

STRATEGIC BUDGET PROCESS PLAN

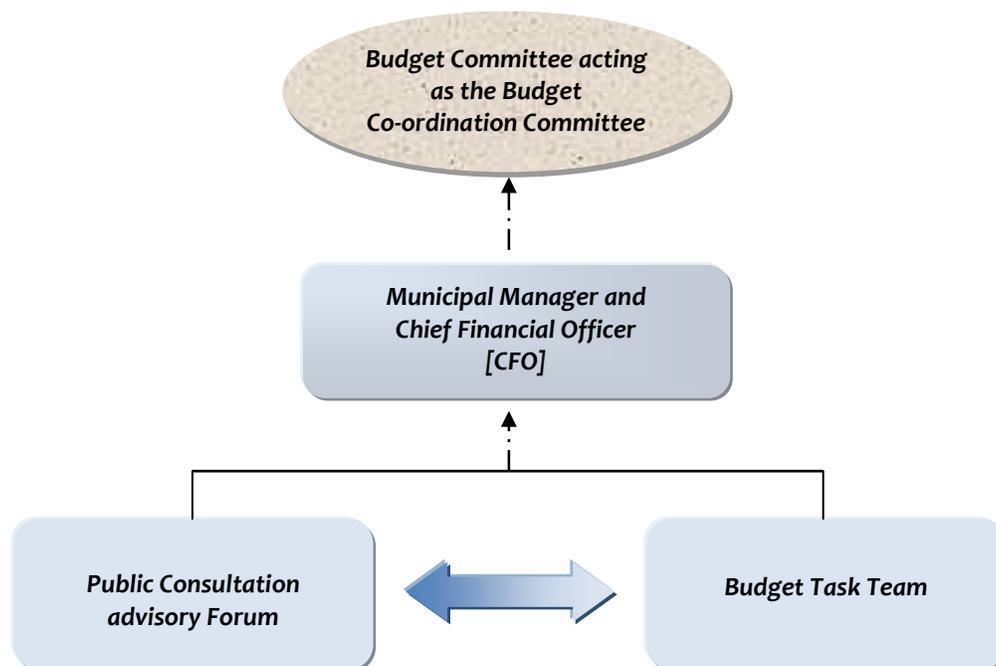


1] INTRODUCTION

This guidance note sets out the process and timetable for the Budget Process and, it will cover the following:

- The corporate project management arrangements for the for the **2010/11** Strategic Budget process
- Time schedule and Key deadlines
- An explanation of the Strategic Budget Process
- Instructions for the Strategic Budget Workshops that should **[will]** be scheduled throughout the process
- Details of what Departments need to do for the different phases of the Strategic Budget Process.

2] PROCESS MANAGEMENT ARRANGEMENTS



- Under the MFMA (section 53) the Executive Mayor is responsible for co-coordinating the annual revision of the annual budget. The Municipal Manager must assist the Executive Mayor and provide him with administrative support, resources, and information
- The Executive Mayor has **[should]** delegate/d his responsibilities for co-ordination of the process of the MFMA Project to the MMC for Finance who is the Chairperson of the Budget Committee. The roles of the Budget Committee (in its capacity as Budget Co-ordination Committee) are to:
 - To recommend to Council the approval of the process and timescales to be followed
 - To monitor progress and take remedial action if things are not going according to the process plan
 - Agree to the format of the Strategic Budget Report, **(taking into account the requirements of the MFMA).**
 - Agree to the public consultation process to be followed for the budget proposals
 - Provide political and senior management oversight on the Budget Process Plan implementation and proposals emerging from the process
- The Budget Committee should comprise the following:

1	MMC Finance [Chairperson], MMC Housing, MMC Health, MMC Sports, Arts, Culture & Recreation and MMC Environmental Management
2	MMC Economic Development
3	MMC Social Services
4	Municipal Manager, <i>Executive Manager: Infrastructure, Executive Manager: Environmental service Executive Manager: Corporate Support Services, Executive Manager: Economic Services,</i>
5	Chief Financial Officer, <i>Manager: IDP, Manager: Budget & Treasury and Budget Specialist.</i>

[Please Note: The Table Above is only an example, to be adapted by the Municipality]

- A Public Consultation Advisory Forum should be established to drive forward the consultation exercises required on the Strategic Budget Proposals.

This Forum is chaired by the Speaker and comprise of officials from the Budget offices as well as from Marketing & Communication

- In addition to the above process management arrangements, an Budget Task Team can be established to manage all the operational and administrative aspects of the Budget Process Plan, including scrutinizing the capital project proposals from Departments in order to assess whether:
 - The proposal is actually capital expenditure rather than operational expenditure
 - The capital estimate is robust/accurate
 - There are operational budget implications of including the project in the capital budget
 - There are implications for other Departments/services of including the project in the capital budget
 - The capital project proposal is in line with IDP priorities
 - The proposed project plan to be included in the SDBIP is deliverable
 - The cash flow forecast is robust
- The Budget Task Team should comprised the following:

1	The Chief Financial Officer [Chairperson], IDP Manager, Manager: Budget & Treasury
2	Manager: Marketing and Communication, <i>[Executive Manager: Political Support Services]</i>
3	representative from the Speaker's Office, representative from the Asset Management Unit,
4	Manager: Economic Development, and representatives from other relevant Departments

[Please Note: The Table Above is only an example, to be adapted by the Municipality]

PAYROLL MANAGEMENT POLICY



RECOMMENDED

THAT the **Payroll Management Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version

Date February 2011

Document Name **Payroll Management Policy and Procedures**

Reviewed By

_____ **Date:** _____
INTERNAL AUDITOR

Supported By

_____ **Date:** _____
CHIEF FINANCIAL OFFICER

Signature

_____ **Date:** _____
MUNICIPAL MANAGER

**Adopted by
the Mayoral
Committee**

_____ **Date:** _____
CHAIRPERSON

**Approved by
the Council**

_____ **Date:** _____
RESOLUTION

Effective date

**Next revision
date**

1. INTRODUCTION

1.1 OVERVIEW

Sedibeng District Municipality has developed its payroll management policy to include activities at all departments at which municipality business is conducted. This in recognizing its:

- community orientation; and
- the need for good governance.

The payroll management policy is a transparent and codified internal control system aimed at promoting its core District Objectives to maximize the limited human resource capacity at the disposal of Sedibeng District Municipality so as to focus the capacity towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- A guideline for all stakeholders;
- An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework and should be read in conjunction with the policies as devised by the Human Resources Directorate.

1.2 PURPOSE

In many organisations, payroll and other employee-related expenditure is the major component of the total financial resources consumed. The financial position of an organisation can be strongly linked to whether payroll expenditure is effectively planned, processed and managed. Effective payroll management plays a major role in maintaining a productive and motivated work force and is therefore, a key aspect of the overall human resource management process.

2. THE HUMAN RESOURCES FUNCTION

2.1 The payroll management process is generally considered to begin in the Municipality's human resources department. It is the human resources department that authorises the formal transactions to hire new employees, adjust salaries or wages, establish payroll deductions, and promote, transfer or terminate employees through retirement or otherwise.

A Municipality's human resources department is also the customary repository for all employment history records.

2.2 One of human resources department important functions, is the adding new staff to the payroll, this is a critical control point in the payroll management process. Internal controls must be established to ensure that new hires and other payroll transactions have been approved by the Municipality's [relevant] management or other authorised individuals in compliance with internal Municipal procedures, and other legislative and regulatory requirements including funding and budgetary restrictions.

Because the Municipality's human resources department authorises the transactions that add employees to the payroll, change pay, and effect other key transactions, this

department must not have access to the timekeeping, payroll, or paycheck distribution functions. Personnel must be organisationally separate and distinct from the payroll office, must not have access to or exercise control over the primary timekeeping records, and must not be authorised to enter or change timekeeping or payroll data.

3. LEGISLATIVE FRAMEWORK

Section 66 of the Municipal Finance Management Act, 2003, is the part that specifies the expenditure on staff benefits that must be followed by the Municipality

The accounting officer of a municipality must, in a format and for periods as may be prescribed, report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure, namely-

- *salaries and wages;*
- *contributions for pensions and medical aid;*
- *travel, motor car, accommodation, subsistence and other allowances;*
- *housing benefits and allowances;*
- *overtime payments;*
- *loans and advances; and*
- *any other type of benefit or allowance related to staff*

4. THE TIME KEEPING FUNCTION

Timekeeping is the aspect of the payroll management process that creates the primary time records that are used to determine the salary or wages payable to employees. As such, it is one of the most important links in the Municipality's internal

control structure for the payroll process. Timekeeping activities should take place at the unit or section where employee attendance data is collected and recorded and at the central timekeeping office where timekeeping data is reviewed, co-ordinated and assembled. Timekeepers must be adequately trained, must have a working knowledge of the Municipality's payroll policies and practices, and must have access to the written rules and procedures that describe their functions and responsibilities. The Human Resources Directorate is the custodian of the timekeeping function.

4.1 **Recording Time – General**

A fundamental timekeeping principle is that attendance, absence and tardiness be recorded promptly on a daily basis. Time and attendance must be recorded for all employees, including managerial and non-managerial salaried staff, and those who are paid on a daily or hourly basis. In most cases, employees record their own arrival and departure times and leaves taken, however, in many situations timekeepers are given this responsibility.

4.2 **Salaried Employees**

The time records for salaried employees must record the hours of arrival and departure for each day of work, the charges against vacation, sick or personal leave credits, and any excused leave taken for events such as death in family.

4.3 **Daily or Hourly Wage Employees**

The time records for employees paid on an hourly or daily rate basis must capture the details necessary to establish total time worked, because employees in this class are paid only for the time at work. Timekeeping for these employees, typically skilled workers or labourers, may be complicated by the fact that their work locations frequently change, requiring time records to be maintained at various locations. In these situations, the Municipality must ensure that the information entered on time records at each location is

correct and complete in every detail and that the several records are coordinated and accurately combined to obtain the aggregate time worked

4.4 Daily Attendance Reports

4.4.1 The primary timekeeping document for recording hours and computing total time worked is the daily attendance report. Daily attendance reports may also be used to record and control late arrivals and early departures. Time clocks, sign-in sheets and managerial time sheets are typical daily attendance reports; however, this record may take a variety of forms, particularly as the Municipality makes greater use of electronic and other technologies to record timekeeping data.

