



DRAFT EXPENDITURE MANAGEMENT POLICY 2021/22
(including Petty Cash and Unauthorized, Irregular, Fruitless and Wasteful Expenditure)

DRAFT EXPENDITURE MANAGEMENT POLICY 2021

1. DEFINITIONS

- 1.1 **"Accounting Officer"** is a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act and also refers to the Municipal Manager of a Municipality in terms of section 60 of the MFMA.
- 1.2 **"Approved budget"** is the annual budget approved by a municipal council and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA.
- 1.3 **"Basic Municipal Service"** is a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.
- 1.4 **"Capital Budget"** is the approved budget for capital items in a given fiscal period.
- 1.5 **"Capital items"** is capital assets with a life expectancy of more than one financial year such as property, plant and equipment, intangible assets, heritage assets and investment properties and of which the cost is normally written off over a number of fiscal periods.
- 1.6 **"Chief Financial Officer"** is a person designated in terms of section 80(2) (a) of the MFMA.
- 1.7 **"Municipal Manager"** is a person appointed in terms of section 82 of the Municipal Structures Act.
- 1.8 **"Council"** is the Municipal Council of the JB Marks Local Municipality and as referred to in section 18 of the Municipal Structures Act.
- 1.9 **"Councillor"** is a member of the JB Marks Local Municipality.
- 1.10 **"Creditor"** is a person to whom money is owed by the Municipality.
- 1.11 **"Current year"** is the financial year which has already commenced, but not yet ended.
- 1.12 **"Delegation"** means the power to perform a function or duty which is given to office bearer, Councillor or staff member either in terms of section 59 of the MSA or section 79 of the MFMA.
- 1.13 **"Generally Recognised Accounting Practice (GRAP)"** is an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board.
- 1.14 **"Financial year"** is a 12 month period commencing on 1 July and ending on 30 June each year.
- 1.15 **"Financing agreement"** includes any loan agreement, lease and instalment purchase contract or hire purchase agreement in terms whereof the Municipality undertakes to repay a long term debt over a period of time.

- 1.16 **"Financial Misconduct"** means any misappropriation, mismanagement, waste or theft of the finances of a municipality, and also includes any form of financial misconduct specifically set out in sections 171 and 172 of the Act.
- 1.17 **"Fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised.
- 1.18 **"Investment"** in relation to funds of the Municipality, means –
- (a) the placing or deposit of funds of the Municipality with a financial institution; or
 - (b) the acquisition of assets with funds of the Municipality not immediately required, with the primary aim of preserving those funds.
- 1.19 **"Irregular expenditure"**, in relation to a municipality or municipal entity, means -
- (a) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170;
 - (b) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act and which has not been condoned in terms of this Act;
 - (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with a requirement of the Public Office-Bearers Act, 1998 (Act 20 of 1998);
 - (d) expenditure incurred by a municipality in contravention of, or that is not in accordance with a requirement of the supply chain management policy and which has not been condoned in terms of such policy; or
 - (e) excludes expenditure by a municipality which falls within the definition of "unauthorized expenditure".
- 1.20 **"Municipal Structures Act"** is the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998).
- 1.21 **"Municipal Systems Act"** is the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 1.22 **"MFMA"** is the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).
- 1.23 **"Long term debt"** is debt repayable over a period exceeding one year.
- 1.24 **"Municipal debt instrument"** is any note, bond, debenture or other evidence of indebtedness issued by the Municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade.
- 1.25 **"Municipality"** is the JB Marks Local Municipality.
- 1.26 **"National Treasury"** is the National Treasury established by section 5 of the Public Finance Management Act.

1.27 "Official" means –

- (a) an employee of the Municipality;
- (b) a person seconded to the Municipality or municipal entity to work as a member of the staff of the Municipality or municipal entity; or
- (c) a person contracted by the Municipality or municipal entity to work as a member of the staff of the Municipality or municipal entity otherwise than as an employee.

1.28 "**Overspending**" means -

- (a) causing the operational or capital expenditure incurred by the Municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- (b) in relation to a vote, causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26 of the MFMA, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section.

1.29 "**Payment Voucher (PV)**" is the municipal authorised document used by Directorates to request for payment of suppliers/service providers.

1.30 "**Previous financial year**" is the financial year preceding the current year.

1.31 "**Senior Manager**" means all officials reporting directly to the Accounting Officer as contemplated in section 56 of the MSA.

