

CENTRAL KAROO DISTRICT MUNICIPALITY



UNFORSEEN AND UNAVOIDABLE EXPENDITURE

POLICY, PROCESSES & PROCEDURES

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1. POLICY

1.1 Overview

Central Karoo District Municipality has developed its unavoidable and unforeseen policy to include activities at all departments at which municipality business is conducted. This in recognizing its need for good governance even in the most pressurized and demanding environment.

The unavoidable and unforeseen policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Central Karoo District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Central Karoo District Municipality both efficiently and adjacent to approved budgets and broader financial policies of Central Karoo District Municipality, whilst minimizing the temptation of misuse of municipality funds.

"Unavoidable and Unforeseen" is defined in this context as expenditure which in the normal business activities of the district could not have been foreseen and has thus not been accounted for, at the passing of its annual financial budget.

The policy is applicable to all Central Karoo District Municipality staff that is entrusted with the daily execution of municipal business. It seeks to institute the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all officials and councillors alike;
- ii. An internal dynamic document detailing the processes required for the efficient reporting, verification and ratification of such unavoidable and unforeseen expenditure post the transaction necessary to ensure the efficient administration of the Central Karoo District Municipality budgets.

1.2 Purpose

The Unforeseen and Unavoidable Expenditure policy seeks to provide for and accommodate expenses that may occur or be unavoidable in the normal execution of municipal functioning, and to codify the process which will ratify and approve such unforeseen or unavoidable expenses incurred.

Whilst the policy framework serves to assist management, employees and councillors of the Central Karoo District Municipality to have recourse to a means to ratify unavoidable and unforeseen expenditure, it does not serve to circumvent normal budgetary processes, nor to contribute to fraudulent or corrupt activity.

1.3 Objective

To ensure that a prescribed mechanism exists to deal with expenditure relative to or arising from unintended consequences of activities undertaken by municipal officials and councillors by:

- i. Infusing business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguarding against rash and irresponsible expenditure employment;
- iii. Driving a culture of accountability over Central Karoo District Municipality by skilling staff and councillors alike.
- iv. Ratification and Verification of the validity of receipts of unforeseen and unavoidable payments and ensuring that accurate and completeness of recording of receipts and payments occur, relative to the activity undertaken;
- v. Ensure that staff should be appropriately trained and be aware of relevant policies and procedures.
- vi. Communicate to all staff that any monetary loss as a result of non-compliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

1.4 Business Process Framework

1.4.1 Legislative Framework

Section 29 of the *Municipal Finance Management Act (MFMA) (No. 56 of 2003)*, the *King II Code on Corporate Governance in South Africa (2002)*, *Municipal Budget and Reporting regulations (MBRR) regulation 72*, and other applicable legislation:

- Informs and seeks to regulate unavoidable and unforeseen expenditure and prescribe the process for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members to approve such occurrences.

1.4.2 Accounting Framework

The accounting responsibility lies with the Chief Financial Officer (CFO), or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

2. PROCESSES

2.1 Rationale

Generally there are a large number of business units in a typical municipality, and in the pursuit of its core function of service delivery, payment for goods and services are a necessary consequence. Central Karoo District Municipality thus has to regulate and reconcile payments relative to annual budgets raised. In exceptional circumstances occasions may give rise to unforeseen and unavoidable expenses being incurred.

General guidelines

- i. The business unit charged with executing the acquisition of goods or services which becomes aware of the need to incur unforeseen or unavoidable expenditure should immediately approach the Chief Financial Officer (CFO) detailing the transaction and the cost implications of such transaction both should it be undertaken as well as not undertaken;
- ii. The business unit needs to confirm to the CFO that such anticipated expenditure does not fall within the prescripts of section 72(2) of the MFMA Budget and Reporting Regulations which prohibits certain transactions being undertaken by the Executive Mayor, nor does it detract from the statutory reporting guidelines which govern supply chain management;
- iii. The CFO will firstly consider whether raising such cost cannot be contained by apportioning it via a virement process – which would allow for the shifting of funds within the relevant business unit budgets, before pursuing the prescripts of this policy;
- iv. The CFO, should it become necessary to pursue the prescripts of this policy, will inform the Municipal Manager thereto.

