



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

STANDARD OPERATING PROCEDURES FOR MUNICIPALITIES

Disclaimer

A major problem which confronted all concerned with this manual was the continuing stream of changes in municipal legislation and accounting standards, as there was an obvious need to agree on a cut-off date for the revision of and additions to the text. Users are therefore strongly urged to consult the websites of COGTA, the National Treasury, the ASB and CIGFARO, in particular, in order to remain informed about the latest developments in municipal finance and accounting, and Municipal Standard Chart of Accounts (mSCOA).

This manual is intended to be a practical guide providing procedural guidelines on the operational management aspects of running a Finance Department of a municipality. The manual is not intended to be used as a substitute for legal advice or opinions. Every effort has been made to ensure that the information contained in this manual is accurate. The producers cannot and will not assume liability for any claims, losses, or damages resulting from the use of this manual.

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1. PURPOSE AND OBJECTIVE

The purpose of the Standard Operating Procedures (SOPs), is to assist designated employees, in an effective and efficient manner, with the operational management aspects of the day-to-day running on a Finance Department of a municipality, following best practices. This ensures that every person who performs a task does it in the same, correct manner, every time it is performed.

The SOPs also serve to outline the responsibility that each employee has towards effective and efficient municipal finance management and observing applicable legislative framework.

The SOPs can be used by all municipalities, and municipalities are advised to adjust the SOPs to their size, operations, environment and organogram.

2. SCOPE

The SOPs are applicable to all staff members of a Finance Department responsible for fulfilling the responsibilities and duties inherent in their positions.

3. DEFINITIONS

For the purpose of these Standard Operating Procedures the following abbreviations, definitions and descriptions have the meanings as described below:

AA	Accountant: Assets
ABTO	Accountant: Budget and Treasury Office
ADSC	Administrator: Supply Chain Management
AE	Accountant: Expenditure
AFS	Annual Financial Statements
AGA	Agricultural Assets
AI	Accountant: Income/Debtors
ASB	Accounting Standards Board
ASCM	Accountant: Supply Chain Management
AV	Accountant: Valuations
BAC	Bid Adjudication Committee
BSC	Bid Specification Committee
BTO	Budget and Treasury Office
C	Cashier
CCA	Chief Clerk: Assets
CCCC	Chief Clerk: Credit Control
CCCD	Chief Clerk: Consumer Data
CCD	Chief Clerk: Debtors
CCE	Chief Clerk: Expenditure
CCV	Chief Clerk: Valuations
CE	Clerk: Enquiries
CHR	Clerk: Human Resources
CS	Clerk: Salaries
CSCM	Clerk: Supply Chain Management

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CFO	Chief Financial Officer
COGTA	Cooperative Governance and Traditional Affairs
DORA	Division of Revenue Act
DPLG	Department of Provincial and Local Government
DC	Data Capturer
DWAF	Department of Water Affairs and Forestry
EFT	Electronic Fund Transfer
FC	Finance Committee
GRAP	General Recognised Accounting Practice
GRN	Goods Received Note
HA	Heritage Assets
HAE	Head: Assets and Expenditure Department
HBTO	Head: Budget and Treasury Office
HC	Head: Cashier
HI	Head: Income Department
HOD	Heads of Other Departments within the Municipality
IA	Internal Audit
IDP	Integrated Development Plan
INTA	Intangible Asset
IP	Investment Property
IT	Information Technology
KPI	Key Performance Indicator
LW	Lead Worker (Supervisor)
M	Mayor
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MHR	Manager: Human Resources
MIG	Municipal Infrastructure Grant
MM	Municipal Manager/Accounting Officer
MPRA	Municipal Property Rates Act
MR	Meter Reader
MSA	Municipal Systems Act
MSTA	Municipal Structures Act
MTP	Manager: Town Planning
MSCM	Manager: Supply Chain Management
NERSA	National Electricity Regulator of South Africa
OD	Other Municipal Departments
PAYE	Pay as You Earn
PPE	Property, Plant and Equipment
PPFA	Preferential Procurement Policy Framework Act
SALGA	South African Local Government Association
SARS	South African Revenue Services
SDBIP	Service Delivery and Budget Implementation Plan
SLA	Service Level Agreement
SOPs	Standard Operating Procedures
SM	Storeman
SMME	Small, Medium and Micro Enterprises
UIF	Unemployment Insurance Fund
VAT	Value-Added Tax

"Accounting Officer" a person appointed in terms of section 82(l)(a) or (b) of the Municipal Structures Act, 2000; and also refers to the municipal manager of a municipality in terms of section 60 of the Municipal Finance Management Act; [Municipal Systems Act No. 32 of 2000 and Municipal Finance Management Act No 56 of 2003]

"Agency service" means a service where:

- a) The agent acts in an "agency" capacity for the principal by assuming certain legal and fiduciary responsibilities;
- b) The gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets for the agent; and
- c) Revenue is the amount of any commission received or receivable by the agent for the collection or handling of the gross inflows on behalf of the principal; [GRAP 109 summarised]

"Agent" is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal; [Defined in GRAP 109]

"Agricultural activity" is the management by an entity of the biological transformation and harvest of biological assets for:

- a) Sale,
- b) Distribution at no charge or for a nominal charge; or
- c) Conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge; [Defined in GRAP 27]

"Agricultural produce" is the harvested product of the entity's biological assets; [Defined in GRAP 27]

"All applicable taxes" includes value-added tax, pay as you earn, income tax, skills development levies and unemployment insurance fund contributions;

"Allocation", in relation to a municipality, means -

- a) A municipality's share of the local government's equitable share referred to in section 214 (1) (a) of the Constitution;
- b) An allocation of money to a municipality in terms of section 214 (1) (c) of the Constitution;
- c) The equitable share allocation to a municipality as set out in Schedule 3 and conditional allocations as set out in Schedules 4, 5, 6 and 7 of the Division of Revenue Act;
- d) An allocation of money to a municipality in terms of a provincial budget; or
- e) 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;

"Asset" means a resource controlled by the Municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the Municipality; [Defined in GRAP 1]

“Asset Register” means a control record or register of information on each asset that supports effective financial and technical management of the assets, and meets the statutory requirements;

“Basic Municipal Service” is a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment; [Defined in the Municipal Finance Management Act No 56 of 2003]

“B-BBEE” means broad-based black economic empowerment; [Defined in section 1 of the Broad-Based Black Economic Empowerment Act No. 53 of 2003]

“B-BBEE status level of contributor” means the B-BBEE status received by a measured entity based on its overall performance using the relevant scorecard contained in the Codes of Good Practice on Black Economic Empowerment;

“Broad-Based Black Economic Empowerment Act” means the Broad-Based Black Economic Empowerment Act No. 53 of 2003;

A **“biological asset”** is a living animal or plant; [Defined in GRAP 27]

“Biological transformation” comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a biological asset; [Defined in GRAP 27]

“Capitalisation” means the recognition of expenditure as an asset in the financial records and in the Asset Register;

“Capture” means in the context of adding data to the financial system from sub-systems, the seamless integration of the data from sub-systems into the core financial system without the possibility of human interference with the data;

“Carrying amount” is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses;

“Cashier” a person who is responsible to receive money on behalf of the Municipality, and issue immediately a receipt for the money received;

“Chief Financial Officer” a person designated in terms of section 80(2)(a) of the Municipal Finance Management Act No. 56 of 2003;

“CIDB regulations” means any regulations issued in terms of the Construction Industry Development Board Act No. 38 of 2000;

“Class of assets” means a grouping of assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the financial statements; [Defined in GRAP 17]

“Codes of Good Practice” means the Codes of Good Practice on Black Economic Empowerment issued in terms of section 9(1) of the Broad-Based Black Economic Empowerment Act and contained in General Notice 12 of 9 February 2007;

