

# RAMOTSHERE MOILOA LOCAL MUNICIPALITY

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## BUDGET AND VIREMENTS POLICY

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## **TABLE OF CONTENTS**

	<b>Page No.</b>
Definitions	1
1. Introduction	6
2. Objectives of the policy	6
3. Policy Overview	7
4. Budgeting principles	7
5. Budget preparation process	8
6. Capital budget	17
7. Operating budget	20
8. Funding of capital and operating budget	21
9. Unspent funds / roll over's	21
10. Budget transfers / virement	22
11. Adjustment budget	23
12. In-year reports of municipalities	29
13. Budget implementation	31
14. Conclusion	31

## DEFINITIONS

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**"Accounting Officer"**-

(a) means the Municipal Manager;

**"Allocation"**, means-

(a) a municipality's share of the local government's equitable share

(b) an allocation of money to a municipality in terms of a provincial or national budget; or

(c) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

**"Annual Division of Revenue Act"** means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

**"Approved budget,"** means an annual budget-

(a) approved by a municipal council, or

(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

**"Basic Municipal Service"** means 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;

**"BTO"** means Budget and Treasury Office;

**"Budget-related Policy"** means a policy of a municipality affecting or affected by the annual budget of the municipality.

**"Budget transfer"** means transfer of funding within a function / vote / service / directorate.

**"Budget Year"** means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

**"chief financial officer"** means a person designated in terms of section 80(2) (a) of the MFMA;

**"councilor"** means a member of a municipal council;

**"creditor"**, means a person to whom money is owed by the municipality;

**"current year"** means the financial year, which has already commenced, but not yet ended;

**"delegation"**, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

**"financial recovery plan"** means a plan prepared in terms of section 141 of the MFMA

**"financial statements"**, means statements consisting of at least-

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) a cash-flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements;

**"financial year"** means a twelve months period commencing on 1 July and ending on 30 June each year

**"financing agreement"** includes any loan agreement, lease, and installment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

**"fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

**"irregular expenditure"**, means-

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality

which falls within the definition of "unauthorized expenditure"?

**"investment"**, in relation to funds of a municipality, means-

- (a) the placing on deposit of funds of a municipality with a financial institution; or
- (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

**"lender"**, means a person who provides debt finance to a municipality;

**"local community"** has the meaning assigned to it in section 1 of the Municipal Systems Act;

**"mSCOA"** means Municipal Standard Chart of Accounts;

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

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

**"long-term debt"** means debt repayable over a period exceeding one year;

**"mayor"** means the councilor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act;

**"municipal council"** or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

**"municipality"**-

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**"accounting officer"** means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

**"municipal service"** has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

**"municipal tariff"** means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

**"municipal tax"** means property rates or other taxes, levies or duties that a municipality may impose;

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

**"official"**, means-

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

**"overspending"**-

- (a) means 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, means 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, means incurring expenditure under that section to exceed the limits allowed in subsection (5) of this section;

**"past financial year"** means the financial year preceding the current year;

**"quarter"** means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

**"service delivery and budget implementation plan"** means a detailed plan approved by the mayor of a municipality in terms of section 53(l) (c) (ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget.

**"short-term debt"** means debt repayable over a period not exceeding one year;

**"standards of generally recognized accounting practice,"** means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

- "unauthorized expenditure"**, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-
- (a) overspending of the total amount appropriated in the municipalities approved budget;
  - (b) overspending of the total amount appropriated for a vote in the approved budget;
  - (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
  - (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
  - (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
  - (f) a grant by the municipality otherwise than in accordance with the MFMA;

**"virement"** means transfer of funds between functions / votes

**"vote"** means-

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

## 1. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year.

According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

*Section 5 of the MFMA enables National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. This relates to all financial applications, including those used for revenue, expenditure, supply chain, asset and liability management, payroll, accounting, etc. It is imperative that municipalities operate effectively and utilise financial applications optimally to present credible information on a timely basis for internal and external use.*

*The Municipal Regulations on a Standard Chart of Accounts (mSCOA) was gazetted by the Minister of Finance on 22 April 2014. The National Treasury then commissioned mSCOA Project Phase 4 (Change Management and Piloting). Primary objectives of the piloting phase included:*

*a) Piloting of the mSCOA classification framework in selected municipalities to refine the Segments and associated detail,*



- b) *Reviewing and assessing the existing system functionality of service providers operating within municipalities against the broader business requirements of the mSCOA Regulation; and*
- c) *Determining minimum system and business process requirements to effectively operate the multi-dimensional structure of mSCOA as envisaged and prescribed by the Regulation and address certain limitations with the implementation of the entire financial management accountability cycle.*

This policy must be read, interpreted and implemented against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals.

## **2. OBJECTIVE**

The objectives of this policy are to secure sound and sustainable, management of the budgeting and reporting practices of the municipality by establishing requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes and other relevant matters as required by Municipal Finance Management Act 56 of 2003.

The objectives of the policy are set on the foundation of the following legislative prescripts;

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- The responsibilities of the mayor, the accounting officer, the Chief Financial Officer and other senior managers in compiling the budget

This policy shall be read in the context of the provisions of the following acts, regulations and administrative guidelines;

- MFMA Circulars
- MFMA 56 of 2003
- Municipal Budget and Reporting Regulations, Government Gazette no. 32141 dated 17 April 2009

### **3. POLICY OVERVIEW**

Employees of the municipality involved directly with the handling of the budget must possess an acute awareness of and show a strong commitment to the enforcement and maintenance of the adequate internal controls governing the process.

### **4. BUDGETING PRINCIPLES**

The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels unless motivated by the implementation of a certain policy or legislative requirement.

Expenses may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.

Ramotshere Moiloa Local Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council. The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP).

## **5. BUDGET PREPARATION PROCESS**

### **5.1. Budget steering committee**

- 1) The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.
- 2) The steering committee must consist of at least the following persons:
  - a) the councilor responsible for financial matters;
  - b) the municipal manager;
  - c) the chief financial officer;
  - d) the senior managers in the municipality;
  - e) the manager responsible for budgeting;
  - f) the manager responsible for planning (IDP); and
  - g) any technical expert on infrastructure.

### **5.2. Formulation of the budget**

The Accounting Officer with the assistance of the Chief Financial Officer and the IDP Manager shall draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year.

The Mayor shall table the IDP process plan as well as the Budget Timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).

IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target

dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.

- a) The Mayor shall convene a strategic workshop in September/October with the mayoral committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and service delivery pressures facing the municipality.
- b) The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies.
- c) The Chief Financial Officer, Manager Budgeting, Accountants, Unit Managers and Senior Managers undertake the technical preparation of the budget.
- d) The budget must be in the prescribed format, and must be divided into capital and operating budget.
- e) The budget must reflect the realistically expected revenues by source for the budget year concerned.
- f) The expenses reflected in the budget must be divided into line items.
- g) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by the following documents

- a) Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned

- b) Draft resolutions (where applicable) amending the IDP and the budget related policies
- c) Measureable performance objectives for each budget vote taking into account municipality's IDP
- d) The projected cash flows for the financial year by revenue source and expenditure votes broken down per month
- e) The cost to the municipality for the budget year of the salaries, allowances and other benefits

### **5.3. Quality certification**

Whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation or an in-year report of a municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate signed by the municipal manager.

### **5.4. Consistency in basis of measurement and accounting policies**

The municipal manager of a municipality must take all reasonable steps to ensure that;

- a) the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation, its adjustment budgets and supporting documentation, and its in-year reports; and
- b) any differences or changes between financial years are explicitly noted.

### **5.5. Budget related policies of municipalities**

The municipal manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21(1)(b) of the Act.

#### **5.6. Annual budgets of municipalities**

##### Format of annual budgets

The annual budget and supporting documentation of a municipality must be in the format specified by National Treasury, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

#### **6. Funding of expenditure**

- 1) The funding of an annual budget must be consistent with the trends, current and past, of actual funding collected or received.
- 2) Realistically anticipated revenues to be received from national or provincial government, national or provincial public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds. Acceptable documentation is constituted by –
  - a) in case of allocations or transfers from national or provincial government, the latest available –
    - (i) gazetted allocations or transfers to the municipality following the approval of the current year's Division of Revenue Act, national annual budget, national adjustments budget, relevant provincial annual budget or provincial adjustments budget;

- (ii) proposed allocations or transfers to the municipality contained in the tabled national and provincial budgets as detailed in accordance with section 36(2) of the Act;
  - (iii) written notifications from the relevant treasury of proposed allocations or transfers subsequent to the previous year's national and provincial approved annual budgets and latest adjustment budgets, but prior to the current year's budgets being tabled; or
  - (iv) the previous years' allocations or transfers in the national and provincial annual budgets and adjustments budgets as gazetted;
- b) in the case of transfers from other municipalities, the latest available –
- (i) transfers in the approved annual budget or any subsequent approved adjustments budget of the transferring municipality;
  - (ii) proposed transfers contained in the tabled annual budget of the relevant transferring municipality;
  - (iii) written notification of proposed transfers from transferring municipalities communicated to the municipality in terms of section 37(2) of the Act; or
  - (iv) the previous year's transfers in the approved annual budget or any adjustments budget of the transferring municipality; and
- c) in case of agency payments, public contributions, donations, donor grants or any other grants, subsidies or contributions, the relevant service level agreement, contract or other legally binding document which guarantees the funding.
- 3) Estimated provision for revenue from rates, taxes, levies or other charges that will not be collected must be budgeted for separately and reflected on the expenditure side of the municipality's annual budget and not netted out from budgeted revenue.
- 4) The cash flow budget must reflect all funds realistically forecast to be collected, including arrears.

