

Payment to Suppliers through Factors

1. Factoring is a financial transaction where a supplier of goods, works and/or services sells his accounts receivables (i.e invoices) to a third party (called a factor) at a discount.
2. The three parties involved are the supplier, the factor and the Department whereby:-
 - (a) There is contractual relationship between the Department and the supplier.
 - (b) The factor acts as a collecting agent for the supplier, collecting any receivables for the supplier.
 - (c) The Department pays to the factor any amount due to the supplier instead of paying to the supplier.

Invoice Factoring Transaction

3. A standard factoring transaction consists of the following steps:-
 - (a) Set up of the Ministry/Department– The Department is notified that he needs to remit payments to the factoring company following an official request from the supplier to the Department;
 - (b) Submit the invoice – The supplier submits the invoice to the Ministry/Department concerned after the goods have been delivered, services rendered or work has been carried out according to the terms & conditions of the contract;
 - (c) Invoice verification – The Department verifies the invoice to determine if it is in order;
 - (d) Payments – funds are transferred to the factor’s bank A/c; or
 - (e) Cheque is drawn to the address of the factor subject to the work done, services rendered or goods being delivered to the satisfaction of the Min/Dept.

Principles for effecting payment to a factoring company

4. Before making any disbursement to a factor the following principles should be complied with:-
 - (a) Officers authorized to incur expenditure must ensure that an official request has been obtained from the supplier. A reference number should be allotted to such request;

- (b) Suppliers should be requested to state the name of the factor in all their invoices;
 - (c) Under no circumstances should a Min/Dept enter into a contractual obligation with a factoring company which might be prejudicial to the Government;
 - (d) The officer making disbursement should follow the general principles for disbursements at Chapter 20.4 of FMM 1990. In this respect due care and diligence should be observed with emphasis on whether:-
 - (i) Goods delivered are in order;
 - (ii) Services rendered are to the satisfaction of the Department; and
 - (iii) Work done is as per the terms and conditions of the contract.
 - (e) Payment vouchers should clearly indicate the name of the supplier as well as the factor and the reference number of the supplier's request mentioned at subparagraph (a);
 - (f) Proper records should be kept regarding the supplier and the factoring company;
 - (g) Factoring must cover all amounts owing under a contract and cannot be assigned to more than one party;
 - (h) Creation of factors in TAS should be effected centrally by Treasury on the basis of a formal request by Ministries/Departments;
 - (i) Reports generated by TAS should include reports by factor and reports by supplier;
 - (j) It is the responsibility of the Ministry/Department to ensure the correctness of the party designated as Payee on a payment voucher; and
 - (k) Due care should be applied where payments are made through factors.
5. The following information should be maintained in TAS to satisfy the requirements of all parties concerned, including the Mauritius Revenue Authority:-
- (a) Name of supplier and the Business Registration Number (BRN);
 - (b) Name of factor and the bank a/c No of the factor if payment is effected through bank transfer;
 - (c) Name of factor and the address of the factor if payment is effected by cheque; and
 - (d) The date and amount paid to the supplier through factors.