"Comparative price" means the price after the factors of a non-firm price and all unconditional discounts that can be utilized, have been taken into consideration;

"Competitive bid" means a bid in terms of a competitive bidding process; [Defined in the Municipal Supply Chain Management Regulations, 2005]

"Component" means a part of an asset with a significantly different expected useful life and/or significant cost in relation to the rest of the main asset. It should be separately accounted for and is treated separately for depreciation, recognition and de-recognition purposes;

"Construction works" means the provision of a combination of goods and services arranged for the development, extension, installation, repair, maintenance, renewal, removal, renovation, alteration, dismantling or demolition of a fixed asset including building and engineering infrastructure;

"Contract" means the agreement that results from the acceptance of a bid by the Municipality;

"Consortium or joint venture" means an association of persons for the purpose of combining their expertise, property, capital, efforts, skill and knowledge in an activity for the execution of a contract;

"Control" means the right or access to future economic benefits or service potential;

"Cost" means the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction; [Defined in GRAP 17]

"Cost of acquisition" means all the costs incurred in bringing an asset item to the required condition and location for its intended use;

"Costs to sell" are the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes. Disposal may occur through sale or through distribution at no charge or for a nominal charge;

"Council" the municipal council of the [NAME] Municipality and it referred to in section 18 of the Municipal Structures Act No. 117 of 1998;

"Current year" the financial year, which has already commenced, but not yet ended; [Defined in the Municipal Finance Management Act No. 56 of 2003]

"Day" unless expressly otherwise provided in this policy, means a calendar day, provided that when any particular number of days is prescribed for the doing of any act, or for any other purpose, the same shall be reckoned exclusively of the first and inclusively of the last day, unless the last day happens to fall on a Sunday or on any public holiday, in which case the time shall be reckoned exclusively of the first day and exclusively also of every such Sunday or public holiday;

“Debt” means—

- a) A monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or
- b) A contingent liability such as that created by guaranteeing a monetary liability or obligation of another; [Defined in the Municipal Finance Management Act No. 56 of 2003]

“Designated Official” means the official of the municipality to whom the accounting officer or the chief financial officer, as the case may be, have, in accordance with sections 79 and 82 of the Municipal Finance Management Act No. 56 of 2003 delegated powers, functions and duties in connection with the application and implementation of this policy;

“Designated sector” means a sector, sub-sector or industry that has been designated by the Department of Trade and Industry in line with national development and industrial policies for local production, where only locally produced services, works or goods or locally manufactured goods meet the stipulated minimum threshold for local production and content;

“Depreciable amount” is the cost of an asset, or other amount substituted for cost, less its residual value; [Defined in GRAP 17]

“Depreciation” is the systematic allocation of the depreciable amount of an asset over its useful life; [Defined in GRAP 17]

“Development” is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of production or use; [Defined in GRAP 31]

“Elements of cost” means in terms of a capital item comprises of:

- a) Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- b) Costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period;

“Executive Committee” means a committee established in terms of section 42 of the Municipal Structures Act No. 117 of 1998;

“Expected Useful Life” means the life of a capital asset over which it can be expected to meet the required performance given its operational requirements, including parameters such as climate, soil conditions, topography, utilisation, and operations and maintenance regime, and over which it will be productively used;

"Fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction; [Defined in GRAP 104]

"Final award" in the in relation to bids or quotations submitted for a contract, means the final decision on which a bid or quote was accepted; [Defined in Municipal Supply Chain Management Regulations, 2005]

"Finance Committee" means a committee establish in terms of section 33 of the Municipal Structures Act No. 117 of 1998;

"Financial year" a twelve-month period commencing on 1st July and ending on 30th June each year;

"Financing agreement" includes any loan agreement, lease, instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time; [Defined in the Municipal Finance Management Act No. 56 of 2003]

"Firm price" means the price that is only subject to adjustments in accordance with the actual increase or decrease resulting from the change, imposition, or abolition of customs or excise duty and any other duty, levy or tax which, in terms of any applicable law or regulation, is binding on the contractor and demonstrably has an influence on the price of any supplies or the rendering costs of any service, for the execution of a contract;

"Formal written price quotations" means quotations referred to in paragraph 12(1)(d) of the Municipal Supply Chain Management Regulations (2005);

"Functionality" means the measurement according to predetermined norms, as set out in the tender specification, of a service or commodity that is designed to be practical and useful, working or operating, taking into account, among other factors, the quality, reliability, viability and durability of a service and the technical capacity and ability of a tenderer;

"Fronting" means a deliberate circumvention or attempted circumvention of the "Broad-Based Black Economic Empowerment Act and the Codes of Good Practice";

"Harvest" is the detachment of produce from a biological asset or the cessation of a biological asset's life processes; [Defined in GRAP 27]

"Heritage assets" are 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; [Defined in GRAP 103]

"Head of Department" means a senior manager as defined in the Municipal Finance Management Act and who is responsible for a vote as assigned by the accounting officer;

An **"impairment loss of a cash-generating asset"** is the amount by which the carrying amount of an asset exceeds its recoverable amount; [Defined in GRAP 26]

An **"impairment loss of a non-cash-generating asset"** is the amount by which the carrying amount of an asset exceeds its recoverable service amount; [Defined in GRAP 21]

"Imported content" means that portion of the tender price represented by the cost of components, parts or materials which have been or are still to be imported (whether by the supplier or its sub-contractors) and which costs are inclusive of the costs abroad, plus freight and other direct importation costs, such as landing costs, dock dues, import duty, sales duty or other similar tax or duty at the South African port of entry;

An **"inalienable item"** is an asset that an entity is required by law or otherwise to retain indefinitely and cannot be disposed of without consent;

"Infrastructure Assets" refers to assets that usually display some or all of the following characteristics:

- a) They are part of a system or network;
- b) They are specialised in nature and do not have alternative uses;
- c) They are immovable; and
- d) They may be subject to constraints on disposal.

In this document, the broad interpretation of infrastructure, includes all core assets which are integral to the delivery of municipal services and includes water supply, sanitation, road transport and storm water drainage, solid waste removal and electricity supply;

"In the service of the state" means to be -

- a) A member of -
 - (i) Any municipal council;
 - (ii) Any provincial legislature; or
 - (iii) The National Assembly or the National Council of Provinces;
- b) A member of the board of directors of any municipal entity;
- c) An official of any municipality or municipal entity;
- d) An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Act and the Public Finance Management Act, 1999 (Act No. 1 of 1999);
- e) A member of the accounting authority of any national or provincial public entity;
- f) An employee of Parliament or a provincial legislature; [Defined by the Municipal Supply Chain Management Regulations, 2005]

An **"intangible asset"** is an identifiable non-monetary asset without physical substance;
[Defined in GRAP 31]

"Investment property" is 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 operations; [Defined in GRAP 16]

"Key Performance Indicator (KPI)" - A qualitative or quantitative measure of a service or activity used to compare actual performance against a standard or other target. Key performance indicators commonly relate to statutory limits, safety, responsiveness, cost, comfort, asset performance, reliability, efficiency, environmental protection and customer satisfaction;

"Line manager" means a manager reporting directly to a senior manager and who is responsible for a cost centre as assigned by the relevant senior manager;

"Local content" means that portion of the tender price which is not included in the imported content, provided that local manufacture does take place;

"Long term contract" means a contract with a duration period exceeding one year; [Defined in the Municipal Supply Chain Management Regulations, 2005]

"Long-term debt" as means debt repayable over a period exceeding one year; [Defined in the Municipal Finance Management Act No. 56 of 2003]