- 5) The municipal manager in signing the quality certificate certifies that all ratepayers and consumers are accounted for in the annual budget calculations and that billing systems including property records and metering information are up to date and consistent with the revenue projections in the annual budget.
- 6) To determine whether an annual budget is funded in accordance with section 18 of the Act, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budgets together with any requirements for working capital and cash investments held for statutory or contractual purposes.

#### **6.1. Funding of capital expenditure**

- 1) An annual budget must show total capital expenditure and the different sources of funding.
- 2) All sources of funding shown in terms of sub regulation (1) must be available, and must not have been committed for other purposes.
- 3) The total budgeted capital funding by source must equal the total budgeted capital expenditure.

#### **7. Approval of capital projects**

- 1) Within ten working days after the municipal council has given individual approval for a capital project in terms of section 19(1)(b) of the Act, the municipal manager must in accordance with section 21A of the Municipal System Act make public –
  - a) the municipal council resolution approving the capital project; and



- b) details of the nature, location and total projected cost of the approved capital project.
- 2) The following capital projects may be approved by a council either individually or as part of a consolidated capital programme as contemplated in section 19(3) of the Act:
- a) capital projects of which the total projected cost is below R50 million, in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.
- 3) Sub-regulation (1) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in sub-regulation (2).
- 4) Expenditure needed for capital projects below the values set out in sub-regulation (2) may be included in the annual budget before the project is approved in terms of section 19(3) of the Act.

## **8. Tabling of annual budgets in municipal councils**

- 1) An annual budget and supporting documentation tabled in a municipal council in terms of sections 16(2) and 17(3) of the Act must –
- a) be in the format in which it will eventually be approved by the council; and
  - b) be credible and realistic such that it is capable of being approved and implemented as tabled.
  - c) When complying with section 68 of the Act, the municipal manager must submit
    - 2) The draft municipal service delivery and budget implementation plan to the mayor together with the annual budget to be

considered by the mayor for tabling in terms of section 16(2) of the Act.

- 3) For effective planning and implementation of the annual budget, the draft municipal service delivery and budget implementation plan may form part of the budget documentation and be tabled in the municipal council if so recommended by the budget steering committee.

#### 9. **Publication and submission of annual budgets for consultation**

- 1) When making public the annual budget and supporting documentation in terms of section 22(a) of the Act, read with section 21 A of the Municipal Systems Act, the municipal manager must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process, including –
  - b) summaries of the annual budget and supporting documentation in alternate languages predominant in the community; and
  - c) information relevant to each ward in the municipality.
- 2) All information contemplated in sub regulation (1) must cover:
  - a) the relevant financial and service delivery implications of the annual budget; and
  - b) at least the previous year's actual outcome, the current years forecast outcome, the budget year, and the following two years.
- 3) When submitting the annual budget to the National Treasury and the relevant provincial treasury in terms of section 22(b)(l) of the Act, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –
  - a) the supporting documentation as tabled in the municipal council; and
  - b) any other information as may be required by the National Treasury.
- 4) The municipal manager must send copies of the annual budget and

supporting documentation as tabled in the municipal council, in both printed and electronic form to –

- a) Any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
- b) Any other organ of state on receipt of a request from that organ of state.
- c) Within 14 days after the draft annual budget has been tabled, the Municipality must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National Treasury.
- d) The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

#### **10. Consideration of annual budgets by municipal councils**

- 1) At least 30 days before the start of the budget year the mayor must for purposes of section 23 of the Act table the following documents in the municipal council –
  - a) a report summarizing the local community's views on the annual budget;
  - b) any comments on the annual budget received from the National Treasury and the relevant provincial treasury;
  - c) any comments on the annual budget received from any other organ of state, including any affected municipality; and
  - d) any comments on the annual budget received from any other stakeholders.
- 2) The municipal manager must assist the mayor in the preparation of the documents referred to in sub regulation (1) and section 23(2) of the Act.

## **11. Approval of annual budgets**

- 1) A municipal council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget.
  - a) The council resolution can contain budget policies.
  - b) Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for Finance that the budget has not been approved.
  - c) The budget tabled to Council for approval shall include the following supporting documents:
    - i. resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
    - ii. other resolutions;
    - iii. National Treasury prescribed budget schedules and supporting tables;
    - iv. any proposed amendments to the IDP;
    - v. any proposed amendments to the budget related policies.
- 2) When approving an annual budget, a municipal council must in terms of section 24(2) (c) of the Act, consider and adopt separate resolutions dealing with each of the matters contemplated in that section.
  - a) Within 14 days after the draft annual budget has been tabled, the Municipality must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National Treasury.
  - b) The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

## **12. Service Delivery and Budget Implementation Plan (SDBIP)**

The Mayor must approve the Service Delivery and Budget Implementation Plan in the required format not later than 28 days after the approval of the Budget by Council.

The Accounting Officer must ensure that there is alignment between the IDP, SDBIPs and the budget, as guided by **Annexure A** to this policy.

## **13. CAPITAL BUDGET**

- a) Expenditure of a project shall be included in the capital budget if it meets the asset definition.
- b) Vehicle replacement shall be done in terms of Council's vehicle replacement policy.
- c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- d) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.
- e) Before approving a capital project, the Council must consider:
  - i. the projected cost of the project over all the ensuing financial years until the project becomes operational,
  - ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- f) Before approving the capital budget, the council shall consider:
  - i. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
  - ii. depreciation of fixed assets,

- iii. maintenance of fixed assets, and
  - iv. any other ordinary operational expenses associated with any item on such capital budget.
- g) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.
- h) The capital expenditure shall be funded from the following sources:

### **13.1. Revenue or Surplus**

- If any project is to be financed from revenue this financing must be included in the:
  - cash budget to raise sufficient cash for the expenditure.
  - If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

### **13.2. External loans**

- External loans can be raised only if it is linked to the financing of an asset;
- A capital project to be financed from an external loan can only be started if the loan has been secured.
- The loan redemption period should not exceed the estimated life expectancy of the asset.
- Interest payable on external loans shall be included as a cost in the operating budget;
- Finance charges relating to such loans shall be charged to the service/vote to which the projects relate.

### **13.3. Capital Replacement Reserve (CRR)**

- Council shall establish a CRR for the purpose of financing capital projects

and the acquisition of assets. Such reserve shall be established from the following sources of revenue:

- o Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- o additional amounts appropriated as contributions in each annual or adjustment budget; and
- Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;
- If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;

#### **13.4. Grant Funding**

- Non capital expenditure funded from grants must be budgeted for as part of the operating budget;
- Expenditure must be reimbursed from the funding creditor and transferred to the operating budget for such;
- Capital expenditure must be budgeted for in the capital budget;
- Grant funding should be secured before spending can take place.

#### **14. OPERATING BUDGET**

- a) The municipality shall budget in each annual and adjustment budget for the contribution / payment of:
- i. provision for accrued leave
  - ii. unauthorized / over and other expenditure
  - iii. provision for bad debts

- iv. provision for the obsolescence and deterioration of stock
  - v. Depreciation and finance charges.
- b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- c) The impact of such increases shall be assessed on the basis as required by National Treasury.
- d) The operating budget shall reflect the impact of the capital component on:
- depreciation charges
  - repairs and maintenance expenses
  - interest payable on external borrowings
  - other operating expenses.
- e) The Chief Financial Officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

#### **15. FUNDING OF CAPITAL AND OPERATING BUDGET**

- a) The budget may be financed only from:
- i. realistically expected revenues, based on current and previous collection levels;
  - ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
  - iii. borrowed funds in respect of the capital budget only.
  - iv. grant funding
- b) Funding Compliance Testing must be performed before the budget is adopted by Council as guided by Treasury Circulars

#### **16. UNSPENT FUNDS / ROLL OVER OF BUDGET**



- a) The appropriation of funds in an annual or adjustment budget will lapse to the extent that they are unspent by the end of the relevant budget year, except for external funds relating to capital expenditure.
- b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year
- c) Conditions of the grant fund shall be taken into account in applying for such rollover of funds
- d) Application for rollover of funds shall be forwarded to the budget office by the [REDACTED] ?? each year to be included in next year's budget for adoption by Council in May.
- e) Adjustments to the rolled over budget shall be done during the 1<sup>st</sup> budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.
- f) Projects funded from the Capital Replacement Reserve can be rolled over to the next budget year only if confirmed by the Budget and Treasury Office.
- g) No unspent operating budget shall be rolled over to the next budget year.

