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Section 1: Definitions and Abbreviations

Accounting Officer: means the municipal manager appointed as such by the municipal Council in terms of section 82 of the Municipal Structures Act and as contemplated in Chapter 8 of the MFMA;

Accounts Payable: means money owed by an Organisation to its suppliers and vendors for goods and services procured on credit.

Construction Contract: means 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.

Municipality: means the Ventersdorp Municipality

Credit Note: means a document provided by a vendor or supplier stating that a certain amount has been credited to the Municipality's account due to certain items being returned.

Disbursement Transaction: means a payment of invoices for goods and services received

Electronic Funds Transfer: means the electronic movement of funds from the Municipality's main bank account to 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.

Goods Receipt Note: means confirmation documentation issued 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: means 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: 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.

Payment Terms: means 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: means 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: means a Depository for the receiving of invoices and statements for distribution to the processing staff and the safekeeping of such documents for audit purposes.

Statement: means a 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: means invoices which relate to ad hoc or once off purchases, which are not linked to a VENUS purchase number.

Tax Invoice: The elements of what depicts a valid Tax Invoice are attached as Annexure A 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.

Abbreviations

AP:	Accounts Payable
EDI:	Electronically Delivered Invoices
EFT:	Electronic Funds Transfer
GRN:	Goods Received Note
PDF:	Portable Document Format
VENUS:	VENUS Municipal Accounting System
SARS:	South Africa Receiver of Revenue
SCM:	Supply Chain Management
VAT:	Value Added Tax

Section 2: Introduction

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 Municipality 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.

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:

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

Section 3: Objective

The primary objective of this Policy is to ensure the Municipality'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.

Section 4: 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.

Section 5: Scope

This Policy is applicable to:

- All official payments made by the Municipality to Vendors/Suppliers of the Municipality or other duly authorised payments.
- Exceptions to this policy shall apply with the specific authorisation of the CFO except for deviations in Sundry Payments which would require special authorization from the Accounting Officer in terms of the Supply Chain Management Policy.

Section 6: Regulatory Framework

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
- Municipal System of Delegations

Section 7: Responsibility

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

Section 8: Policy Directive Details

Section 8.1: Trade creditors order payments

Goods and services for the Municipality will be procured by means of an official order in accordance with the Supply Chain Management Policy.

Only original Tax Invoices, with reference to an official purchase order, shall be accepted for the processing of a payment.

In certain instances, additional supporting documentation/reports will be required to support the validity of the payment.

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

Section 8.2: Sundry Payments

Sundry invoices refer to invoices which relate to ad hoc or once off purchases, which are not linked to a VENUS purchase number.

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

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 authorised by the Accounting Officer.

Section 8.3: Contract/Certificate Payments

The Accounts Payable 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.

Section 8.5: 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.

The processing of payments will adhere strictly to the official payment terms of the Municipality.

The VENUS system will allow for the electronic authorisation of invoices and delivery notes, by means of a workflow process.

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

Section 8.6: Registry

Invoices are received by the Registry Section before delivered to the Accounts Payable Section for processing.

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 are recorded in the outwards mail register.

Section 8.7: Verification of Invoices

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

- Original tax invoice in the name of the Municipality
- Values, extensions and additions are correct
- All settlement discounts applicable are utilised, where beneficial.
- Allocation to a valid general ledger account for Sundry Payments.
- Valid business authorisation in terms of Council's delegated authority
- Invoices processed for payment must be dealt with in the applicable financial year.

Section 8.8: Methods of Payment

Suppliers/Vendors

All vendors/suppliers of the Municipality 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.

Terms of Payment

The official terms of payment (30 days from receipt of invoice) of the Municipality will be honoured 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 payment 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 unit. 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.

Section 8.9: 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.

Section 8.10: Standard Payment Terms

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 on or before the 20th and the 25th 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 20th and the 25th 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 have fully been rendered.

Section 8.11: 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 FNB EFT.

Section 8.12: Documentation

Original Tax Invoices shall be accepted, for the processing of a payment.

In all instances, additional supporting documentation/reports will be required to substantiate the authorisation of the payment.

Therefore no payment shall be processed merely on the instruction by an official, be it written or verbal.

All supporting documentation and payment vouchers processed by the payment section shall be retained and remain under the control of the Registry for at least five financial years.

Section 8.13: Settlement Discounts

Where settlement discounts are offered, it will be taken with due cognizance of the Municipality'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 Municipality's payment terms taking cognizance of any potential settlement discounts.

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

Section 8.14: 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.

Section 8.15: 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.

Section 8.16: Petty Cash

This is performed on a SCM functionality whereby pre authorization is obtained from the CFO with a limit of R3 000 per month and R200 per requester.

Section 8.17: 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 the VENUS 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 VENUS system based on the posting date of the service entry sheet.

Payment Processing/Authorising

A normal monthly process is followed.

Reconciliation of VENUS Control and Suspense Accounts

A normal monthly process is followed.

Section 9: Implementation, Evaluation and Review

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

The Policy shall be implemented once approved by Council.

ANNEXURE A**Valid Tax Invoice Details**

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:

- a. The words "Tax Invoice" in a prominent place;
- b. The name, address and registration number of the vendor/supplier;
- c. The legal or trading name, address and where the recipient is a registered vendor/supplier, the registration number of the recipient;
- d. An individual serialized number and the date on which the tax invoice is issued;
- e. A full and proper description of the goods or services supplied;
- f. The quantity or volume of the goods or services supplied;
- g. The value of the supply, the amount of tax charged and the consideration for the supply; or 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.
- h. 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 R3000 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. Input VAT may not be claimed when paying for "Entertainment" items, food, etc. Invoices not exceeding R3 000 need to comply with points a, b, d, e, g & h only