"List of accredited prospective service providers" means the list of accredited prospective service providers which the municipality must keep in terms of paragraph 14 of the Municipal Supply Chain Management Regulations (2005);

"Mayor" means the councillor elected by the council as Mayor in terms of section 48 of the Local Government: Municipal Structures Act No. 117 of 1998 read with section 58 of the Municipal Finance Management Act No. 56 of 2003;

"MFMA" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

"Municipality" - The [Name] Municipality;

"Non-firm prices" means all prices other than "firm" prices;

"Official" means

- a) An employee of the municipality;
- b) A person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- c) A person contracted by the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee; [Defined in the Municipal Finance Management Act No. 56 of 2003]

"Person" includes a juristic person;

"Planned maintenance" means and refer to preventative maintenance that is time and conditioned based and is normally planned based on monitoring and inspections performed in the past which can then be viewed as to corrective maintenance, the item is not yet broken;

"Preferential Procurement Regulations" means the Preferential Procurement Regulations, 2011 contained in Government Notice R 502 of 8 June 2011 promulgated in Government: Gazette No. 34350;

“Primary bank account” means a bank account referred to in section 8(1) of the Municipal Finance Management Act No. 56 of 2003;

“Principal” means an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit; [Defined in GRAP 109]

“Project Management Unit (PMU)” means a unit within the municipality that have the following functions:

- a) Project managing and administration of MIG funding, within the relevant municipal accounting system, for infrastructure projects of their own using MIG funds and for projects of other municipalities where they are delegated this authority;
- b) Coordination of the project identification process between municipalities served by the PMU, in terms of the relevant IDPs;
- c) Coordination of the project feasibility process, with involvement of other municipal departments where appropriate, in terms of the relevant IDPs;
- d) Establishment and approval of contracts with contractors and consultants for each project, including feasibility studies;
- e) Project management, including ensuring that projects meet planning objectives;
- f) Coordination of project-based capacity building initiatives: the PMU is responsible for ensuring that project-related capacity building and development objectives are met;
- g) Management of MIG Management Information System (MIG –MIS) for registration of projects, facilitate the capture of backlog information, monitoring and preparation of all necessary reports; and
- h) Build capacity to operationalise and manage the MIG-MIS;

“Property, plant and equipment” are 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; [Defined in GRAP 17]

“Rand value” means the total estimated value of a contract in South African currency calculated at the time of tender invitations, and includes all applicable taxes and excise duties;

“Recoverable amount” is the higher of a cash-generating asset’s net selling price and its value in use; [Defined in GRAP 26]

“Recoverable service amount” is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use; [Defined in GRAP 21]

“Remaining Useful Life” means remaining life of an asset over which it can be expected to meet the required performance given its operational requirements and over which it will be productively used;

“Renewal” means the replacement of a significant portion of an existing asset or the rehabilitation of an asset in order to extend the useful life of the asset beyond the current remaining useful or productive life. Expenditure of this nature are considered to be of capital nature and must be included in the capital budget and be capitalised as an asset;

“Repair and Maintenance” means the actions required for an asset to achieve its expected useful life;

“Replacement” means the complete replacement or reconstruction of an asset with one that performs to a similar standard of performance, as a result of which the asset life can be considered to have re-commenced. In this case it would have replace an existing asset that requires to be de-recognised from the asset register. Expenditure of this nature are considered to be of capital nature and must be included in the capital budget and capitalised as an asset;

“Research” is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding; [Defined in GRAP 31]

“Responsive bid” means a bid that complies in all material aspects with the requirements set out in or contained in an invitation to bid including the applicable specification;

The **“residual value”** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life; [Defined in GRAP 17]

“Security” means any mechanism intended to secure the interest of a lender or investor, and includes any of the mechanisms mentioned in section 48(2) of the MFMA;

“Senior Manager” all officials reporting directly to the Accounting Officer as contemplated in sect 56 of the MSA;

“Short-term debt” means debt repayable over a period not exceeding one year; [Defined in the Municipal Finance Management Act No 56 of 2003]

“Small enterprise” means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule to the National Small Business Act No. 102 of 1996 which is contained in Annexure B to this policy and classified as a micro, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the said schedule;

“Standard Operating Procedures” (SOPs) means the method of functioning that has been established over time to execute a specific task or react to a specific set of circumstances or situation or process. Standard Operating Procedures document the normal or accepted methodology and help from the basis for evaluating conformance with the regularity framework;

“Stipulated minimum threshold” means that portion of local production and content as determined by the Department of Trade and Industry from time to time;

"Sub-contract" means the primary contractor's assigning, leasing, making out work to, or employing, another person to support such primary contractor in the execution of part of a project in terms of a contract;

"SANAS" means the South African National Accreditation System;

"Tender" means a written offer in a prescribed or stipulated form in response to an invitation by the municipality for the provision of services, works or goods, through price quotations, advertised competitive tendering processes or proposals and "bid" has a corresponding meaning;

"Total revenue" bears the same meaning assigned to this expression in the Codes of Good Practice;

"Treasury guidelines" means any guidelines on supply chain management issued by the Minister of Finance in terms of section 168 of the Municipal Finance Management Act;

"Trust" means the arrangement through which the property of one person is made over or bequeathed to a trustee to administer such property for the benefit of another person;

"Trustee" means any person, including the founder of a trust, to whom property is bequeathed in order for such property to be administered for the benefit of another person;

"Treasury guidelines" means any guidelines issued by the Minister of Finance in terms of section 168 of the Municipal Finance Management Act No 56 of 2003;

"The Regulations" means any regulations issued by the Minister of Finance in terms of section 168 and 175 of the Municipal Finance Management Act No 56 of 2003;

"Upgrading" means the augmentation or alteration of an asset that results in a material improvement to capacity or performance. When the expenditure also results in an increase in useful life; the expenditure may be considered to be of capital nature and must then be included in the capital budget and be capitalised as an asset;

"Un-planned maintenance" means and refer to repairs or insignificant replacements, for example a pipe burst where only one length of the pipe is replaced;

"Value in use of a cash-generating asset" is the present value of the future cash flows expected to be derived from an asset or cash-generating unit; [Defined in GRAP 26]

"Value in use of a non-cash-generating asset" is the present value of the asset's remaining service potential; [Defined in GRAP 21]

"Verification Certificate" means a B-BBEE certificate issued in compliance with the B-BBEE Codes of Good Practice and all Sector Codes issued in terms of Section 9(1) of the Broad-Based Black Economic Empowerment Act;

“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;
[Defined in the Municipal Finance Management Act No. 56 of 2003]

“Written quotations” means quotations referred to in paragraph 12(1)(c) of the Municipal Supply Chain Management Regulations (2005);

4. FINANCIAL MANAGEMENT GOVERNANCE AND REGULATORY FRAMEWORK

4.1. Constitution

Constitution of the Republic of South Africa (Act 108 of 1996)

4.2. Municipal Legislation

Electricity Regulation Act, 2006 (Act 4 of 2006)
Housing Act, 1997 (Act 107 of 1997)
Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)
Intergovernmental Fiscal Relations Act, 1997 (Act 97 of 1997)
Laws Amendment Act, 2002 (Act 51 of 2002)
Municipal Finance Management Act, 2003 (Act 56 of 2003)
Municipal Demarcation Act, 1998 (Act 27 of 1998)
Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007)
Municipal Property Rates Act, 2004 (Act 6 of 2004)
Municipal Systems Act, 2000 (Act 32 of 2000)
Municipal Systems Amendment Act, 2003 (Act 44 of 2003)
Municipal Structures Act, 1998 (Act 117 of 1998)
Municipal Structures Amendment Act, 2003 (Act 1 of 2003)
Municipal Structures Amendment Act (Act 51 of 2002)
Municipal Structures Amendment Act (Act 20 of 2002)
Municipal Structures Amendment Act, 2000 (Act 33 of 2000)
Municipal Structures Amendment Act, 1999 (Act 58 of 1999)
Transitions Act, 1996 (Act 97 of 1996)
Water Services Act, 1997 (Act 108 of 1997)
Water Services Amendment Act, 2004 (Act 30 of 2004)
Municipality's By-Laws

