

POLICY ON ACCOUNTS PAYABLE

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Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- ☐ **Executive Director: Finance**
- ☐ **Portfolio Committee: Finance**
- ☐ **Executive Mayoral Committee**
- ☐ **Council**

1. DEFINITIONS AND ABBREVIATIONS

1.1 DEFINITIONS

“Accounting Officer”	Means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA
“Accounts Payable”	Accounts Payable is money owed by an organisation to its vendors/suppliers (Trade Creditors) for goods and services purchased on credit.
“A Construction Contract”	Is a contract specifically tendered/ negotiated for the construction of an asset or the maintenance of assets that necessarily takes a substantial period of time to complete and may stretch over more than one financial year.
“City”	Means City of Cape Town
“Credit Note”	A document provided by a vendor/supplier, stating that a certain amount has been credited to the City’s account due to supplies been returned.
“Disbursement Transaction”	Refer to the payment of invoices received for goods and services.
“Electronic Fund Transfer”	The electronic movement of funds from the City’s main bank account to the different vendor/supplier accounts in the same or different banks, through the use of wire transfer, automatic teller machines or computers but without the use of paper documents.
“Framework Orders”	A purchasing document used for the procurement of materials or external services. Instead of stipulating a specific delivery date, this type of purchase order has an extended validity period. Goods or services can be supplied or performed against it over this period without the need for any further written instruction to be issued by the buying entity.

	Framework orders are defined with document type FO. They are used in accelerated procurement processes in connection with preventive maintenance (servicing) plans or invoicing plans, and for blanket purchase orders (purchase orders with specified limits). A framework order covers multiple procurement transactions over a longer period in cases where the administrative costs of processing discrete POs would be disproportionately high.
“Goods Receipt Note”	Is confirmation documentation by the receiving department or requisitioner that shows that the ordered goods were received. It is used along with a purchase order (PO) in the "three-way match" to authorise invoice payment.
“IDP”	Means Integrated Development Plan
“Invoice”	A non-negotiable commercial instrument issued by a vendor/supplier to the City identifying both trading parties, lists/describes and quantifies the items/services provided, and shows the date of supply together with prices, discounts (if any), delivery and payment terms.
“MFMA”	Means Municipal Finance Management Act No 56 of 2003.
“Payment”	The partial or complete discharge of an obligation by its settlement in the form of the transfer of funds on an approved outstanding invoice.
“Payment Terms”	As stipulated in the SCM policy and informed to suppliers of goods and services rendered, in the City’s case also repeated on the official order issued to vendors/suppliers and further elaborated on in Annexure A.
“Purchase Order”	Is a document sent to a supplier or vendor, authorising the delivery of a product to the customer at a specified price, place, time and terms.

The creation of a purchase order creates a legally binding contract which cannot be changed without the consent of both parties. A customer may sometimes create an open or standing purchase order, called a framework order which allows the customer to order quantities of the product(s) from the vendor/supplier over a period of time (usually a year) at the specified price. Open POs are often used for services which occur over a period of time.

“Registry Section”

Depository for the receiving of invoices and statements for distribution to the processing staff and the safekeeping of such documents for audit purposes.

“Statement”

Summary of all transactions debits or credits with a vendor or supplier that occurred during the previous month and their effect on an open-account balance. It is also called a statement of account.

“Sundry Invoices”

Refer to invoices which relate to ad hoc or once off purchases, which are not linked to a SAP purchase number.

“Tax Invoice”

The elements of what depicts a valid Tax Invoice are attached as Annexure B to this document.

“VAT”

Means Value Added Tax. VAT is a consumption tax levied on goods and services at each step of the production/distribution cycle. An indirect tax, VAT is paid by manufacturers, distributors and retailers when they receive goods in their inventories. Businesses are able to recover VAT payments through tax deductions, with the cost of the tax ultimately paid by the end-consumer.

“Vendor Master File”

A central, comprehensive data base file generally maintained by the Accounts Payable Department that contains information about vendors/suppliers used to facilitate financial transactions between companies.