1.32 "**Service delivery and budget implementation plan**" is a detailed plan approved by the Executive Mayor of the Municipality in terms of section 53(l) (c) (ii) of the MFMA for implementing the Municipality's delivery of municipal services.

1.33 "**Short-term debt**" is debt repayable over a period not exceeding one year.

1.34 "**Unauthorized expenditure**" means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11(3), and includes -

- (a) overspending of the total amount appropriated in the Municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the Directorate or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation otherwise than in accordance with any conditions of the allocation;
- (f) a grant by the Municipality otherwise than in accordance with the MFMA.

- 1.35 “**Vote**” means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different Directorates of the Municipality and which specifies the total amount that is appropriated for the purposes of the Directorate concerned.
- 1.36 “**Vote holder**” means the senior manager to which the vote is assigned.

2. INTRODUCTION

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

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

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

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

3. OBJECTIVES

The objectives of the Expenditure policy are to -

- (a) set out a framework for the Municipality to deal with -
 - (i) all Municipal expenditure related transactions;
 - (ii) petty cash management;
 - (iii) unforeseen and unavoidable expenditure;
 - (iv) unauthorised, irregular and fruitless and wasteful expenditure;
- (b) establish and maintain procedures to ensure that unauthorized, irregular, fruitless and wasteful expenditure and other losses are prevented, where they occur they are detected, processed, recorded and reported in a timely manner;
- (c) ensure the effective, efficient and transparent systems of financial, risk management and internal control;
- (d) ensure officials and Councillors have a clear and comprehensive understanding of the procedures they must follow when addressing unauthorized, irregular, fruitless and wasteful expenditure;
- (e) ensure municipal resources are managed in compliance with the MFMA, the Municipal Regulations and other relevant legislation;
- (f) ensure all officials and Councillors are aware of their responsibilities in respect of unauthorized, irregular, fruitless and wasteful expenditure;

- (g) ensure that all monies due by the Municipality is paid in full within the 30 days of date of invoice or statement; whichever is the latest as prescribed by the MFMA; and
- (h) ensure that the principles applied, as a result of this policy, will enhance and support a healthy working capital position for the Municipality.

4. EXPENDITURE MANAGEMENT

4.1 Withdrawals from a bank account

- 4.1.1 Any withdrawal from a municipal bank account may only occur in terms of section 11 of the MFMA.
- 4.1.2 All withdrawals must comply with the Cash and Investment Policy of the Municipality and shall be signed or authorised by not fewer than 2 people as authorised by the Accounting Officer.
- 4.1.3 The delegated authority to sign cheques or authorise electronic payments shall be in writing and kept on record, and be reviewed regularly by the Accounting Officer. Copies of such letters of authority will be kept by the Chief Financial Officer.

4.2 Commitments

- 4.2.1 A commitment by an official of the Municipality may only be undertaken on behalf of a third party when the full costs are recovered in advance before commencement of the work, either specially or generally.
- 4.2.2 Senior Managers shall advise the Chief Financial Officer of the officials authorised to sign requisitions for goods and services in respect of the categories determined and approved by the Municipal Manager from time to time.
- 4.2.3 A specimen signatures register of all officials authorised to sign requisitions shall be maintained by the Directorate: Finance Management Service.
 - 4.2.3.1 The Expenditure Division shall keep record of all authorised officials and the specimen signatures register.
 - 4.2.3.2 No Councillor or official shall commit the Municipality to any authorised expenditure unless the necessary Supply Chain Management processes have been followed which include the completion of an official requisition or order.
- 4.2.4 The Chief Financial Officer shall determine the information to be supplied on such requisition or order.

4.3 Creditors

- 4.3.1 All money owed by the Municipality must be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.
- 4.3.2 Payments will only be made directly to the person or institution to which a contract was awarded and from which the invoice is received for legally rendering the service to the Municipality.
- 4.3.3 No employee related expenditure transactions shall be processed through the Creditors system, i.e. salary related, reimbursement, bonus leave payment, etc.