4.3. Regulations

Municipal Asset Transfer Regulations, 2003
Municipal Budget and Reporting Regulations, 2008
Municipal Planning and Performance Management Regulations, 2001
Municipal Supply Chain Management Regulations, 2005
Standard Chart of Accounts for Local Government Regulations, 2014

4.4. Budget Related Policies

Asset Management Policy
Borrowing Policy
Budget Policy
Cash Management and Investing Policy
Credit Control and Debt Collection Policy
Electricity and Water Management Policy
Funding and Reserves Policy
Indigent Policy
Infrastructure Procurement and Delivery Policy
Long-term Financial Planning Policy
Rates Policy

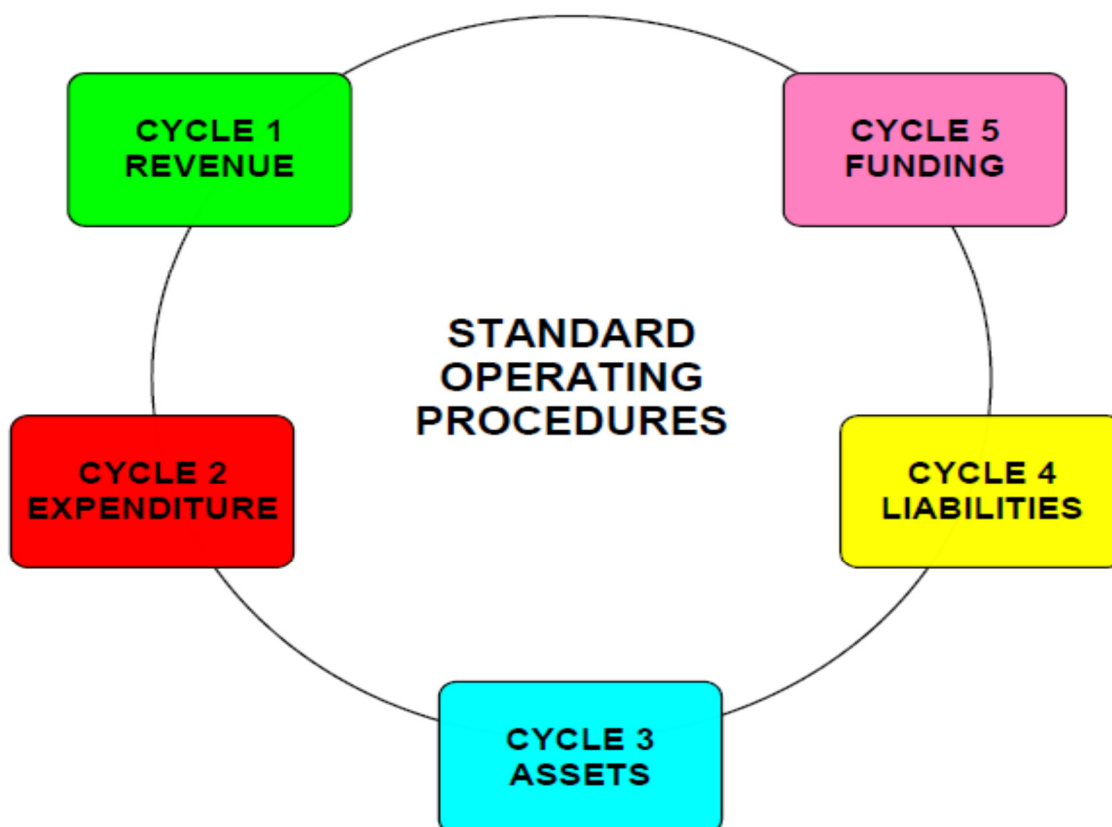
Staff Policy
Supply Chain Management Policy
Tariff Policy
Virement Policy

4.5. Other

Broad-Based Black Economic Empowerment Act (Act 53 of 2003)
Construction Industry Development Board Act (Act 38 of 2000)
Division of Revenue Act
Local Government Capital Asset Management Guideline
Preferential Procurement Policy Framework Act (Act 5 of 2000)
Project Management Unit Guideline
Standards of Generally Recognised Accounting Practice
Value-Added Tax Act (Act 89 of 1991)

5. PROCESS FLOW CHARTS

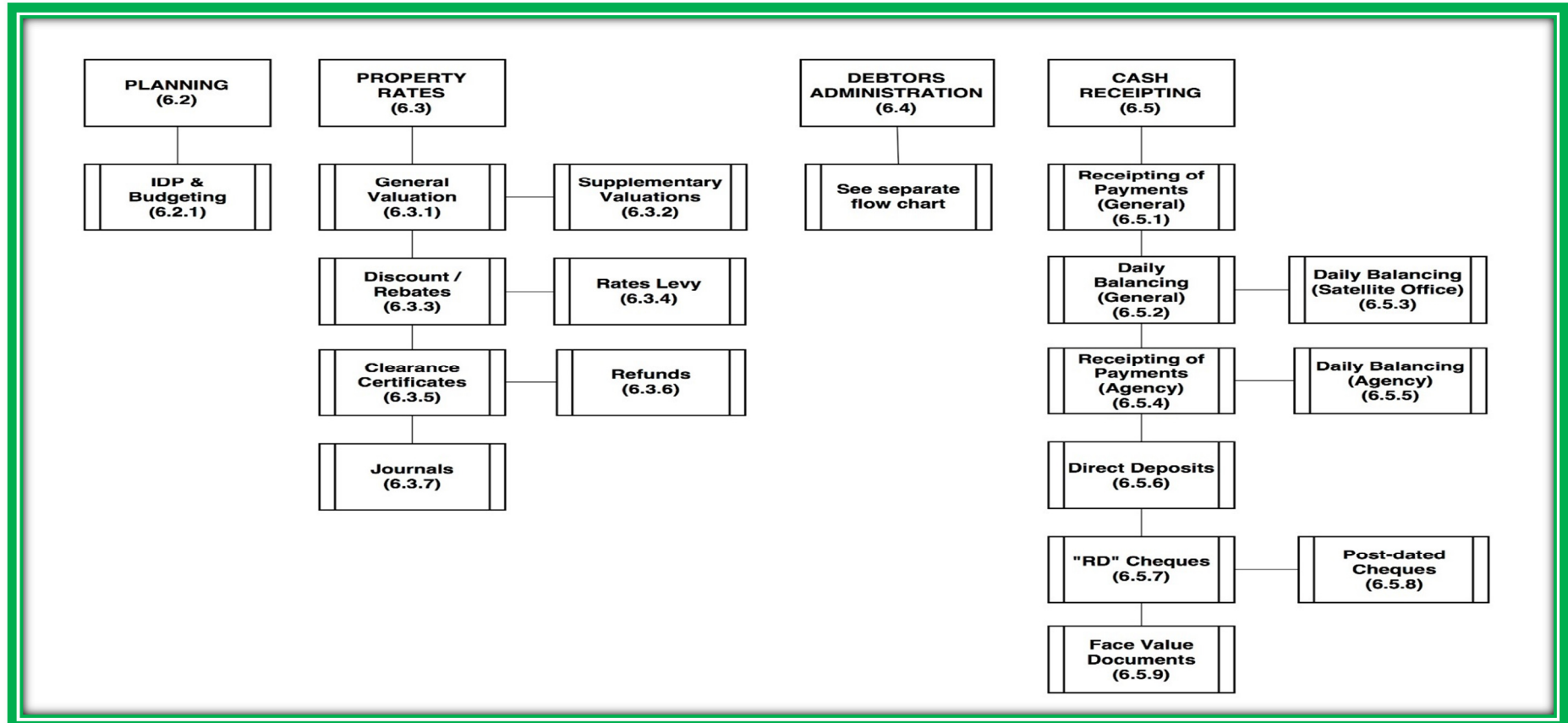
This guideline includes the 5 most critical problem areas where Standard Operating Procedures are required at local government level, based on the 2013-14 Consolidated General Report on the Local Government audit outcomes.



