



EXPENDITURE MANAGEMENT POLICY FOR JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

Council resolution no: 6.2 29/05/2018	Approved Date: 29/05/2018
Effective Date: 01 July 2018	Review Date: Annually and/or As and when Required

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REVIEWED

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EXPENDITURE MANAGEMENT POLICY

2018/19

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Speaker

2018/2019

JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

EXPENDITURE MANAGEMENT
POLICY



JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY

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1. ABBREVIATIONS

CFO – Chief Financial Officer

CM – Council Minute/s

IDP – Integrated Development Plan

MBRR – Municipal Budget Reporting Regulations

MFMA – Municipal Finance Management Act, Act No. 56 of 2003

MSA – Municipal Systems Act, Act No.32 of 2000

MSTA – Municipal Structures Act

MTREF – Medium term revenue and expenditure framework

SDBIP - Service delivery and budget implementation plan

2. DEFINITIONS

"Accounting Officer" a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

"Approved budget" the annual budget approved by a municipal council; and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service" a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Bribery" is the act of taking or receiving something with the intention of influencing the recipient in some way favourable to the party providing the bribe.

"Capital Budget" the approved budget for capital items in a given fiscal period.

"Capital items" capital assets with a life expectancy of more than one financial year such as property, plant and equipment, intangible assets, heritage assets and investment properties and of which the cost is normally written off over a number of fiscal periods;

"Chief Financial Officer" a person designated in terms of section 80(2) (a) of the MFMA;

"Corruption" dishonest or fraudulent conduct by those in power, typically involving bribery, or the process by which a word or impression is changed from its original state to one regarded as erroneous or debased.

"Council" the municipal council of John Taolo Gaetsewe District Municipality
Municipality and it referred to in section 18 of the Municipal Structures Act;

"Councillor" a member of council;

"Creditor" a person to whom money is owed by the municipality;

"Current year" the financial year, which has already commenced, but not yet ended;

"Delegation" the power to perform a function or duty which is given to office bearer, councillor or staff members either in terms of section 59 of the MSA or section 79 of the MFMA;

"Generally recognised accounting practice (GRAP)" an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;

"Financial year" a twelve-month period commencing on 1st July and ending on 30th June each year;

"Financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase agreement in terms whereof the municipality undertakes to repay a long-term debt over a period of time;

"Fraud" is a false representation of a matter of fact or the crime of using dishonest methods to take something valuable from another person.

"Investment" in relation to funds of the municipality, means –

- a) the placing or deposit of funds of the municipality with a financial institution; or
- b) the acquisition of assets with funds of the municipality not immediately required, with the primary aim of preserving those funds;

"Municipal Structures Act" the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt" debt repayable over a period exceeding one year;

"Executive Mayor" the councillor elected as the executive mayor of the municipality in terms of section 55 of the MSTA;

"Municipal debt instrument" any note, bond, debenture or other evidence of indebtedness issued by the municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

"Municipality" John Taolo Gaetsewe District Municipality;

"National Treasury" the National Treasury established by section 5 of the Public Finance Management Act;

"Official" –

- (a) An employee of the municipality;

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(b) A person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) A person contracted by the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending" -

(a) causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Previous financial year" the financial year preceding the current year;

"Senior Manager" all officials reporting directly to the Accounting Officer as contemplated in sect 56 of the MSA;

"Service delivery and budget implementation plan" a detailed plan approved by the executive mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services;

"Short-term debt" debt repayable over a period not exceeding one year;

"Vote" one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned.

"Vote holder" means the senior manager to which the vote is assigned.

3. INTRODUCTION

The Municipal Finance Management Act, (Act 56 of 2003) read together with the Municipal Budget and Reporting Regulations, provides the legislative framework within which any expenditure related transactions must take place.

Section 11 of the Municipal Finance Management Act, (Act 56 of 2003) specifically provides the legislative framework for any withdrawals from any bank account in the name of the municipality. The budget plays a critical role in an attempt to realise the diverse community needs. Central to this, the formulation of this expenditure policy must ensure that the objectives of the MFMA as set out in section 2, is incorporated

in the day to day administration of the municipality. This policy must be read, interpreted, implemented and understood against this legislative background.

4. OBJECTIVE

The objective of the Expenditure Management policy is to:

- a) Set out a framework for the municipality to deal with:
 - i. All expenditure related transactions;
 - ii. To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes; and
- b) As far as possible, the municipality will strive to ensure that all payments to creditors are made within 30 days of receiving the statement; whichever is the latest as prescribed by the Municipal Finance Management Act, 2003 (Act No.53 of 2003); and
- c) Ensure that the principles applied, as a result of this policy, will enhance and support a healthy working capital position for the municipality.

5. EXPENDITURE MANAGEMENT

5.1 Commitments

5.1.1. A commitment by an official of the municipality may only be undertaken

on behalf of a third party when the full costs are recovered in advance before commencement of the work, either specially or generally.

