

**SETSOTO LOCAL MUNICIPALITY
PLAASLIKE MUNISIPALITEIT
MASEPALA WA LEHAE**



**CREDITORS POLICY
19 March 2024**

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1. DEFINITIONS

“Accounting Officer”	<u>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.</u>
“Chief Financial Officer”	means a person designated in terms of section 80 (2) (a)
“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”	<u>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.</u>
“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.
“Invoice”	<u>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.</u>
“MFMA”	<u>means Municipal Finance Management Act No. 56 of 2003.</u>
“Payment”	<u>the partial or complete discharge of an obligation by its settlement in the form of the transfer of funds on an approved outstanding invoice.</u>

<u>“Payment Terms”</u>	<u>as stipulated in the MFMA and informed to suppliers of goods and services rendered.</u>
“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.
<u>“Statement”</u>	<u>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.</u>
<u>“Sundry Invoices”</u>	<u>refer to invoices which relate to ad-hoc or once off purchases, which are not linked to a Munsoft purchase number.</u>
<u>“Tax Invoices”</u>	<u>the elements of what depicts a valid Tax Invoice as constitute by SARS</u>
<u>“VAT”</u>	<u>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.</u>
“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.
“Small , micro and medium enterprises”	means a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries,
“Retention Monies:	A standard definition of retention money is a percentage of money that an employer or an individual holds as protection from incomplete or inaccurate work done by the hired contractor.

2. PURPOSE OF THE POLICY

2.1 The purpose of the policy is to regulate and to determine the process in terms of how creditors will be managed.

3. OBJECTIVE OF THE POLICY

3.1 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

4.1 In terms of section 60 of the Municipal Finance Management Act, Act 56

of 2003 (MFMA), 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 the 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. PAYMENT TO CREDITORS/SUPPLIERS

5.1 All reasonable steps must be taken to ensure that payments made by the municipality are made direct to the Person/Entity/Service Provider that supplied the service or to whom the payment is due, unless otherwise agreed upon as approved by the Chief Financial Officer.

5.2 The Chief Financial Officer or his/her delegate shall, ensure that all tenders and quotations invited by and contracts entered with by the municipality, stipulate payments terms favorable 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 steps are taken to ensure payment is made within thirty (30) days of the receipt date of the invoice or statement. This rule may be deviated from if there are compelling reasons from either the supplier or the Municipality as approved by the Chief Financial Officer.

5.3 In the case of small, micro and medium enterprises, where the total income derived from contract work rendered to Setsoto Local Municipality, does not exceed R 200,000.00, in a municipal financial year, the policy **may deviated from the 30 day rule, provided that no more** than two (2) payments will be effected during any period of thirty (30) days. This rule may be deviated from if there are compelling reasons from either the supplier or the Municipality as approved by the Chief Financial Officer.

- 5.4 In terms of sect 65(2) (e) of the MFMA 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. The 30 days requirement will be effective as from the date that the purchase order is approved and all the required documents is attached and received by Expenditure Division.
- 5.5 Notwithstanding the foregoing policy directives, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers /service provider 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.
- 5.6 Special payments to suppliers/creditors, other than as previously mentioned, shall affected if they are that there are compelling reasons for making such payments prior to the normal month end processing.
- 5.7 All the above payment scenarios referred to are subject to the submission of the correct and relevant supporting documents (e.g. invoice, quotation, requisition order and approval from head of Directorate.
- 5.8 Amounts owed by suppliers/creditors for outstanding service accounts will be deducted from any payments due made in respect of goods and services rendered.
- 5.9 Handwritten invoices for amounts above R15 000.00 are not acceptable.
- 5.10 Regular suppliers are obligated to submit monthly statements to enable the Municipality to reconcile records between the Municipality and the supplier.
- 5.11 VAT complaint invoices must have the following requirements:
- Contains the words "Tax Invoice", "VAT Invoice" or "Invoice".
 - Name, address, and VAT registration number of the supplier.
 - Name, address and where the recipient is a vendor, the recipient's VAT registration number.
 - Serial number and date of issue of invoice.
 - Accurate description of goods and /or services (indicating where applicable that the goods are secondhand goods).
 - Quantity or volume of goods or services supplied.
 - Value of the supply, the amount of tax charged and the consideration of the supply (value and the tax).
 - Date of goods and / or services rendered.

6. FREQUENCY OF PAYMENT

- 6.1 Two payment runs are to be affected monthly as follows:
- 6.2 The cut-off date means that all original and authenticated invoices received by the said date will be paid by the payment date.
- 6.3 The payment date refers to the last date the payment will be made in relation to all invoices received by the cut-off date.
- 6.4 The cut-off dates will be the tenth (10) and twenty-fifth (25) of each month.
- 6.5 The payment dates will be the fifteenth (15) and the last day of each month.
- 6.6 These dates maybe adjusted during special leave times in respect of Easter and the December holidays.
- 6.7 The rule above may be deviated from as approved by the Chief Financial Officer when the Municipality experiences a negative cashflow. Decisions will then be made daily guided by the cash on hand and the needs of Departments.

7. RETENTION MONIES

- 7.1 All monies that is ringfenced as retention monies must be deposited into a separate bank account and paid after the validity period which is normally after 12 months.

8. AGE ANALYSIS

- 8.1 Reconciliation between the supplier's statement and creditor's ledger must be reconciled monthly and all differences must immediately be investigated and rectified. All balances due to administrative errors must also immediately be cleared.

9. TRAVELING AND SUBSISTENCE CLAIMS IN RESPECT OF EMPLOYEES

- 9.1 No traveling and subsistence claims will be paid by Expenditure section but only through the salary run, accept in special occasions where a deviation form must be attached approved by the Municipal Manager and the CFO. In this regard the standard expense form must be captured by the salary division and approved by the manager and must be attached to the claim.
- 9.2 No remuneration that is salary related in respect of employees will be paid via the Expenditure Division but must be paid through the Salary Division.

10. PAYMENT METHOD

10.1 All creditors must be done via electronic transfer s by EFT.

10.2 All suppliers doing business with a municipality must have a valid business banking account and reflected on the original invoice.

11. REVISION OF THE POLICY

11.1 The Setsoto municipality's policy must be reviewed and amended, as and when it is necessary, to ensure that it remains relevant.