



# **ACCOUNTS PAYABLE AND CASH MANAGEMENT POLICY 2016 - 2017**

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2016/2017

**ABBREVIATIONS:**

**AP** - Accounts Payable

**CFO** - Chief Financial Officer

**EFT**- Electronic Funds Transfer

**E-venus** - Financial system

**GRN** - Goods Receive Note

**LLM** - Lesedi Local Municipality

**PDF** - Portable Document Format

**SAPS** – South African Police Services

**SARS** - South African Revenue Services

**SDBIP** - Service Delivery and Budget Implementation PlanService

**SOP** - Standard Operating Procedures

**MFMA** - Municipal Finance Management Act

**Delivery and Budget Implementation Plan (SDBIP**

## **1. POLICY OBJECTIVES**

The objective of this policy is to ensure that the Municipality has a sound cash management and payment system

## **2. STATUTORY FRAMEWORK**

In terms of section 13(1) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA) the Minister of Finance may prescribe a framework within which the Municipality must conduct its cash management. Section 13(2) of the MFMA requires that the Municipality must establish an appropriate and effective cash management policy, which must comply with the framework prescribed by the Minister.

The Municipality must, when it approves the annual budget for each year, also approve a cash flow projection for the year by revenue source broken down per month in terms of section 17(3)(c) of the MFMA. The Municipality's service-delivery and budget implementation plan (SDBIP) must contain revenue and expenditure projections for each month as required by section 53(3)(a) of the MFMA. The Municipal Manager must ensure, in terms of section 54(1)(d) of the MFMA that spending of funds and revenue collection proceed according to the budget.

The Municipal Manager must for the purpose of giving account of the discharge of her/his responsibilities in respect of expenditure management take all reasonable steps to ensure –

- a) That the Municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;

- b) That the Municipality has and maintains a management, accounting and information system which recognises expenditure when it is incurred, and which accounts for creditors of and payments made by the municipality;
- c) That the Municipality has and maintains a system of internal control in respect of creditors and payments;
- d) That payments by the Municipality are made directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a limit prescribed by the Minister of Finance in terms of a regulation;
- e) That all money owing by the Municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise by the Minister of Finance in terms of a regulation for certain categories of expenditure;
- f) That the Municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
- g) That any dispute concerning payments due by the Municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
- h) That the Municipality's available working capital is managed effectively and economically in terms of the cash management and investment framework prescribed by the Minister of Finance;
- i) That the Accounting Officer take all reasonable steps according to the MFMA Act No. 56 of 2003 sec5(2) to ensure expenditure management
- j) That all financial accounts of the Municipality are closed at the end of each month and reconciled with its records.

### **3. SCOPE OF APPLICATION**

This Policy is applicable to –

All official payments made by LLM to Vendors/Suppliers of LLM or other duly authorized payments.

Exceptions to this policy shall apply with the specific authorization of the CFO delegated by the Municipal Manager in terms of the Procurement Policy

### **4. REGULATORY CONTEXT**

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

- Municipal Finance Management Act (MFMA), Act No. 56 of 2003
- Value Added Tax Act 89 of 1991
- Preferential Procurement Policy Framework Act 2000 (Act 5 of 2000)
- Preferential Procurement Regulations, 2001
- Local Government: Municipal Systems Act (Act No. 32 of 2000)
- Provincial Archives and Records Services of SA Act
- Income Tax Act 58 of 1962 (as amended)
- King Code III of Corporate Governance

### **5. REGISTRY**

- The Accounts Payable function is performed by the Finance Department of LLM.
- All invoices whether they are hand delivered, emailed, or posted to the municipal accounts payable department are date stamped and registered.
- Invoices are processed for payment once all the relevant and authorised supporting documentation is received, duly signed by the relevant end user.
- All invoices paid are filed and daily archived as per the required act.
- Outgoing documents required by SARS, legal, forensic or for audit purposes must be recorded and are acknowledged for by the relevant requesting parties.

