O.R. TAMBO
DISTRICT MUNICIPALITY

EXPENDITURE MANAGEMENT POLICY

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1. PREAMBLE/INTRODUCTION

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

Section 11 of the Municipal Finance Management Act, (Act 56 of 2003) specifically provides the legislative framework for any withdrawals from any bank account in the name of the municipality.

The budget plays a critical role in an attempt to realise the diverse community needs. Central to this, the formulation of this expenditure policy must ensure that the objectives of the MFMA as set out in section 2, is incorporated in the day to day administration of the municipality. This policy must be read, interpreted, implemented and understood against this legislative background.

2. ACRONYMS AND ABBREVIATIONS

BCEA – Basic Conditions Of Employment Act

BOQ – Bill Of Quantities

CFO – Chief Financial Officer

CM – Council Minute

COGTA – Corporative Government And Traditional Affairs

CSD – Central Supplier Database

EFT – Electronic Funds Transfer

GRN – Good Received Note

IDP – Integrated Development Plan

MBRR – Municipal Budget Reporting Regulations

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

MOS – Material On Site

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

MSTA – Municipal Structures Act

MTREF – Medium Term Revenue And Expenditure Framework

PAYE – Pay As You Earn

PO – Purchase Order

SALGA – South African Local Government Association

SALGBC – South African Local Government Bargaining Council

SARS – South African Revenue Services

SCM – Supply Chain Management

SDBIP - Service delivery and budget implementation plan

SDL – Skills Development Levy

SES – Service Entry Sheet

UIF – Unemployment Insurance Fund

VAT – Value Added Tax

3. DEFINITION OF TERMS

"Accounting Officer" a person appointed in terms of section 82(I) (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;

“**Accounts Payable ‘‘Money owed by the municipality to its suppliers (trade creditors) for goods and service purchased on credit;**

"Approved budget” the annual budget approved by a municipal council;

and includes such an annual budget as revised by an adjustments budget in

terms of section 28 of the MFMA;

‘‘Basic Municipal Service" a municipal service that is necessary to ensure

an acceptable and reasonable quality of life and which, if not provided, would

endanger public health or safety or the environment;

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

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

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

“**Construction contract**” a contract specifically tendered / negotiated for the construction of an asset or the maintenance of assets that necessarily take a substantial period of time to complete and may stretch over or more than one financial year;

‘‘Council’’ the municipal council of the **O.R. Tambo District Municipality** and it referred to in section 18 of the Municipal Structures Act;

‘‘Councillor” a member of council;

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

‘‘ Credit note” document provided by supplier stating that a certain amount has been credited to the municipality’s account due to supplies return or overpayment

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

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

“Disbursement transaction” payment of invoices received for goods & services;

“Electronic funds transfer” electronic movement of funds from municipality’s main account to the different suppliers bank accounts in the same or different banks through the use of wire transfer, automatic machine or computer but without the use of paper documents;

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

“**Goods received note” confirmation document that shows that the ordered goods / services were received. It is used along with a purchase order to authorize invoice payment;**

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

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

"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;

“Invoice” a non-negotiable commercial instrument issued by a supplier to the municipality identifying both trading parties, lists / describes and quantifies the items / services provided and shows the date of supply together with prices, discounts (if any), delivery and payment terms which relates to VAT non vendor service provider.

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

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

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

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

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

"Municipality" The O. R. Tambo District Municipality**;**

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

"Official" –

(a) An employee of the municipality;

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

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

"Overspending" -

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

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

“**Payment”** partial or complete discharge of an obligation by its settlement in the form of the transfer of funds on an approved outstanding invoice;

“Payday” Payroll system owned by Payday software systems

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

“Purchase order” municipality’s official authority to deliver goods and or services at a specific price, place, time and terms;

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

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

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

“Standard payment terms” an official purchase order: payment of invoices will be made within 30 days of receiving the relevant invoice or statement;

“Statement” summary of all transactions debits or credits with a supplier that occurred during the previous month and their effect on an account balance. It is also called a statement of account;

“Sundry invoices” invoices which relate to ad-hoc and or once off payment that does not have purchase order;

“**Tax invoice”** elements of what depicts a valid tax invoice. Refer to SARS vat 404 (Guide for vendor)

‘Solar” mSCOA financial system owned by BCX as a vendor.

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

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

4. LEGAL/STATUTORY FRAMEWORK

I. Municipal Finance Management Act (Act no 56 of 2003)
II. Preferential Procurement Policy Framework Act (Act 5 of 2000)
III. Preferential Procurement Regulations, 2001
IV. Local Government Municipal Systems Act (Act no. 32 of 2000)
V. Integrated Development Plan
VI. Basic Conditions of Employment Act
VII. Income Tax Act
VIII. VAT Act
IX. UIF Act

5. PURPOSE AND OBJECTIVES OF THE POLICY

The objective of the Expenditure policy is to:

1. Set out a framework for the municipality to deal with:
    I. All expenditure related transactions;
    II. To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes
2. Ensure the municipality's compliance with Section 65 (2) (e) of MFMA which requires that the Accounting Officer must take reasonable steps to ensure: -
    I. That all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.
    II. Further, to comply with all applicable provisions of MFMA including any National Treasury Circulars / Guidelines specifically adopted by the Council in terms of MFMA.
3. Ensure that the principles applied, as a result of this policy, will enhance and support a healthy working capital position for the municipality.

