

# **PRINCIPLES OF PURCHASING**

## **WEEK 2:**

### **TOPIC: DOCUMENTS IN PURCHASING**

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#### **Lecture Learning outcomes**

At the end of the lecture, you will be able to:

1. Understand the documentation used in purchasing
2. Understand the best practices for purchasing document management
3. Describe the application of different documents in procurement process

#### **Introduction**

Documentation serves to formalize agreements, track transactions, ensure compliance, and provide a reference for future transactions. It also aids in auditing processes and facilitates communication among stakeholders in purchasing entity.

#### **Type of Documentation used in Purchasing**

The following are some of the important documents, which are used during the purchase procedure: -

- **Purchase Requisition**
- **Purchase Inquiry**
- **Purchase Order**
- **Supplier's Advice Notes**
- **Consignment notes**
- **Delivery Note**
- **Goods received information**
- **Invoice**
- **Supplier's Quotations**
- **Compliance and Certification Documents**

- **Supplier Catalogs**
  - **Delivery Receipts**
  - **Supplier Catalogs**
  - **Payment Records**
- **Purchase Requisition**

Purchase requisition is a written list of materials sent to the purchase department for their procurement. It is submitted to the head of purchase department. It is generally prepared in triplicate; One is sent to the purchase department, the second to the material control department and another to the requisitioning department as a copy for future reference. The inventory controller or stores in charge prepare purchase requisition. Sometimes, the purchase requisition is sent to purchasing department by the production or user department.

### **Purchase Inquiry**

Purchase inquiry is a letter sent by the purchase department to the supplier for quoting his prices for the supply of material detailed therein. The main purpose of this inquiry is to find out the prices and quality of goods or materials, which can be supplied by different suppliers. Inquires can be also made through telephone, email or fax where urgent information is required.

### **Supplier's Quotations**

On enquiry the supplier quotes his price and the terms and conditions of the supply of material to the purchase department indicating the quality, quantity, time of delivery, discount and other concessions, that is, his reply to the inquiry. Usually, this is known as submission of quotations. This is one of the important documents and requires proper and careful handling in the purchase department. It is an offer in legal terms, hence requires proper preservation.

### **Purchase Order**

Purchase order is a legal document for all practical purposes and is prepared with great care and in all details so as to help the supplier to supply the materials of right quality, in right quantity and at the right time. Purchase order is an order to the supplier to supply the required materials as per quotations submitted by him in accordance with the instructions contained therein.

## **Supplier's Advice Notes**

When a supplier has goods ready for a delivery, he normally prepares an advice note to be sent to buying organization. This document gives a description of the goods, the quantity involved, the method of transport and the date of dispatch, and the intention is that it should be in the hands of the storekeeper before the goods themselves arrive.

## **Consignment notes**

This is a document provided by the carrier in which the seller fills in the details of the goods to be dispatched. The carrier's consignment note shows the name and address of the consignor, the description of the goods the number of packages and their identification marks if any, the weight, details of the delivery vehicle, and the name and address of the carrier.

It indicates whether the freight is already paid or whether the buyer as to pay for it at the destination. When the goods are delivered by the carrier, the buyer has to sign it as proof that the goods have been delivered to him.

## **Delivery Note**

This is document showing the list of goods, without showing the process, which is sent to the buyer. It is used for checking the goods without having to make use of the invoice. When the goods are delivered to the buyer, he is supposed to retain one copy and return the other copy to the seller duly signed by him. It proves that the buyer has already received the goods.

## **Goods received note (GRN)**

This may be directly keyed into the computer, or a separate goods received note may be prepared for each delivery. In either case the following information will be contained in GRN:

- Date of receipt
- Suppliers name
- Supplier 's advice note number
- Purchase Order number
- Goods description
- Quality received undamaged

- Number and the of packages
- Method of transport
- Storekeeper`s identity
- Inspector`s identity.

The information on the receipts needs to be passed to various locations. Typically, the accounts payable section, the purchasing department, the using department and the inspection department will need to know. The information may be made available via the computer system, or hard copies of goods received notes.

### **Invoice**

Invoice is a document which gives the quality, quantity, unit price, total value of the goods dispatched, any discount allowed and transport charges if any.

To ensure that goods paid for have actually been received and have authorized purchases, invoices are marched with goods received notes and purchase orders. Thereafter, the various extensions will be checked and the invoice will be sent to payment section.

### **Compliance Certification Documents**

This is records verifying that suppliers meet industry standards and regulations for the goods supplied.

### **Supplier Catalogs**

This is the listings of products offered by suppliers, including specifications and prices.

### **Payment Records**

This is documentation of payments made, including dates and amounts. A document like payment vouchers and account statements can be used.

### **Best Practices for Purchasing Document Management**

- Organization and Accessibility

The buying organization needs to consider transitioning to digital formats for better organization and accessibility. They can use cloud-based solutions or dedicated software for efficient storage and retrieval.

- Standardization of Documents

The organization needs to develop standardized templates and format to ensure consistency across documents. For example, the quotation form, requisition form, tender documents. They can implement a version control system to track changes and updates to documents.

- Record Retention Policies

Adhere to regulations governing how long documents must be retained is very important, the documents should be retained accounting to the set legal requirements. Again the firm should establish retention periods based on operational needs and practices.

### **Use of document in Procurement Cycle**

In the procurement cycle, a number of documents are used at different stages. The procurement cycle is a recurring (cyclical) process with regular and repeated steps of key stages of the procurement process from when the need is identified and raised in purchase requisition form by the user, production or stores department to the final stage when the need is satisfied.

