

ACCOUNTS PAYABLE



POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Accounts Payable Policy** and the contents thereof be tabled at the Mayoral Committee for recommendation for approval by Council.

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Date March 2023

Document Name **Accounts Payable Policy and Procedures**

Reviewed By

INTERNAL AUDITOR **Date:** _____

Supported By

ACTING CHIEF FINANCIAL OFFICER **Date:** _____

Signature

ACTING MUNICIPAL MANAGER **Date:** _____

Adopted by the Mayoral Committee

CHAIRPERSON **Date:** _____

Approved by the Council

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1. Policy

1.1 Overview

Sedibeng District Municipality in recognising its:

- i. community orientation; and
- ii. the need for good governance;

has developed a transparent and codified internal control system aimed at promoting its core District Objectives. Compliance with the codified best practice will ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and aligned to approved budgets and broader financial policies of Sedibeng District Municipality.

The Accounts Payable Policy and Procedures document institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders as to the requirements for accounts payable;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties for Accounts Payable relative to financial controls necessary to ensure the efficient administration of the Sedibeng District Municipality budgets.

1.2 Purpose

This policy document serves to assist management, employees and all other stakeholders of the Sedibeng District Municipality to implement and maintain consistent, effective and efficient payment management principles, thereby contributing to the early detection and prevention of unauthorized, irregular, fruitless and wasteful expenditure.

1.3 Objective

In discharging the purpose of the Accounts Payable policy, the key objectives are tabulated as follows:

- a. To effectively discharge all service areas by infusing business processes into internal control which complies with all legislation and statutory requirements;

- b. To safeguard cash resources and optimise cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources relative to contract payment schedules and benefits derived from early settlement discounts;
- c. To drive a culture of accountability over Sedibeng District Municipality's cash by skilling staff and stakeholders alike on a multifunctional level for improved budgetary control;
- d. Verification of the validity of payments and ensuring that accurate and completeness of recording of payments occur;
- e. Provide a means of communication aimed at service delivery for communities, businesses and vendors.

1.4 Business Process Framework

1.4.1 Legislative Framework

The *Municipal Systems Act (MSA) (No. 32 of 2000)*, *Municipal Finance Management Act (No. 56 of 2003)*; *Value Added Tax Act 89 of 1991*; , the *King IV Code on Corporate Governance in South Africa (2016)* and other applicable legislation informs and seeks to regulate the functioning of Accounts Payable so as to lead to the early detection of abnormal trends and unauthorised, irregular, fruitless and wasteful expenditure, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

The functioning of Accounts Payable is further influenced by the Preferential Procurement practices as embodied by *The Draft Preferential Procurement Regulations, 2009*, aligned with the prescripts of the *Broad-Based Black Economic Empowerment Act, No. 53 of 2003* and its related Strategy as set out in section 5 of the *Preferential Procurement Policy Framework Act, No 5 of 2000*.

1.4.2 Accounting Framework

The responsibility of payment management lies with the Municipal Manager and the Chief Financial Officer. The performance of this function may be delegated to subordinates, but this however does not alleviate the responsibility of the Municipal Manager and the Chief Financial Officer.

1.5 Recommendations

- i. This policy, processes and procedures document supersedes all previously issued account payables policy;
- ii. This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of the Accounts Payable transaction cycle;
- iii. This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of accounts payable;
- iv. This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Accounts Payable.

2. Processes

2.1 Account Purchases & Payments Function

The purchase of and payment for goods and services from suppliers is a major transaction cycle in any organization's accounting system.

Section 65(2)(e) of the MFMA dictates that all money owed by the municipality be paid within 30 days of receiving the relevant invoice.

There are two major functions of the purchases and payments cycle:

- 2.1.1 The ordering of goods or services from suppliers in exchange for promises of future payment (credit purchases) or for immediate payment (cash purchases) and;
- 2.1.2 Payments/cash disbursements to suppliers for goods or services previously or simultaneously provided.