## **17. BUDGET TRANSFERS AND VIREMENTS**

- a) Budget transfers within the same vote shall be recommended by a Senior Manager and approved by the Chief Financial Officer or such other senior delegated official in the Budget and Treasury Office.
- b) No budget transfers or virement shall be made to or from salaries except with the prior [REDACTED]
- c) Virements should be based on sound risk and financial management.

- d) The budget for personnel expenditure may not be increased.
- e) Virements to or from the following categories is not permitted: bulk purchasing, provision for bad debts, depreciation and income.
- f) Directors may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses etc.) within a vote and service which is under their control towards the defrayment of excess expenditure under another main expenditure category within the same vote and service, with the approval [REDACTED].
- g) Virements of conditional grant funds to purpose outside of that specified in the relevant conditional grant framework is not permitted.
- h) Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.
- i) Virements should not result in adding new projects to the Capital Budget.

## **18. ADJUSTMENT BUDGET**

### **18.1. Formats of adjustments budgets**

An adjustments budget and supporting documentation of a municipality must be in the format specified by National Treasury, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

### **18.2. Funding of adjustments budgets**

- 1) An adjustments budget of a municipality must be appropriately funded.
- 2) The supporting documentation to accompany an adjustments budget in terms of section 28(5) of the Act must contain an explanation of how the adjustments budget is funded.

### **18.3. Timeframes for tabling of adjustments budgets**

- 1) An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 31 January of the each year.
- 2) Only one adjustments budget referred to in sub regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget, in which case sub regulation (3) applies.
- 3) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.
- 4) An adjustments budget referred to in section 28(2)(c) of the Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred and within the time period set in section 29(3) of the Act.
- 5) An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.
- 6) An adjustments budget contemplated in section 28(2)(g) of the Act may only authorize unauthorized expenditure as anticipated by section 32(2)(a)(i) of the Act, and must be –

- a) dealt with as part of the adjustments budget contemplated in sub regulation (1); and
- b) a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorized expenditure from the previous financial year which the council is being requested to authorize in terms of section 32(2)(a)(i) of the Act.

Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenditure.

- a) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.
- b) Council may revise its annual budget by means of an adjustments budget as regulated.
- c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- d) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.
- e) The Council should also authorize 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.
- f) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- g) Unauthorized expenses may be authorized in an adjustments budget.

- h) In regard to unforeseen and unavoidable expenditure, the following apply:
- i. the Mayor may authorize such expenses in an emergency or other exceptional circumstances;
  - ii. the municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses;
  - iii. these expenses must be reported by the Mayor to the next Council meeting;
  - iv. the expenses must be appropriated in an adjustments budget; and
  - v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

#### **18.4. Submission of tabled adjustments budgets**

- 1) The municipal manager must comply with section 28(7) of the Act, read together with section 22(b) (i) of the Act, within ten working days after the mayor has tabled an adjustments budget in the municipal council.
- 2) When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act, read together with section 22(b)(i) of the Act, the municipal manager must submit in both printed and electronic form –
  - a) the supporting documentation referred to in section 28(5) of the Act within ten working days of the adjustments budget being tabled in the municipal council; and
  - b) any other information as may be required by the National Treasury.
- 3) The municipal manager must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to –
  - a) any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
  - b) any other organ of state on receipt of a request from that organ of state.

#### **18.5. Approval of adjustments budget**

- 1) A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in regulation 21 before approving the adjustments budget.
- 2) A municipal council may approve an adjustments budget dealing with matters referred to in section 28(2)(c) of the Act only if the expenditure was recommended by the mayor in accordance with the framework prescribed in Chapter 5 of these Regulations.

#### **18.6. Publication of approved adjustments budget**

- 1) Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25(3).
- 2) When making public an adjustments budget and supporting documentation in terms of sub regulation (1), the municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the adjustments budget, including –
  - a) summaries of the adjustments budget and supporting documentation in alternate languages predominant in the community;
  - b) information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
  - c) any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

### **18.7. Submission of approved adjustments budget and other documents**

- 1) The municipal manager must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved an adjustments budget.
- 2) When submitting an adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –
  - a) the supporting documentation within ten working days after the municipal council has approved the adjustments budget;
  - b) the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the Act; and
  - c) any other information as may be required by the National Treasury.
- 3) The municipal manager must send copies of an approved adjustments budget and supporting documentation, in both printed and electronic form to –
  - a) any other municipality affected by that adjustments budget within ten working days after the municipal council has approved the adjustments budget; and
  - b) any other organ of state on receipt of a request from that organ of state.

### **19. IN-YEAR REPORTS OF MUNICIPALITIES**

### **Format of monthly budget statements**

The monthly budget statement of a municipality must be in the format specified by National Treasury, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

### **Tabling of monthly budget statements**

The mayor may table in the municipal council a monthly budget statement submitted to the mayor in terms of section 71(1) of the Act. If the mayor does so, the monthly budget statement must be accompanied by a mayor's report in a format set out by National Treasury.

### **Publication of monthly budget statements**

- 1) The monthly budget statement of a municipality must be placed on the municipality's website.

### **Quarterly reports on implementation of budget**

- 1) The mayor's quarterly report on the implementation of the budget and the financial state of affairs of the municipality as required by section 52(d) of the Act must be –
  - a) in the format specified by National Treasury, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act; and
  - b) consistent with the monthly budget statements for September, December, March and June as applicable; and
  - c) submitted to the National Treasury and the relevant provincial treasury within five days of tabling of the report in the council.

### **Publication of quarterly reports on implementation of budget**



When publishing the quarterly reports on the implementation of the budget in terms of section 75(1) (k) of the Act, the municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the quarterly report on the implementation of the budget and the financial state of affairs of the municipality, including –

- a) summaries of quarterly report in alternate languages predominant in the community; and
- b) information relevant to each ward in the municipality.

#### **Format of a mid-year budget and performance assessment**

A mid-year budget and performance assessment of a municipality referred to in section 72 of the Act must be in the format specified by National treasury, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

#### **Publication of mid-year budget and performance assessments**

- 1) Within five working days of 25 January each year the municipal manager must make the mid-year budget and performance assessment public by placing it on the municipal website.

#### **Submission of mid-year budget and performance assessments**

The municipal manager must submit to the National Treasury and the Relevant provincial treasury, in both printed and electronic form –

- a) the mid-year budget and performance assessment by 25 January of each year; and
- b) any other information relating to the mid-year budget and performance assessment as may be required by the National Treasury.

