

# FETAKGOMO LOCAL MUNICIPALITY



## FINANCE PROCEDURE MANNUAL

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## **1. Supply Chain Management**

All purchases must be done in accordance with council's Supply Chain Management Policy.

### **1.1 Request for goods and services**

- a) End user submit an authorized request for goods/ memorandum of needs to the budget office for stamping (verification of line item and availability of budget)
- b) The memorandum is submitted to the municipal manager for authorization
- c) Memorandum is submitted to the supply chain management unit for sourcing of quotations in terms of the thresholds as stated in the municipality's supply chain management policy.
- d) The SCM clerk checks the request to ensure the following:
  - i. The correct vote has been inserted;
  - ii. The description of the goods/services is accurate and the quantity specified;
  - iii. Where the expenditure relates to a specific, identifiable item of Capital equipment (e.g. vehicle), ensure that the vehicle registration number is provided;
  - iv. That all unused lines have been ruled off to prevent unauthorised additions;
  - v. That the requisition has been signed by an authorized Officer;
  - vi. That the request has been approved by the Municipal Manager or delegated official
- e) It is the SCM clerk's responsibility to source the supplier for goods requested.
- f) The standard service providers list is to be used, unless these service providers are unable to fulfill the order as and when required other service providers may be used.
- g) The SCM clerk captures the requisition and forward the unauthorised requisition to the user department for authorization.

### **1.2 Requisitions**

- a) Requisitions are captured in the Supply chain management office (SCM).
- b) Unauthorised requisitions are taken to the user department for authorisation by the relevant manager.

### **1.3 Approval of requisitions**

- a) Line managers approve requisitions up to the value of R 50,000
- b) Senior Managers approve requisitions above R50.000 to the maximum of R1000 000.00
- c) CFO approves requisitions above R1000 000.00
- d) Municipal Manager approves requisitions above R1000 000.00
- e) The approved requisition is submitted to SCM unit.

### **1.4 Order**

- (b) Upon receipt of the requisition package, the SCM manager.
- (c) The CFO may delegate the budget manager or income & expenditure manager to print an order not exceeding R50 000.00
- (d) The Chief Financial Officer may authorise an order above R50 000.00
- (e) Before printing the order the SCM manager/ delegated official must check the requisition and verify the following:
  - i. The correct vote has been inserted.
  - ii. VAT has been captured correctly.
  - iii. That the request has been approved by an authorised person.
  - iv. The captured requisition tally back to the request for goods and the quotation (verify the casting on quotations).
- (f) The original (white copy) is sent to the service provider (either faxed or handed physically).
- (g) The second copy (yellow) is attached to the requisition package and filed in the SCM unit.
- (h) The third copy (green) is filed and stored in registry office.

### **1.4 Delivery/ receipt of goods**

- a) Upon delivery of goods compare the delivery note and the order; and check whether the quantity on the delivery note corresponds with the quantity ordered.
- b) Count the physical quantity of goods against the delivery note.

- c) The SCM unit official and end user must sign the delivery note to certify that the goods were received in good order.
- d) The SCM unit captures a goods received voucher (GRV); and submits the goods received voucher together with the order and invoice to the expenditure unit.

## **2. INCOME AND EXPENDITURE**

### **2.1 Main functions**

- a) The main function is to ensure that payment of goods and services are done in an effective, efficient and economical way in accordance with legislation and council policies.

### **2.2 Composition**

- a) The expenditure section is divided into two sub-sections, viz salaries and creditors.

#### **2.2.1 Salaries**

- a) This sub-section is responsible for payment of employee salaries, councilors' allowances and salary related payments.
- b) The Expenditure Officer receives salaries payment scheduled signed by Senior Manager Corporate Services and Chief Financial Officer and any other relevant official.
- c) The Expenditure Officer must recheck the salaries schedule for errors.
- d) The Expenditure clerk must capture the salaries on the EFT for payment.
- e) The Expenditure clerk must print an audit trail and provide it to authorised signatory together with the salaries schedule for processing.
- f) A final audit trail must be printed and filed with the salary schedule in a file designated for that purpose.

