

# **MAKHUDUTHAMAGA MUNICIPALITY**

## **GENERAL FINANCIAL POLICY**

### **PREAMBLE**

MAKHUDUTHAMAGA MUNICIPALITY BELIEVES THAT IT HAS THE RESPONSIBILITY TO CONDUCT ITS FINANCIAL AFFAIRS IN AN ORDERLY, ORGANISED AND TRANSPARENT MANNER. IT IS FURTHER BELIEVED THAT ALL FINANCIAL TRANSACTION MUST BE IN ACCORDANCE WITH RELEVANT LEGISLATION.

# **INDEX**

## **CHAPTER 1 GENERAL**

- 1.1 OBJECTIVES
- 1.2 AUTHORITY
- 1.3 DELEGATIONS
- 1.4 DEFINITIONS

## **CHAPTER 2 EXPENDITURE GENERAL**

- 2.1 LOCAL GOVERNMENT DEBT
- 2.2 PREPARATION OF CAPITAL AND OPERATIONAL BUDGET LINKING WITH THE IDP
- 2.3 CAPITAL EXPENDITURE
- 2.4 OPERATING AND EXPENDITURE BUDGET
- 2.5 REPORTS TO COUNCIL
- 2.6 CONTROL OF PAYMENTS
- 2.7 STAFF RECORDS AND PAYMENTS

## **CHAPTER 3 COSTING/JOB COSTING**

- 3.1 ACCOUNTING AND COSTING PRINCIPLES

## **CHAPTER 4 REVENUE MANAGEMENT**

- 4.1 INCOME
- 4.2 CONTROL OF RECORDS

## **CHAPTER 5 ASSETS MANAGEMENT**

- 5.1 ASSETS

## **CHAPTER 6 INVESTMENTS**

- 6.1 INVESTMENTS

## **CHAPTER 7 RISK MANAGEMENT**

- 7.1 INSURANCE

## **CHAPTER 8 PROCUREMENT AND INVENTORY**

- 8.1 TENDERS, QUOTATIONS AND CONTRACTS
- 8.2 STORES AND MATERIALS

## **CHAPTER 9 GENERAL FINANCIAL CONDITIONS**

- 9.1 MISCELLANEOUS
- 9.2 INTERNAL CONTROL
- 9.3 INTERNAL AUDIT

## CHAPTER 1 GENERAL

### 1.1 OBJECTIVES OF THE POLICY

The objectives of this policy is to ensure:-

- a) Transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the Makhuduthamaga Municipality;
- b) Proper financial management by departmental managers;
- c) Good budgeting and management processes;
- d) Sound financial principles;
- e) Effective, efficient, economical and transparent use of the resources of the Municipality;
- f) Effective, efficient and transparent systems of financial risk management and internal control

### 1.2 DEFINITIONS

Accounting Officer: Is the Municipal Manager of a Municipality appointed in terms of Section 82 of the municipal Structures Act, 1998, Act 117 of 1998

Budget: shall also mean estimates.

Departmental Manager: shall mean the person appointed to or acting as Head of any Department/Section or Cost Centre in a Municipality.

Vote: shall mean a cost centre in the budget, or a vote as defined in the Local Government Financial Management Act.

Municipality: shall mean a Municipality as contemplated in Section 155 of the Constitution, Act 108 of 1996.

Municipal Manager: shall mean the Chief Executive Officer of Council as appointed in terms of Section 82 of the Municipal Structures Act, 1998, Act 117 of 1998.

Accounting Officer: shall mean, the Chief Financial Officer, the Financial Manager or any other official responsible for the budget and treasury office, or his delegate, as appointed in terms of section 42 of the Local Government Financial Management Act, 2003.

Pay period: shall mean the calendar month for the payment of salaries.

Re-charge Rates: shall mean rates imposed by the Financial Manager as being the internal charge by one department for services rendered to another department.

GFS: Shall mean Government Financial Statistics, as required by the National Department of Finance.

### **1.3 AUTHORITY**

#### **1.3.1 ROLE OF COUNCILLORS**

The supervisory authority of this policy resides with the Executive Committee through the Financial Committee and they must:

- 1.3.1.1 Oversee the implementation and enforcement of the Council's standard financial policy, and any By-Law that might be enacted by this policy;
- 1.3.1.2 Measure the performance of the Accounting Officer in the implementation of the standard financial policy;
- 1.3.1.3 Evaluate the standard financial policy from time to time to improve the efficiency, mechanisms, processes and procedures;
- 1.3.1.4 Report to Council on a regulatory at least twice per year basis on the implementation of the standard financial policy.

#### **1.3.2 ADMINISTRATION**

The accounting officer or his delegate is the implementing authority and must:-

- 1.3.2.1 Implement and enforce Council's standard financial policy and any by-law enacted in terms of section 98 of the Municipal Systems Act, Act 32 of 2000;
- 1.3.2.2 Establish effective administrative mechanisms, processes and procedures to implement this policy;
- 1.3.2.3 Report to the Executive Committee on a regulatory at least twice per year basis on the implementation off the standard financial policy.

### **1.4 DELEGATIONS**

The implementation of the standard financial policy is the competency of the accounting officer but it is delegated to the Financial Manager in terms of section 74 of the Local Government Municipal Finance Management Act and sub-delegation by way of deconcentrating as a form of delegation, is permitted in terms of section 77 of the Municipal Finance Management Act,

## **CHAPTER 2 EXPENDITURE GENERAL**

### **2.1 LOCAL GOVERNMENT DEBT**

#### **2.1.1 Borrowing Powers And Borrowing**

The Accounting Officer shall be responsible for:

- i. Ensuring that council's approval are obtained for the purpose of financing capital expenditure from external sources; and
- ii. the raising of such loans as may be required on such terms and conditions and from such sources as may be approved by Council after considering the Accounting Officer's report.

### **2.2 PREPARATION OF CAPITAL AND OPERATING BUDGET LINKING WITH THE IDP**

2.2.1 Every Departmental Manager shall, in respect of the activities of his Department, and in consultation with the Accounting Officer, prepare –

- i. adjusted capital and operating budget for the current financial year before the end of January each financial year;
- ii. Draft capital and operating budgets for the three ensuing financial years based on the expenditure of the previous and the current financial year; and
- iii. A draft capital programme and operational budget for the following three financial years linked with the IDP.

2.2.2 The revised capital and operating budget, draft capital and operating budget and draft capital programme shall be prepared in line with the Municipalities IDP, and National Treasury's budget Formats and GFS classifications, by such date as the Accounting Officer may direct.

2.2.3 Only line items that appears on the Line Item Votes manual will be allowed, and only expenses as specified in the manual will be allowed against such line item votes;

2.2.4 The Accounting Officer shall issue guidelines, to Departmental Managers with regard to the National Treasury's directives concerning limitations placed on expenditure growth, to the preparation and administration of the budget, and Departmental Managers shall comply with such guidelines in preparing their budgets.

2.2.5 The Accounting Officer shall summarise the draft capital and operating budget and draft capital programme and shall thereafter submit such summaries together with his comments, including his proposals for the funding thereof, to Council for approval.

2.2.6 The draft operating budget submitted to Council for approval shall not reflect a deficit. Where the aggregate operating income is less than the aggregate operating expenditure, the budget must contain proposals to meet such deficit.