4.4.2 Regardless of the daily attendance report's format, it must reliably capture all information necessary to track an employee's attendance.

4.4.3 All daily attendance reports must be signed by the employee and approved by his or her immediate supervisor.

4.5 Special Procedures for Sign-in Sheets

4.5.1 Where sign-in sheets are used, they should be prepared in advance by the Municipality's human resources department. Sign-in sheets must cover each day of the week or payroll period and, when possible, should pre-list, in alphabetical order, the name of the employees who are required to sign-in.

4.5.2 Any changes to sign-in sheet entries must be in ink and initialed by the appropriate supervisor

4.5.3 Sign-in sheets must always be under the physical control of the supervisor. This is especially important at normal work start and end times so that the arrival and departure times can be verified as they are entered by employees

4.5.4 Where sign-in sheets do not pre-list employee's names, a "late line" should be drawn across the sheet at five minutes after the scheduled reporting time. This action creates a clear tardiness record since employees signing below the line were late.

4.5.5 Where sign-in sheets do pre-list employee's names, an "X" or late line should be drawn, at five minutes after the scheduled reporting time, in the space adjacent to the name where arrival time is recorded.

4.6 **Timekeeping for Field Employees**

Employees, whose duty assignments require them to work in the field at different locations or at locations other than their central office, must maintain a record of their daily activities. The starting and ending times, location, description of the work performed, and time spent in the field or alternate location must be entered for each day's work, showing for employees such as inspectors who visit multiple sites each day, the details for each stop. Any deviations from regular hours, and the reason, must be clearly indicated. At a minimum, this record must be submitted to the employee's central office on a weekly basis.

Properly designed and maintained time records are an important component of good internal controls over payroll and fringe benefits expenditures. Employees should maintain daily records of their hours worked and/or absences. These records help supervisors and those individuals processing payroll determine employees' regular and overtime (if applicable) hours, as well as update employees' accumulated leave balances. Time records should contain the information necessary to account for an employee's entire workday, including starting and ending times, leave charges and meal periods. Erroneous or incomplete entries and omissions on these records can cause delays or errors in pay, and inhibit supervisors in fulfilling their oversight responsibilities.

4.7 **Excessive Lateness**

The timekeeping process can be used to help control employee lateness by having the timekeeper bring cases of excessive lateness to the attention of the supervisor or by having supervisors monitor the time records.

4.8 **Prior Notice for Absenteeism**

Where possible, the supervisor must ensure that employee's planned absence requests are submitted in advance. Absenteeism due to illness or emergency should be reported within one hour after the employee's scheduled starting time.

5. MONITORING AND REVIEW

5.1 An effective organisational control structure should have robust monitoring and review processes in place which involve overseeing the operational objectives and control activities. Monitoring and review should be undertaken on an on-going basis and be built into the day-to-day activities of the system.

5.2 It can, however, also be carried out as a separate activity on a periodic basis. The responsibility for carrying out monitoring and review should be clearly defined.

5.3 On an ongoing basis payroll transactions and processes should be monitored by payroll managers and supervisors. Payroll monitoring and review processes should also incorporate the following:

- 5.3.1 internal and external audit scrutiny;
- 5.3.2 budget monitoring of payroll balances;
- 5.3.3 quality control processes;
- 5.3.4 performance indicators

5.4 **Benefits of effective payroll monitoring and review**

Effective monitoring and review provides the organisation with assurance that payroll controls are operating, transactions are being appropriately processed and standards of service are being maintained.

Periodic monitoring and review is often aligned with sharing ideas, both across the organisation and externally. In-built monitoring and review mechanisms, such as control self-assessment, encourages ownership of controls as well as enhancing the control structure

Best Practice for Monitoring and Review

- *implementation of a range of performance indicators to monitor the efficiency and timeliness of payroll processing;*
- *regular meetings of user groups to identify issues and provide suggestions for improvements to processes;*
- *inclusion of feedback on the payroll process as part of performance review meetings with individual staff;*
- *benchmarking with other Municipalities; and*
- *regular certification by business unit management of the accuracy of payroll details.*

6. PREPARING THE EMPLOYEE TIME REPORT (ETR)

The Employee Time Report is a key document in the payroll process; it captures the time employees worked, as well as charges to annual and sick leave or other balances such as compensatory time. Individual ETRs must be prepared for each employee every week.

6.1 ETR Preparation Procedures

- 6.1.1 Completing the ETR requires a review of the accuracy of the daily attendance reports, the transfer of the information from the daily attendance reports to the ETR, and signing as preparer.
- 6.1.2 ETRs should be prepared by an employee other than the departmental timekeeper who supervises the daily attendance reports. If the organisational structure does not permit this segregation and the timekeeper also prepares and submits the ETRs, the ETRs must be verified and approved by the departmental supervisor or be submitted to the Municipality's human resources office, along with the daily attendance reports, for independent validation
- 6.1.3 Absences for daily and hourly wage employees are coded and recorded on the daily attendance reports in the same manner as for salaried employees, however, when completing ETRs for daily and hourly wage employees, only paid absences along with the actual hours worked must be entered
- 6.1.4 Additional annual leave that is credited to an employee whose unused time balance is already at the maximum allowance must be handled in accordance with Leave Regulations and applicable Municipal procedures
- 6.1.5 To insure that proper salary reductions are made when salaried employees take time in excess of their leave balances, as may be permitted by the Municipality;

incidents must be reflected on the ETRs in exact hours and fractional hours for each day an absence occurs. All such adjustments must be certified by the timekeeper and approved by the appropriate manager or supervisor.

7. EXCEPTION TRANSACTIONS

Certain unusual and strongly discouraged payroll transactions may be necessary in exceptional circumstances. The Municipality must ensure that such transactions are authorised in advance, in writing by the supervisor/manager and the Municipality's human resources department, and in accordance with a Council Resolution.

6.1 Payroll Advances

6.1.1 Salary advances are prohibited in most circumstances

6.2 Leave Advances

6.2.2 Borrowing leave from future accruals is generally discouraged and should be allowed only in unusual circumstances and upon the discretion of the Municipal Manager. Advances should only be taken at times convenient to the Municipality

6.3 Salary Overpayments

6.2.3 The Municipality is responsible for detecting, correcting and recouping overpayments made to employees. The two most common causes of overpayments are delays in reporting terminations and leaves-without-pay

8. RECORDKEEPING REQUIREMENTS

8.1 Personnel Records

The Municipality's human resources department must maintain records supporting and authorising documentation for all personnel actions including hiring new employees, changes in compensation or title, salary deductions,

terminations, resignations, retirements and all intervening events. The human resources department must also maintain all employment history records.

8.2 **Time keeping Records**

Time keeping records must be properly maintained. The daily attendance reports, consisting of time cards, sign-in sheets, or other records that record daily attendance, are the source documents for employee time.

Accurate record keeping is essential to ensure that employees are paid only the amounts due to them and the overall effectiveness of the payroll procedures and controls

The Municipality must observe the following basic guidelines for the proper management of time keeping records:

- 8.2.1 Maintain a complete and accurate record of daily attendance reports showing attendance for each day, hours worked, absenteeism by type and tardiness
- 8.2.2 Maintain all support documentation including doctors' notes and leave requests for each employee
- 8.2.3 All original time and attendance records must be adequately safeguarded, retained and organised in a manner that will ensure prompt retrieval

8.3 **Payroll Records**

All payroll office records used for the review, reconciliation and adjustment of payrolls must be maintained and updated in secure, well defined files in accordance with the Municipality's records retention policies

9. INTERNAL AUDIT AND PRE-AUDIT REQUIREMENTS

The Municipality's internal audit and review of the various elements of the payroll process is an integral part of the internal controls over this function. Internal audits and reviews must be conducted on an ongoing basis by internal audit staff or others who are independent of the audited function.

❖ *The Importance of maintaining effective controls and processes*

The existence of, and compliance with, detailed controls and processes for all aspects of payroll is of critical importance in ensuring the accuracy and completeness of payroll transactions. Failure to establish an effective control system increases exposure to a range of risks including

- *non-compliance with relevant legislative, award and policy requirements;*
- *inaccurate or inappropriate payments to employees;*
- *inaccurate calculation of taxation and other deductions;*
- *processing of transactions that have not been improved;*
- *incorrect recording of leave entitlements;*
- *errors in the recording of payroll transactions in financial records;*
- *inappropriate access to payroll information; or*
- *potential fraud or misappropriation of funds*

Appendix One of this draft policy provides examples of potential control procedures for all key aspects of the payroll management process

APPENDIX ONE:

The following table outlines potential control procedures that could be implemented in a payroll management environment

Area of Control	Examples of potential control procedures
Management controls	<ul style="list-style-type: none"> • Existence of detailed budgets for payroll expenditure and liabilities. • Regular monitoring of actual expenditure against budget including investigation of variances. • Performance targets are established for payroll and are regularly monitored by senior management. • Relevant business/operational units regularly check accuracy of payroll data. • Appropriate exception reports are produced and acted upon
File Controls	<ul style="list-style-type: none"> • Reconciliations are undertaken between payroll records and the general ledger. • Reconciliations of payroll bank accounts are undertaken and regularly reviewed. • Pay-to-pay or year-to-year reconciliations of payroll totals are undertaken. • Control totals on financial or other data elements are calculated and reconciled.
Control over Records	<ul style="list-style-type: none"> • Detailed payroll reports are reviewed and approved by operational unit management. • Error and rejections reports are produced from payroll systems and appropriately followed-up. • Variations to individual payroll records and amounts are independently reviewed and approved
Input Controls	<ul style="list-style-type: none"> • Staff appointments are approved in line with appropriate delegation schedules. • Time records are appropriately reviewed and approved. • All adjustments to pay rates and deductions are appropriately approved and reviewed before input. • Changes to standard data is appropriately reviewed and approved. • Appropriate authorisation and review processes are in place for nonstandard payments (e.g. pay in advance, long service leave, lump sum payments, and manual cheque payments). • Appropriate reports on changes to payroll data are produced and approved

Update Controls	<ul style="list-style-type: none"> • Procedures are in place to ensure that all transactions have been processed. • Procedures are in place to ensure that correct versions of payroll data files are used (e.g. correct pay rates, tax deduction tables). • Reports of changes to payroll data are produced and reviewed. • Rejection and error reports are produced, reviewed and acted upon.
Segregation of duties	<ul style="list-style-type: none"> • The functions of payroll staff are clearly segregated from approval, authorisation and payment functions. • Regular rotation of duties occurs for the payroll function.
Access and security controls	<ul style="list-style-type: none"> • Appropriate physical security is maintained over payroll and personnel records and reports. • Appropriate access controls are in place for payroll systems (e.g. password security, regular changes to passwords, levels of access by payroll and other employees). • Reports of access to systems are produced and reviewed for unusual/unauthorised access.

