

RAY NKONYENI

LOCAL MUNICIPALITY

**CREDITORS AND STAFF
PAYMENT POLICY**

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1. DEFINITIONS AND ABBREVIATIONS

1.1 DEFINITIONS

“Accounting Officer”	Means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act; and also refers to the Municipal Manager of the Municipality in terms of section 60 of the MFMA.
“Accounts Payable”	Accounts Payable is money owed by an organization to its vendors/suppliers (Trade Creditors) for goods and services purchased on credit.
“A Construction Contract”	Is 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.
“Credit Note”	A document provided by a vendor/supplier, stating that a certain amount has been credited to the Municipality’s account due to supplies having been returned.
“Disbursement Transaction”	Refer to the payment of invoices received for goods and services.
“Electronic Fund Transfer”	The electronic movement of funds from the Municipality’s main bank account to the different vendor/supplier accounts in the same or different banks.
“Goods Receipt Note”	Is confirmation documentation by the receiving department or Procurement Officer that shows that the ordered goods were received. It is used along with a purchase order (PO) in the “three way match” to authorize invoice payment.
“IDP”	Means Integrated Development Plan.
“Invoice”	A non-negotiable commercial instrument issued by a vendor/supplier to the Municipality 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.

“Municipality”	RAY NKONYENI LOCAL Municipality.
“Payment”	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”	As stipulated in the MFMA and informed to suppliers of goods and services rendered.
“Purchase Order”	Is a document sent to a vendor/supplier, authorizing 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. Open PO’s are often used for services which occur over a period of time.
“Statement”	Summary of all transactions’ debits or credits with a vendor/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”	Refer to invoices which relate to ad-hoc or once off purchases, which are not linked to a Munsoft purchase number.
“Tax Invoices”	The elements of what depicts a valid Tax Invoice are attached as Annexure B 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.
“Vendor Master File”	A central, comprehensive data base file generally maintained by the Accounts Payable Department that contains information about vendors/suppliers used to facilitate financial transactions between companies. The information includes payment terms, addresses, names, credit limit and payment or purchase transaction history.

1.2 ABBREVIATIONS

AP	-	Accounts Payable
EDI	-	Electronically Delivered Invoices
EFT	-	Electronic Funds Transfer
ERP	-	Enterprise Resource Planning
GRN	-	Goods Received Note
PDF	-	Portable Document Format
SARS	-	South Africa Receiver of Revenue
SCM	-	Supply Chain Management
SOP	-	Standard Operating Procedures
VAT	-	Value Added Tax

2. PROBLEM STATEMENT

In compliance with the Municipal Finance Management Act (MFMA) (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 and guidelines by the Financial Management of the Municipality.

The Creditors and Staff Payments Policy document serves to support the concept of the control measures necessary within Expenditure Section of the municipality. Further, it is deemed to serve as:

- (a) An information document in order that the users of the Expenditures Payable service have an understanding of what is required.
- (b) A working document to make the processes of Expenditure Payable more effective.

3. PURPOSE OF THE POLICY

This applies to the Creditors, Councillors, Officials and all those that receive payment from the Municipality.

4. OBJECTIVE OF THE POLICY

The objective of this Policy is to have a standard payment system in place with clear objectives regarding payment policy and dates which objectives are measurable in terms of customer service.

5. LEGISLATION

In terms of section 60 of the Municipal Finance Management Act, Act No. 56 of 2003, the Municipal Manager is deemed to be Accounting Officer of the Municipality. This Policy fulfils the responsibilities of the Accounting Officer in terms of section 65(2) of the MFMA which requires and Accounting Officer to take all reasonable steps to ensure that the Municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payments of funds.

6. DELEGATION OF AUTHORITY (BANK SIGNATORIES)

Only officials approved by Council resolution who are signatories to the bank accounts of the Municipality are authorized to make payments or release EFT's on behalf of the Municipality. The release of Electronic Funds Transfer (EFT) must be authorized by two officials.