Generally there are a large number and variety of accounts in the purchases and payments cycle in a typical organisation. Standard Accounting and Procedural groupings that can be

affected by the purchases and payments cycle include assets, liabilities, expenses and miscellaneous income accounts. The purchases and payments cycle is therefore a complex and very important transaction cycle in an organisation such as the Sedibeng District Municipality as it records, controls and allows for the processing of all payments in a manner consistent with budgetary requirements whilst adhering to both statutory and regulatory requirements.

Account Purchases Function

The purchases activity is typically subdivided into the following three distinct functional areas:

- a. The ordering / procurement of goods and services function;
- b. The receiving and receipting of goods;
- c. Payment of and creditors recording function.

2.2 Procurement of Goods & Services

2.2.1 Purchase Requisitions

When completing purchase requisitions, Council officials must adhere to procedure:

- Complete the requisitions in triplicate.
- Quotations must be attached to requisitions.
- The requisition must then be handed to the Head of Department for approval before submission to Supply Chain department.
- At Supply Chain the requisition is captured onto the financial system and an order is then generated.
- The original requisition is attached to the generated order and sent to the supplier while one copy is filed in the 'deliveries pending' file and the other kept at Creditors' department.
- No orders may be placed by telephone.

This ensures that all orders are the subject of a written record, which facilitates accounting, for every order issued.

2.2.4 Purchase orders

The purchasing clerk should ensure that a purchase order is generated in all instances where the purchase of an item/s is done for Sedibeng District Municipality. Similarly, a purchase order is required before any purchase can be made for the Council.

3. Procedures

3.1 Order Payments

Sedibeng District Municipality will procure goods and services by way of purchase orders, and as in the manner described by the policy and processes sections to this document. Counter performance to the fulfillment of the purchase order will be addressed by the Accounts Payable section.

- 3.1.1 Only original tax invoices, invoices certified as copies and electronically delivered invoices – which have reference to a specific purchase order shall be accepted for the processing;
- 3.1.2 Dependant on the transaction, especially in the case of consultants, labour brokers, and professional services etc., additional supporting documentation will be requested to display the rendering of the service;
- 3.1.3 Invoices / and or supporting documentation are to be date stamped prior to processing for record purposes;
- 3.1.4 Invoices are to be scrutinized so as to comply with the acceptable invoice specimen as set out for general dissemination on the municipality website;
- 3.1.5 Invoices are to be VAT compliant;
- 3.1.6 Invoice amounts are to be recalculated, discounts offered are to be noted, and volumes are to be double checked;

3.2 Contract Payments

Contract payments refer to the processing of all invoices relative to the procurement goods and services ex Consultants and Construction companies. In both instances time based services are delivered, and in the case of the construction companies, goods may also be in the offering.

Construction contracts whether for asset maintenance or green field's asset construction would be negotiated over a period of time and be subject to framework orders for professional services, draw downs and retention monies. As such payment cash flows have to be negotiated and embodied in a service level agreement, with payments being made against performance in accordance with the agreed to standards as embodied in the service level agreement.

Similarly Consultants contracts need to be managed in a manner whereby draw downs on the project are subject to the project leader producing the necessary agreed to deliverables in the specified time frames.

3.2.1 Construction Based Contracts

- a. Upon approval of a project, a project manager will be assigned, with a project number, and the project manager will deal with all matters relating to the project including payments;
- b. The purchase order is raised and lodged with the Directorate responsible for the works;
- c. A framework order will be raised by supply chain;
- d. Payment will be on a draw down basis against the framework order and subject to the provision of the necessary documentation inclusive of:
 - o Payment Certificate;
 - o Tax Invoice from the contractor;
 - o Project approval plan;
 - o Copy of contract;
 - o Tax clearance certificate