APPENDIX TWO:

The following list is indicative of best practice initiatives in payroll management

Objective	Best Practice
Risk Management	<ul style="list-style-type: none">• The risk management plan should be revisited on an annual/ periodic basis and at the time of any major changes in the organisation's internal or external environments eg. The outsourcing of functions.• The risk assessment process should incorporate a protective security risk assessment for payroll data.• The risk assessment process should involve relevant human resources, payroll and finance staff.

Objective	Best Practice
Resource Management	<ul style="list-style-type: none">• Payroll staff should have ongoing training in legislative and policy requirements.• Succession planning should be established for payroll staff functions and responsibilities.• Arrangements should be in place so that access to HR experts can be readily obtained.• Rotation of staff in the payroll processing area for improved control and cross-skilling.

Objective	Best Practice
Policies and Guidelines	<ul style="list-style-type: none">• Comprehensive policies and guidelines<ul style="list-style-type: none">— linking key controls and responsibilities;— written in plain English;— easily accessible; and— current• Policies and guidelines to include an organisational privacy policy

Objective	Best Practice
Control Framework	<ul style="list-style-type: none"> • To include key controls with control duplication eliminated through the use of detective or compensating controls. • Conduct of control self-assessments by management. • Suite of exception reports to allow management to monitor and review with focus. • A HR Committee with responsibility for human resource (HR) policies including personnel management and development, and the driving of Certified Agreement processes. • Positive assurance of the accuracy of payroll reports by business areas on a sample basis. Payroll reconciliations to be subject to independent review. • Periodic internal audit testing of payroll transactions. • Complaints resolution process to be defined and documented. • Emphasis on monitoring and review controls including exception reporting rather than input controls.

Objective	Best Practice
Efficiency and Effectiveness	<ul style="list-style-type: none"> • Cost-benefit of payroll function to be reviewed periodically. • Development of KPIs and measurement and monitoring of performance. • Feedback on the quality of payroll reports to be sought periodically. • Benchmarking of the payroll function on a periodic basis. • Monthly payroll or four weekly payroll processing, as opposed to fortnightly payroll.

Objective	Best Practice
Technology Improvement	<ul style="list-style-type: none"> • Implementation of fully integrated HR and finance systems. • Utilisation of e-mail notification for ad hoc payments. • Payslips provided through the web or e-mail subject to appropriate security arrangements being in place. • Employee self service systems for leave processing. • Electronic authorisation

ACCOUNTS PAYABLE

POLICY, PROCESSES & PROCEDURES



RECOMMENDED

THAT the **Accounts Payable Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version

Date February 2011

Document Name **Accounts Payable Policy and Procedures**

Reviewed By

_____ **Date:** _____
INTERNAL AUDITOR

Supported By

_____ **Date:** _____
CHIEF FINANCIAL OFFICER

Signature

_____ **Date:** _____
MUNICIPAL MANAGER

**Adopted by
the Mayoral
Committee**

_____ **Date:** _____
CHAIRPERSON

**Approved by
the Council**

_____ **Date:** _____
RESOLUTION

Effective date

**Next revision
date**

1. POLICY

1.1 Overview

Sedibeng District Municipality in recognising its:

- community orientation; and
- the need for good governance;

has developed a transparent and codified internal control system aimed at promoting its core District Objectives. Compliance with the codified best practice will ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and aligned to approved budgets and broader financial policies of Sedibeng District Municipality.

The Accounts Payable Policy and Procedures document institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- A guideline for all stakeholders as to the requirements for accounts payable;
- An internal dynamic document detailing the processes required for the efficient discharge of duties for Accounts Payable relative to financial controls necessary to ensure the efficient administration of the Sedibeng District Municipality budgets.

1.2 Purpose

This policy document serves to assist management, employees and all other stakeholders of the Sedibeng District Municipality to implement and maintain consistent, effective and efficient payment management principles, thereby contributing to the early detection and prevention of unauthorized, irregular, fruitless and wasteful expenditure.

1.3 Objective

In discharging the purpose of the Accounts Payable policy, the key objectives are tabulated as follows:

- a. To effectively discharge all service areas by infusing business processes into internal control which complies with all legislation and statutory requirements;
- b. To safeguard cash resources and optimise cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources relative to contract payment schedules and benefits derived from early settlement discounts;
- c. To drive a culture of accountability over Sedibeng District Municipality's cash by skilling staff and stakeholders alike on a multifunctional level for improved budgetary control;
- d. Verification of the validity of payments and ensuring that accurate and completeness of recording of payments occur;
- e. Provide a means of communication aimed at service delivery for communities, businesses and vendors.

1.4 Business Process Framework

1.4.1 Legislative Framework

The *Municipal Systems Act (No. 32 of 2000)*, *Municipal Finance Management Act (No. 56 of 2003)*, the *King II Code on Corporate Governance in South Africa (2002)* and other applicable legislation informs and seeks to regulate the functioning of Accounts Payable so as to lead to the early detection of abnormal trends and unauthorised, irregular, fruitless and wasteful expenditure, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

The functioning of Accounts Payable is further influenced by the Preferential Procurement practices as embodied by *The Draft Preferential Procurement Regulations, 2009*, aligned with the prescripts of the *Broad-Based Black Economic Empowerment Act, No. 53 of 2003* and its related Strategy as set out in section 5 of the *Preferential Procurement Policy Framework Act, No 5 of 2000*.

1.4.2 Accounting Framework

The responsibility of payment management lies with the Municipal Manager and the Chief Financial Officer. The performance of this function may be delegated to subordinates, but this however does not alleviate the responsibility of the Municipal Manager and the Chief Financial Officer.

1.5 Recommendations

- This policy, processes and procedures document supersedes all previously issued account payables policy;
- This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of the Accounts Payable transaction cycle;
- This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of accounts payable;
- This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Accounts Payable.

2. PROCESSES

2.1 Account Purchases & Payments Function

The purchase of and payment for goods and services from suppliers is a major transaction cycle in any organisation's accounting system. There are two major functions of the purchases and payments cycle:

- 2.1.1 The ordering of goods or services from suppliers in exchange for promises of future payment (credit purchases) or for immediate payment (cash purchases) and;
- 2.1.2 Payments/cash disbursements to suppliers for goods or services previously or simultaneously provided.

Generally there are a large number and variety of accounts in the purchases and payments cycle in a typical organisation. Standard Accounting and Procedural groupings that can be affected by the purchases and payments cycle include assets, liabilities, expenses and miscellaneous income accounts. The purchases and payments cycle is therefore a complex and very important transaction cycle in an organisation such as the Sedibeng District Municipality as it records, controls and allows for the processing of all payments in a manner consistent with budgetary requirements whilst adhering to both statutory and regulatory requirements.

Account Purchases Function

The purchases activity is typically subdivided into the following three distinct functional areas:

- a. The ordering / procurement of goods and services function;
- b. The receiving and receipting of goods;
- c. Payment of and creditors recording function.

2.2 Procurement of Goods & Services

2.2.1. Methods of Procurement

The procurement method and process to be followed will be determined by the Rand value of the purchase. The categories and procurement processes to be applied have been determined as follows:

- (a) Purchases for amounts between R1 and R19 999.00;
- (b) Purchases for amounts between R20 000.00 and R69 999.00;
- (c) Purchases for amounts equal to and greater than R70 000.00.

2.2.2 Number of quotations required

- (a) Purchases for amounts between R1 and R19 999.00 **2 quotes**
- (b) Purchases for amounts between R20 000.00 and R69 999.00 **3 quotes**

(c) Purchases for amounts equal to and greater than R70 000.00

Open Tender

2.2.3 Purchase Requisitions

When completing purchase requisitions, Council officials must adhere to procedure:

- Complete the requisitions in triplicate.
- Quotations must be attached to requisitions.
- The requisition must then be handed to the Head of Department for approval before submission to stores or receiving department.
- At stores the requisition is captured onto Venus system and an order is then generated.
- The original requisition is attached to the generated order and sent to the supplier while one copy is filed in the 'deliveries pending' file and the other kept at stores.
- Orders placed by telephone should be confirmed in writing by the issuer of an order marked 'by telephone'.

This ensures that all orders are the subject of a written record, which facilitates accounting, for every order issued.

2.2.4 Purchase orders

The purchasing clerk should ensure that a purchase order is generated in all instances where the purchase of an item/s is done for Sedibeng District Municipality. Similarly, a purchase order is required before any purchase can be made for the Council.

2.3 Receiving and Receipting of Goods and Services

The accountability for checking of goods received in a department lies with the Head of Department.

- 2.3.1 All goods received must be inspected, counted and checked to the relevant order and supplier's delivery note for type, quality and quantity.
- 2.3.2 Suppliers' delivery notes will only be signed after this check is satisfactorily completed.
- 2.3.3 Damaged, faulty or otherwise unacceptable goods should not be accepted and the purchasing department and accounts office should be notified accordingly.