- 4.3.4 All requests for payment, properly certified and accompanied by the relevant invoices and supporting documentation must reach the Creditors Division timeously before payments are due.
- 4.3.5 Senior Managers shall advise the Chief Financial Officer of the names of officials empowered to sign payment vouchers and authorise payment of accounts together with their specimen signatures.
- 4.3.6 Payment vouchers submitted to the Assistant Director: Expenditure by any directorate shall be in such form as may be required by the Chief Financial Officer and must state the reference to the relevant vote number to meet such payment.
- 4.3.7 When a Directorate authorises the payment of accounts the signatory certifies and authorises that -
- (a) all processes in terms of the Supply Chain Management Policy of the Municipality had been followed;
 - (b) the goods and services have been received and rendered in good order and are under the control of the Municipality;
 - (c) the account has not previously been submitted for payment;
 - (d) sufficient budgetary provisions exists;
 - (e) if excess expenditure is involved, the resolution authorising the excess expenditure shall be quoted on the payment voucher;
 - (f) authority for the payment exists, in which case the authority shall be indicated on the payment voucher; and
 - (g) fruitless and wasteful expenditure has not been incurred.
- 4.3.8 Before payment is processed the Creditors Directorate shall ensure that -
- (a) the payment voucher amount, tax invoice/invoice, calculations and any taxes are correct;
 - (b) any discounts to which the Municipality is entitled to have been deducted;
 - (c) the invoice has previously not been paid; and
 - (d) the vote number has sufficient funds to defray the expenditure.
- 4.3.9 All payments due by the Municipality shall be made by approved electronic payment method drawn from the banking account of the Municipality.
- 4.3.10 Certain payments may be made from petty cash in accordance with the Supply Chain Policy as amended from time to time.
- 4.3.11 The procedures in terms of the Petty Cash Policy must be followed in respect of petty cash
- 4.4 Interest on late payments**
- 4.4.1 No interest will be payable by the Municipality on any late payments unless due to negligence on behalf of an official of the Municipality.

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

4.5 Salaries, wages and allowances

4.5.1 The Chief Financial Officer shall be responsible for the calculation and payment of salaries, wages and allowances.

4.5.2 Salaries, wages and allowances shall be paid monthly at a date determined by Council from time to time. Subsistence and travelling claims received prior to the closing date for salary inputs will thus be paid out with the salaries of the relevant month, while claims received after the salary inputs closing date, will be paid out within 30 days on the special salary run.

4.5.3 Payment shall be made in accordance with pay sheets approved by the Assistant Director: Expenditure to a nominated bank account of the municipal employee or Councillor.

4.5.4 The Director: Corporate Services is responsible to notify in writing the Assistant Director: Expenditure of all appointments, promotions, dismissals, resignations, transfers, absences for any reasons, and all matters affecting the remunerations of Councillors and employees of the Municipality.

4.5.5 The Director: Corporate Services shall be responsible for the maintenance of all records essential for the accurate determination of remunerations and leave due to employees of the Municipality.

4.6 Payments

4.6.1 Payments in respect of contracts that exceed R30 000 will be made monthly within 30 days of receipt of an original statement supported by original tax invoices/invoices and approval for payment by the relevant directorate.

4.6.2 Payments in respect of contracts that do not exceed R30 000 will be made weekly in respect of all requests put forward five working days prior to date of payment.

4.6.3 All standard goods and services must be acquired by means of official orders issued in accordance with Municipal Supply Chain Management Policy. Payment of these creditors will be made monthly.

4.6.4 Any unplanned urgent expenditure that has to be paid within a time limit that does not fall within the above time frames will be paid within one working day only on approval by the Chief Financial Officer or a delegated official.

4.6.5 No individual payments exceeding the prescribed limit by the MFMA will be made by means of cash, electronically or cheques unless the exceptional reasons have been duly recorded and approved by the Chief Financial Officer or his delegated officer.

5. PETTY CASH

Petty cash purchases relates to the municipal cash purchase transaction with a value less than R2 000.00 (VAT included) for expenditure, where it's urgent or impractical to follow the official supply chain management process.

5.1 Petty cash accountability

- 5.1.1 The Chief Financial Officer must have the responsibility to ensure that the Municipality has and maintains an effective petty cash system of expenditure controls.
- 5.1.2 The Assistant Director: Expenditure is responsible to keep a petty cash register and make petty cash payments up to the maximum amount as allowed per transaction and that sufficient petty cash is available when required.
- 5.1.3 The Assistant Director: Expenditure must ensure that the items required to be procured are approved petty cash items.
- 5.1.4 The Assistant Director: Expenditure must together with the Petty Cash Officer reconcile petty cash receipts/slips and the cash on a daily basis. Monthly reconciliation must be kept and checked by the Chief Financial Officer.
- 5.1.5 The Chief Financial Officer/Director Finance, internal or external auditors of the Municipality may at any stage without prior notice, perform an audit of petty cash to confirm the cash balance. Internal Audit should make surprise inspections of the petty cash at least once per quarter.
- 5.1.6 The Assistant Director: Expenditure has the responsibility to replenish petty cash, when it is depleted. This must be done within the ambit of the Cash and Investment Policy and approval.
- 5.1.7 The Petty Cash Officer will be held accountable for losses and shortages unless there is physical evidence of breaking-in and no act or omission on the part of the relevant official contributed to the loss.
- 5.1.8 In the event of identified shortages and/or losses, the Assistant Director: Expenditure must immediately report to the Chief Financial Officer and be paid in by the holder.

