JOBURG CITY THEATRES
FINANCE MANAGEMENT POLICY AND PROCEDURE MANUAL

Introduction

The Joburg City Theatres (JCT) Financial Policy and Procedure Manual provide the policies and procedures for finance transactions within the business which must be followed by all staff. It also provides guidelines JCT will use to administer these policies, with the correct procedure to follow.

JCT will keep all current and relevant financial policies. From time to time it will be necessary to modify and amend some sections of the policies and procedures, or to add new procedures.

These policies and procedures have been designed to assist the management and employees of JCT with the description of financial procedures and the capacity to distinguish activities which are acceptable in terms of general authorisation, supervisory responsibilities and limits of authority relating to the financial functions of the organisation.

The policies and procedures are designed to provide certainty with respect to the handling of financial procedures within JCT and will ensure that management and employees understand their respective responsibilities and duties.

JCT conforms to the requirements of the Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA), the objective of which is to ensure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the local government institutions to which this Act applies.

After adoption by the Board of Directors of JCT, these policies and procedures will replace/supersede all financial policy and procedure instructions and memoranda which have been previously issued.

All sections of this policy linking to Supply Chain Management Regulations will be dealt with in accordance with the JCT's supply chain management policy.

These policies and procedures apply to all employees of JCT (Joburg Theatre, Roodepoort Theatre and Soweto Theatre)

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Finance Authorisation Policy
Policy Number: FIN01/2015
Policy Date: 19 March 2015

1.1. Purpose and Scope Of The Policy

1.1.1. This policy and procedure serves to ensure that only authorised journal entries are captured and posted in the financial accounting system. This policy and procedure will further strengthen and ensure the management and control over processing of journal entries in the financial accounting system.

1.1.2. This policy and procedure is applicable to all JCT employees across its all entities including the executive committee and the board.

1.1.3. This policy is to be read in conjunction with other specific finance policies where relevant.

1.2. Policy statement

1.2.1. All routine or standard journals will generated by the JCT accounting system. This type of journal entry will be generated on a recurring basis from payroll, fixed assets, expenditure and income recognition processes and procedures. Each journal entry of this nature will need to be authorised for posting by the Financial Manager.

1.2.2. All non-routine or non-standard journal entries will need to be authorised by the Chief Financial Officer before the journal is processed and posted on the accounting system. A separate register will be kept where a record of each and every such non-routine or non-standard journal entry will be recorded. The signatures of the official posting the journal entry as well as that of the Chief Financial Officer must also be recorded on the journal entry printout as proof of posting and the authorisation of the journal entry.

1.2.3. No other journal entry may be recorded and posted on the accounting system without the prior approval of the Chief Financial Officer.

1.2.4. The Chief Financial Officer will not have access to process and post journal entries on the accounting system.

1.3. Definitions

1.3.1. Routine or standard journal entry- is a journal entry that is processed on a recurring basis, e.g. monthly.

1.3.2. Non-routine or non-standard journal entry- is any journal entry other than routine or standard journal entry.

1.4. Procedure for journal entries

1.4.1. Journal entry vouchers with supporting documentation must be prepared timeously.

1.4.2. Routine or standard journal entries must be reviewed and authorised by the Chief Financial Officer and signed and dated as having been reviewed and authorised.

1.4.3. Non-routine or non-standard journal entries must be reviewed and authorised by the Chief Financial Officer and signed and dated as having been authorised and reviewed.

1.4.4. After authorisation of the journal entry voucher, the journal entry may be captured, reviewed and then posted in the accounting system. The person who authorises the journal entry will not be the same as the person who captures and posts the journal entry onto the accounting system.

1.4.5. Once the journal has been posted, a record of the entry must be kept in the journal entry register. The date, period of posting, narration, batch number and details of the official capturing and posting the journal entry must be recorded. The register must be reviewed monthly and signed off by the Chief Financial Officer.

1.4.6. All journal vouchers with supporting documentation will be filed sequentially according to the date that it was posted and recorded in the journal entry register.

1.4.7. A printout of the journal entry list from the accounting system will be done monthly and compared to the journal entry register to ensure that no journals have been passed that are not authorised. The finance manager will sign off the printout as proof of having performed the test and file the documentation.

Revenue, Billing, Accounts Receivable Collection and Show Settlements
Policy Number: FIN 02/2015
Policy Date: 19 March 2015

2.1. Purpose and Scope of the Policy

2.1.1. This policy provides general principles and guidelines to promote effective control over, and proper accounting of, revenues from external sources and the related accounts receivable.

2.1.2. Effective control over and accounting for revenue is critical to protect revenue streams, safeguard against risk of financial loss, and properly recognize revenue in conformity with GRAP.

2.1.3. The scope of this policy includes all types of income and gains earned by Joburg City Theatres including grants, rentals, interest and other revenue derived from in house stage productions and bars and restaurant.

2.2. **Policy Statement**

2.2.1. Revenue agreements, accounting, billing and collection activities must comply with all the Municipal Finance Management Act, Treasury regulations and Joburg City Theatres requirements as well as with the terms and conditions set forth in specific revenue agreements. All departments and staff that bill, collect and process revenue on behalf of the Joburg City Theatres must ensure that:

2.2.1.1 Revenue agreements are created and properly authorized whenever the Joburg City Theatres commits to provide services, goods, or assets to external parties.

2.2.1.2 All revenue is accurately recorded in the Joburg City Theatres' accounting system in the period in which it is earned.

2.2.1.3 Appropriate internal controls and sound financial business practices are adopted for the recognition and billing of revenue, the collection and timely recording and deposit of cash receipts, and the management of accounts receivable.

2.2.1.4 Joburg City Theatres revenue is recorded on an accrual basis at net realizable value in accordance with Generally Accepted Accounting Principles (GRAP).

2.2.1.5 All deposits should be paid in full before shows can be staged for straight rental deals/agreements.

2.2.1.6 Hospitality and catering intercompany customers (City entities and departments) should be allowed the next booking after an appropriate purchase order is received for the old debt.

2.2.1.7 External customers from hospitality and catering should pay deposits in full before being allowed to use the facilities except formal approval is received from either CFO, COO and/or CEO.

2.2.1.8 In house stage productions are only recognised as revenue on the maturity of the show and show settlement have been completed.

2.2.1.9 Revenue from Grants and Subsidies is only recognised and recorded on a straight line basis and is otherwise treated as deferred income in balance sheet and is only recognised in the income statement using a straight line method.

2.3. Definitions

2.3.1. Accrual basis accounting

An accounting method that recognizes revenue when it is earned, not when the cash is received. Similarly, the accrual basis of accounting requires that expenses be recorded when they are incurred, not when the cash is disbursed.

2.3.2. Agreement

A written document between the Joburg City Theatres and an external party that is executed by authorized individuals and binds the Joburg City Theatres to provide goods, services or assets in exchange for revenue.

2.3.3. Deferred Revenue

Deferred revenue results when cash is received in advance of revenue being earned. It is recorded on the University's balance sheet as a liability until the Joburg City Theatres has provided the services or delivered the goods.

2.3.4. Net realizable value

Estimated net value of an asset after reductions for allowances for uncollectible amounts, provisions for contractual adjustments, and discounts recorded to reflect the net present value of long-term receivables.

2.3.5. Revenue

Income earned through the sale of goods or services or any other use of capital. The Joburg City Theatres has six principal operating revenue streams, which are as follows:

2.3.5.1. Rentals of facilities

2.3.5.2. Grants and Subsidies
2.3.5.3. Interest earned on investments
2.3.5.4. In house stage productions and music programmes
2.3.5.5. Bars and restaurant income
2.3.5.6. Income from other sources.

2.4. Billing Procedures

2.4.1. Rentals of facilities

2.4.1.1. All tenants lease agreements should be signed by the following people:
2.4.1.1.1. EP and CEO
2.4.1.1.2. Youth Development Manager and CEO
2.4.1.1.3. General Manager and COO
2.4.1.1.4. General Manager and COO

2.4.1.2. Finance Clerks at Rooderpoort City and Soweto theatres should also prepare and update a calendar of performance schedules on a weekly basis and submit to MANCO.

2.4.1.3. Finance clerk at Rooderpoort City and Soweto theatre should have records of signed overtime (worked by theatre employees) by show producer and other tenant's production costs paid by the theatre on behalf of the show producer.

2.4.1.4. Finance clerks at Soweto and Roodepoort theatres should courier (using a gofer) show settlements; signed lease agreements; updated calendar of performance schedules; overtime signed by show producer and other tenants production costs paid by Theatre on behalf of show producer and a sales report (per show performance) from smart fan to Joburg City Theatres (Accountant) 163 Civic Boulevard Braamfontein 2017. These documents should reach head office by 10:00am every Wednesday.

2.4.1.5. Show settlements at Joburg theatre should be prepared by the accountant on Wednesdays by 10h00. They must be must be checked by the deputy finance manager on Wednesdays and authorized by the finance manager on Thursdays at 7:00am.

2.4.1.6. All show settlements are discussed with the EP and COO at 10:00am on Thursdays and they should be settled by 15:00 on Thursdays.

2.4.1.7. After the EFT's for show settlements has been done by the accountant should forward the signed show settlements to the show producers and cc the General Managers of Soweto and Roodepoort City theatres; FM;CFO ,CEO,COO and EP.

2.4.1.8. The accountant should process show settlements in the system (Pastel Partner) on Thursdays and do show reconciliations on Thursdays. Signed reconciliations should be in hard copies and supported by relevant documents and explanations. This must be reviewed by deputy finance Manager and authorized by the finance manager on Fridays.