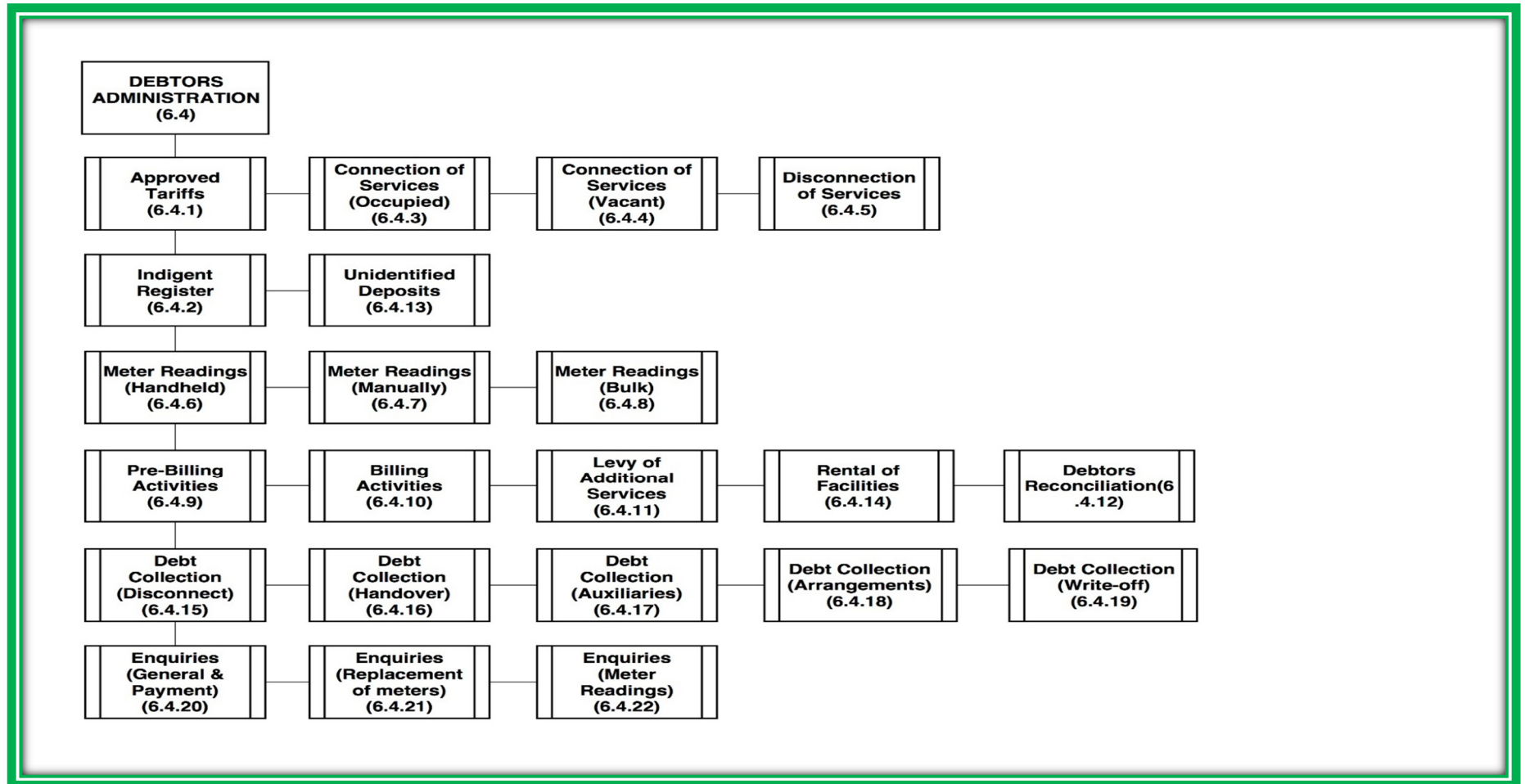
STANDARD OPERATING PROCEDURES FOR MUNICIPALITIES

5.1. Cycle 1 - Revenue Management

This flow chart provides a high-level overview of all subject covered in Section A – Revenue Management. Detailed flow charts of business processes are included in section 6.1.



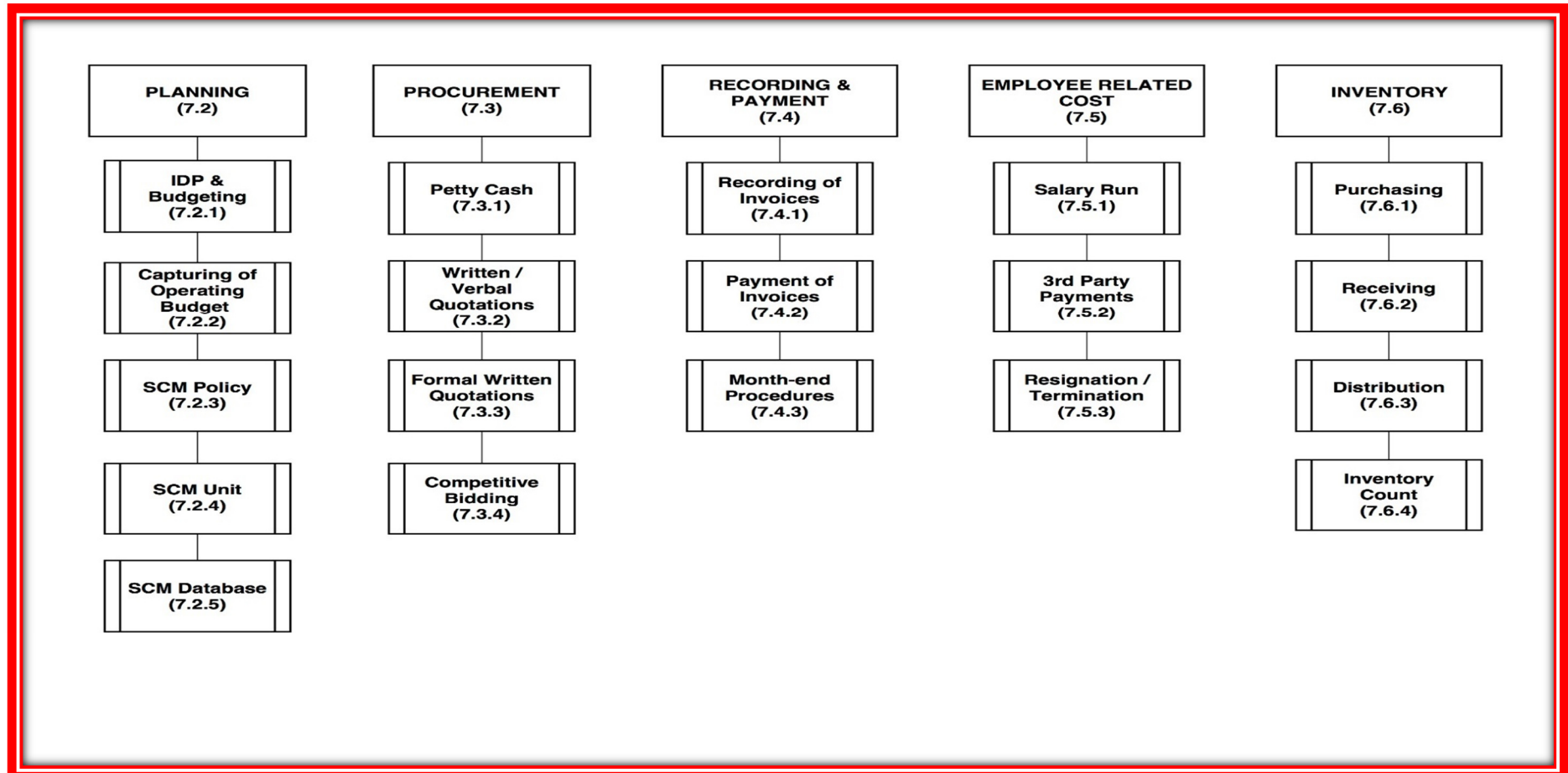
STANDARD OPERATING PROCEDURES FOR MUNICIPALITIES



STANDARD OPERATING PROCEDURES FOR MUNICIPALITIES

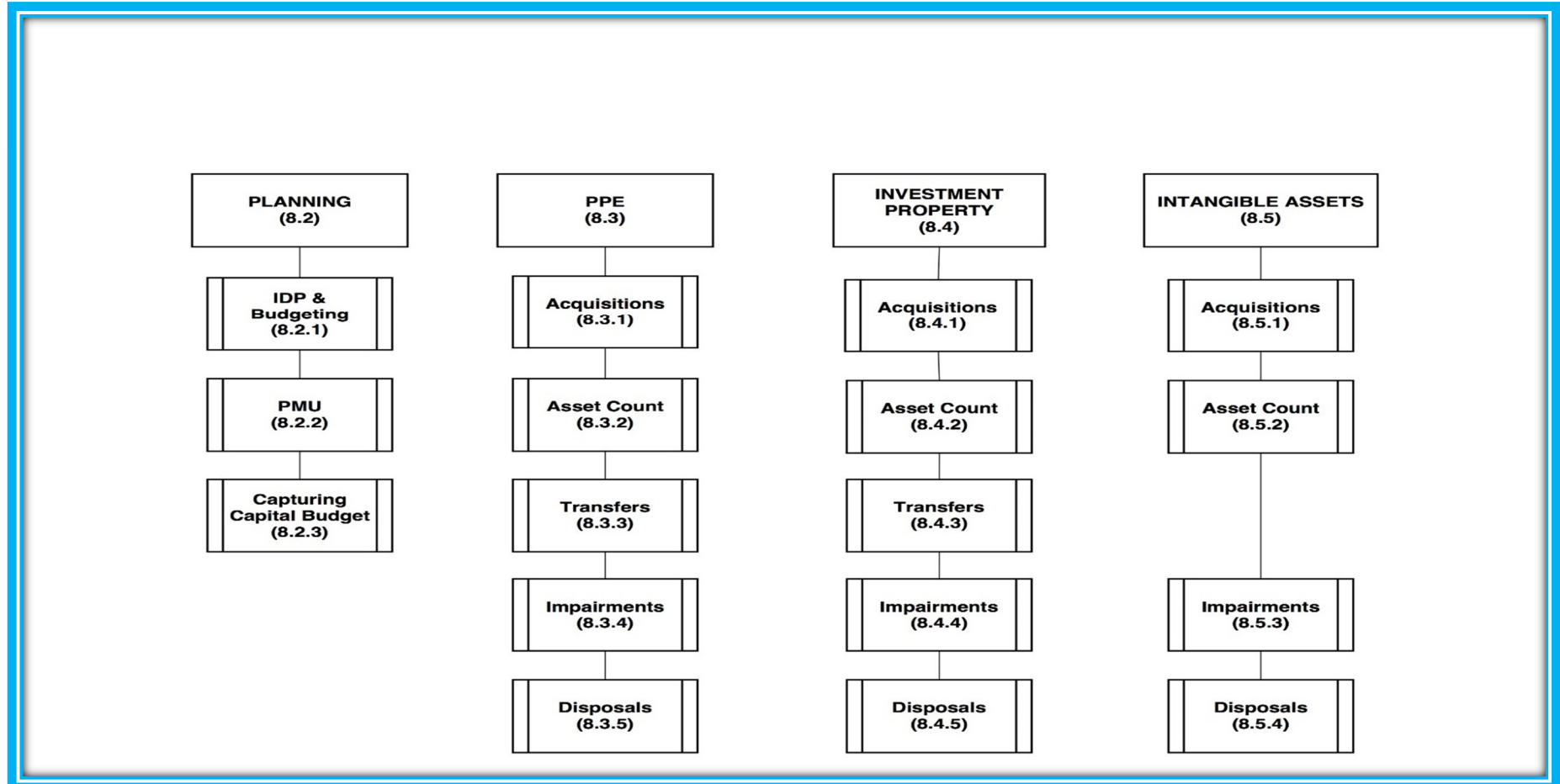
5.2. Cycle 2 - Expenditure Management

This flow chart provides a high-level overview of all subject covered in Section B – Expenditure Management. Detailed flow charts of business processes are included in section 7.1.

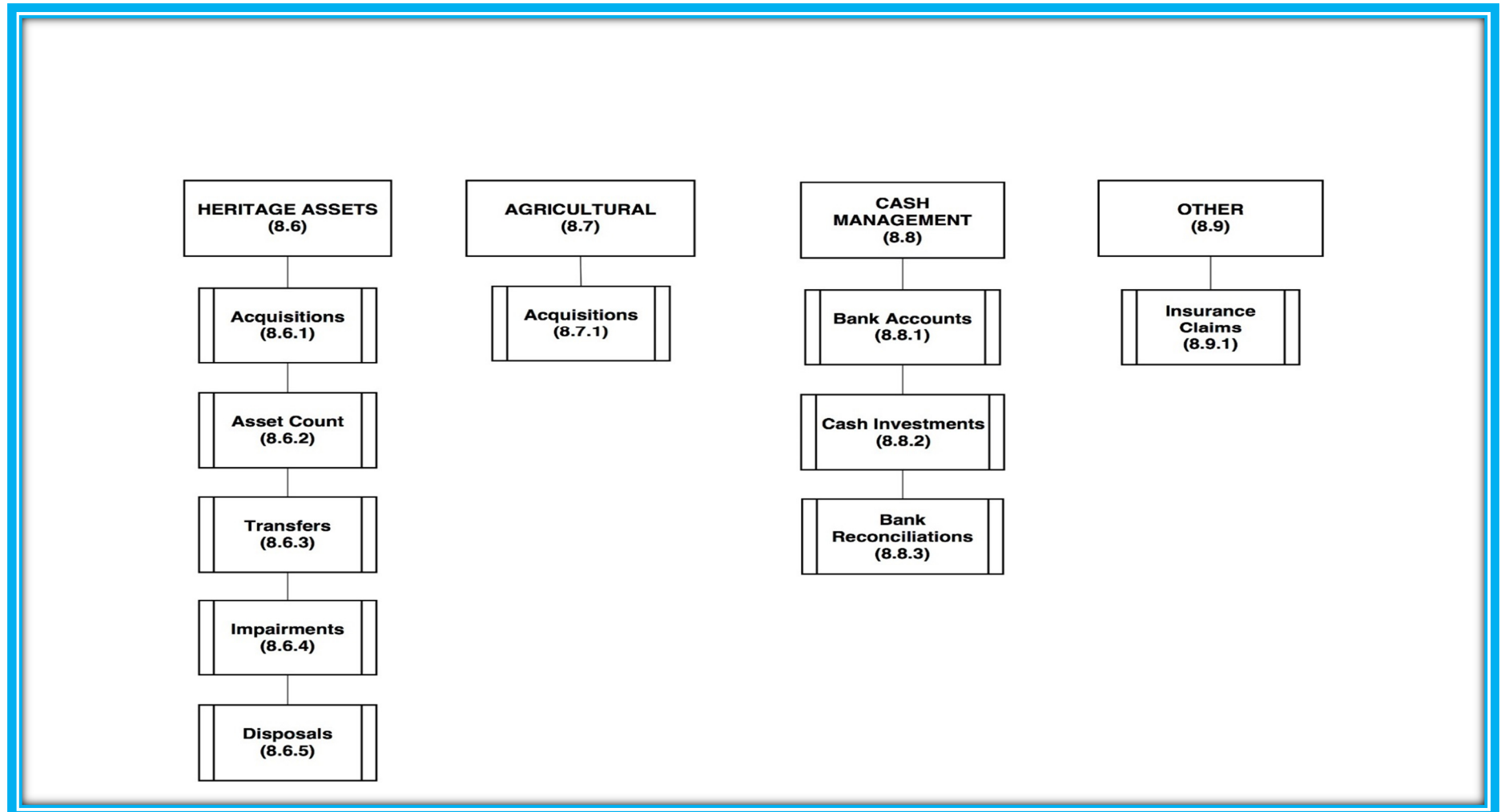


5.3. Cycle 3 - Asset Management

This flow chart provides a high-level overview of all subject covered in Section C – Asset Management. Detailed flow charts of business processes are included in section 8.1.

