

iLEMBE DISTRICT MUNICIPALITY
(“the Municipality”)



Accounts Payable Policy

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1. DEFINITIONS AND ABBREVIATIONS

1.1. DEFINITIONS

“Accounting Officer”	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 Payables”	In accounting teerms, Accounts Payables means monies owed by an organization to its vendors/suppliers (Trade Creditors) for goods and services purchased on credit.
“Municipality”	iLembe District Municipality
“Electronic Funds Transfer”	The electronic movement of funds from iLembe District’s main bank account to the different vendor/supplier accounts in the same or different banks, through the use of wire transfer, automatic teller machines or computers but without the use of paper documents.
“Good Received Note”	A confirmation document from the receiving department that shows that the ordered goods were received. It is used along with a purchase order in the three way match to authorise invoice payment.
“IDP”	Integrated Development Plan.

"Manual Request for Payment"	A form utilised to record payments where transaction values could not be determined through the "Request for Quotation" process
"Payment Certificate"	A certificate attached to contract payments where progress payments are made.
"Payment Terms"	Are within 30 days from date of receipt of invoice or statement in terms of section 65(e) of the MFMA or 14 days from receipt of invoice based on a current BBBEE certificate and allocated by SCM Compliance.
"Purchase Order"	A buyer generated document that authorizes a purchase transaction. When accepted by the seller, it becomes a contract binding on both parties.
"Statement"	Summary of all transaction debits or credits with a vendor or supplier that occurred during the previous month and their effect on an open-account balance. It is also known as a statement of account.
"Tax Invoice"	A document issued by a vendor/supplier to the Municipality listing the goods or services supplied and stating the sum of money due. The elements of what depicts a valid Tax Invoice are attached as Annexure A to this document.

“VAT”	Value Added Tax. VAT is a consumption tax levied on goods and services at each step of the production/distribution cycle.
“Vendor Master File”	A comprehensive database file maintained by the SCM Unit that contains information about vendors/suppliers used to facilitate financial transactions. The information includes payment terms, address, names of directors, banking details and any other related information.
“Contracts Module”	Contract Module in Financial System that is used to capture contract payment information, tax invoices supported by Payment Certificates, raised against the Contract (by the Contractor).

1.2. ABBREVIATIONS

BAC	Bid Adjudication Committee
IDP	Integrated Development Plan
GRN	Goods Received Note
EFT	Electronic Funds Transfer
CM	Municipal Manager (Accounting Officer)
MRP	Manual Request for Payment
SCM	Supply Chain Management
AP	Expenditure Management Unit
SARS	South African Revenue Services
VAT	Value Added Tax

2. PROBLEM STATEMENT

2.1. In compliance with the Municipal Finance Management Act (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.

- 2.2. Limited resources should be used effectively, efficiently and in accordance with the approved budget as well as any relevant financial policy as determined by the financial regulations for local authorities and guidelines by the Financial Management of the iLembe District Municipality.
- 2.3. The Expenditure Management Unit Policy document serves to support the concept of the control measures necessary within Expenditure Management Unit.
- 2.4. Further, it is deemed to serve as:
 - (a) An information document in order that the users of the Expenditure Management Unit service have an understanding of what is required; and
 - (b) A working document to make the processes of Expenditure Management Unit more effective.

3. STRATEGIC PRIORITY AREAS (INTENT)

- 3.1. The strategic priority areas of the District Municipality are enshrined in the District Municipality's Integrated Development Plan (IDP) and are categorized into six pillars.
- 3.2. These pillars are namely, Creating Sustainable Livelihood, Socially Cohesive District Municipality, A Financially Sustainable District Municipality, Creating a Safer District Municipality, Promoting an Accessible District Municipality and Environmentally Sustainable District Municipality.
- 3.3. This policy supports the Financially Sustainable District Municipality pillar to maximize the Municipality's financial resources by ensuring long-term financial viability and sustainability, thus improving service delivery and giving impetus to the District Municipality's vision of being Africa's most caring and liveable District Municipality, where all citizens live in harmony by 2030.