2.5. Show deposits

2.5.1. Shows will not be staged unless the deposit is paid in full.

2.5.2. Show deposits should be paid 1 day after the contract have been signed.

2.6. **Theatre free usage**

2.6.1. A general manager should write a memorandum to the Chief Operations Officer which stipulates the following:

2.6.1.1. The reasons as to why the theatre should be granted for free

2.6.1.2. The benefits that the theatre will obtain

2.7. Cancellation of the shows

Deposits will not be refunded when the shows are cancelled.

2.8. Grants and subsidies

2.8.1. Grants and subsidies are billed to the city of Johannesburg based on the approved budget for the financial year.

2.8.2. The billing of grants and subsidies is done at the beginning of the financial year and is then paid over to the Joburg City Theatres main account.

2.8.3. The money is then accounted for as deferred income in the balance sheet and recognised in the income statement as revenue on a straight line basis.

2.9. Interest earned on call accounts

2.9.1. Interest is mainly earned from call investments made from the grants and subsidies. On receipt of the grants and subsidies money these are placed on call accounts immediately to earn interest.

2.9.2. Enough cash is drawn from call accounts to be able to settle immediate obligations.

2.9.3. Interest is recorded and accounted for on a monthly basis when earned.

2.9.4. The interest calculations are independently recalculated by the finance manager and reconciled to the bank statement interest.

2.10. In house stage productions and music programmes

2.10.1. The income from in-house stage and music productions is derived from the sale of tickets for the show. All transactions are recorded in work in progress until the show is complete.

2.10.2. On completion of the show a show settlement is completed and income is recognised into the income statement as revenue and expenditure from the show is also recognised in the income statement.

2.11. Bars and restaurant income

2.11.1. There are three restaurants from which the bars and restaurant income is derived namely Joburg, Roodepoort and Soweto.

2.11.2. The income is mainly generated from food and beverages for conference packages, show packages and cash or credit card sales.

2.12. Procedure for conference packages

Full Day and Half Day Conference Packages

a) Receive an enquiry regarding a Conference Package

2.12.1. The employee must confirm the availability of the venue which will be determined by the number of guests in attendance and the date required for the conference.

2.12.2. The employee must enquire whether the conference is for a full day or half day as the pricing structure, food items and time allocation in venues are dissimilar.

2.12.3. Venue hire is included in the different costing structures of packages and therefore it is essential that the employee explain this to the customer, ensuring that they understand the billing process. It is critical to understand that the detail is not included on the breakdown sheet, thus customers assume that the venue will be an additional cost.

2.12.4. The employee must understand that it is essential to ensure that the customer understands what the package includes, explaining the items in detail.

2.12.5. The employee must confirm and ensure that the customer selects the beverages and food items that should be provided.

2.12.6. The employee must re-affirm the choices of the customer and communicate the breakdown and items in detail to the customer in order to eliminate any disagreements and mistakes.

2.12.7. The employee must ensure that they have recorded the customer's contact details including the email address.

2.12.8. The employee must confirm that the customer's contact details are correct, before closing the call.

2.12.9. Quotation

2.12.9.1. In order to compile the quotation the employee must ensure that they have received the Company details, VAT registration number, company registration number and contact details from the customer as well as confirmation of the venue and date.

2.12.9.2. Upon confirmation of all the required company details the employee must confirm all the details of the function, the menus - packages, beverages list (if it is an evening function), maps, etc.

2.12.9.3. The employee must e-mail a breakdown of the selected package to the customer together with the Quotation.

2.12.9.4. Should a customer add additional food and drinks to the package, the employee must alter and correct the quotation and re-send it to the customer.

2.12.9.5. The employee must forward a breakdown of the drinks and food to be served and a copy of the Quotation to the Banqueting Department for confirmation.

2.12.9.6. The employee must confirm that Banqueting Department has received the quotation.

2.13. Procedures for show packages

2.13.1. The restaurant manager will have to be copied on all communications with the customer when a show package one is booked. This package should be perceived as important, as there are various Departments involved like ticketing department, Sappi – parking vouchers, Bar, Beverages and merchandise.

2.13.2. Receive an enquiry regarding a Hospitality Package, The employee must record the following:

2.13.2.1. The name of the show,
2.13.2.2. The date or the show,
2.13.2.3. The time of the show,
2.13.2.4. The number of guests which will attend the show and
2.13.2.5. The customers’ contact details, including their e-mail address.

2.13.3. The employee must hereafter confirm the availability of the venue.

2.13.4. The employee must explain to the customer that the cost of the packages includes the venue hire, but exclude costs related to the restaurant. It is critical to ensure that the customer comprehend this.

2.13.5. The employee must explain the detailed items included in the package to the customer and ensure that he agrees with and understands the composition of the package offered.

2.13.6. The employee must ensure that the customer selects food items to be provided and again explains to the customer what is included in the total offer.

2.13.7. Confirm that the customer's contact details as well as email address is correct.

2.13.8. The employee must confirm with the Ticketing Department that the necessary seats are available and book them in advance.

2.13.9. The employee must book the necessary tables at the restaurant.

2.13.10. Upon confirmation of the booking for seats the quotation can be e-mailed to the customer.

2.13.11. Quotation

2.13.11.1. In order to compile the quotation the employee must ensure that they have received the Company details, VAT registration number, company registration number and contact details from the customer as well as confirmation of the venue and date.

2.13.11.2. Upon confirmation of all the required company details the employee must confirm all the details of the function, the menus - packages, beverages list (if it is an evening function), maps, etc.

2.13.11.3. The employee must e-mail a breakdown of the selected package to the customer together with the Quotation.

2.13.11.4. Should a customer add additional food and drinks to the package, the employee must alter and correct the quotation and re-send it to the customer.

2.13.11.5. The employee must ensure that seats numbers are included on the email to the customer (not necessarily to be on the quotation).

2.13.11.6. The employee may ask the customer (should they have access) to go to the Joburg Theatre website on www.joburgtheatre.com to view the seats allocated to them.

2.13.11.7. The employee must forward a breakdown of the drinks and food to be served and a copy of the Quotation is to the Banqueting Department for confirmation.

2.13.11.8. The employee must confirm that Banqueting Department has received the quotation.

2.13.12. The employee must take cognizance that **due to the sensitivity of show packages** ALL RELEVANT DEPARTMENTS **must be copied in on any communication with the customer**.

2.14. PROCEDURES FOR CASH AND/OR CREDIT SALES

This process is activated once a guest requests to pay the bill.

2.14.1. After the bill is presented to the guest, the guest informs the employee of their preferred method of payment, being mostly cash or credit card.

2.14.2. Debtor payments only occur when prior arrangements have been made.

2.14.3. Once the staff member is aware of the preferred method of payment, he/she will precede going to the POS system to close off the docket.

2.14.4. When a cash payment is received, the employee must enter the exact amount in the POS system.

2.14.5. Should the customer be paying by credit or debit card, the employee must foremost process the payment on the Bank card device.

2.14.6. Once the payment has been approved on the card device, the docket on the POS system must be closed.

2.14.7. The amount received from the customer, including the tip amount must be captured to close the docket, using the credit card method of payment button on the POS system.

2.14.8. If the employee realizes that he/she accidentally used an incorrect payment method, the employee must inform a manager immediately to correct the transaction on the system.

2.15. Accounts receivable collection procedures

Typically there are two main types of debtors/accounts receivables in the Joburg City Theatres environment 1.) Amounts outstanding from deposits and show settlements 2.) Amounts outstanding from hospitality and catering customers both intercompany and external.

2.15.1. Outstanding amounts from deposits and show settlements

2.15.1.1. Where tenants have been allowed to use the facilities without the full payment of the deposit the following happens:

2.15.1.1.1. A debtor is raised against the tenant and the General Manager concerned is responsible for chasing the debtor.

2.15.1.1.2. If the debtor is not collected within 7 days the outstanding amount is deducted from the General Manager’s salary and is only reimbursed on recovery of outstanding amount from the tenant.

2.15.2. Where negative show settlements arise the following needs to be done:

2.15.2.1. As a general rule show debtors (negative shows settlements) are prohibited and in a case where there are negative show settlements, the respective General Manager will be responsible for the recovery of such a negative show settlement. If such negative show settlement is not recovered within 7 days of the matured show, the amount owed to JCT will be recovered from the relevant General Manager’s salary.

2.15.2.2. These negative show settlements arise when the deposits made and ticket sales made by the tenant are not sufficient to cover all the theatre costs.

2.15.3. Amounts outstanding hospitality and catering customers both intercompany and external.

A debtor is created on the Pilot system for any forthcoming functions booked at the Theatres.

2.15.3.1. This must be authorized by the Banqueting Manager and the Operations Manager of Joburg City Theatres.

2.15.3.2. Debtors are only created on the system upon receiving a signed quotation or confirmation from a company or customer.

2.15.3.3. A PO number must be provided before a debtor is created on the system for any entity or department of the City of Joburg.

2.15.3.4. Debtors are captured by the Food and Beverage Operations Manager of that respective unit.

2.15.3.5. The following information is required when creating a debtor on Pilot:

2.15.3.5.1. Company or customer name,
2.15.3.5.2. Company registration number,
2.15.3.5.3. VAT number, and
2.15.3.5.4. Credit limit authorized as per the quotation signed by customer.

2.15.3.6. After the event the Pilot docket must first be signed off by the Organizer of that event.

2.15.3.7. The docket is then closed off by the Manager responsible for the debtor on Pilot.

2.15.3.8. A Final Tax Invoice must be e-mailed to the customer for payment.

2.15.3.9. Payment for Corporate and Private Customers should be received within no later than 7 days after the event date.

2.15.3.10. COJ departments and entities should also pay within no later than 7 days after the event date. All COJ invoices must be paid in full within 30 days of the final tax invoice in terms of the MFMA.

2.15.3.11. Any current outstanding orders should be stopped until the relevant debtors that are more than 60 days old have been recovered. All staff working on the order or sale for the relevant customers should not carry out further work until authorised by Finance Manager.

