

INTSIKA YETHU LOCAL MUNICIPALITY



EXPENDITURE MANAGEMENT POLICY

2022-2023

1. PREAMBLE

The Municipality must at all times manage its cash and other assets in compliance with the provisions of any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 especially the requirement of safeguarding the assets of the Municipality.

2. STATUTORY FRAMEWORK

The Municipal Manager must for the purpose of giving account of the discharge of her/his responsibilities in respect of expenditure management take all reasonable steps to ensure -

- a) that the Municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;
- b) that the Municipality has and maintains a management, accounting and information system which recognizes expenditure when it is incurred, and which accounts for creditors of and payments made by the municipality;
- c) that the Municipality has and maintains a system of internal control in respect of creditors and payments;
- d) that payments by the Municipality are made directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a limit prescribed by the Minister of Finance in terms of a regulation;
- e) that all money owing by the Municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise by the Minister of Finance in terms of a regulation for certain categories of expenditure;
- f) that the Municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
- g) that any dispute concerning payments due by the Municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
- h) that the Municipality's available working capital is managed effectively and economically in terms of the cash management and investment framework prescribed by the Minister of Finance;
- i) that the Accounting Officer take all reasonable steps according to the MFMA Act No. 56 of 2003 sec5(2) to ensure expenditure management
- j) that all financial accounts of the Municipality are closed at the end of each month and reconciled

with its records.

3. EXPENDITURE MANAGEMENT

3.1 OBJECTIVES

- ❖ To promote accountability and compliance with Municipal Finance Management Act 56 of 2006 on payments made by the municipality.

4. POLICY PRINCIPLES

4.1 PAYMENTS TO CREDITORS

- ❖ The Chief Financial Officer must ensure that all contracts awarded by the Municipality stipulate payment terms that are favourable to the Municipality. Payments of creditors will be done by the 15th and the end of each months on receipt of a valid invoice. The municipality will strive to ensure that all payments to creditors are made within 30 days of receiving the invoice.
- ❖ The Accounting Officer has the powers to delay payments beyond 30 days on negotiations with the creditors should the municipality be unable to pay due to any challenges that may be faced by the municipality.
- ❖ All payments vouchers must be sequentially filled and stored in a secured room.
- ❖ Payments must only be made on the days and/or dates indicated on the payment schedule approved by the Chief Financial Officer unless prior approval to effect payments on the different date is obtained from the Accounting Officer.
- ❖ No payments shall be effected prior the approval of the payment vouchers by the Chief Financial Officer.
- ❖ Supplier invoices processed for payment shall be certified to represent goods received, services rendered or work executed in a manner and to a standard acceptable to the relevant departmental head and, where applicable, the relevant contract manager or according to contract.
- ❖ Supplier invoices shall be submitted to the Budget and Treasury Office. Any invoice submitted to another department shall be forwarded forthwith to the Budget and Treasury Office.
- ❖ Change of banking details shall be made by the supplier on CSD, the municipality will only change the banking details on its financial system once the supplier has changed them on CSD.
- ❖ The Chief Financial Officer shall not ordinarily process payments for invoices received, more than once during each calendar month, such processing to take place on or about the end of the month concerned. Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who

shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

- ❖ All payments shall be made through the Municipality's bank account(s). The payments on the system shall be authorized by the CFO, and/or one of the senior managers in the BTO department registered as the user in the Municipal Bank account.
- ❖ No payment for the provision of a service, the supply of goods or the execution of work shall be processed unless an original supplier invoice containing a reference to the relevant purchase order and such other relevant information as the Chief Financial Officer may determine, has been received.

4.2 Procedures for segregation of duties

General Principles

- A payment normally represents the final administrative task in finalizing a transaction/contract.
- Payments are effected to creditors according to the credit terms specified in the relevant contract, or such other contractual obligations, business relationships or statutory obligations as may be applicable.
- Accounting officer appoints the Chief financial officer to be designated signatories.
- The creditor's clerk will capture the payment voucher for any invoice approved for payments.
- The creditor's clerk will import the encrypted payment file from the financial management system to banking business online for electronic payments.
- The expenditure manager will verify the payment voucher and invoice presented for payment for correctness of the account number.
- The Manager Revenue will approve the payment and do the first part release.
- The Chief Financial Officer upon satisfying him/herself of payment voucher will the release the payment as the final releaser of the payment.