The information includes payment terms, address, names, credit limit, and payment or purchase transaction history.

1.2 ABBREVIATIONS

AP	-	Accounts Payable
EDI	-	Electronically Delivered Invoices
EFT	-	Electronic Funds Transfer
ERP	-	Enterprise Resource Planning
GRN	-	Goods Received Note
PDF	-	Portable Document Format
SAP	-	Systems Application Products
SARS	-	South Africa Receiver of Revenue
SCM	-	Supply Chain Management
SOP	-	Standard Operating Procedures
VAT	-	Value Added Tax
WBS	-	Work Breakdown Structure
EDI	-	Electronic Delivered Invoice

2. PROBLEM STATEMENT

In compliance with the Municipal Finance Management Act (No. 56 of 2003), Local Government: Municipal Systems Act (No. 32 of 2000), the King III Code on Corporate Governance in South Africa (2009) and any other applicable legislation, the City must establish and maintain an adequate internal financial control system.

Limited resources should be used effectively, efficiently and in accordance with the approved budget as well as the financial policy as determined by the financial regulations for local authorities and guidelines by the Financial Management of the City of Cape Town.

The Accounts Payable Policy document serves to support the concept of the control measures necessary within Accounts Payable. Further it is deemed to serve as:

- (i) an information document in order that the users of the Accounts Payable service have an understanding of what is required.
- (ii) a working document to make the processes of Accounts Payable more effective.

3. DESIRED OUTCOME

The main desired outcome of this policy is to ensure the City's compliance with Section 65 (2)(e) of the MFMA which requires that the Accounting Officer must take all reasonable steps to ensure: -

- ❖ that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

4. STRATEGIC FOCUS AREAS (INTENT)

The strategic focus areas of the City are enshrined in the City's Integrated Development Plan (IDP) and are categorised into five pillars.

These pillars are namely, the Opportunity City, the Well-run City, the Safe City, the Caring City and the Inclusive City.

This policy supports the Opportunity City and Well-run City pillars.

The underlying tenets of the Well-run City are the principles of openness and due process. A Well-run City is the guarantor of all other government programmes. Citizens need to know that their government works for them, is accountable to them and answers to them at all times. Governments manage public resources and programmes. As such, they must be constantly scrutinised in public to ensure responsible management.

5. PURPOSE

The purpose of this policy is to prescribe a process to be followed for the control and processing of all payments in terms of the Municipal Finance Management Act, Act no 56 of 2003.

6. SCOPE OF APPLICATION

This Policy is applicable to –

- a) All official payments made by the City to Vendors/Suppliers of the City or other duly authorized payments.
- b) Exceptions to this policy shall apply with the specific authorization of the Director Expenditure except for deviations in Sundry Payments which would require special authorization from Director Supply Chain Management as delegated by the City Manager in terms of the Procurement Policy.

7. REGULATORY CONTEXT

This policy is developed and guided by the following legislations and regulations:

- Municipal Finance Management Act (MFMA), Act No. 56 of 2003
- Value Added Tax Act 89 of 1991
- Preferential Procurement Policy Framework Act 2000 (Act 5 of 2000)
- Preferential Procurement Regulations, 2001
- Local Government: Municipal Systems Act (Act No. 32 of 2000)
- Provincial Archives and Records Services of SA Act
- Income Tax Act 58 of 1962 (as amended)
- King Code III of Corporate Governance
- Integrated Development Plan
- EDP Toward 2040 Plan: Unlocking Our Potential
- City of Cape Town System of Delegations
- Credit Control & Debt Collection Policy

Clause 5 of this Credit Control & Debt Collection Policy states that “The City shall not conduct any business activity with or provide any services to any persons who are in arrears with municipal accounts except as provided for in legislation or policy and as determined by the City from time to time, nor will any refunds of credits be made to any debtor or any debtor’s nominee who is in arrears with their Municipal account.

By the direction of this Credit Control & Debt Collection Policy and when requested by Revenue Department, Accounts Payable deducts arrears from any service provider.