2.16. Debtors Age Analysis

A debtor's age analysis is to be run every month. All overdue customer payments are to be noted and the following procedures undertaken until recovery of outstanding amounts.

2.16.1. **First Contact:** Once the payment is overdue phone or email the customer. Remind them that payment is due and has not been received. Ask them when they will be paying you and keep a record of the conversation or email. Remember to be nice, they may have forgotten or paid into the wrong bank account.

2.16.2. **Overdue reminder:** If they do not respond to the phone call or email, try contacting someone else in the business. Let them know who you are trying to contact. This often results in a return response from either the person you were trying to contact or someone else from the business. Make a note of all conversation details on the overdue customer payment record.

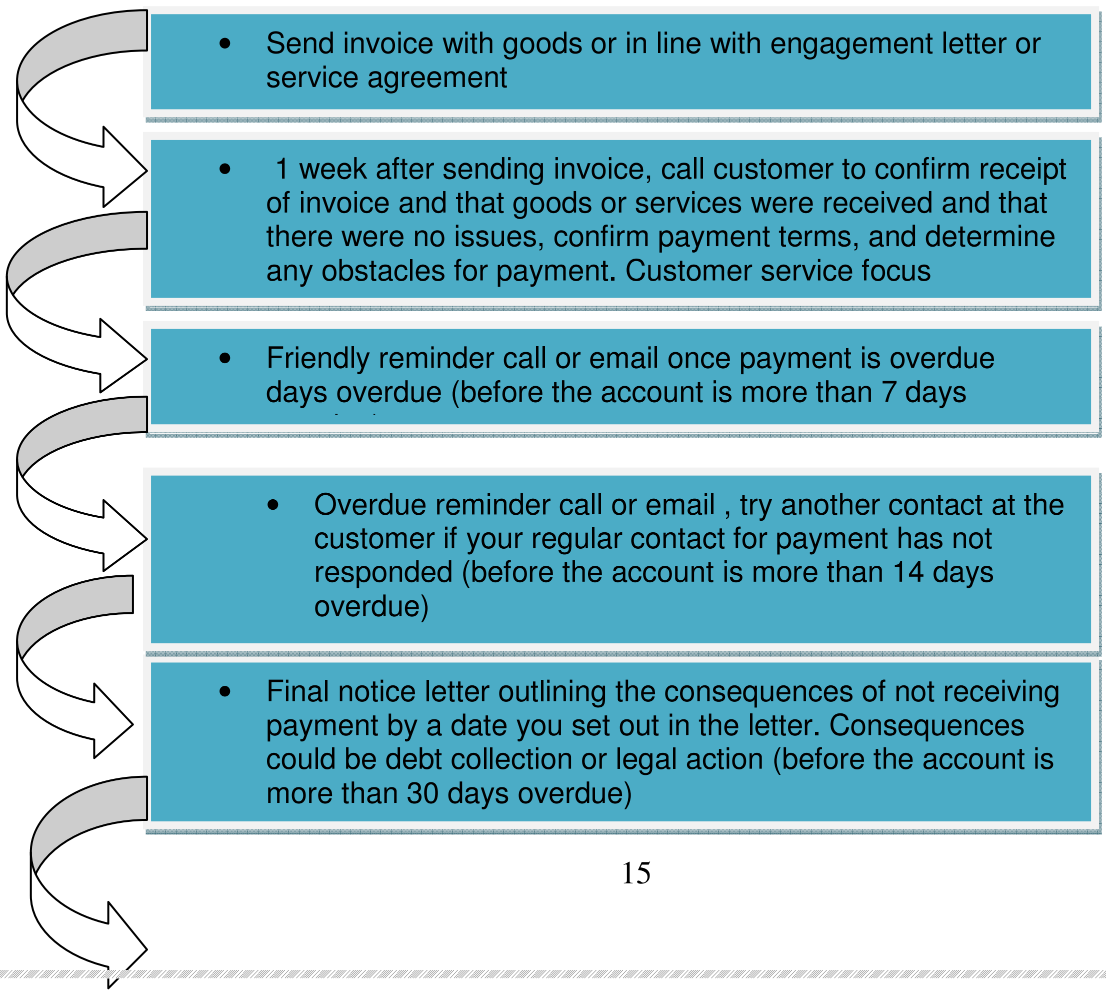
2.16.3. **Final notice:** When a payment is overdue for more than 30 daysa final notice is to be sent either by phone or email. A record of this notice must be entered onto the overdue customer payment record.

2.16.4. **Direct contact:** Where there has been no response to the final notice within 14 daysthen Banqueting Manager and General Managersmust either visit the customer or phone where previous contact has been by email. The purpose of this step is to secure a date of payment. A record of this notice must be entered onto the overdue customer payment record.

2.16.5. **Formal letter of demand:** Where payment remains outstanding for more than 60 daysand there has been an unsatisfactory response from the customer, authorisation from Finance Manager and CEO for the formal letter of demand to be issued must be obtained. Once authorised this letter is to be sent via registered mail and a record of this notice must be entered onto the overdue customer payment record.

2.16.6. **Debt collection agency:** Where the amount outstanding is in excess of R10, 000and CEOhas approved, a debt collection agency is to be appointed to recover the debt.

2.16.7. **Write off debt:** Customer payments that remain outstanding for more than 120 days are to be written off as bad debts and no further sales are to be undertaken with that customer without approval from Finance Manager and CEO.



- Formal letter or demand or instruct your solicitor or debt collection agency to begin action (once your account is more than 30 days overdue)

2.17. Credit limit is breached due to outstanding payments

2.17.1. Financial Controller and Accountant must make a list of all outstanding debtors. It's the responsibility of Banqueting Manager and Financial Controller to chase debtors and they need to report on a weekly basis to the Deputy Finance Manager.

2.17.2. Banqueting Manager and General Managers must ring the customer and explain that further orders cannot be processed until the account has been paid. Explanation need to be made that a payment will need to be made before the next order can be processed.

2.17.3. If the customer is having difficulty, make a schedule of payments to bring them back in line with the contracts and payment terms.

2.17.4. Monthly debtors' reconciliations and confirmations should be done by the Financial Controller and Senior Accountant. The Deputy Finance Manager should review it.

2.17.5. If they cannot pay on the day of the phone call, then get an expected payment date from them and confirm that any outstanding orders cannot start until the payment is made.

Expenditure and Suppliers management Policy
Expenditure Management
Policy Number: FIN03/2015
Policy Date: 19 March 2015

3.1. Purpose of the Policy

3.1.1. All new suppliers to the business must be reviewed and accepted in accordance with the Supply Chain Management policy to ensure that the supplier service is aligned with the business objectives. This requires that employees involved at every step of the purchasing process take full responsibility for understanding the Theatre's policies and procedures regarding purchasing and vendor relations. Purchasing decisions are business decisions made on behalf of the Theatre and therefore should be made with the utmost consideration for what is in the best interest of the Theatre. Purchases also need to be made in the most efficient and cost effective manner. Following policy and procedure ensures that appropriate business processes occur when dealing with outside vendors.

3.1.2. Purchasing decisions are business decisions made on behalf of the Theatre and therefore should be made with the utmost consideration for what is in the best interest of the Theatre.

3.1.3. Department personnel who will be responsible for making purchases are expected to have appropriate security for their role (i.e. requestor, approver, etc.) and attend all associated training classes for those roles.

3.2. Policy

3.2.1. The municipal entity is responsible for the management of the expenditure of the entity.

3.2.2. The entity must take all reasonable steps to ensure:

3.2.2.1. That the entity has and maintains an effective system of expenditure control including procedures for the approval, authorisation, withdrawal and payment of funds

3.2.2.2. That all money owing by the entity is paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

3.2.2.3. That the entity has and maintains a management, accounting and information system which:

3.2.2.3.1. Recognises expenditure when it is incurred

3.2.2.3.2. Accounts for creditors of the entity and

3.2.2.3.3. Accounts for payments made by the entity

3.2.2.4. That entity has and maintains a system of internal controls in respect of creditors and payments

3.2.2.5. That payments by the entity are made :

3.2.2.5.1. Directly to the person to whom it is due unless agreed otherwise only for reasons as may be prescribed and

3.2.2.5.2. Either electronically or by way of non-transferrable cheques, provided that cash payments and payment by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit (R500,000)

3.2.2.6. That the entity complies with its tax, duty, pension, medical aid, audit fees and other statutory commitments

3.2.2.7. That the entity's available working capital is managed effectively and economically in terms cash management and investment policy

3.2.2.8. The non-payment of statutory obligations in particular, will be regarded as financial misconduct and such serious or persistent breach will result in action being taken in accordance with MFMA. Depending on the nature of the breach of the Act, other action may be considered.

3.3. Authority and responsibility

3.3.1. The Theatre maintains a procurement environment that delegates considerable decision making authority to departments. These activities include:

3.3.1.1. Determining which products and services they need to run their programs

3.3.1.2. Initiating requisitions to Preferred Vendors that have contracts and agreements with the Theatre

3.3.1.3. Appropriately handle individual purchases less than R10,000

3.3.2. Segregation of duties and responsibilities in the purchasing process provides proper controls. As the Rand Value and complexity of a purchase increases, so does the level of authority and responsibility required to obligate the Theatre for a purchase.

3.3.3. End users within departments typically do NOT have the authority to sign ANY contracts or agreements with outside parties in the name of the Theatre or one of its departments

3.3.4. Contracts and agreements that need to be signed by the Theatre MUST be reviewed by the Office of COO/CEO. The Theatre may also forward contracts and agreements for the purchase of products and services to its parent municipality (Group Legal Department) for review to make sure appropriate policies and procedures were followed in the selection of vendors.

