

AGA KHAN UNIVERSITY

Guidelines, Policies and Procedures

Policy Name	Payment Processing Policy
Policy Number	AKU-K/FIN/PL - 001
Approved by	Chief Financial Officer
Date of Approval	4th November 2022
Contact Office	Office of the University Registrar

1. Purpose:

- 1.1. This policy provides broad guidelines and procedure on how to deal with supplier payments
- 1.2. While making payments Finance Department shall ensure that:
 - 1.2.1. Proper documentation is available;
 - 1.2.2. Proper Authorization is available;
 - 1.2.3. Payment is for the official legitimate purpose only.

2. Scope:

- 2.1. All payments related to The Aga Khan University Kenya (AKU-K).

3. Responsibility:

- 3.1. ***All staff of Finance Department***

4. Terms and Definitions:

- 4.1. **“Credit”** The right granted by a creditor to a debtor to defer payment of a debt or to incur debts and defer its payment to an agreed future date
- 4.2. **“Creditor”** Person or organization that regularly extends, renews or continues credit to AKU-K.
- 4.3. **“Invoice”** A commercial document issued by a seller to a buyer, indicating the products/services, quantities and agreed price for product or series that the seller will provide to buyer.
- 4.4. **“Purchase Order (PO)”** A commercial document issued by a buyer to a seller indicating the products, quantities and agreed prices for products or services that the seller will provide to the buyer.
- 4.5. **“Goods Receipt Note (GRN)”** Internal document raised by Purchasing and Supply Chain Management to evidence delivery of ordered items by a supplier.
- 4.6. **“Purchase Requisition (PR)”** A document generated by the end user to request for goods not available in the institutional inventory.
- 4.7. **“Stock Purchase Requisition (SPR)”** A document generated by the Inventory Section staff of Purchase and Supply Chain Management to reorder the inventory items based on Reorder Level Report.
- 4.8. **“Value Added Tax (VAT)”** Tax imposed by the government on goods and services.

- 4.9. **“Local Currency Payment Voucher”** Document used to record the local currency expenditure and for authorizing payments whether through cheque or any other banking instruments.
 - 4.10. **“Foreign Currency Payment Voucher”** Document used to record the foreign currency expenditure and for authorizing payments through cheque or any other banking instrument.
 - 4.11. **“Authority Matrix”** Document that defines the authority limits for committing funds on behalf of a department or the institution.
5. **Process / Procedure:**
- 5.1. **Observations and limitations**
 - 5.1.1. Payment should be effected only if proper documentation attached with each payment request and the request is approved in accordance with the “Authority Matrix”.
 - 5.1.2. Detail of the documentation required for each disbursement is explain in subsequent section. System generated document may not be necessary to attached with payment voucher if such documents are approved on system and available on system as per legal requirement.
 - 5.1.3. Sound internal control system requires that the ordering, receipt and payment function should be separated from each other. To accomplish this, the function should be divided between Purchasing, Warehousing/Receipt and Finance.
 - 5.1.4. The Finance Department is not only responsible for the arithmetical accuracy of the disbursements but should remain cognizant of the general nature of the disbursements and question any inconsistencies in prices or in the terms of condition of payments. The accounts payable function is not a static process of invoice checking, but a dynamic function of controlling payments through continual application of the principles designed to ensure proper payments of confide liabilities only.
 - 5.1.5. Disbursement not falling within the limit of Petty Cash will be governed by this policy
 - 5.1.6. All invoices should be in the name of the institution and it should be on a proper format as per the requirements of tax/statutory laws and shows all the registration numbers as the requirement of tax laws such as Certificate of Incorporation, PIN number, VAT registration number etc.
 - 5.1.7. While processing payment Finance Department should ensure that a proper reconciliation of outstanding balance with the vendor is prepared.
 - 5.1.8. While making payment Finance Department should stamp invoice and relevant document as “Paid”.
 - 5.1.9. All payment voucher should be approved by authorized person as per the Authority Matrix of Voucher Approval.

- 5.1.10. Payment term for supplier and contractor should not be less than 30 calendar days except where due date for payment is mutually agreed upfront as a part of agreement or dictated by necessary service providers.
- 5.1.11. Mode of Payment can cheque, Pay Order, Electronic Fund Transfer, Letter of Credit depending on the type of procurement and payment preference of suppliers.
- 5.1.12. AKDN is exempt from taxes hence it is necessary that when VAT is included in the invoice, vendor should provide all necessary documentation/information to enable AKU-K get reimbursement for VAT, including quickly/timely submission of all returns and payment to government to enable government department to process reimbursement request of AKU-K. If there are any anomaly in the presentation of invoice/documentation requirement only Senior Manager/Director can approve those anomalies to process payment request of such vendors.
- 5.1.13. While processing payment it is mandatory that all withholding taxes should be deducted from the payment as per the requirement of tax/statutory laws (if applicable) and submitted to the government department.