5. MONTHLY RECONCILIATIONS

- ❖ The following monthly reconciliations must be prepared on monthly basis and signed by the preparer and the Manager Expenditure.

5.1 Creditors Reconciliations

- ❖ Monthly creditors reconciliations with the relevant supporting documentations must be prepared on a monthly basis and signed by the Manager Expenditure as evidence of review.

5.2 Vat Reconciliations

- ❖ Monthly vat reconciliations with the supporting documentations indicating the vat due or refundable to the South African Revenue Services (SARS) must be

prepared and provided to the Manager Expenditure for review and signature.

- ❖ All the invoices supporting the vat input and output on the vat reconciliations must be kept and readily available for submission to SARS and/or auditors on request.

5.3 Salaries Reconciliations

- ❖ Reconciliations of the monthly salaries related transactions between the General Ledger and the VIP system must be prepared on monthly basis and provided to the Chief Financial Officer for review.

5.3 Payments reconciliations

- ❖ Expenditure section must on each day following the date payments were made reconcile the cashbook and the bank specifically on the expenditure payments made and clear all the discrepancies identified by passing the relevant journal entries were required.
- ❖ The payments to creditors reflected on the bank statements must be recorded on the cashbook before the end of each monthly and properly reconciled.

6. Procedure for writing-off of long outstanding reconciling items

- ❖ Unreconciled expenditure related transactions on the cashbook and the bank statements older than two (2) months must be thoroughly investigated and report of such investigation must be reviewed and signed off by the Chief Financial Officer as evidence of review.
The Chief Financial Officer must recommend to the Accounting Officer for write off of the reconciling items investigated with the proposed accounting entries for such write off.
- ❖ On approval of the write off by the Accounting Officer the relevant accounting entries must be processed by the Chief Financial Officer on the General Ledger and clear the transactions from the bank reconciliation.
- ❖ The detailed supporting documentations of the write off should be safeguarded for future reference.

6.1.1 RETENTION

- ❖ Budget section must maintain a retention register and record retention on each payment made to the projects that attract retention. Monthly reconciliation of the retention register and the General Ledger must be prepared and signed off by the Asset & Budget Manager as evidence of review.

7. THIRD PARTY PAYMENTS

- ❖ Third party payments are done at month end and by the 7th of the following month.

8. PETTY CASH MANAGEMENT

8.1 OBJECTIVES

- ❖ To provide for keeping of limited cash resources in the form of Petty Cash in order to fulfill incidental and spontaneous transactions that is undertaken by the municipality in the normal course of the operations.

8.2 POLICY PRINCIPLES

- ❖ The petty cash of the municipality must be kept at the minimum level required to finance the day to day operation of the municipality. For this purpose a daily, monthly and annual cash flow forecast are required.
- ❖ A maximum threshold of R15 000, or any other amount as the council may from time to time determine, must be applicable to be the maximum cash to be held in relation to minor disbursements by the council.
- ❖ **Disbursements from the petty cash must not exceed R2000, or any other amount that the council may determine from time to time.**

8.3 REPLENISHMENT OF PETTY CASH

- ❖ Petty cash replenishment must be considered once a month, unless directed otherwise by the **Chief Financial Officer** or his / her delegate anytime sooner before the end of the month.
- ❖ A comprehensive Petty Cash Reconciliation must be prepared and appropriately balanced before it is presented to the Chief Financial Officer for approval and in order to authorise replenishment of Petty Cash.
- ❖ A cash cheque equivalent to the amount authorized by the **Chief Financial Officer** or his Delegate to replenish petty cash must be drawn and cashed by the Petty Cash Custodian in order to have cash on equivalent to R15000 in the municipality

8.4 USING THE PETTY CASH (EXPENDITURE)

- ❖ All expenditures that are to be reimbursed with petty cash funds are to be preapproved by the fund custodian. A receipt to verify the purchase and payment must support expenditures from the fund. It is responsibility of the fund custodian to determine if the transaction meets the requirements as set forth in this policy.