3.3.5. Accordingly, an award letter for an RFQ, Bid, 3 quotes or deviation interms of SCM Reg 36 should accompany the contract/agreement to be reviewed. Once the contract/agreement is reviewed and approved, it will be forwarded to the compliance manager

3.4. Procedures:

3.4.1. The Theatre's goal for every purchasing transaction is to obtain the best value possible. Best value is determined by evaluating many factors (such as price, delivery capabilities, quality, past performance, training, financial stability, service capabilities, ease of ordering, payment, etc.) and selecting a vendor that offers the best combination of those factors.

3.4.2. The Theatre strives to procure most goods and services through the use of contracts with appropriate terms and conditions to properly protect the Theatre and vendor. When bids are required by policy, they are to be conducted on an open and competitive basis and without favouritism, in order to maximize the best value to the department. Interested suppliers will receive fair and impartial consideration.

3.4.3. The following step-by-step approach adopted by Theatre will ensure that the company consistently fulfills their financial obligations as they arise. This process is adopted for the prompt payment of all creditors.

3.4.4. Process for payment of all creditors:

3.4.4.1. End user departments must confirm scope of project and monitor progress

3.4.4.2. Purchase order (PO) – issued by the Purchasing Department from an approved award of a three quotes/RFQ/Tender/ contracts procured by other organs of state / deviation for the purchase of goods or services to a service provider/supplier. This document is a legal contract binding the Theatre and the vendor.

3.4.4.3. A Purchase Order provides details about the goods and/or services the Theatre wishes to purchase including a description, price per unit, quantity being purchased and delivery date

3.4.4.4. Goods and/or services should NOT be rendered or solicited until a Purchase Order is approved and disseminated by the Purchasing department.

3.4.4.5. Prior to arrangement of receiving the good / service, where appropriate, confirm the scope of the project with service provider or contractor and monitor progress in terms of contractual obligation

3.5. Receive and check invoice

3.5.1. Purchase Orders are only paid when a three-way match between the PO, Invoice and Receiving Document.

3.5.2. Upon receipt of an invoice for payment, review to ensure it is in line with the quote, contract, contract price, that the good / service have been received in good order and in terms of the contract, and that all calculations in the invoice are accurate

3.5.3. A purchase transaction is complete only after the goods or services have been received and the

3.5.4. Vendors are instructed to send invoices directly to the end user and finance department for proper processing. This is the best way to ensure invoices are paid in a timely manner. Invoices will be entered by finance department on the system.

3.5.5. Theatre’s preferred method for receiving invoices is mail. Invoices can also be faxed. At this time, only Preferred Vendors will be allowed to send their invoices to Accounts Payable via e-mail.

3.5.6. Compile all supporting documentation for payment. If all details are correct on the invoice, attach the requisition/order and other initiating documentation i.e. copy of authorization for the good to be purchased / service to be performed; or copy of contract, or other legal agreement

3.6. Authorise account for payment

3.6.1. Once checked and verified, the responsible person should authorise the account for immediate payment by preparing supporting voucher and send for preparation of payment, signing and recording of cheque or authorisation of other payment means.

3.7. Make payment

3.7.1. The Finance Manager will review information entered into the financial system and independently verify the bank account or other payment details of the supplier to ensure payments made are to the correct supplier

3.7.2. Once cheque is signed or other payment means is authorised, pay the creditor within thirty days, and file the documents in a manner that can easily be assessed during the audit

3.8. If there is a dispute over the terms or amount to be paid:

3.8.1. If grounds for dispute over service or costs refer immediately to senior official, If there are any grounds to question the amount on the invoice or the service performed, the matter with all accompanying documentation should be provided to a senior official to take up with the creditor.

3.8.2. Initiate formal dispute and communicate matter to creditor

3.8.2.1. The senior official is required to immediately contact by telephone, or other means, the creditor (or other service provider or contractor) to verbally explain the cause for the query or concern, and

3.8.2.2. follow-up that query in writing – if necessary the parties may consider a meeting to discuss the matter

3.8.3. Withhold only portion subject to dispute, If only part of the invoice is queried, arrangements should be made to pay that portion of the amount payable which is not subject to dispute, and then separately take action to remedy the disputed amount

3.8.4. Decision to seek mediation

3.8.4.1. Once the municipality has attempted to resolve any dispute by a) contacting the creditor,

3.8.4.2. following up in writing,

3.8.4.3. where necessary meeting the creditor, and those avenues prove unsatisfactory to the municipality, the municipality may seek remedies through the legal system.

3.8.4.4. In the case of fiscal disputes between organs of state, the municipality may approach the National Treasury for mediation, if this falls within the scope of the MFMA, and other approaches have failed (see Circular 21).

3.9. Prepayment

3.9.1. Definitions.

A pre-paid transaction is one in which a vendor requires payment prior to the actual delivery of the goods or services. It is the Theatre's policy not to make prepayments, however certain transactions by their very nature require prepayment and these are discussed below. Once a prepayment is made, the burden for insuring delivery of goods and services rests solely on the ordering department.

3.9.2. Vendors requiring prepayment

3.9.2.1. Occasionally, a vendor will require payment with an order. The department's first response to this situation should be an attempt to find another suitable vendor for the needed item or service. If no other appropriate vendor can be found, A request for prepayment approval should be included in the Note to Finance department.

3.9.2.2. If the requirement for prepayment is discovered after the Purchase Order has been sent to the vendor, contact the buyer (HOD) listed on the Purchase Order for instructions.

3.9.3. Membership Dues, Subscriptions, Publications and Registration Fees. As a rule, these payments are made in advance.

3.9.4. Deposits to Hotels for Meals & Lodging Often, a hotel will require a deposit when reserving its facilities (banquet or lodging) for a large group. Written documentation from the hotel indicating a deposit is required should be forwarded to the Purchasing department.

3.10. Unallowable Expenditures

3.10.1. Uses of Theatres funds for the following is prohibited:

3.10.1.1. Fines
3.10.1.2. Expenditures of any type for personal benefit
3.10.1.3. Maintenance and upkeep of privately owned vehicles
3.10.1.4. Payment for membership in community and business organizations
3.10.1.5. Purchase of personal gifts
3.10.1.6. Purchase of holiday decorations
3.10.1.7. Political contributions
3.10.1.8. Purchase of alcoholic beverages
3.10.1.9. Payment for goods or services not received.
3.10.1.10. Purchase of insurance coverage which replicates theatre insurance

3.11.1. Damaged Shipments

3.11.1.1. Note in writing any and all discrepancies on the carrier's delivery receipt before you sign it as received. Be specific in your notations and do not hesitate to make an exception, no matter how minor you feel it may be

3.11.1.2. Have the delivery driver initial and date any notation or exception you make on the delivery receipt.

3.11.1.3. Sign the delivery receipt by noting company name, your name, date received and number of packages received.

3.11.1.4. Immediately phone the service provider and inform them about Overage, Shortage and Damage goods. Have the following information ready: carrier's name, carrier delivery receipt number, shipper's name, items damaged, nature of damage (i.e. broken, crushed, etc.), invoice value of damaged items

3.11.2. Duplicate shipments - You must return the unordered items, contact the vendor and request a Return Goods Authorization (RGA) number and instructions for returning the unwanted items. After the items have been returned, the vendor should issue a credit memo that cancels any previous charges for the returned items.

3.11.3. Short Shipments that do not include all the items indicated as shipped on the packing slip must be brought to the vendor's attention immediately. Request that the missing items be shipped using the original Purchase Order number. The ordering department and Accounts Payable must make certain the vendor does not invoice twice for the same items

3.12. Appointment of Supplier

3.12.1. The appointment of a new supplier will be recommended by the Supply Chain official and authorised by the Compliance Manager.

3.12.2. All relevant details of the supplier will be entered into the financial system by the Bookkeeper once approval is obtained from the Supply Chain Department.

3.12.3. The Finance Manager will review information entered into the financial system and independently verify the bank account or other payment details of the supplier to ensure payments made are to the correct supplier

3.13. Supplier Payment Terms

For payments made to any suppliers earlier or later than the agreed terms the Finance Manager will prepare a report that details the reasons why payment terms have not been adhered to. This report will be reviewed and authorised by the CFO.

Inventory Management Policy
Policy Number: FIN04/2015
Policy Date: 19 March 2015

DEFINITIONS

1.1 In this Policy, unless the context indicates otherwise, the following definitions are applied:-

"Accounting Officer"	means the Chief Executive for the Municipality of the Municipal Entity as contemplated in section 60 of the Local Government: Municipal Finance Management Act, 56 of 2003
"Chief Financial Officer"	means the Chief Financial Officer designated in terms of section 80(2) (a) of the Local Government: Municipal Finance Management Act,56 of 2003
''Cost''	shall comprise costs of purchase, costs conversion and other costs incurred in bringing the inventories to their present location and condition
"***Delegated authority***"	means the official who is given the authority for relevant functions in terms of the municipality's written delegations;
''***Good received note''***	means a document which is used to acknowledge the receipt of goods in good condition and correct quantities
"***Inventories***"	are assets: In the form of material or supplies to be consumed in the production process, In the form of materials or supplies to be consumed or distributed in the rendering of services

	Held for sale or distribution in the ordinary course of operations, or In the process of production for sale or distribution
"Municipality Entity"	shall mean the Joburg City Theatres;
"Net Realisable''	**Is the estimated selling price in the ordinary course of operations less the estimated costs of completion and estimated costs necessary to make the sale exchange or distribution.**
"Obsolete inventory"	means items that have expired, are redundant or damaged;
"Re-order level"	means the level of inventory at which inventory is re-ordered;
"Requisition form"	means a written request to the Inventory Supervisor to supply specified inventory;
"Store"	means a place where inventory is stored and reserved for future use, or a source from which supplies may be drawn;
"Store man"	means the official responsible for the requisition, receipt, issue, recording, safeguarding of inventory and cost-effective and efficient management of inventory.
''Stock issue note''	means a document which is used to authorizethe removal or issue of stock items from stores.