2.3.4 Receiving of Vendor Invoices

Vendor invoices can be received in the following formats:

- 2.3.4.1 Via electronic mail in PDF (closed file) format
- 2.3.4.2 Via postal service
- 2.3.4.3 By hand delivery

Vendor / Supplier Invoices received in electronic format as a Microsoft Excel file or any electronic format that can be altered must be strongly discouraged and declared not acceptable

2.3.5 Verification of Invoices

On receipt of goods (with the relevant delivery notes) they are to be checked for type, quality and quantity. Verification and processing comprises an examination of all invoices and supporting documentation to ensure compliance and is to be examined thus:

2.3.5.1 Original Tax Invoice in the name of Sedibeng District Municipality;

2.3.5.2 Values, extensions and additions are correct;

2.3.5.3 All settlement discounts applicable are utilised where beneficial;

2.3.5.6 An allocation to the relevant cost centre and general ledger account needs to be made for payment purposes;

2.3.5.7 Validation of mandated authority levels relative to purchase order issuance needs to be made;

2.3.6 Discrepancies

Any differences between the order and the delivery note is to be investigated and where necessary, adjustments to the order, are to be reviewed and verified by obtaining the necessary supporting documentation within the prescribed authority levels and adhering to the categories for requisition raising.

2.3.7 Receipting

On receipt of a supplier's tax invoice, the creditors' clerk checks the appropriate goods received note or delivery note for quantity. The clerical accuracy of the invoice must also be checked to prove the accuracy of its total Rand amount. The invoice must be stamped, initialed as correct, and then filed with the relevant delivery note and order form attached thereto. No invoices will be entered in the purchases record unless passed as correct, as evidenced by the signature of the HOD-Finance.

The stores department copy of the order is attached to the relevant supplier's delivery note and routed to the accounts department to await the invoice. Purchases department will be notified of orders satisfactorily fulfilled so that the relevant order can be removed from the 'delivery pending' file. Fulfilled orders are then filed in numerical sequence so that a complete and easily accessible record of all orders that have been fulfilled is maintained.

A record of goods received should be maintained in the stores department reflecting the relevant order book, supplier and date of receipt. One copy of the goods received note is sent to the purchasing department and the other is sent together with the copy order and supplier's delivery note to the accounts department.

2.4

Payments

Post the receipting and verification stage, payment needs to be handled in the manner which allows for invoices to be processed in the applicable financial year of receipt.

2.4.1 Methods of Payment

2.4.1.1 Order / Contract payment

All vendors are to be paid by means of electronic funds transfer (EFT).

2.4.1.2 Sundry Payments

All sundry payments are as far as possible to be made via electronic funds transfer (EFT). In instances where this is not possible cheques crossed - "Not Transferable" - will be issued. Uncrossed cheques may only be utilised, at an absolute limited value, for petty cash replenishments and increases.

2.4.2 Terms of Payment

2.4.2.1 Standard Payment Terms

2.4.2.1.1 The standard Sedibeng District Municipality payment terms are 30 days ex invoice.

2.4.2.1.2 Invoices are to be dated and issued for goods and services fully rendered, and will be honoured as such.

2.4.2.1.2 Invoices are to be submitted to Accounts Payable for inclusion in the payment run as set out in 2.4.3 below, with a cut off time of 11H00 on the day of the payment run being levied. Late submissions will be included in the next payment run. No exceptions of verbal commitment of early payment will be entertained.

2.4.2.1.3 Any penalties incurred due to the late submission of documentation will be for the account of the business unit submitting such documentation.

2.4.2.2 Payments to SMME / HDI Contractors

Notwithstanding the standard payment terms, which are to be complied with, vendors displaying and equity ownership in excess of 50% for HDI's, will qualify for an acceleration of payment. Such acceleration will be guided by *The draft Preferential Procurement Regulations, 2009*, aligned with the prescripts of the *Broad-Based Black Economic Empowerment Act, No. 53 of 2003* and its related Strategy as set out in section 5 of the *Preferential Procurement Policy Framework Act, 2000*.

In pursuant thereto Sedibeng District Municipality relaxes its standard payment terms for vendors displaying an HDI equity ownership in excess of 50% to 14 days.

2.4.3 Frequency of Payment

2 (Two) payment runs are to be effected monthly, with:

2.4.3.1 Standard Payment Terms

- i. Invoices received between the 25th of the previous month and 12th of the current month will be paid between the 22nd and 25th of the current month;
- ii. Invoices received between the 10th and 25th of the month will be paid between the 12th and 15th of the ensuing month.

2.4.3.2 Payments to SMME / HDI Contractors

- i. Invoices received between the 25th of the previous month and 12th of the current month will be paid between the 12nd and 15th of the current month;
- ii. Invoices received between the 12th and 25th of the month will be paid between the 22th and 25th of the ensuing month.

2.4.4 Execution of Payment

- i. Multiple supplier/vendor invoices are to be rolled into one single payment amount as defined by the vendor/supplier number.
- ii. Part payments are allowed to invoices as detailed in line items on the Purchase Order, and need to be clearly marked in invoices as part number of the entire purchase order, and congruent with the goods and services fully rendered for the invoiced part of the purchase order. No pre-payments will be allowed.
- iii. Payments are to be executed by Electronic Funds Transfer with the necessary control measures being in place for selected senior staff using access controls and passwords.

2.4.4.1 Cheques

- i. All cheques are to be prepared by designated staff members who are so mandated with signing authority.
- ii. No cheque may be altered within Accounts Payable, and should spelling or other errors be observed, the incorrect cheque needs to be cancelled, written back and a replacement cheque be issued.
- iii. A cancelled cheque must be retained as a part of records for the transaction documentation to which it has been originally issued
- iv. Cheques issued need to be written up in a sequentially numbered register.

2.4.4.2 Settlement Discounts

Where offered, settlement discounts are to be considered subject to taking the Municipality's cash flow into cognisance and attaining sign off by the relevant Head of Department in association with the mandated official of the Directorate: Financial Management and Budget – this to minimise the disruption caused by the deviation from standard payment terms.

2.4.4.3 Vendor Accounts

Vendor accounts needs to be reconciled monthly, with cognisance being taken of part payments on accounts, and in considering an age analysis, preference be given to accounts 90 days or older.

2.4.5 Petty Cash

Petty cash will be administered by the Income Accountant, and access to petty cash for accounts payable will be via the completion of the prescribed forms, duly signed off by the mandated officials for any increases or replenishment.

2.4.6 Year End Processes

An annual communiqué will be circulated to all municipal officials and councillors advising as to the cutoff date for accounts payable prior to year end accounting, and the need to restrict all procurement at least 30 days prior to the cutoff date as noted in the communiqué.

3. PROCEDURES

3.1 Order Payments

Sedibeng District Municipality will procure goods and services by way of purchase orders, and as in the manner described by the policy and processes sections to this document. Counter performance to the fulfillment of the purchase order will be addressed by the Accounts Payable section.

- 3.1.1 Only original tax invoices shall be accepted for the processing;
- 3.1.2 Dependant on the transaction, especially in the case of consultants, labour brokers, and professional services etc., additional supporting documentation will be requested to display the rendering of the service;
- 3.1.3 Invoices / and or supporting documentation are to be date stamped prior to processing for record purposes;
- 3.1.4 Invoices are to be scrutinized so as to comply with the acceptable invoice specimen as set out for general dissemination on the municipality website;
- 3.1.5 Invoices are to be Vat compliant;
- 3.1.6 Invoice amounts are to be recalculated, discounts offered are to be noted, and volumes are to be double checked;
- 3.1.7 XXXX – How posted
- 3.1.8 XXXX – Check procedure
- 3.1.9 XXXX – Vendor recons
- 3.1.10 XXXXX – Pay away procedures

3.2 Contract Payments

Contract payments refer to the processing of all invoices relative to the procurement goods and services ex Consultants and Construction companies. In both instances time based services are delivered, and in the case of the construction companies, goods may also be in the offering.

Construction contracts whether for asset maintenance or green field's asset construction would be negotiated over a period of time and be subject to framework orders for professional services, draw downs and retention monies. As such payment cash flows have to be negotiated and embodied in a service level agreement, with payments being made against performance in accordance with the agreed to standards as embodied in the service level agreement.

Similarly Consultants contracts need to be managed in a manner whereby draw downs on the project are subject to the project leader producing the necessary agreed to deliverables in the specified time frames.

3.2.1 Construction Based Contracts

- a.** Upon approval of a project, a project manager will be assigned, with a project number, and the project manager will deal with all matters relating to the project including payments;
- b.** The purchase order is raised and lodged with the Directorate responsible for the works;
- c.** A framework order will be raised by supply chain;
- d.** Payment will be on a draw down basis against the framework order and subject to the provision of the necessary documentation inclusive of:
 - Payment Certificate;
 - Tax Invoice from the contractor;
 - Project approval plan;
 - Copy of contract;
 - Tax clearance certificate

3.2.2 Consultants Based Contracts

- a.** Upon approval of a project, a project manager / team will be assigned, with a project number, and the project manager will deal with all matters relating to the project including payments;
- b.** The purchase order is raised and lodged with the Directorate responsible for the works;
- c.** A service level agreement will be drafted by legal and signed off by the consultant/s inclusive of a payment plan related to deliverables and a timeline;
- d.** Payment will be on a draw down basis against the service level agreement and subject to the provision of the necessary documentation inclusive of:
 - Tax Invoice;
 - Service level agreement copy;
 - Draw down details;

3.3

Sundry Payments

Definition: *Sundry payments are payments, which are not regular, recurring, and are not related to the core business.*

Sundry payments will only arise out of the following:

EXPENSE LINE ITEM	CONTRACT SERVICE RENDERED
CONTRACTED SERVICES	Fumigation
CONTRACTED SERVICES	Server Maintenance (Monthly)
CONTRACTED SERVICES	Security Alarm
CONTRACTED SERVICES	Monthly Support
LICENCE FEES	Licenses
SPLIT (WATER/REFUSE/SEWERAGE)	Rates And Taxes
CONTRACTED SERVICES	Staff Newsletter
CONTRACTED SERVICES	Fidelity Cash Management
CONTRACTED SERVICES	Security
CONTRACTED SERVICES	Market
CONTRACTED SERVICES	Temp Personnel
CONTRACTED SERVICES	Compliance Web
CONTRACTED SERVICES	Subscription
CONTRACTED SERVICES	Security
POSTAGE	Bulk Posting
RENTAL	Rental Of Copy Machines And Copies
CONTRACTED SERVICES	IT
AUDIT FEES	Audit Fees
RENTAL	Rental Of Copy Machines And Copies
REPAIRS & MAINTENANCE	Service And Maintenance Of Lifts
CONTRACTED SERVICES	Market Fees
LEGAL FEES	Legal Services
CONTRACTED SERVICES	Bottled Water
CONTRACTED SERVICES	Archive Fees
CONTRACTED SERVICES	Fumigation
REPAIRS & MAINTENANCE	Service And Maintenance Of Lifts
RENTAL	Rental Of Copy Machines And Copies
CONTRACTED SERVICES	REMRAD Radio
TELEPHONE OFFICE	Telephones

CONTRACTED SERVICES	Market
CONTRACTED SERVICES	Market Alarms
RENTAL	Rent Of Ventura and House & Home Buildings
RENTAL	Rent Of MSDC Building
FUEL & OIL	Fuel Account

OTHER (NOT CONTRACTUALLY BOUND):	
MEMBERSHIP FEES	Ad-hoc
CONGRESS/ ATT. MEETINGS	Ad-hoc
AUDIT FEES	Internal audit
SALARY CORRECTIONS	Ad-hoc
S & T CLAIMS	Subsistence allowance
DONATIONS	Ad-hoc

Cheque requisitions accompanied by supporting documentation, i.e. invoice, delivery note, goods received note and/or order, should be forwarded to the Head of Department for authorisation.

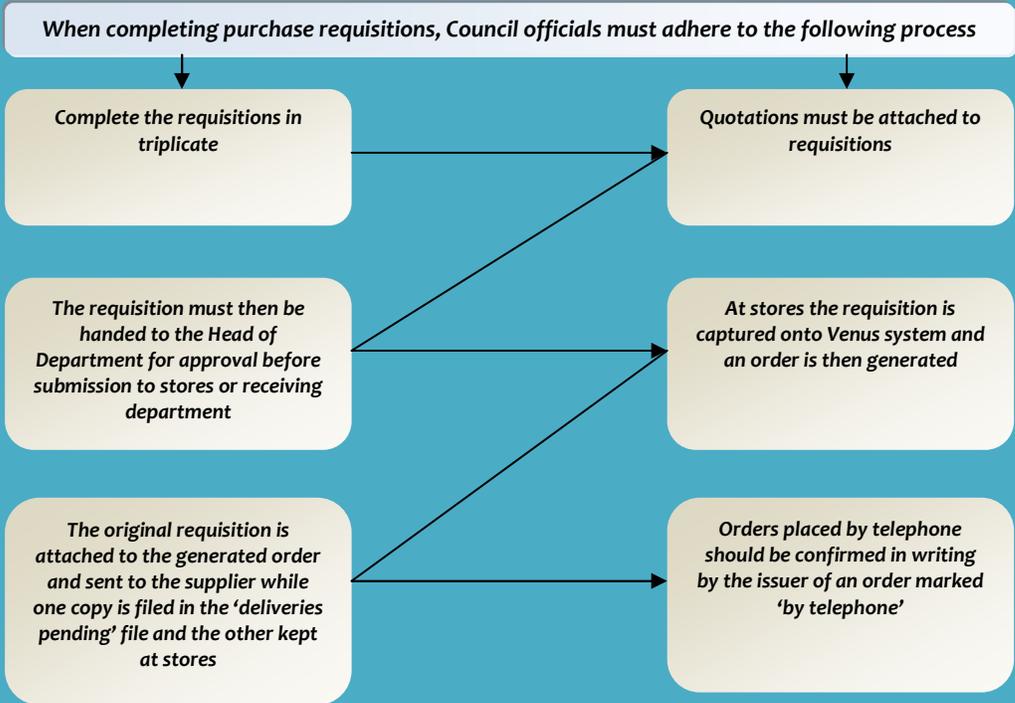
Heads of departments must authorise sundry payment requests for their respective departments and then submit these requests to the CFO for approval of payment.

Cheque requests for sundry payments will only be processed once a week on Thursdays. Heads of Departments must ensure that all sundry items that need to be paid have been authorised and submitted to the CFO by Thursday afternoon. Failure to comply will result in non-payment of the account by the Municipality.

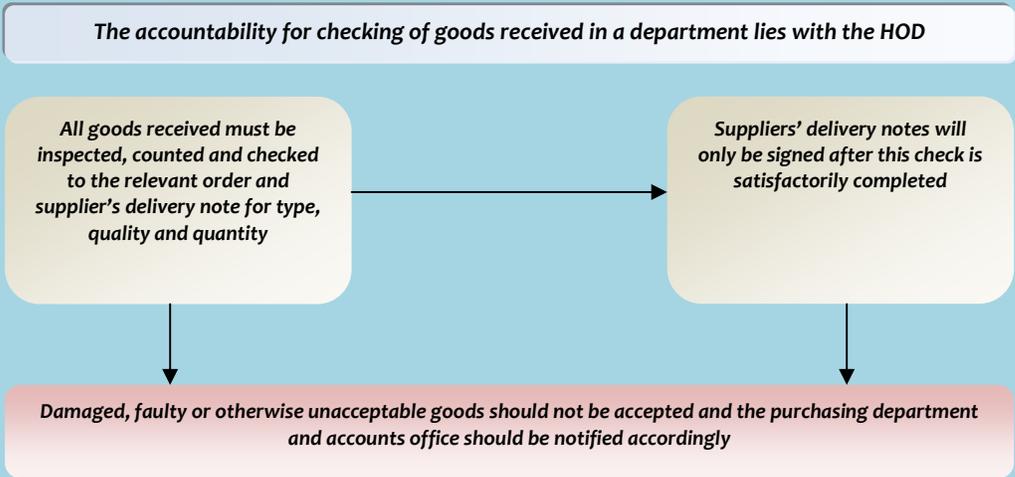
ACCOUNTS PAYABLE PROCESS FLOW



Purchase Requisitions

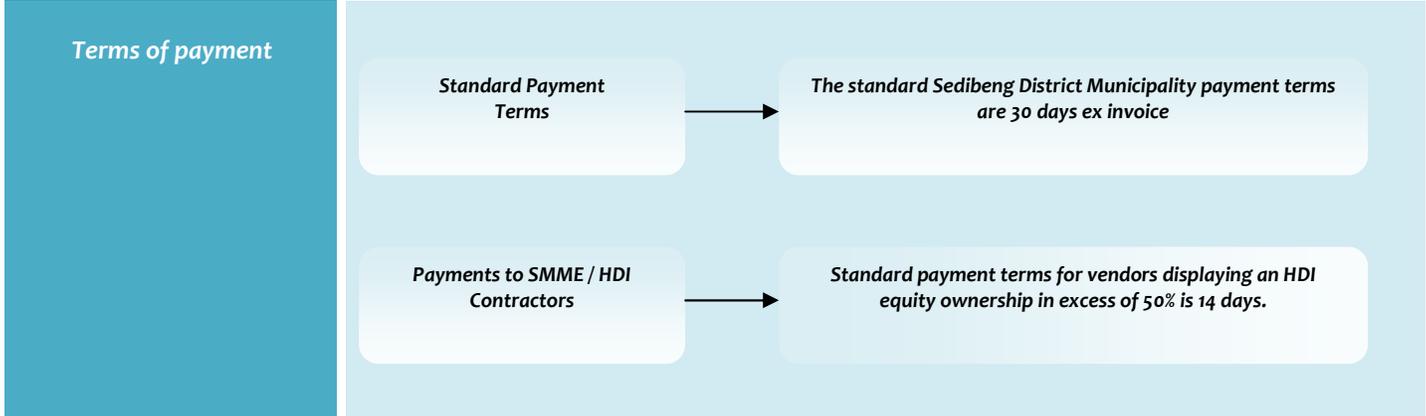
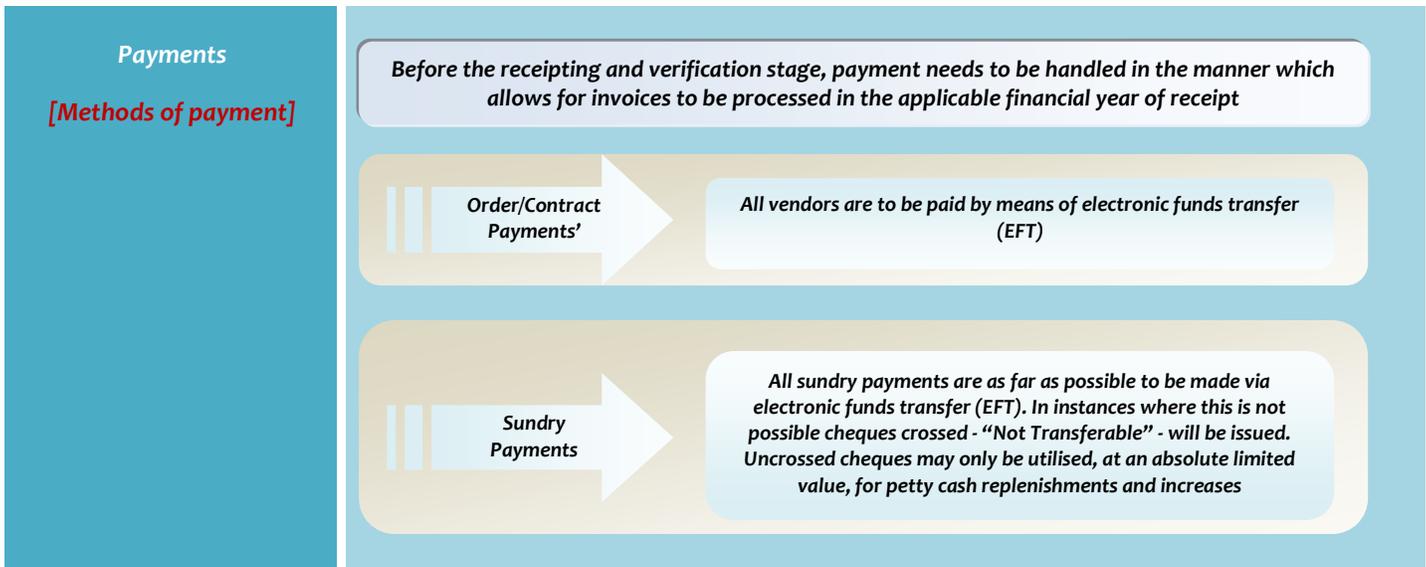
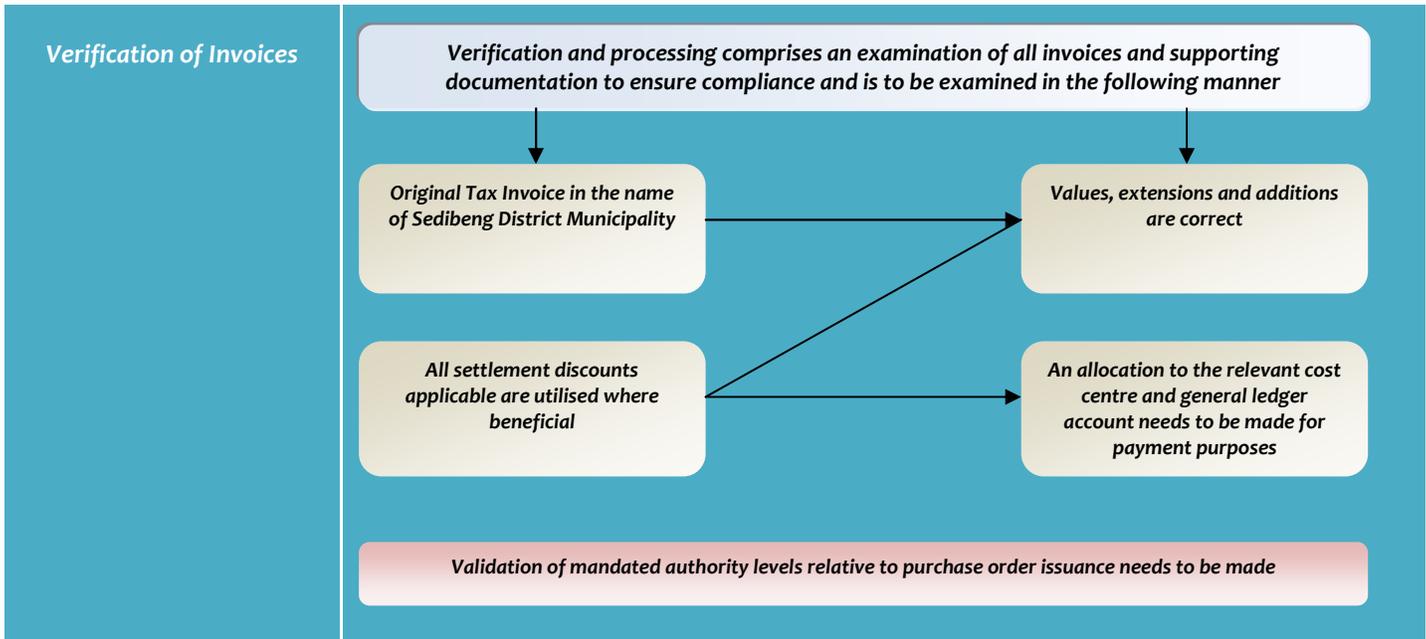