- g) The Expenditure must capture the salaries paid on the financial system (currently munsoft)
- h) The Expenditure clerk must prepare salaries reconciliation per month and it should be signed the manager Income and Expenditure and CFO.

### **2.2.2 Creditors'**

- a) The Income and Expenditure Unit receives request for goods/ services, quotations, requisition, order, GRV and prepare a payment voucher.
- b) The payment voucher is signed by manager Income and Expenditure and authorised by the CFO.
- c) The Income and Expenditure Unit makes a payment through Electronic Transfer Payment (EFT) or Cheque method.
- d) The audit trail together with the vouchers will be given to two authorised officials to approve/release the payment on the EFT system.
- e) After approval of the payments the expenditure clerk must print the finally approved audit trail, attach it to the payment vouchers.
- f) The Expenditure clerk captures the payments on the financial system (Munsoft).
- g) The Expenditure clerk must sequentially file the vouchers.
- h) The Expenditure clerk must prepare creditors reconciliation monthly and it should be signed by the Manager Income and Expenditure and the CFO.

### **2.2.3 Project payments**

- a) Project payments are payments made to appointed consultants and/or contractors for approved municipal projects or implementing agent projects.
- b) Before any payment can be made to a contractor or consultant a tax invoice/payment certificate must be submitted to the technical department who will fill a project covering claim form.
- c) The projects claim form together with the original tax invoice, payment certificate and any other relevant supporting documentation attached to it must be approved by technical department and/or municipal manager. The claim must then be submitted to the budget section for stamping (verification of line item and availability of budget).

- d) The requisition must be captured and authorized by the SCM unit; and be submitted to the Manager for Technical Services or any other authorised official who will check the claim for financial correctness and the retention calculation.
- e) The SCM manager must issue an order and the SCM clerk must capture a goods received voucher, sign by Manager Technical Services and hand over all documentation to the expenditure clerk who will then verify the claim for financial correctness and retention calculation
- f) The Expenditure Officer will capture the payment on the system and follow step 2.2.2 (c).

### **3. Journal processing**

- a) Journals are captured in order to rectify errors that occur in the financial system. It must show a debit and credit amount.
- b) Supporting documentation or letter of explanation must be attached to the journal and filed correctly.
- c) Journals not exceeding R50 000.00 should be authorized by line managers; Budget, SCM unit and Income and Expenditure.
- d) Journals exceeding R50 000.00 should be authorised by the CFO.

### **4. Petty cash**

- a) The custodian of the Petty Cash is a Chief Financial Officer.
- b) Petty cash is administered in the expenditure section by the expenditure clerk and it is used to make small payments of up to R500.00 per request (with the exception of motor vehicle registration related transaction) and the petty cash float is made up of the total amount of R5 000.00.
- c) A petty cash request form with the correct expenditure vote has to be completed and signed by the requestor.



- d) The request form must be taken to the budget office for stamping (verification of line item and availability of budget).
- e) The expenditure must be approved by the relevant head of department and the CFO/ authorized official in Budget and Treasury Office.
- f) After ensuring that the request is in order, the expenditure clerk will then disburse the cash to the requestor who will sign in the petty cash register as acknowledgement that he has received the cash.
- g) The invoices/ cash sale slip together with the change must be returned to the expenditure clerk who will sign on the requisition form as acknowledgment that he has received the invoice/cash sale slip and the change. The invoices/ cash sale slip are then attach to the voucher.
- h) Failure to return the invoice/ cash sale slip with the change will result in the requestor paying from his own pocket or the expense being deducted from the requestor's salary.
- i) Regularly the expenditure clerk must perform a petty cash count by comparing the recorded petty cash withdrawals with the cash count on hand and this must be reviewed by the accountant.
- j) Petty cash reconciliation is performed on monthly basis. Expenditure clerk will reconcile the requisition forms together with the attached slips. The petty cash reconciliation must include the amount at beginning of the month, total amount spent during the month and the available amount at month-end. The reconciliation will then be checked by the Manager Income and Expenditure where he/she will perform a physical cash count to make sure that the reconciliation corresponds with the available cash in the cash box and the reconciliation must be approved by the CFO. The expenditure clerk processes the voucher which is approved by the Manager Income and Expenditure and makes a manual cheque which must be signed by two authorised signatories and cashes it at the bank.
- k) In case the float reaches the minimum amount of R500 during the month, a voucher consisting of all petty cash request forms supported by their cash slips must be prepared for replenishment.
- l) The petty cash handover should be done in writing through a handover certificate which should be signed off by the person handing over petty cash, the person who will