4. DESIRED OUTCOME

- 4.1. The primary desired outcome of this policy is to ensure that the municipality complies with Section 65 (2) (e) of the MFMA which requires the Accounting Officer to assume all reasonable steps to ensure:-
- (a) That all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
 - (b) The Manager: Expenditure in supporting both the Chief Financial Officer and the Accounting Officer must ensure that all invoices are paid within 30 days of receiving invoice.

5. PURPOSE

- 5.1. The purpose of this policy prescribes a process to be followed for the control and processing of all payments in terms of the Municipal Finance Management Act, Act no 56 of 2003 by ensuring that:-
- (a) The municipality conducts business with properly registered suppliers as prescribed by the Supply Chain Management Policy;
 - (b) The supplier database is updated with correct/valid information;
 - (c) No payments are made to suppliers placed on hold;
 - (d) Only valid tax invoices/invoices are processed for stock and non-stock purchase orders;
 - (e) Only valid tax invoices/invoices are processed for service purchase orders;
 - (f) Only valid tax invoices/invoices are processed for contracts; and
 - (g) Only qualifying valid tax invoices/invoices are processed as finance payments in accordance with applicable legislation, any relevant regulations and/or guidelines.
- 5.2. The policy shall apply to all payments processed by the municipality, except for salaries and wages for employees or deemed to be employees.

5.3. This policy is a high level document and should be read in conjunction with the respective approved detailed business processes.

6. SCOPE

6.1. This Policy is applicable to-

- (a) All official payments made by the District Municipality to Vendors/Suppliers of the District Municipality or other duly authorized payments;
- (b) Any exceptions with the specific authorization of the Head Expenditure; and
- (c) Any deviations in Sundry Payments which would require special authorization from the Head Supply Chain Management or the Chief Financial Officer as delegated by the District Municipality Manager in terms of the Procurement Policy.

7. APPLICABLE LEGISLATION, REGULATIONS AND POLICIES

7.1. This policy is developed and guided by the following legislations and regulations:

- (a) Municipal Finance Management Act (MFMA), Act No. 56 of 2003;
- (b) Value Added Tax Act 89 of 1991;
- (c) Local Government: Municipal Systems Act (Act No.32 of 2000);
- (d) Income Tax Act 58 of 1962 (as amended);
- (e) Treasury Regulations;
- (f) Supply Chain Management Regulations;
- (g) Supply Chain Management Policy;
- (h) GRAP 104: Financial Instruments;
- (i) King Code III of Corporate Governance;
- (j) Integrated Development Plan;
- (k) Credit Control and Debt Collection Policy; and
- (l) Petty Cash Policy.

- 7.2. Clause 12.1 of the Creditors Control and Debt Collection Policy states *"When submitting a tender for the provision of services or the delivery of goods, each potential contractor, service provider and supplier (hereinafter referred to as the 'tenderer') must prove to the satisfaction of the Municipality that all accounts for which the tenderer is liable, have been paid up to date, and that all accounts for which each and every director, owner, partner or trustee of the tenderer is liable, have also been paid up to date."*
- 7.3. By the direction of this Credit Control & Debt Collection Policy and when requested by Revenue Department, Expenditure Management Unit deducts arrears from any service provider.

8. ROLE PLAYERS AND STAKEHOLDERS

- 8.1. The principal role player is the Chief Financial Officer. The Expenditure Management Unit will be responsible for implementing the policy and administering its on-going management and evaluation.
- 8.2. Below is an outline of the affected role-players and stakeholders:
- (a) Expenditure Management Unit;
 - (b) Supply Chain Management Unit;
 - (c) Finance Portfolio Committee;
 - (d) Mayor's Office;
 - (e) All other District Municipality Directorates and Line Departments;
 - (f) KwaZulu Natal Cooperative Governance and Traditional Affairs Department;
 - (g) Auditor General;
 - (h) SALGA;
 - (i) SARS;
 - (j) Other Government Departments; and
 - (k) Registered Suppliers of the District Municipality.