4.1. OBJECTIVE OF THE POLICY

The policy aims to achieve the following objectives which are to:-

4.1.1. Provide guidelines that employees of the Municipality must follow in the management and control of inventory, including safeguarding and disposal of inventory.
4.1.2. Procure inventory in line with the established procurement principles contained in the Municipality's Supply Chain Management Policy.
4.1.3. Eliminate any potential misuse of inventory and possible theft.

4.2. SCOPE

4.2.1 This policy provides guidelines for monitoring and managing the amount of stock within the business to ensure that there are suitable levels of stock available to customers at all times. This policy covers the Stages Warehouse, Joburg theatre backstage stores, store rooms at Roodepoort Theatre & store rooms at Soweto Theatre.

4.2.2. It is the Stock Controller and Warehouse Managers responsibility to ensure that the stock control policy is adhered to by all employees.

4.3. LEGAL FRAMEWORK

4.3.1. In terms of the MFMA, the Accounting Officer for a municipality Entity must:

4.3.1.1. Be responsible for the effective, efficient, economical and transparent use of the resources of the municipality as per section 62 (1)(a);

4.3.1.2. Take all reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure and other losses as per section 62(1)(d);

4.3.1.3. Be responsible for the management, including the safeguarding and the maintenance of the assets, and for the management of the liabilities, of the municipality as per section 63 (1) (a) and (b).

4.4. In terms of the following paragraphs of GRAP 12:

Inventories shall be recognized as an asset if, and only if,

4.4.1. It is probable that future economic benefits or service potential associated with the item will flow to the entity, and

4.4.2. The cost of the inventories can be measured reliably

4.5. MEASUREMENT AT RECOGNITION

4.5.1. Inventories that qualify for recognition as assets shall initially be measured at cost

4.5.2. Where inventories are acquired at no cost, or for nominal consideration, their costs shall be their fair value as at the date of acquisition

4.6. MEASUREMENT AFTER RECOGNITION

4.6.1. Inventories shall be measured at the lower of cost and net realization value, except where paragraph .18 applies

4.6.2. Inventories shall be measures at the lower of cost and current replacement cost where they are held for:

4.6.2.1. Distribution at no charge or for a nominal charge, or

4.6.2.2. Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

4.7. RECOGNITION AS AN EXPENSE

4.7.1. When inventories are sold, exchanged or distributed the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write –down of inventories ,arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

4.7.2. Some inventories may be allocated to other assets accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to other assets in this way are recognized as an expense during the useful life of that asset

4.8. INVENTORY PROCEDURES

4.8.1. **THE PROCEDURES FOR INVENTORY MUST BE FOLLOWED TO ENSURE THAT:**

4.8.1.1. Inventory is safeguarded at all times;

4.8.1.2. There are accurate records of quantities on hand at all times;

4.8.1.3. Optimum inventory levels are maintained to meet the needs of users;

4.8.1.4. Only authorised issues of inventory are made to users; and

4.8.1.5. Items placed in store are secured and only used for the purpose for which they were purchased.

4.8.2. **APPOINTMENT OF RESPONSIBLE OFFICIALS**

4.8.2.1. The Chief Financial Officer must appoint, in writing, officials to perform the duties of a Store man in terms of this Policy.

4.8.2.2. Adequate segregation of duties between the requisition, receipt, recording, storage and safekeeping of inventory and the management and control thereof must be maintained to avoid the potential occurrence of errors and fraud.

4.9. ORDERING OF INVENTORY

4.9.1. Each department must set its own Inventory reorder levels for all items in consultation with the Finance Manager, the inventory levels must indicate the minimum and maximum inventory that can be maintained.

4.9.2. Due diligence and care shall be exercised in identifying low value and high value items of inventory

4.9.3. Minimum inventory level of high value items shall be ordered, any maximum order shall be based on specific requirement/need in order to avoid large amount of cash tied up on inventory.

4.9.4. A copy of the purchase order form will then be forwarded by the procurement department to the receiving department, for the receiving Stock Controller to match with goods delivery note once goods are delivered.

4.9.5. Orders must thereafter be filed in date sequence.

4.9.6. This file must form the basis for follow up of orders and for matching goods that are delivered to inventory department.

4.9.7. The orders file should be reviewed weekly by the Logistics Manager and any orders, which have not been delivered as per the agreement with the buyer, must be followed up immediately.

4.9.8. Monitor all stock levels and 'stock turns' (how many times stock turns over in a year)

4.9.9. For fast-moving stock negotiate with suppliers for 'just in time' deliveries where possible

4.9.10. Regularly review sales budgets and order necessary stock in line with budgets

4.9.11. Negotiate with suppliers for best price, quality, delivery methods and returns policy

4.9.12. Maintain "preferred suppliers" list

4.9.13. Keep up to date with customer and market trends and seek out new product for recommendation to the General Manager: Food and Beverages

4.9.14. Purchase of all stock must be authorised bythe delegated authority.

4.9.15. All stock purchases must be requested by using a purchase order form and adhere to the purchasing policy.

4.10. RECEIPT OF INVENTORY

4.10.1. The quantity and quality of the inventory received from suppliers must be according to specifications and information on the order form.

4.10.2. The Stock Controllermust compare the delivery note to the purchase order before accepting the goods.

4.10.3. The invoice or delivery note must match the supplier name and order number.

4.10.4. The Stock Controller must prepare the Goods Received Note to record all the inventory items ordered and in good condition

4.10.5. The Stock Controller must ensure that:

4.10.5.1. All delivery notes are signed by him/her and the driver

4.10.5.2. All incorrect delivery items are rejected and clearly identified on both copies of the delivery note; and

4.10.5.3. The supplier signs all amendments

4.10.6. The inventory received must be transferred to the secured store by the Stock controller or warehouse manager.

4.10.7. The inventories must be stored in their respective sections once they have been received as detailed above

4.10.8. The inventory record/register/database or system must be updated on the day the goods are received, by the stores Clerk.

4.10.9. When stock is received from the supplier, it is Stock Controller and Warehouse Manager's responsibility to:

4.10.9.1. Match delivery docket to purchase order

4.10.9.2. Follow up and ensure correct stock order will be received where there is stock discrepancies

4.10.9.3. Inform General Manager: Food and Beveragesand/or Senior Accountant of any under/over supply or damaged goods

4.11. STORAGE OF INVENTORY

4.11.1. Inventory must be stored in a secured, exclusive use area, under lock and key.

4.11.2. The area must be used exclusively for the storage of inventory, with limited authorized access only.

4.11.3. Inventory must be positioned to facilitate efficient handling and checking.

4.11.4. All items must be stored separately, with proper segregation.

4.11.5. Inventory must be clearly labeled for easy identification. Inventory tag/bin cards or inventory labels may be used to identify each item and to aid in the physical verification of the items.

Details on bin cards should include the following:

- Order number;
- Quantity received;
- Date of receipt;
- Quantity issued;
- Date of issue;
- Maximum stock level;
- Re-order level;
- Re-order quantity;
- Closing stock; and
- Any other relevant information.

4.11.6. Where possible, all items of the same type and reference must be stored together as per the description on the inventory records.

4.11.7. Items with limited shelf life must be rotated on a first in first out basis, in accordance with paragraph .35 of GRAP, to reduce the occurrence of expired or obsolete stocks.

4.11.8. Due diligence and care must be exercised to prevent damage of, or deterioration of inventory.

4.11.9. Due regard must be given to any safety standards which may apply to the storage of certain inventories.

4.11.10. Steps must be taken to ensure safe custody of items, including precautions against loss or theft.

4.11.11. The Stock Controller or Delegated Official responsible for the custody and care of inventory must ensure that in his/her absence, such items, where applicable, are securely stored.

4.11.12. The responsibility for the custody of the storeroom keys must be allocated by the delegated authorityto an official who is accountable for its use.

4.11.13. No unauthorised persons/officials shall obtain entry to premises, buildings or containers where inventory is kept, unless accompanied by the responsible official.

4.11.14. Whenever a change in the Stock Controller occurs, an inventory count must be conducted.

4.11.15. An independent official shall be nominated in writing by the delegated authority to assist the official handing and taking over with the checking of the inventory and any discrepancies.

4.11.16. Should the above not be complied with, the official taking over shall be liable for any discrepancies.

4.11.17. A handing-over certificate, attached here to as Annexure A, must be completed by the handing and taking over officials and a copy retained for record purposes.

4.11.18. the following fire protection precautions must be adhered to:

- 4.11.18.1. Inventories of an inflammable or dangerous nature shall be stored and handled in such a manner that persons or property are not endangered and in compliance with the requirements of any local authority;
- 4.11.18.2. The area must be clearly signposted; and

4.11.18.3. Fire extinguishing equipment must be placed in the area where inventories are held and must be serviced regularly.

4.12. ISSUE OF INVENTORY

4.12.1. Only the Stock Controller is authorised to issue inventory from the storeroom.

4.12.2. Inventory must only be issued in terms of the approved requisition form of the Municipality.

4.12.3. All requisition forms must be ruled off immediately below the last item to prevent items being added once the requisition is authorised by the responsibility manager.

4.12.4. The Stock Controller must prepare the Stock Issue Note once stock items to be issued have been picked up from the shelves

4.12.5. The official receiving the inventory must acknowledge the receipt of stock items requested, by signing the Stock Issue Note prepared by the Stock Controller.

4.12.6. Inventories must be issued and used for official purposes only.

4.13. OBSOLETE INVENTORY

4.13.1. The preparatory work for the disposal of obsolete inventory must be undertaken by the Stock Controllerand verified by the Logistics Manager.

4.13.2. The Accounting Officer or delegated authority must convene a Disposal Committee for the disposal of obsolete inventory.