take over the petty cash responsibilities, the accountant and the CFO. A handover certificate should document the total petty cash on hand.

## **5. Investment procedures**

### ***5.1 Investment of Funds by the Municipality:***

- a) The investment register must be examined on a regular basis to identify investments falling due within the two weeks following and start the investment process such as looking at alternatives.
- b) Prior to the investment of monies, the Chief Financial Officer (CFO) must determine whether there will be surplus funds available, as well as fix the term for which such money should be invested.
- c) In order to be able to make investments for any fixed term, it is essential that cash flow forecasts be drawn up.
- d) In the instance surplus funds are available for investment, the Chief Financial Officer should contact the various banking institutions for interest rate quotations and prepare a manual or computerized schedule of the quotations indicating the amounts to be invested, the rates quoted and the maturity values (maximum return).
- e) Based on the results of the statement above, the Chief Financial Officer should then decide on with whom and for what amount the investment must be made. The spreadsheet must be filed together with the investment documentation.
- f) Prepare a report to the Finance Portfolio committee showing all movements in respect of the municipality's investments as well as all details on the investments.

### ***5.2 Approval of Investments:***

- a) Approval of investments is done by Municipal Manager or the Chief Financial Officer with consultation with the Mayor and then the expenditure section must effect the electronic funds transfer in respect of the investment amount.

### ***5.3 Updating of Records:***

- a) Each investment made should be entered into an investment register, indicating:
- b) The institution where the investment was taken;
- c) Date of investment; and
- d) Amount invested;

- e) Interest rate applicable and when interest is payable;
- f) Maturity date;
- g) The Chief Financial Officer or delegated official is responsible for updating the financial records in respect of termination of investments and entry into new investments as well as recording if an investment is liquidated at a date other than the maturity date.
- h) The Chief Financial Officer or delegated official should perform interest calculations on each investment to check whether the correct interest was received depending on when interest fell due or was credited.
- i) When preparing the annual financial statements, the Chief Financial Officer must obtain from each institution with which the Municipality holds an investment, a certificate stating the nature of the investment, the value of the investment, interest paid on the investment, and interest outstanding on the investment.
- j) The Chief Financial Officer should raise any differences, as interest accrued or interest received in advance, in the correct period to which it relates.

## **6. Asset control procedures**

### **6.1 Maintenance of Fixed Assets**

- a) Fixed Assets Register must be maintained, by keeping a record of all assets categorized as Property, Plant and Equipment.
- b) The following details must appear on the Fixed Assets Register:
  - i. Description
  - ii. Date of acquisition;
  - iii. Location of the asset;
  - iv. Department which will be using the asset;
  - v. Title deed number (if fixed property);
  - vi. Stand number (if fixed property);
  - vii. Asset identification number;
  - viii. Original price;
  - ix. Late revalued date

- x. Revalued value;
- xi. Accumulated depreciation;
- xii. Depreciation charge for the year;
- xiii. Carrying value;
- xiv. Impairment losses;
- xv. Funding source;
- xvi. Insurance arrangement;
- xvii. Must asset perform basic municipal services;
- xviii. Has debt been secured with the asset;
- xix. Date of disposal;
- xx. Price of Disposal;
- xxi. Date of retirement.

c) When fixed assets are sold, disposed of, transferred or purchased on approval by the Council should be obtained.

d) The fixed asset register must be up-dated monthly.

e) The journal entries to record the sale, disposal, transfer or purchase and depreciation must be processed.

f) Fixed Assets may also be disposed of by public auction, tender or donation.