2.2.7 Council shall, prior to the start of the financial year, approve the budget and determine the property rates, tariffs and rentals to be levied to balance the operating budget, provided that expenditure or income proposed may not be increased or reduced until such proposed change has been reported on by the Accounting Officer and such report considered by Council.

2.2.8 Council will approve an adjustment budget during the year, provided that the total budget is not exceeded. Where expenditure in excess of the approved budget is required the necessary approval will be obtained from National Treasury.

2.2.9 Funds can only be spent on projects that exist in the IDP and which have been budgeted for.

2.2.10 Each project identified in the IDP will have;

- 2.2.10.1 The Name of the project;
- 2.2.10.2 Reference to the Strategic objective;
- 2.2.10.3 Detail implementation Plan;
- 2.2.10.4 Detail Costing of the plan;
- 2.2.10.5 Detail Cash Flow requirement;
- 2.2.10.6 Any other information as required by the Accounting Officer.

## 2.3 CAPITAL EXPENDITURE

2.3.1 Any report submitted by a Departmental Manager in which authority is sought to incur capital expenditure shall include:

- i. The estimated total capital cost of the project; and
- ii. the effect on current and future operating income and expenditure, including the cost of additional staff; and
- iii. The useful life of the assets in terms of the assets management policy; and
- iv. The cash-flow projection on the project; and
- v. Cost of benefit analyses;
- vi. Return on Investment; and
- vii. Referring to the priority in the IDP; any
- viii. such other information as the Accounting Officer and Council may required.

2.3.2 No capital expenditure shall be incurred unless:

- i. Provision has been made for it in the approved IDP; and
- ii. Provision has been made in the approved capital financial plan; and
- iii. all approvals required by other legislation or policies have been obtained and all other requirements have been complied with; and
- iv. that the requirements of the procurement policy has been followed.

2.3.3 After the approval of the Capital budget, authority is given to Departmental Manager's to start with the projects;

2.3.4 Any savings on a capital project may not be applied to meet additional expenditure on any other approved capital project without the approval of Council.

2.3.5 Whenever an approved capital estimate is, or is expected to be, exceeded a Departmental Manager must:

- 2.3.5.1 Inform the Accounting Officer in writing of such a requirement ;
- 2.3.5.2 Obtain prior approval from Council for the additional amount with the reasons for the additional expenditure;

2.3.6 A Departmental Manager shall advise the Accounting Officer immediately when he becomes aware of any amounts on his capital budget, which will no longer be required by his Department.

2.3.7 Subject to the approval of Council, expenditure in connection with uncompleted projects from a previous year may be incurred during the current financial year, provided that National Treasury is informed and compensatory under-expenditure is affected.

2.3.8 Departmental managers must report monthly to Council on the progress made on their Capital projects with explanation on any deviations.

## **2.4 OPERATING INCOME & EXPENDITURE BUDGET**

### **2.4.1 Excess Expenditure**

Should a Departmental Manager or the Accounting Officer have reason to believe that any estimate provision is or will be insufficient on a Vote, he must report the matter to Council

2.4.1.1 The Accounting Officer will on request by a Departmental Manager transfer funds from one line item to another line item within a Vote. No transfer is permitted from one Vote to another Vote.

2.4.1.2 For the purpose of the budget a Vote shall be the different Cost Centers classified as Departments on the financial system;

2.4.1.3 Any excess or under expenditure should be reported to Council together with all the reasons that lead to the over expenditure;

2.4.1.4 Where a transfer is requested between line items within a Vote, the Departmental Manager who request such a transfer must indicate a saving line item for such a transfer;

2.4.1.5 No transfer across Votes will not be allowed unless it has been approved by Council during the adjustment budget, which will be during January of each financial year;

2.4.1.6 The Departmental Manager requesting for a transfer must also indicate if there is a need to increase the tariffs.

### **2.4.2 Shortfall in Income**

Where estimated income is unlikely to be realised, the Departmental Manager concerned shall, forthwith report the matter to Council indicating, in consultation with the Accounting Officer, how the shortfall will be met.

## **2.5 REPORTS TO COUNCIL**

2.5.1 Council shall consider no report, which has financial implications, unless the Financial Manager has reported thereon.

2.5.2 Where any expenditure is contemplated in a report to a Municipality, the Departmental Manager shall indicate the strategic thrust and priority in the IDP, as well as whether sufficient provision has been made in the budget.

2.5.3 Before any expenditure, which does not appear in the budget, is committed, the Departmental Manager concerned shall first obtain the approval from the Financial Manager in collaboration of the Accounting Officer for the expenses.

## **2.6 CONTROL OF PAYMENTS**

2.6.1 The Accounting Officer through Council's Bankers shall make every payment from the funds of Council, other than impress moneys.

2.6.2 The signature of at least two persons duly authorised by Council shall appear on all cheques drawn by Council from which one must be from the financial department.

2.6.3 Every Departmental Manager shall establish and maintain a register of persons to whom authority has been delegated to sign official documents, and such register shall indicate the nature of the documents to which such signing authority applies, and shall include specimen signatures.

2.6.4 Every Departmental Manager shall draft a policy and procedures for the delegations in 2.6.3 above.

- 2.6.5 A copy of the register referred to in 2.6.3 shall be made available to the Accounting Officer and the Internal Auditors, who shall be notified immediately of any changes to such register.
- 2.6.6 No work shall be carried out or services rendered to any department, person or organization, unless such work or services are requisitioned on Council's official form and signed by a duly authorised official. The document shall contain a description of the work or services, the authority for incurring the expenditure, and the line item in the budget or job number to which such expenditure should be charged.
- 2.6.7 Every voucher submitted for payment shall be in the form prescribed by the Accounting Officer and shall be certified by an authorised official from the Department concerned and shall, when submitted to the Accounting Officer, be accompanied by supporting documents, where applicable, and have indicated thereon:
  - 2.6.7.1 the name of the Department against which it is to be charged;
  - 2.6.7.2 the line item (Project/Job) or account number from which it is to be paid;
  - 2.6.7.3 that sufficient estimate provision exists;
  - 2.6.7.4 the authority for the expenditure;
  - 2.6.7.5 that the goods have been received or the services rendered;
  - 2.6.7.6 the statutory authority, where relevant; and
  - 2.6.7.7 such other information as the Accounting Officer may direct.
- 2.6.8 The Accounting Officer will make no payment to any supplier of goods and services unless the approved procurement policy has been followed.

**2.6.9 Petty Cash Payments**

- 2.6.9.1 Imprest accounts for the making of petty cash payments shall only be established with the approval of the Accounting Officer, who shall prescribe the amount of such accounts and the nature and extent of payments to be made there from.
- 2.6.9.2 Every voucher submitted for the refund of petty cash payments made by a Department shall be accompanied by supporting documents for all such payments and a proper register shall be kept in a form approved by the Accounting Officer.
- 2.6.10 Notwithstanding the provisions of clause 2.6.7, payment shall nevertheless be made where Council is under a legal obligation to do so, provided that such payment is so certified, and provided further that the relevant Departmental Manager shall forthwith a report for approval for such payment to Council.