5.2 Petty cash threshold

- 5.2.1 Petty cash is restricted to cash purchases up to a transaction value of R2 000.00 (including VAT) - limited to R20 000 (VAT included) per month per Directorate.
- 5.2.2 For the purposes of this policy, the maximum amount of petty cash purchases is limited to R3 000 (VAT included) per day per Directorate.
- 5.2.3 Petty cash purchases must be authorized by the responsible Director or a delegated person before any purchase.
- 5.2.4 Purchases may not be deliberately split over 2 or more cash purchase claims.

5.3 Approved list of petty cash purchases

- 5.3.1 Approved items for petty cash purchases, but not limited to -
 - (a) bouquets and flowers utilized for official purposes;
 - (b) tollgate fees, parking tickets;
 - (c) refreshments and catering;
 - (d) pay-as-you-go cellular airtime; and/or

- (e) purchases of an urgent nature where it is impractical to follow the official procurement process.

5.3.2 Directorates' co-operation is requested not to utilize the petty cash for the following items:

- (a) Approved store items which are kept at the municipal store; and is available in the store.
- (b) Any items which can be classified as assets, furniture, equipment, etc.
- (c) Subsistence and travel claims.
- (d) Safety equipment and clothing such as clothes, ear protectors, safety glasses, etc.
- (e) Payment for contractors, labour or contract work.

5.3.3 Petty cash other than that specified in clause 5.3.1 (a) - (e) above must be approved by the Chief Financial Officer or Deputy Chief Financial Officer prior to the transaction.

5.4 **Safeguarding**

5.4.1 The petty cash is to be safeguarded in a fire proof lockable safe and should be locked away when not in use during normal business hours.

5.4.2 After normal business hours, the responsible Petty Cash Officer together with Assistant Director: Expenditure must lock away the petty cash in a fire and theft resistant safe.

5.4.3 The Assistant Director: Expenditure is responsible for the safekeeping of all the keys of the safe and a register thereof must be kept.

5.4.4 For proper segregation of duties the Assistant Director: Revenue must be in possession of a spare key.

5.4.5 Cash and receipts for reimbursed expenditure must be kept in a locked container such as a fire-proof file cabinet, safe or other suitable device to which unauthorised access is difficult. The petty cash custodian is personally responsible for the cash which was specifically issued to him/her.

5.5 **Limitations**

5.5.1 The maximum amount allocated per petty cash will be determined from time to time by the Chief Financial Officer based on the operational requirements of the Municipality and the risk of safeguarding petty cash.

5.5.2 When the amount petty cash is increased, the Assistant Director: Expenditure must draw a cheque and cash it at the municipal bankers.

5.5.3 The Petty Cash Officer must sign for the acceptance of the increased cash amount together with the Assistant Director: Expenditure and be verified by the other senior official within the Directorate.

5.5.4 When the petty cash responsibility is transferred to another delegated official, the petty cash must first be reconciled and be verified by the Assistant Director: Expenditure before it is handed over.

5.5.5 The Assistant Director: Expenditure must ensure that the new holder of the petty cash bin is aware of his/her responsibilities relating to the petty cash transactions.

5.6 Disbursement of petty cash

5.6.1 All petty cash disbursements must be completed on the prescribed petty cash voucher, authorized by the delegated official of each Directorate as approved by Council in terms of the system of delegation authorities.

5.6.2 The authorized official must ensure that funds are available in the budget prior the submission of claims.

5.6.3 An original receipt, clearly indicating it has been paid must support the petty cash voucher.

5.6.4 The authorized official or delegated person must sign for the acceptance of the petty cash monies and ensure that the monies are correct. Once paid out, the Directorate Financial Management Services will take no responsibility, if money is not received by the originator of the transaction.

5.6.5 In the case where a petty cash advance was granted, the recipient of the advance must bring the cash vouchers within 3 working days from receipt of the advance.

5.6.6 Where proof of expenditure could not be provided on petty cash advances within the prescribed period, the advance automatically will be deducted from the respective employee's salary.

6. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

6.1 Unauthorised and irregular expenditure

6.1.1 The Municipality may incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

6.1.2 Expenditure incurred within the ambit of the municipal Virement Policy is not regarded as unauthorised expenditure.

6.1.3 Any expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, economic entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the MFMA is regarded as unauthorised expenditure.

6.1.4 Unauthorised expenditure would include -

- (a) any overspending in relation to both the operational budget and capital budget of the Municipality;
- (b) overspending in relation to each of the votes on both the operational budget and capital budget;
- (c) use funds allocated to one Directorate for purposes of another Directorate or for purposes that are not provided for in the budget;
- (d) funds that have been designated for a specific purpose or project within a Directorates vote may not be used for any other purpose;

- (e) any use of conditional grant funds for a purpose other than that specified in the relevant conditional grant framework is classified as unauthorised expenditure;
- (f) any grant to an individual or household unless it is in terms of the Municipality's Indigent Policy, bursary scheme, corporate social responsibility policy, Councillors discretionary grant or the grants-in-aid;
- (g) unforeseen and unavoidable expenditure not authorised within an adjustments budget within 60 days after the expenditure was incurred; and
- (h) any overspending on non-cash items, for example depreciation, impairments, provisions.

6.1.5 Officials and Councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible, and are detected and reported in a timely manner.

6.1.6 Expenditures that are NOT classified as unauthorized expenditure

Given the definition of unauthorised expenditure, the following are examples of expenditure that are NOT unauthorised expenditure:

6.1.6.1 Any over-collection on the revenue side of the budget as this is not an expenditure; and

6.1.6.2 any expenditure incurred in respect of -

- (a) any of the transactions mentioned in section 11(1)(a) to (j) of the MFMA;
- (b) re-allocation of funds and the use of such funds in accordance with a council approved Virement Policy;
- (c) overspending of an amount allocated by standard classification on the main budget Table A2 (Budgeted Financial Performance: Revenue and expenditure by standard classification), as long as it does not result in overspending of a "vote" on the main budget Table A3 (Budgeted Financial Performance: revenue and expenditure by municipal vote) and Table A4 (Budgeted Financial Performance: Revenue and expenditure (read in conjunction with supporting Table SA1) of the MBRR; and
- (d) overspending of an amount allocated by standard classification on the main budget Table A5 (Budgeted Capital Expenditure by vote, standard classification and funding) of the MBRR as long as it does not result in overspending of a "vote" on the main budget Table A5.

6.1.6.3 Money withdrawn from a bank account under the following circumstances, without appropriation, in terms of an approved budget, is not regarded as unauthorised expenditure:

- (a) To defray expenditure authorised in terms of section 26 (4) of the MFMA, [*section 26: Consequences of failure to approve a budget before the start of the budget year*].
- (b) To defray unforeseen/unavoidable expenditure circumstances strictly in accordance with section 29 (1) of the MFMA [*section 29: Unforeseen and unavoidable expenditure*] failing which the unforeseen /unavoidable expenditure is unauthorised.

- (c) Re-allocation of funds and the use of such funds in accordance with a council approved Virement Policy.
- (d) Expenditure incurred from a special bank account for relief, charitable or trust purposes provided of course that it is done strictly in accordance with section 12 of the MFMA [*section 12: Relief, charitable, trust or other funds*].
- (e) To pay over to a person or organ of state money received by the Municipality on behalf of that person or organ of state, including –
 - (i) money collected by the Municipality on behalf of that person or organ of state by agreement; or
 - (ii) any insurance or other payments received by the Municipality for that person or organ of state;
- (f) To refund money incorrectly paid into a bank account.
- (g) To refund guarantees, sureties and security deposits.
- (h) For cash management and investment purposes in accordance with section 13 [*section 13: Cash Management and Investments*].
- (i) To defray increased expenditure in terms of section 31 [*section 31: Shifting of funds between multi-year appropriations*].

6.1.6.4 Any expenditure approved in terms the Municipal Budget and Reporting Regulations (MBRR).

6.2 Irregular expenditure

6.2.1 Irregular expenditure is expenditure that is contrary to the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003), the Municipal Systems Act, 2000 (Act 32 of 2000), and Public Office Bearers Act, 1998 (Act 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy.

6.2.2 Irregular expenditure is actually expenditure that is in violation of some or other procedural/legislative requirement as specified in the MFMA.