## **6.2 Transfers of Assets:**

a) With respect to transfer of assets, a list must be produced indicating the relevant details as per asset register. The list must be approved by the transferring Department. The receiving Department should confirm the list of assets being transferred.

b) The asset registrar must update the asset movement register and update the new location on the asset management system e.g. BAUD

### **6.3 Acquisition of Moveable Property:**

- a) Acquisition of assets shall be done in accordance with the supply chain management policy of the municipality. All asset acquisitions are to occur in terms of the budgetary provisions.
- b) The fixed assets register should be updated for all acquisitions of moveable and immoveable property. The assets register must be reconciled with the total assets per the general ledger

### **6.4 Insurance:**

- a) Ensure that all assets are adequately insured annually with the Council's brokers. Follow up all insurance claims in respect of fixed assets by:
  - Submitting the claim;
  - By recording claims on the insurance register; and
  - Review of outstanding claims.

### **6.5 Recognition of Property, Plant and Equipment in the Financial Statements:**

- a) An item of Property, Plant and Equipment (PPE) should be recognised as an asset when:
  - i. It is probable that future economic benefits or potential service delivery associated with the asset will flow to the Municipality over a period extending beyond one financial year.
  - ii. The cost or fair value of the asset to the Municipality can be measured reliably.
- b) An item of PPE that qualifies for recognition as an asset should initially be recognized at its cost or fair value.
- c) The cost of PPE comprises:
  - i. Purchase price;
  - ii. Import duties;
  - iii. Non-refundable purchase taxes; and

- d) Directly attributable costs of bringing the asset to working condition for its intended use, such as the cost of site preparation, initial delivery, handling costs, installation costs, and professional fees such as architects and engineers fees.
- e) When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognized as an interest expense over the period of credit.
- f) Administration and general overhead costs are not a component of the asset's cost unless they can be directly attributable to the acquisition of the asset or bringing the asset to its working condition.
- g) When an item of PPE is acquired by exchange or part exchange of a dissimilar item of PPE or other asset, the cost of such item is measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

#### **6.5.1 Subsequent Expenditure:**

- a) Subsequent expenditure relating to an item of PPE that has already been capitalized, should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the Municipality; and
- b) All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

#### **6.5.2 Revaluations:**

- a) When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued;
- b) When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited directly to the non-distributable reserves of the Municipality; and

- c) When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements except in so far as the decrease may be debited in the first instance to any existing revaluation reserve.

### **6.5.3 Retirements and disposals:**

- a) An item of PPE should be eliminated from the statement of position on disposal, or when the asset is permanently withdrawn from use and disposal; and no future economic benefit or potential service delivery is expected from it.
- b) Gains or losses arising from the retirement or disposal of an item of PPE should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the assets, and should be recognised as revenue or expenses in the statement of performance.

### **6.5.4 Asset verification**

- a) The asset count must be performed at least once every financial year.

## **7. Budgeting Procedures**

### **7.1 Budget Timetable**

- a) The budget timetable must be developed annually as set out in the MFMA.

### **7.2 Municipal Annual Budgets:**

- a) The annual budget:
  - i. Must be in accordance with a format as may be prescribed by the National Treasury;
  - ii. Must be balanced to ensure that the total amount appropriated in terms of the budget does not exceed the realistically anticipated revenue;
  - iii. Must reflect priorities reflected in IDP;
  - iv. Must inform IDP process to avoid unrealistic expectations;
  - v. Be in the prescribed format and be split into a capital and operating budget;
  - vi. Reflect realistically expected revenue;
  - vii. Revenues and expenses must be divided into votes; and



viii. Must include two years budget following the budget year.

b) The budget must be accompanied by all the following documents:

- i. draft resolutions approving the budget, rates and taxes, other taxes and tariffs for the financial year concerned;
- ii. draft resolutions (where applicable) amending the IDP and the budget-related policies;
- iii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- iv. the projected cash flows for the financial year by revenue sources and expenditure votes;
- v. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councilors, the municipal manager, the chief financial officer, and other senior managers;
- vi. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
- vii. particulars of the municipality's investments; and
- viii. Varied information in regard to municipal entities under the shared or sole control of the municipality.