**2.7 STAFF RECORDS AND PAYMENTS**

- 2.7.1 The Accounting Officer, or Departmental Manager approved by him, shall be responsible for the calculation of salaries, wages and allowances and shall keep records approved by the Accounting Officer for this purpose.
- 2.7.2 The Accounting Officer shall be responsible for the verification of all calculations referred to in clause 2.7.1.
- 2.7.3 The Accounting Officer shall make the payment of all salaries, wages and allowances and the method of such payment shall be in accordance with prevalent legislation.



- 2.7.4 The Accounting Officer shall be notified of all appointments, promotions, dismissals, resignations, transfers, leave of any description and all matters affecting the emoluments of employees of Council. The submission of such information to the Accounting Officer shall be in such form and at such date and time as the Accounting Officer may from time to time determine.
- 2.7.5 A Departmental Manager shall be required to certify that, in respect of every employee reflected on the payroll for each pay period, such employee was employed by Council during such period.
- 2.7.6 Salaries and wages will be paid through direct bank transfers, and it is expected from each employee or Councillor to open a bank account for this purpose

## **2.8 Unauthorised, Irregular And Fruitless And Wasteful Expenditure**

- 2.8.1 The Accounting Officer must take all reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct.
- 2.8.2 The Accounting Officer must take effective and appropriate disciplinary steps against any official of the municipality who—
  - 2.8.2.1 contravenes or fails to comply with a provision of this Act;
  - 2.8.2.2 commits an act which undermines the financial management and internal control system of the municipality; or
  - 2.8.2.3 makes or permits an unauthorised, irregular or fruitless and wasteful expenditure.

## CHAPTER 3 COSTING/JOB COSTING

### 3.1 ACCOUNTING AND COSTING PRINCIPLES

- 3.1.1 Each Departmental Manager must provide the Accounting Officer with proper Project/Job costing information on capital and repair and maintenance, indicating the following estimated elements of costs and actual elements of cost;
  - 10.1.1 Labour Cost; and
  - 10.1.2 Vehicle/Plant Cost; and
  - 10.1.3 Material Cost.
- 3.1.2 Each Departmental manager must report on each Project/Job which deviate with more than 15% over or under the original estimate on a monthly basis to the Accounting Officer;
- 3.1.3 Departments shall not introduce new accounting systems, and no alteration shall be made to any existing system without the prior approval of the Accounting Officer.
- 3.1.4 The Accounting Officer shall maintain the financial accounting records of Council, and he may from time to time institute accounting principles which are in line with GAMAP and guidelines from the Accounting Standards Board.
- 3.1.5 All re-charge rates shall be kept under continual review by Departmental Managers in consultation with the Accounting Officer.
- 3.1.6 No material shall be supplied to and no work shall be carried out on private property, or for a private individual, company, firm, organisation, State or parastatal body until the Departmental Manager concerned has made a proper cost estimate on the work to be done and forward such estimate to the Financial Manager.
- 3.1.7 No material shall be supplied to and no work shall be carried out on private property, or for a private individual, company, firm, organisation, State or parastatal body until the Departmental Manager concerned has notified the Accounting Officer that the amount of the estimated cost or shared-cost of the material or work has been paid;
- 3.1.8 No work will be carried out as specified in 3.1.6 above unless a job card has been opened for such work. The receipt as prove of payment must be recorded as part of the job card.
- 3.1.9 The Accounting Officer has the authority to waive the requirements in 3.1.6 above for the State or parastatal body provide that the State or parastal body has issued an order for the work to be carried out.
- 3.1.10 If a payment in advance has been made in compliance with 3.1.6 above, and it nevertheless becomes evident to the Accounting Officer or the Departmental Manager performing the work or supplying the material that such payment in advance is likely to or will be exceeded by the cost of the work or material, such Departmental Manager shall not continue with the performance of such work or the supply of such material without the prior consent of the Accounting Officer, and without thereafter complying with such terms and conditions as the Accounting Officer may direct.
- 3.1.11 No work estimated to cost more than an amount as determined in 3.1.6 above shall be undertaken departmentally without the prior approval of the Accounting Officer;
- 3.1.12 Charges levied by one Department on another in respect of work or service referred to in clause 3.1.5 shall promptly be submitted to the latter Department for approval and thereafter be submitted to the Accounting Officer for re-charge purposes. Any objection to a charge shall be referred to the Accounting Officer for adjudication.

## CHAPTER 4 REVENUE MANAGEMENT

### 4.1 REVENUE

- 4.1.1 The Accounting Officer shall be responsible for the collection of all moneys due to Council and such moneys shall be paid to the Accounting Officer, or where suitable arrangements have been made by and with the Accounting Officer, to any other Department or, where the Accounting Officer so directs, to Council's Bankers, or to any other body or institution approved by the Accounting Officer.
- 4.1.2 All moneys received shall be banked daily or at such regular intervals as the Accounting Officer may determine.
- 4.1.3 The collection for all monies due will be in accordance with the approved credit control and debt collection policies.
- 4.1.4 No monies may be collected by other departments unless it has been discussed with the Accounting Officer, and the collection of such monies are in accordance with prescribe internal control measurements and procedures as determined by the Accounting Officer.
- 4.1.5 The Accounting Officer shall ensure that all moneys received by any other Department are paid over regularly to the Financial Department or otherwise in accordance with the provisions of clause 4.1.1, and for that purpose shall prescribe a system to be operated for the collection of income, and no such system shall be altered or departed from without the Accounting Officer's approval.
- 4.1.6 A Departmental Manager shall promptly notify the Accounting Officer of any moneys becoming due to Council, and such notification shall set out the reasons why such moneys are due.
- 4.1.7 No amount due to Council shall be written off as irrecoverable without the approval of Council, except that the Accounting Officer shall be authorised to write off amounts not exceeding the amount as approved by Council, and a record of all amounts written off shall be kept in such form as the Accounting Officer may decide.
- 4.1.8 Receipts
  - 4.1.8.1 All moneys received shall be recorded at once by means of a numbered official receipt.
  - 4.1.8.2 Every cancelled receipt form shall be reaffixed in its proper place in the receipt book, or, in the absence of a receipt book, filed in accordance with instruction issued by the Accounting Officer.
  - 4.1.8.3 Any surplus cash found at any time shall immediately be declared as such and deposited without delay to the credit of the appropriate account and all shortages of cash shall be reported to the Accounting Officer and made good by the relevant official.
- 4.1.9 The determination and annual review of rentals, tariffs, fees and other charges shall be undertaken and appropriate recommendations made to Council by:
  - 4.1.9.1 the Departmental Manager responsible for land matters, in consultation with the Accounting Officer, in respect of rentals payable by occupants of any property leased, hired or rented from Council;
  - 4.1.9.2 the Accounting Officer, in consultation with any Departmental Manager concerned, in respect of rentals payable for dwellings in State housing projects;

- 4.1.9.3 the Departmental Manager concerned, in consultation with the Accounting Officer, in respect of tariffs, fees and other charges for services provided by Council.

#### **4.2 Relief, charitable and trust funds**

- 4.2.1 All money received for relief, charitable and trust funds will be paid into a separate bank account opened in the name of Makhuduthamaga Municipality for that relief, charitable or trust fund.
- 4.2.2 Payments from the account in 4.2.1 will only be allowed if it is for the purpose of the fund or with the authority of the Accounting officer.

