

**LEKWA LOCAL MUNICIPALITY
BUDGET RELATED POLICY**



**CREDITORS AND STAFF
PAYMENT POLICY
2024/2025**

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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 Receive Voucher”	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”	Lekwa 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.

ABBREVIATIONS

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

1. 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 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.

2. PURPOSE OF THE POLICY

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

3. 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.

4. 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.

5. DELEGATION OF AUTHORITY (BANK SIGNATORIES)

Only officials acting on the written authority of the accounting officer in terms of section 11 of the MFMA, are authorised to approve withdrawal of funds from the bank accounts of the Municipality. The release of Electronic Funds Transfer (EFT) must be authorized by two officials.

6. PAYMENT TO CREDITORS/SUPPLIERS

- 6.1. 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.
- 6.2. Payments shall only be done on originals of external substantiating documentation. Substantiating documentation should, as far possible, consist of the following:
 - Authorised payment advice
 - Certified original invoice,
 - Goods received note i.r.o. store purchases, happy letter
 - Second copy of the order issued,
 - Original approved purchase requisition,
 - Quotations according to the Council's purchase policy.
- 6.3. Payment advises and substantiating documentation must be clearly marked "PAID" after cheques are issued to prevent double payments.
- 6.4. Invoices shall in all instances be authorised for payment and as proof that goods or services were received by the relevant Heads of Department or the delegated employees that requested the goods or service.
- 6.5. Payments will be effected during any period of thirty (30) days from that date when the invoice was received by the finance department

- 6.6. 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.
- 6.7. No official shall commit Council to making a payment outside the scheduled payment terms.
- 6.8. Any overpayment to suppliers shall be deducted from the next invoice. If all invoices are paid, arrangements must be made for repayment over a period not exceeding three months.

7. ISSUING OF ORDERS

- 7.1. Orders shall be issued for all expense transactions (Including traveling) before goods are ordered or received and the orders Shall be authorised by the CFO or the delegated employee.
- 7.2. All purchases and other expenses shall be recorded in the Council's financial system on a timeous basis.
- 7.3. Transactions shall be recorded accurately and only valid transactions shall be recorded.
- 7.4. Amounts recorded in the Council's financial system must agree to original substantiating documentation.
- 7.5. Expenses and liabilities must be recorded in the Council's financial system during the correct financial periods

8. PETTY CASH PAYMENTS

- 8.1. Petty cash is issued only for ad-hoc payments that fall outside of the Supply Chain Management process.
- 8.2. All petty cash expenditure must be allocated and re-imbursed not exceeding the limit that is stipulated in the petty cash policy 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. CESSIONS, AGREEMENTS AND 3RD PAYMENTS

- (a) Cession of payment is only allowed when there is an authorisation by the service provider to do so to a third party in writing.
- (b) The service provider must indicate that the person requesting the cession has the authority to request such cession.
- (c) 3rd Party payments are not encouraged unless directed by legislation (SARS) or a court of Law (Summons Issued).
- (d) Any other payments that will be deducted through payroll 5 % administration fee will be deducted from the total payments as administrative fee.

11. PAYMENT TO COUNCILLORS/STAFF

- 9.1. Travelling claims will be processed weekly on Fridays provided cashflow allows.
- 9.2. The payment of Audit committee will be processed a week after sitting (Sitting allowance and subsistence allowance).
- 9.3. 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.
- 9.4. Salaries and allowances shall be paid between 203- 25th of each month with the exception of December and January months. Where the pay date fall on the weekend, salary will be paid on Friday.
- 9.5. Salary and allowance documents must be submitted to Budget and Treasury office 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.
- 9.6. Early payment of salaries must be approved by the Accounting Officer in consultation with the Chief Financial Officer.
- 9.7. Any overpayment of salaries to councillors and employees shall be deducted from the employee. If the amount is substantial, arrangements can be made for repayment over a period not exceeding six months.

12. PAYMENT METHOD

- (a) Creditors 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) All banking details of service provider/suppliers must be verified and captured on the SCM Data base.

13 REVISION OF THE POLICY

The Lekwa Local Municipality's Creditors payment Policy will be reviewed and amended, as and when deemed necessary.