8. ROLE PLAYERS AND STAKEHOLDERS

The principal role player is the Finance Directorate. The Accounts Payable Department will be responsible for implementing the policy and administering its on-going management and evaluation.

Below is an outline of the affected role-players and stakeholders:

- | | |
|---|-----------------------|
| 1. Finance Portfolio Committee | - internal |
| 2. Mayor’s Office | internal |
| 3. Strategic Policy Unit | - internal |
| 4. Public Participation Unit | - internal |
| 5. All other City Directorates | - internal secondary |
| 6. Auditor General | - external government |
| 7. Western Cape Local Government Department | - external government |
| 8. SALGA | - external government |
| 9. Other Government Departments | - external government |
| 10. SARS | - external government |
| 11. Registered Vendors/Supplier of the City | - external |

9. POLICY DIRECTIVE DETAILS

9.1 TRADE CREDITORS ORDER PAYMENTS

Goods and services for the City of Cape Town will be procured by means of an official order in accordance with the Preferential Procurement Policy.

Only original Tax Invoices & Invoices certified as copies & EDI's (Electronically Delivered Invoices – see Annexure C attached), with reference to an official purchase order, shall be accepted for the processing of a payment.

The Order Payments process is designed to limit risks of unauthorized purchases and improve budgetary control of the City's expenditure.

The SAP/ERP system will allow for the electronic authorization of invoices and delivery notes, by means of a workflow process. The detail of documents can be accessed electronically thus rendering the circulation of "hard copies" unnecessary.

The Standard Operating Procedure of this function is set out under AP's Website indicating the steps to be followed to ensure payments are made as required.

9.2 SUNDRY PAYMENTS

Sundry Payments relate to disbursements that cannot (due to specific circumstances) be processed by using the formal procurement procedures and are therefore not linked to an official order.

Sundry ~~Invoice~~ Payments are made to registered Vendors/Suppliers except in the case of once off, Ad-hoc payments, referred to as "One Time Vendors/Suppliers".

Should the vendor/supplier be registered for VAT purposes, the invoice will be a Tax Invoice.

Sundry Payments are allowable exceptions to the Formal Procurement Procedures and are specifically described in the Supply Chain Management Policy, (Section 308 ~~289~~ – 312 ~~293~~).

These payment requests must be accompanied by an official Payment Request form and detailed supporting documents, unless another process is applicable. These deviations from the Official Procurement Processes have to be authorized by the Director: Supply Chain Management as delegated by The City Manager.

Special payments are made to accommodate high value payments or services that have specific due dates for payment e.g. Telkom, Eskom. etc.

Should the vendor/supplier not be registered on SAP, then the payment is processed on the one time vendor/supplier accounts.

Regular checks are to be performed on the one time accounts to ensure that the same vendors/suppliers are not regularly paid and an allowable limit will be two occasions.

Arrangements are to be made that regular paid one time vendors/suppliers are loaded as trade vendors/suppliers by the Vendor Master Section.

The division of work for staff members will be done according to supplier categories. Although the actual processing of the various categories of vendor/supplier invoices onto the system is similar, the procedures followed when verifying the documentation and the control measures implemented are unique to each category.

There will be a phased migration from sundry payments to the generation of purchase orders in respect of the procurement of goods and services in co-operation with Procurement.

General Standard Operating Procedures and Specific Standard Operating Procedures for certain commodities are available on the Accounts Payable Website.

9.3 CONTRACT/CERTIFICATE PAYMENTS

- 1) The Contract/Certificate Payments Section is a centralized function. It forms part of the Sundry Creditors section.
- 2) The Contract Section processes all construction contract payments. A construction contract is a contract specifically negotiated for the construction of an asset or the maintenance of assets that necessarily takes a substantial period of time to complete and may stretch over more than one financial year.
- 3) The process of contract payments commences with the generation of a framework order (with or without a WBS number) for the procurement of Capital or Operating projects.
- 4) Payments are made when a project leader presents payment certificates and other supporting documents for payment and after completion of a service entry sheet on the SAP system.
- 5) Due to the bulky nature of supporting documents/contracts associated with these kinds of payments, line departments have a responsibility to ensure that all supporting documents related to these payments are properly kept within their environments, after all verification processes have been performed.
- 6) Retentions, journals, account clearing, bank guarantees and sureties may also be applicable.
- 7) Types of related payments:
 - ❖ Payment of a number of certificates of all capital work, after retention has been dealt with.
 - ❖ Periodic retention releases.