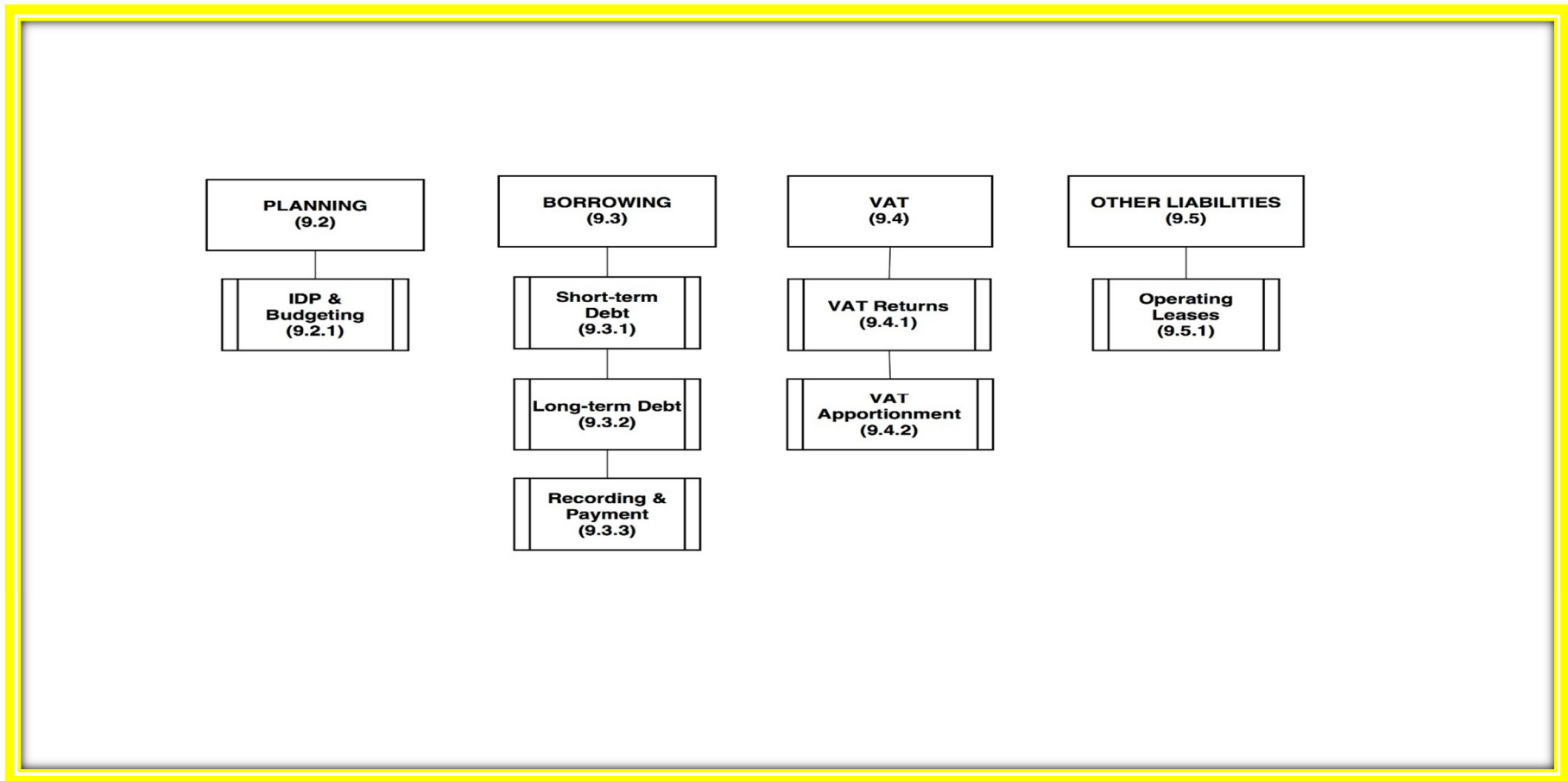


STANDARD OPERATING PROCEDURES FOR MUNICIPALITIES



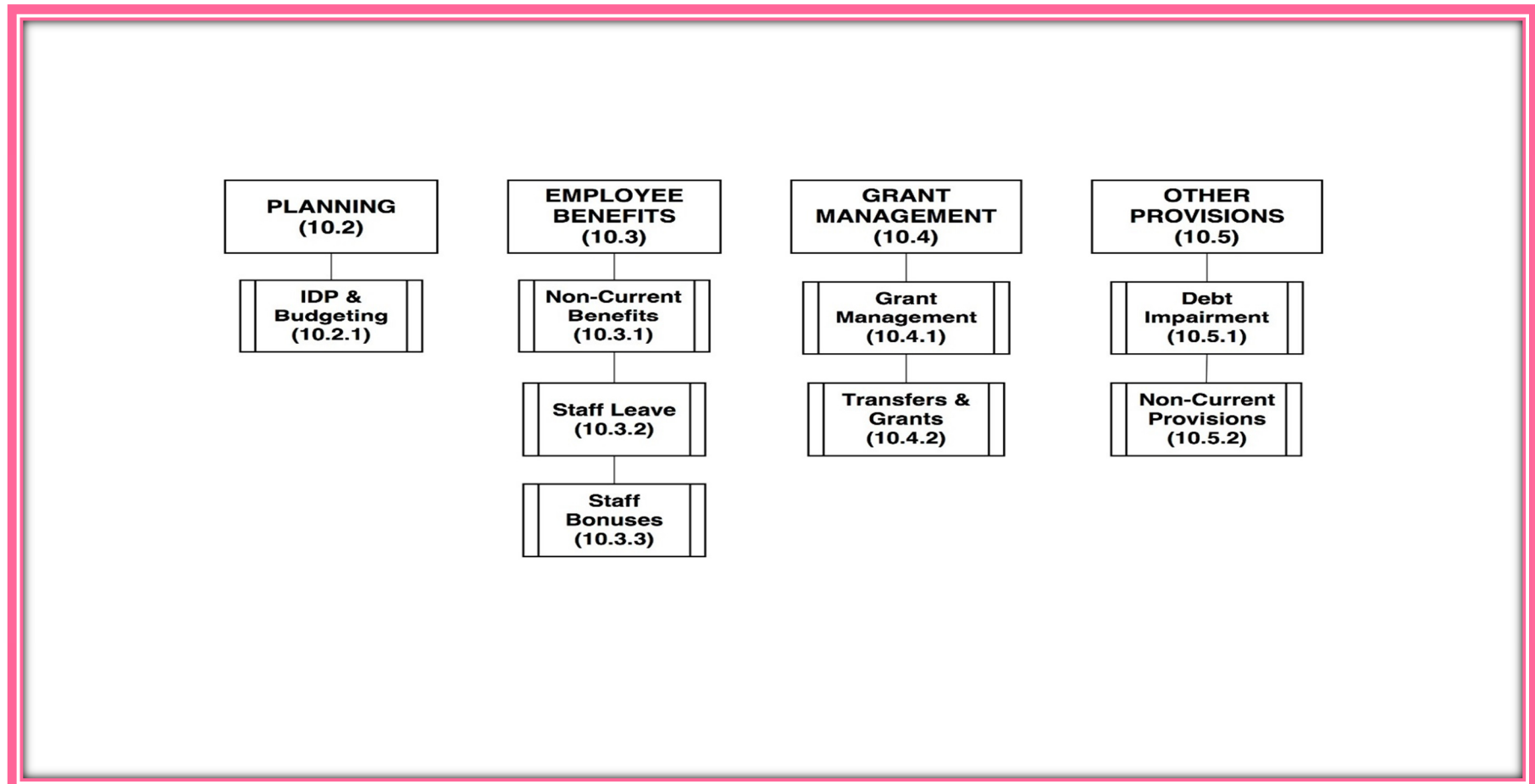
5.4. Cycle 4 – Liability Management

This flow chart provides a high-level overview of all subject covered in Section D – Liability Management. Detailed flow charts of business processes are included in section 9.1.



5.5. Cycle 5 - Funding Management

This flow chart provides a high-level overview of all subject covered in Section E – Funding Management. Detailed flow charts of business processes are included in section 10.1.



5.6. Statement of Financial Position

The diagram provides a high-level overview of standard operating procedures linked to specific GRAP-items in the Statement of Financial Position.

	SECTION	SUB-SECTION
ASSETS		
Current Assets		
Cash and Cash Equivalents	8.8	8.8.3
Current Portion of Long-term Receivables	6.4	6.4.18
Inventory	7.6	7.6.1
Operating Lease Asset	9.5	9.5.1
Receivables from Exchange Transactions	6.4	6.4.10 / 6.4.12
Receivables from Non-Exchange Transactions	6.3	6.3.4
Taxes Receivable	9.4	9.4.1
Non-Current Assets		
Agricultural	8.7	8.7.1
Heritage Assets	8.6	8.6.1
Intangible Assets	8.5	8.5.1
Investments	8.8	8.8.2
Investment Property	8.4	8.4.1
Long-term Receivables	6.4	6.4.18
Property, Plant and Equipment	8.3	8.3.1
LIABILITIES		
Current Liabilities		
Bank Overdraft	9.3	9.3.1
Consumer Deposits	6.4	6.4.3 / 6.4.12
Current Employee Benefits	10.3	10.3.2 / 10.3.3
Current Portion of Long-term Liabilities	9.3	9.3.2
Operating Lease Liability	9.5	9.5.1
Payables from Exchange Transactions	7.4	7.4.1
Provisions	10.5	10.5.2
Short-term Loans	9.3	9.3.1
Unspent Government Grants and Receipts	10.4	10.4.1
Unspent Public Contributions and Receipts	10.4	10.4.1
VAT Payable	9.4	9.4.1
Non-Current Liabilities		
Long-term Liabilities	9.3	9.3.2
Non-Current Employee Benefits	10.3	10.3.1
Non-Current Provisions	10.5	10.5.2
NET ASSETS		
Accumulated Surplus		
Reserves		

5.7. Statement of Financial Performance

The diagram provides a high-level overview of standard operating procedures linked to specific GRAP-items in the Statement of Financial Performance.

	SECTION	SUB-SECTION
REVENUE		
Property Rates	6.3	6.3.1 – 6.3.4
Property Rates – penalties & collection costs	6.4	6.4.16
Service Charges – Electricity	6.4	6.4.1 – 6.4.12
Service Charges – Water	6.4	6.4.1 – 6.4.12
Service Charges – Sanitation	6.4	6.4.1 – 6.4.12
Service Charges – Refuse	6.4	6.4.1 – 6.4.12
Service Charges – Other	6.4	6.4.1 – 6.4.12
Rental of Facilities and Equipment	6.3/6.7	6.3.14 / 6.7.2
Interest Earned – External Investments	6.7	6.7.1
Interest Earned – Receivables	6.4	6.4.9
Dividends Received	6.7	6.7.7
Fines	6.7	6.7.3
Licences and Permits	6.7	6.7.4
Agency Services	6.5	6.5.4 / 6.5.5
Government Grants and Subsidies	10.4	10.4.1
Other Revenue	6.7	6.7.7
EXPENDITURE		
Employee related costs	7.5	7.5.1
Remuneration of councillors	7.5	7.5.1
Bad Debts	10.5	10.5.1
Debt Impairment	10.5	10.5.1
Depreciation and Asset Impairment	8.3	8.3.2
Finance Charges	9.3	9.3.1 / 9.3.2
Bulk Purchases	7.4	7.4.1
Other Materials	7.4	7.4.1
Contracted Services	7.4	7.4.1
Grants and Subsidies Paid	10.4	10.4.2
Other Expenditure	7.4	7.4.1
Operating Surplus/(Deficit) for the year		
Inventories: (Write-down)/Reversal of Write-down	7.6	7.6.4
Gains/(Loss) on Sale of Assets	8.3	8.3.5
Assets: (Impairment Loss)/Reversal of Impairment Loss	8.3	8.3.4
Fair Value Adjustments	8.4	8.4
Receivables: (Impairment Loss)/Reversal of Impairment Loss	10.5	10.5.1
NET SURPLUS/(DEFICIT) FOR THE YEAR		

SECTION A – REVENUE MANAGEMENT

6. STANDARD OPERATING PROCEDURES FOR REVENUE MANAGEMENT

Procedures for the performing of responsibilities and duties of Revenue Management, provide the staff in the Finance Department with procedures and guidelines on the operational management aspects of the day to day running of the Finance Department of a municipality.

This Manual is intended to be a practical guide, assisting municipalities in offering reliable, and quality administrative and operational services to consumers and rate-payers.

Each section of the Procedures Manual indicates the staff involved for that specific section. Municipalities can adjust the staff members involved, based on their own circumstances. In assigning different responsibilities to staff members, care must be taken that each procedure is monitored (verified) by a staff member senior to the person performing the procedure. A staff member senior to the verifier, must review the procedure/s as indicated in the time-frames. This will reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties. It will also ensure that management directives are carried out.

When monitoring/reviewing procedures performed by staff members, sufficient evidence must be available to confirm that specific procedures were performed. This evidence can then be used for performance monitoring of staff members.

The levels of involvement of each official is indicated at each procedure and are summarised as follows:

PD	Perform Daily
PW	Perform Weekly
PM	Perform Monthly
PQ	Perform Quarterly
PBI	Perform Bi-Annually
PA	Perform Annually
VD	Verify Daily
VW	Verify Weekly
VM	Verify Monthly
VQ	Verify Quarterly
VBI	Verify Bi-Annually
VA	Verify Annually
RD	Review Daily
RW	Review Weekly
RM	Review Monthly
RQ	Review Quarterly
RBI	Review Bi-Annually
RA	Review Annually