



CITY OF CAPE TOWN  
ISIXEKO SASEKAPA  
STAD KAAPSTAD

# ANNEXURE 10

## DRAFT POLICY ON ACCOUNTS PAYABLE

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Department:

**Expenditure**



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## 1. DEFINITIONS AND ABBREVIATIONS

### ABBREVIATIONS

“**AP**” - Accounts Payable

“**EDI**” - Electronic Data Interchange

“**EFT**” - Electronic Funds Transfer

“**GRN**” - Goods Received Note

“**PDF**” - Portable Document Format

“**SAP**” - Systems Application Products

“**SARS**” - South African Revenue Services

“**SCM**” - Supply Chain Management

“**SES**” - Service Entry Sheet

“**VAT**” - Value Added Tax

“**PSRM**” - Public Sector Records Management

“**IDP**” - Integrated Development Plan

### DEFINITIONS

“**Accounting Officer**” means a person appointed in terms of section 54A of the Municipal Systems Act.

“**Accounts Payable**” means money owed by an organization to its supplier/s (Trade Creditors) for goods and services purchased on credit. Also referred to as the responsible unit dealing with supplier payables.

“**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.

“**City**” means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No. 479 of 22 September 2000, issued in terms of the Local Government: Municipal Structures Act, 1998, or any structure or employee of the City acting in terms of delegated authority.



“**Credit Note**” means a document provided by a supplier, stating that a certain amount has been credited to the City’s account due to supplies returned.

“**Disbursement Transaction**” means the payment of invoices received for goods and services.

“**Earlier Payments**” mean that invoices are paid earlier than the scheduled payment terms.

“**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.

“**Goods Receipt Note**” means a confirmation document 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.

“**Invoice**” means a non-negotiable commercial instrument issued by a 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**” 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.

“**Purchase Order**” means the City’s official authority to deliver goods and/or services at a specified price, place, time and terms.

“**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.

“**Standard Payment terms**” refers to the standard payment terms on official purchase orders: Payment of invoices will be made within 30 days of receiving the relevant invoice or statement.

“**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.



“**Sundry Invoices**” means invoices which relate to ad hoc and/or once off payments, which are not linked to a SAP purchase number.

“**Tax Invoice**” means the elements of what depicts a valid Tax Invoice. Refer to SARS VAT 404 – Guide for Vendors

“**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.

“**Supplier Database**” means a central data base maintained and managed by Supply Chain Management Directorate.

## 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 reasonable 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."*
- Applicable by-laws

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 Line Departments have the onus to ensure that all contractual obligations and relevant documents are in place in support of approval of payments.
- 8.3 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 - external government  
Department
  - SALGA - external government
  - Other Government Departments - external government
  - SARS - external government
  - Suppliers of the City - external

## 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, 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.





- 9.1.5 Accounts Payable process these payments in good faith using the 3-way match principle (The 3 –way match consists of the unit price and quantity on the PO; the quantity entered in the goods receipt and the quantity and value of the invoice.)
- 9.1.6 Line departments must ensure that relevant supporting documents are available on request including for audit purposes.

## **9.2 SUNDRY PAYMENTS**

- 9.2.1 Sundry Payments are allowable exceptions to the Formal Procurement Procedures as stipulated in the Supply Chain Management Policy under the heading: Deviation from the Procurement Processes and therefore cannot be processed using the Procure to Pay process.
- 9.2.2 Sundry Payment relate to specific disbursements which may include ad hoc payments relating to refunds, third party claims, license fees, etc.
- 9.2.3 Should the supplier be VAT registered, then invoices must be SARS compliant.
- 9.2.4 Sundry payment requests submitted for payment must be accompanied by a duly completed and authorized original Payment Request Form.
- 9.2.5 Delegated Authority/Line department must ensure that the payment request form validating the payment, is accompanied by all applicable documentation.

Line departments remain the accountable and responsible custodians of all documentation submitted to Accounts Payable. They must ensure that all (additional relevant supporting) documents are available on request, for oversight and audit purposes; therefore, indemnifying Accounts Payable of the validity of the submitted documentation.

- 9.2.6 All Sundry payment requests are reviewed frequently in a bid to follow the Procure to pay process.
- 9.2.7 All Sundry Payment requests will be captured using the following processes:
  - 1. Workflow Approval Process
  - 2. Direct Payment Process



9.2.7.1 Workflow Approval Process: This process relates to cost centers which are linked to the workflow process which allows Cost Centre Owners to consider and release the payment.

9.2.7.2 Direct Payment Process: This relates to a process where Cost Centers and GL's are not linked to the workflow process and therefore do not allow for Cost Center Owners to release the payments. In cases like these, Accounts Payable will proceed with the payment based on the duly approved payment request form and applicable supporting documentation.

9.2.8 The Direct Payment Method will not be used to circumvent the Workflow Approval Process in the event that Cost Centre owners are not available to release the payment. It is the responsibility of Line department to ensure that an alternative Cost Centre Releaser is available to release payments.

### **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: -

- Connectdirect
- 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
- Construction Related - Daily cycle
- 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 in PSRM and forwarded for processing.
- 9.4.4 All documentation received 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 payment is not a right in terms of this policy. A fully motivated application must be submitted 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 scheduled 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 Suppliers forward invoices to AP using one of the 3 mechanisms (post, e-mail or courier) of submitting invoices for payment.

9.8.2 These invoices are "reserved" in the SAP system awaiting action by the line department to initiate the 3-way match principle.

9.8.3 Line departments have the responsibility to action all parked invoices to ensure that all related queries are resolved for payment within the payment terms. This action will result in the invoice being paid and/or a credit note being provided by the supplier to cancel invoices issued.

## **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**

The administration of GRN's is the responsibility of line department where all original signed/approved source documents are retained for audit purposes.

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. Any other form of proof of delivery may also be used.

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

9.10.4 It is compulsory for all relevant and acceptable supporting documents to be attached to the electronic GRN as assurance and validation before posting is allowed.



Accounts Payable is responsible for the processing of invoices. When the goods/services received have been correctly processed on SAP, the invoice will meet the 3-way match and will be successfully processed. (The 3 –way match consists of the unit price and quantity in the PO; the quantity entered in the goods receipt and the quantity and value of the invoice.)

#### **9.11 ADVANCE PAYMENTS**

This policy allows for advance payments in respect of goods and services procured which may amongst other include training, conferences, events, subscriptions and license fees. However, this excludes the applicable advance payment guarantees as referred to in the SCM policy.

#### **9.12 INTEREST ON LATE PAYMENTS**

No interest will be payable by the Municipality on any late payments, regardless of nature, unless approved by Council or directed by the Court of Law. In cases where the interest charge is due to the negligence of an official, the expenditure will be classified as fruitless and wasteful expenditure.

### **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.
- This policy must be reviewed annually as part of the budget process or more frequently if required.
- Changes in legislation must be taken into account for future amendments to this policy.
- Any amendments to this policy must be submitted to Council for approval.