9.4 PROCESSING OF PAYMENTS

The Payment Processing Section is responsible for processing disbursement transactions by means of electronic transfers.

Once vendors/suppliers are paid by means of an Electronic Funds Transfer (EFT) a remittance advice is automatically faxed, emailed or posted to the vendor/supplier depending on the preferred method of communication by the vendor/supplier.

Payment refunds are activated for Sport and Recreation, Facilities Management and Housing Departments. Remittance advices will also be activated and mailed or faxed to the beneficiaries.

The processing of payments will adhere strictly to the official payment terms of the City (Annexure A).

The SAP/ERP system will allow for the electronic authorization of invoices and delivery notes, by means of a workflow process.

Payment frequencies are detailed within the SOP which is available on AP's Website.

An internal control system including sound personnel practices and standard operating procedures reducing the risk of errors and fraud will be maintained.

9.5 REGISTRY

The Accounts Payable registry function is performed internally and does not make use of the corporate registry function of the City.

The receiving of all invoices delivered to the Accounts Payable Registry in Bellville, either by hand delivery or posted to Private Bag X6, Bellville, 7535 are processed on a daily basis.

All incoming mail (post, fax, courier) are date stamped and scanned for processing.

All invoices processed are filed and daily archived as per the required act. Outgoing documents required by SARS, legal, forensic or audit are recorded in the outwards mail register.

9.6 VERIFICATION OF INVOICES

The verification process consists of the examination of all invoices and supporting documents to ensure that it complies with the following:

- (a) Original tax invoice in the name of the City of Cape Town
- (b) Values, extensions and additions are correct
- (c) All settlement discounts applicable are utilized, where beneficial.

- (d) Allocation to a valid cost center and cost element/general ledger account for Sundry Payments.
- (e) Valid business authorization in terms of Council's delegated authority (electronically/manual)
- (f) Invoices processed for payment must be dealt with in the applicable financial year. *Applicable to Sundries only, Trade is GRN driven*

The elements of, *what depicts a valid Tax Invoice*, is attached as Annexure "B" to this policy.

All invoices must be mailed to the centralized Accounts Payable Registry at:

- ❖ Private Bag X 6, Bellville, 7535,
or delivered to:
Bellville Civic Centre Accounts Payable Registry, where it will be date stamped on receipt.
- or:
- ❖ E-mail in PDF format to the applicable e-mail address.

9.7 METHODS OF PAYMENT

Suppliers/Vendors

All vendors/suppliers of the City of Cape Town shall be paid by means of EFT (Electronic Funds Transfers)

Sundry Payments

Sundry payments shall, as far as possible, be made by means of EFT, Cash Focus, cash send or foreign currency transfers.

9.8 TERMS OF PAYMENT

See Annexure A for the official terms of payment.

The official terms of payment of the City will be honored as far as possible. However, should problems of any nature be encountered with the supplier/vendor, the payment could be delayed or intentionally withheld until the issues are resolved, i.e. parked invoices, blocked invoices, etc.

In all cases, invoices must be submitted directly to Accounts Payable for inclusion in the relevant pay-run. Should documentation be submitted late, the payment will be included in the next appropriate payment run.

Should the processing of a payment be delayed due to the late submission of documentation, any penalties imposed will be for the account of the functional business area. Any queries will also be referred to such department.

No person shall commit Council to making a payment earlier than the actual due dates for payment.

9.9 FREQUENCY OF PAYMENTS

The objective is to effect one payment per supplier/vendor per month, which should include all amounts due.

Contract payments are to be effected when due in terms of approved payment terms.