### **7.3 Preparation of Current Budget:**

a) The Mayor of the municipality must:

- i. Co-ordinate the processes for preparing the annual budget, and for reviewing the municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- ii. At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- iii. When preparing the annual budget, take into account the municipality's IDP, the

- national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- iv. Take all reasonable steps to ensure that the municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
  - v. Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
  - vi. Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other municipality affected by the budget.
  - vii. Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
  - viii. Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
  - ix. Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
  - x. Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan (SDBIP).
- b) The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.
  - c) The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

#### **7.4 Due dates for submission of Budgets by the various sections in the Municipality:**

- a) The Chief Financial Officer must receive detailed estimates of draft income and expenditure by the first week of January from the Heads of Sections in the Municipality.

#### **7.5 Review of Budgets:**

- a) The draft budgets of individual sections must be reviewed to ensure compliance with budget instructions that have been issued. Heads of Sections who have not complied must be interrogated.

#### **7.6 Approval of Annual Budgets:**

- a) A Municipality must approve its annual budget before the start of the financial year to which it relates.
- b) The annual budget of a Municipality is approved by a decision taken by the Council of the Municipality with a supporting vote of a majority of the members of the Council.
- c) If a Municipal Council fails to approve an annual budget as required above, the Council must reconsider the budget and again vote on the budget or an amended version thereof, within 14 days of the meeting that failed to approve the budget.
- d) The provincial executive must intervene in any municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.
- e) Upon approval by Council, the Chief Financial Officer must submit the budget to the Minister of Finance within a period of fourteen days.

## **7.7 Municipal Adjustments Budget**

- a) A municipality may revise its annual budget by means of an adjustments budget.
- b) However, a municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- c) A municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmed already budgeted for.
- d) A municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.
- e) A municipality may authorise the utilization of projected savings on any vote towards spending under another vote.
- f) Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.
- g) Only the Mayor of the municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.
- h) An adjustments budget must contain all of the following:
  - i. an explanation of how the adjustments affect the approved annual budget;
  - ii. appropriate motivations for material adjustments; and
  - iii. an explanation of the impact of any increased spending on the current and future annual budgets.

## **7.8 REPORTING**

- a) The budget section has to report as per the following provisions of the MFMA
  - i. Section 71, monthly budget statements
  - ii. Section 72, mid year budget & performance assessment

- iii. Section 52(d), quarterly financial and non financial report
- iv. Section 121, annual report
- v. Section 122, annual financial statements
- vi. Section 66, expenditure on staff benefits
- vii. Section 11(4)(a), report on all withdrawals made in terms of subsection (1)(b)
- viii. Section 28 (1), adjust municipal budgets

### **7.9. Monitoring the Budget**

- a) The Budget office must prepare monthly variance reports of actual expenditure to budgeted expenditure by vote.
- b) The Municipal Manager must present these reports to Council.
- c) The Mayor must receive the reports and where necessary act upon them.

## **8. Cash management procedures**

### **8.1 Cash/Debt Collection**

- a) All monies due to the Municipality must be collected as early as possible and banked daily. Cash left lying in the safe poses a security risk, and could require additional insurance cover.
- b) It is essential that all amounts owing to the Council be levied by way of a debit in the applicable debtors system.
- c) A well managed debtors and banking control system is the proper measure for ensuring that funds owed to the Council are timeously received and banked.
- d) Debt collection performance should be regularly reviewed by comparing funds presently owed to Council in relation to the total income as well as to the situation in the previous financial years, in order to determine whether the debt collection process is deteriorating or improving. This must be done by utilizing the age analysis.
- e) All monies collected by the Council must be banked in the appropriate bank account of the Council.

