CREDIT NOTE ISSUANCE PROCEDURE

EGC/SOP/SL/003

Revision No: 00

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APPROVAL

	DESIGNATION	SIGNATURE	DATE
Reviewed By:	MR		26th June 2026
Approved By:	MD		26th June 2026

REVISION HISTORY

Rev Date	Rev No.	Changes Description	Author
26 -June-26	00	Initial Procedure	Sales & Finance

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1.0 PURPOSE

The purpose of this procedure is to define a controlled process for issuing Credit Notes to customers for adjustments arising from returns, overbilling, pricing errors, or service discrepancies, ensuring accuracy, proper authorization, and traceability.

2.0 SCOPE

This procedure applies to all Credit Notes issued by the Sales Department for:

- Product returns (defective / nonconforming valves or instruments)
- Pricing discrepancies
- Overbilling or duplicate invoicing
- Short supply or incorrect items delivered
- Service-related adjustments (e.g., calibration or maintenance issues)

This procedure also applies to all customers conducting business with Essem Group of Companies (EGC).

3.0 REFERENCE DOCUMENTS

Control of Records	EGC/SOP/CP/002
ISO 9001:2015	Clause 8.2, 8.5.1, 8.7
Quality Management System Manual (ISO 9001:2015)	EGC/QM/002

4.0 DEFINITIONS & ABBREVIATIONS

Credit Note (CN): A financial document issued to reduce the amount payable by a customer.

Nonconformance Report (NCR): Document raised when product/service does not meet requirements.

Return Material Authorization (RMA): Approval to return goods from customer to company.

5.0 RESPONSIBILITIES

5.1 Sales Department

- Receive and review customer request
- Initiate Credit Note Request (CNR).
- Ensure supporting documents are complete and in proper order
- Coordinate with QA/QC and Finance
- Communicate approved CN to customer

5.2 QA/QC Department

- Verify product-related issues
- Confirm nonconformity (if applicable)
- Provide inspection or investigation findings
- Recommend disposition for rejected or returned goods

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5.3 Finance Department

- Validate financial accuracy
- Verify original invoice and billing details
- Ensure approval requirements are met
- Issue official CN in system
- Update customer account and accounting records
- Maintaining CN documentation for audit purposes

5.4 Quality Manager / HOD

- Review justification and supporting documents
- Approve CN (based on approval matrix)
- Escalate exceptional or high-value cases to management where necessary

6.0 PROCEDURE

6.1 Initiation of Credit Note Request (CNR)

6.1.1 Credit Note Requests may be initiated from various sources, including customer complaints, internal audit findings, identified sales or invoicing errors, as well as outcomes arising from the Nonconformance Report (NCR) or Return Material Authorization (RMA) processes, subject to proper verification and supporting documentation.

6.1.2 The Sales Department shall be responsible for registering the Credit Note request in the Credit Note Log, assigning a unique reference number for tracking and traceability purposes, and compiling all relevant supporting documentation, including but not limited to the invoice copy, Delivery Order, customer complaint or correspondence (e.g., email), and the Nonconformance Report (NCR), where applicable, prior to submission for verification and approval.

6.2 Verification and Validation

6.2.1 All product-related Credit Note requests shall undergo thorough verification and validation by the QA/QC Department to confirm the existence and nature of the reported nonconformity.

6.2.2 This shall include a review of relevant inspection and test records, product specifications, and supporting evidence, as well as physical inspection where applicable, to ensure that the claim is justified and accurately substantiated prior to further processing. Subsequently, recommend disposition for rejected or returned goods.

6.2.3 For Commercial Issue, the Sales and Finance Departments shall jointly perform verification and validation of all commercial-related CN requests by reviewing and confirming the accuracy of pricing, identifying any quantity discrepancies, and ensuring alignment with the agreed contractual terms and conditions, prior to approval and processing of the CN.

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6.3 Classification of Credit Note Type

Type	Description
Return CN	Returned defective product
Pricing CN	Overcharge or wrong pricing
Quantity CN	Short delivery
Service CN	Service performance issue

6.4 Approval Process

6.4.1 All Credit Notes must be approved as per authority matrix:

Amount Range	Approval Required
Up to RM 5,000	Sales Manager
RM 5,001 – RM 20,000	QA Manager and/ Sales Manager & Finance Manager
RM 20,001 to RM 50,000	Group Chief Operating Officers/ Head of Subsidiary
Above RM 50,001	Chief Operating Officer/ Head of Subsidiary & Group Chief Financial Officer

6.5 Preparation of Credit Note

6.5.1 Finance Department shall prepare Credit Note in ERP/accounting system. A complete of supporting documents should be in place.

6.5.2 The information shall include:
a.) Customer name
b.) Original invoice reference
c.) Reason for credit
d.) Amount (with tax details)
e.) Supporting reference (NCR, RMA, etc.)

6.5.3 The Finance Department shall also ensure that the CN is generated in accordance with established financial controls, approved authorization levels, and applicable statutory and regulatory requirements.

6.6 Issuance of Credit Note

6.6.1 The approved Credit Note shall be formally issued to the customer through the EGC's designated system, either in electronic format (PDF) or via the official ERP/accounting platform, ensuring that all relevant details such as reference to the original invoice, reason for issuance, and approved amount are accurately reflected.

6.6.2 A complete copy of the issued Credit Note, together with all supporting documentation and approval records, shall be securely retained within the company's document management or ERP system to ensure proper traceability, auditability, and compliance with record retention requirements.

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6.6.3 The Finance Department shall ensure that the Credit Note request is duly reviewed and approved by both the designated Sales Approver and the Group Finance Manager, in accordance with the established approval authority matrix, prior to any further processing.

6.6.4 Upon obtaining the required approvals, the QA/QC Department shall formally notify the Finance Department to proceed with the issuance of the Credit Note through the designated ERP or accounting system, ensuring that all relevant supporting documents and approval records are properly attached and referenced.

6.6.5 Where contractually required or deemed necessary, formal acknowledgment of receipt shall be obtained from the customer, either through written confirmation (e.g., email) or system-based acceptance, to ensure mutual agreement and proper closure of the transaction.

6.7 Accounting and Adjustment

6.7.1 The Finance Department shall update and adjust the customer's account balance in the ERP or accounting system upon issuance of the approved Credit Note.

6.7.2 The credited amount shall be appropriately applied, either by offsetting against future invoices or, where applicable and approved, processed as a refund to the customer, in accordance with established financial procedures and authorization requirements.

6.8 Record Retention

6.8.1 All records related to the issuance of Credit Notes shall be properly maintained and controlled within the company's designated document management or ERP system to ensure traceability, accessibility, and audit readiness.

6.8.2 Such records shall include, but are not limited to, the Credit Note Log, all relevant supporting documents (e.g., invoices, delivery orders, NCRs, customer correspondence), and duly authorized approval records.

6.8.3 All records shall be retained for a minimum period of seven (7) years, or longer where required by applicable statutory, regulatory, or contractual obligations.

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