Standard Payment Terms (ZP02) [Monthly]

All invoices, for goods received and services rendered or engineering and construction works, received on or before the 20th of a particular month, will be paid between the 23rd and 26th of the ensuing month, on condition that the services were found to be of an acceptable level as goods receipted (GRN) by the requisitioner.

Payments made between the 23rd and 26th will include invoices that will be due as at the end of the month too.

In all instances the invoices must only be issued and dated when the goods and services has fully been rendered.

9.10 EXECUTION OF PAYMENTS

The Payment section shall ensure that the necessary control measures for all payments are maintained by relevant senior staff using access controls, passwords, exception reports and regular audit trail printouts.

Electronic Funds Transfer (EFT) – to be performed via:

- Link Direct
- ABSA Global (Foreign transfers)
- Business Integrator (Cash send)
- Cash Focus

9.11 DOCUMENTATION

All documentation processed by Accounts Payable shall be retained and will remain under the control of the Accounts Payable Registry Unit for at least three financial years, thereafter transferred to Corporate Stores.

These documents can be accessed electronically thus rendering the circulation of “hard copies” unnecessary.

9.12 SETTLEMENT DISCOUNTS

Where settlement discounts are offered, it will be taken with due cognizance of the City's cash flow status as well as the negative impact it might have on the normal work-flow within the Payment section. This implies that the disruption and cost of special runs may not warrant a deviation from the periodic payment run dates. All payments processed will be in line with the City's payment terms taking cognizance of any potential settlement discounts.

The settlement discounts being recognized at its source will be allocated to Revenue Element 860300 of the Accounts Payable Section.

9.13 RECONCILIATION OF VENDOR/SUPPLIER STATEMENTS

The reconciliation of supplier's statements, when received, will be performed on a monthly basis. The 90 days and older statements will receive preference.

9.14 DISPUTED INVOICES

It is the duty of the line department to resolve all queries related to disputed invoices. This will result in the invoice being paid or a credit note (full or partial) being provided by the vendor/supplier.

9.15 PETTY CASH

This is performed on a SCM functionality whereby pre authorization is obtained electronically from cost center owners and once expended sent to SCM via AP for final approval before being included on the fortnightly pay run to effected staff members.

9.16 YEAR END PROCESS

General

Annually a communication is sent to business areas (via Treasury Department) regarding the due dates at year end for:

- Goods Received Notes
- The capture of AP sundry invoices, credit memos and other adjustments in period 13.

Trade Creditors

The capturing is normal until 30 June and Invoices captured from the 1 July will be allocated automatically to the correct financial year by SAP-system based on the date of the goods received note.

Sundry Creditors

The "old year" invoices are captured in Period 13 while the "new year" invoices are captured in Period 1 of the new financial year.

Contracts

There is no change in capturing procedures at year end because expenditure is automatically allocated to the correct financial year by the SAP system based on the posting date of the service entry sheet.

Payment Processing/Authorising

A normal monthly process is followed.

Reconciliation of SAP Control and Suspense Accounts

A normal monthly process is followed.

Generation and provision of reports for various Accounts Payable functions

A normal monthly process is followed.

10. IMPLEMENTATION, EVALUATION AND REVIEW

This policy framework is important for the Financial Compliance of the City. It provides an all-inclusive administrative procedure for the management of Accounts Payable.

- a) The revised Accounts Payable Policy shall be implemented once approved by Council.
- b) Directorates must ensure that during implementation stages of the policy, there is consistent monitoring and evaluation of the policy as indicators will inform blockages within the policy implementation phases.

CITY OF CAPE TOWN – PAYMENT TERMS AND TYPES

The payment terms have been set in terms of Council's Preferential Procurement Policy, adopted by Council on 8 December 2011. This policy has been drawn up to give effect to the recent enabling legislation outlined in the Preferential Procurement Policy Framework Act 2000 (Act 5 of 2000) and the Preferential Procurement Regulations, 2001.

Extract from the Procurement Policy:-

Payment Terms for Goods and Services

- A monthly payment cycle will be the norm. All invoices received for goods and services whereby the invoices are dated on or before the 20th of a particular month, will typically be paid between the 23rd and 26th of the ensuing month.
- The actual payment run dates will be dependent on the number of days of the month and the influence of public holidays.