9. POLICY PROVISIONS

9.1. SUPPLIER ACCOUNT MAINTENANCE

9.1.1. Creating a new supplier.

- (a) In order for a supplier to successfully trade with the municipality, the supplier is required to be registered in the central suppliers' database.
- (b) The Supply Chain Management Unit is responsible for creating supplier master records in the System.
- (c) A trade supplier must complete the supplier database form and submit to SCM Unit.
- (d) For the non - trade suppliers, Line Departments must complete a Manual Request for Payment form and use this in place of a normal system generated requisition form.
- (e) The following documents are required when creating a new supplier:
 - (i) Supplier database form;
 - (ii) Stamped and signed original Banking EFT form; OR
 - (iii) Original Bank statement/cancelled cheque/confirmation of bank details;
 - (iv) Company letterhead;
 - (v) Copy of company registration documents;
 - (vi) Copy of ID documents of all shareholders/managing members (certified copy);
 - (vii) Original valid tax clearance certificate;
 - (viii) Copy of valid BEE certificate (certified copy); and
 - (ix) Proof of delegated authority, i.e. Company Resolution

9.1.2. Update of existing supplier record.

- (a) Any changes to supplier details must be updated in the Supplier account details screen on the System.
- (b) The Supplier notifies the municipality of the change by attaching a letter (on the company's letterhead) reflecting the change of details.
- (c) Where banking details are changed, an original banking details form (EFT form) must be completed by the Supplier and substantiated by original banking documents which must include ID documents of co-shareholders and co-signed company resolution nominating/authorizing the person to arrange the change of banking details.
- (d) Should a change be made on the system to the Supplier account:
 - (i) The hold status will not prevent future transactions from being processed against the Supplier account, however, all payments will be blocked due to the held status;
 - (ii) All changes to Supplier account must be captured by the SCM Unit;
 - (iii) Changes to Supplier banking details must be approved by a Senior Official within the SCM Unit; and
 - (iv) All other changes to the Supplier account must be approved by SCM Compliance.

9.1.3. Placing a supplier account on hold or suspension.

- (a) SCM Unit (Supplier Database Maintenance) may be requested to hold or suspend the Supplier's account for the following reasons:
 - (i) Conflict of Interest;
 - (ii) BEE certificate expired;
 - (iii) Tax Certificate expired;
 - (iv) Change of banking details;
 - (v) SARS VAT recovery;
 - (vi) Supplier's bank account closed or EFT rejection;
 - (vii) Council debts;

- (viii) Supplier under investigation;
- (ix) Supplier unable to deliver the services etc.
- (b) The request to place the supplier account on hold may be initiated by:
 - (i) Line Departments;
 - (ii) Expenditure Management Unit (Expenditure Management Unit);
 - (iii) SCM Compliance;
 - (iv) Internal audit.
- (c) The request must be submitted in writing to the SCM Unit.
- (d) The SCM Unit must ensure that the request is authorized by appropriate management level.
- (e) Upon receiving the request to suspend the supplier account, SCM Unit must:
 - (i) Place the supplier on hold and suspends on the system;
 - (ii) Scan all documents for attachment to the supplier address book for record keeping.
- (f) The hold status will not prevent further procurement from the Supplier, but will prevent payments from being made.
- (g) The suspension will prevent any further procurement from that supplier.

9.1.4. Removing a supplier account from a hold or suspend status.

- (a) A written request must be initiated by Line Departments and any other department mentioned in 9.1.3 (b) to remove a supplier's account from a hold or suspend status.
- (b) The SCM Unit must ensure that the request is authorized by appropriate management level.
- (c) The SCM Unit must remove the supplier from a hold or suspend status on the system and scans all documents for attachment on the supplier address book for record keeping.

9.2. Processing and Authorization of Invoices

- 9.2.1. All invoices to be processed for payment must be in line with section 20 of the Value Added Tax Act.
- 9.2.2. Invoices received by Expenditure Management Unit (Expenditure Management Units) should be original invoices.
- 9.2.3. Where a copy of an invoice is received, this can be processed for payment provided that verification is first performed to ensure that the invoice has not been previously paid and the invoice is endorsed accordingly (certified true copy of original).
- 9.2.4. Authorisation of invoices should be as per the approved delegations of authority.
- 9.2.5. Authorization of invoices / payment documentation that fall outside the SCM processes should be in line with functional delegations of departmental Line Managers.
- 9.2.6. All invoice payments must be reviewed for compliance with SCM processes by the Expenditure Management Unit (Expenditure Management Units) delegated official prior to payment being made.