4.13.3. The Disposal Committee should consist of at least three officials, one of whom must act as the chairperson.

4.13.4. The delegated authority may approve the write-off of inventory, if satisfied that: -

4.13.4.1. The inventory has expired and is redundant;

4.13.4.2. The inventory is of a specialised nature and has become outdated due to the introduction of upgraded and more effective products;

4.13.4.3. The inventory cannot be used for the purpose for which it was originally intended; or

4.13.4.4. The inventory has been damaged and is rendered useless.

4.13.5. All disposed of items must be updated in the inventory records/register/database for the purposes of proper management and control.

4.14. DAILY STOCK TAKE PROCEDURE

4.14.1. PURPOSE

The purpose of this procedure is to ensure that all stock balance daily to the consumption provided from the POS system. This eliminates the risk of unknown or unaccounted shortages. It further ensures that stock losses are kept to a minimum.

4.14.2. PROCESS

4.14.2.1. All beverage outlets will count all stock items. All food outlets will count all portioned items.

4.14.2.2. Beverages and food portions and prepared food items will be counted daily.

4.14.2.3. A comprehensive stock count will be performed and the 15th of each month and the last day of each month.

4.14.2.4. Before commencement of the stock count, all stocks as indicated in the stock sheet must be arranged in order as indicated on the stock sheet. This ensures that the stock take is performed efficiently and no stock items are being missed during the count.

4.14.2.5. The Manager and employees will count all stocks items as indicated in the stock sheet printed by the POS system.

4.14.2.6. The employee will count whilst the Manager record the figures in the closing stock column on the stock sheet.

4.14.2.7. All spirit items are counted in accordance with the stock measuring system. This method entails counting spirit items in “tot” form, whilst all other items are counted in unit form. Food items are counted per the unit of measurement as indicated on the stock sheet.

4.14.2.8. The set process to count stocks is: counting from left to right and top to bottom. This methodology has been proven effective, ensuring that no stock items are missed during the count.

4.14.2.9. Once all stocks have been counted, the closing stock values are entered into the POS system.

4.14.2.10. Once the closing stocks have been entered, the system will automatically calculate any variance.

4.14.2.11. The calculation is based on the following formula:

4.14.2.12. Opening stock (previous day's closing stock) + (issues in – transferred out) – closing = consumption. Consumption – actual sales on POS system = variance.

4.14.2.13. There should be no variances in the stock take and upon identification of any variance the following steps must be followed:

- 4.14.2.13.1. Recount stock
- 4.14.2.13.2. Verify that the previous day's count sheet balanced
- 4.14.2.13.3. Verify that the figures were entered correctly (opening and closing figures)
- 4.14.2.13.4. Verify that stock movements as indicated in on the requisition and transfer books have been captured.

4.14.2.14. Should all these steps have been followed and the variance still reflects:

4.14.2.15. Confirm that the variance is valid

4.14.2.16. Confirm that theemployees working in that particular area and shift are liable for the shortage.

4.14.2.17. The shortage must be entered according to the variance of the specific items.

4.14.2.18. A shortage amount will be reflected on the POS slip.

4.14.2.19. The employee is required to refund the shortage by either paying cash immediately or a shortage form duly signed by that the employee and co-signed by the manager. The docket raised for the shortage must be included in the final balancing of to cash.

4.14.2.20. If the shortage was not paid in cash by the shortage procedures must then be followed.

4.15. 10/20 & MONTH END STOCK TAKE PROCEDURE

4.15.1. PURPOSE

The purpose of this stock take is to ensure that should any discrepancies be identified in the stock, management can rectify the stock before month end.

4.15.2. PROCESS

4.15.2.1. This stock take is conducted 3 times in a month to calculate the actual cost of sales percentages, ensuring that sales percentages are achieved during 10 day periods of the month.

4.15.2.2. All items in all outlets are counted including the warehouse.

4.15.3. Items counted are:

4.15.3.1. All food items,
4.15.3.2. All beverage items,
4.15.3.3. All cleaning items, and
4.15.3.4. All consumables.

4.15.4. Stock sheets are printed by the financial controller.

4.15.5. Each area receives 3 stock sheets:

4.15.5.1. One listing for beverage or food,
4.15.5.2. One for listing cleaning, and
4.15.5.3. One listing for consumables.

4.15.6. The outlet manager and supervisor count all stock items.

4.15.7. Stocks are counted from left to right, top to bottom.

4.15.8. All stocks are counted from the physical stock on hand and not from the stock sheet.

4.15.9. Stocks must be counted as per the unit of measurement on the stock sheet. If this is not counted correctly, the incorrect rand value will be recorded relating to that particular stock and this will either increase of decrease the rand value of this stock.

4.15.10. Once all stocks have been counted, another manager will verify the stock count, by conducting a 20 point stock check.

4.15.11. Once the stocks have been verified, the stock sheets must be signed by the two managers and employee who counted, recorded and verified the stocks.

4.15.12. The stock sheet must then be handed over to the financial bookkeeper for capturing purposes.

4.15.13. Items may be subject to an inventory count on a monthly basis.

4.15.14. Where the quantity of inventory is too large for the count to be completed on a single occasion, inventory counts may be carried out on a rotational basis with a full inventory count at the end of each financial year.

4.15.15. All approved Municipal procedures and processes must be complied with during the inventory count.

4.15.16. The Stock Controller must document in *Annexure B* and report to the Finance Manager after investigating any discrepancies between the inventory records/register/database, bin/tag cards or inventory labels and the physical inventory.

4.15.17. The Finance Manager must submit a report with the findings to the Chief Financial Officer, in order to have the matter reported to the Executive Committee of the Municipality Entity for the write-off of any inventories losses, or the write –up of surpluses.

4.15.18. The appropriate disciplinary action must be instituted when applicable.

4.15.19. The inventory record, register, database or system must be updated accordingly.

4.16. COST REPORT PROCEDURE

4.16.1. PURPOSE

The purpose of this procedure is to ensure that the cost of sales percentages is calculated efficiently. This guarantees that the correct gross profits are achieved monthly. This process is only done for the 10, 20 and month end stock counts.

4.16.2. PROCESS

4.16.2.1. Once all stock sheets have been captured from the 10, 20 & monthly counts, the financial controller will compile a cost report.

4.16.2.2. The rand value figures are required in the cost report:

4.16.2.2.1. Opening stock (this is obtained from the previous months closing stock figures),
4.16.2.2.2. Purchases, (this is obtained from Pastel, as per the individual categories),
4.16.2.2.3. Sales figures (this is obtained from the POS sales report),
4.16.2.2.4. Closing stock (this is obtained from the current months' stock take, once it has been captured by the bookkeeper).

4.16.3. The formula applied to calculate the cost of sales consists of the Opening stocks + Purchases = consumption. (Consumption / sales) * 100 = cost of sales percentage.

4.16.4. Different categories of stock have different cost of sales percentages. Should the cost of sales vary more than 1.5% to the budgeted cost of sales, then a theoretical cost of sales must be calculated. The theoretical cost of sales is done by the executive chef and operations manager or outlet heads of the department.

4.16.5. This is calculated by verifying the cost of sales achieved from each item sold on the sales report provided by the POS system.

4.16.6. A theoretical spread sheet is used to calculate the theoretical cost of sales. This sheet contains individual items on the sales report, the cost price excludingVAT, the quantity sold as per the POS system and the rand value received by the actual sales of that item.

4.16.7. Once this is completed for every item on the sales report a theoretical sales mix can be obtained. This should not vary more than 1.5% of the actual cost of sales achieved.

4.16.8. Should the theoretical cost of sales reflects a variance greater than 1.5%, the actual cost of sales, investigations needs to followed, managed by the general manager.

4.17. WAREHOUSE CONTROL PROCEDURE

4.17.1. PURPOSE

The purpose of this procedure is to ensure that all stocks i.e. beverages, cleaning and consumables that enter and leave the warehouse are properly accounted for.

4.17.2. PROCESS STOCK CONTROL

4.17.2.1. Closing stock figures from the previous month for the warehouse must be inserted into the new stock sheet as opening stock for the current month.

4.17.2.2. All stock orders received for the warehouse must be captured daily in the received column for that specific date.

4.17.2.3. All items issued from the warehouse, must be captured daily as transfers on that specific dateto the specific outlet.

4.17.2.4. All items are captured must be in units, i.e. case of Amstel = 24, bottle of J&B = 1 each.

4.17.2.5. Once the 10, 20 & month end stock have been completed, the closing stock is entered in the stock sheet.

4.17.2.6. The stock sheet is set up is such a manner, that it automatically calculate any variances, should there be any, in the warehouse.

4.17.2.7. The warehouse should always have a zero variance as all stocks movements must recorded.

4.17.2.8. Should there be any variance the General Manager must be informed, as he should investigate the variance immediately.

4.18. PROCESS ON ORDERS & RECEIVING OF STOCKS

4.18.1. All stocks for the warehouse are ordered on a Mondays and Thursdays by the warehouse controller (buyer).

4.18.2. A full stock take is done in the warehouse before any stocks are ordered.

4.18.3. The stock reconciliation, indicating the closing stock figures will be given to the General Manager who will then approve stock orders in order for the buyer to place orders with suppliers.

4.18.4. When the buyer places the order, he must provide the supplier with an official order number.

4.18.5. A Quotation is requested from the supplier.

4.18.6. This quotation is handed to the second warehouse controller who will verify prices and quantities of stock.

4.18.7. Upon delivery of the stocks, the second warehouse controller will verify the stock against the quotation and invoice provided.

4.18.8. Once all stocks have been verified and received as correct, the warehouse controller will sign the invoice & quotation and forwarded to the admin assistant for processing in Pastel.

4.18.9. For all food orders, the head chef places the orders for Joburg Theatre, the sous chef for Soweto theatre and the sous chef for Roodepoort Theatre. These orders must be signed off by the food & beverage operations managers before it is placed with the supplier.