- f) Monies collected by some other agency on behalf of the Council shall be paid over to the Council or deposited in the appropriate bank account of the Council in a manner prescribed by the Municipal Manager.
- g) The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt.
- h) Any debt older than the age as determined by the credit control policy must be handed over to the credit control department to recover.

## **8.2 Payment to Creditors**

- a) Another aspect of effective cash management is adequate control over the timing and payment of creditors' accounts.
- b) If possible, it is essential to limit the payment of creditors to one payment per creditor per month, in order to avoid the additional bank costs involved with cheque payments.
- c) Where practicable, the Municipality should make use of electronic funds transfer facilities to make payments to creditors.
- d) When considering when to pay a creditor, due regard must be taken of the terms of credit offered. Where cash discounts are offered for early settlement, the discount, given the scale involved, would in most cases, out-weigh any investment benefit that could be obtained by the temporary placing of funds. Therefore, where discounts for early settlement are offered, these should be carefully considered and acted upon.
- e) Apart from 2.4 above, the normal conditions of credit in terms of payment offered by suppliers should also be considered and utilized to the full by paying on the due date and not earlier with consideration that all monies owed by the municipality must be paid within 30 days of receiving the relevant invoice or statement.

## **8.3 Receipt of Money**

### **8.3.1 Receipt of Money over the Counter**

- a) Every payment received by a cashier or other officer charged with the receipt of money shall be acknowledged at once by the issue of a numbered official receipt;

- b) Every receipt form, which is cancelled, will be reattached, in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

### **8.3.2 Receipt of Money by Post**

- a) When money (including postal orders and cheques) are received with the Council's mail, the Chief Financial Officer shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The cheque register shall be regarded as the register of remittances received by post;
- b) The cheque register together with all remittances received must be sent to a designated official in the finance department;
- c) The designated official on receipt of the cheque register together with the remittances will code all remittances and submit it to the cashier for receipting;
- d) The cashier will receipt all remittances and issue official receipts to the designated official;
- e) The designated official will record all receipts in the cheque register and return same to registry. The Chief Financial Officer must ensure that all receipts are recorded in the cheque register;
- f) All documents relating to remittances received in the mail must be filed for audit purposes;
- g) A separate register for post dated cheques will be maintained by the Chief Financial Officer and all postdated cheques must be stored safely in the Registry Strong room; and
- h) The Chief Financial Officer will ensure that all postdated cheques, which become due, are sent promptly to the designated official for receipting and recording of receipts in the postdated cheque register.

### **8.3.4 Bank Accounts and Cash**

- a) All bank accounts and cash management should be maintained in terms of the Banking and Investment Policy.



## **9. Inventories**

- a) Ensure that the inventory levels do not exceed the operational requirements.
- b) Supply surplus items to the Chief Financial Officer for sale at a public auction.
- c) All adjustments made on inventory shall be authorized by the Chief Financial Officer.
- d) Inventory shall be issued at least once a week.
- e) Monthly inventory valuation report shall be authorized by the Chief Financial Officer.
- f) Inventory count shall be conducted on quarterly basis.
- g) Handing over certificate should issued the store officer is on leave or not presence at work.
- h) Keys for all municipal storerooms must be kept by the Store Officer.
- i) Segregation of duties between the person receiving stock and issuing stock
- j) All inventory items must be procured through normal SCM processes and there must be budget for every item to be procured.**
- k) Inventory must be recorded on the Pastel System and GRV on the Munsoft System for expenditure management.**
- l) Official who receive inventory must not issue the inventory. The inventory can only be issue upon the receipts of an approved requisition from the user departments.**
- m) The inventory must be replenished as when the need arise.**
- n) For better planning and coordination the inventory is only issued once a week which Wednesday unless there is a deviation which must be approved by both HOD and Chief Financial Officer.**
- o) Cut-off for procurement and issuing inventory must be two weeks before year end and all the employee must be notified on time concerning cut –off period.**
- p) Inventory count must be performed on monthly basis after the last issuing day of the months which Wednesdays. The obsolete and slow moving items must be identified and where need arise be recommended by Asset clerk for approval of write off. The exception report must be generated when there is a discrepancy between the system and the inventory on hand.**
- q) At year end the Municipality must invite both Auditor General and Internal Audit for inventory count verification and every item must be tagged with sticker as proof of count. Auditor General, internal Auditors and auditee must signed final inventory count as the proof.**
- r) At year-end inventory balance must be journalized on the system with the full supporting document.**