### **6. VERIFICATION OF INVOICES**

All invoices and supporting document are checked to ensure the following:

- The tax invoice is in the name of Lesedi Local Municipality
- The tax invoice date falls within the correct financial period.
- That amounts reflected agree to the details as per the order and the castings are correct
- All settlement discounts applicable are utilized, where beneficial.
- Invoices are allocated to the correct cost centre and general ledger account.
- Invoices processed for payment must be dealt with in the applicable financial year. *Applicable to Sundries only, Trade is GRN driven*

All invoices must be send to the Finance Department at:

PO Box 201, Heidelberg, 1438, or delivered to: Heidelberg Civic Centre, or Municipal Store (for inventory Items) Creditors Office, where it will be date stamped on receipt. or:

E-mail in PDF format to the applicable e-mail address.

## 7. PROCESSING OF PAYMENTS

- The accounts payable section is responsible for processing disbursement transactions by means of electronic transfers and cheque payments.
- For all payments made, a remittance advice is immediately emailed or posted to the vendor/supplier depending on the preferred method of communication by the vendor/supplier.
- Payment for refunds are made for Debtors Deposit's claimed and other sundry refunds.
- The processing of payments will adhere strictly to the official payment terms of LLM
- The E-venus system will allow for the electronic authorization of invoices and delivery notes, by means of a workflow process within the finance department (e.g. GRN or invoice captured by official, and another approve the GRN or the invoice and a 3<sup>rd</sup> authorise the payment)
- An internal control system and segregation of duties, including sound personnel practices and standard operating procedures reducing the risk of errors and fraud will be maintained.



## **8. PAYMENT OF CREDITORS**

8.1 The Chief Financial Officer shall ensure that all contracts awarded by the Municipality stipulate payment terms that are favourable to the Municipality. Payments must be made not later than 30 days from the invoice received date, unless –

- a) there are financial incentives for the Municipality to effect earlier payment; or
- b) in the case of small, micro and medium enterprises, this policy may cause financial hardship to the contractor in which case payment may be effected at the end of the month during which the service is rendered, goods supplied or work executed.

8.2 No payment for the provision of a service, the supply of goods or the execution of work shall be processed unless a supplier invoice containing a reference to the relevant purchase order and such other relevant information as the Chief Financial Officer may determine, has been received.

8.3 Supplier invoices processed for payment shall be certified to represent goods received, services rendered or work executed in a manner and to a standard acceptable to the relevant departmental head and, where applicable, the relevant contract manager or according to contract.

8.4 Supplier invoices shall be submitted to the Budget and Treasury Office. Any invoice submitted to another department shall be forwarded forthwith to the Budget and Treasury Office.

8.5 The Chief Financial Officer shall not ordinarily process payments for invoices received, more than once during each calendar month, such processing to take place on or about the end of the month concerned. Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

8.6 Wherever possible, payment shall be effected by means of electronic transfer rather than by cheque. The Municipal Manager shall prescribe such procedures and measures as may be reasonably necessary to ensure that the banking details supplied by creditors who request payments by the Municipality to be made by electronic transfer or direct deposit into the relevant creditor's bank account are correct, including requesting the bank concerned to verify such information, provided that the Municipality may recover any cost it may have incurred in connection with such verification on the creditor concerned.

8.7 All payments, shall be made through the Municipality's bank account.

8.8 The Chief Financial Officer shall –

- (a) draw all cheques on the Municipality's bank account(s);
- (b) in consultation with the Municipal Manager, determine –
  - (i) procedures relating to the signing of cheques; and
  - (ii) appropriate signatories.
  - (iii) for both cheques and electronic fund transfers

8.9 All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the Chief Financial Officer. Such vouchers shall be authorised in terms of such procedures as are determined from time to time by the Chief Financial Officer and shall be accompanied by such supporting documents as the CFO may determine.

8.10. The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors and for the determination of the payment system to be used.