4.18.10. The quotes requested for food orders must be approved by the Food & Beverage operations manager before delivery.

4.18.11. Upon delivery of the stocks, the food & beverage operations manager will verify goods received against the invoice to confirm pricing and quantities.

4.18.12. Thereafter the food & beverage operations manager will confirm the goods received by signing off the quotation and invoice.

4.18.13. Thereafter the details will be captured into the Pilot system to update the stock and the documentation will then be handed to the admin assistant finance.

4.19. INVENTORY RECORDS

4.19.1. An inventory record/register/database must be maintained for all inventory items, either manually and / or electronically.

4.19.2. All relevant information must be included for the proper management and control of all inventory items. It is recommended that details include but are not limited to:

- 4.19.2.1. Order number/date;
- 4.19.2.2. Item description;
- 4.19.2.3. Quantity and value of stock on hand;
- 4.19.2.4. Quantity and value of stock received;
- 4.19.2.5. Quantity and value of stock issued;
- 4.19.2.6. Re-order level;
- 4.19.2.7. Optimum inventory level;
- 4.19.2.8. Quantity and value of obsolete stock; and
- 4.19.2.9. Opening/closing balance.

4.19.3. An inventory register/database must be printed monthly and the hard copy filed in a chronological order to maintain a proper audit trail.

4.20. REPORTING

4.20.1. A report must be submitted at least quarterly to the Chief Financial Officer and/or the Responsibility Manager detailing the following:

4.20.1.1. Any inventory shortages or surpluses and the reasons for such;

4.20.1.2. Any inventory deficits proposed to be written-off; and

4.20.1.3. Any obsolete inventory items.

4.20.2. Inventories purchased during the financial year must be disclosed at cost in the disclosure notes of the Annual Financial Statements of the Municipality.

4.20.3. In terms of GRAP the financial statements shall disclose:

4.20.3.1. the accounting policies adopted in measuring inventories, including the cost formula used,

4.20.3.2. the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity,

4.20.3.3. the carrying amount of inventories carried at fair value less costs to sell,

4.20.3.4. the amount of inventories recognized as an expense during the period,

4.20.3.5. the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph .43,

4.20.3.6. the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as an expense in the period in accordance with paragraph .43,

4.20.3.7. the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph .43,and

4.20.3.8. the carrying amount of inventories pledged as security for liabilities

Petty cash, Bank, Cash Management and Investment Policies
Policy Number: FIN05/2015
Policy Date: 19 March 2015

5. Petty Cash

5.1. Purpose

a. To provide a source of funds for low value, low risk and infrequent purchases whilst safeguarding JCT funds.

5.2. Policy Statement

5.2.1. Petty Cash provides a source of funds to effectively and efficiently purchase low value, low risk and infrequent purchases, and is an alternate method of payment to the JCT's Cheque or Electronic Funds Transfer.

5.2.2. Petty Cash will be issued to a JCT's staff member (Custodian) and shall be kept in a secure location at all times.

5.2.3. Under no circumstances shall Petty Cash ever be intermingled with personal monies of staff or applied for private purposes even on a temporary basis.

5.3. Procedures – petty cash

5.3.1. Establishing or Increasing Petty Cash

5.3.1.1. To establish or increase Petty Cash, HOD of the department will apply in writing to the Chief Financial Officer.

5.3.1.2. The application will contain the following information: the Custodian's name, position title and Employee ID;

5.3.1.3. the intended purpose and location of the Petty Cash the amount of the Petty Cash or increase in Petty Cash (must be commensurate with the required usage).

5.3.1.4. In approving the establishment of Petty Cash, the Chief Financial Officer shall evaluate the overriding reason for the section requiring Petty Cash and the ability of the section (and Custodian) to:

5.3.1.4.1. institute the required controls to safeguard University monies.

5.3.1.4.2. develop procedures for the holding, usage and storage of Petty Cash.

5.3.1.4.3. train staff in the correct procedures to follow.

5.3.1.4.4. to obtain and retain necessary supporting documentation, reconcile and reimburse the float and correctly code the expenditure.

5.3.1.4.5. ensure Custodians are advised of their responsibilities in handling Petty Cash and the importance of complying with established procedures.

5.3.1.4.6. ensure the Custodian possesses the skills and personal integrity required for handling cash so as to minimise the possibilities for fraud and/or error to occur.

5.3.1.4.7. periodically count the Petty Cash float by the Custodian's supervisor (or nominated person, other than an employee under the control of the Custodian).

5.3.1.4.8. Identify, investigate and report all Petty Cash deficiencies. (Refer Section 5.10 Petty Cash Shortages of this Policy)

5.3.2. Issuing the Petty Cash Float

5.3.2.1. The HOD will forward an approved written application to the Finance department.

5.3.2.2. The Custodian will be contacted by the finance department (Cash controller) and advise the Custodian when and how the Petty Cash Float is to be collected

5.3.2.3. The custodian must acknowledge receipt of the cash.

5.3.3. Safe Storage of Petty Cash

5.3.3.1. Petty Cash will be kept in a locked JCT safe in a secure location, during working hours and After hours.

5.3.3.2. Only the Custodian will have access to the Petty Cash safe during working hours and after hours.

5.3.3.3. If spare keys are required to access locked safe, these will be kept in a safe in finance managers office

5.3.3.4. When the Petty Cash Custodian is not at work, only the finance manager or Senior accountant must have access to the safe.

5.3.4. Change of Petty Cash Custodians

The process to change the Custodian of Petty Cash must include as a minimum:

5.3.4.1. the Custodian and the new Custodian counting the cash, adding the Petty Cash vouchers, reconciling these to the original total Petty Cash issued, and 'signing-off' the Hand Over/Take Over Reconciliation Form.

5.3.4.2. where the Custodian is not available (for example, unplanned absence due to illness) the Custodian's supervisor and the new Custodian shall count the cash, add the Petty Cash vouchers, reconcile these to the original total Petty Cash issued and 'sign-off' the Hand Over/Take Over Reconciliation Form.

5.3.4.3. Where Petty Cash is reassigned permanently, the section Manager must promptly advise the all HOD’s of the name, position title and Employee ID of the new Custodian.

5.3.5. Issuing Petty Cash for Purchasing Good and Services

5.3.5.1. Petty cash shall be used for appropriate purchases such as for the payment of low risk, miscellaneous and incidental items to the value of R2,000 (vat incl) or less.

5.3.5.2. The claimant seeking reimbursement of an expense in the form of Petty Cash shall obtain written approval from their HOD for the expenditure. The HOD shall ensure that the purchase was made in the conduct of JCT business.

5.3.5.3. It is the responsibility of the claimant to allocate the expenditure to a correct accounting code and also to provide details of the expense to the Petty Cash Custodian.

5.3.5.4. All disbursements from Petty Cash shall be made to reimburse for funds actually expended and evidenced by an original receipt.

5.3.5.5. The claimant shall present the original receipt and the HOD’s approval, to the Petty Cash Custodian. As a minimum the receipt shall contain the following information:

5.3.5.5.1. date of the expense
5.3.5.5.2. name of the supplier
5.3.5.5.3. amount of the expense
5.3.5.5.4. brief details of the goods and/or services purchased (this may be added in hand writing if not recorded on the receipt)

5.3.5.6. Where the expenditure is for transportt, then the staff member seeking reimbursement shall supply to the Custodian a transport form approved by the their HOD

5.3.5.7. The Petty Cash Custodian shall complete JCT Petty Cash Voucher and attach all supporting documentation. The claimant requesting the Petty Cash reimbursement will sign the voucher indicating they have received the cash and the claimant's HOD will sign the voucher indicating that S/he approved the expenditure and that it was business related expenditure (All JCT Petty Cash Vouchers must contain the two different signatures).

5.3.5.8. Under no circumstances will Petty Cash be used for the payment of personal services (such as salary, wages or honorariums)

5.3.6. Issuing an Advance from Petty Cash

5.3.6.1. In exceptional circumstances an advance of Petty Cash may be issued to a staff member for a purchase, where it is not possible for the staff member to make the purchase and then seek the reimbursement.

5.3.6.2. Prior to issuing the advance, the Petty Cash Custodian shall ensure that the staff member has HOD approval, is aware of the advance acquittal process and that the maximum for each purchase is R2,000 (vat inclusive).

5.3.6.3. A record of the advance shall be held in the Petty Cash tin will include:

- 5.3.6.3.1. the name of the staff member receiving the advance
- 5.3.6.3.2. the amount of the advance
- 5.3.6.3.3. the date of the advance

5.3.6.4. the signature of the staff member receiving the advance (acknowledging they have read and understand the Petty Cash Procedures)

5.3.6.5. the signature of the Petty Cash Custodian giving the advance

5.3.6.6. On completion of the purchase, the staff member shall present to the Petty Cash Custodian, the change (unspent advance) and the receipt supporting the purchase. In all circumstances the change and the receipt shall equal the original advance and this acquits the advance. The staff member and Petty Cash Custodian shall then complete the JCT Petty Cash Voucher as detailed above.

5.3.6.7. By signing for an advance from Petty Cash, the staff member authorises the JCT to recover any advance not acquitted within 72 hours of the advance being given, from their next JCT pay. Staff will not be issued with more than one advance at any one time.

5.3.7. Reconciling and Reimbursing a Petty Cash Float

5.3.7.1. To reimburse a Petty Cash Float the Custodian shall create a schedule Petty Cash Account Statement of all vouchers issued and:

5.3.7.1.1. fully reconcile the balance of the cash held and the Petty Cash Vouchers against the original Petty Cash Float.
5.3.7.1.2. ensure the amount of reimbursement requested equals the total of the reconciled expenses (rounded to the nearest ftwo cents).
5.3.7.1.3. fully code all expenses, splitting GST and non-GST transactions.
5.3.7.1.4. attach to the Petty Cash Account Statement/schedule;all supporting documentation including Petty Cash Vouchers, receipts and the appropriate HOD’s approval(s).
5.3.7.1.5. Forward the completed documentation to finance manger.

