



Harry Gwala District Municipality

**HGDM-
FINAL DRAFT
EXPENDITURE
MANAGEMENT
POLICY
2021-22**



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1. ABBREVIATIONS

CFO – Chief Financial Officer

CM – Council Minute/s

IDP – Integrated Development Plan

MBRR – Municipal Budget Reporting Regulations

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

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

MSTA – Municipal Structures Act

MTREF – Medium term revenue and expenditure framework

SDBIP - Service delivery and budget implementation plan

2. DEFINITIONS

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

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

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

"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;



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

“Council” the municipal council of the **Harry Gwala 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;

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

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

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

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

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

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

"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;

“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 of the MFMA , and which has not been condoned in terms of section 170 of that 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 that Act;



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- c) expenditure incurred by a 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 a 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 a municipality which falls within the definition of "unauthorised expenditure";

"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;

"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 Harry Gwala 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;



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

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

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

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

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

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

"Unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3), and includes:

- a) overspending of the total amount appropriated in the municipality's 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 this Act;

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

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



3. INTRODUCTION

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

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

The budget plays a critical role in an attempt to realise the diverse community needs. Central to this, the formulation of this expenditure policy must ensure that the objectives of the MFMA as set out in section 2, is incorporated in the day to day administration of the municipality.

This policy must be read, interpreted, implemented and understood against this legislative background.

4. OBJECTIVE

The objective of the Expenditure policy is to:

- a) Set out a framework for the municipality to deal with:
 - ❖ All expenditure related transactions;
 - ❖ 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 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 municipality.



5. EXPENDITURE MANAGEMENT

5.1. Withdrawals from a bank account

- 5.1.1. Any withdrawal from a bank account; in the name of the municipality, may only occur in terms of section 11 of the MFMA.
- 5.1.2. All withdrawals must comply with the Banking & Investment Policy of the municipality and shall be signed or authorised by not fewer than two people as authorised by the Accounting Officer.
- 5.1.3. 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 Office of the CFO.

5.2. Commitments

- 5.2.1. A commitment by an official of the municipality may only be undertaken on behalf of a third party when the full costs are recovered in advance before commencement of the work, either specially or generally.
- 5.2.2. 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.
- 5.2.3. Specimen signatures of all officials authorised to sign requisitions shall be supplied to the CFO.
- 5.2.4. Supply Chain Management will keep record of all authorised officials and the specimen signatures.
- 5.2.5. No councillor or 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.
- 5.2.6. The CFO shall determine the information to be supplied on such requisition or order.



5.3. Creditors

- 5.3.1. 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.
- 5.3.2. 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.
- 5.3.3. All requests for payment, properly certified and accompanied by the relevant invoices and supporting documentation, payment certificates must reach the Creditors' Department at least 5 days (120 hours) before payments are due.
- 5.3.4. Senior Managers delegated as per municipal delegated powers will sign invoices as per their threshold.
- 5.3.5. Invoices or statements shall be submitted to registry as the central point of receiving invoices. The invoices shall then be distributed to user departments for authorisation and must state the reference to the relevant vote to meet such payment. Signed invoices are submitted to the supply chain management unit and then creditors /expenditure department for payment.
- 5.3.6. When a user 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;
 - e) If excess expenditure is involved, the resolution authorising the excess expenditure shall be quoted on the voucher;
 - f) Authority for the payment exists, in which case the authority shall be indicated on the voucher; and



g) Fruitless and wasteful expenditure has not been incurred.

5.3.7. 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.

5.3.8. All payments due by the Municipality shall be made by cheque or approved electronic payment method drawn from the primary bank account of the Municipality. The procedures as set out in the EFT policy must be followed when making such payments.

5.3.9. Certain payments may be made from petty cash in accordance with the Supply Chain Policy as amended from time to time.

5.4. Interest on late payments

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

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

5.5. Banking details

5.5.1. 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.

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

5.6. Grant Expenditure

5.6.1. 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.

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

5.6.3. Council may, however, approve payments before any funds have been received but only where funds have already been committed to in writing, by the relevant state department or other institution.

5.6.4. The relevant directorate must obtain approval for bridging finance, as referred to in subparagraph 5.6.3.

5.7. Capital Expenditure

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

- a) Duly appropriated in an approved capital budget or adjustments budget; and
- b) All necessary legislative requirements have been met as set out in the MFMA section 19, Budget and Reporting Regulations sections 11 and 13 and the Supply Chain Management Policy of the municipality.

5.8. Salaries, Wages and Allowances

5.8.1. The procedures as set out in the payroll management and administration policy must be followed when making such payments.



5.9. Accounting Principles

- 5.9.1. 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).
- 5.9.2. Council items related to financial matters, will not be forwarded to Council if it is not supported with the necessary comments from the CFO.
- 5.9.3. The CFO shall ensure that proper accounting records and registers are opened and maintained in compliance with subsection
- 5.9.4. The CFO may prescribe the requirements for access to electronic accounting systems and shall ensure that the necessary security and password systems for this purpose is maintained.

