

NGQUSHWA LOCAL MUNICIPALITY



FINAL EXPENDITURE MANAGEMENT POLICY

2016/2017

POLICY NUMBER	
POLICY NAME	EXPENDITURE MANAGEMENT POLICY
POLICY STATUS	DRAFT
VERSION	1
DATE OF APPROVAL	MAY 2016
DATE OF FIRST IMPLEMENTATION	1 JULY 2016
DATE OF LAST AMMENDED	31 MAY 2015
DATE OF NEXT REVIEW	31 MARCH 2017
PURPOSE	REFER TO POLICY
AIM AND OBJECTIVE	Ensure that all monies due by the municipality is paid in full within the 30 days of receipt date of invoice or statement; whichever is the latest as prescribed by the Municipal Finance Management Act, 2003 (Act No.53 of 2003)
RELEVANT LEGISLATIONS	MUNICIPAL FINANCE MANAGEMENT ACT,2003 53 OF 2003 MUNICIPAL BUDGETING AND REGULATION REPORTING
APPROVING AUTHORITY	COUNCIL

TABLE OF CONTENTS

NO.	CONTENTS	PAGE NOS
1.	Abbreviation	4
2.	Definition	5
3.	Introduction	12
4.	Objective	13
5.	Expenditure Management	14
6.	Monitoring And Reporting	19
7.	Communication	19

ABBREVIATION

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" means 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;

"Allocation" means

a) A municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;

b) An allocation of money to the municipality in terms of section 214(1) (c) of the Constitution;

c) An allocation of money to the municipality in terms of a provincial budget; or

d) any other allocation of money to the municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget" means the annual budget approved by a municipal council; and includes such an Ngqushwa Municipality Expenditure Policy.

Annual budget as revised by an adjustment budget in terms of section 28 of the MFMA.

"Assets" means resources controlled by the Municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the Municipality.

„Asset control committee“ means a committee appointed by the Accounting Officer to act as a subcommittee for the Council committee whose responsibility it is to investigate matters reported in terms of section 32. The subcommittee must comprise of a representative from each of the following departments namely Legal services, Human Resources and Finance, additional to this standing committee members, the senior manager within who's vote the transaction occurs must appoint a representative for his/her department or division to represent the senior manager;

"Basic Municipal Service" means 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;

"Budget-related Policy" means a policy of the municipality affecting or affected by the annual budget of the municipality and includes all policies as prescribed in terms of the Municipal Budget and Reporting Regulations as published under GN 393 in GG 32141 dated 17 April 2009;

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

Capital items means 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" means a person designated in terms of section 80(2) (a) of the MFMA;

"Council" means the municipal council of Ngqushwa Local Municipality referred to in section 18 of the Municipal Structures Act;

"Councillor" means a member of council; Ngqushwa Municipality Expenditure Policy

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

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

"Delegation" means 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" means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;

"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA;

"Financial statements" means statements consisting of at least –

- a) Statement of financial position;
- b) Statement of financial performance;
- c) Cash-flow statement;
- d) Statement of Changes in Net Assets
- e) Any other statements that may be prescribed; and
- f) Any notes to these statements;

"Financial year" means 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;

"Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"Irregular expenditure" means –

- a) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA;
Ngqushwa Municipality Expenditure Policy

b) Expenditure incurred by the 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 that Act;

c) Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

d) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a 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 the municipality which falls within the definition of "unauthorised expenditure";

"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;

"Lender" means a person who provides debt finance to the municipality;

"Local community" means the meaning assigned to it in section 1 of the MSA;

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

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

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

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

"Municipal council" means the council of the municipality referred to in section 18 of the Municipal Structures Act; Ngqushwa Municipality Expenditure Policy

"Municipal debt instrument" means 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;

"Municipal entity" has the meaning assigned to it in section 1 of the MSA;

"Municipality" means the Ngqushwa Local Municipality;

"Municipal service" has the meaning assigned to it in section 1 of the MSA;

"Municipal tariff" means a tariff for services which the municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"Municipal tax" means property rates or other taxes, levies or duties that the municipality may impose;

"Tax" means Value Added Tax as per definition of VAT Act

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

"Official" means –

- An employee of the municipality or municipal entity;
- A person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- 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;

Ngqushwa Municipality Expenditure Policy

"Overspending" means -

(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" means the financial year preceding the current year;

"Quarter" means any of the following periods in a financial year -

- a) 1 July to 30 September refer to as the 1st quarter;
- b) 1 October to 31 December refer to as the 2nd quarter;
- c) 1 January to 31 March refer to as the 3rd quarter; or
- d) 1 April to 30 June refer to as the 4th quarter;