## **20. BUDGET IMPLEMENTATION**

### **Monitoring**

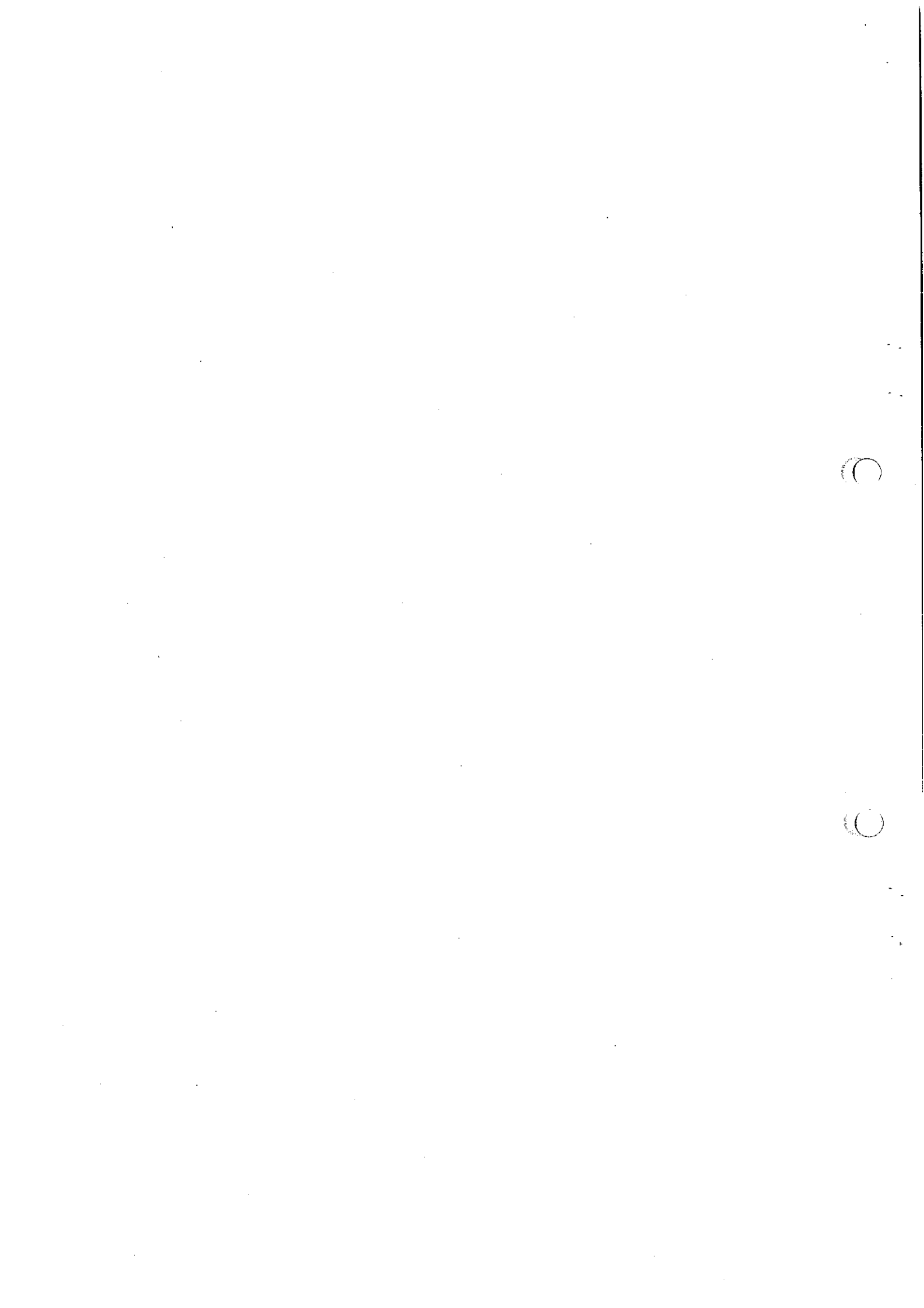
- a) The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
  - funds are spent in accordance with the budget;
  - expenses are reduced if expected revenues are less than projected; and
  - revenues and expenses are properly monitored.
- b) The Accounting Officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.
- c) The Accounting officer must report to the Council any impending shortfalls in the annual operating budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

### **21. CONCLUSION**

The Accounting Officer must place on the municipality's official website the following:

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the integrated development plan (IDP)
- the SDBIPs (Service Delivery and Budget Implementation Plans)
- Senior Management Performance Agreements (Section 56 and 57 Managers)
- the annual report;





# **RAMOTSHERE MOILOA LOCAL MUNICIPALITY**



## **Policy on Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

**For Adoption with the Budget 2017/18 MTREF**

**Date:**

## **TABLE OF CONTENTS**

1. Purpose and scope
2. Legislative framework
3. Definitions
4. Irregular expenditure
5. Fruitless and wasteful expenditure
6. Unauthorised expenditure
7. Irregular expenditure and unauthorised expenditure
8. Condonation of irregular expenditure
9. Procedure for investigation and reporting
10. Non-compliance
11. Date of implementation
12. Policy review

## **1. Purpose and scope**

The purpose of this policy is to:

- Provide clarity on relevant legislation and regulations applicable to irregular, fruitless and wasteful, and unauthorised expenditure;
- Enhance the awareness of officials of the municipality to prevent and detect irregular, fruitless and wasteful, and unauthorised expenditure;
- Enhance correct reporting, investigation, identification and management of irregular, fruitless and wasteful, and unauthorised expenditure; and
- Strengthen the internal control environment with regard to management of irregular, fruitless and wasteful, and unauthorised expenditure.

This document sets out the policy on the process of identification, recording and disclosure of irregular, fruitless and wasteful, and unauthorised expenditure in terms of section 32 of the Municipal Finance Management Act, 2003 (Act 26 of 2003). The aim of the policy is to ensure effective, efficient and transparent systems of financial and risk management, and internal control.

## **2. Legislative framework**

2.1 The Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

2.2 Local Government: Municipal Finance Management Regulations (Published in terms of Act No. 56 of 2003)

## 1. Definitions

In this policy, any word or expression to which a meaning has been assigned in the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) bears that meaning assigned to it and, unless the context otherwise indicates,

**'Irregular expenditure'** in relation to a municipality means:

- (a) Expenditure incurred by a municipality in contravention of, or that is not allowed in accordance with, a requirement of Municipal Finance Management Act, 2003, and that which has not been condoned in terms of section 70 of the Municipal Finance Management Act, 2003;
- (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 section 70 of the Municipal Finance Management Act, 2003;
- (c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act, 1998 (Act No.20 of 1998); or
- (d) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any municipality' by-laws giving effect to such a policy, and which has not been condoned in terms of such a policy or by-law.

**'Fruitless and wasteful expenditure'** means expenditure which was made in vain and would have been avoided had reasonable care been exercised;

**'The Act'** means the Municipal Finance Management Act, 2003 (Act No.56 of 2003);

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



- (a) Overspending of the total amount appropriated in the municipality's approved budget;
- (b) Overspending of the total amount appropriated for a vote in the approved budget;
- (c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of allocation; or
- (f) A grant by the municipality otherwise than in accordance with the Act.

## **2. Irregular expenditure**

2.1. The following are examples of irregular expenditure:

- Purchases exceeding threshold
- Procuring without inviting competitive bids
- Non-compliance with delegations of authority
- Non-compliance with legislation, e.g. public service regulations

2.2. For the purposes of determining whether irregular expenditure has taken place, there must be a transgression of a provision contained in applicable legislation, or any approved internal policy, procedures and instructions that has or have been issued by the municipality.

2.3. For an institution to incur irregular expenditure, the non-compliance must be linked to a financial transaction. Although a transaction or an event may trigger irregular expenditure, an institution will usually identify irregular expenditure only when a payment is made. In an instance where irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a non-compliant matter.

- 2.4. Expenditure resulting from non-adherence to the municipality' delegations of authority is regarded as irregular expenditure since such delegations are issued in terms of the Act.
- 2.5. The municipality' Irregular Expenditure Register must be updated throughout the process until the case is finally closed.

### **3. Fruitless and wasteful expenditure**

- 3.1. The following are examples of fruitless and wasteful expenditure:
  - Expenditure due to negligence, e.g. cancellation fees incurred for missing a flight
  - Interest on overdue accounts
  - Penalties paid
- 3.2. Fruitless and wasteful expenditure is an in-house matter, and thus it is the responsibility of the accounting officer to deal with it as prescribed. Only in exceptional cases, such as where the municipality incurs the fruitless and wasteful expenditure, would the Provincial Treasury intervene and make recommendations on how to resolve the matter.
- 3.3. After identification and confirmation of fruitless and wasteful expenditure, it must be captured as such on the financial system.
- 3.4. It must be determined if any official(s) is/are liable in law for the fruitless and wasteful expenditure and immediate steps must be taken to recover such expenses from the official(s) found to be liable in law.
- 3.5. The municipality's Fruitless and Wasteful Expenditure Register must be updated throughout the investigation process until the case is finally closed.

### **4. Unauthorised expenditure**

- 4.1. The following are examples of unauthorised expenditure:
  - Overspending on budget

- Earmarked funds used for other purposes
  - Funds used outside the mandate of the municipality
- 4.2. The municipality must spend only funds provided and spend them only for the purposes for which they were provided.
- 4.2.1. Overspending on the budget is normally identified before final closure of the municipality' books and after final virement.
- 4.3. Funds not utilized for the purpose of the vote should be identified timeously.
- 4.4. There must be a financial transaction (a payment) before unauthorised expenditure can occur. Therefore, the unauthorised expenditure occurs only when payment is made and not when funds are over-committed.
- 4.5. After identification and confirmation, unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.
- 4.6. Unauthorised expenditure approved with funding is recognised in the statement of financial position when the unauthorised expenditure is approved and the related funds are received.
- 4.7. In the statement of financial performance, unauthorised expenditure approved without funding is recognised as expenditure on the date of approval.
- 4.8. Unauthorised expenditure must be reported in the annual report (as a note to the Financial Statement).
- 4.9. The municipality' Unauthorised Expenditure Register must be updated throughout the investigation process until the case is finally closed.

## **5. Unauthorised expenditure and irregular expenditure**

5.1.1. If the municipality carries out a transaction that contravenes legislation, the transaction meets the definition of irregular expenditure. The same transaction may be outside the mandate of the municipality or may cause overspending on a programme or a vote which meets with the definition of unauthorised expenditure.

5.1.2. A transaction of this nature must not be accounted for as both unauthorised expenditure and irregular expenditure. Unauthorised expenditure takes precedence over irregular expenditure and in this instance; the transaction shall be accounted for as unauthorised expenditure.

