

ACCOUNTS PAYABLE POLICY/PROCEDURES FRAMEWORK

Standard Operating Procedure for Payment Verification & Accounts Payable

I. Introduction:

The purpose & objective of this document is to design a framework to facilitate payment verification.

Payments of goods & services are done through a

- Three way matching
- Two way matching

In addition payments are made to employees as part of the perquisites or reimbursement of expenses as per the company policy.

I - Three Way Matching System Payments

Generally for goods purchased by the company for production or reprocessing for further sales; a three way matching system is done in which the Purchase Order, Goods Received & Inspection Note (GRIR) & Supplier invoice are matched. If all three documents match then payments can be released. Modern ERPs which have Purchase Order, GRIR & Invoice data in the system can automatically process the payments with little human intervention.

Supplier invoices are stored either because of online connectivity with supplier through the B2B arrangement or through Scanned Images mechanism. In Pakistan most suppliers do not have such sophisticated ERS so invoices are generally issued manually.

Hence manually the verification takes place of matching the three documents & making payments. Where the three documents do not match the payment should be withheld for further verification.

Companies should endeavour to ensure that for large payments

Two Way Matching System Payments

- Objectives/purpose
- Sections of policy
- List of annexures(reference to annexure)
- List of abbreviations used(reference to annexure)

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II. Important Definitions

- A brief description of major terms used in the policy

III. Responsibilities

- Role of custodian i.e. Accounts Payable(AP) department
- Role of Indenting departments concerned
- Role of treasury department

IV. Limits of Authority Manual (LAM)

- Reference to the manual that all payments will be made after approval from management as per LAM.

V. Control Environment

- General Controls:
 - AP should institute specific procedures that strengthen the overall control environment. Advising the departments to approve their expense budgets under various routine cost heads. This will speed up the payment process and would facilitate the requesting departments. Since requests from budget holders be processed quickly till they are under the approved budget
 - Requests beyond the approved expense budget be routed through LAM and subject to detailed scrutiny
 - Performing variance analysis of all expense accounts to check any exceptions and discrepancies
 - Circularizing cost centre wise expense payment reports to respective departmental heads for their info. It will strengthen the control function
 - Reviewing every six months the controls effectiveness and updating/changing the controls as the changing circumstances warrant
 - Mandatory rotation of AP persons after three years and forced annual leave conditions be instituted
 - All payments disbursements whether online or not be made through Treasury. AP should have no access to Company's Bank accounts or online transfers authorizations

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- Information System & Technology
 - Software and technology currently being used by AP to perform its day to day procedures & its effectiveness
 - Validation and access controls in place
 - Specific procedure for changing the passwords on periodic basis
 - Physical access controls be in place to avoid any vandalism or theft instances
 - Strict human based control procedures be instituted if use of information system is very low in discharging the day to day duties of AP. Otherwise if System is used for better part of transactions then system based controls be strengthened

VI. Detailed Procedures

- Payments on account of capital expenditure
 - Flow of bills amongst authorized persons in respective departments
 - Supporting documents(purchase order, goods acknowledgement slip, agreement, budget allocation sheet, vendor invoice e.t.c)
 - Responsibilities for Posting/ posting of bills
 - Logging of comments/ objections highlighted and responses from concerned departments
 - Approving authorities as per LAM based on monetary value/ nature of payments
 - Responsibilities for cheque printing/ distribution of cheques
 - Proper segregation of duties should be ensured in bill processing procedure followed at AP department to ensure effective controls.
- FX (foreign currency) payments
 - Payments be released after ensuring that all State Bank's regulations governing foreign exchange outflows has been complied
 - Proper rate of Withholding tax deducted on foreign payments be confirmed with Tax department and intimated to foreign vendor before issuance of payment to avoid any dispute. Payment be released only after the consent of foreign vendor. Countries having tax treaty with Pakistan have different tax treatment then countries having no tax treaty
- Payments on account of operating expenses
- Payments on account of product procurement
- Employee related disbursements
- Maintenance of petty cash fund and related payments
- Payments on account of taxes and duties (withholding tax, sales tax e.t.c)
- Payments on account of interest/ bank charges
- Payments to Shareholders' on account of dividends
- Other miscellaneous payments

VII. E-Logging of bills

- Roles and responsibilities of a centralized bill receiving unit
- Procedure of logging of bills amongst departments from submission of a bill to its payment
- System based controls

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VIII. E-transfer of funds

- Role of banks involved
- Procedure for compilation and processing of batch
- Approval by authorized signatories
- Transfer of batch to bank
- Controls over batch transfer to bank and payments to vendors
- Online confirmation to vendors at the time of payment

IX. Ageing of bills

- Setting of bills processing time based on nature of bills
- Periodical reporting on ageing of bills pending
- Feedback from departments for delay in payments of overdue bills

X. Booking of accruals/ reversals

- Responsibility of AP/ concerned departments for booking/ reversal of accruals
- Timeline for submission of details to AP department for booking of outstanding bills
- Procedure of reversal of bills outstanding for > 3 years old

XI. Cheques lost in transit

- Procedure for issuance of duplicate cheque
- Undertakings
- Approvals as per LAM

XII. Vendor duplicate bills

- Procedure in case of bill is lost in transit or during processing
- Acknowledgement by person from whom bill is lost
- Approval by management

XIII. Effective Date and renewal

- Effective date of policy
- Procedure for amendments to policy
- Approval by management