6.2.3 Irregular expenditure excludes unauthorised expenditure.

6.2.4 Although a transaction or an event may trigger irregular expenditure, a Council will only identify irregular expenditure when a payment is made. The recognition of irregular expenditure must be linked to a financial transaction.

6.2.5 If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

6.2.6 Remuneration of Councillors

6.2.6.1 Payments to Municipal Councillors cannot exceed the upper limits of the salaries, allowances and benefits for those Councillors as promulgated in the Public Officers Bearers Act.

6.2.6.2 Any remuneration paid or given in cash or in kind to a person as a Councillor or as a member of a political structure of the Municipality otherwise than in accordance with 6.2.6.1 including any bonus, bursary, loan, advance or other benefit, must be classified as irregular expenditure.

6.2.7 Irregular staff appointments

6.2.7.1 No person may be employed in the Municipality unless the post to which he or she is appointed, is provided for in the Municipal's staff establishment of the Municipality as approved by the Council.

6.2.7.2 Any person who takes a decision contemplated in clause 6.2.7.1 knowing that such decision is unlawful, will be held personally liable for any irregular or fruitless and wasteful expenditure that the Municipality may incur as a result of such invalid decision.

6.2.8 Officials and Councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible, and are detected and reported in a timely manner.

6.3 Fruitless and wasteful expenditure

6.3.1 All officials and Councillors must always act cautiously when spending public money and ensure that they abide by the public and accountability principles which are to promote "efficient, economic and effective use of resources and the attainment of value for money".

6.3.2 Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

6.3.3 This type of expenditure is incurred where no value for money is received for expenditure or the use of resources. No particular expenditure is explicitly identified by the MFMA as fruitless and wasteful.

6.3.4 Expenditure incurred that has been budgeted for (authorised) and was not regarded as irregular expenditure could be classified as fruitless and wasteful expenditure.

6.3.5 An expense is only fruitless and wasteful in terms of this policy if -

- (a) it was made in vain (meaning that the Municipality did not receive value for money); and
- (b) would have been avoided had reasonable care been exercised (meaning that the official or Councillor concerned did not carelessly or negligently cause the expenditure to be incurred by the Municipality; furthermore another official or Councillor under the same circumstances would not have been able to avoid incurring the same expenditure).

6.3.6 In determining whether expenditure is fruitless and wasteful, officials and Councillors must apply the requirement of reasonable care as an objective measurement to determine whether or not a particular expenditure was fruitless and wasteful, that is -

- (a) would the average man (in this case the average experienced official or Councillor) have incurred the particular expenditure under exactly the same conditions or circumstances? and

- (b) as the expenditure being incurred at the right price, right quality, right time and right quantity?

6.3.7 Officials and Councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible and are detected and reported in a timely manner.

7. Reporting on unauthorised, irregular, fruitless and wasteful expenditure

7.1 Reporting of unauthorised, irregular, fruitless and wasteful expenditure must be done at the appropriate level, as this could constitute financial misconduct as follows:

- (a) A Councillor of a municipality must be reported to the Speaker of the Council.
- (b) The Municipal Manager and Speaker must be reported to the Executive Mayor.
- (c) Directors or the Chief Financial Officer or the Chief Operating Officer of a municipality must be reported to the Municipal Manager.
- (d) All cases of prohibited expenditure reported as set out in clauses (a), (b) and (c) above must be referred to the MPAC for investigation unless the allegations are frivolous, vexatious, speculative or obviously unfounded.
- (e) Officials below Director level of the Municipality must be reported to the Chief Financial Officer unless in the professional opinion of the Chief Financial Officer or Municipal Manager the nature or the amount of the prohibited expenditure warrants the case to be referred to Municipal Public Accounts Committee (MPAC).

7.2 All reports made by officials and Councillors must be treated with utmost confidentiality.

7.3 The Municipal Manager must promptly inform the Executive Mayor, the MEC for Local Government and Human Settlement and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the Municipality -

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

7.4 All expenditure classified as unauthorised, irregular, fruitless and wasteful expenditure must be reported to the -

- (a) Finance Portfolio Committee on a monthly basis;
- (b) Mayoral Committee on a monthly basis;
- (c) Council on a quarterly basis;
- (d) MPAC on a quarterly basis; and
- (e) Audit Committee on a quarterly basis.