## **9. METHODS OF PAYMENT**

### **9.1 Suppliers/Vendors**

All vendors/suppliers of LLM shall be paid by means of EFT, The use of Cheques for payments must be limited. The bank act do not allow cheques payments above R500,000.00, Lesedi will encourage EFT payments for all amounts exceeding R50,000.00.

## 9.2 Sundry Payments

Sundry payments shall, as far as possible, be made by means of EFT, Cash Focus and Business Integrator

## 10. TERMS OF PAYMENT

The official terms of payment of LLM will be honoured as far as possible.

However, should problems of any nature be encountered with the supplier/vendor, the payment would be delayed or intentionally withheld until the issues are resolved, i.e. processed invoices etc.

In all cases, invoices must be submitted directly to Accounts Payable for inclusion in the relevant pay-run. Should documentation be submitted late, the payment will be included in the next appropriate payment run.

Should the processing of a payment be delayed due to the late submission of documentation, any penalties imposed will be for the account of the functional business area. Any queries will also be referred to such department.

**No person shall commit Council to making a payment earlier than the actual due dates for payment.**

## 11. FREQUENCY OF PAYMENTS

The objective is to effect one payment per supplier/vendor per month, which should include all amounts due.

Contract payments are to be effected when due in terms of approved payment terms.

### 11.1 Standard Payment

All invoices, for goods received and services rendered or engineering and construction works, received on or before the 20th of a particular month, will be paid between the 23rd and 26th of the ensuing month, on condition that the services were found to be of an acceptable level as goods receipted (GRN) and signed off by the relevant end user.

Payments made between the 23rd and 26th will include invoices that will be due as at the end of the month too.

In all instances the invoices must only be issued and dated when the goods and services has fully been rendered.

## 11.2 Grant funded payments

All grant funded payments will be paid as soon as the available money was transferred from the investment account and available on the current account

## 12. EXECUTION OF PAYMENTS

The Finance department shall ensure that the necessary control measures for all payments are maintained by relevant senior staff using access controls, passwords, exception reports and regular audit trail printouts.

Electronic Funds Transfer (EFT) – to be performed via:

- Cash Focus
- Business Integrator

## 13. DOCUMENTATION

All documentation processed by Accounts Payable shall be retained and will remain under the control of the Accounts Payable Unit for at least three financial years, thereafter transferred to the Archive

## 14. RECONCILIATION OF VENDOR/SUPPLIER STATEMENTS

The reconciliation of supplier's statements, when received, will be performed on a monthly basis.

## 15. DISPUTED INVOICES

It is the duty of the line department to resolve all queries related to disputed invoices.

## 16. SERVICE PROVIDERS OWING THE MUNICIPALITY

*Clause 7.9 of this Credit Control & Debt Collection Policy states that "LLM state the following:*

### Clause 7.9 Supplies of Goods and Services to the Municipality

- I. All supplies of goods and services to the Municipality are required to provide proof that all their accounts are paid in full upon application for registration as vendors, as well as every six months thereafter.

- II. Service providers should not be in arrears on their municipal accounts if they are in arrears The Municipality will set off amounts owing to the Municipality against invoices received for services rendered
- III. In the event of a service provider not being able to remedy the accumulated arrears, the Municipality reserves its rights to terminate the procurement agreement

By the direction of this Credit Control & Debt Collection Policy and when requested by Revenue Department, Accounts Payable deducts arrears from any service provider

## **17. PETTY CASH**

Lesedi Local Municipality is not handling petty cash.

## **18. YEAR END PROCESS**

### **18.1 General**

Annually a communication is sent to business areas (via Finance Department) regarding the due dates at year end for:

- Closing of orders
- Goods Received Notes
- The capturing of accounts payable sundry invoices, credit memos and other adjustments in period 13.

### **18.2 Trade Creditors**

The capturing is normal until 30 June and Invoices captured from the 1 July will be allocated automatically to the correct financial year by E-venus system based on the date of the goods received note.