7. PAYMENT TO CREDITORS/SUPPLIERS

- (a) All reasonable steps must be taken to ensure that payments made by the Municipality are made direct to the person that supplied the service or to whom the payment is due, unless otherwise agreed upon as approved by the Chief Financial Officer.
- (b) The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered with by the Municipality, stipulate payment terms favourable to the Municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the Municipality, provided that all reasonable step are taken to ensure payment is made within thirty (30) days of the date of the invoice or statement.
- (c) This rule shall be departed from only where there are financial incentives to the benefit of the Municipality, and as approved by the Chief Financial Officer, before any payments are made.
- (d) Payments will be effected during any period of thirty (30) days from that date when the invoice was received by the user department. Any such early payment shall be approved by the Chief Financial Officer.

- (e) In respect of all other service providers/suppliers, the thirty (30) days payment policy will prevail.
- (f) Notwithstanding the foregoing Policy directives, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers/service providers and not settle any accounts earlier than such extended due date, except if the Chief Financial Officer determines that there are financial incentives for the Municipality to do so.
- (g) The Chief Financial Officer shall not ordinarily process creditor payments, more than twice in each calendar month, such processing periods to be at the discretion of the Chief Financial Officer. Wherever possible, payments shall preferably be effected by means of electronic transfers rather than by non-transferable cheques.
- (h) Special payments to suppliers/creditors, other than as previously mentioned, shall be effected if there are compelling reasons for making such payments prior to the normal month end processing.
- (i) All the above payment scenarios referred to are subject to the submission of the correct and relevant supporting documents (e.g. invoice, quotation, requisition, purchase order, memorandum, service level agreement approved by the Head of Department or the Accounting Officer).

8. PETTY CASH PAYMENTS

- (a) Petty cash is issued only for ad-hoc payments that fall outside of the Supply Chain Management process.
- (b) All petty cash expenditure must be allocated and re-imbursed not exceeding R350,00 (Three Hundred and Fifty Rands) per transaction within the month it was incurred.

9. SUNDRY PAYMENTS

Sundry payments relate to disbursements that cannot (due to specific circumstances) be processed by using the formal procurement procedures and are therefore not linked to an official order. Payment shall be processed from the date of the receipt of invoice by the relevant user department.

10. PAYMENT TO COUNCILLORS/STAFF

- (a) In the week of Salary Payments, claims must be submitted prior to the salary closure date for that particular month.
- (b) Employees and Councillors, will, however, be permitted, subject to the authority of the Municipal Manager/Senior Managers, to claim the minimum anticipated

expenditure prior to travelling, provided that such action will not place an unnecessary work load on the salaries and expenditure sections.

- (c) Claims falling outside of this arrangement will be rolled over to the following salary month.
- (d) This rule shall be departed only in respect of overseas travel approved by Council and will only apply in respect of the overseas travel and accommodation costs. Local subsistence and travel in respect of the overseas trip will be claimed as per paragraph above.
- (e) Salaries and allowances shall be paid on the 25th of each month with the exception of December.
- (f) Salary and allowance documents must be submitted to Treasury for capturing and processing as per the cut off time table determined by the Chief Financial Officer circulated at the beginning of the financial year.
- (g) Early payment of salaries must be approved by the Accounting Officer in consultation with the Chief Financial Officer.

11. CESSIONS, AGREEMENTS AND 3RD PAYMENTS

- (a) That only one cession is allowed per contract.
- (b) Those cessions are approved only on the supply of raw materials directly related to the project and not on the services.
- (c) Cessions will be limited to maximum of 30% of the total contract.
- (d) 3rd Party payments are not encouraged unless directed by legislation (SARS) or a court of Law (Summons Issued).

12. PAYMENT METHOD

- (a) All Creditors, Councilors and Staff payments must be done via electronic transfers by EFT.
- (b) All suppliers doing business with the Municipality must have a valid business banking account.
- (c) Letter to confirm the existence of the account holder must be confirmed and signed by bank officials on bank letterheads.
- (d) Staff and Councillors should have one bank account for the whole financial year.

- (e) Cheques will be issued only on special request and should be authorized by the Chief Financial Officer.
- (f) All banking details of service provider/suppliers must be verified and captured on the SCM Data base.

13. FREQUENCY OF PAYMENTS

- (a) All service providers and vendors shall be paid at least once in a cycle of 30 days from the date of invoice received by the Municipality.
- (b) Employees and Officials shall be paid on the 25th of each month.

14. REVISION OF THE POLICY

The RAY NKONYENI LOCAL Municipality's Creditors, Councilors and Staff Payment Policy must be reviewed and amended, as and when it is necessary, to ensure that it remains relevant.