## **6. Condonation of irregular, fruitless and wasteful, or unauthorised expenditure**

6.1. Irregular, fruitless and wasteful, or unauthorised expenditure which is identified and confirmed may be considered for condonation by the municipal council. Only in exceptional cases, such as where the municipal council incurs the irregular, fruitless and wasteful, or unauthorised expenditure, would the Provincial Treasury intervene and make recommendations on how to resolve the matter.

6.2. For the purpose of condonation, a detailed submission must be submitted to the municipal council requesting condonation for non-compliance with the relevant legislation or any of its policies . A request for condonation may be submitted only when good cause is shown for such condonation.

6.2.1. A submission for condonation must contain

- A detailed motivation as to why the irregular, fruitless and wasteful, or unauthorised expenditure in question should be considered for condonation; and
- A description of remedial steps taken to avoid the reoccurrence of this type of irregular, fruitless and wasteful, or unauthorised expenditure.

6.2.2. A submission for condonation must be structured as follows:

- Purpose
- Background
- Applicable legislative framework
- Motivation for condonation
- Actions taken to investigate and apportion responsibility and/or consequences
- Remedial steps to prevent reoccurrence
- Financial implications
- Personnel implications
- Recommendations

6.3. In the event of an approval of the condonation of irregular, fruitless and wasteful, or unauthorised expenditure by the municipal council, no further action is required by the municipality as long as the matter referred to was not a subject of National Treasury instructions, as the amount has been expended in the statement of financial performance. The municipality's irregular, fruitless and wasteful, or unauthorised expenditure register must be updated to reflect the condonation of the irregular expenditure.

6.4. Dismissal of the submission for condonation of the irregular, fruitless and wasteful, or unauthorised expenditure or where condonation is not relevant, the municipality must determine if any person is liable in law for the irregular, fruitless and wasteful, or unauthorised expenditure and immediate steps must be implemented to recover such expenses from the person (s) found to be liable in law.

6.5. Irregular, fruitless and wasteful, or unauthorised expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme or expenditure item (no journal is passed) and be disclosed as such in the note to the financial statements.

- 6.6. The municipality' irregular, fruitless and wasteful, or unauthorised expenditure register must be updated throughout the process until the case is finally closed.

## **7. Procedure for investigation and reporting**

The procedure for reporting irregular, fruitless and wasteful, and unauthorised expenditure is as follows:

- 7.1. Any employee who becomes aware or suspect the occurrence of irregular, fruitless and wasteful, or unauthorised expenditure must immediately report such expenditure in writing to the accounting officer and/or the Mayor or his or her delegate.
- 7.2. On identification of alleged irregular, fruitless and wasteful, or unauthorised expenditure, such expenditure must be left in the expense account.
- 7.3. Reporting may also occur during the various assurance processes, i.e. internal audit, external audit, compilation of the annual financial statements or normal inspections.
- 7.4. Once the matter has been reported to the accounting officer, he/she will refer the matter to the Chief Audit Executive for investigation. The Chief Audit Executive must investigate the matter without delay to determine the validity thereof, i.e. whether it meets the definition of irregular expenditure, fruitless and wasteful expenditure or unauthorised expenditure, as per section 1 of the Municipal Finance Management Act.
- 7.5. Managers should assist and co-operate with investigators in every aspect of an investigation.
- 7.6. Once the accounting officer has been notified of the matter considered to be irregular, fruitless and wasteful and unauthorised expenditure, he should report the same to the Chief Financial Officer who will then update the appropriate register(s).
- 7.7. During the period of investigation, the expenditure must remain in the

expense account and the result of the investigation will determine the appropriate action to be taken regarding that expenditure.

- 7.8. Should the investigation reveal that the expenditure does not constitute irregular, fruitless and wasteful, and unauthorised expenditure and is in fact valid expenditure, the details of the expenditure should be retained in the relevant irregular, fruitless and wasteful, and unauthorised expenditure registers for the purposes of completeness and to provide an appropriate audit trail.
- 7.9. If the investigation indicates that the expenditure is irregular, fruitless and wasteful, or unauthorised, the particulars of the expenditure must be reported to the municipal council.
- 7.10. Irregular, fruitless and wasteful, and unauthorised expenditure must be accounted for and be disclosed in financial statement, according to the applicable financial reporting framework.

## **8. Non- compliance**

Non-compliance with this policy will result in appropriate disciplinary procedures being considered and, if necessary, instituted against the relevant official(s).

## **9. Authority to approve and review**

This policy will be reviewed annually by management unless there are legislative and other requirements that require it to be reviewed more than once.

The duly constituted council of the Ramotshere Moiloa Local Municipality will approve this policy.

## **10. Administration of the policy**

The Municipal Manager and the Chief Financial Officer and officials in the Budget and Treasury Office, and all other employees of the municipality are responsible for the administration of the policy.

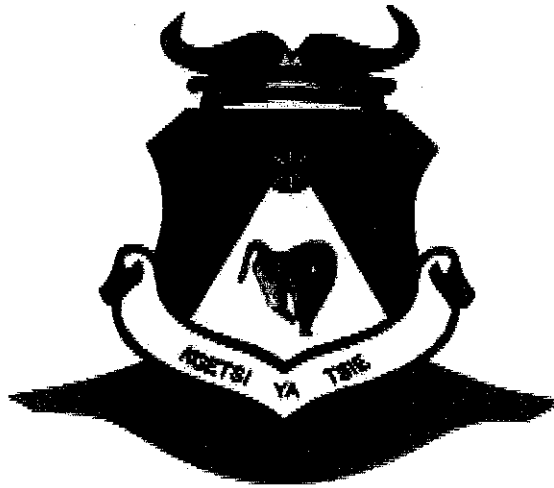
#### **11. Effective date**

This policy will come into effect on the date the municipal council of Ramotshere Moiloa Local Municipality has approved it, or any other date as determined by the municipal council and will not apply retrospectively.



# ASSET MANAGEMENT POLICY

**Ramotshere Moiloa Local Municipality**



## **TABLE OF CONTENTS**

**PART** (This document is split between sections and the headings specified per reference)

1. ABBREVIATIONS
2. OBJECTIVE/PURPOSE OF THE POLICY
3. BACKGROUND
4. DEFINITION OF A FIXED ASSET
5. ROLE OF MUNICIPAL MANAGER
6. ROLE OF CHIEF FINANCIAL OFFICER
7. ROLE OF HEAD OF THE DEPARTMENTS
8. FORMAT OF FIXED ASSET REGISTER
9. CLASSIFICATION OF FIXED ASSETS
10. INVESTMENT PROPERTY
11. FIXED ASSETS TREATED AS INVENTORY
12. RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER
13. RECOGNITION OF DONATED ASSETS
14. SAFEKEEPING OF ASSETS
15. IDENTIFICATION OF FIXED ASSETS
16. PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION OR IMPAIRMENT OF FIXED ASSETS
17. CAPITALISATION CRITERIA: MATERIAL VALUE
18. CAPITALISATION CRITERIA: INTANGIBLE ITEMS
19. CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES
20. MAINTENANCE PLANS
21. DEFERRED MAINTENANCE
22. GENERAL MAINTENANCE OF FIXED ASSETS
23. DEPRECIATION OF FIXED ASSETS
24. RATE OF DEPRECIATION
25. METHOD OF DEPRECIATION
26. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS
27. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES
28. CARRYING VALUES OF FIXED ASSETS
29. REVALUATION OF FIXED ASSETS
30. VERIFICATION OF FIXED ASSETS
31. ALIENATION OF FIXED ASSETS
32. OTHER WRITE-OFFS OF FIXED ASSETS
33. REPLACEMENT NORMS

- 34. INSURANCE OF FIXED ASSETS
- 35. BIOLOGICAL ASSETS
- 36. ANNEXURE: FIXED ASSET LIVES

**PART: 1**

**ABBREVIATIONS:**

**RMLM:** Ramotshere Moiloa Local Municipality

**FAR:** Fixed Asset Register

**CV:** Carrying Value

**RV:** Residual Value

**DA:** Depreciation Amount

**IMPL:** Impairment Loss

**IMPR:** Impairment Loss Reversal

**INA:** Intangible Assets

**OP:** Opening Balance

**DRC:** Depreciated Replacement Cost

**FV:** Fair Value

**INVP:** Investment Property

**AGSA:** Auditor-General of South Africa

**NMMDM:** Ngaka Modiri Molema District Municipality

**MFMA:** Municipal Finance Management Act, 2003

**MSA:** Municipal Systems Act,

**AM:** Asset Management

**AMS:** Asset Management System

**EPWP:** Expanded Public Works Program

**GIS:** Geographical Information System

**GRAP:** Standards of Generally Recognised Accounting Practice

**IAS:** International Accounting Standards

**IFRS:** International Financial Reporting Standards

**IAM:** Infrastructure Asset Management

**IAMP:** Infrastructure Asset Management Plan

**IAMS:** Infrastructure Asset Management Strategy

## **PART 2:**

### **PREMABLE**

Whereas section 63 of the Local Government: Municipal Finance Management Act, 2003 (Municipal Finance Management Act no. 56 of 2003) determines that the municipal manager as the accounting officer of the municipality is responsible to introduce and maintain a system of internal control to safeguard and maintain all assets of the municipality;