## **10. Cash Flow**

- a) Prepare an annual estimate of the municipality's cash flows divide into calendar months.
- b) Update the estimate with the actual cash flow.
- c) Report to the Mayor cash flow estimates or the revised estimates compared to the actual cash flow. Comments and explanations must be attached.

## **11. Bank reconciliation procedures**

### **11.1 Bank Account Management**

- a) The Chief Financial Officer must establish the following with the Municipality's bankers:
  - i. Procedures regarding the frequency of printing and receipt of bank statements;
  - ii. Access to on-line banking facilities;
  - iii. Security of information when transacting with the bank through on-line facilities or otherwise;
  - iv. The basis for calculating bank charges;
  - v. The extent of bank overdraft facilities;
  - vi. The bank overdraft interest rate;
  - vii. Cash management arrangements to automatically transfer surplus funds to a call account.

### **11.2 Allocation of Responsibility for the Management of the Bank Account:**

- a) The Chief Financial Officer should:
  - i. Allocate the responsibility for the management and accounting for all deposits or credits to the bank statement to his authorized designate, who is normally the Manager Income and Expenditure;

- ii. Allocate the responsibility for the management and accounting for all debits to the bank statement cheques, stop orders, transfers and other debits to the Manager Income and Expenditure;
- iii. Allocate the responsibility for the preparation of the bank reconciliation to an Manager Budget Office;
- iv. Allocate the responsibility for retrieving information from the bank to Manager Income and Expenditure;
- v. Check the accuracy of the bank reconciliation on a monthly basis;
- vi. Determine the frequency of performing the bank reconciliation (monthly).

### **11.3 Cash Management Procedures:**

- a) The Chief Financial Officer must:
  - i. Be responsible for the Municipality's cash flow management;
  - ii. Determine the format for cash flow reports and the period of cover;
  - iii. Determine the likely dates for receipt of grants from government and the estimated amounts;
  - iv. Determine procedures for maximizing interest on surplus funds;
  - v. Determine which officials are to receive the cash flow report;

### **11.4 Bank Deposits, Direct Transfers and Electronic Banking**

- a) The Chief Financial Officer must:
  - i. Establish daily credits to the Council bank account and follow up to ensure that these deposits or credits are accounted for in the books of the Municipality;
  - ii. Identify full details of each credit timeously to avoid having to account for these credits in the suspense account;
  - iii. Process the daily transfers or deposits into the Council's bank account into the accounting system by:
    - 1. Processing the credits through the Council's receipting procedures. In this event, it is desirable to keep these transactions separate to the normal

transactions. A daily direct deposit control sheet should be completed as a record of what direct deposits have been processed; or

2. Journal vouchers with a supporting control sheet.
  3. Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up;
  4. Balance the unidentified receipts register to the suspense account in the general ledger on a monthly basis.
- b) The Chief Financial Officer must establish a process for managing returned cheques which should include:
- i. Maintaining a returned cheque register which should record the following:
    1. The date on which the cheque was debited by the bank;
    2. The name of the drawer;
    3. The amount of the cheque;
    4. The drawer's debtor account number;
    5. Details of fresh cheque / cash in respect of R/D cheques.
  - ii. Debiting the amount of the cheque returned to the returned debtors account on a weekly basis, either from the cheque returned register, or a journal voucher made out for the purpose;
  - iii. Debiting the monthly total of returned cheques to the debtors control account or the relevant income account;
  - iv. Recover cost of R/D cheques.
- c) The Chief Financial Officer must:
- i. Verify all debits on the Council bank accounts to ensure that these entries are correct and accounted for;
  - ii. Inspect the bank statements to confirm that the only debits on the account other than Council cheques are:
    1. Bank charges;
    2. Interest on overdraft;
    3. R/D cheques;
    4. Electronic transfers such as transfers to salaries accounts; and
    5. Electronic payments to suppliers;