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

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

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

"Unauthorised expenditure" means any expenditure incurred by a municipality otherwise than in accordance with sections 15 or 11(3) of the MFMA, and includes - Ngqushwa Municipality Expenditure Policy

A) Overspending of the total amount appropriated in the municipalities approved budget;

b) Overspending of the total amount appropriated for a vote in the approved budget;

c) Expenditure from a vote unrelated 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 paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

f) A grant by the municipality otherwise than in accordance with the MFMA;

"Vote" means 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 and includes:

- Municipal Manager;
- Directorate: Corporate and Shared Services;
- Directorate: Budget and Treasury;
- Directorate: Engineering and Infrastructural Services;
- Directorate: Public Safety and Community Services;
- Directorate: Local Economic Development and Planning;

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 Ngqushwa Local 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 policy is to:

- a) Set out a framework for Ngqushwa Local Municipality to deal with:
 - ✓ All expenditure related transactions;
 - ✓ Unforeseen and unavoidable expenditure
 - ✓ Unauthorised, Irregular and Fruitless and wasteful expenditure;
 - ✓ To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes; and

- b) Ensure that all monies due by the municipality is paid in full within the 30 days of receipt date of invoice or 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 Ngqushwa Local Municipality.

5. EXPENDITURE MANAGEMENT

5.1 Categories of Expenditure

The expenditure of the Municipality falls into three broad categories:

- Salaries and wages costs associated with the employment of staff, e.g. wages, superannuation, payroll tax, etc.
- Expenditure on capital items, e.g. buildings, motor vehicles and portable and attractive items such as computers and camera equipment, and unmovable assets
- Expenditure relating to the day-to-day operations of the Municipality, e.g. electricity, telephone, stationery.

In determining when each category of expenditure will be recognized in the operating statement, the principles of expenditure recognition as identified in sections 5.2 and 5.3 above will be applied.

5.2 Accrued Expenditure

To ensure the accurate reflection of the activities of the reporting period in the Municipality's financial statements and internal management reports, the Municipality reports expenditure on an accrual basis.

The necessary expenditure accrual journals will be prepared and uploaded before the close of each reporting period to ensure that transactions are matched to the accounting period in which they are incurred.

In preparing the accrual expenditure journals, outstanding and unpaid invoices for goods and services that have been received will be taken into account.

5.3 Goods Receipt and Payment

Only goods or services that have been incurred in the name of the Municipality, for legitimate and lawful purposes will be authorized for payment. Prior to the payment of any invoice, it is a requirement that an authorized officer has signed the invoice, delivery note or purchase order to confirm that the goods and/or services have been received or provided to the Municipality as requested.

Only valid Invoices that will be recorded manually (Invoice register) and electronically (Pastel)

5.4 Recognition

Expenses are recognised in the statement of financial performance when a decrease in future economic benefits or service potential Related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably

In circumstances where the decrease in future economic benefits can be identified immediately, or soon after acquisition, the expenditure will be recorded in the statement of financial performance immediately. Examples of such expenditure would include the payment of salaries and wages costs, the purchase of portable

and attractive items and the payment of expenses relating to day-to-day operations. However, in circumstances where the decrease in future economic benefits is expected to occur over several accounting periods, the expenditure will be recognized on the basis of systematic and rational allocation procedures. Examples of such expenditure would include the depreciation of property, plant and equipment.

5.6 Withdrawals from the Bank Account

- 5.6.1 Any withdrawal from a bank account in the name of the Ngqushwa Local Municipality, may only occur in terms of section 11 of the MFMA;
- 5.6.2 All withdrawals must comply with the Cash & Investment Policy of the Ngqushwa Local Municipality and shall be signed or authorised by not fewer than two people as authorised by the Accounting Officer.
- 5.6.3 The delegated authority to sign cheques or authorise electronic payments shall be in writing and kept on record, and be reviewed regularly by the Accounting Officer. Copies of such letters of authority will be kept by the expenditure department.