5.10. Relief, charitable, trust or other funds

- 5.10.1. In terms of section 12 of the MFMA read together with section 12 of the MBRR the Municipality may not transfer any funds from the Municipality into a fund created in terms of section 12 of the MFMA.
- 5.10.2. The Municipality may incur expenditure in support of the objectives for which the funds were created, if approved in a duly approved budget.

5.11. Other Provisions

- 5.11.1. Expenditure incurred is only allowed as a direct allocation to any provision, where the necessary cash provision has been made in the cash flow budget of the Municipality as duly approved.
- 5.11.2. All expenditure must be incurred via the Supply Chain Management Policy of the Municipality.

5.12. Recovery of Losses

- 5.12.1. Any loss suffered by the Municipality due to any fraudulent or corrupt act or an act of bribery shall be dealt with and immediately be



reported to the South African Police Service, Auditor-General, Mayor and Accounting Officer in terms of section 32 (b) of the MFMA

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

6. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

- 6.1. Before the Executive Mayor considers any authorisation of unforeseeable and unavoidable expenditure in terms of section 29 of the MFMA, the Accounting Officer will ensure that a detailed report is submitted to the Mayor in order for the Executive Mayor to make an informed decision.
- 6.2. The Executive Mayor may authorise such expenses in an emergency or other exceptional circumstances in terms of section 29 of the MFMA only if:
- 6.2.1. the expenditure could not have been foreseen at the time the annual budget of the Municipality was passed; and
- 6.2.2. the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the MFMA to authorise the expenditure may:-
- a) Result in significant financial loss for the municipality;
 - b) Cause a disruption or suspension, or a serious threat to the continuation of a basic municipal service
 - c) Lead to loss of life or serious injury or significant damage to property; or
 - d) Obstruct the municipality from instituting or defending legal proceedings on an urgent basis
- 6.3. The Executive Mayor may not authorise expenditure in terms of section 29 of the MFMA if the expenditure;
- 6.3.1. was considered by the Council, but not approved in the annual budget or an adjustments budget; or
- 6.3.2. is required for-
- a) price increases of goods or services during the financial year;
 - b) new municipal services or functions during the financial year;



- c) the extension of existing municipal services or functions during the financial year;
- d) the appointment of personnel during the financial year;
- e) allocating discretionary appropriations to any vote during the financial year;
- f) would contravene any existing Council policy; or
- g) Is intended to ratify irregular or fruitless and wasteful expenditure.

6.4. The authorised amount may not exceed 4% of the approved own revenue included in the annual budget.

6.5. The authorisation must be reported by the Executive Mayor to the next Council meeting.

6.6. The Accounting Officer must ensure preparation of an adjustment to include the expenses within thirty (30) days.

6.7. The Executive Mayor must ensure that Council passed the adjustments budget within sixty (60) days after the expenses were incurred.

7. UNAUTHORISED EXPENDITURE, IRREGULAR, FRUITLESS AND WASTEFULL EXPENDITURE

7.1. All Unauthorised, Irregular, Fruitless and Wasteful Expenditure will be dealt with in terms of Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings promulgated in terms of the Local Government: Municipal Finance Management Act, No. 56 of 2003.

7.1.1. In terms of section 32 of the MFMA;

- a) 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;



- b) the accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3) of that Act;
- c) any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or
- d) any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.

7.1.2. A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure:

- a) in the case of unauthorised expenditure, is
 - authorised in an adjustments budget;
 - or certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
- b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

7.1.3. 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.

7.1.4. The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor General, in writing, of:



- a) any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality;
- b) whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- c) the steps that have been taken:
 - to recover or rectify such expenditure; and
 - to prevent a recurrence of such expenditure.

7.1.5. The writing off of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.

7.1.6. The accounting officer must report to the South African Police Service all cases of alleged:

- a) irregular expenditure that constitute a criminal offence; and
- b) theft and fraud that occurred in the municipality.

7.1.7. The council of a municipality must take all reasonable steps to ensure that all cases referred to in subsection 7.1.6 are reported to the South African Police Service if:

- a) the charge is against the accounting officer; or
- b) the accounting officer fails to comply with that subsection

7.1.8. The Minister, acting with the concurrence of the Cabinet member responsible for local government, may regulate the application of this section by regulation in terms of section 168 of the MFMA.



8. REVIEW OF POLICY

In terms of section 17(1) (e) of the MFMA this policy must be reviewed on annual basis and the review policy tabled to Council for approval as part of the budget process.

The following should be taken into account for future amendments to this policy:

- Changes in financial strategy;
- Changes in non-financial strategies; and
- Changes in legislation

Policy section:	Director: Expenditure
Current date:	30 March 2021
Previous review date:	27 May 2021

9. APPROVAL AND IMPLEMENTATION OF POLICY

The Municipal Manager shall be responsible for the implementation and administration of this Policy.

This Policy, once adopted by Council, shall come into effect on 01 July 2021 once approved by the council.

Policy section:	Director: Expenditure
Approval by council:	