#### **4.3 Control Of Records**

- 4.3.1 Receipt books, tickets and badges, as well as all printed documents for sale, except documents which any Department has been expressly authorised by Council to control and sell, shall be obtained only from the Accounting Officer, and the Accounting Officer and Department so authorised shall keep a register showing the quantities received from the printers and the items issued, together with the signature of the recipient..
- 4.3.2 Every document containing a record of transactions which involves the receipts or payment of money, which is to be written up by hand, shall be written up in ink, and the use of pens of any description with erasable ink shall not be permitted. Where an entry in such document has been audited, it shall not be altered in any way.
- 4.3.3 Receipts shall not be altered in any way and the use of eradicating ink or solvents shall not be permitted. Any corrections or alterations to other records shall be made by ruling out the incorrect figures, and inserting the correct figures above, and the person making the alteration shall affix his signature thereto
- 4.3.4 ..It shall be the duty of every Departmental Manager to take the necessary steps to safeguard all documents which could have significance in legal proceedings and which fall within the control of his Department and to retain such other documents as are necessary in terms of the Archives Act No. 6 of 1962, and the Accounting Officer may from time to time issue directives in this regard.

# CHAPTER 5 ASSETS MANAGEMENT

## Contents

- 5.1 Chapter objectives
- 5.2 Definitions
- 5.3 Recognition of property, plant and equipment
- 5.4 Purchase of an item of property, plant and equipment
- 5.5 Initial measurement of property, plant and equipment
- 5.6 Subsequent expenditure
- 5.7 Subsequent measurement for fixed property
- 5.8 Subsequent measurement for property, plant and equipment other than revalue fixed property.
- 5.9 Review of useful life
- 5.10 Recovery of the carrying amount
- 5.11 Disposal of property, plant and equipment
- 5.12 Scrapping and retirement of property, plant and equipment
- 5.13 Control and management of property, plant and equipment
- 5.14 Physical verification of property, plant and equipment
- 5.15 Assets held under finance lease
- 5.16 Research and development cost
- 5.17 Misconduct
- 5.18 Useful life guidelines

## 5.1 Chapter Objectives

- To set out certain criteria which have to be met before capital expenses could be capitalised as an item of property, plant and equipment,
- To classify different items of property, plant and equipment depending on their nature, use and location,
- To determine the useful lives of different items of property, plant and equipment,
- To set out criteria for determining the initial cost of the different items of property, plant and equipment,
- To determine the method of calculating depreciation for different items of property, plant and equipment,
- To set out the treatment and procedures for subsequent measurement of property, plant and equipment,
- To set out the treatment and procedures for scrapping and disposal of property, plant and equipment,
- To set out procedures for the control and management of property, plant and equipment,
- To set out procedures for the annual physical verification of property, plant and equipment,
- To set out the treatment for property, plant and equipment held under finance lease, and
- To set out the treatment for research and development costs.

## 5.2 Definitions

Set out below are definitions of the various terms as defined by Generally Accepted Municipal Accounting Practice guidelines regarding fixed assets:

**“An asset** is a resource controlled by the municipality as a result of past events and from which future economic benefits or potential service provision are expected to flow to the municipality.

**Property, plant and equipment** are tangible assets that:

- are held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- are expected to be used during more than one period.
- **Infrastructure assets** are assets that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
- **Community assets** are assets that contributes to the community’s well-being. Examples are parks, libraries and fire stations.

- **Heritage assets** are cultural significant resources. Examples are works of art, historical buildings and statues.
- **Investment properties** are properties acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- **Other assets** are assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
- **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.
- **Depreciable amount** is the cost of an asset, or other amount substituted for cost in the financial statements.
- Useful life is either:
  - the period of time over which an asset is expected to be used by the municipality, or
  - the number of production or similar units expected to be obtained from the asset by the municipality.
- **Cost** is the amount of cash or cash equivalents paid, or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- **Residual value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.
- **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- **Carrying value** is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.
- **Recoverable amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.
- A **finance lease** is a lease which in effect transfers substantially all the risks and rewards associated with ownership of an asset from the lessor to the lessee.
- **Development** is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.
- **Research** is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding."

### 5.3 Recognition of property, plant and equipment

An item of property, plant and equipment will be capitalised as an asset in the balance sheet when:

- Future economic benefits or potential service delivery associated with the asset will flow to council,
- The cost of the asset can be measured reliably, and
- The cost of the asset exceeds an amount of R 2,500.00

- To satisfy the above criteria the following must be appropriate:
- All risks and rewards relating to an item of property, plant and equipment have passed to Council, therefore Council must control the item of property, plant and equipment,
- A valid invoice to Council or other purchase document must exist.
- 
- A self-constructed item of property, plant and equipment's cost will be obtained from the transactions with parties external to Council. These transactions will be for the acquisition of materials and labour used during the construction process.
- Spare parts and servicing equipment will be carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment that is to be used for more than 12 months will qualify as property, plant and equipment and will be capitalised if all other criteria (as stated above) is met.
- An item of property, plant and equipment that is made of different component parts which have different useful lives, will be accounted for in the following way:
- The total expenditure on the item of property, plant and equipment will be allocated to the different component parts and therefore,
- Each component part will be capitalised separately, and
- Depreciation will be calculated over each component part's useful live.
- This will result in the use of different depreciation rates for different component parts. For example, a sewerage purification works and the sewerage reticulation network will be treated as separate depreciable assets if they have different useful lives.
- Property, plant and equipment acquired for safety or environmental reasons will be capitalised if these items increase the future economic benefits or potential service provision from the related items of property, plant and equipment if they had not been acquired.

#### **5.4 Purchase of an item of property, plant and equipment**

The purchase of an item of property, plant and equipment must be provided for in detail in the Council's Integrated Development Plan and subsequently in the annual Capital Budgeted.

The Municipal Manager and the Financial Manager must approve the acquisition of emergency assets before these items of property, plant and equipment are bought. Council must approve capital expenditure in excess of the initial budgeted amount.

- Tenders and quotations must be obtained according to Council's approved Procurement and Tender Chapter, before an item of property, plant and equipment is purchased.
- Payment of asset purchases must be approved according to Council's Procurement Policy.

Payment of asset purchases must be done in accordance with the Working Procedures.

Purchase of items less than R2 500.00 which complies with the definition in 3 above.



should be budgeted for through the operational budget as an expense item, and should be kept on an inventory list by the departmental manager.

## 5.5 Initial measurement of property, plant and equipment

An item of property, plant and equipment will initially be measured at its cost.  
The cost of an item of property, plant and equipment will be calculated as follows:

- Add to the purchase price the following
  - Import duties,
  - Non-refundable purchase taxes,
  - Any direct attributable costs of bringing the asset to working condition for its intended use, and
- Subtract from the purchase price the following
  - Trade discount received,
  - Rebates received, and
  - Any interest paid.
- No interest will be capitalised.
- When an item of property, plant and equipment is acquired by way of an exchange for a dissimilar asset, the following accounting treatment will be followed:
- The cost of the asset to be capitalised will be the fair value of the asset given up adjusted by the amount of cash or cash equivalents transferred,
- A profit/loss on the asset given up will be calculated as the difference between the cost of the asset to be capitalised and the book value of the asset given up.
- ---

*Examples of direct attributable costs are:*

  - *The cost of site preparation,*
  - *Initial delivery and handling cost,*
  - *Installation cost, and*
  - *Professional fees paid to architects and engineers.*
- When an item of property, plant and equipment is acquired by way of an exchange for a similar asset with a similar use and has a similar fair value, the following accounting treatment will be followed:
- The cost of the new asset will be the carrying amount of the asset given up, and
- No profit/loss is recognised on the transaction.