3.2.2 Consultants Based Contracts

- a. Upon approval of a project, a project manager / team will be assigned, with a project number, and the project manager will deal with all matters relating to the project including payments;
- b. The purchase order is raised and lodged with the Directorate responsible for the works;
- c. A service level agreement will be drafted by legal and signed off by the consultant/s inclusive of a payment plan related to deliverables and a timeline;
- d. Payment will be on a draw down basis against the service level agreement and subject to the provision of the necessary documentation inclusive of:
 - o Tax Invoice;
 - o Service level agreement copy;
 - o Draw down details

3.3 Sundry Payments

Definition: *Sundry payments are payments, which are not regular, recurring, and are not related to the core business.*

Sundry payments will only arise out of the following:

<u>CONTRACTED SERVICES</u>	
• Payments contractually stipulated within a valid service level agreement;	
<u>OTHER (NOT CONTRACTUALLY BOUND):</u>	
MEMBERSHIP FEES	Ad-hoc
CONGRESS/ ATT. MEETINGS	Ad-hoc
AUDIT FEES	Internal audit
SALARY CORRECTIONS	Ad-hoc
S & T CLAIMS	Subsistence allowance
DONATIONS	Ad-hoc

y payments can be made to registered Vendors/ Suppliers or “One Time Vendors/Suppliers” as allowable exceptions to the formal procurement processes – as aligned with the Supply Chain Management Policy. Should the vendor/supplier be Vat registered a Tax invoice should be forthcoming.

Cheque requisitions accompanied by supporting documentation, i.e. invoice, delivery note, goods received note and/or order, should be forwarded to the Head of Department for authorisation.

Heads of departments must authorise sundry payment requests for their respective departments and then submit these requests to:

- i. The Director Supply Chain Management for approval of the deviation from supply chain procedures;
- ii. The CFO for approval of the payment.

Payments for “One Time Vendors” not registered on the supply chain database are to be processed from the one time vendor account. Monthly checks are to be performed for early detection of supply chain deviations to circumvent policy by utilizing the one time vendor account. Only two payments are to be allowed for any one “one time vendor”.

3.4 Receiving and Receipting of Goods and Services

The accountability for checking of goods received in a department lies with the Head of Department.

3.4.1 All goods received must be inspected, counted and checked to the relevant order and supplier’s delivery note for type, quality and quantity.

3.4.2 Suppliers’ delivery notes will only be signed after this check is satisfactorily completed.

3.4.3 Damaged, faulty or otherwise unacceptable goods should not be accepted and the purchasing department and accounts office should be notified accordingly.

3.4.4 Receiving of Vendor Invoices

Vendor invoices can be received in the following formats:

2.3.4.1 via electronic mail in PDF (closed file) format

2.3.4.2 via postal service

2.3.4.3 by hand delivery

Vendor / Supplier Invoices received in electronic format as a Microsoft Excel file or any electronic format that can be altered must be strongly discouraged and declared not acceptable

3.4.5 Verification of Invoices

On receipt of goods (with the relevant delivery notes) they are to be checked for type, quality and quantity. Verification and processing comprises an examination of all invoices and supporting documentation to ensure compliance and is to be examined thus:

3.4.5.1 Original Tax Invoice in the name of Sedibeng District Municipality;

3.4.5.2 Values, extensions and additions are correct;

3.4.5.3 All settlement discounts applicable are utilised where beneficial;

3.4.5.6 An allocation to the relevant cost centre and general ledger account needs to be made for payment purposes;

3.4.5.7 Validation of mandated authority levels relative to purchase order issuance needs to be made;

3.4.5.8 Invoices presented for sundry expenses should be for the current year within which the goods or services were procured.

3.4.6 Discrepancies

Any differences between the order and the delivery note is to be investigated and where necessary, adjustments to the order, are to be reviewed and verified by obtaining the necessary supporting documentation within the prescribed authority levels and adhering to the categories for requisition raising.