- d) Check the bank charges and interest amounts for reasonableness, and make out a payment voucher for processing to the ledger. This voucher should reflect the bank statement number and total costs per page;
- e) In the case of R/D cheques, hand the amounts to the billing department for processing;
- f) In the case of transfers to other Municipal bank accounts, verify the transfers back to the authorized transfer voucher that should have been authorized by the originating official.

### **11.5 Reconciliation of the Municipality's Accounting Records to the Bank Statements:**

- a) Obtain the transfer batch report (report reflecting all payments made by electronic bank transfer/cheque list to creditors for the month).
- b) Obtain bank statements from the bank on at least a monthly basis and do daily deposit reconciliation.
- c) Identify all the direct debits on the statement and match to the corresponding vote from the direct debit vote register (including loan agreements, cell phone contracts, credit cards, rentals, service charges and dishonored cheques). Process these debits by capturing to the relevant votes on the system.
- d) Identify all the direct credits on the statement such as direct deposits by ratepayers, consumers and levy payers, subsidy and grants paid by National and Provincial Governments interest on investments and miscellaneous credits. Process these credits by capturing to the respective votes on the system.
- e) If the credit cannot be identified it is posted to the vote for unidentified receipts.
- f) Scrutinize bank charges for reasonableness and query with the bank if it appears too high.
- g) Match:
  - i. Each electronic payment from the batch transfer report to the cashbook and bank statement;
  - ii. Each manual cheque payment to the cashbook and bank statement;
  - iii. Each deposit from the Cashier's deposit book to the cashbook/receipts listing and the bank statement;
  - iv. The bank charges from the bank statement to the cashbook;
  - v. The interest earned on investments from the bank statements to the cashbook; and

- vi. All other direct debits from the bank statements to the cashbook.
- a) If payments are matched on the cashbook and bank statement then change the fields on the cashbook to indicate that the cheque was successfully presented.
- b) When all entries are processed, print the reconciliation. If all entries were correctly posted the balance as per the reconciliation statement will match the balances on the bank statement. If the balances do not match repeat the process to detect the error.
- c) Present the reconciliation to the Assistant Director and Chief Financial Officer for signature and approval.
- d) Reconciliation approved and signed by CFO.
- e) File and safeguard the approved reconciliation in a special file labeled Bank Reconciliation's and the presented cheques in numerical sequence.
- f) Report according to the MFMA requirements.
- g) Every month, write back all cheques older than 6 months and issue stop payments.

#### **Procedure for contingent liabilities and assets**

Register for contingent liability and assets must be developed and kept for information purposes. The letter of confirmation must be sent legal counsel for confirmation of any possible lawsuit or claim against the municipality. Municipality must update the register with the final information from the municipal legal counsel and all the details must be disclosed in the financial statement in line with GRAP 19 requirements.

The contingent asset must be recorded and disclosed in the AFS there is evidence of possible claim against the third party.

#### **Contract Management Procedures**

Contract Register must be developed and kept at the SCM division to give effect to the following.

Review of all statutory documents submitted at the time of tender submission to check as to whether the documents are still valid.

The register must be updated on an on going basis with the expenditure incurred on the project.

Progress report must be generated and reported to council concerning the performance of the contract.

Every contract must have the duly signed SLA and the contract must be subjected to legal division for inputs.

**N.B All the transactions with financial implication must be recommended by the Chief Financial Officer in line with section 81 of MFMA and 79 of MFMA.**