3. PROCEDURES

3.1 Framework for Reporting

The Reporting framework leading to accounting rests with the following municipal office bearers:

- i. The Directorate within which the unavoidable and unforeseen expenditure has occurred is responsible for generating the initial report detailing such occurrence;
- ii. The Legal Office Bearers of the Municipality is to scrutinize such report and advise as to the broader legal implications thereto;
- iii. The CFO is to scrutinize such report and evaluate as to the financial implications thereto;
- iv. The CFO needs to advise the Municipal Manager who has to forward the Budget department prepared submission to the Executive Mayor;
- v. The Executive Mayor after careful perusal will prepare the necessary recommendation or disclaimer for submission to Council;
- vi. Council will consider such mayoral submission for either final approval or recommendation for further action.

3.2 Framework for Accounting

- i. Upon receipt of the necessary approval from the Council, the necessary system adjustments need to be made for accounting purposes immediately;
- ii. The transaction thereafter needs to be completed so as to minimize any unnecessary risks associated with not meeting the commitment;
- iii. An adjustment budget would then be submitted at the next General Council Meeting.

3.3 Authorization

MFMA Budget and Reporting Regulations 71 & 72 holds that the Executive Mayor may authorise expenditure in terms of Section 29 of the MFMA only if:

- (a) *The expenditure could not have been foreseen at the time the annual budget of the municipality was passed and*
- (b) *The delay that will be caused pending approval of an adjustment budget by the municipal Council in terms of section 28(2)(c) of the Act to authorize the expenditure may –*
 - i. *Result in significant financial loss for the municipality*
 - ii. *Cause a disruption or suspension or serious threat to the continuation of municipal services*
 - iii. *Lead to loss of life or serious injury or significant damage to property*
 - iv. *Obstruct the municipality from instituting or defending legal proceedings on an urgent basis*

The Executive Mayor cannot authorize expenditure in terms of section 29 of the **MFMA** if the expenditure –

- (a) *Was considered by the Council, but not approved in the annual budget of the municipality*
- (b) *Is required for -*
 - i. *price increases of goods or services during the year;*
 - ii. *new municipal services or functions during the financial year;*
 - iii. *the extension of existing municipal services or functions during the financial year;*
 - iv. *the appointment of personnel during the financial year; or*
 - v. *allocating discretionary appropriations to any vote during the financial year; or*
- (c) *Would contravene any existing Council policy; or*
- (d) *Is intended to ratify irregular or fruitless and wasteful expenditure.*

3.4 Monetary Limits

The amount of expenditure that the executive mayor of Central Karoo District Municipality may authorise in terms of section 29 of the MFMA and MBRR 72(b) is limited to –

The greater of R5 (Five Million Rand) or 4% of the municipality's own revenue – the current budgetary approved Operating Expenditure of Central Karoo District Municipality being approximately R 80m (Eighty Million Rand) per annum.

3.5 Reconciling and Monitoring

- i. The unforeseen and unavoidable expenditure has to be raised in the above prescribed format;
- ii. It may not exceed 4% of the business unit approved budget;
- iii. Has to be reported to Council within 30 days of being raised;
- iv. An adjustment budget must be submitted at the next General Council Meeting;
- v. Section 17(3) requires an annual review of this policy for tabling before the General Council;
- vi. Any legislative amendments and enactments need to be incorporated into this policy and submitted to Council for review
- vii. If the Adjustment Budget is not passed within 60 days of raising such expenditure, then the expenditure is unauthorized and section 32 applies.

3.6 Amendment and Review of the Policy

The Unforeseen and Unavoidable Expenses Policy shall be reviewed annually and/or at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.