6. SCOPE/APPLICATION OF THE POLICY

This policy is applicable to:-

1. All official payments made by the Municipality to suppliers, employees and councillors of the Municipality or other duly authorized payment.
2. Exceptions to this policy may be considered on receipt of fully motivated applications in this regard for consideration by the delegated authority.

6.1 GUIDING PRINCIPLES

1. This policy takes into account the following principles and guidelines:
   I. Human dignity must be upheld at all times;
   II. this policy must be implemented in accordance with equity, fairness and consistency;
   III. the implementation of this policy is based on sound business practices and any other applicable legislation, including but not limited to the Electronic Communications and Transactions Act No. 25 of 2002;
   IV. Payment of creditors to be paid within 30 days as required by legislation.
   V. Payment of expenditure in compliance with SCM regulations
   VI. Payment of salaries only to employees and councillors of ORTDM.

6.2 LINKS TO OTHER POLICIES

1. Supply Chain Management Policy
2. Human Resources Policy
3. Cost Containment Policy

6.3 WHO USES THE POLICY

1. Councilors;
2. Management and Staff;
3. Communities;

6.4 WHO SHOULD BE CONSULTED UPFRONT IN RESPECT OF POLICY CHANGES

I. Council as a policy formulator;
II. Management as implementers of the policy;
III. Communities if the policy directly affects them; or

IV. Any relevant stakeholders;

6.5 IMPLICATIONS OF THE POLICY

I. INTENDED CONSEQUENCES;
II. UNINTENDED CONSEQUENCES;

6.6 WHO DRIVES THE POLICY

I. The principal role player is the department of Budget and Treasury Office. The Expenditure section will be responsible for implementing this policy and administering its implementation and evaluation.
II. Line Departments have the onus to ensure that all contractual obligations and relevant documents are in place in support of approval payments.
III. Below is an outline of the affected role-players and stakeholders amongst others:-

6.6.1 Council Committees
6.6.2 Executive Mayor's office
6.6.3 All other Directorates
6.6.4 Sector Government departments
6.6.5 SARS
6.6.6 Service Providers of the municipality
6.6.7 Third Party Payments

7. POLICY PROVISIONS/STATEMENTS

7.1 SUNDRY PAYMENTS

1. Sundry payments are allowed on operating creditors (amongst others Eskom, DWS, KSD LM etc) where orders will not be required for processing of payments.
2. Sundry Payments are allowable exceptions to the Formal Procurement Procedures as stipulated in the Supply Chain Management Policy under Deviations
3. Sundry Payments relate to specific disbursements which may included-hoc payments relating to refund third party claims etc.

4. Should the supplier be Vat registered then the invoices must be SARS Compliant
5. Sundry Payment requests submitted for payment must be accompanied bya duly completed and authorized original payment request form.
6. Delegated authority / Line department must ensure that the payment approval form validating the payment and is accompanied by all applicable documentation.
7. Refunds to be pre-approved by HOD, must have sufficient budget and must not exceed threshold of R2 000.

Line department remain the accountable and responsible custodians of all documentation submitted to Accounts Payable. They must ensure that all

additional relevant supporting documents are available on request for oversight and audit purposes, therefore, indemnifying Accounts Payable of the Validity of the submitted documentation.

7.2 PROCESS OF PAYMENTS

1. The Payment processing section is responsible for the payment of approved disbursements.
2. All payments will be done via EFT.
3. Remittance are automatically distributed in-line with the supplier'scorrespondence preference.
4. Frequency of payments will be effected as follows;-
    I. Goods and services - Fortnight
5. Payments will only be processed when accompanied by documents namely:
    I. Valid Tax Invoice
    II. Bank Confirmation
    III. CSD/Tax Clearance Certificate
    IV. Approved purchase order
    V. Appointment letter
    VI. Signed requisition and request form
    VII. Proof of Occurrence.
    VIII. GRN

IX. BOQ
X. Signed reports on projects for construction and professional fees.
XI. SLA for project professional fees
XII. MOS schedule and delivery note.
XIII. All payments below R200 000 will be approved and recommended by HOD and CFO.
XIV. All payments above R200 000 will be approved and recommended by HOD, CFO and MM

7.3 PAYMENT TERMS FOR GOODS AND SERVICE (In line with SCM Policy)

1. Payments of invoices will be made within 30 days of receiving the relevant invoice or statement, unless otherwise prescribe for certain categories of expenditure or specific contracts requirements in accordance with any other applicable policy or agreement of the Municipality.
2. Notwithstanding anything contained above, the Municipality shall not be liable for payment of any invoice that pre-dates the date of the delivery of any goods or services, or the date of certification for construction works.
3. Should the processing of a payment be delayed due to the late submission of documentation, any penalties will be deemed as fruitless expenditure and will be imposed to the line department responsible.