Receiving and Receipting of Goods and Services



Vendor invoices can be received in the following formats





Frequency of Payment

2 (Two) payment runs are to be effected monthly, with

Standard Payment Terms

Invoices received between the 25th of the previous month and 12th of the current month will be paid between the 22nd and 25th of the current month;

Invoices received between the 10th and 25th of the month will be paid between the 12th and 15th of the ensuing month

Payments to SMME / HDI Contractors

Invoices received between the 25th of the previous month and 12th of the current month will be paid between the 12nd and 15th of the current month

Invoices received between the 12th and 25th of the month will be paid between the 22th and 25th of the ensuing month

Execution of Payment

Multiple supplier/vendor invoices are to be rolled into one single payment amount as defined by the vendor/supplier number

Part payments are allowed to invoices as detailed in line items on the Purchase Order, and need to be clearly marked in invoices as part number of the entire purchase order, and congruent with the goods and services fully rendered for the invoiced part of the purchase order. No pre-payments will be allowed.

Payments are to be executed by Electronic Funds Transfer with the necessary control measures being in place for selected senior staff using access controls and passwords

Cheques

All cheques are to be prepared by designated staff members who are so mandated with signing authority

A cancelled cheque must be retained as a part of records for the transaction documentation to which it has been originally issued

Cheques issued need to be written up in a sequentially numbered register

IMPORTANT

No cheque may be altered within Accounts Payable, and should spelling or other errors be observed, the incorrect cheque needs to be cancelled, written back and a replacement cheque be issued

Principles

Officials responsible for interacting with vendors on behalf of the Municipality should apply the following principles

a) Accountability

It is the department's responsibility to ensure that all purchases are made in the conduct of the Municipality's business and well documented for tracking purposes. In order to continue the efficient operation of the Municipality, all purchasers must make sound purchasing decisions

b) Accuracy

The Official(s) managing the business activity are responsible for and must convey to the vendor the importance of receiving invoices which correctly identify work performed or goods received. In addition, the insistence of accurate information provides support documentation for analysis by auditors (AG) as required.

c) Timeliness

Expenses should be recorded in the period in which the goods or services are rendered. In order to apply this principle, an invoice must be received from a vendor within a reasonable amount of time, usually thirty days

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE POLICY



RECOMMENDED

THAT the **Irregular, Fruitless and Wasteful Expenditure Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version

Date February 2011

Document Name **Irregular, Fruitless and Wasteful Expenditure Policy and Procedures**

Reviewed By

_____ **Date:** _____
INTERNAL AUDITOR

Supported By

_____ **Date:** _____
CHIEF FINANCIAL OFFICER

Signature

_____ **Date:** _____
MUNICIPAL MANAGER

Adopted by the Mayoral Committee

_____ **Date:** _____
CHAIRPERSON

Approved by the Council

_____ **Date:** _____
RESOLUTION

Effective date

Next revision date

1.1 Introduction

Sedibeng District Municipality has developed its irregular, fruitless and wasteful expenditure policy to include activities at all departments at which municipality business is conducted. This in recognising its:

- community orientation; and
- the need for good governance.

The irregular, fruitless and wasteful expenditure policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused and not misused in any manner. It seeks to serve the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- A guideline for all stakeholders;
- An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework for Municipal officials and implement effective corporate governance in a manner prescribed in the Municipal Finance Management Act, 2003 and National Treasury Regulations.

1.2 Purpose

The purpose of the policy is to regulate irregular, fruitless and wasteful expenditure as defined by the following:

1.2.1 Irregular **expenditure**” in relation to a municipality or municipal entity, means-

- a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement stated the Municipal Finance Management Act, 2003, and which has not been condoned in terms of section 170 of the said Act;
- b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with a requirement of the Municipal Systems Act, and which has not been condoned in terms of said Act;
- c) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 [Act No. 20 of 1998];
- d) Expenditure incurred by a Municipality or Municipal Entity in contravention of, or that is not in accordance with, requirement of the supply chain management policy of the Municipality or Entity or any of the Municipality’s By-Laws giving effect to such policy, and which has not been condoned in terms of such policy or By-Law, but excludes expenditure by a municipality which falls within the definition of “ unauthorised expenditure”.

“ Fruitless and wasteful expenditure” means-

■ Expenditure that was made in vain and would have been avoided had reasonable care been exercised

1.2.2 **Unauthorised expenditure**” in relation to a municipality means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11[3], includes-

- a) Overspending of the total amount appropriated in the Municipality’s approved budget;
- b) Overspending of the total amount appropriated for vote in the approved budget;

- c) Expenditure from a vote unrelated to the to the department or functional area covered by the vote;
- d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- e) Spending of an allocation referred to in [b], [c] or [d] of the definition of allocation otherwise than in accordance with any conditions of the allocation;
- f) A grant by the Municipality otherwise than in accordance with the Municipal Finance Management Act, 2003

2 Legal Framework

2.1 Who is Liable for unauthorised irregular or fruitless and wasteful expenditure?

In terms of the Municipal Finance Management Act, 2003 Section 32 [1]-

- 2.1.1 *A political office-bearer of a Municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the Municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the Municipality to incur the expenditure;*
- 2.1.2 *The accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by that accounting officer;*
- 2.1.3 *Any political office-bearer or official of a Municipality who deliberately or negligently committed, made or authorised a fruitless and wasteful expenditure is liable for that expenditure.*

Section 32[2] of the aforesaid Act further stipulates that a Municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure-

- 2.2 *In the case of the unauthorised expenditure, is-*
 - 2.2.1 *Authorised in an adjustment budget; or*
 - 2.2.2 *Certified by the municipal council, after investigation by a Council Committee, as irrecoverable and written off by the Council; and*

- 2.2.3 *In the case of irregular or fruitless and wasteful expenditure, is after investigation by a Council Committee, certified by Council as irrecoverable and written off by the Council.*

If the accounting officer becomes aware that the Council, the mayor or the executive committee of the Municipality, as the case may be, has taken a decision which if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the Mayor or the executive committee in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure:- according to Section 32 [3] of the MFMA.

- 2.3 *As required by Section 32 [4] of MFMA, the accounting officer must promptly inform the Mayor, the MEC for Local Government in the Province and the Auditor-General, in writing, of-*
- 2.3.1 *Any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality*
- 2.3.2 *Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and*
- 2.3.3 *The steps that have been taken-*
- i. *To recover or rectify such expenditure; and*
 - ii. *To prevent a recurrence of such expenditure.*

The writing off in terms of subsection [2] of any unauthorised, irregular or fruitless and wasteful expenditure as unrecoverable is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offense or a breach of the MFMA, relating to such unauthorised, irregular or fruitless and wasteful expenditure.

