order summary information by listing product codes, descriptions, order quantities and values at line level

Benefits

The main benefit of consolidating invoices is that it reduces administrative costs to both buyers and suppliers and improves management information – all transactions for a given period appear on a single document.

Challenges

The main challenge here is presented by matching many orders to one consolidated invoice.

9. VAT Reconciliation

What is it?

This is the process whereby the monthly or quarterly VAT return liability or refund as prepared from the accounting daybooks is reconciled to the VAT control account balance in the General Ledger.

HM customs & Excise levy financial penalties if VAT returns are prepared incorrectly and where VAT liabilities are understated or refunds overstated. It is therefore very important that this financial control is performed since it ensures that all accounting entries posted through the General Ledger are reflected on the VAT Return.

The VAT Reconciliation functionality is usually provided as part of most modern financial systems. The functionality carries out the process of preparing the VAT Return and calculating the amount due to or recoverable from HM Customs & Excise reconciliation, flagging up any discrepancies in those amounts.

Benefits

The VAT Reconciliation functionality eliminates the need for manual control and helps avoid penalties for underreporting of VAT due or losses caused by overpaying the VAT.

Challenges

This technology is usually delivered as part of a larger complete financial package. Therefore, if a particular system installed at a local authority does not offer this functionality it is difficult to obtain it without either upgrading or replacing the system.

Prepared by:



iMPOWER

40a Dover Street

London W1S 4NW

www.impower.co.uk

enquiries@impower.co.uk