Business Reminder:

- ☐ System GRN's must be completed after the goods and services have been satisfactorily delivered. GRN's should be done using a delivery note and/or if not supplied, a Copy Invoice received from the Vendor/Supplier. GRN's should then be available for viewing to Accounts Payable within 24 hours after receipt of the goods and services by business.
- ☐ Invoices should be sent directly from the vendor/supplier to Accounts Payable. No original invoices should be retained by business.

What is a valid Tax Invoice?

The requirements of a Tax invoice, as set out in the Value Added Tax Act, 89 of 1991 ("VAT Act"). The amendments referred to below were introduced by section 175 of the Revenue Laws Amendment Act No 45 of 2003 and are due to come into operation on 1 March 2005. The amended tax invoice requirements shall be applicable in respect of any supply made on or after 1 March 2005.

Section 20(4) of the VAT Act, as amended, *inter alia* provides that a tax invoice shall contain the following particulars:

- 1) The words "Tax Invoice" in a prominent place;
- 2) The name, address and registration number of the vendor/supplier;
- 3) The legal or trading name, address and where the recipient is a registered vendor/supplier, the registration number of the recipient;
- 4) An individual serialized number and the date on which the tax invoice is issued;
- 5) A full and proper description of the goods or services supplied;
- 6) The quantity or volume of the goods or services supplied;
- 7) Either-
 - (i) The value of the supply, the amount of tax charged and the consideration for the supply; or
 - (ii) Where the amount of tax charged is calculated by applying the tax fraction to the consideration, the consideration for the supply and either the amount of the tax and the rate, at which the tax was charged, or a statement that includes a charge in respect of the tax and the rate at which the tax was charged.
- 8) Prior to the VAT Act Amendment, by section 175 of the Revenue Laws Amendment Act, no 45 of 2003, the VAT Act required that a tax invoice, *inter alia*, disclosed the name and address of the recipient of a taxable supply. However, the VAT Act now requires that in addition to the name and address of the recipient, the tax invoice for supplies in excess of R3 000 should disclose the VAT registration number of the recipient, if he or she is a registered VAT vendor/supplier, on the face of the tax invoice.

NOTE:

- If any of these points has been omitted from an invoice, report it to your section head immediately
- We may not claim Input VAT when paying for "Entertainment" items – food, etc.
- Invoices not exceeding R3 000 need to comply with points 1, 2, 4, 5, 7 & 8 only.

ELECTRONIC DELIVERED INVOICES (EDI'S)

The following basic requirements are in place as per the VAT Act, VAT News 20 and more detailed information is available on VAT 404 Vendors Guide, The Electronic Communications and Transactions Act.

The City Of Cape Town will accept your tax invoices in an electronic format under the following conditions:

1. **Transit Security:** In order to be valid and to ensure a tamper free document, the transmitted document must use an **encryption key of at least 128 bits or contain an electronic signature**. The worldwide standard for sharing encrypted or digitally signed documents is the **PDF** format. The recipient must have the means of decoding the document.
2. **Secure Transmission:** The electronic tax invoice must be sent over a secure line, the process of communication and delivery must also be secured by means of a 128 bit encryption, this will be indicated by "**https**".
3. The electronic invoice will be treated as the **original invoice** and any copies must bear the words "**copy tax invoice**".
4. The biller and the recipient have to keep documents in a readable and encrypted format for a **period of five years from the date of issue**.
5. The format of the electronic invoice does not have to mirror the paper invoice, as long as the electronic invoice covers the mandatory information.
6. The same logic can be applied to credit notes, debit notes and statements.

Mandatory information required on an electronic tax invoice:

- The name, address and VAT registration number of the biller.
- The name and address of the customer.
- A unique invoice number.
- The date.
- A description of the goods/services supplied.
- The number of units, mass or volume of goods supplied.
- The amount due and the VAT charged, or
- A statement that VAT is included in the price, as well as the rate of VAT charged.