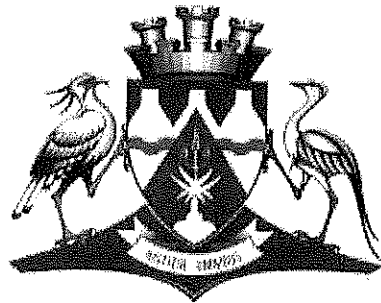


**PIXLEY KA SEME  
DISTRICT MUNICIPALITY**



**COMMITMENTS POLICY**

## PIXLEY KA SEME DISTRICT MUNICIPAL COMMITMENTS POLICY

Adoption : New  
Review :

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## 1. DECLARATION OF INTENT

At its broadest level, the Municipal Finance Management Act (MFMA) endeavours “to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards and other requirements”.

In particular, Chapter 12 of the MFMA places the onus on the Municipality to take responsibility for the preparation of an annual report in accordance with this chapter. More specifically this Chapter provides guidance on the preparation of financial statements, disclosures on intergovernmental and other allocations and other compulsory disclosures

## 2. OBJECTIVE OF THE POLICY

The objective of the policy document is to clearly define the responsibilities of the Pixley Ka Seme District Municipality in terms of the Municipal Finance Management Act with respect to the disclosure of both approved and contracted for and approved but not yet contracted for commitments in the Annual Financial Statements. This policy document addresses the following areas:

- The definition of a commitment;
- The definition of approved and contracted commitments, approved but not yet contracted commitments, capital expenditure and current expenditure;
- The accounting policy with respect to commitments;
- Guidance on the identification and accounting treatment of commitments; and
- Guidance on the disclosure requirements for commitments.

## 3. TERMINOLOGY AND DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression to which a meaning has been assigned has the same meaning, and-

**“Approved and contracted commitments”** – where the expenditure has been approved and the contract has been awarded at the reporting date.

**“Approved and not yet contracted commitments”** – where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

**“Annual report”** in relation to a municipality or municipal entity, means an annual report contemplated in Section 121 of the MFMA.

**“Capital expenditure”** – expenditure incurred to purchase, upgrade or construct physical assets such as buildings for which there will be long-term benefit. Long-term is defined as longer than one year.

**“Commitment”** – a commitment represents goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

**“Current expenditure”** – current expenditure is defined, as the purchase of goods and services for which there will be a short-term benefit and incurred in the normal course of business. Short-term is defined as less than one year.

**“Financial Statements”** in relation to a municipality or municipal entity, means statements consisting of at least –

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

**“Financial year”** means a year ending 30 June.

#### **4. SCOPE OF APPLICATION**

From a responsibility perspective, this policy is relevant to all employees of the Municipality, whether full-time or part-time. It is, however, specifically applicable to the Council, Accounting Officer, Chief Financial Officer and Senior Managers whether full-time or part-time. In particular, the duly appointed Directorate and responsibility managers have significant roles in:

- Identifying commitments for disclosure in the Annual Financial Statements;
- Determining whether the commitments identified represent capital or current commitments and approved and contracted or approved and not yet contracted commitments; and
- Determining the Rand value of the commitment to be disclosed on the Annual Financial Statements.

#### **5. GOVERNING PRESCRIPTS**

This Policy has been formulated in terms of the Municipal Finance Management Act, 2003 (Act 56 of 2003) and the Generally Recognised Accounting Practice on Presentation of Financial Statements (GRAP 1), as well as disclosure prescribed in the June 2006 National Treasury specimen annual financial statements.

##### **Legal framework**

This policy will be implemented within the legal framework of the relevant national legislation outlined hereunder.

- The Municipal Finance Management Act, 2003 (Act 56 of 2003) Sections 121 – 125.

## 6. ACCOUNTING POLICY

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

## 7. GUIDING PRINCIPLES

This policy supports the following principles:

- To secure the sound and sustainable management of the financial affairs of the municipalities and other institutions in the local sphere of government;
- To establish treasury norms and standards for the local sphere of government;
- Ensuring transparency, accountability and appropriate lines of responsibility in the fiscal and financial affairs of municipalities and municipal entities; and
- The management of the municipality's revenues, expenditures, assets and liabilities and the handling of their financial dealings.

Paragraph 121 of GRAP 1 dealing with the Presentation of Financial Statements states the following:

Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

- (a) A statement of compliance with Standards of GRAP (see paragraph .19);
- (b) A summary of significant accounting policies applied (see paragraph .124);
- (c) Supporting information for items presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets or cash flow statement in order in which each line item and each financial statement is presented; and
- (d) Other disclosures, including:
  - (i) Contingent liabilities (see the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*) and unrecognised contractual commitments; and
  - (ii) Non-financial disclosures, e.g. the entity's financial risk management objectives and policies (see the Standard of GRAP on *Financial Instruments: Disclosure and Presentation*).

Section 122 (3) of the Municipal Finance Management Act 56 of 2003 states that "Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice in terms of Section 91(1)(b) of the Public Finance Management Act".

### 7.1 Guiding principles: Determining whether a commitment exists at reporting date

#### According to National Treasury Guidelines:

- Commitments represent goods/services that have been ordered, but for which no delivery has taken place at the reporting date. These amounts are not recognised

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in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but however disclosed as part of the disclosure notes.

- Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but for which goods and services have not yet been received are disclosed in the commitments disclosure note to the financial statements.
- Material contracts entered into after the reporting date, but prior to the approval of the financial statements must be disclosed under subsequent events.
- Other commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note of both the following criteria are met:
  - Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
  - Contracts should relate to something other than the routine, business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

## 7.2 Guiding principles: Disclosure

- The commitments disclosed in the disclosure note is the aggregate amount of capital and current expenditure approved and contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements.
- A distinction must be made between capital and current commitments.
- To ensure that there is no duplication of information e.g. lease commitments are disclosed under a separate note. Where the Municipality has made a commitment for a period longer than 1 year, it should be stated in the note.
- In calculating commitments the following should be taken into account pertaining to tenders awarded:
  - ✓ The period of the tender awarded;
  - ✓ Tender or contract number;
  - ✓ Contractor;
  - ✓ Original contract amount;
  - ✓ Balance at beginning of the year;
  - ✓ Amounts already paid pertaining to that tender/contract;
  - ✓ Balance at the end of the year.

## 7.3 Guiding principles – required disclosure note for commitments

### Commitments in respect of capital expenditure

Contracted	<u>XXXXXXXX</u>
Opening Balance	XXXXXXXX
Expenditure	<u>XXXXXXXX</u>
Closing Balance	<u>XXXXXXXX</u>

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## 8. COMMENCEMENT

This Policy takes effect on **30 May 2017**.

**EXECUTIVE MAYOR :**

  
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**DATE POLICY APPROVED :**

**28 March 2014**

**DATE POLICY REVIEWED :**

**30 May 2017**

**RESOLUTION :**

**R 2017 – 05 – 30 (9.10.4)**