And section 55 of the Local Government Systems Act, 2000 (Act no. 32 of 2000) determines that the municipal manager is responsible for the implementation and monitoring the progress made in terms of the Integrated Development Plan;

And whereas the municipal manager as a custodian of the municipal revenue and assets is responsible for the implementation of the assets management policy which regulate the acquisition, safeguarding and maintenance of all assets of the municipality;

And whereas Local Government: Municipal Planning and performance Management Regulation; 2001 (R796 of 2001) determines that municipality's five year financial plan also needs to address an asset management strategy on an annual basis;

And whereas section 14(1); Municipal Finance Management Act (Act no. 56 of 2003) determines that a municipal council may not dispose of an asset requires to provide minimum level of basic services;

And whereas assets must be protected over their life span and may be used in the production or supply of goods and services or for administrative purposes;

And whereas the municipal council of Ramotshere Local Municipality wishes to adopt a policy to guide the municipal council and the municipal manager in the management of assets;

Now therefore the municipality of Ramotshere Local municipality adopts the following assets management policy:

## **2.1 OBJECTIVE/PURPOSE OF THE POLICY**

Asset management deals with the process of managing assets through their lifecycle and includes their purchase, maintenance, use, disposal and the management of risks. The objective/purpose of the fixed assets management policy is to establish a system of internal controls over the acquisition(s), disposal(s) and the transfer of fixed assets held by Ramotshere Moiloa Local Municipality (RMLM) in order to safeguard the fixed assets that belong to the RMLM and ensure the existence, completeness and accuracy of the fixed assets register

## **2.2 SCOPE**

The asset management policy is aimed at supporting the implementation of the MFMA, specifically section 63. The policy requires the asset management to perform the following key functions,

- Safe guarding assets
- Maintaining assets
- Establishing and maintain a management, accounting and information system that accounts for the assets of RMLM
- Asset valuation principles in accordance to GRAP
- Establishing and maintaining a system of internal control over assets of RMLM
- Establishing and maintain asset registers

## **RELATIONSHIP WITH OTHER POLICIES:**

This policy should be read in conjunction with following policies

- Supply Chain Management Policy
- Accounting Policy
- Risk Management Policy
- Land Management Policy
- Strategic Planning and IDP policy
- Budget Policy
- Inventory Management Policy
- Expenditure Management Policy
- Delegation Policy

## **PART 3: BACKGROUND**

### **3.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its Property, Plant and Equipment (PPE) is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise

and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal PPE with the Municipal Manager.

### **3.2 ACCOUNTING STANDARDS**

The accounting standards that apply to municipalities are in transition and have been applied with effect for *1 July 2009*. The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised. Immoveable assets are unbundled and each significant component is recognised and accounted for individually. Immovable PPE are measured at cost, though in cases where it is impracticable to establish the cost (*e.g. where there are no reliable records, or records cannot be linked to specific assets*), the cost is deemed to be the fair value of the immovable PPE (*Directive 7 can also be consulted to determine the Deemed Cost*). Specialised buildings (such as community facilities) and infrastructure (such as a water supply network) are valued using a depreciated replacement cost.

Significant changes in the value of immovable property, plant and equipment over time may be reflected through periodic revaluation if the revaluation model is applied.

As a low capacity municipality, RMLM was required to convert to applicable standards of GRAP on **1 July 09**. Examples of accounting standards that cover assets are:

- GRAP 17 on Property, Plant and Equipment
- GRAP 16 on Investment Property
- GRAP 102 on Intangible Assets

- GRAP 100 on Non-Current Assets Held for Sale and Discontinued Operations
- GRAP 101 on Agricultural Activities
- IAS 36 on impairment of assets
- GRAP 103 Heritage Assets

#### **PART 4: DEFINITION OF A FIXED ASSET(s)**

##### **GRAP 17: Property Plant and Equipment**

Paragraph .06 of GRAP 17 defines Property Plant and Equipment (Including Infrastructure Assets *per Par.03* which describes that, GRAP 17 applies to them) as tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one reporting period.

##### *Implication of GRAP 17 on the Municipality:*

A fixed asset is thus an asset, either movable or immovable, under the control of the municipality (RMLM) and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

##### **IAS 40 read in conjunction with GRAP 16: Investment Properties**

Paragraph .05 of IAS 40 defines Investment property as:

Property (land or a building—or part of a building—or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:



- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

### **GRAP 13: Finance Leases**

*Implication of GRAP 13 on the Municipality:*

An asset held under a finance lease (GRAP 13 refer Par .10 – 21 in terms of the classifications and Par .26 – 39 for the recognition and disclosure requirements), shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

### **GRAP 12: Inventory**

Paragraph .07 of GRAP defines Inventory as assets that are:

- (a) in the form of materials or supplies to be consumed in the production process;
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services;
- (c) held for sale or distribution in the ordinary course of operations; or
- (d) in the process of production for sale or distribution.

### **GRAP 103: Heritage Assets**

Paragraph .04 defines Heritage assets as assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

### **GRAP 102: Intangible Assets**

Paragraph .09 defines intangible asset as an identifiable non-monetary asset without physical substance.

## **PART 5: ROLE OF THE MUNICIPAL MANAGER**

As the accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to by all the relevant personnel whether delegated or chosen to implement the asset management policy.

The Municipal Manager shall ensure that:

The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality; the municipality's assets are valued in accordance with the standard of generally recognized accounting practice (*GRAP17 and other applicable GRAP standards and Directives issued*); that the municipality has and maintains a system of internal control for the assets, including an asset register; and the Heads of different departments and their teams comply with this policy.

## **PART 6:**

### **ROLE OF THE CHIEF FINANCIAL OFFICER**

- The chief financial officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.
- Ensure appropriate systems of physical management and control are established and carried out for all assets
- Ensure that municipal assets are utilised economically, effectively, efficiently and transparent
- Ensure the management of budgets, purchasing, maintenance and disposal decisions
- Ensure that assets are utilised to achieve the strategic objectives of RMLM

- Ensure that proper accounting process and procedures are implemented in conformity with the municipal financial policies and the MFMA to produce reliable data for inclusion in RMLM asset register.

The chief financial officer may delegate the maintenance of the fixed asset register and other asset related tasks to the asset manager so appointed by the Municipality.

All or any amendments, to the fixed asset register shall be authorised by the chief financial officer.

### **PART 7: ROLE OF THE HEADS OF DEPARTMENTS**

Every Head of the different departments (*the managers (Sec 57) directly accountable to the Municipal Manager*) shall ensure that;

1. The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
2. Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
3. Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
4. The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
5. They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
6. Manage the assets life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Heads of Departments may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

## **PART 8: FORMAT OF THE ASSET REGISTER**

The fixed asset register shall be maintained in the format determined by the chief financial officer, on which the format shall comply with the requirements of Generally Recognised Accounting Practice (GRAP 17) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect (as a minimum) the following information:

- ❖ a brief but meaningful description of each asset
- ❖ the date on which the asset was acquired or brought into use
- ❖ the location of the asset
- ❖ the department(s) or vote(s) within which the assets will be used
- ❖ the title deed number, in the case of fixed property
- ❖ the stand number, in the case of fixed property
- ❖ costs of additions and improvements, in the case of fixed property
- ❖ where applicable, the unique identification number of the asset
- ❖ the original cost, or the revalued amount as per the approved valuation roll, or the fair value if no costs are available
- ❖ the (last) revaluation date of the fixed assets subject to revaluation
- ❖ the revalued value of such fixed assets
- ❖ who did the (last) revaluation
- ❖ accumulated depreciation to date
- ❖ the depreciation charge for the current financial year
- ❖ the carrying value of the asset
- ❖ the method and rate of depreciation
- ❖ impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- ❖ the source of financing
- ❖ the current insurance arrangements
- ❖ whether the asset is required to perform basic municipal services
- ❖ whether the asset has been used to secure any debt, and , if so ,the nature and duration of such security arrangements
- ❖ the date on which the asset is disposed off

- ❖ the disposal price
- ❖ the date on which the asset is retired from use, if not disposed off.

All heads of departments under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material change which may occur in respect of such information (*refer to **Part 7** above*).

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after, it shall be appropriately capitalised as a fixed asset on an on-going basis as and when the asset become ready for use (in stages).