5.1.2. Middle Managers shall advise the CFO of the officials authorised to sign requisitions for goods and services in respect of the categories determined and approved by the municipal manager from time to time.

5.1.3. Specimen signatures of all officials authorised to sign requisitions shall be supplied to the CFO.

5.1.4. Supply Chain Management will keep record of all authorised officials and the specimen signatures.

- 5.1.5. No councillor or official of the municipality shall commit the Municipality to any unauthorised expenditure unless the necessary Supply Chain Management processes have been followed which include the completion of an official requisition or order.
- 5.1.6. The CFO shall determine the information to be supplied on such requisition or order.
- 5.1.7. A commitment register is to be kept by Legal Services Department.

5.2 Creditor Payments

- 5.2.1 All money owed by the Municipality must be paid within **thirty (30) days from date of receipt of invoice/monthly statement**, unless prescribed otherwise for certain categories of expenditure and only when the cash flow of the Municipality permits to effect payment within 30 days.
- 5.2.2 No payments will be made without a creditor's statement.
- 5.2.3. The CFO has the powers to delay payments beyond 30 days on negotiations with the creditors should the municipality be unable to pay due to any challenges that may be faced by the municipality.
- 5.2.4. All payments vouchers must be sequentially filed and stored in a secured room. The responsible official must be in possession of the keys to the room or any other responsible official delegated by him/her.
- 5.2.5. Payments will only be made directly to the person or institution to which a contract was awarded and from which the invoice is received for legally rendering the service to the Municipality.
- 5.2.6. In the event that a contractor/supplier awarded a contract, requests that a portion of the payment be made to their supplier an agreement letter should be completed, clearly giving permission and details of the

supplier. It should be signed by the contractor/supplier and the Municipal Manager.

5.2.7. Payments must only be made on the days and/or dates indicated on the payment schedule approved by the Chief Financial Officer unless prior approval to effect payments on the different date is obtained from the Accounting Officer. This however does not apply to claims for subsistence and travel and accommodation thereof.

5.2.8. The CFO must provide the names of officials empowered to sign vouchers and authorise payment of accounts, together with their specimen signatures.

5.2.9. Invoices or statements submitted for payment to the Creditors Clerk by

any department must be signed, when a department authorises the payment of accounts the signatory certifies and authorises that: -

- (a) All processes in terms of the Supply Chain Management Policy of the Municipality had been followed;
- (b) The goods and services have been received and rendered in good order and are under the control of the Municipality;
- (c) The account has not previously been submitted for payment;
- (d) Sufficient budgetary provisions exist;
- (e) If excess expenditure is involved, the resolution authorising the excess expenditure shall be quoted on the voucher;
- (f) Authority for the payment exists, in which case the authority shall be indicated on the voucher; and
- (g) Fruitless and wasteful expenditure has not been incurred.
- (h) An official order has been issued or Council resolution.
 - (i) An official order must be issued for all expenditure in the beginning of the financial year for tenders and contracts that will not be a once off payment, but rather a monthly invoice issued for service providers who have a 12-month tender to ensure funds are appropriated for their intended use.

5.2.10. Before payment is processed the Expenditure Section shall ensure that: -

- (a) The prices, calculations and any taxes are correct;
- (b) Any discounts to which the municipality is entitled to have been deducted;
- (c) The account has previously not been paid; and
- (d) Sufficient budgetary provisions exist.

5.2.11. All payments due by the Municipality shall be made by approved electronic payment method.

5.2.12. Certain payments may be made from petty cash in accordance with the

Petty Cash Policy as amended from time to time.

5.2.13 Service providers who give settlement and trade discount will be given preference for payments within 30 days.

5.2.14 All invoices and statements must be submitted to the creditors section before the 20th of each month for payment the end of the month.

5.2.15 Ad-hoc payments, subsistence and transport and accommodation claims must be submitted each week not later than Monday's to effect payment the same week on Friday's. Proper planning must be done by each official and Councillor and no exceptions to the rule will be permitted.

5.3 Salaries, Wages and Allowances

5.3.1. The Payroll Clerk shall be responsible for the calculation and payment of salaries, wages and allowances, after final review and approval is made by the Manager(s) responsible for checking, review and authorisation prior to final approval by CFO.

5.3.2. Payment shall be made in accordance with payment schedules approved by the relevant Human Resources Manager to a nominated bank account of the municipal employee or councillor.

- 5.3.3. The Human Resource Manager is responsible to notify the Payroll Clerk of all appointments, promotions, dismissals, resignations, transfers, absences for any reasons, and all matters affecting the emoluments of employees of the municipality.
- 5.3.4. The submission of such information to the Payroll Clerk shall be made formally in writing before or on the 10th of each month unless communication is made timeously for an earlier date.
- 5.3.5. The Human Resource Officer shall be responsible for the maintenance of all records essential for the accurate determination of emoluments and leave due to employees of the municipality.
- 5.3.6. Temporary workers such as the EPWP workers, will work from 1 to the 31st of the month and submit their attendance registers on the 1st of the following month to the Creditors section after it has been reviewed and signed off by the relevant department. Payments will be processed and paid into the relevant temporary workers bank accounts by the 10th of the month after they have worked.

