



CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD

ANNEXURE 10

POLICY ON ACCOUNTS PAYABLE

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Policy Approval Process

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

- 1.1.1 “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.
- 1.1.2 “Accounts Payable” means money owed by an organization to its supplier/s (Trade Creditors) for goods and services purchased on credit.
- 1.1.3 “A Construction Contract” means 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.
- 1.1.4 “City” means City of Cape Town
- 1.1.5 “Credit Note” means a document provided by a supplier/supplier, stating that a certain amount has been credited to the City’s account due to supplies been returned.
- 1.1.6 “Disbursement Transaction” means the payment of invoices received for goods and services.
- 1.1.7 “Electronic Fund Transfer” means the electronic movement of funds from the City’s main bank account to the different suppliers’ bank 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.
- 1.1.8 “Goods Receipt Note” means a confirmation documentation by the receiving department or requisitioner that shows that the ordered goods/services were received. It is used along with a purchase order (PO) in the “three-way match” to authorize invoice payment.
- 1.1.9 “Invoice” means a non-negotiable commercial instrument issued by a supplier/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.
- 1.1.10 “MFMA” means Municipal Finance Management Act No 56 of 2003.
- 1.1.11 “Payment” means the partial or complete discharge of an obligation by its settlement in the form of the transfer of funds on an approved outstanding invoice.

- 1.1.12 “Purchase Order” means the City’s commitment to procure goods and/or services at a specified price, place, time and terms.
- 1.1.13 “Registry Section” means depository for the receiving of invoices and statements for distribution to the processing staff and the safekeeping of such documents for audit purposes.
- 1.1.14 “Statement” means summary of all transactions debits or credits with a supplier that occurred during the previous month and their effect on an open-account balance. It is also called a statement of account.
- 1.1.15 “Sundry Invoices” means invoices which relate to ad hoc and/or once off payments, which are not linked to a SAP purchase number.
- 1.1.16 “Tax Invoice” means the elements of what depicts a valid Tax Invoice are attached as Annexure A to this document.
- 1.1.17 “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.
- 1.1.18 “Supplier Database” means a central data base maintained and managed by Supply Chain Management Directorate.

1.2 ABBREVIATIONS

- 1.2.1 “AP” - Accounts Payable
- 1.2.2 “EDI” - Electronic Data Interchange
- 1.2.3 “EFT” - Electronic Funds Transfer
- 1.2.4 “GRN” - Goods Received Note
- 1.2.5 “PDF” - Portable Document Format
- 1.2.6 “SAP” - Systems Application Products
- 1.2.7 “SARS” - South African Revenue Services

- 1.2.8 “SCM” - Supply Chain Management
- 1.2.9 SES - Service Entry Sheet
- 1.2.10 “VAT” - Value Added Tax
- 1.2.11 “PSRM” - Public Sector Records Management
- 1.2.12 “IDP” - Integrated Development Plan

2. POLICY STATEMENT

- 2.1 In compliance with the Municipal Finance Management Act (No. 56 of 2003), Local Government: Municipal Systems Act (No. 32 of 2000), the King IV Code on Corporate Governance in South Africa (2009) and any other applicable legislation, the City must establish and maintain an adequate internal financial management control system.
- 2.2 Section 65 of the Municipal Finance Management Act states that the Accounting Officer of a municipality is responsible for the management of the Expenditure of the municipality and must for this purpose take all responsible steps to ensure that the municipality has and maintains an effective system of expenditure control, hence this policy.
- 2.3 The Accounts Payable Policy document serves to support the concept of cost containment and control measures necessary within Accounts Payable.
- 2.4 Further it is deemed:
 - an information document that ensures that the users of the Accounts Payable service have an understanding of what is required.
 - A working document to make Accounts Payable processes more effective.

3. DESIRED OUTCOME

- 3.1 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 is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

- Further, to comply with all applicable provisions of MFMA including any National Treasury Circulars/Guidelines specifically adopted by Council in terms of MFMA.

4. STRATEGIC FOCUS AREAS (INTENT)

- 4.1 The **City's** Integrated Development (**IDP**) 2017-2022 sets out the journey in which the organization ought to function in order to improve and excel in service delivery as well as the City's other legislative mandates. One of the key refinements that the newly-elected Council approved as part of its **Organisational Development and Transformation Plan (ODTP)** is the role of strategy and the need for improved strategy led decision-making within the City. This will improve the realisation of 11 identified key **ODTP** priorities by ensuring that resources are allocated more strategically.
- 4.2 This policy supports the following priorities:
 - Excellence in **Basic Service Delivery**
 - Leveraging **Technology** for progress
 - Economic Inclusion
 - Operational **Sustainability**
- 4.3 These priorities endeavor to help making the City both inclusive and customer-centric.

5. PURPOSE

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

6. SCOPE OF APPLICATION

- 6.1 This Policy is applicable to: -
 - All official payments made by the City to Suppliers of the City or other duly authorized payments.
 - Exceptions to this policy may be considered on receipt of fully motivated applications in this regard for consideration by the delegated authority.

7. REGULATORY CONTEXT

- 7.1 This policy is developed and guided by the following Legislations and Regulations, amongst others: -
- 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 IV of Corporate Governance
 - Integrated Development Plan
 - EDP toward 2040 Plan: Unlocking Our Potential
 - City of Cape Town System of Delegations
 - Supply Chain Management Policy (Incorporating Preferential Procurement)
 - Credit Control & Debt Collection Policy: - *Clause 6.5 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 or any payments for services rendered be made to any debtor or any debtor's nominee or service provider who is in arrears with their Municipal account."*
- 7.2 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

- 8.1 The principal role player is the Finance Directorate. The Expenditure Department will be responsible for implementing this policy and administering its implementation and evaluation.

8.2 Below is an outline of the affected role-players and stakeholders, amongst others: -

→ Finance Portfolio Committee	-	internal
→ Mayor's Office	-	internal
→ Strategic Policy Unit	-	internal
→ Public Participation Unit	-	internal
→ All other City Directorates	-	internal secondary
→ Auditor General	-	external government
→ Western Cape Local Government Department	-	external government
→ SALGA	-	external government
→ Other Government Departments	-	external government
→ SARS	-	external government
→ Registered Suppliers of the City	-	external government

9. POLICY DIRECTIVE DETAILS

9.1 TRADE CREDITORS ORDER PAYMENTS

- 9.1.1 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.
- 9.1.2 The Procure to Pay process is designed to limit risks of unauthorized purchases and improve budgetary control of the City's expenditure.
- 9.1.3 Invoices & EDI's (refer to Annexure A), with reference to an official purchase order, shall be accepted for the processing of a payment.
- 9.1.4 Should the supplier be VAT registered then invoices must be SARS compliant - Refer to:
<http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G02%20-%20VAT%20404%20Guide%20for%20Vendors%20-20External%20Guide.pdf>

9.2 SUNDRY PAYMENTS

- 9.2.1 Sundry Payments relate to disbursements that cannot (due to specific circumstances) be processed using the Procure to pay process and is therefore not linked to an official order.
- 9.2.2 Sundry Payments are made to registered Suppliers and ad hoc service providers.

- 9.2.3 Should the supplier be VAT registered then invoices must be SARS compliant – Refer to:

(<http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G02%20-%20VAT%20404%20Guide%20for%20Vendors%20%20External%20Guide.pdf>)

- 9.2.4 Sundry Payments are allowable exceptions to the Formal Procurement Procedures with reference to Deviation from the Procurement Processes in the Supply Chain Management Policy (paragraph 324 to 328 inclusive)
- 9.2.5 These payment requests must be accompanied by a duly completed Payment Request form and detailed supporting documents. Where applicable these payment requests will be authorized by the Delegated Authority.
- 9.2.6 All Sundry payment requests are reviewed frequently in a bid to follow the Procure to pay process.