3.4.7 Receipting

On receipt of a supplier's tax invoice, the creditors' clerk checks the appropriate goods received note or delivery note for quantity. The clerical accuracy of the invoice must also be checked to prove the accuracy of its total Rand amount. The invoice must be stamped, initialed as correct, and then filed with the relevant delivery note and order form attached thereto. No invoices will be entered in the purchases record unless passed as correct, as evidenced by the signature of the HOD-Finance.

The stores department copy of the order is attached to the relevant supplier's delivery note and routed to the accounts department to await the invoice. Purchases department will be notified of orders satisfactorily fulfilled so that the relevant order can be removed from the 'delivery pending' file. Fulfilled orders are then filed in numerical sequence so that a complete and easily accessible record of all orders that have been fulfilled is maintained.

A record of goods received should be maintained in the stores department reflecting the relevant order book, supplier and date of receipt. One copy of the goods received note is sent to the purchasing department and the other is sent together with the copy order and supplier's delivery note to the accounts department.

3.5 Payments

Post the receipting and verification stage, payment needs to be handled in the manner which allows for invoices to be processed in the applicable financial year of receipt.

3.5.1 Methods of Payment

3.5.1.1 Order / Contract payment

All vendors are to be paid by means of electronic funds transfer (EFT). A remittance advice is to be posted to the vendor – in the communications means preferred by the vendor – once the transaction has been effected.

3.5.1.2 Sundry Payments

All sundry payments are as far as possible to be made via electronic funds transfer (EFT). In instances where this is not possible, cheques crossed - "Not Transferable" - will be issued. Uncrossed cheques may only be utilised, at an absolute limited value, for petty cash replenishments and increases.

3.5.2 Terms of Payment

3.5.2.1 Standard Payment Terms

3.5.2.1.1 The standard Sedibeng District Municipality payment terms are 30 days ex invoice.

3.5.2.1.2 Invoices are to be dated and issued for goods and services fully rendered, and will be honored as such.

3.5.2.1.2 Invoices are to be submitted to Accounts Payable for inclusion in the payment run as set out in 2.4.3 below, with a cut off time of 11H00 on the day of the payment run being levied. Late submissions will be included in the next payment run. No exceptions of verbal commitment of early payment will be entertained.

3.5.2.1.3 Any penalties incurred due to the late submission of documentation will be for the account of the business unit submitting such documentation.

3.5.2.2 Payments to SMME / HDI Contractors

Notwithstanding the standard payment terms, which are to be complied with, vendors displaying and equity ownership in excess of 50% for HDI's, will qualify for an acceleration of payment. Such acceleration will be guided by *the Preferential Procurement Regulations, 2017*, aligned with the prescripts of the *Broad-Based Black Economic Empowerment Act, No. 53 of 2003* and its related Strategy as set out in section 5 of the *Preferential Procurement Policy Framework Act, 2000*.

In pursuant thereto Sedibeng District Municipality relaxes its standard payment terms for vendors displaying an HDI equity ownership in excess of 50% to 14 days.

3.5.3 Frequency of Payment

2 (Two) payment runs are to be effected monthly, with:

3.5.3.1 Standard Payment Terms

- i. Invoices received before 11h00 on the 15th of the current month will be paid by the 15th of the current month;
- ii. Invoices received after 11h00 on the 15th of the month will be paid the last working day of the month.

3.5.4 Execution of Payment

- i. Multiple supplier/vendor invoices are to be rolled into one single payment amount as defined by the vendor/supplier number.
- ii. Part payments are allowed to invoices as detailed in line items on the Purchase Order, and need to be clearly marked in invoices as part number of the entire purchase order, and congruent with the goods and services fully rendered for the invoiced part of the purchase order. No pre-payments will be allowed.
- iii. Payments are to be executed by Electronic Funds Transfer with the necessary control measures being in place for selected senior staff using access controls and passwords.