## 5.6 Subsequent expenditure

Subsequent expenditure on property, plant and equipment will only be recognised as an asset when:

- The expenditure improves the condition of the asset beyond its originally assessed standard of performance, and
- The recognition criteria for capitalisation as set out in clause 3 of 17 are met.
  - Cost incurred to restore or maintain the future economic benefits that Council could expect from the originally assessed standard of performance will be recognised as expenses in the income statement when incurred, except when:
    - The carrying amount of an item of property, plant and equipment already takes into account a loss in economic benefits or potential service provision, and
    - The purchase price of an asset already reflects the municipality's obligation to incur expenditure in future, which is necessary to bring the asset to its working condition.
  - In these cases the subsequent expenditure will be capitalised provided that:
    - The carrying amount does not exceed the recoverable amount of the asset, and
    - The recognition criteria as set out in clause 3 of 17 are met.

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*Examples, taken from GAMAP 113, of improvements that result in increased future economic benefits include:*

- *Modification of an item of plant to extend its useful life, including an increase in its capacity,*
- *Upgrading machine parts to achieve a substantial improvement in the quality of output, and*
- *Rehabilitation of a road enabling a substantial reduction in the previously assessed maintenance costs.*

## 5.7 Subsequent measurement for fixed property

Subsequent to initial recognition as an item of property, plant and equipment, land and buildings will be carried at a revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation.

All the land and buildings must be revalued.

Revaluations of land and buildings will be done every three years to ensure that the carrying amount does not differ materially from the fair value at the balance sheet date.

### Revaluation of land and buildings

The basis of all revaluations will be the net replacement value.

When land and buildings are revalued upwards, the following accounting treatment will be followed:

- The accumulated depreciation at the date of the revaluation will be eliminated against the gross carrying amount of the asset,

- The net amount restated to the revalued amount of the assets, and
- The amount to which the asset is revalued upwards will be credited directly to a non-distributable reserve under the heading revaluation surplus, unless
- To the extent that the revaluation increase reverses a revaluation decrease of the same asset that was previously recognised as an expense, which will be recognised as revenue.

When land and buildings are revalued downwards, the following accounting treatment will be followed:

- The accumulated depreciation at the date of the revaluation will be eliminated against the gross carrying amount of the asset,
- The net amount restated to the revalued amount of the assets, and
- The amount to which the asset is revalued downwards will be recognised as an expense, unless
- To the extent that the revaluation decrease reverses a revaluation increase of the same asset that was previously recognised as a revaluation surplus which will be charged directly against the related revaluation surplus.

#### **5.8 Subsequent measurement for property, plant and equipment other than revalue fixed property**

Subsequent to initial recognition as an asset, an item of property, plant and equipment will be carried at cost less accumulated depreciation, provided that the carrying amount is not higher than the recoverable amount.

#### **Depreciation**

The depreciation charge for each period will be recognised as an expense in the income statement unless it is included in the carrying amount of another asset. In this case the depreciation charge will comprise part of the cost of the other asset, for example the depreciation of manufacturing plant and equipment will be included in the cost of the asset being constructed.

The straight-line depreciation method will be utilised to reflect the pattern in which all the asset's economic benefits or potential service provision are consumed by Council.

Depreciation will be charged to the income statement even if the value of the asset exceeds its carrying amount.

When known, at the purchase of an asset, that the asset will involve significant removal, restoration or other cost, at the end of the asset's useful life, the accounting treatment will be followed:

- The estimated costs will be recognised as an expense over the life of the asset until the liability is fully provided for, and
- When the cost is incurred it will be set off against the liability.

#### **Useful life**

The estimation of the useful lives of infrastructure, community assets, the building component of investment properties and other assets are included in the Useful Life Guideline to this Chapter.

The Useful Life Guideline must be used for all new assets purchased unless:

- A more appropriate useful life is motivated by the Department purchasing the asset, and

- The useful life is approved by the Financial Manager.

Where there are no useful lives for assets given in the Useful Life Guideline and it is impossible to estimate the future life, the accounting treatment will be as follows:

- To make an annual assessment to determine whether there has been deterioration in the potential service delivery or future economic benefits regarding the relevant assets,
- To account for a depreciation charge where deterioration has occurred, and
- To adjust the carrying value of the relevant assets accordingly.

Land and buildings will be treated as separable assets even when they are acquired together. Land has an unlimited life and will be treated as set out above while buildings have a limited life and are therefore depreciable assets.

### **5.9 Review of useful life**

When the useful life of an item of property, plant and equipment are significantly different from previous estimates the depreciation charge for the current and the future periods will be adjusted.

The useful life of all depreciable items of property, plant and equipment will be reviewed on an annual basis.

### **5.10 Recovery of the carrying amount**

#### **Impairment**

When the recoverable amount of an item of property, plant and equipment has declined below the carrying amount, the accounting treatment will be as followed:

- The carrying amount of the item of property, plant and equipment will be reduced to the carrying amount, and
- The amount of the reduction will immediately be recognised as an expense in the income statement.

#### **Subsequent increase in recoverable amount**

The impairment or prior write-down of an asset will only be written back when:

- The circumstances and events that led to the write-down cease to exist, and
- There is persuasive evidence that the new circumstances and events will persist for the foreseeable future, and will be limited to
- The item of property, plant and equipment's original carrying amount had their never been a impairment or write-up of the carrying value.

The amount written back should immediately be recognised as an income in the income statement.

### **5.11 Disposal of property, plant and equipment**

When an item of property plant and equipment is disposed the asset will be removed from the balance sheet.

Profit and losses from the disposal of an item of property, plant and equipment will be calculated as the actual net disposal proceeds and the carrying amount of the assets on disposal date.

The following procedures must be followed when an item of property, plant and equipment, is sold:

- Complete a pre-numbered disposal form (obtained from the Financial Manager) in duplicate, stating the following details regarding the asset being sold:
  - The asset number attached to the asset,
  - The description of the asset,
  - The physical location of the asset,
  - The cost centre under which the asset was utilised,
  - The name of the department selling the asset,
  - A short reason why the asset is being sold,
  - The purchase price and purchase date of the asset,
  - The book value of the asset,
  - The selling price of the asset,
  - The date when the asset was sold,
  - Approved and dated by the relevant Head of Department.
- Distribute the original disposal form to the Fixed Asset Clerk in the Finance Department once the disposal list is approved by Council.
- The finance department must compile a summary of the assets being sold with the following detail:
  - The asset number,
  - The asset description,
  - The purchase date of the asset,
  - The book value of the asset, and
  - The reason why the asset is being sold.
- Council must approve this summary of the assets, before it is sold on public auction.
- The disposing of assets must be done according to the regulations regarding the calling of tenders which stipulates that the municipality may dispose fixed assets
  - At a public auction of which notice has been published in the press,
  - Commonly sold to the public at a charge fixed by law or by resolution of the municipality,
  - At a uniform price or tariff fixed by law or by resolution of the municipality,

- Which have previously been offered for sale at a public auction or in respect of which tenders have previously been invited but which could not be disposed of,
- The value of which, as assessed by the municipality, does not exceed four thousand rands, or
- Where the sale of such goods or materials is so urgent that it would not be in the interest of the municipality to invite tenders.