9.3 PROCESSING OF PAYMENTS

- 9.3.1 The Payment Processing Section is responsible for the payment of approved disbursements.
- 9.3.2 All payments will be done via EFT in the following manner: -
→ Link Direct
→ Foreign Transfers
→ Local Transfers
- 9.3.3 Remittances are automatically distributed in-line with the supplier's correspondence preference.
- 9.3.4 Frequency of payments will be effected as follows: -
→ Goods and Services - Weekly cycle (30 days after invoice date)
→ Construction Related - Daily cycle (30 days after invoice date)
→ Refunds – Daily
→ Settlement Discounts (Approved) – Daily cycle
→ **Earlier Payments** - Payments will be made in line with the approved conditions **of the payment** agreement.

9.4 REGISTRY

- 9.4.1 The Accounts Payable registry function is performed internally and does not make use of the corporate registry function of the City.
- 9.4.2 The receiving of all invoices delivered to the Accounts Payable Registry in Bellville, either by hand or posted to Private Bag X6, Bellville, 7535, are then date stamped and scanned to initiate workflow. These documents will be retained and disposed of as per Corporate Registry prescriptions.
- 9.4.3 Electronically received documents are automatically stored and processed.
- 9.4.4 All documentation can be viewed digitally in PSRM.

9.5 PAYMENT TERMS FOR GOODS AND SERVICES (In line with SCM Policy)

- 9.5.1 Payment of invoices will be made within 30 days of receiving the relevant invoice or statement, unless otherwise prescribed for certain categories of expenditure or specific contractual requirements in accordance with any other applicable policies of the City.
- 9.5.2 Earlier payments to suppliers is not a right in terms of this policy. A supplier may submit a fully motivated application in this regard to the Director Expenditure or their delegated authority for consideration. Requests for earlier payments will be considered at the sole discretion of the delegated authority.
- 9.5.3 Notwithstanding anything contained above, the City shall not be liable for payment of any invoice that pre-dates the date of delivery of any goods or services, or the date of certification for construction works.
- 9.5.4 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 line department.
- 9.5.5 No official shall commit Council to making a payment outside the official payment terms.**

9.6 SETTLEMENT DISCOUNTS

9.6.1 Settlement discounts are considered, when offered for earlier payment, and will be taken with due cognizance that it will not negatively impact on the City's cash flow status and be of benefit to Council.

9.6.2 The settlement discounts will be recognized as a source of income.

9.7 RECONCILIATION OF SUPPLIER STATEMENTS

9.7.1 The reconciliation of supplier's monthly statements, when received, will be performed on an ongoing basis.

9.8 PARKED INVOICES

9.8.1 Line departments are responsible for resolving all queries related to parked invoices. This action will result in the invoice being paid or a credit note being provided by the supplier.

9.9 YEAR END PROCESS

9.9.1 Year-end Processes are guided by the Annual Directives issued by the City's Treasury Department.

9.10 GRN'S

9.10.1 GRN's must be completed immediately after the goods and services have been satisfactorily delivered.

9.10.2 GRN's should be processed using a delivery note and/or if not supplied, a Copy Invoice received from the Supplier.

9.10.3 SES for Construction Contracts should be processed using a payment certificate.

10. IMPLEMENTATION, EVALUATION AND REVIEW

- 10.1 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.
- The revised Accounts Payable Policy shall be implemented once approved by Council.
 - Directorates must ensure that during implementation stages of the policy, there is consistent monitoring and evaluation of the policy as indicators will prevent blockages within the policy implementation phases.

ANNEXURE A

ELECTRONIC DATA INTERCHANGE (EDI'S)

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

The City of Cape Town will accept Tax invoices in an electronic format under the following conditions:

- **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.
- **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**”.
- The electronic invoice will be treated as the **original invoice** and any copies must bear the words “**copy tax invoice**”.
- 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**.
- The format of the electronic invoice does not have to mirror the paper invoice, as long as the electronic invoice covers the mandatory information.
- 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.