### **18.3 Sundry Creditors**

After the 30<sup>th</sup> of June the “old year” invoices are captured in the old year, while the “new year” invoices are captured in the new financial year.

### **18.4 Contracts**

There is no change in capturing procedures at year end because expenditure is automatically allocated to the correct financial year by the E-venus system based on the posting date of the service entry sheet.

## **19. STOPPING OF PAYMENTS AND CANCELLING OF CHEQUES**

19.1 The Chief Financial Officer shall install and maintain a system to stop payments and cancel issued cheques.

19.2 A written stop payment request shall be sent to the disbursements section if an issued cheque has been lost, stolen or mislaid. Such notification shall include such details as the Chief Financial Officer may determine but shall state at least the details of the payee, the amount of the payment and the reason for the request.

19.3 A replacement cheque shall be issued only after receiving written confirmation that the Municipality's bank has received the stop payment request. A replacement cheque shall be issued in due course, taking into account the operational requirements of the Municipality.

19.4 The Chief Financial Officer shall require that a creditor make arrangements for the electronic payment of her/his invoices if a stop payment request is received from that creditor on more than one occasion during a financial year.

19.5 Should a stopping of payment request be received and the cheque concerned clears from the Municipality's bank account before or after a replacement cheque is issued, the Chief Financial Officer shall –

- (a) Stop the payment of the replacement cheque, had such been issued but not yet cleared the bank; or
- (b) Immediately commence proceedings to recover the amount of the duplicate payment on the payee, if the replacement cheque has already cleared at the bank; and
- (c) Report the matter to the SAPS if it is suspected that the payee has attempted to defraud the Municipality.
- (d) Report the incident to the Municipal Manager as potentially fruitless expenditure.

## **20. MANAGEMENT OF INVENTORY**

20.1 Each departmental head shall ensure that her/his department's inventory levels do not exceed –

- (a) normal operational requirements in the case of items which are not readily available from suppliers; and
- (b) emergency requirements in the case of items which are readily available from suppliers.

20.2 Each departmental head shall periodically review the levels of inventory held and shall ensure that any surplus items are made available for disposal in accordance with the Municipality's supply chain management policy.

20.3 The CFO must annually review stock turnover periods for all items held in store and adjust reordering levels where required.

## **21. CASH MANAGEMENT PROGRAMME/ CASH FLOW PROJECTIONS**

21.1 The Chief Financial Officer shall –

- (a) prepare an annual estimate of the Municipality's cash flows divided into calendar ( per month per revenue source) months; and
- (b) update this estimate at least on a monthly basis.

21. 21.3 The cash flow estimate shall indicate –

- (a) when, for what periods and the amounts of surplus revenues that may be invested;
- (b) when and for what amounts investments will have to be liquidated; and
- (c) when, if applicable, either long-term or short-term debt must be incurred.

21.4 The Chief Financial Officer shall report on a monthly basis to the (Council) Municipal Manager –

- (a) the cash flow estimate or revised estimate for such month;
- (b) the actual cash flows for the month immediately preceding the month in respect of which an estimate is submitted;
- (c) the estimates or revised estimates of the cash flows for the remaining months of the financial year;
- (d) any movements in respect of the Municipality's investments; and
- (e) such other details regarding the Municipality's investments as may be relevant.

21.5 The Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report.

## **22. IMPLEMENTATION, EVALUATION AND REVIEW**

This policy framework is important for the Financial Compliance of LLM. It provides an all-inclusive administrative procedure for the management of Accounts Payable.

21.1 The revised Accounts Payable Policy shall be implemented once approved by Council.

21.2 Stake holders must ensure that during implementation stages of the policy, there is consistent monitoring and evaluation of the policy as indicators will inform blockages within the policy implementation phases.

## **24. POLICY ADOPTION**

This policy has been considered and approved by the Council of **Lesedi Local Municipality** on this day..... of .....May..... 2016

This policy will take effect at **Lesedi Local Municipality** on the 1st of July 2016.