## **5.12 Scrapping and retirement of property, plant and equipment**

Property, plant and equipment will be removed from the balance sheet when:

- An item of property, plant and equipment is damaged beyond repair, or
- For any other reason the item of property, plant and equipment was written off by Council.

Losses arising from the scrapping or retirement of an item of property, plant and equipment will be recognised as an expense in the income statement.

These losses are calculated as the difference between the net proceeds for the scrapped or retired asset and the carrying amount of the asset on the date of scrapping or disposal.

When an item of property, plant and equipment is withdrawn from use and is to be disposed in the future, the accounting treatment will be as followed:

- The asset should be written down to the lower of its carrying amount or its realisable value, and
- This amount of the write-down will be recognised as an expense in the income statement.

The following procedures must be followed when an item of property, plant and equipment is scrapped or retired:

- 1 Complete a pre-numbered scrapping/retirement form (obtained from the Financial Manager) in duplicate, stating the following details regarding the scrapping or retirement:
  - The asset number attached to the asset,
  - The description of the asset,
  - The physical location of the asset,
  - The cost centre under which the asset was utilised,
  - The name of the department selling the asset,
  - A short reason why the asset is being scrapped or retired,
  - The purchase price and purchase date of the asset,
  - The book value of the asset,
  - The estimated scrap value of the asset,
  - The date when the asset was scrapped or retired,
  - Approved and dated by the relevant Head of Department.
- 2 Submit the original scrapping/retirement form to the Fixed Asset Clerk in the Finance department for their records of assets to be updated once Council approves the scraping list.
- 3 The finance department must compile a summary of the assets being scrapped or retired with the following detail:
  - The asset number,

- The asset description,
- The purchase date of the asset,
- The book value of the asset,
- The estimated scrap value, and
- The reason why the asset is scrapped or retired.
- When the total carrying amount of the assets to be scrapped or retired is over R 20 000 it must be approved by the Council, before it is scrapped or retired.
- When the total carrying amount of the assets to be scrapped or retired is R20 000 or less it must be approved by the Municipal Manager and the Financial Manager, before it is scrapped or retired.
- The disposal of assets will take place on the last working day of June each year.
- All departments must notify finance of the assets to be disposed or scrapped before the last working day of May each year.

### **5.13 Control and management of property, plant and equipment**

All items of property, plant and equipment must be properly insured against theft and damage.

All items of property, plant and equipment must be properly safeguarded by keeping it in a safe place when it is not in use.

All assets must be clearly marked with a permanent asset number for identification purposes. These unique numbers must also be captured onto the fixed asset register.

The marking process of new items of property, plant and equipment will be done once a month after the suppliers of the new assets are paid.

Each Head of Department is responsible for the items of property, plant and equipment in his/her department and these items will be controlled by way of inventory sheets.

These asset inventory sheets must be updated on a monthly basis with any disposals, additions or scrapings and must be reconciled to the fixed asset register twice per financial year.

The asset register will at least contain the following information:

- A unique asset number or registration number or title deed number in respect of property,
- The asset category and asset type,
- An asset description,
- The date of acquisition and cheque number, and/or the date when the asset is disposed of or scrapped,
- The location of the asset,
- The cost price of the asset or the selling price in respect of assets sold,
- The depreciation rate,
- The depreciation for the current year,
- The accumulated depreciation,
- The profit or loss on disposal or scrapping of assets,
- The book value of the asset,

- The source of finance, and
- The replacement value.

The asset register must be updated monthly with any additions, disposals and scrapings, before the depreciation run for the month can occur.

The Finance Manager or his/her delegated will ensure that the fixed asset general ledger control accounts are reconciled on a monthly basis with the balance of the asset register. The reconciliation must be done by asset type and must be performed before the 25<sup>th</sup> day of each month.

The Finance Manager will ensure the correctness of the reconciliation as mentioned above. He must sign the reconciliation's as proof of the verification function performed.

Assets must be disclosed in the municipalities financial statements according to GAMAP or any other accounting practice that have an effect on District Councils.

#### **5.14 Physical verification of property, plant and equipment**

All items of property, plant and equipment must be physically verified in detail at least once per financial year with spot checks being performed during the year.

After the physical verification process the following items of property, plant and equipment will be identified:

- Items of property, plant and equipment that could not be verified,
- Items of property, plant and equipment that were capitalised and added to the fixed asset register, but the unique asset number could not be found.
- New items of property, plant and equipment that were not numbered and added to the asset register yet, and
- Damaged items of property, plant and equipment that should be written off.
- When the physical verification process is completed and the issues above are cleared, new lists of property, plant and equipment, per location and department must be handed out to the relevant Head of Departments for control purposes.

##### **Items of property, plant and equipment that could not be found**

These items of property, plant and equipment must be summarised per location and department.

These summaries must then be circulated to the relevant Head of Departments for confirmation and written explanations.

If the assets could not be found and these assets were not sold an Asset Scraping Form must be completed as described above.

The fixed asset register and the general ledger must be updated with any items of property, plant and equipment that could not be found.

##### **Items of property, plant and equipment which could not be identified due to a lack of an unique asset number**

Assets in the asset register that is not cleared yet must be reconciled to:

- Physical assets identified that meets the description and location as indicated in the asset register, and
- Which had an estimated cost price of more than R2 500.00.

When an asset is positively identified, the asset must be clearly numbered with the relevant unique asset number and captured in the asset register.

If the asset number could still not be traced in the asset register, a new number must be allocated to the asset.

A fair value and useful life must be adopted for these assets and must be captured onto the



fixed asset register and general ledger.

### **New items of property, plant and equipment**

New items of property, plant and equipment acquired must first be captured in the fixed asset register before asset numbers are allocated to the assets.

When updating the fixed asset register with new items of property, plant and equipment the cost price must be obtained from the supporting documentation, for example invoices. VAT must be accounted for correctly.

A unique asset number must be allocated to the asset. This number must be captured in the asset register as well as the list of new items, should the number not yet be fixed onto the relevant asset and captured in the fixed asset register.

A list of these new items of property, plant and equipment by location must be used during the physical verification process to identify any new assets that still need to be numbered.

The new items of property, plant and equipment must then be permanently numbered with the same number as indicated on the list of new assets.

### **Damaged items of property, plant and equipment identified**

When damaged items of property, plant and equipment are identified during the physical verification process, the condition of these items must be discussed with the Head of Department.

When the items identified are damaged beyond repair and can no longer be used, the following procedures must be followed:

- The assets must be listed by the physical verification team, and
- A request for Scrapping/Retirement Asset Form must be completed by the Head of Department that clearly indicates the reasons for the asset being damaged.

Where these items of property, plant and equipment can still be utilised the physical verification team together with the Head of Department must assess such asset's future useful life.

If it is found that due to the damage to these assets, the future useful lives have decreased and are shorter than their current estimated useful lives, the current and the future depreciation charge will be adjusted accordingly.

The fixed asset register and general ledger must be updated for all approved Scrapping/Retirement Asset Forms.