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence and it still belongs to the Municipality except for derecognised assets and assets which do not have a value. Please note that: an asset should not be carried at R1 value in the asset register. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

## **PART 9: CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of department shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification (*refer to Part 7*):

### **A. PROPERTY, PLANT AND EQUIPMENT**

- ❖ Land and Buildings (not held as investment assets/Properties GRAP 16)
- ❖ Infrastructure assets (assets which are part of a network of similar assets)

- ❖ Community assets (resources contributing to the general well-being of the community)
- ❖ Heritage assets (culturally significant resources GRAP 103)
- ❖ Other assets (ordinary operational resources i.e. Intangible Assets per GRAP 31 )

#### **B. INVENTORY**

- ❖ Housing (rental stock or housing stock not held for capital gain in accordance with GRAP 12)
- ❖ Stands classified as inventory

#### **C. INVESTMENT PROPERTY**

- ❖ Investment properties (resources held for capital or rental)

The chief financial officer shall adhere to the classifications as indicated in the annexure on fixed asset lives (see **part 36**), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

### **PART 10: INVESTMENT PROPERTIES**

Investment Properties (as per GRAP 16 and IAS 40) are not for use in the production or supply of goods and services or not for administrative purposes or not for sale in the ordinary course of business of the municipality.

Investment Properties are held by the municipality to generate cash inflows which are largely independent of the other assets held by the municipality.

*Investment properties shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position and should be separately disclosed at year-end.*

Investment Properties shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease (GRAP 13 should be borne in mind when this is considered), to earn rental revenues or for capital appreciation or both.

Investment Properties shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

Investment Properties shall not be depreciated (*this relate to assets carried at fair value. **Please note:** Investments Properties: "Owner Occupied" can be carried at Cost in which case, GRAP 16 will not be applicable and GRAP 17 will apply*), but shall be annually valued on balance sheet date (30 June of every year end) to determine their fair (market) value. Investment Properties shall be recorded in the Statement of Financial Position at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the municipality or service controlling the assets concerned.

**For purposes of RMLM, all Investment Properties shall be measured and accounted for, using the Historical Cost.**

An expert valuator Service Provider(s)) shall/may be engaged by the municipality to undertake such valuations. (*This will depend if the municipality does not pose such a skill to be able to value assets by a routable valuator within (employed) the municipality*)

If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment property.

#### **PART 11: FIXED ASSETS TREATED/CARRIED AS INVENTORY (GRAP 12)**

Any land or building owned or acquired by the municipality with the intention of selling such property in the ordinary course of business (*a normal period would be a period of within 12 Months*), or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be

accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

For control purposes, such inventories shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

## **PART 12: RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER (GRAP 103)**

GRAP 103 par. 04 describes a heritage asset as: *assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.*

### Measurement Basis that is used:

If no original costs or fair values are available/can be obtained in the case of one or more or all heritage assets, the chief financial officer may, obtain similar assets with the same nature/size etc. from a similar municipality (*Low Capacity in the case of RMLM*) determine using the same fair value or costs (*this should be reliable estimate/cost*), record such asset or assets in the fixed asset register with an indication of the costs or fair value concerned.

## **PART 13: RECOGNITION OF DONATED ASSETS**

Where a fixed asset (*identifiable asset(s) which met the definition of GRAP 17*) is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

## **PART 14: SAFEKEEPING OF ASSETS**

Employees shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.



In exercising this responsibility, the employee shall adhere to any written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

#### **PART 15: IDENTIFICATION OF FIXED ASSETS**

The CFO shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register. The identification system shall be determined by the CFO acting in consultation with other departments, and shall comply with any legal prescriptions, as well as any recommendations of the AG and National Treasury as indicated in the municipality's management report and audit report(s), and shall decide upon actions and within the context of the municipality's budgetary and human resources.

Every head of department shall ensure, by use of list in each room of each offices within the municipal building that, the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

#### **PART 16: PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, MOVEMENT, IMPAIRMENT OR BORROWING OF FIXED ASSETS**

All asset custodians shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by or issued to asset custodian in question is reported in writing to the Chief Financial Officer and to the Asset Unit within 7 (including weekend) days from the date of the incident and – in cases of suspected theft or malicious damage – also to the South African Police Service within 24 hours.

No assets shall be moved without records (signed movement form). Movement forms are available in the asset unit.

No municipal assets shall be borrowed to outsiders without written approval by the Municipal Manager.

Failure of an official to adhere to the above suggestions will result to the responsible official explaining to the municipal manager as to why he or she contravened the policy and the official will suffer the consequences of contravening the policy.

#### **PART 17: CAPITALISATION CRITERIA: MATERIAL VALUE**

No item with an initial cost or fair value of less than R5 000 (five thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the municipal manager – shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R50 (fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stock sheet. Every head of department shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time (*on a monthly basis in a form of a reconciliation*), and at least once

in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

Suggested values for capitalisation:

- ✓ 0 – 4999: Recorded as expenses and may be included in the Inventory lists.
- ✓ 5000 and more: Recorded as assets in terms of their classification.

## **PART 18: CAPITALISATION CRITERIA: INTANGIBLE ITEMS**

No intangible item shall be recognised as a fixed asset, **except** that the chief financial officer may recommend to the council that, under certain strict conditions, specific development costs (**e.g.** Pastel Software used for accounting purpose) be recognised as fixed assets.

**GRAP 31** read with **GRAP 102** state that: Development costs are expenses incurred in the use of scientific or technical knowledge in order to produce new or substantially improved materials, devices, products or services, to install new processes or systems prior to the commencement of commercial production or commercial applications, or to improving substantially those already produced or installed.

The conditions which must be satisfied to justify the capitalisation of development costs are as follows:

- there is a clearly defined project undertaken by the municipality
- the municipality intends and is able to complete the project and use or sell it
- the project will generate probable future economic benefits
- the related costs are separately identifiable and reliably measurable
- the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability
- the municipality has adequate technical, financial and other resources available to complete the project and use or sell it.

These are not exhaustive and can be extended to harmonise this policy to include certain issues which are found to not be covered by this draft.

## **PART 19: CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

Only expenses incurred in the enhancement of a fixed asset (*in the form of improved or increased services or benefits flowing from the use of such asset*) or in the material extension (*Major expansion which increases capacity and productivity*) of the useful operating life of a fixed asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned. (*Judgement should be exercised when decisions are made to determine if expenses should be capitalised/expensed*)

Expenses which are reasonably incidental to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset (e.g. *Installation costs in bringing the asset into its usefulness*). Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs and installation, assembly and communication costs.

## **PART 20: MAINTENANCE PLANS**

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure networks with a value of R200 000 (two hundred thousand rand) or more is promptly prepared and submitted to the asset manager, CFO, budget manager, SCM manager and council of the municipality for approval before processing for payment by the expenditure manager.

If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question, shall quarterly report to the council, not later than each month end, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

## **PART 21: DEFERRED MAINTENANCE**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (as outlined in **part 19** above) a report by the Infrastructure manager (Director of Technical), should have a detailed report to that effect and the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such notes shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

## **PART 22: GENERAL MAINTENANCE OF FIXED ASSETS**

Every head of department shall be directly responsible for ensuring that all assets within their department and control are properly maintained in a manner which will ensure that such assets attain their useful operating life.

## **PART 23: DEPRECIATION OF FIXED ASSETS**

All fixed assets, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

**GRAP 17 Par 0.6** defines depreciation as: the systematic allocation of the depreciable amount of an asset over its useful life.

**GRAP 17 Par 0.6** defines depreciable amount as: the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each head of department, acting in consultation with the chief financial officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing of the financial year. The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

#### **PART 24: RATE OF DEPRECIATION**

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this document (see **part 36** below).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

#### **PART 25: METHOD OF DEPRECIATION**

Except in those cases specifically identified in **point 26** below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful lives of the asset.

The chief financial officer shall apply the method of depreciation consistently from one financial year to the next, and also apply the policy consistently to the same type of asset(s).

The straight line basis will also apply to Infrastructure assets.

#### **PART 26: AMENDMENTS OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

The chief financial officer shall review the useful lives of the fixed assets periodically.

Only the chief financial officer may amend the useful lives (upon approval by the MM) assigned to any fixed asset (*Based on the current available conditions and other information that suggests to that effect*), and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

##### **Guideline on deciding to make changes:**

The chief financial officer shall amend the useful lives assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful live or value, such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs

and subsequently derecognised/removed from the asset register appropriately.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs and subsequently derecognised/removed from the asset register appropriately, and

**If** the fixed asset has physically obsolete/ damaged to exist, it shall be written off in the FAR.

In all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

## **PART 27: ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**

The chief financial officer may employ the *sum-of-units* method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.