9.3. Processing invoices for stock and non-stock purchase orders.

- 9.3.1. The following will apply when processing invoices related to stock and non-stock payments:
 - (a) Goods received notes (GRN's) are authorised in order for payment by the relevant delegated officials and forwarded to Expenditure Management Unit for matching with the Suppliers' invoice and processing of payment.
 - (b) An order number must be confirmed prior to processing an invoice.
 - (c) Each invoice must not be reflected in multiple order numbers.
 - (d) An invoice cannot be processed for payment unless it has a valid purchase order which has been receipted in the system.

9.4. Processing invoices for service purchase orders.

- 9.4.1. Service purchase orders are raised by the various Line Departments for any services which are undertaken by the Supplier in the department.
- 9.4.2. The sourcing of quotations is the responsibility of the SCM Unit.
- 9.4.3. Expenditure Management Unit checks or performs the vetting on the quotations attached before processing invoices.
- 9.4.4. The following applies when processing invoices related to service purchase orders:
- (a) Service orders must be receipted;
 - (b) An invoice is to be stamped and signed by line department.
- 9.4.5. Attach the following documents to the invoice
- (a) GRN;
 - (b) Purchase Order form;
 - (c) Quotations used in sourcing of service; and
 - (d) Any other applicable supporting documents (where required by Expenditure Management Unit):
 - (i) Memo;
 - (ii) Council Approval; and
 - (iii) Motivation from Department Head.
- 9.4.6. Invoices must not be reflected in multiple order numbers.

9.5. Processing invoices related to contracts.

- 9.5.1. The following applies when processing invoices related to contract payments:
- (a) Line Department must compile a Contract file and include all documentation listed below:
 - (i) Authorised Tax Invoice/Invoice (Refer 9.2.3 for copy of invoice);
 - (ii) Authorised Payment Certificate;
 - (iii) Letter of Appointment/Award (in respect of first claim);
 - (iv) Completion Certificate (where applicable);

- (v) Insurance Clearance (where applicable for contract value >R500,000);
- (vi) Penalties (where applicable);
- (vii) Extension of Time (where applicable);
- (viii) Payment Cession documentation (where applicable);
- (ix) Guarantee Retention (where applicable);
- (x) Variation Orders (where applicable); and
- (xi) Surety Clearance (where applicable).

9.5.2. Where any of the required documentation in 9.5.1 (a) above is missing from the contract file or invoicing information, Expenditure Management Unit will contact the Line Department and payment will not be effected until all issues are resolved.

9.5.3. The Expenditure Management Unit must ensure that there are sufficient funds available in the Votes indicated on the payment certificate.

9.5.4. Where funds are to be allocated from a different vote, and the amount to be allocated to a new vote, the line department must supply the Expenditure Management Unit with an amended payment certificate.

9.6. Processing invoices using a Manual Request for Payment form.

9.6.1. Invoices processed for payment using a Manual Request for Payment option should be generally invoices where it is impractical to raise a purchase order with the Supplier before a service is rendered.

9.6.2. Manual Request for Payment will only be considered where transaction values could not be determined through the "Request for Quotation" process.

9.6.3. A prescribed standard Manual Request for Payment Form must be completed where a manual payment needs to be made.

9.6.4. Where the Line Department has chosen to prepare a payment voucher, the payment voucher must be attached to the invoice.

9.6.5. Where high volume invoices are received from the supplier, Expenditure Management Unit must forward the invoice to the line departments for

authorisation and to endorse the vote codes against which the costs on the invoice are to be charged.

- 9.6.6. Where invoices relate primarily to public liability claims and workmen's compensation, the following documents must be attached to the payment voucher where applicable:
- (a) Invoice;
 - (b) Quotation; and
 - (c) Assessor's Report.