## **5.15 Assets held under finance leases**

Assets held under finance leases will be accounted for as follows:

- The leased assets will be capitalised in the financial statements of the lessees at the amount stated in the lease agreement, and
- The asset will be depreciated over the useful life of the asset to the lessee, unless
- There is no certainty that the lessee will obtain ownership by the end of the lease term whereby the leased asset will then be depreciated over the shorter of the lease term or its useful life.

## **5.16 Research and development cost**

Research costs will not be recognised as an asset but will be recognised as an expense in the period in which it is incurred.

Development costs of a project will be recognised as an expense in the period in which it is incurred, unless all of the following criteria is met:

- The project or process is clearly defined and the costs attributable to the product or process can be separately identified and are reliably measured.
- The technical feasibility of the product or process can be demonstrated.
- The municipality intends to produce and market or use the product or process.
- The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the municipality can be demonstrated.
- Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Development cost initially recognised as an expense will not be recognised as an asset in a subsequent period.

Development cost recognised, as an asset will not exceed the amount that Council is probable to recover from related future economic benefit or potential service provision, after deducting the following costs:

- Further development costs,
- Related production or service delivery costs, and
- Selling and administrative costs directly incurred in marketing the product.

[illegible]

<b><u>Recreational assets:</u></b>		<b><u>Asset life</u></b>	<b><u>Other assets (continue):</u></b>		<b><u>Asset life</u></b>
<b>Facilities:</b>			<b>Buildings (continue):</b>		
Bowling greens		20 years	Office buildings	Old	
Tennis courts	Swimming	20 years	age homes	Quarries	30 years
pool	Golf courses	20 years	Tip sites		30 years
Jukskei pitches		20 years	Training centres		30 years
Outdoor sport facilities		20 years	Transport facilities		30 years
Organ & Case		20 years	Workshop/depots		30 years
Lakes and dams		20 years	<b>Office equipment:</b>		30 years
Fountains	Floodlighting	20 years	Computer hardware		30 years
<b>Security measures:</b>		20 years	Computer software	Office	
Fencing		20	machines	Air	3 years
Security systems		years	conditioners		3 years
Access control			<b>Furniture and fittings:</b>		3 years
<b>Water:</b>		3 years	Chairs		5 years
Meters		5 years	Tables/desks		
Mains		5	Cabinets/cupboards		7 years
Rights	Supply/reticulation	years	Miscellaneous		7 years
Reservoirs & Tanks			<b>Bins and containers:</b>		7 years



## **CHAPTER 6 INVESTMENTS**

### **6.1 INVESTMENTS**

The Accounting Officer shall be responsible for the investment of the funds of Council on such terms and conditions as may be prescribed in terms of the Investment policy, approved by Council and shall in connection with such investments be empowered to purchase or sell any securities

## **CHAPTER 7 RISK MANAGEMENT**

### **3 INSURANCE**

- 3.5 The Accounting Officer shall be responsible for the placing of insurances as approved by Council from time to time. The Accounting Officer shall also be responsible for the management of Council's self-insurance fund, and shall in managing such fund cover such risks as the Accounting Officer may determine and ensure that adequate premiums are charged by the fund annually.
- 3.6 A self-insurance fund shall be protected by such reinsurance cover as determined by the Accounting Officer.
- 3.7 The Accounting Officer may at any time require from a Departmental Manager, who shall duly supply, a statement setting out the assets held by that Department, the risks to be insured, and any other information which the Accounting Officer deems necessary.
- 3.8 A Departmental Manager, where so required by the Accounting Officer, shall give prompt notice to the Accounting Officer of all property acquired, leased or rented, which should be insured against fire, accident or loss of any kind, and of any alterations in structures, heating or occupation of any buildings or items under insurance.
- 3.9 A Departmental Manager shall advise the Accounting Officer of the amounts for which new insurances should be effected, o of any alterations in existing insurances, having regard at all times to the replacement cost of assets.
- 3.10 A Departmental Manager shall give notice to the Accounting Officer immediately after the occurrence or within seven days of any fire or damage to or loss of the assets of Council and shall as soon as possible after such occurrence, complete the appropriate claim forms and furnish an estimate of the cost of making good such damage.
  - 3.10.1 A Departmental Manager shall similarly advise the Accounting Officer of any injuries to employees of Council.
  - 3.10.2 A Departmental Manager shall further advise the Accounting Officer of any injuries or damage to third parties in any case which could give rise to a claim against Council,
- 3.11 A Departmental Manager shall promptly advise the Accounting Officer of any assets which in their opinion should be insured against political riot and malicious damage or any other risk and the amounts for which such insurance should be effected, and the Accounting Officer shall report departmental requests to Council.
- 3.12 Should Council not operate a self-insurance fund the Accounting Officer shall, unless Council otherwise resolves, be responsible for the calling of tenders for the appointment of a suitable Insurer, and shall ensure the placement of cover for such risks as Council may from time to time determine, including cover for claims made against Council by third parties.
- 3.13 The Accounting Officer shall keep a record of all insurance policies held by Council, be responsible for the payment of all premiums, and ensure that all claims which arise under such policies are settled.

## **CHAPTER 8 PROCUREMENT AND INVENTORY**

### **8.1 TENDERS, QUOTATIONS AND CONTRACTS**

- 8.1.1 All tenders will be handled in accordance with Council's procurement policy
- 8.1.2 No contract shall be binding on Council unless it is in writing and the acceptance thereof signed by an official authorised to do so by Council.
- 8.1.3 In the case of every contract where the total amount to be paid under the contract exceeds or is likely to exceed an amount as determined in the Procurement Policy, a guarantee approved by the Accounting Officer shall be provided by the contractor, and such guarantee shall cover at least 10% of the contract sum.
- 8.1.4 A progress payment in terms of a contract shall be limited to the value of the work done or material supplied, as certified in terms of the contract, less the amount of previous payments made and retention money withheld in pursuance of such contract..
- 8.1.5 Upon completion of a contract, the certificate for final payment together with the contractor's detailed account and statement, showing omissions and additions, shall be forwarded to the Accounting Officer.
- 8.1.6 A Departmental Manager shall furnish the Accounting Officer or Departmental Manager approved by Council with all such information as he may require to ensure the efficient administration of all contracts entered into by Council.
- 8.1.7 The Buyer for Council will have the discretion to determine the upset price, for the procurement of goods or services.

### **8.2 STORES AND MATERIAL**

- 8.2.1 The Accounting Officer or Departmental Manager authorised by Council shall be responsible for the proper management of all stores under his control, for the safe custody of all goods and material contained therein, and shall keep such records of receipts and issues as the Accounting Officer may deem necessary to account for such stores and material.
- 8.2.2 Maximum and minimum stock and reorder levels shall be determined in the manner prescribed by the Accounting Officer. Stocks shall not be held in excess of normal requirements, except where the Accounting Officer, or where the Accounting Officer does not manage purchases and supplies, the Accounting Officer and the Departmental Manager responsible for stores, agree that special circumstances exist.
- 8.2.3 The Departmental Manager concerned shall only issue stores and material against a requisition signed by an official authorised to do so.
- 8.2.4 Except where the Accounting Officer is of the opinion that special circumstances exist, material shall not be carried by any Department in excess of normal requirements as ascertained by experience.
- 8.2.5 No stock items shall without the approval of the Accounting Officer be purchased out of imprest moneys held by Departments.
- 8.2.6 Every Departmental Manager shall at least once in every financial year carry out a stocktaking covering all surplus material under his control and shall report to the Accounting Officer the quantity and value of any discrepancies and breakages in surplus material revealed by such stocktaking, together with the reasons for such discrepancies and breakages. In addition, the Accounting Officer shall from time to

time, and on such basis as he considers adequate, verify the existence of all material, whether they are under the control of the Accounting Officer or under the control of another Department.