<p>In terms of section 32 [6] the accounting officer of the Municipality must report to the SAPS all cases of alleged-</p>	<ul style="list-style-type: none"> ▪ Irregular expenditure that constitute a criminal offence ▪ Theft and fraud that occurred in the Municipality
<p>In terms of section 32 [7] the Council of the Municipality must take all reasonable steps to ensure that all cases referred to in subsection [6] are reported to the SAPS if-</p>	<ul style="list-style-type: none"> ▪ If the charge is against the accounting officer ▪ The accounting officer fails to comply with that subsection

3 The procedures the Municipality and/ or Municipal Entity should follow in relation to Unauthorised Expenditure

3.1 The Municipality and/or Municipal Entity must-

- 3.1.1 Investigate allegations of financial misconduct/transgression against the accounting officer, chief financial officer, a senior manager or any other official of the Municipality unless those allegations are frivolous, troublesome, are based on assumption or noticeably groundless/ unsupported; and
- 3.1.2 If the investigation warrants such a step, institute disciplinary proceedings against the accounting officer, chief financial officer or senior manager or any other official in accordance with the systems and procedures referred to in section 67 of the Municipal Systems Act [to be read with Schedule 2 of said Act] and in the case of a Municipal Entity [Schedule 3].

**In terms of National Treasury Regulations, the Accounting Officer-
Must exercise all reasonable care to prevent and detect unauthorised irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.**

3.2 Recovery of Fruitless, and wasteful expenditure

- 3.2.1 The accounting officer [or his/her delegate] must determine who the responsible party is from whom the amount should be recovered. This information would normally become evident while performing the investigation.
- 3.2.2 The accounting officer [or his/her delegate] must in writing request that the official repay the amount within 30 days or in reasonable installments. If the official fails to comply with such request, the matter may be handed to the state attorney or any relevant authority for the recovery of the debt
- 3.2.3 If the amount is not recoverable the accounting officer may write the debt off in terms of TR 11.4

Appendix Two:

Offences

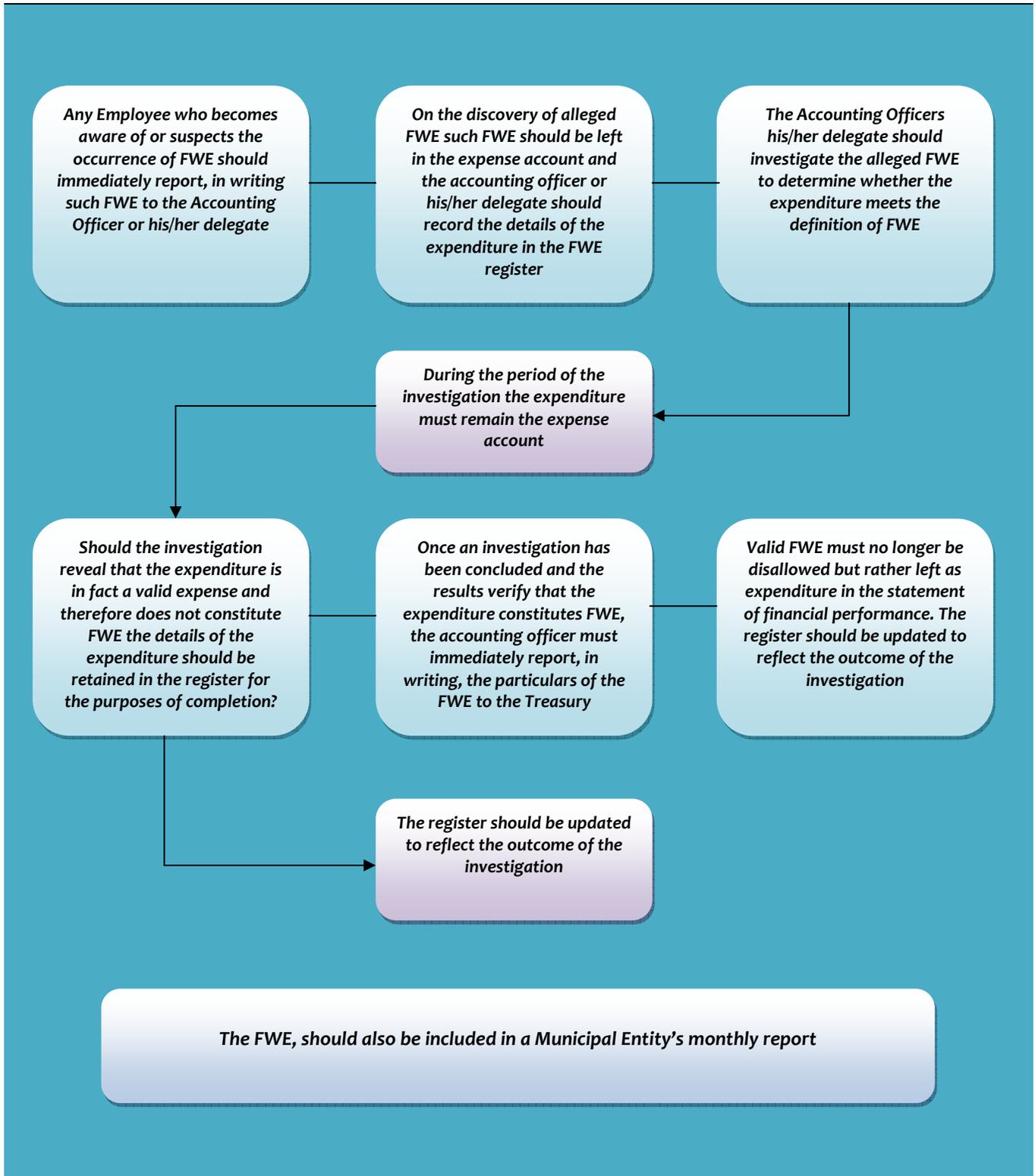
In terms of Section 173 [1] and [2] of the MFMA, the accounting officer of a Municipality and/or Municipal Entity is guilty of an offence if the accounting officer-

- *Deliberately or in a grossly negligent way:*
 - *Contravenes or fails to comply with a provision of section 61 [2]b, 62[1], 63[2]a or c, 64 [2] a or d, 65 [2]a, b, c, d, f and i. In the case of a Municipal Entity contravenes or fails to comply with the following provisions contained in section 94 [2] b, 95[1], 96[2], 97[a] or 99 [2]a, c, or e*
 - *Fails to take reasonable steps to implement the municipality's supply chain management policy*
 - *Fails to take reasonable steps to prevent irregular, fruitless and wasteful expenditure*
 - *Fails to take all reasonable steps to prevent corruptive practices-*
 - a) *In the management of the Municipality's assets or receipt of money;*
 - b) *Or in the implementation of the Municipality's supply chain management policy*
 - *Deliberately misleads or withholds information from the Auditor General on any bank accounts of the Municipality or on money received or spent by the Municipality ;or*
 - *Deliberately provides false or misleading information in any document which in terms of the MFMA must be*
 - *Submitted to the Auditor General, National Treasury or any organ of State; or*
 - *Made public*
-

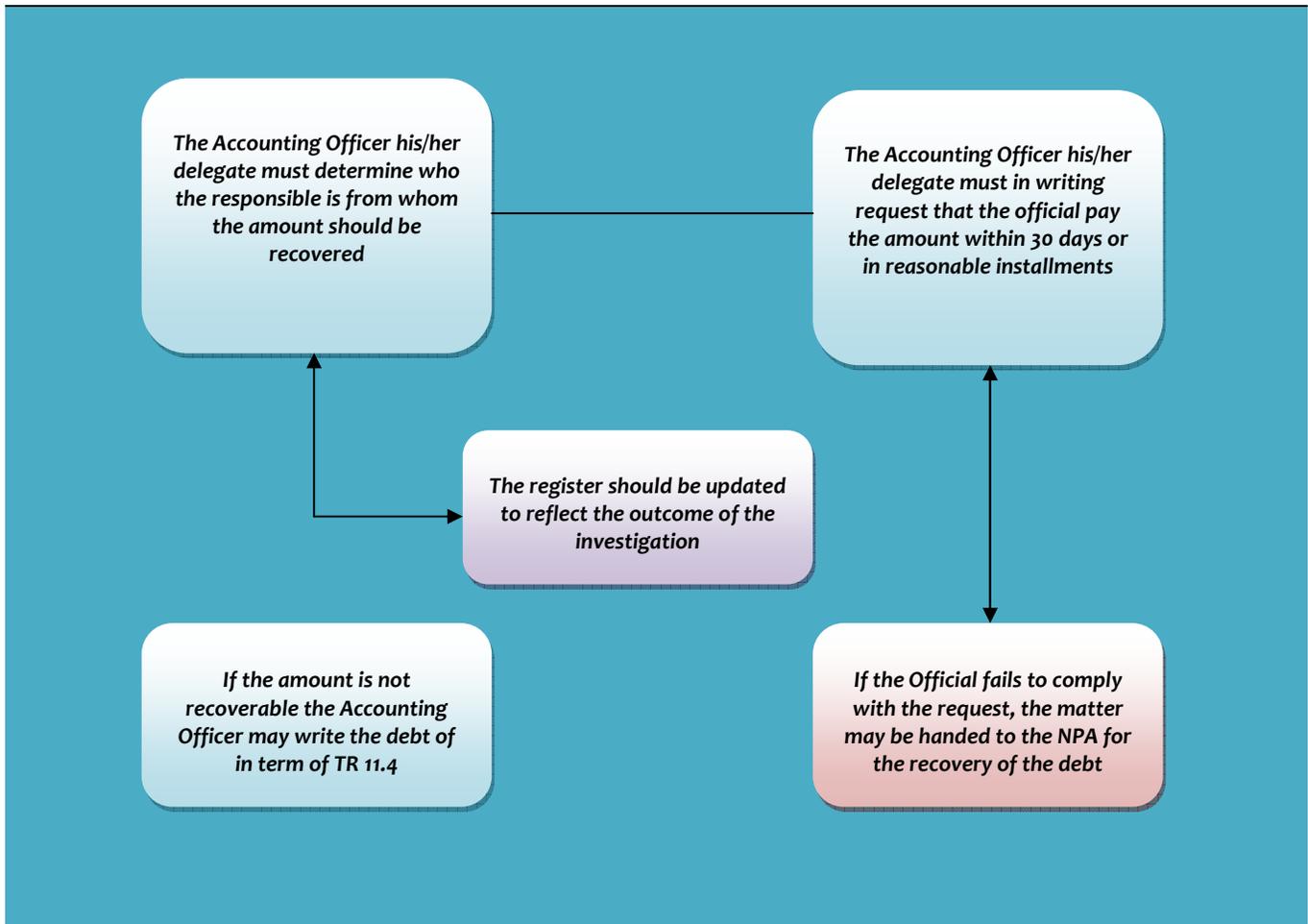
The process for the treatment of Fruitless and Wasteful Expenditure [FWE]