10. SUBMISSION AND RECEIPTING OF INVOICES

- 10.1. Invoices may either be received from Line Departments or directly from the supplier.
- 10.2. All invoices received must be stamped with the receipt date and must be forwarded to Expenditure Management Unit within reasonable period of time to allow all necessary processing to be undertaken (refer schedule of submission of invoices / payment run dates circulated by Expenditure Management Unit timeously).
- 10.3. Where invoices are received directly from the Supplier, the Expenditure Management Unit must refer the invoices to the relevant Line Departments for verification and signing.
- 10.4. Invoices will be returned by the Line Departments together with the above applicable mentioned documents in 10.1.
- 10.5. All invoices are to be submitted with all the required documentation attached.
- 10.6. All invoices received by Expenditure Management Unit must be stamped with the receipt date, scanned and paid within 30 days from the date of receiving the invoices.
- 10.7. All invoices are to be addressed to iLembe District Municipality, Expenditure Management Unit and the applicable post office address stated below:

- (a) iLembe District Municipality: P.O. Box 1788, KwaDukuza, 4450; OR

- (b) iLembe District Municipality: 59/61 Mahatma Gandhi Street; KwaDukuza;
4450

11. SETTLEMENT DISCOUNTS

- 11.1. Expenditure Management Unit must maintain an electronic control register to record all documents received.
- 11.2. Where settlement discounts are offered, it will be conducted taking into consideration the municipality's cash flow status as well as the negative impact it might have on the normal work flow within the payment section.
- 11.3. All payments processed should be in line with the municipality's payment terms taking cognizance of any potential settlement discounts.
- 11.4. Early settlement discount should only be considered from 2.5% and above.

12. DISPUTED INVOICES

- 12.1. It is the duty of Line Department to resolve all queries related to disputed invoices in relation to the following:
- (a) Where invoices are received without the required documentation being attached;
 - (b) Where payment documentation is submitted to Expenditure Management Unit without a budget check being services were performed;
 - (c) Where manual payments are processed instead of orders or contract;
and
 - (d) Where an invoice was changed due to a dispute.

13. CESSION AGREEMENTS

- 13.1. Payments to a cessionary will only be permitted on receipt of a fully signed Cession Agreement attached to the payment certificate and must be in line with Supply Management Policy of the Municipality.
- 13.2. Where a cession is to be enforced the relevant Payment Certificate must indicate the cessionary and the amount.
- 13.3. A Cession will be limited to a maximum 3 cessions per contract not exceeding 60% of the total contract.
- 13.4. Cessions will only be valid if authority to cede is sought from the Municipal Manager.

14. CREDITORS RECONCILIATION

- 14.1. The creditors' reconciliation must be performed on a monthly basis by Expenditure Management Unit.
- 14.2. The Manager Expenditure or any delegated senior official within the Expenditure Management must review and authorise the monthly reconciliations to confirm that the correct creditor account was raised.

15. PETTY CASH

- 15.1. Maintenance of petty cash is a function of Expenditure Management Unit and is guided in terms this policy, the Supply Chain Management policy and regulations as well as any other applicable policy document. (For further details refer to the petty cash policy).
- 15.2. A petty cash funds are intended to be used for small, incidental purchases.
- 15.3. A petty cash is not to be used to pay for personal expenses or normal operating expenses within the municipality.
- 15.4. For all other requests a Cheque or EFT payment request must be submitted.

16. RECORD KEEPING

- 16.1. Expenditure Management Unit must maintain an electronic control register to record all documents received.
- 16.2. All processed documents must be stamped as paid and filed in a properly designated filing system / place.
- 16.3. All documentation processed by Expenditure Management Unit shall be retained and will remain under the control of the Expenditure Management Unit for at least three financial years, thereafter transferred to the Municipality's Archives.

17. IMPLEMENTATION, EVALUATION AND REVIEW

- 17.1. This policy framework is important for the financial compliance of the municipality. It provides an all-inclusive administrative procedure for the management of Expenditure Management Unit.
- 17.2. Senior Management must ensure that during the implementation stages of the policy, there is consistent monitoring and evaluation of the policy as indicators will result in challenges within the policy implementation phases.
- 17.3. Any person who contravenes or fails to comply with any provision of this policy may be subjected to disciplinary action.
- 17.4. This policy shall be reviewed on an annual basis.

18. POLICY ADOPTION

This policy has been considered and approved by the Council of the **Ilembe District Municipality** on this day..... of 2019