- 8.2.7 Any adjustments to stock records shall be authorised in the manner prescribed by the Accounting Officer or Council, as the case may be, provided that any adjustments which the Accounting Officer deems to be material, and all cases involving negligence or identifiable theft shall be reported to Council and, if applicable, dealt with as prescribed by the Municipal Finance Management Act.
- 8.2.8 All stores and material which are surplus on the completion of the works or on the fulfilment of the purpose for which they were issued, or recovered in the course of carrying out works, or on hand for any reason whatsoever, shall immediately, under cover of an advice note which adequately describes them, be returned to store or such place as the Accounting Officer may direct. The advice note shall be in such form as the Accounting Officer may prescribe and, where applicable, the value placed on returned stores and material shall be fixed in consultation with the Accounting Officer.
- 8.2.9 Where, in the opinion of the Accounting Officer, any stores and material should be scrapped or declared redundant or obsolete, the Accounting Officer or Departmental Manager so authorised shall dispose of such stores and material to the best advantage of Council, in accordance with the Assets Management Policy.



## **CHAPTER 9 GENERAL FINANCIAL CONDITIONS**

### **9.1 INTERNAL CONTROL**

The Accounting Officer will inform the responsible Departmental Manager whether the internal control measures implemented are adequate, but it shall be the responsibility of a Departmental Manager:

- 9.1.1 to establish and maintain systems of internal control to ensure that activities are conducted in an efficient and well ordered manner;
- 9.1.2 to ensure that adequate measures are taken to safeguard computer equipment, programs and all associated records; and
- 9.1.3 generally to maintain and safeguard all assets and records for which the Department is responsible.

### **9.2 INTERNAL AUDIT**

- 9.2.1 The Chief Internal Auditor shall be responsible for the auditing, on such basis as he considers appropriate, subject to any legal prescriptions, of all records, transactions, undertakings or matters generally which have any bearing on the finances of Council.
- 9.2.2 The Chief Internal Auditor shall be Responsible to provide the Auditor-General with the necessary information during his audit.
- 9.2.3 To enable the Chief Internal Auditor to discharge the responsibility referred to in clause 9.2.1, he shall have access to any information which he in his opinion requires for this purpose. A Departmental Manager shall advise the Chief Internal Auditor of any departmental inquiry which may have any bearing on the financial administration of Council and shall invite the Chief Internal Auditor to be represented at such inquiry.
- 9.2.4 The Chief Internal Auditor may, at his discretion, and in addition to any steps taken by the Departmental Manager, submit a report on any matter pertaining to such inquiry to the Municipal Manager or Council, after consultation with the Municipal Manager.
- 9.2.5 In performing the internal audit function, the Chief Internal Auditor shall consider and, where he deems it necessary, report on, inter alia, the following:
  - 9.2.5.1 whether, to the best of his knowledge, all income which should accrue to Council has so accrued and has been properly recorded;
  - 9.2.5.2 whether proper authority exists for any amount written off as irrecoverable or abated;
  - 9.2.5.3 whether effective accounting records are maintained;
  - 9.2.5.4 whether expenditure incurred on any item or project, including interdepartmental jobbing:
    - 9.2.5.4.1 has been correctly allocated as between capital and operating account;
    - 9.2.5.4.2 has been charged to the correct line item (Project/Job);
    - 9.2.5.4.3 has been made with proper authority;
    - 9.2.5.4.4 complies with legislation, by-laws and policies; and
    - 9.2.5.4.5 affords Council due value for money;

- 9.2.5.5 whether waste, extravagance or inefficient administration exists;
  - 9.2.5.6 internal control, including the soundness, adequacy and application of financial and other management controls;
  - 9.2.5.7 whether procedures which have any bearing on the finances of Council and which are prescribed in these Regulations, or by any other law, or by a directive of the Accounting Officer, are adhered to;
  - 9.2.5.8 whether the movable assets of Council, cash and other interests are adequately safeguarded;
  - 9.2.5.9 whether all securities for investments made by Council are in order, adequately safeguarded and properly shown in the books of Council;
  - 9.2.5.10 whether stocks of materials at the various Departments are verified at least once in every financial year;
  - 9.2.5.11 whether cash in hand and all bank balances are verified monthly;
  - 9.2.5.12 whether adequate security exists in respect of all computer installations and the determined procedures for the proper management of such installations are properly observed;
  - 9.2.5.13 the suitability and reliability of financial and other management data developed within Council.
- 9.2.6 The Chief Internal Auditor, after consultation with the Municipal Manager, shall from time to time in order to determine the relative cost-benefit or value for money or both, evaluate and, where necessary, report on the performance of any Department or section of a Department, including his own Department.
- 9.2.7** Any information which the Chief Internal Auditor considers necessary for the completion of such performance audit shall be furnished to him and, whenever he deems it necessary, after consultation with the Municipal Manager, consultants may be engaged by Council to assist with the conduct or interpretation of such performance audits or any other audit of whatever nature.
- 9.2.8** No computer program or any changes thereto shall be permitted to become operational until the Municipal Manager has approved and tested such computer program or the relevant changes, provided that this clause shall only apply to computer programs which, in the opinion of the Municipal Manager, relate to or affect the financial administration of Council.
- 9.2.9 When any matter arises which involves, or is thought to involve, irregularities concerning cash, stores or other property of Council, or in the exercise of the functions of Council in general, the Departmental Manager concerned shall forthwith notify the Chief Internal Auditor who may take such steps as he considers necessary and report on such matter independently of the Departmental Manager.
- 9.2.10 The Chief Internal Auditor shall report to the Municipal Manager at least quarterly on the audit activities of his Department, and specifically on the matter referred to in clause 9.2.4

### **9.3 MISCELLANEOUS**

#### **9.3.1 Acquisition of Computer Hardware and Software**

Council will not purchase or otherwise acquire, develop or extend any computer hardware including peripheral equipment, software, or application packages, unless it is in line with the IT Strategy accepted by Council.

#### **9.3.2 Financial Procedure**

The Financial Manager shall be empowered to prescribe financial procedures to other departments under this Policy.

#### **9.3.3 Review and control over Policy**

It is the responsibility of the Financial Manager to maintain this policy.

### **9.4 MISCONDUCT**

Any deviation from this policy constitutes financial misconduct, and disciplinary action should be instituted against any official who does not adhere hereto. Disciplinary action will be taken in terms of section 142 of the Municipal Finance Management Act.

### **9.5 FINANCIAL STATEMENTS**

The Accounting Officer shall prepare financial statements in respect of each financial year in the format prescribed by the standards of generally recognised accounting practices.

### **9.6 STATUS OF THIS POLICY**

This policy will have a prevailing status to other policies of Council, and all other policies should be amended to ensure that there is no conflict of interest.