Discovery, investigation and reporting of fruitless and wasteful expenditure [FWE]



Recovery of FWE



Roles and Responsibilities

The Municipal Manager:

- Establish a FWE committee consisting of senior managers. The committee will be responsible for monitoring the occurrence of FWE and recommend remedial action
- Ensure that Councillors and staff are educated and aware of the implication of FWE
- Conduct FWE risk assessments and susceptibility assessments to identify and address high FWE risk areas
- Develop information systems to identify and detect FWE threats and to address internal and external FWE threats

- Facilitate presentations and working sessions relating to FWE risks to promote the ethics and integrity standards required by the municipality
- Advising the municipal council, political office bearers and management staff of the municipality on matters relating to good governance

Management:

- Share the municipality's policies and strategies in respect of FWE with all staff members
- Ensure that appropriate systems, processes and control measures are in place to prevent FWE
- Report incidences or suspicions of FWE
- Participate in initiatives to prevent, minimise, detect and investigate FWE

FUNDING AND RESERVES POLICY



RECOMMENDED

THAT the **Funding and Reserves Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version

Date February 2011

Document Name **Funding and Reserves Policy and Procedures**

Reviewed By

_____ **Date:** _____
INTERNAL AUDITOR

Supported By

_____ **Date:** _____
CHIEF FINANCIAL OFFICER

Signature

_____ **Date:** _____
MUNICIPAL MANAGER

**Adopted by
the Mayoral
Committee**

_____ **Date:** _____
CHAIRPERSON

**Approved by
the Council**

_____ **Date:** _____
RESOLUTION

Effective date

**Next revision
date**

1. Overview

Sedibeng District Municipality has developed its funding and reserves policy to include activities at all departments at which municipality business is conducted. This in recognising its:

- community orientation; and
- the need for good governance.

The funding and reserves policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimizing the temptation of misuse of municipality funds.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality related activities. It seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

- A guideline for all stakeholders both internal and external;
- An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework for Municipality's debt management and implement effective processes to sustain cash flow in a manner prescribed in the Municipal Finance Management Act, 2003 and National Treasury Regulations.

2. Purpose of Policy

- 2.1 To ensure the operating and capital budgets of council are appropriately funded
- 2.2 To ensure that provisions and reserves are maintained at the required levels to avoid future year unfunded liabilities

3. Objective

The funding of the operating and capital budgets is done on an annual basis for a three year horizon. The budget must be balanced both from an accounting perspective as well as a cash perspective

4. Operating Budget Policies

The Operating Budget provides funding to departments for medium term expenditure. The Operating Budget is developed with certain guiding principles, including the following:

- 4.1 A Balanced Budget is compiled on an annual basis.
- 4.2 Other income is charged in terms of the approved tariffs. The budget is compiled based on historic trends and adjusted for expected growth and or contraction in service levels.
- 4.3 Provision for revenue that will not be collected is made against the “Provision for bad debt” line item.
- 4.4 Interest from investment income is based on the actual long term investments that the municipality has, as well as the amount reasonably expected to be earned on cash amounts held during the year.
- 4.5 Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once off projects (and with no recurring operating expenditure resulting thereof).
- 4.6 It will be endeavored to limit tariff increases to the annual inflation rate or the bulk purchases increases from Council’s service providers. Any increases in

excess of the above will be to fund additional capital expenditure to address service delivery backlogs and to upscale maintenance activities

- 4.7 A budget implementation circular is issued on an annual basis to provide guidance on the utilisation of the various line items in the operating budget

5. Capital Budget Policies

- 5.1 An annual capital budget will be developed as part of the annual budget. Expenditure on capital will be in terms of the annual capital budget. Provision on the annual capital budget will be limited to available internal and external funds.

- 5.2 Allocations made to departments from the available internal funding, will be determined by a Budget Panel.

5.3 Allocation of Funds

Sedibeng District Municipality has huge service delivery backlogs, especially Infrastructure. Far more funds should be made available on an annual basis to eradicate then backlog. However, to provide services in an equitable and balanced manner throughout the community, certain other projects must also be implemented. Communities need the “softer services”, such as health facilities or sport and recreational facilities just as much as core infrastructure services.

This capital budget aims to stimulate job creation and economic growth by means of allocating funds towards the District development segment. Job creation will not only be addressed by the District development segment but also by all other segments in the execution of the capital budget. Certain projects will be executed in terms of the principles of the “Expanded Public Works Programme” to ensure maximum job creation.

Allocations made to departments from the available internal funding, will be determined by the Budget Steering Committee.

Multi-year allocations are made as follows;

DIRECTORATE-CAPITAL BUDGET

	<i>Directorate</i>	<i>Core Functions</i>	<i>Funding Mechanisms</i>
1	XXXX	XXXX	XXXX
2	XXXX	XXXX	XXXX
3	XXXX	XXXX	XXXX
4	XXXX	XXXX	XXXX

5.4 Multi-year budget and commitments

Departments are allowed to commit both the internal and confirmed external funds in accordance with the Multi-year budget

6. Funding Policies

6.1 Operating Budget

The Municipality categorises services rendered to the community according to its revenue generating capabilities:

Example:

1	<i>Trading services</i>	<i>Services that generate surpluses that can be used to fund other services rendered by the municipality</i>
2	<i>Economic services</i>	<i>Services that break-even, but do not generate any surpluses to fund other services rendered by the municipality</i>
4	<i>Other</i>	XXXXXXXXXXXXXX

The operating budget is thus funded from the following main sources of income:

1	<i>Equitable Share</i>
2	<i>Other Service Charges, fines and sundry income</i>
3	<i>Other Government Grants</i>

6.2 Capital Budget

The Capital budget is mainly funded from Government Grants [Contributions] & Subsidies, External Loans and Own Internal Funding

7. Reserves

As required by GRAP, only provisions are shown separately on the face of the Statement of Financial Position. All reserves are “ring-fenced” as internal reserves within the Accumulated Surplus, and are as follows:

7.1 Assets fair value reserve

7.2 Liquid Funds set aside in reserve, subject to affordability and retained to a maximum of 50% of surplus funds.

The Assets fair value reserve is not supported by cash but is only used for the phasing in of increased depreciation charges as a result of the full implementation of GRAP 17.

GRAP 17 (IAS 16) Property, Plant and Equipment [PPE]:

[Source: KPMG Services (Pty) Ltd 2008]

RECOGNITION AND INITIAL MEASUREMENT

Recognise when it is probable that:

- The future economic benefits or service potential associated with the asset will flow to the entity; and
- The cost or the fair value of the asset that can be reliably measured.

Measurement:

- Initially recorded at cost
- Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Cost Comprises:

- Purchase price plus import duties and non-refundable taxes, net of trade discounts and rebates;
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located
- May also include borrowing costs incurred on qualifying assets

MEASUREMENT SUBSEQUENT TO INITIAL RECOGNITION

Cost Model

The asset is carried at cost less accumulated depreciation and accumulated impairment

Depreciation

The depreciable amount (cost less residual value) should be allocated on a systematic basis over the assets useful life
The residual value, the useful life and the depreciation method of an asset should be reviewed at least at each financial year-end
Changes in residual value, depreciation method and useful life represent changes in estimates and are accounted for prospectively in accordance with GRAP 3 Accounting policies, changes in accounting estimates and errors
Depreciation is charged to surplus or deficit, unless it is included in the carrying amount of another asset
Depreciation begins when the asset is available for use

The Revaluation Model

The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation and subsequent impairment, provided that fair value can be measured reliably.

Revaluations should be carried out regularly (the carrying amount should not differ materially from its fair value at the reporting date)
If an item is revalued, the entire class of PPE to which that asset belongs should be revalued
Revalued assets are depreciated the same way as under the cost mode
An increase in value is credited to a revaluation surplus unless it represents the reversal of a revaluation decrease of the same asset previously recognised in surplus or deficit; in this case the increase in value is recognised in surplus or deficit

OTHER

Derecognition

Remove the asset from the statement of financial position on disposal/ when no future economic benefits or service potential are expected from its use or disposal
The gain or loss on derecognition is the difference between the net disposal proceeds, if any, and the carrying amount and should be recognised in surplus or deficit
When a revalued asset is disposed of, any revaluation surplus is transferred directly to accumulated surpluses or deficits. The transfer to retained earnings is not made through surplus or deficit.

Component Accounting

- Significant parts/components should be depreciated over their estimated useful life
- Costs of replacing parts should be capitalised and the existing parts being replaced should be derecognised

Heritage Assets

Choice to either:

- Recognise and therefore disclosure in terms of GRAP 17, not required to apply measurement criteria or
- Not recognise and show disclosure

DISCLOSURE

For each class of PPE disclose:

- Basis for measuring gross carrying amount;
- Depreciation method(s) used;
- Useful lives or depreciation rates;
- Gross carrying amount and accumulated depreciation and impairment losses;
- Reconciliation of the carrying amount at the beginning and the end of the period, showing:
 - Additions, disposals, acquisitions through business combinations, revaluation increases, impairment losses, reversals of impairment losses, depreciation, net foreign exchange difference on translation and other movements
- Additional disclosure requirements in respect of revalued assets