5.7 Creditors

- 5.7.1 All money owed by the Municipality must be paid within thirty (30) days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
- 5.7.2 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.
- 5.7.3 All requests for payment, properly certified and accompanied by the relevant invoices and supporting documentation (Requisition, Quotations, Purchase Order, and Certification of goods or services received in good order) must reach the Creditors' Department at least 5 days (120 hours) before payments are due.
- 5.7.4 Senior Managers shall advise the CFO of the names of officials empowered to sign requisitions and / orders together with their specimen signatures.
- 5.7.5 Invoices or statements submitted for payment to the Manager of Expenditure by any department shall be in such form as may be required by the CFO and must state the reference to the relevant vote to meet such payment.
- 5.7.6 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 exists;
- d) If excess expenditure is involved, a virement should be approved authorising the excess expenditure and shall be attached to the voucher;
- e) Authority for the payment exists, in which case the authority shall be indicated on the voucher; and
- f) Fruitless and wasteful expenditure has not been incurred.

5.8 Payments

Before payment is processed the Creditors Department 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 exists.

The Expenditure unit will have in place processes to ensure that all invoices are paid when due and within thirty days from receipt of the invoice.

All payments due by the Municipality shall be made by cheque or approved electronic payment method drawn from the banking account of the Municipality.

Banking Details

Any changes to creditors' 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.

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.

5.9 Petty Cash Purchases

The following procedures must be followed in respect of petty cash payments:

- A register of numbered vouchers must be kept by the Expenditure Clerk;
- A proper voucher with full details of expenditure must be submitted;
- The voucher must be signed by the person requesting Petty Cash and the person issuing the Money. The request to be approved by Expenditure Manager
- All vouchers must be signed by a duly authorised official for the relevant department;
- A proper register as determined by the Manager of Expenditure must be maintained; and
- Supplement to the petty cash advance must be done on a regular basis;
- The following documentation must be submitted with supplement to the advance:

5.9.1..1 All signed schedules and vouchers supported by the relevant invoices and vote allocations;

5.9.1..2 A proper reconciliation to match the supplementary amount.

- The register must be balance and be reconciled on a bi-weekly basis. The reconciliation must be signed by the employee compiling it, whilst the Manager for Expenditure must review and sign it off as correct.

5.10 Salaries, Wages and Allowances

5.10.1 The CFO shall be responsible for the calculation and payment of salaries, wages and allowances.

5.10.2 Payment shall be made in accordance with pay sheets approved by the Manager for Expenditure to a nominated bank account of the municipal employee or councillor.

5.10.3 Corporate Services is responsible to notify the Chief Financial Officer and Manager for Expenditure of all appointments, promotions, dismissals, resignations, transfers, absences for any reasons, and all matters affecting the emoluments of employees of the municipality.

5.10.4 The submission of such information to the Manager for Expenditure shall be in such form and at such dates and times as the CFO may determine from time to time.

5.10.5 Corporate Services shall be responsible for the maintenance of all records essential for the accurate determination of emoluments and leave due to employees of the municipality.

5.11 Grant Expenditure

5.11.1A proper cash flow in respect of Grant expenditure as well as Grant income related to the Grant Funded project must be drawn up by the relevant director and included in the budget.

5.11.2 No payments will be allowed in respect of projects to be financed from external grants unless grant funding have been received.

5.11.3 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.

5.12 Capital Expenditure

5.12.1 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 Ngqushwa Local Municipality.

5.13 Interest

5.13.1 No interest will be payable by the Municipality on any late payments unless due to negligence on behalf of an official of the Municipality.

5.13.2 In the case that the interest charge is due to the negligence of an official the expenditure is classified as fruitless and wasteful expenditure.

5.14 DELEGATION OF FUNCTIONS AND POWERS

The accounting officer may, in terms of section 79 of the Act, delegate his or her functions and powers in terms of this policy to the Chief Financial Officer.

6 COMPLIANCE, MONITORING, AND REPORTING

The Chief Financial Officer is responsible for managing the implementation of this policy and for ensuring that its provisions are adhered to and applied consistently across the Municipality.

Compliance and monitoring will be assessed through monthly

A report detailing the progress with the implementation of Expenditure Policy with specific reference to achievement of this policy has to be compiled every year by the person with the responsibility for implementation and monitoring. The policy must be made available to all consulting parties for perusal and comment and must be circulated to all staff members by means of circulars, notices and notice boards.

7 COMMUNICATION

Circulars, messages and notices on notice boards will be utilized in order to inform all employees of the availability of the policy. Copies of the policy will also be distributed to the parties that took part in the consultation process

8 REVIEWAL OF THE POLICY

It will be the responsibility of the Corporate Services Department to consider the provisions of this policy on annual basis. The Corporate Services Department shall request all Departments to submit their proposed changes for submission to Council for approval.

9 ADOPTION AND APPROVAL OF THE POLICY BY COUNCIL

This policy is adopted and approved by the full Ngqushwa Local Municipality Council for implementation.