3.5.4.1 Cheques

- i. All cheques are to be prepared by designated staff members who are so mandated with signing authority.
- ii. No cheque may be altered within Accounts Payable, and should spelling or other errors be observed, the incorrect cheque needs to be cancelled, written back and a replacement cheque be issued.
- iii. A cancelled cheque must be retained as a part of records for the transaction documentation to which it has been originally issued

- iv. Cheques issued need to be written up in a sequentially numbered register.

3.5.4.2 Settlement Discounts

Where offered, settlement discounts are to be considered subject to taking the Municipality's cash flow into cognisance and attaining sign off by the relevant Head of Department in association with the mandated official of the Directorate: Financial Management and Budget – this to minimise the disruption caused by the deviation from standard payment terms.

3.5.4.3 Vendor Accounts

Vendor accounts needs to be reconciled monthly, with cognisance being taken of part payments on accounts, and in considering an age analysis, preference be given to accounts 90 days or older.

One payment per month should be allocated per vendor – which amount will include all amounts due.

3.6.4.4 Petty Cash

Petty cash will be administered by the Income Accountant, and access to petty cash for accounts payable will be via the completion of the prescribed forms, duly signed off by the mandated officials for any increases or replenishment.

3.5.4.5 Year End Processes

An annual communiqué will be circulated to all municipal officials and councillors advising as to the cutoff date for accounts payable prior to year end accounting, and the need to restrict all procurement at least 30 days prior to the cutoff date as noted in the communiqué.

3.6 Disputes

If there is a dispute over the terms or the amount to be paid:

- 3.6.1 If there are grounds to question the amount or service provided, the matter should be referred to a senior official;
- 3.6.2 The senior official is to telephonically contact the service provider explain the nature of the query and request a meeting;
- 3.6.3 If only a portion of the invoice is queries then payment should be made for the work discharged and the necessary action needs to be taken to rectify the balance of the work;
- 3.6.5 If attempts to resolve the dispute fail, and written communication prove fruitless, then legal avenues are to be explored of which mediation is first prize.

3.7 Amendment and Review of the Policy

The Accounts Payable Policy shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.

Purchase Requisitions

When completing purchase requisitions, Council officials must adhere to the following process

Complete the requisitions in triplicate

Quotations must be attached to requisitions

The requisition must then be handed to the Head of Department for approval before submission to stores or receiving department

At stores the requisition is captured onto Venus system and an order is then generated

The original requisition is attached to the generated order and sent to the supplier while one copy is filed in the 'deliveries pending' file and the other kept at stores

Orders placed by telephone should be confirmed in writing by the issuer of an order marked 'by telephone'

Receiving and Receipting of Goods and Services

The accountability for checking of goods received in a department lies with the HOD

All goods received must be inspected, counted and checked to the relevant order and supplier's delivery note for type, quality and quantity

Suppliers' delivery notes will only be signed after this check is satisfactorily completed