7.5 In accounting for unauthorised, irregular, fruitless and wasteful expenditure, the Municipal Manager or delegated officials (as may be relevant) must ensure that -

- (a) all confirmed unauthorised, irregular, fruitless and wasteful expenditure must be recorded in a separate account in the accounting system of the Municipality, created for each of the above types of expenditure;
- (b) all such expenditure is disclosed in the annual financial statements as required by the MFMA and treasury requirements; and
- (c) details pertaining to unauthorised, irregular, fruitless and wasteful expenditure must be disclosed in the Municipality's Annual Report.

8. MAINTAINING OF REGISTER FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

8.1 Council must maintain a register of all incidents of unauthorised, irregular, fruitless and wasteful expenditure:

- (a) This register will be maintained by the Chief Financial Officer for all officials other than the Chief Financial Officer and Municipal Manager.
- (b) A separate register must be maintained by the Municipal Manager for expenditure incurred by Chief Financial Officer.
- (c) A separate register must be maintained by the Executive Mayor for expenditure incurred by the Municipal Manager.
- (d) The Speaker will maintain a register for expenditure incurred by the Executive Mayor and Councillors.

8.2 These registers must be updated on a monthly basis.

9. INVESTIGATION OF UNAUTHORISED AND IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

9.1 MPAC must institute an investigation of all prohibited expenditure reported in terms of clause 7.1(d) above.

9.2 The Chief Financial Officer must seek the Municipal Manager's approval to investigate all prohibited expenditure reported to him/her in terms of clause 7.1(e) unless the allegations are frivolous, vexatious, speculative or obviously unfounded.

9.3 Once the nature of the expenditure is confirmed as unauthorised, irregular, fruitless and wasteful expenditure, the person to whom the prohibited expenditure was reported in terms of clause 7.1 above must institute the necessary procedures which could include disciplinary as well criminal proceedings.

10. DISCIPLINARY AND CRIMINAL CHARGES FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

10.1 After having followed a proper investigation, as set out in clause 9 above, the MPAC or the Chief Financial Officer as the case may be, must determine whether there is a *prima facie* case and that a councillor or official made, permitted or authorized prohibited expenditure.

10.2 If a *prima facie* case has been established, as set out in clause 10.1 above, then the MPAC, Executive Mayor or Municipal Manager (as may be relevant) must institute disciplinary action as follows:

- (a) **Financial misconduct in terms of section 171 of the MFMA:** In the case of an official that deliberately or negligently -
 - (i) contravened a provision of the MFMA which resulted in prohibited expenditure; or
 - (ii) made, permitted or authorised an irregular expenditure (due to non-compliance with any of legislation mentioned in the definition of irregular expenditure).
- (b) **Breach of the Code of Conduct for Municipal Staff Members:** In the case of an official whose actions in making, permitting or authorizing a prohibited expenditure constitute a breach of the Code.
- (c) **Breach of the Code of Conduct for Councillors:** In the case of a councillor, whose actions in making, permitting or authorizing an irregular expenditure constitute a breach of the Code. This would also include instances where a councillor knowingly voted in favour or agreed with a resolution before Council that contravened legislation resulting in prohibited expenditure when implemented, or where the Councillor improperly interfered in the management or administration of the Municipality.

10.3 The MPAC, Executive Mayor or Municipal Manager or delegated officials (as may be relevant) must promptly report to the SAPS all cases of alleged -

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

10.4 The Executive Mayor must take all reasonable steps to ensure that all cases referred to in the above clause are reported to the South African Police Service if -

- (a) the charge is against the Municipal Manager; or
- (b) the Municipal Manager fails to comply with the above clause.

11. RECOVERY UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

11.1 The Municipal Manager or delegated person must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure -

- (a) in the case of unauthorised expenditure, is
 - (i) authorised in an adjustment budget; or
 - (ii) certified by the Municipal Council, after investigation by MPAC, as irrecoverable and is written off by Council; and
- (b) in the case of irregular or fruitless and wasteful expenditure, is after investigation by MPAC, certified by Council as irrecoverable and written off by Council.