5.2. Payment of goods

- 5.2.1. The purchase of goods (goods having physical form including but not limited to items of good services, fixed assets, stationery, spares & consumable material, teaching materials, research material etc.) should be initiated by raising “PR” or “SPR”
- 5.2.2. Based on the PR/SPR the Purchase Department will raise purchase order after negotiation of prices with the supplier. The purchase order shall define the terms and condition of procurement and shall form the basis for disbursement.
- 5.2.3. Upon receipt of the goods the warehouse department will prepare GRN. In addition, the warehouse/Procurement personnel will acknowledge receipt on the supplier delivery challan. The invoice will be submitted by the supplier directly to the Finance Department or place in the drop box located in the office/campus.
- 5.2.4. The Finance department will collate the PR, PO, GRN and Invoice. If any discrepancy exists relating to prices, quantity, discount of the goods, name of supplier, tax status etc., it will be queried from the supplier and the purchase department. If no discrepancy exists, the payment will be processed in accordance with the pay terms agreed with the supplier.
- 5.2.5. Foreign currency imports, if a Letter of Credit has been established, the supplier will ship/airfreight the goods. The Finance department will effect payment to the supplier when the documents are received at the bank irrespective of whether the goods have been received at port/airport. The Purchase department will obtain the documents from the bank, clear the goods from the customs and deliver them to the Warehouse/Custodian. The Warehouse/Procurement will raise a GRN as mentioned earlier.

- 5.2.6. The above mentioned purchase procedures can be circumvented in the following cases only:
 - 5.2.6.1. If the purchase is within the petty cash limit
 - 5.2.6.2. Purchase of books on pro-forma invoices. The procedure for the purchase of books is the same as per services (not requiring a requisition) except that the GRN will be raised upon receipt of books.
 - 5.2.6.3. Purchase of items as per the Purchase Policy of Purchase and Supply Chain Management.

5.3. Payment of services

- 5.3.1. Services include “all acts involving utilization of services from third parties which will result a payment liability”. These services could take various forms including but not limited to:
 - 5.3.1.1. Telephone services
 - 5.3.1.2. Negotiated consultancies such as Equipment Maintenance agreement, transport agreement, laundry agreement.
 - 5.3.1.3. Entertainment
 - 5.3.1.4. Laundry and Cleaning
 - 5.3.1.5. Maintenance of Official cars
 - 5.3.1.6. Construction Contracts
- 5.3.2. A Release of Payment (ROP) shall be raised and signed by the requisitioning department authorized representative as per authority matrix. The ROP shall provide a description of the services being requisition along with the appropriate budget code.
- 5.3.3. All the contract negotiated with third parties, including construction contracts should be prepared/reviewed by the authorized persons/Legal Department for appropriateness of legal drafting and language. Financial clauses should be cleared with the Finance Department. After review by the relevant department(s) the contract should be signed by the appropriate authority as defined in the Authority Matrix.
- 5.3.4. The invoice received from the supplier should be approved by the appropriate authority as per the Authority Matrix as a confirmation that services have been rendered in accordance with the agreed terms and condition. The user should raise an “Online Payment Request/M-file” (where this facility available for relevant center) along with the supporting documents and attached the supporting document in the system electronically instructing Finance Department to pay the invoices.
- 5.3.5. Finance Department shall process payment provided the information and documentation is complete.
- 5.3.6. All payments will be approved as per the Authority Matrix for approval of payments. After processing and approving of payment the payment voucher

auto routed to Treasury section for generation of payment document i.e., cheque, pay order, telegraphic transfer etc.

5.4. Reimbursement of Petty Cash

5.4.1. Procedure are detailed in policy on Petty Cash Funds

5.5. Payroll Related Payments

5.5.1. The detailed procedure is given in the Payroll Policy

5.6. Travel Advances and Submission of Claims

5.6.1. The detailed procedure is given in the Policy of Travel Advances and Submission of Claims

5.7. Other Advances and Submission of Claims

5.7.1. The detailed procedure is given in the Policy of Other Advances and Submission of Claims.

5.8. Documentation Retention

5.8.1. All physical documents specially invoice and contract should be maintained in retrievable condition for a period specified in the tax and other statutory laws.

6. Review of Policy

6.1. This policy document shall be reviewed every three year or as required.

7. Reference(s):

7.1. Authority Matrix

7.2. Petty Cash Policy

7.3. Payroll Policy

7.4. Travel Advance and Submission of Claim Policy

7.5. Other Advance and Submission of Claim Policy

7.6. Release of payment

8. Annexures:

N/A