The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

**Please note** that there is also a Reducing Balance Method which could also be employed to certain assets.

#### **PART 28: CARRYING VALUES OF FIXED ASSETS IN THE FAR**

All fixed assets, except heritage assets, shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or revalue amount or fair value less any accumulated depreciation and accumulated impairment losses.

#### **PART 29: REVALUATIONS OF FIXED ASSETS IN THE FAR**

All land and buildings recorded in the municipality's fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The chief financial officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the chief financial officer is satisfied that such value reflects the fair value of the fixed asset concerned.

The chief financial officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value

as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The chief financial officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expense determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the chief financial officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less

accumulated depreciation (in the case of buildings) and accumulated impairment loss.

### **PART 30: VERIFICATION OF FIXED ASSETS**

Every asset unit should conduct or lead the verification of fixed assets. Physical verification should be performed on a continuous basis but at least once per quarter. A complete physical verification report must be signed by the asset manager and the CFO one month after the end of each quarter. The Council should approve the write off of unverified assets.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification and that the resultant report shall be submitted to the chief financial officer not later than each month end of the year in question.

### **PART 31: ALIENATION (AUCTION) OF FIXED ASSETS**

In compliance with the principles and prescriptions of the *Municipal Finance Management Act*, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer on 01 July and 30 March of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate (Auction) by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated

information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R1 000 (one thousand rand).

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R1 000 (one thousand rand) takes place in compliance with Section 14 of the *MFMA, 2003*.

Once the fixed assets are alienated, the chief financial officer shall remove the relevant records and asset(s) from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the Statement of Performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the Statement of Performance of the department or vote concerned. All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the Statement of Performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state

shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

### **PART 32: OTHER WRITE-OFFS OF FIXED ASSETS**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

Every head of department shall report to the chief financial officer on 01 July and 30 March of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

### **PART 33: REPLACEMENT NORMS**

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted

to the council of the municipality for approval. This draft policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items which relate to assets. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

#### **PART 34: INSURANCE OF FIXED ASSETS**

The municipal manager shall ensure that all fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

#### **PART 35: BIOLOGICAL ASSETS (GRAP 27 read with GRAP 101 as GRAP 17 par .02)**

The chief financial officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the head of department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether and such details shall reflect the information which the chief financial officer, in consultation with the head of department concerned and the internal auditor, deems necessary for accounting and control purposes.

The chief financial officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the council of the municipality considers such insurance desirable and affordable.

### **References**

The following references were made when compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- Generally Recognised Accounting Practice
- Interpretations of the standards of GRAP
- International Accounting Standards (IFRS and IAS)

**End.**

**PART 36: ANNEXURE: FIXED ASSET LIVES**

<b>Fixed Asset Register (FAR)</b>	<b>Expected lives</b> <i>(This lives should be reviewed on a yearly basis)</i>	<b>Residuals (%)</b>
Municipal Buildings	10 – 30 years	0
Land not held for disposal or for sale	Indefinite	N/a
Land & buildings held for sale	Within 12 Months <i>(if</i>	N/a



	management believes that, the sale can be achieved beyond 12 months but within 6 months of the following year, this should be supported in terms of GRAP 100 requirements)	
Motor Vehicles	5 years	30
Heritage Assets	Indefinite	N/a
Office equipment	3 – 5 years	0
Furniture and Fittings	6 years	0
<b>Infrastructure assets</b>		
▪ Urban Sealed Surface (Roads which are spray seal, hotmix and slurry seal/cold overlay)	7 – 30 years	0
▪ Urban Sheeted – Township Sheeted	5 – 20 years	0
▪ Rural Sealed Surface - (Roads which are spray seal, hotmix and slurry seal/cold overlay)	15 – 30 years	0
▪ Pavements – granular pavement under sealed surfaces	20 – 80 years	30
▪ Footpaths – pedestrians (Block paved, Insitu concrete, hotmix, Spray seal, crusher dust)	10 – 50 years	30
▪ Kerb & Gutter (Upright kerb	10 – 75 years	0

& Gutter, Median kerb, Valley Drain)		
<ul style="list-style-type: none"> <li>▪ Stormwater (Pipe material and drainage structures): <ul style="list-style-type: none"> <li>✓ Reinforced Concrete pipe (RCP)</li> <li>✓ Fibre Reinforced Concrete (FRC)</li> <li>✓ Unplasticised Polyvinylchloride (uPVC)</li> <li>✓ Side Entry Pit (SEP)</li> <li>✓ Junction Box (JB)</li> <li>✓ Box Culvert</li> <li>✓ Headwall</li> <li>✓ Lined Channel</li> <li>✓ Unlined Channel</li> </ul> </li> </ul>	10 – 100 years	0
<ul style="list-style-type: none"> <li>▪ Community wastewater Management System <ul style="list-style-type: none"> <li>✓ Earthenware Gravity Pipe</li> <li>✓ PVC Gravity Pipe</li> <li>✓ PVC Rising main Pipe</li> <li>✓ Pump Chamber</li> <li>✓ Pump</li> <li>✓ Pump Mechanical &amp; Electrical</li> </ul> </li> </ul>	25 – 100 years	0
<ul style="list-style-type: none"> <li>▪ Electrical Networks</li> </ul>	15 – 60 years	0
Adding Machines	6 years	0
<b>Air conditioners:</b>		
<ul style="list-style-type: none"> <li>▪ Window type</li> </ul>	6 years	0

▪ Mobile	5 years	0
▪ Room unit	10 years	0
<b>Air conditioning assets (excluding pipes, ducting and vents):</b>		
▪ Air handling units	20 years	0
▪ Cooling Towers	15 years	0
▪ Condensing Sets	15 years	0
Arc welding equipment	6 years	0
Artefacts	25 years	0
Battery chargers	5 years	0
Bicycles	4 years	0
Boilers	4 years	0
Bulldozers	3 years	0
Bumping flaking	4 years	0
Carports	5 years	0
Cell phone antennae	6 years	0
Cell phone masts	10 years	0
Cellular telephones	2 years	0
Cheque writing machines	6 years	0
Communication systems	5 years	0
Compressors	4 years	0
Computers:		
▪ Main frame / servers	5 years	0
▪ Personal	3 years	0
Computer software (purchased)	3 years	0
Containers (large metal type used for transporting freight)	10 years	0
Delivery vehicles	4 years	0
Drills	6 years	0
Escalators	20 years	0

Fax machines	3 years	0
Fire extinguishers (loose units)	5 years	0
Fire detection systems	3 years	0
Fitted carpets	6 years	0
Food bins	4 years	0
Garden irrigation equipment (movable)	5 years	0
Gas cutting equipment	6 years	0
Gas heaters and cookers	6 years	0
Gearboxes	4 years	0
Gear shapers	6 years	0
Generators (portable)	5 years	0
Generators (standby)	15 years	0
Graders	4 years	0
Grinding machines	6 years	0
Guillotines	6 years	0
Kitchen equipment	6 years	0
Mobile caravans	5 years	0
Mobile cranes	4 years	0
Mobile refrigeration units	4 years	0
Motors	4 years	0
Motorcycles	4 years	0
Motorised chainsaws	4 years	0
Motor mowers	5 years	0
Neon signs and advertising boards	10 years	0
Office equipment – electronic	3 years	0
Office equipment – mechanical	5 years	0
Ovens and heating devices	6 years	0
Ovens for heating food	6 years	0
Packaging and related equipment	4 years	0

Paintings (valuable)	25 years	0
Photocopying equipment	5 years	0
Portable safes	25 years	0
Power tools (hand-operated)	5 years	0
Public address systems	5 years	0
Refrigerators	6 years	0
Security systems (removable)	5 years	0
<b>Surveyors:</b> <ul style="list-style-type: none"> <li>▪ Instruments</li> <li>▪ Field equipment</li> </ul>	5 – 10 years	0
Television sets, video machines and decoders	6 years	0
Tractors	4 years	0
Trailers	5 years	0
Traxcavators	4 years	0
Neon signs and advertising boards	10 years	0
Office equipment – electronic	3 years	0
Office equipment – mechanical	5 years	0
Ovens and heating devices	6 years	0
Ovens for heating food	6 years	0
Packaging and related equipment	4 years	0
Paintings (valuable)	25 years	0
Photocopying equipment	5 years	0
Portable safes	25 years	0
Power tools (hand-operated)	5 years	0
Public address systems	5 years	0
Refrigerators	6 years	0
Security systems (removable)	5 years	0
<b>Surveyors:</b> <ul style="list-style-type: none"> <li>▪ Instruments</li> <li>▪ Field equipment</li> </ul>	5 – 10 years	0

Television sets, video machines and decoders	6 years	0
Tractors	4 years	0
Trailers	5 years	0
Traxcavators	4 years	0