- ❖ At the time the Expenditure is made, invoices/ receipts/ vouchers (in the name of the Municipality) or other document, such as a cash register receipt containing the following, must be obtained:
 - ❖ Date
 - ❖ Name of vendor
 - ❖ Positive evidence that a payment was made (i.e., a cash register receipt or handwritten receipt on which the word “Paid” appears)
 - ❖ The amount paid
 - ❖ A description of the goods purchased
 - ❖ A signature indicating receipt of goods
 - ❖ The fund custodian’s signature documenting approval of expenditure.
 - ❖ An explanation of the purchase justifying the relevance of each purchased item
 - ❖ The purchase must be supported with cash register receipt. A hand written receipt will be acceptable in circumstances when a cash register receipt is not available. The vendor must sign the receipt, and the vendor’s telephone number must be provided on the receipt. In all cases, adequate documentation justifying the purchase is required.
- ❖ All petty cash vouchers/ receipts must be attached on a requisition form and must be added and the forms must be signed as verification.

8.5 INTERNAL CONTROLS OVER PETTY CASH

- ❖ The Chief Financial Officer (CFO) must be responsible for the maintenance of petty cash for the municipality. The Chief Financial Officer may delegate the duties of maintenance of petty cash to the **Senior Clerk Creditors** or any other authorized municipal official who should be independent of other functions in the Municipality.
- ❖ Petty Cash must be kept in a lockable box. The access of the office where petty cash is restricted only to authorized personnel and access to the keys must be strictly controlled by the Chief Financial Officer or his/her delegate. The petty cash box should be locked in a safe after office hours.
- ❖ A “surprise” petty cash count must be conducted at least once a month by an official designated by the Chief Financial Officer. A “formal” petty cash count must be conducted at year end and the account must be balanced and reconciled to the General Ledger Account accordingly.
- ❖ Petty Cash will only be issued upon receipt by the **Senior Clerk Creditors** designated for petty cash of properly authorizes petty cash voucher with supporting documents.
- ❖ Petty Cash reconciliation to the general Ledger should be performed on monthly basis and reviewed by the Chief Financial Officer, who should sign or initial the reconciliation as proof of having reviewed it.

8.6 REPORTING

- ❖ A monthly Petty Cash reconciliation report must be provided within 7 working days after month end to the Chief Financial Officer including:
 - i) The total amount of petty cash purchases for that month and
 - ii) Receipts and appropriate documents for each purchase.
 - iii) Copy of the cheque supporting the replenishments done during the months.

9. SALARIES ADMINISTRATION EMPLOYEES AND COUNCILORS

Salary section receive inputs on a monthly basis, over time submission closes on the 10th of each month and travel claims submission on the 15th of each month.

Source documents used

- ❖ All this information must reach salary section before or on the 15th of the month.
- ❖ After capturing the information on Payroll system, then the Payroll system is closed to stop further entries on the system.
- ❖ Variance Report is printed to check variances.
- ❖ Company Recon is printed and checked
- ❖ The variance report and company recon are signed to certify the correctness of payroll by Salaries Clerk, Manager Expenditure.
- ❖ Then the salary information is exported to Banking system for payment to employees
- ❖ Payslips are distributed to Corporate Services Department
- ❖ Salary is paid on the 25th of the Month

10. PROJECT WORKERS

- ❖ **Time sheets** are completed by supervisors of project workers and submitted to Creditors Office
- ❖ Creditors section re-calculate the amount to be paid to each project worker (multiply the number of days by the rate per day) in order to verify the submission by the user department
- ❖ **Then the salary information is exported to Banking system for payment to project workers**
- ❖ Payments done on the last day of the month

11. WARD COMMITTEES

- ❖ Corporate Services prepare submission with the list of wardcommittees
- ❖ Ward Committees payments is done on the end of every month

12. IMPLEMENTATION AND REVIEW OF POLICY

- ❖ This policy shall be implemented from the date of approval by Council and shall be reviewed on annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.