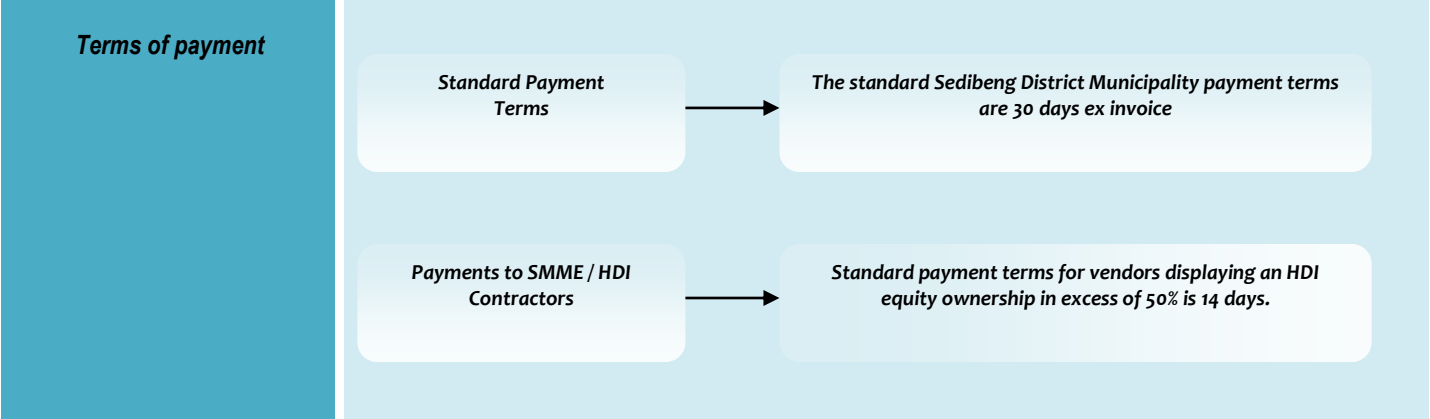
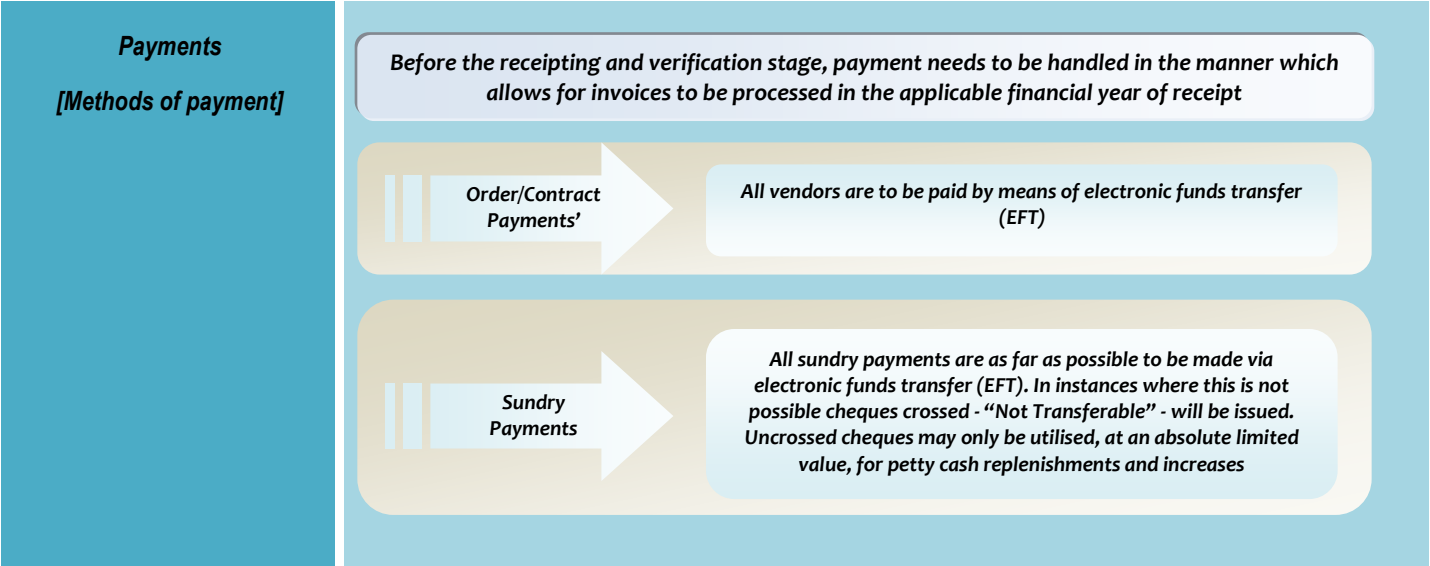
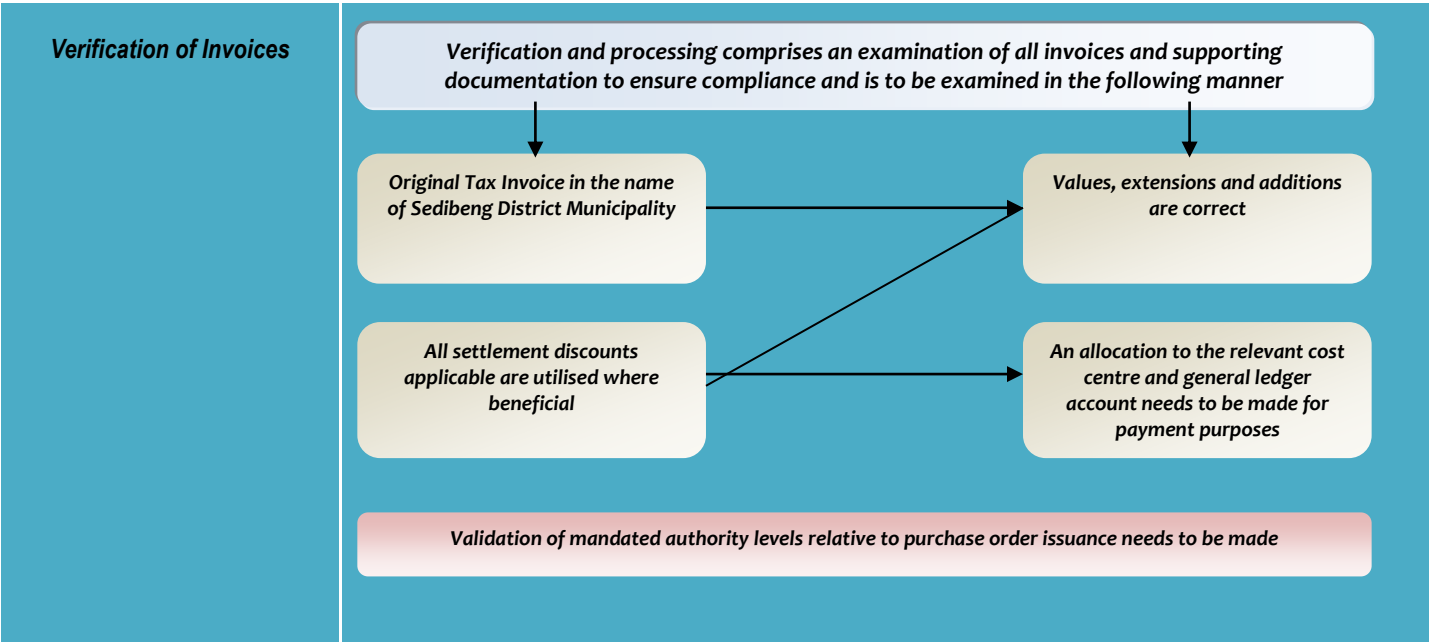
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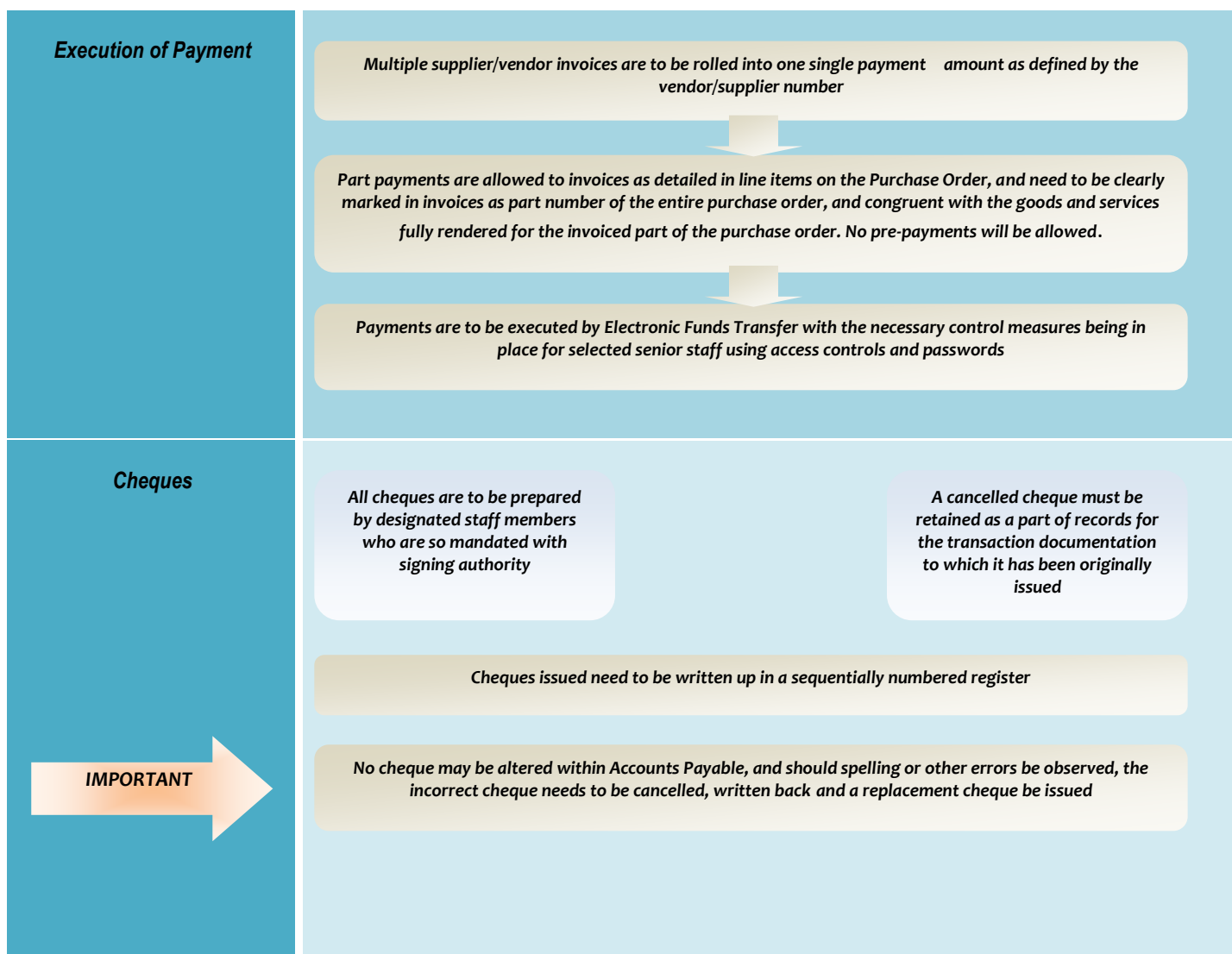
Vendor invoices can be received in the following formats

Via electronic mail in PDF

Via postal services

By hand delivery





Principles

Officials responsible for interacting with vendors on behalf of the Municipality should apply the following principles

- a) **Accountability**
It is the department's responsibility to ensure that all purchases are made in the conduct of the Municipality's business and well documented for tracking purposes. In order to continue the efficient operation of the Municipality, all purchasers must make sound purchasing decisions
- b) **Accuracy**
The Official(s) managing the business activity are responsible for and must convey to the vendor the importance of receiving invoices which correctly identify work performed or goods received. In addition, the insistence of accurate information provides support documentation for analysis by auditors (AG) as required.
- c) **Timeliness**
Expenses should be recorded in the period in which the goods or services are rendered. In order to apply this principle, an invoice must be received from a vendor within a reasonable amount of time, usually thirty days

ANNEXURE A

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") as amended by section 175 of the Revenue Laws Amendment Act No 45 of 2003 and 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.

ANNEXURE B

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. **Sedibeng District Municipality will accept 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.