5.4 Banking details

- 5.4.1. Any changes to creditors and employee's banking details will only be allowed when the following procedures have been met:
- (a) The Creditor must inform the Municipality of its' banking details on an original letterhead from the specific company and approved by the relevant banking institution with their official stamp and signatures.
 - (b) In the case where official letterheads and documentation is not available a letter from the banking institution duly signed by both parties and official stamp will be required.
 - (c) Only original documentation information as set out above will be accepted for any changes to banking details.

- 5.4.2. Refunds in respect of other deposit accounts, excluding consumer deposits, will only be refunded to the bank account originally certified by the beneficiary at the time of payment.

5.5 Grant Expenditure

- 5.5.1. A proper cash flow in respect of Grant expenditure as well as Grant income related to the Grant Funding project must be drawn up by the relevant official and included in the budget.
- 5.5.2. No payments will be allowed in respect of projects to be financed from external grants unless grant funding have been received.
- 5.5.3. Council may, however, approve payments before any funds have been received but only where funds have already been committed to in writing, by the relevant state department or other institution.

5.6 Capital Expenditure

- 5.6.1. No capital expenditure shall be incurred or committed to any project unless: -
- (a) Duly appropriated in an approved capital budget or adjustments budget; and
 - (b) All necessary legislative requirements have been met as set out in the MFMA section 19, Budget and Reporting Regulations sections 11 and 13 and the Supply Chain Management Policy of the municipality.

5.7 Accounting Principles

- 5.7.1. The CFO shall determine the format, standards and systems applicable to the accounting procedures on expenditure. In doing so cognisance must be taken of the General Recognised Accounting Practices (GRAP) guidelines issued

by the Accounting Standards Board (ASB) and the Municipal Standard Chart of Accounts (mSCOA).

5.7.2. Council items related to financial matters, will not be forwarded to Council if it is not supported with the necessary comments from the CFO.

5.7.3. The CFO shall ensure that proper accounting records and registers are opened and maintained in compliance with subsection 5.7.1.

5.7.4. The CFO may prescribe the requirements for access to electronic accounting systems and shall ensure that the necessary security and password systems for this purpose is maintained.

5.7.5. Other Provisions

5.7.5.1. Expenditure incurred is only allowed as a direct allocation to any provision, where the necessary cash provision has been made in the cash flow budget of the Municipality as duly approved.

5.7.5.2. All expenditure must be incurred via the Supply Chain Management Policy of the Municipality.

5.8 Recovery of Losses

5.8.1. Any loss suffered by the Municipality due to any fraudulent or corrupt act or an act of bribery shall be dealt with and immediately be reported to the South African Police Service, Auditor-General, Mayor and Accounting Officer in terms of section 32 (b) of the MFMA by the Accounting Officer or delegated official as per system of delegation.

5.8.2. Circumstances of financial misconduct by municipal officials in accordance with section 171 of the MFMA must be reported to the Accounting Officer immediately.

5.8.3 All losses must immediately be recovered from the official or Councillor by the end of the month the loss was discovered even prior to investigation. They will be informed of the amount to be deducted and arrangement can be made

with the Chief Financial Officer or as per system of delegation, to repay over a period not exceeding 3 months, unless the amount is substantial then a period not exceeding 12 months. **If a Councillor or Official refuse to sign the deduction form, the Municipality will have the right to deduct the loss in any event.** If after investigation it was found that the said official or Councillor was not found guilty of the transgression, then the money that was deducted from their salary in prior months, will be refunded to him/her.

5.9 Unauthorised, Irregular and Fruitless and Wasteful expenditure

5.9.1 Notwithstanding any provisions in this policy section 32 of the Municipal Finance Management Act must take precedence in dealing with the wasteful and fruitless expenditures incurred by the municipality during any financial year.

5.9.2 Fruitless and wasteful expenditures incurred by the municipality at any time during the financial year must be reported to the council, Auditor-General and the Provincial Treasury prior to the end of that financial year in terms of the MFMA Act 56 of 2003 requirements.

5.9.3 Registers for Unauthorised, Irregular and Fruitless and Wasteful expenditure should be kept, updated on a regular basis by Budget and Reporting Unit (Unauthorised, Fruitless and Wasteful Register) and Supply Chain Management (Irregular Expenditure) and submitted to the CFO on a monthly basis to report to council.

5.10 Unforeseen and Unavoidable Expenditure

Refer to Council's Unforeseen and Unavoidable Policy in this regard

6. REVIEW AND IMPLEMENTATION PROCESS

This policy will stay into effect from **1 July 2018**;

This policy will be reviewed at least annually or when required by way of a Council resolution.

POLICY SECTION:	MANAGER: BUDGET AND REPORTING
CURRENT UPDATE	20 March 2018
APPROVAL BY COUNCIL:	29 May 2017 Policy Number: