

EXPENDITURE MANAGEMENT POLICIES

Petty cash Policy
Subsistence & Travelling Policy
Unauthorized, Irregular,
Fruitless & wasteful expenditure policy



UMZIMVUBU LOCAL MUNICIPALITY



UMZIMVUBU
— LOCAL MUNICIPALITY —

PETTY CASH POLICY

TABLE OF CONTENTS

1. Introduction
2. Legislative Framework
3. Objective
4. Applicability
5. Purpose
6. Petty cash float
7. Procedures

Introduction

The main purpose for the Petty cash policy is to assist municipal departments with emergency payments of a minor and recurring nature where it is impracticable to follow Supply Chain Management policies and procedures

Legislative Framework

Paragraph 15 of Umzimvubu Local Municipality policy Supply Chain Management policy

Objective

To provide a framework for the usage and management of petty cash funds

Applicability

The policy is applicable to all municipal departments

Purpose of Policy

Where the need may arise in a department to have cash available for payments of a minor and recurring nature and it is impracticable to follow Supply Chain Management policies and procedures for every expense, such payments (excluding remuneration for services rendered) may be handled by means of petty cash facilities.

Formal application for petty cash facilities must be made to the Municipal Manager who is ultimately accountable for the management of a petty cash float.

The Municipal Manager may delegate control and management of the petty cash float to Chief Financial Officer in which event reference to the Municipal Manager in this policy shall be construed as reference to the Chief Financial Officer.

At the discretion of the Municipal Manager, departments of the Municipality may be provided with their own petty cash floats or to a designated petty cash officer who may be appointed for the entire municipality.

In the event of a Department being authorised to keep a petty cash float, the Head of Department concerned shall designate a staff member as a Departmental Petty Cash Officer.

Maximum Petty Cash Float

The Council shall by resolution determine the maximum amount which may be withdrawn from the banking account of the Council for purposes of the petty cash float.

The maximum petty cash amount is **R11, 500.00** per month and will be allocated to departments as follows

- Budget and Treasury Office R2, 000.00
- Corporate Services R1, 500.00
- Council R1, 000.00
- Infrastructure & Planning R2, 000.00
- Municipal Manager's Office R1, 000.00
- Local Economic Development R1, 000.00
- Citizens & Community Services R2, 000.00
- Special Programmes R1, 000.00

R11, 500.00

Procedures for the handling of Petty Cash

- The application for a petty cash facility or for increase of the operational amount of an existing petty cash float, must be made in writing to the Municipal Manager.
- The application must state reasons for the need of a petty cash float and the amount required for its operation, as well as the cost centre and vote number from which funds are to be applied for the petty cash. The amount should be sufficient to cover expenses for approximately one month.
- The responsibility for operating petty cash and the safe keeping of petty cash funds in a Department must be assigned to the designated Petty Cash Officer only and the head of the department shall be co-responsible for petty cash management in such Department.
- Petty Cash Officer has to ensure that a formal petty cash register is properly kept and updated regularly whenever petty cash amount is

issued. The register has to be reviewed on a monthly basis by a senior official.

- Payments to establish a petty cash float may only be by way of Electronic Funds Transfer made payable to the designated Petty Cash Officer and upon submission of a requisition signed by such Petty Cash Officer and countersigned by the relevant Head of Department or Divisional Head.
- The requisitioned amount should not exceed a maximum amount of R11, 500.00 per month and R500.00 per day.
- Petty Cash payments may only be made to the designated Petty Cash Officer upon production of a cash requisition accompanied by proper supporting documents such as cash sale slips or receipts containing the supplier's name.
- Petty cash form should be completed by the person requesting funds and the relevant Head of Department should sign the form as evidence of approval. The signed form should be submitted to the Petty Cash Officer for payment and updating petty cash register.
- After a purchase is made, the supporting document[s] must be submitted to Petty Cash Officer within a week from the date of such advance. Failure to submit relevant supporting documents will result in salary deduction, an amount equal to petty cash issued from the person who requested petty cash
- The Petty Cash Officer must regularly pursue outstanding advances and long outstanding advances must be brought to the attention of the Chief Financial Officer who must take the appropriate action to ensure that the amount advanced has been properly spent and proof of expenditure is submitted.
- When the cash in the petty cash float is almost exhausted, the petty cash register must be balanced and reconciled on a monthly basis. Reconciliation should be reviewed and signed by a senior official.
- Replenishment of the petty cash float is undertaken after the balancing and reconciliation of the Petty Cash Register has been checked and approved by the Chief Financial Officer or his delegate.
- The petty cash float, should for all intents and purposes be kept in a lockable, fireproof safe.

- Entry and access to the safe is gained by means of a unique 4 digit pin known individually to the Expenditure Accountant and Petty cash officer. In cases where petty cash officer will not be available, Expenditure Accountant should appoint temporary petty cash officer. Proper cash count & hand over of entry codes should be done. Both the Expenditure accountant and Petty cash officer should sign confirming cash on hand.
- Reasonable precautions must be exercised for the safe keeping of keys to the petty cash container and the room where it is kept. The keys must not be left at the premises after hours.
- Petty cash funds are to be used exclusively for the payment of smaller official expenses (excluding any form of remuneration for services rendered) **and it is not to be used to pay for operational transactions on a daily basis, in such cases proper Supply Chain regulations must be implemented to procure the goods or services.**
- The Internal auditors of the Municipality may, an audit of a petty cash to confirm the cash balance.
- Shortages and surplus funds concerning petty cash must immediately be paid in at the cashier and the reason for the shortage/surplus must be investigated by Chief Finance Officer with a view to rectification.
- The total balance of petty cash funds must be paid in at the Council's main Cashier before 30 June in each year. A receipt for the payment must be issued by the Cashier.
- The Petty Cash total on hand at financial year end must be reconciled to the petty cash requisition forms, voucher and other documentation.
- The petty cash provision may be resumed at the beginning of the next financial year at the request of the department concerned in accordance with the procedures outlined above.

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SUBSISTENCE & TRAVELLING POLICY

1. OBJECTIVE

It is essential that representatives of the municipality from time to time travel to other cities, countries and towns in order to establish and maintain links, and relationships with other municipalities, government bodies, institutions and organizations operating within local government sphere. It is important for representatives to broaden their knowledge and understanding and compare local experiences in local government transformation, innovation and change in the rest of the country, and this may be done through the medium of personal contact with a wide range of local government stakeholders.

The objective of the policy is to set out the basis for the payment of subsistence and travelling costs for officials and councilors travelling either to outlying areas of the Municipality's area of jurisdiction or beyond. Traveling costs are being paid to refund Councilors and officials for either direct costs like taxi fares, petrol, parking, tollgates, etc or indirect costs. Subsistence is also paid to cover direct costs like accommodation, lunch, tea, etc, as well as costs like loss of his/her productivity in his/her private life. This therefore will assist Budget & Treasury department to know exactly what amounts will be payable.

These payments are paid on the return from the meeting/conference/seminar/workshop etc. The Umzimvubu Municipal jurisdiction includes Mt Ayliff and Mount Frere as determined by the Demarcation Board.

2. LEGAL REQUIREMENTS

- 2.1 In terms of section 66 of the Municipal Finance Management Act No. 56 of 2003, the Accounting Officer of the municipality must report to the Council in the format and for the periods prescribed, all expenses relating to staff salaries, allowances and benefits, separately disclosing (inter alia) travel, subsistence and accommodation allowances paid.
- 2.2 All subsistence and travel claims paid to representatives will be reflected on their payslip as prescribed by South African Revenue Services (SARS).

3. DEFINITIONS

Councilor as defined in terms of the Municipal Structures Act (Act 117 of 1998)

Holder of public office is any member of a municipal council, a member of a provincial House of Traditional Leaders and a member of the Council of Traditional Leaders

Incidental cost expenses which are not necessarily incurred in performing the duties of employment whilst away on business (e.g. telephone cost, laundry cost, drinks, tips etc.)

Meals, any food / refreshment that an employee is entitled to whilst on official Council business away from the workplace.

Municipal official, in relation to a municipality or municipal entity, 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 otherwise than as an employee.

Official duty approved official council business / activities

Radius a straight line extending from the center of a circle to its edge or from the center of a sphere to its surface.

SARS South African Revenue Services

Travel: domestic For purposes of this policy, domestic travel shall mean travel within South Africa

Travel: international For purposes of this policy, international travel shall mean travel to any country outside South Africa.

Place of work: representative's place of work includes the employer's area of jurisdiction, but he or she may be required to perform other duties or work related to the functions of the employer at other places that may reasonably be required by the employer

4. REPRESENTATION OF THE MUNICIPALITY

In terms of the policy, representation shall mean the following:-

- 4.1 Mayor/Speaker/ Traditional Leaders/Portfolio Councilors and all other Councilors
- 4.2 Municipal Manager/Heads of departments and all other municipal officials.

5. RESPONSIBILITIES OF REPRESENTATIVES

- 5.1 Every representative who travels on a business of the municipality must comply with this policy.
- 5.2 Representatives who travel on the business of the municipality must appreciate at all times that they are the ambassadors for the municipality, that their actions, conduct and statements must be in the best interest of the municipality, and that they must comply with any specific mandates they have been given.
- 5.3 If the trip is cancelled, the representative has a responsibility to report the business trip cancellation as there are costs incurred in preparation for attendance of any business trip. Failure to do so within

5. ENTITLEMENT TO TRAVELLING AND SUBSISTENCE ALLOWANCE

- 5.1 A representative may claim a daily subsistence allowance as provided in this policy on the understanding that all authorized personal expenses are covered by the subsistence allowance. No further expenses, with the exception of certain business expenses such as travel and accommodation expenses (see below) may be claimed.
- 5.2 The subsistence allowance may be claimed only if the necessary authorization for the trip has been obtained, and if the appropriate forms have been completed and submitted by the claimant.
- 5.3 Entertainment of external business associates or contacts or clients or potential investors falls outside the scope of the subsistence allowance and will not be reimbursed.
- 5.4 A representative of the municipality must claim his/her subsistence allowance as provided in this policy after returning from any official trip.

5.5 No subsistence allowance will be paid and no representative will be entitled to a subsistence allowance if the trip or travel is not related to the official business of the municipality.

6. ACCOMODATION COSTS AND SUBSISTENCE ALLOWANCE

6.1 A subsistence and travel allowance is an amount of money paid by the municipality on behalf of a representative to cover the following expenses:-

6.1.1 Actual cost of accommodation of which a 3-5 star hotel may be used, B&B's, Guest Houses, Motels etc.

6.1.2 Actual costs of food, soft drinks, dinner, breakfast, lunch and ironing.

6.1.3 Actual costs for toll gates, car parking at the airport shall be paid on submission of proof of payment.

6.1.4 The cost of meals shall be based on the market related rates as obtained from one food provider to another.

6.1.5 Costs of meals shall not exceed the approved amount as per the quotation, voucher issued and any additional expenses shall be a liability of the representative.

6.1.6 Any other costs not included in the quotation voucher shall be treated as private or personal expenses and therefore shall not form part of the municipal account.

6.1.7 Tips to any service attendant shall be treated as private or personal expense and therefore shall not form part of municipal account.

6.1.8 All accommodation arrangements must, unless it is impractical to do so, be reserved through a travel agent appointed by the municipality.

6.1.9 A subsistence allowance does not cover any personal recreation such as visits to cinema, theatres and representatives staying with a friends/relatives.

6.1.10 Councilors attending District Council meetings will be paid by the District Council according to its policy document.

6.1.11 No subsistence costs will be paid to any representative attending any official/business trip if the distance travelled is less than 50km and within the municipal jurisdiction.

6.1.12 If an official trip is within 400kms of the municipality, the claim will be forfeited if an indirect route is taken i.e. flying to another centre then driving to the destination, unless the alternate route was taken to attend to official authorized municipal business.

6.1.13 If a representative is unable to attend municipal official business due to unforeseen circumstances, he / she should immediately inform the hotel and cancel the booking, failure will result in fruitless and wasteful expenditure and will be recovered from responsible representative

6.1.14 Departmental HODs should approve all requests in cases where representative's accommodation needs to be extended.

6.1.15 After office hours bookings should be approved by Chief Finance Officer

6.2 All accommodation costs will be paid by the municipality and the class of accommodation shall be as tabulated in the table below:-

Classification	Qualifying persons	Accommodation Approved	Type of Accommodation	Maximum amount
A	Mayor, Speaker, Chief Whip and Municipal Manager	3-5 Star Hotel	Executive/Luxury	R2 550
B	EXCO members HOD's	3-5 Star Hotel	Executive	R1 550
C	All Councilors and Employees	3-5 Star Hotel	Standard	R1 550

6.3 Amount of Subsistence Allowance

Where it is necessary to sleep away from home/or absent from their ordinary place of residence for more than 24 hours in connection with municipal business the following shall apply:

6.3.1 If a representative stays in a friend's/relative home, no accommodation arrangements shall be made/claimed but the representative shall claim a subsistence allowance of R750.00 per day and no additional or supplementary allowance over and above this amount will be payable, Provided that representative notify the relevant department in advance that no accommodation shall be arranged for her / him.

6.3.2 The subsistence allowance will not be paid if a representative is travelling within the municipal jurisdiction.

6.3.3 Subsistence travel claims will be valid for three months after the travel date of travelling.

6.3.4 Subsistence claims for the month of June of each year, are to be submitted by 10th of August, failure to do so will result in forfeiture of the claim.

6.4 Candidates invited for Interviews

6.4.1 No subsistence costs will be paid to any candidate invited for an interview whose domicile is within 50 kilometres of the municipal offices.

6.4.2 If the candidate's domicile is more than 100 kilometres from the municipality's offices and the hour set for the interviews is in the late afternoon or evening (i.e. 16h00 Or later) his or her accommodation for one night will be arranged by the municipality.

6.4.3 If the candidate declines to accept the accommodation arranged and offered by the municipality no moneys in respect of accommodation will be paid to the candidate.

7. CAR RENTAL, AIR TRAVEL AND OTHER TRAVEL COSTS

7.1 Destinations within the municipal jurisdiction

Representatives travelling officially to destinations within the municipal jurisdiction will be:-

- 7.1.1 Officials who are not paid travelling allowance will use municipal vehicles provided by the municipality.
- 7.1.2 Councilors/Officials paid a travelling allowance will use their own/private vehicles.

7.2 Destinations outside the municipal jurisdiction

- 7.2.1 Officials/Councilors who use their own private vehicles to travel outside the municipal jurisdiction, travelling costs will be paid using Department of Transport rates based on the engine capacity of the vehicle.
- 7.2.2 The payment of a fixed monthly travelling allowance shall be terminated/suspended without any period of grace if a municipal official earning a monthly travelling allowance is without possession of a vehicle for a period exceeding three (3) months.
- 7.2.3 Where possible representatives must travel together up to a maximum of four (4) in a vehicle to minimize travelling expenses.
- 7.2.4 The distance to which the reimbursement applies must be the distance between the municipality's offices and the location where the official business is to be transacted.
- 7.2.5 Where public transport is used, the actual cost must be refunded. As taxis do not issue receipts, payments will be refunded on a list of fixed tariffs to be compiled in conjunction with taxi association.
- 7.2.6 A person entitled to claim for reimbursement of transport costs in terms of this policy is required to use any vehicle whose engine capacity does not exceed 5 litres, should a person use a vehicle whose capacity exceeds 5 litres, he/she will be reimbursed at the rate applicable to a 5 litre capacity vehicle.
- 7.2.7 If a representative has to utilize his or her personal motor vehicle outside the boundaries demarcated for the municipality he or she will:-

If he or she does not have a fixed monthly travelling allowance,

he/ she will be re-imbursed at a rate of **R3.55** per kilometer or the applicable rate as prescribed, from time to time, by the South African Revenue Service,

If he or she has a fixed monthly travelling allowance, be reimbursed at a flat rate determined by the Department of Transport for privately owned vehicles based on the engine capacity of the vehicle.

7.2.8 Officials who are not paid travelling allowance will use municipal vehicles provided by the municipality, buses, and trains as an alternative form of transport.

7.2.9 Officials who are not paid travelling allowance may be authorized to use their own private vehicle by the Municipal Manager/his designee in order to attend business trips, after verifying whether that a municipal vehicle is not available for use.

7.2.10 Any person receiving a travelling allowance is not entitled to drive/use municipal vehicles as a transport mode unless there is prior authorization by the Municipal Manager under exceptional cases.

7.2.11 Claims that will be submitted for internally hosted functions are to be accompanied by a signed attendance register.

7.3 Air travel and car rental

All domestic airfares and car rentals will be paid by the municipality and the class of travel and rented cars will be as tabulated in the table below:-

Classification	Qualifying Persons	Car Rental Class Approved	Air Travel Class Approved
Category A	Mayor Speaker Chief Whip Municipal Manager	Group G-J	Business Class
Category B	Executive Committee Heads of Departments	Group D-F	Business Class
Category C	All Councillors All municipal officials	Group A-C	Economy Class

- 7.3.1 Neither the Mayor or the Municipal Manager and EXCO Members shall travel on the same flight.
- 7.3.2 Group L-G (4x4/SUV) category cars may be used where climate, road conditions or distance justifies it, subject to be authorisation by the Municipality Manager/Mayor.
- 7.3.3 If more than one representative is travelling on the same specific trip, they shall share one rental car for up to four passengers, or if there is a greater number, a microbus will be hired.
- 7.3.4 Car rental must be approved as part of the travel package before the trip is embarked on.
- 7.3.5 Reservations for car rentals and air travel shall be made through a travel agent appointed by the municipality for this purpose.
- 7.3.6 If a representative requires special travel facilities due to such representative suffering from any disability, the Municipal Manager/Mayor may authorize such additional expenditure as may be required to cover additional costs associated with such special facilities.

8. AUTHORISATION OF TRIPS

8.1 For purposes of implementing this policy:-

- Only the Municipal Manager may authorize any travel to be undertaken by Heads of Departments.
- Heads of Departments shall authorize travelling trips for Heads of Divisions/Managers and staff in their respective departments.
- Managers/Heads of Divisions may authorize travelling for the staff members falling within their divisions.
- Only the Mayor shall authorize business trips for the Municipal Manager.
- Travel by the Mayor shall be authorized by the Municipal Manager on the recommendation of the Speaker.
- Travel by the Speaker shall be authorized by the Municipal Manager on the recommendation of the Mayor.

- Travel by the Executive Committee members shall be authorized by the Municipal Manager on the recommendation of the Mayor.
- Travel by other councilors/traditional leaders shall be authorized by the Municipal Manager on the recommendation of the Speaker.

8.2 Whenever a councilor/traditional leader/official has been delegated by the municipality in terms of the policy, to attend a meeting/conference/seminar/workshop or related event in or outside the municipal jurisdiction, the following will be applicable:-

- (a) Trip authorization form must be completed for each trip and approved before undertaking any trip.
- (b) Travel shall be authorized only if provision for such travel is made in the applicable departmental budget.
- (c) An invitation to attend a workshop, meeting or related event is not an automatic authorization to attend such workshop or event. Authorisation must still be obtained.
- (d) Council delegates or representatives to any conference, workshop or related event must ensure that they attend until the conclusion of such event. If any representative fails to do so, the Mayor/Municipal Manager as the case may be, shall recover all allowances and disbursements paid to enable such representative to attend the event, provided that such delegate or representative is afforded the opportunity to submit reasons for not being able to be present until conclusion of such event.

9. PROCEDURES FOR CLAIMS AND PAYMENT OF CLAIMS

The following procedures should be adhered to when payment of claims are to be affected:-

- For each trip a claim form must be completed, signed by the claimant and be approved, be paid monthly together with the relevant allowance.
- The Claimant shall be informed of his/her claim should it be approved with changes or disapproved by the person responsible for approval of claims within seven days of approval or disapproval.

- The following documents must be attached to the claim form for subsistence and travelling claim:-
 - Copy of invitation or attendance register with clear description of venue for the event attended by the representative.
 - Copy of completed and approved trip authorization form with its annexure/s where applicable.
 - Claims for toll gates and parking fees must be accompanied by valid receipts.
 - Claims that will be submitted for internally hosted functions are to be accompanied by a signed attendance register
- S & T claims must be submitted in the following/same month of the business trip for payment purposes, before the 15th of that month.
- All S & T claims not submitted within a period of three (3) month period after the event/travel shall be forfeited.
- S & T expenses of any employee/councilor shall be defrayed from the relevant vote of the department in which the employee is appointed irrespective of the reason for official travelling.
- S & T claims not submitted within the same financial year except the claim pertaining to the last month of the financial year will be automatically forfeited.
- Only Corporate Services Manager shall authorize travelling for candidates invited to the interviews.
- Standard kilometers designed by the municipality and Department of Transport rates for both councilors and staff will be used to calculate re-imbursive allowance, in the event that a destination is not on the standard list of Standard kilometers then the provisions of a distance calculator shall apply.
- Total distances to be claimed will be from Mount Frere (to and from), including travel from hotel to meeting or related event.

10. INTERNATIONAL TRAVEL

Where a councilor/official is required to visit a destination outside Africa, outside South Africa but within Africa and all other International trips the following shall apply:-

- All hotel costs up to 250 US\$ per day (this will not apply where hotel costs are paid by the host Country or sponsor) plus a daily allowance calculated as follows:-

60 US\$	Where three meals are included in the hotel costs
80 US\$	Where two meals are included in the hotel costs
100 US\$	Where one meal is included in the hotel costs
120 US\$	Where no meals are included in the hotel costs

Payment to be made in Rands to enable the traveler to purchase the equivalent of the afore stated US \$.

The allowance is also claimable in advance of travel in the case of travelling abroad.

- The value of funds paid per day to the Council's representative by the hosting country/organization be disclosed.
- Where a councilor/official is required to visit a destination outside South Africa but within Africa, the same amounts must apply.
- Within the boundaries of the Republic of South Africa and outside the Republic all councilors and Officials are to travel Economy Class. This will however depend on whether the host nation pays for air travel.
- Where actual amounts/rates are listed during the compilation of the Policy, it must be borne in mind that they are subject to change from time to time based on decisions made by Council.

11. VALUE ADDED TAX

- Value Added Tax (VAT) is accounted for on the accrual basis as envisaged in the VAT Act of 1991.
- The VAT fraction will apply on VATABLE supplies as defined within the VAT Act.

- The fraction applicable is "14/114", until further advised by the Finance minister.

INPUT TAX

- Only supplies made in the course or furtherance of carrying on of municipal activities (referred to as taxable supplies) are subject to VAT.
- Only VAT on expenses incurred which can be directly attributed to the purpose of consumption, use or supply in the course of making taxable supplies, can be deducted as input tax in full.
- Where the VAT on expenses cannot be directly attributed to the making of taxable supplies, only a fair and reasonable proportion thereof can be deducted as input tax.

OUTPUT TAX

A single charge is levied by the municipality for rates and other supplies of goods or services such as :

- (i) drainage, removal or disposal of sewage or garbage and or;
- (ii) goods or services that are incidental to, or necessary for the supply of those goods or services, to that owner;
- A VAT 201 will be submitted to the South African Receiver of Revenue (SARS) on a monthly basis on or before the 25th of every month.
- The VAT 201 return shall be prepared by the Expenditure accountant, reviewed by the Assistant Manager: Expenditure and approved by either the Deputy CFO / CFO.

12. COMMENCEMENT OF THE POLICY AND INTERPRETATION OF THE POLICY

- 12.1 The policy will come into effect on the date of adoption by Council. All words contained in this policy shall have the ordinary meaning attached thereto, unless the definition or context indicates otherwise.

- 12.2 Any dispute on interpretation of this policy shall be declared in writing by any party concerned.
- 12.3 The Municipal Manager shall give a final interpretation of this policy in case of written dispute.
- 12.4 If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council.

13. PERMANENT/TEMPORAL WAIVER OR SUSPENSION OF THE POLICY

- 13.1 This policy may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.
- 13.2 Notwithstanding clause No. 13.1 the Municipal Manager/Council may under circumstances of emergency temporarily waive this policy subject to reporting of such waiver or suspension to Council.

14. COMPLIANCE AND ENFORCEMENT

- 14.1 Violation of or non-compliance with this policy will give a just cause for disciplinary steps to be taken.
- 14.2 It will be the responsibility of Council to enforce compliance with this policy.

15. AMENDMENT AND/OR ABOLITION OF THIS POLICY

- 15.1 This policy may be amended or repealed by Council as it may deem necessary.

UMZIMVUBU LOCAL MUNICIPALITY



UMZIMVUBU
— LOCAL MUNICIPALITY —

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE POLICY

TABLE OF CONTENTS

ABBREVIATIONS/ACRONYMS

1 INTRODUCTION

2 OBJECTIVE

3 ENABLING LEGISLATION

4 APPLICATION OF THIS POLICY

5 DEFINITIONS

6 UNAUTHORISED EXPENDITURE

7 IRREGULAR EXPENDITURE

8 FRUITLESS AND WASTEFUL EXPENDITURE

9 REPORTING ON UNAUTHORISED, IRREGULAR, FRUITLESS AND
WASTEFUL EXPENDITURE

10 MAINTAINING OF REGISTER FOR UNAUTHORISED, IRREGULAR,
FRUITLESS AND WASTEFUL EXPENDITURE

11. INVESTIGATION AND REGULARIZING OF UNAUTHORIZED AND IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

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

13. RECOVERY UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

14. CONSEQUENCES OF NON-COMPLIANCE

15. PROTECTION OF OFFICIALS OR COUNCILORS WHO HAVE REPORTED UNAUTHORIZED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

16. INTERPRETATION OF THIS POLICY

17. PERMANENT / TEMPORARY WAIVER OF THIS POLICY

18 EFFECTIVE DATE

19 REVIEW OF THIS POLICY

ABBREVIATIONS/ACRONYMS

Except if otherwise stated in this policy, the following abbreviations or acronyms will represent the following words:

CFO	-	Chief Financial Officer
COO	-	Chief Operations Officer
MIG	-	Municipal Infrastructure Grant
MFMA 56 of 2003	-	Municipal Finance Management Act, 2003, No.
MPAC	-	Municipal Public Account Committee
ACCOUNTING OFFICER	-	Municipal Manager or Accounting Officer
SAPS	-	South African Police Services
MSA 2000	-	Municipal Systems Act, 2000, No. Act 32 of
Structures Act 1998	-	Municipal Structures Act, 1998, Act No 117 of
MBRR	-	Municipality Budget Rules and Regulations

1. INTRODUCTION / BACKGROUND

1.1. In terms of section 62 of the Municipal Finance Management Act No. 56 of 2003 (herein referred to as “MFMA”), the accounting officer is responsible for managing the financial affairs of Umzimvubu Local Municipality (ULM) and he/she must, for this purpose, inter alia:

- a) Take all reasonable steps to ensure that unauthorised, irregular; fruitless and wasteful expenditure and other losses are prevented; and
- b) Ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official or councilor of ULM who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

1.2. This is to ensure the effective, efficient and transparent systems of financial, risk management and internal control.

2. OBJECTIVE

1.3. This document sets out ULM’s policy and procedures with regards to unauthorised, irregular, fruitless and wasteful expenditure.

1.4. This policy aims to ensure that, amongst other

things:

- a) Unauthorised, irregular, or fruitless and wasteful expenditure is detected, processed, recorded, and reported in a timely manner;
- b) Officials and councilors have a clear and comprehensive understanding of the procedures they must follow when addressing unauthorised, irregular, fruitless and wasteful expenditure;
- c) ULM's resources are managed in compliance with the MFMA, the municipal regulations and other relevant legislation; and
- d) All officials and councilors are aware of their responsibilities in respect of unauthorised, irregular, fruitless and wasteful expenditure.

3. ENABLING LEGISLATION

The following enabling legislation sets the precedent for the development of ULM's unauthorised, irregular, fruitless and wasteful expenditure Policy:

- a) The Constitution of the Republic of South Africa, 1996, Act No 108 of 1996;
- b) The Municipal Finance Management Act, 2003, No 56 of 2003;
- c) The Remuneration of Public Office Bearers Act;
- d) Municipal Systems Act, 2000, Act No 32 of 2000;
- e) MFMA Circular 68;
- f) Any other legislation, regulation or circular that may impact this policy; and
- g) Municipal Structures Act No. 117 of 1998.

4. APPLICATION OF THIS POLICY

4.1 This policy applies to all officials, councilors and traditional leaders of ULM.

4.2 This policy should be read in conjunction with the following of ULM:

- a) Delegations of Power;

- b) Procedures for unauthorised, irregular, fruitless and wasteful expenditure;
- c) Policy on financial misconduct;
- d) Breach of the Code of Conduct for Municipal Staff Members; and
- e) Breach of the Code of Conduct for Councilors.

4.3 Officials and Councilors must ensure all instances of unauthorised, irregular expenditure as well as fruitless and wasteful expenditure is prevented where possible, and is detected and reported in a timely manner.

5. DEFINITIONS

Except if otherwise indicated:

“Councilor” means member of municipal council of ULM.

„Fruitless and wasteful expenditure“ means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

“Financial Misconduct” means any misappropriation, mismanagement, waste or theft of the finances of a municipality, and also includes any form of financial misconduct specifically set out in sections 171 and 172 of the Act.

“Irregular expenditure”, in relation to a municipality or municipal entity, means:

- a) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- b) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of this Act;
- c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998, (Act 20 of 1998);
- d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain

management policy of ULM or any of the municipal by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law; or

e) excludes expenditure by a municipality which falls within the definition of „unauthorised expenditure“.

„**Official**“, in relation to a ULM, means:

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

„**Overspending**“ means:

- a) in relation to the budget of a municipality, 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, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section.

„**Political Office Bearer**“ means the speaker, executive mayor, mayor, deputy mayor, or a member of the executive committee as referred to in the Municipal Structures Act.

„**Prohibited expenditure**“ in relation to this policy means unauthorised, irregular, fruitless and wasteful expenditure;

„**Senior Manager**“ has the meaning assigned to it in section 1 of the MFMA and in relation to ULM refers to Executive Managers, CFO and COO.

„**Unauthorised expenditure**“, means:

any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

- a) overspending of the total amount appropriated in the municipality's approved budget;
- b) overspending of the total amount appropriated for a vote in the approved budget;
- c) expenditure from a vote unrelated to the 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 ULM otherwise than in accordance with the MFMA.

„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 department 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.

6 UNAUTHORISED EXPENDITURE

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

6.2. Expenditure incurred within the ambit of ULM's virement policy is not regarded as unauthorised expenditure.

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

6.4. Unauthorised expenditure would include:

- a) Any overspending in relation to both the operational budget and capital budget of the municipality;
- b) Overspending in relation to each of the votes on both the operational budget and capital budget;
- c) Use funds allocated to one department for purposes of another department or for purposes that are not provided for in the budget;
- d) Funds that have been designated for a specific purpose or project within a departments vote may not be used for any other purpose;
- e) Any use of conditional grant funds for a purpose other than that specified in the relevant conditional grant framework is classified as unauthorised expenditure;
- f) Any grant to an individual or household unless it is in terms of the municipality's indigent policy or bursary scheme.
- g) Unforeseen and unavoidable expenditure not authorised within an adjustments budget within 60 days after the expenditure was incurred; and
- h) Any overspending on non-cash items, for example depreciation, impairments, provisions.

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

6.6. Expenditures that are NOT classified as unauthorized expenditure

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

- i. Any over-collection on the revenue side of the budget as this is not an expenditure; and
- ii. Any expenditure incurred in respect of:
 - any of the transactions mentioned in section 11(1)(a) to (j) of the MFMA;
 - re-allocation of funds and the use of such funds in accordance with a council approved virement policy;
 - overspending of an amount allocated by standard classification on the main budget Table A2 (Budgeted Financial

Performance: revenue and expenditure by standard classification), as long as it does not result in overspending of a „vote“ on the main budget Table A3 (Budgeted Financial Performance: revenue and expenditure by municipal vote) and Table A4 (Budgeted Financial Performance: revenue and expenditure (read in conjunction with supporting Table SA1) of the MBRR; and

- overspending of an amount allocated by standard classification on the main budget Table A5 (Budgeted Capital Expenditure by vote, standard classification and funding) of the MBRR so long as it does not result in overspending of a vote on the main budget

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

- a) To defray expenditure authorised in terms of section 26 (4) of the MFMA, [*Section 26: Consequences of failure to approve a budget before the start of the budget year*];
- b) To defray unforeseen / unavoidable expenditure circumstances strictly in accordance with Section 29 (1) of the MFMA [*Section 29: Unforeseen and unavoidable expenditure*] failing which the unforeseen /unavoidable expenditure is unauthorised;
- c) re-allocation of funds and the use of such funds in accordance with a council approved virement policy;
- d) Expenditure incurred from a special bank account for relief, charitable or trust purposes provided of course that it is done strictly in accordance with Section 12 of the MFMA [*Section 12: Relief, charitable, trust or other funds*];
- e) To pay over to a person or organ of state money received by ULM on behalf of that person or organ of state, including—
 - (i) money collected by ULM on behalf of that person or organ of state by agreement; or
 - (ii) any insurance or other payments received by ULM for that person or organ of state;
- f) To refund money incorrectly paid into a bank account;
- g) To refund guarantees, sureties and security deposits;

- h) For cash management and investment purposes in accordance with section 13 [*Section 13: Cash Management and Investments*]; and
- i) To defray increased expenditure in terms of section 31 [*Section 31: Shifting of funds between multi-year appropriations*].

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

7 IRREGULAR EXPENDITURE

7.1. Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy.

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

7.3. Irregular expenditure excludes unauthorised expenditure.

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

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

7.6. Remuneration of councilors

7.6.1 Payments to ULM councilors cannot exceed the upper limits of the salaries, allowances and benefits for those councilors as promulgated in the Public Officers Bearers Act.

7.7. Irregular staff appointments

7.7.1 No person may be employed in ULM unless the post to which he or she is appointed, is provided for in the ULM's staff establishment of the municipality as approved by the council.

7.7.2 Any person who takes a decision contemplated in subparagraph (7.7.1) knowing that such decision is unlawful, will be held personally liable for any irregular or fruitless and wasteful expenditure that the municipality may incur as a result of such invalid decision.

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

8 FRUITLESS AND WASTEFUL EXPENDITURE

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

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

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

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

8.5.1 An expense is only **fruitless and wasteful** in terms of this policy if:

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

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

- a) Would the average man (in this case the average experienced official or councilor) have incurred the particular expenditure under exactly the same conditions or circumstances?
and
- b) Is the expenditure being incurred at the right price, right quality, right time and right quantity?

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

9 REPORTING ON UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

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

- a) a Councilor of a municipality, must be reported to the Speaker of the council;
- b) the municipal manager and speaker, must be reported to the mayor;
- c) Senior managers or the chief financial officer, or the chief operating officer of a municipality, must be reported to the municipal manager;
- d) All cases of prohibited expenditure reported as per a), b) and c) above must be referred to MPAC for investigation unless the allegations are frivolous, vexatious, speculative or obviously unfounded; and
- e) officials below senior management level of the municipality must be reported to the CFO unless in the professional opinion of the CFO or ACCOUNTING OFFICER the nature or the amount of the prohibited expenditure warrants the case to be referred to MPAC.

9.2. All reports made by officials, councilors must be treated with utmost confidentiality.

9.3. The ACCOUNTING OFFICER must promptly inform the Mayor, the MEC for local government in the Province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality:

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

- c) In cases where investigations indicates that no one is responsible for unauthorised, irregular fruitless and wasteful expenditure, the accounting officer should submit a report to the council for write off of such expenditure
- d) In cases where an individual has been found to be liable for expenditure incurred, but his/ her contract terminates before expenditure has been recovered fully, amount owing shall be deducted from monies due to the relevant individual
- e) Where possible, Accounting Officer must ensure that all unauthorised, irregular, fruitless and wasteful expenditure are recovered / written off before year end

9.4. All expenditure classified as unauthorised, irregular, fruitless and wasteful expenditure must be reported to:

- a) The Budget & Treasury Standing Committee on a monthly basis;
- b) Executive Committee on a monthly basis;
- c) Council on a quarterly basis;
- d) MPAC on a quarterly basis; and
- e) Audit Committee on a quarterly basis.

9.5. In accounting for unauthorised, irregular, fruitless and wasteful expenditure, municipal manager or delegated officials (as may be relevant) must ensure that:

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

10 MAINTAINING OF REGISTER FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

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

- a) This register will be maintained by the CFO for all officials other than the CFO and ACCOUNTING OFFICER;
- b) A separate register must be maintained by the ACCOUNTING OFFICER for expenditure incurred by CFO;
- c) A separate register must be maintained by the Mayor for expenditure incurred by the ACCOUNTING OFFICER; and
- d) The Speaker will maintain a register for expenditure incurred by the Mayor and Councilors.

10.2. These registers must be updated on a monthly basis.

11 INVESTIGATION OF UNAUTHORISED AND IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

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

11.2. The CFO must seek the Municipal Manager's approval to investigate all prohibited expenditure reported to him/her in terms of clause 9.1(e) unless the allegations are frivolous, vexatious, speculative or obviously unfounded.

11.3. Once the nature of the expenditure is confirmed as unauthorised, irregular, fruitless and wasteful expenditure, the person to whom the prohibited expenditure was reported in terms of clause 9.1 above must institute the necessary procedures which could include disciplinary as well criminal proceedings.

12 DISCIPLINARY AND CRIMINAL CHARGES FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

12.1. After having followed a proper investigation, as per paragraph 11 above, the MPAC or the CFO as the case may be must determine whether there is a prima facie case and that a Councilor or official made, permitted or authorized prohibited expenditure.

12.2. If a prima facie case has been established, as per paragraph 12.1 above, then MPAC, mayor or municipal manager (as may be relevant) must institute disciplinary action as follows:

- a) *Financial misconduct in terms of section 171 of the MFMA*: in the case of an official that deliberately or negligently:
 - (i) contravened a provision of the MFMA which resulted in prohibited expenditure; or
 - (ii) made, permitted or authorised an irregular expenditure (due to non-compliance with any of legislation mentioned in the definition of irregular expenditure);

- b) *Breach of the Code of Conduct for Municipal Staff Members*: in the case of an official whose actions in making, permitting or authorizing a prohibited expenditure constitute a breach of the Code; and

- c) *Breach of the Code of Conduct for Councilors*: in the case of a Councilor, whose actions in making, permitting or authorizing an irregular expenditure constitute a breach of the Code. This would also include instances where a councilor knowingly voted in favor or agreed with a resolution before council that contravened legislation resulting in prohibited expenditure when implemented, or where the Councilor improperly interfered in the management or administration of the municipality.

12.3. The MPAC, mayor or municipal manager or delegated officials (as may be relevant) must promptly report to the SAPS all cases of alleged:

- a) Irregular expenditure that constitute a criminal offence; and
- b) Theft and fraud that occurred in the municipality.

12.4. The Mayor must take all reasonable steps to ensure that all cases referred to in the above paragraph are reported to the South African Police Service if:

- a) The charge is against the Accounting Officer; or
- b) The Accounting Officer fails to comply with the above paragraph.

13 RECOVERY UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

13.1. The Accounting Officer or delegated person must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure:

- a) in the case of unauthorised expenditure, is
 - I. authorised in an adjustment budget; OR
 - II. certified by the municipal council, after investigation by MPAC, as irrecoverable and is written off by council; and
- b) in the case of irregular or fruitless and wasteful expenditure, is after investigation by MPAC, certified by council as irrecoverable and written off by council.

13.2. Irregular expenditures resulting from breaches of the Public Office-Bearers Act must be recovered from the Councilor to whom it was paid.

13.3. Once it has been established who is liable for the unauthorised, irregular, fruitless and wasteful expenditure, the Municipal Manager must in writing request that the liable Councilor or official pay the amount within 30 days or in reasonable instalments.

13.4. Without limiting liability in terms of the common law or other legislation, the ACCOUNTING OFFICER must recover any such expenditure, in full, from official or Councilor where:

- a) In the case of a Councilor, the Councilor knowingly or after having been advised by the ACCOUNTING OFFICER that the expenditure is

likely to result in unauthorised, irregular or fruitless and wasteful expenditure, instructed an official of ULM to incur the expenditure; and
b) In case of the official, the official deliberately or negligently incurred such expenditure.

13.5. The fact that the Council may have approved the expenditure for writing off or deemed it to be irrecoverable is no excuse in:

- a) Either disciplinary or criminal proceedings against a person charged with the commission of an offence or a breach of the MFMA relating to such unauthorised, irregular or fruitless and wasteful expenditure; or
- b) Recovery of such expenditure from such person.

13.6. If the official or councilor fails to make satisfactory payment arrangements or fails to honor payment arrangements made, the amount owed for prohibited expenditure must be recovered through the normal debt collection process of the municipality.

14 CONSEQUENCES OF NON-COMPLIANCE

14.1. Any official or councilor who does not comply with their reporting duties in terms of this policy could be found guilty of Financial Misconduct.

14.2. Any councilor or official of ULM will be committing an act of financial misconduct if that councilor or official deliberately or negligently makes or permits, or instructs another official of ULM to make, an unauthorised, irregular or fruitless and wasteful expenditure.

15 PROTECTION OF OFFICIALS OR COUNCILORS WHO HAVE REPORTED UNAUTHORIZED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

15.1. If any official or councilor who has complied with this policy and as a result thereof has been subjected to intimidation, victimisation, threats such official or councilor should immediately

report such threats, victimisation or intimidation immediately to the ACCOUNTING OFFICER or the Mayor where applicable.

15.2. The ACCOUNTING OFFICER or Mayor must immediately take appropriate action to ensure that protection of the official or councilor after receiving the above report.

15.3. Where the nature of the threats warrants such action, the threats should be reported to the SAPS by the official concerned, the ACCOUNTING OFFICER or the Mayor, where applicable.

16 INTERPRETATION OF THIS POLICY

- 16.1 All words contained in this policy shall have an ordinary meaning attached thereto, unless the definition or context indicates otherwise.
- 16.2 The dispute on interpretation of this policy shall be declared in writing by any party concerned.
- 16.3 The Office of the Municipal Manager shall give a final interpretation of this policy in case of written dispute.
- 16.4 If the party concerned is not satisfied with the interpretation, a dispute may then be pursued with the South African Local Government Bargaining Council.

17 PERMANENT/TEMPORARY WAIVER OR SUSPENSION OF THIS POLICY

- 17.1 This policy may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.

17.2 Municipal Manager may under circumstances of emergency temporarily waive this policy subject to reporting of such waiver or suspension to Council.

18 EFFECTIVE DATE

This policy will be effective upon adoption by Council.

19 REVIEW OF POLICY

This policy must be reviewed and updated:

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