7.4 RECONCILIATION OF SUPPLIERS STATEMENTS

The reconciliation of supplier's monthly statements, when received, will be performed on an ongoing basis.

7.5 YEAR END PROCESS

Year-end Processes are guided by the Annual Directives issued by the office of the Chief Financial Officer.

7.6 ADVANCE PAYMENTS

This policy allows for advance payments in respect of goods and service procured which may amongst others include training, conference, subscriptions and licence fees.

7.7 INTEREST ON LATE PAYMENTS

Interest incurred will be classified as a fruitless and wasteful expenditure.

7.8 EXPENDITURE MANAGEMENT

1. WITHDRAWALS FROM A BANK ACCOUNT

I. Any withdrawal from a bank account; in the name of the municipality, may only occur in terms of section 11 of the MFMA.

II. All withdrawals must comply with the Cash & Investment Policy of the municipality and shall be signed or authorised by not fewer than two people as authorised by the Accounting Officer.

III. 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.

2. COMMITMENTS

I. A commitment by an official of the municipality may only be undertaken on behalf of a third party when the full costs are recovered in advance before commencement of the work, either specially or generally.

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

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

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

V. No official of the municipality shall commit the Municipality to any authorised expenditure unless the necessary Supply Chain Management processes have been followed which include the completion of an official requisition or order.

VI. The CFO shall determine the information to be supplied on such requisition or order.

7.9 SALARIES, WAGES AND ALLOWANCES

1. The Payroll section shall be responsible for the calculation and payment management of salaries, wages and allowances.
2. The Director: Corporate Services is responsible to notify the CFO of all appointments, promotions, dismissals, resignations, transfers, absences for

any reasons, and all matters affecting the emoluments of employees of the municipality on or before the 10th of every month.

3. The submission of such information to the CFO shall be in such form and at such dates and times as the CFO may determine from time to time.
4. The Director: 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. All salary related payments must be made through payroll system including.
    I. Allowances of members of committees (Audit, ICT, Disciplinary Board, Risk committees etc.)
    II. All employee disbursements (cell phone etc.)

7.10 BANKING DETAILS

1. Any changes to creditors' banking details will only be allowed when the following procedures have been met:
    I. 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.
    II. 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.
    III. Only original documentation information as set out above will be accepted for any changes to banking details.
2. Refunds in respect of other deposit accounts, excluding consumer deposits, will only be refunded to the bank account originally certified by the beneficiary at the time of payment.

7.11 GRANT EXPENDITURE

1. A proper cash flow projection in respect of Grant expenditure as well as Grant income related to the Grant Funding project must be drawn up by the relevant director and included in the budget.
2. No payments will be allowed in respect of projects to be financed from external grants unless grant funding have been received.

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.
4. The relevant directorate must obtain approval for bridging finance, as referred to in subparagraph 3.

7.12 CAPITAL EXPENDITURE

1 No capital expenditure shall be incurred or committed to any project unless:-

I. Duly appropriated in an approved capital budget or adjustments budget; and

2 All necessary legislative requirements have been met asset out in the MFMA section 19, Budget and Reporting Regulations sections 11 and 13 and the Supply Chain Management Policy of the municipality

7.13 ACCOUNTING PRINCIPLES

1. The CFO shall determine the format, standards and systems applicable to the accounting procedures on expenditure. In doing so cognisance must be taken of the General Recognised Accounting Practices (GRAP) guidelines issued by the Accounting Standards Board (ASB).
2. The CFO shall ensure that proper accounting records and registers are opened and maintained in compliance with subsection 5.9.1.

7.14 COST CONTAINMENT REGULATIONS

1. Expenditure must be incurred in compliance with cost containment regulations of 2019 and Cost Containment policy.

7.15 RECOVERY OF LOSSES

1. 11.9.1 Any loss suffered by the Municipality due to any fraudulent or corrupt act or an act of bribery or negligence shall be dealt with and immediately be reported to the Accounting Officer, Executive Mayor,

South African Police Service, Council, Auditor-General, in terms of section 32 (b) of the MFMA

2. 11.9.2 Circumstances of financial misconduct by municipal officials in accordance with section 171 of the MFMA must be reported to the Accounting Officer immediately.

8. INTERPRETATION OF THIS POLICY

1. Municipal Manager is the final authority to interpret the policy

9. POLICY APPROVAL

1. The following are consulted before the approval of the policy

    I. COUNCILLORS;
    II. MANAGEMENT;
    III. STAFF;

2. The Council approves the policy

10. COMPLIANCE, IMPLEMENTATION AND ENFORCEMENT

1. The policy will be communicated through media, website and public participation
2. The policy will be signed after the adoption
3. The policy will be reviewed annually
4. Executive Mayor will monitor the implementation of the policy
5. Violation of the policy shall constitute an offence and may lead to disciplinary action;

11. AUTHENTICATION

Date of adoption;

Council Resolution Number;