UMZIMVUBU LOCAL MUNICIPALITY

Directorate: Expenditure Management

Subject: Accrual Procedures Manual

1. <u>Introduction</u>

- The purpose of this document is to inform all officials and user departments about the procedures and rules for managing accruals.
- The procedure manual outlines the identification treatment and recognition of accruals in the municipality according to the requirements of the MFMA Sec 65 (b) ii & iii.
- The accounting officer of an institution must ensure that internal procedures and external control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly to the person it is due unless agreed upon and is adequately recorded and reported

1.1 Definition

- Accruals represent goods and/or services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment or actual payment has not been affected on the system.

1.2 Objective

- The objective of the year-end accrual process is to recognize expenses in the period in which the economic events are incurred, regardless of when the payment is paid, to ensure accurate presentation of expenses. Accrual basis accounting records expense at the time when services or goods are received rather than when cash is actually paid to suppliers.

1.3 Legislative requirement

- The accounting officer of a municipality is responsible for the management of the expenditure of the municipality, in terms of (section 65 of the MFMA and Treasury Regulations 8.1.1)

2. Procedure / process flow

Contractual obligations

The user departments must do a follow up on a monthly basis on all service providers and update expenditure section of all expected invoices for contractual obligations that are not paid at the end of the reporting period. (Labour saving devices, cell phones, telephones, rented building etc.)

Open orders

- **Cut-Off:** The cut-off date for printing of orders will be the last day of April each year in order to give user departments 60 days to deliver on the given commitment.
- **Year End:** The supply chain management section must do a follow up from user departments about the progress of work done, unconfirmed orders will be deleted on the system on the 5th day after the financial year end and the system will close.
- **Capital projects**
  All capital projects that have been appointed but yet to be invoiced will have their outstanding amounts disclosed as Commitments.
- **Manual accruals**
  An accrual list on the confirmed services that were rendered or goods delivered outside the system and will form an auxiliary accrual list that will be closed at the end of the second week/15 July, this will be included in the financial statements.

Capital/ Projects Invoices

User departments must inform Budget and Reporting of any work or goods and/or services rendered but invoice is not yet received as at the reporting date in order to update a roll-over plan.

General Invoices

The expenditure management section must compile a register of all invoices received that could not be paid as at the reporting date, that belong to a particular reporting period.

The expenditure management section will then consolidate together with the accrual list from Budget and Reporting, Supply Chain Management Section and analyses for inclusion into the AFS.

Application scope
This procedure manual will apply to all user departments.

Procedure manual review
The procedure manual will be reviewed when the need arises or in case of the occurrence of extenuating circumstances.