Management must understand the all documents involved in obtaining products and services and provided them. The procurement cycle outlines the steps involved in acquiring goods, services or works for a company. The following are the steps involved:

1. **Need identification/procurement planning:** A procurement plan assists the procurement and end-user departments fulfil their purchasing needs and requirements. It involves the preparation and identification of items to be purchased, identifying the source of funding, estimating the value of each procurement package, and determining the procurement method and timeline for completion of the procurement. A purchase requisition form is prepaid by the user department to communicate the need.

**2. Preparation of procurement specifications:** These are the detailed description of what needs to be purchased. They must be very clear and concise so that bidders will understand. They should be very detailed so as to cover the scope of all items to be purchased, with all their unique characteristics being outlined. The compliance certificate at the point of receiving and inspection will be based on the specification given at this stage among other considerations.

**3. Preparation of bidding documents:** This involves the preparation of all documents to be used in the bidding. The tender document and quotation document prepared are in prescribed standard format. The procurement unit prepares these documents in consultation with the user department and other relevant departments. They must contain sufficient information and be easy to read and understand.

**4. Invitation to bid/Advertisement:** Apart from advertising or publishing of tenders, a procuring entity may invite identified bidders to submit quotations/bids using the quotation forms provided. National tenders should be advertised in a dedicated government tender portal, in the procurement entity's website, or in at least two country-wide circulated daily newspapers. International tenders can be advertised in international media as well the various embassies represented in the country. Details on where the tenders should be delivered and deadline of submission date should be well indicated.

**5. Submission of bids:** After the advertisement, all the bidders who paid the nonrefundable fee (if it was required) should receive the document, design, drawings, etc. The bidders will be given adequate time to prepare and submit their responses.

**6. Receiving and Opening of Bids:** Time and venue for tender opening must be well indicated. If the deadline for submitting bids is changed, it must be advised either by personally informing the bidders or advertising in the media. All bids received should be properly recorded and tender opening committee members should sign and indicate the time received. At the tender opening, the bidders who would like to attend, are allowed to do so.

**7. Evaluation of tenders/bids:** Evaluation of bids is done by a team/ committee using the procedures and criteria set out in the tender documents within a specified period.

The evaluation criteria should be objective and quantifiable, considering the price, quality, time, and services. The evaluation committee should prepare an evaluation report containing the

summary of the evaluation and a comparison of the tenders. Minutes should be kept as evident document on evaluation.

The evaluation report is submitted to the person responsible for procurement for his/her review and recommendation. Eventually the evaluation report is submitted to the accounting officer through the Head of Procurement for approval.

8. **Award and notification:** The accounting officer will consider the head of procurement's professional opinion before making a final decision on an award. The successful bidder is usually the lowest evaluated cost. The unsuccessful bidders must be notified and be given time to object if they wish. If any objections arise, they should be resolved. The successful bidder is awarded the contract once the final decision is made. A contract document is prepared stating the terms of the contract.

9. **Negotiations.** The buying organization can negotiate with the successful bidder to lower the prices but not to increase the prices. They can also negotiate better contract terms like discounts, after-sale services, training on usage of products or services, etc. If contract award is not successful, the second-highest bidder is brought in for negotiation.

10. **Signing of the procurement contract:** The contract is then concluded by both parties signing it to be legally binding.

11. **Contract administration:** This includes preparing contract documentation, processing the documents, obtaining approvals and monitoring the implementation of the contract. If the contract needs any modification due to variations, it is also done here. Contracts can also be terminated or cancelled.

12. **Receiving, inspecting, and accepting goods,** services, and works is the final step in the procurement cycle. The purchasing entity should ensure all goods, works, and services received correspond to the contracts' terms of quality, time frames, quantity and costs. This is usually done by the inspection and acceptance committee. Once the goods, works or services are accepted, the supplier can now be paid within the timeframes indicated in the contract.

13. **Asset Management** - the process of developing, operating, maintaining, and selling assets in a cost-effective manner.

**14. Disposal of idle, obsolete, obsolescent, and surplus items-** divestiture of assets, including intellectual and proprietary rights and goodwill and other rights of a procuring entity by any means including sale, rental, lease, franchise, auction or any combination, however classified

### **Technology used in Purchasing Documentation**

- Purchasing Software and ERP Systems-The organization can utilize specialized software to streamline the purchasing process, integrate with inventory management, and enhance data analysis.
- Automation of Document Management-By organization implementing automated workflows for procurement document approval and processing help in reducing manual errors and save time.
- E-Procurement Solutions-By buying organization adopting e-procurement tools that enable online purchasing processes, allowing for real-time tracking, management of orders and purchasing documents.

### **Conclusion**

Effective purchasing documentation is crucial for operational success. It facilitates smooth processes, ensures compliance, and enhances supplier relationships. As technology evolves, purchasing documentation will likely become increasingly automated, leading to greater efficiency and accuracy. Proper documentation is the backbone of effective purchasing management. Organizations must prioritize documentation to achieve strategic purchasing goals.

### **Revision Questions**

1. What are the primary purposes of documentation in the purchasing process?
2. Describe the role of a Purchase Requisition and the typical workflow associated with it.
3. What is the significance of Supplier's Quotations in the purchasing process?
4. Outline the key steps involved in the procurement cycle from need identification to contract administration.
5. How can technology enhance the management of purchasing documentation?