- 11.2 Irregular expenditure resulting from breaches of the Public Office-Bearers Act must be recovered from the Councillor to whom it was paid.
- 11.3 Once it has been established who is liable for the unauthorised, irregular, fruitless and wasteful expenditure, the Municipal Manager must in writing request that the liable Councillor or official pay the amount within 30 days or in reasonable instalments.
- 11.4 Without limiting liability in terms of the common law or other legislation, the Municipal Manager must recover any such expenditure, in full, from the official or Councillor where -
- (a) in the case of a Councillor, the Councillor knowingly or after having been advised by the Municipal Manager that the expenditure is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, instructed an official of the Municipality to incur the expenditure; and
 - (b) in case of the official, the official deliberately or negligently incurred such expenditure.
- 11.5 The fact that the Council may have approved the expenditure for writing off or deemed it to be irrecoverable is no excuse in -
- (a) either disciplinary or criminal proceedings against a person charged with the commission of an offence or a breach of the MFMA relating to such unauthorised, irregular or fruitless and wasteful expenditure; or
 - (b) recovery of such expenditure from such person.
- 11.6 If the official or Councillor fails to make satisfactory payment arrangements or fails to honour payment arrangements made, the amount owed for prohibited expenditure must be recovered through the normal debt collection process of the Municipality.

12. CONSEQUENCES OF NON-COMPLIANCE

- 12.1 Any official or Councillor who does not comply with their reporting duties in terms of this policy could be found guilty of financial misconduct.
- 12.2 Any Councillor or official of the Municipality will be committing an act of financial misconduct if that Councillor or official deliberately or negligently makes or permits, or instructs another official of the Municipality to make an unauthorised, irregular or fruitless and wasteful expenditure.

13. PROTECTION OF OFFICIALS OR COUNCILLORS WHO HAVE REPORTED UNAUTHORIZED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

- 13.1 If any official or Councillor who has complied with this policy and as a result thereof has been subjected to intimidation, victimisation or threats, such official or Councillor should immediately report such threats, victimisation or intimidation immediately to the Municipal Manager or the Executive Mayor where applicable.
- 13.2 The Accounting Officer or Executive Mayor must immediately take appropriate action to ensure that protection of the official or Councillor after receiving the above report.

13.3 Where the nature of the threats warrants such action, the threats should be reported to the SAPS by the official concerned, the Accounting Officer or Executive Mayor, where applicable.

14. EFFECTIVE DATE

This policy will be effective upon adoption by Council.

15. REVIEW OF POLICY

This policy must be reviewed and updated –

- (a) annually in line with the budget cycle and submitted with the budget policies; or
- (b) sooner if new legislation, regulations or circulars are issued that will impact this policy.

16. SHORT TITLE

This policy shall be called the Expenditure Management Policy.

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SPC11/2017-08-04 DEPARTMENT OF FINANCE: REPORT ON THE EXPENDITURE MANAGEMENT POLICY (TJ ZUBANE/PAM) (PAMV07.17.01) (RMS 20111)

1. PURPOSE OF THE REPORT

The purpose of the report is to submit the expenditure Policy for perusal by the GAPCOM and recommendation to Council for consideration.

2. ANNEXURE

- 2.1 Expenditure Management Policy (Including Petty Cash and Unauthorised, Irregular, Fruitless and Wasteful Expenditure)

3. BACKGROUND

- 3.1.1 Section 24(2) (v), requires the Municipality to approve Budget related policies before the start of the beginning of its financial year. The Budget related policies could not be submitted 30 May 2017, due to the request by the Workshop Committee, that all policies follow policy route of Council.
- 3.1.2 The erstwhile Tlokwe City Council and Ventersdorp Local Municipality has Expenditure policy, separate Petty Cash Policy and only Ventersdorp Local Municipality had adopted an Unauthorised, Irregular, Fruitless and Wasteful Expenditure.
- 3.1.3 The GAPCOM Committee requested the Acting CFO to resubmit the policies with the notes on each policy for the changes effected.
- 3.1.4 The Secretariat of the Council also requested that the policies be submitted with separate cover report in order to ensure that each policy get its own resolution.

4. DISCUSSION

- 4.1 The Expenditure Management policy was drafted using the former Municipal policies as a basis, treasury framework and benchmark from other Municipalities. The policy incorporates the Management of the Petty Cash and Unauthorized, Irregular, Fruitless and Wasteful Expenditure.
- 4.2. The policy wording is extracted from legislations, former Municipal policies and other Municipalities within South Africa. The Expenditure environment of the former Tlokwe City Council was used as basis for the control environment and weaknesses of both Municipalities contributed to the control measures incorporated in the policy.

RECOMMENDED:

1. That GAPCOM peruse the Expenditure Policy for inputs.
2. That GAPCOM recommend the Expenditure Policy for to be approved by Council.

(Signed) **TJ ZUBANE**
ACTING CHIEF FINANCIAL OFFICER
2017-07-17(pamv07.17.01)

(Signed) **CLLR KA JOHNSON**
MMC FINANCE