5.3.7.2. The Finance manager (or delegate) will review the Petty Cash Account Statement/schedule and approve the reconciliation

5.3.7.3. Once the reconciliation has been approved, the Fiance manger advise Custodians when the funds/cheque will be available for collection.

5.3.7.4. Custodians should note that processing the reimbursement and subsequent availability of funds may take up to 5 workings days.

5.3.7.5. For Custodians at the Soweto theatre and Roodepoort theatre, they will collect the reimbursement in cash/cash cheque from the cash controller.

5.3.8. Annual Petty Cash Declaration

5.3.8.1. Annually and/or as required by audit, each Custodian will be required to complete a Cash on Hand

5.3.8.2. Declaration certifying the value of their Petty Cash and Petty Cash Vouchers held, and submit this declaration to the Manager, Financial Reporting

5.3.9. Petty Cash Shortages

5.3.9.1. The Finance Manager is required to investigate all material cash shortages (losses) in accordance MFMA. A written record of the loss will be retained including details of the following:

5.3.9.1.1. The amount of cash (or other monies) missing;

5.3.9.1.2. The reason for the loss (shortage); and

5.3.9.1.3. The action taken about the loss, including but not limited to, review of faculty/department processes/procedures, security of monies, action taken to recover the loss (if applicable).

5.3.9.2. Where the shortage is a result of Corrupt Conduct the finance manager will report the matter to the Chief Financial Officer who will report the matter to the Chief Executive Officer for action under the JCT misconduct Policy and Procedure.

5.3.10. Closing or Reducing a Petty Cash Float

5.3.10.1. The Custodian will deliver the balance of their cash to the cash controller,

5.3.10.2. The Cash controller, will issue them with a receipt.

5.3.10.3. The Custodian will note on the Petty Cash Account Statement, “closing not to be reimbursed” and attach the receipt to the statement.

5.3.10.4. The Custodian will also complete Cash on Hand Declaration and deliver ALL documents to the cash controller who will forward a copy of the finalized documentation to the Manager.

5.4. BANK

5.4.1. Purpose

5.4.1.1. Transactions in the primary bank account are used to provide an audit-trail for effective management of all public funds including grants, and must remain under the direct supervision of the AO and the CFO.

5.5. Policy

5.5.1. It is recognised that from time to time, JCT has cash flow surpluses due to daily receipts and payments.JCT maintains a quarterly cash position summary and a yearly cash flow projection is prepared during the annual planning process and is updated monthly. This determines JCT's surpluses for investment. All monies due to JCT and due by JCT emanating from JCT activities must pass through this primary account.

5.6. Procedures

5.6.1. Opening of bank accounts

5.6.1. Joburg City Theatres (JCT) must open and maintain at least one bank account in the name of the entity.

5.6.2. All money received by JCT must be paid into its bank account or accounts, and this must be done promptly and in accordance with any requirements that may be prescribed.

5.6.3. JCT may not open a bank account—

- 5.6.3.1. Abroad
- 5.6.3.2. with an institution not registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of1990);
- 5.6.3.3. otherwise than in the name of the entity; and
- 5.6.3.4. without the approval of its board of directors.Money may be withdrawn from a JCT bank account only in terms of section 3 of this policy

5.6.4. The CFO must administer all the JCT's bank accounts;

5.6.5. If JCT changes bank account - Once changes have been effected to the primary bank account, the CFO must ensure that all monies are transferred from the old primary bank account into the new municipal account to ensure an effective audit trail is maintained. These procedures must be undertaken prior to the closure of the old primary bank account

6. **Bank account details**

6.6. JCT must submit to the COJ in writing—

6.6.1. within 90 days after the entity has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and

6.6.2. Annually before the start of a financial year, the name of each bank where the entity holds a bank account, and the type and number of each account.

6.6.3. JCT must upon receipt of the information referred to in subsection (1), submit that information to the Auditor-General, the National Treasury and the relevant provincial treasury, in writing.

6.8. Withdrawals from JCT bank accounts

Only the accounting officer or the chief financial officer of JCT, or any other senior financial official of the JCT acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the JCT's bank accounts, and may do so only:

6.8.1. to defray expenditure appropriated in terms of an approved budget;

6.8.2. to defray unforeseeable and unavoidable expenditure authorised in terms of the adjustment budget ;

6.8.3. to pay over to a person or organ of state money received by the JCT

6.8.4. on behalf of that person or organ of state, including—

6.8.4.1. money collected by JCT on behalf of that person or organ of state by agreement; or

6.8.4.2. any insurance or other payments received by JCT for that person or organ of state;

6.8.5. to refund money incorrectly paid into a bank account;

6.8.6. for cash management and investment purposes

6.9. Irregular withdrawals to be reported

6.9.1. JCT must report all irregular withdrawals in circumstances where the payment is not in terms of an approved budget.

6.9.2. JCT must table a report to the board of directors quarterly providing consolidated details of unbudgeted withdrawals,

6.10. Overdraft

6.10.1. If JCT has more than one bank account, the consolidated balance in those bank accounts, shows a net overdrawn position for a period exceeding 21 days, CFO must report, in writing, to the Board of Directors of the entity at its next meeting and to the parent municipality, who in turn should notify the National Treasury within 14 days after the 21 days period lapses and must address the following:

6.10.1.1. The amount by which the account or accounts are overdrawn;

6.10.1.2. The reasons for the overdrawn account or accounts; and

6.10.1.3. The steps taken or to be taken to correct the matter.

6.10.2. When determining the net overdrawn position, Finance Manager must exclude any amounts reserved or pledged for any specific purpose or encumbered in any other way.

6.11. Banks, Insurance Companies and other Financial Institutions to report on JCT

6.11.1. A bank where JCT at the end of a financial year holds a bank account, or held a bank account at any time during a financial year, must:

6.11.1.1. within 30 days after the end of that financial year notify the Auditor-General,in writing, of such bank account, including:

6.11.1.1.1. the type and number of the account; and

6.11.1.1.2. the opening and closing balances of that bank account in that financial year; and

6.11.1.2. promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

6.11.2. A bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for JCT, must:

6.11.2.1. within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year; and

6.11.2.2. promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

6.12. Reporting

6.12.1. The following reports assist management and Board with their monitoring and oversight activities and provide information on possible financial management challenges.

Reporting obligations – Municipal Entity Bank Accounts				
Action	**Information to report**	**To whom**	**Other**	**MFMA section**
Opening **primary** account	Name of bank Type of account Account number	1. Parent municipality	Must be in writing, original stamp by bank, signed by the AO or CFO **(Form A)**	86(1)
Changing **primary** account	Name of bank Type of account Account number	1. Parent municipality	Must be in writing, original stamp by bank, signed by the AO or CFO **(Form A)**	86(1)
Opening "**other**" Account	Name of bank Type of account Account number	1. Parent municipality	Must be within 90 days of opening the account and in writing **(Form B)**	86(1)
Annually before 01 July each year Parent municipality to submit the information relating to all its entities.	Listing of all bank accounts (including the primary account): Name of bank Type of account Account number	1. Parent Municipality (To receive information from JCT	Must be in writing **(Form C)**	86(1)

Reporting obligations – Municipal Entity Bank Accounts				
Action	**Information to report**	**To whom**	**Other**	**MFMA section**
Annually	Bank accounts to be disclosed in the municipality and/or municipal entity's AFS		Include bank name, account type, purpose, opening and closing balances	125(2)
Reporting obligations – Overdraft				
Action	**Information to report**	**To whom**	**How**	**MFMA section**
Net **overdraft** for a period exceeding 21 days for municipal entities	Amount of each bank account overdrawn Reasons for being overdrawn Steps taken to correct the matter	board of directors and parent municipality, who in turn must advise Council, National Treasury and Provincial Treasury	Promptly report a net **overdraft** for a period exceeding 21 days in a case of entities (**Form F)**	101
Reporting obligations – Banks, Insurance Companies and Financial Institutions				
Action	**Information to report**	**To whom**	**How**	**MFMA section**
Annually report within 30 days after financial year end- 30 July	Details on all bank accounts and, investments held by any JCT at any time during a financial year	Auditor-General	In writing within 30 days after financial year end **(Form E)**	13(3) 13(4)

6.12.2. Reporting Formats In order to address inconsistent reporting and to assist in reducing the number of reports, the following forms were introduced by treasury:

6.12.2.1. Form A – Primary bank account of the municipal entity - when new accounts are opened or amendment made to old accounts;

6.12.2.2. Form B – All other bank accounts of the municipal entity - when new accounts are opened;

6.12.2.3. Form C – Annual listing of bank account details – for municipal entity – annually before the commencement of the new financial year;

6.12.2.4. Form D – Withdrawals not in terms of an approved budget - at the end of each quarterly;

6.12.2.5. Form E – Annual listing of bank accounts, cash management and investments of Municipal entity - to be completed and submitted by banks, financial institutions and insurance companies; and

6.12.2.6. Form F – Bank overdraft reports of municipal entities - at the end of each quarter.

6.13. Cash management

6.13.1. Management of cash can be ascribed as the performance of various activities, including the handling, safeguarding and banking of cash, processing and reconciliation of transactions, adhering to procedures and policies, recording and maintaining of information whether manually or electronically, and the prudent investment of cash, consistent with the Investment regulations and Theatre policies,

6.13.1.1. Ensuring that cash resources are managed efficiently and effectively,

6.13.1.2. Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,

6.13.1.3. Ensuring that adequate liquidity is maintained at all times, for management of cashflows, 6.13.1.4. Ensuring that the JCT receives optimal yield / interest on its investments with financial institutions, at minimal risk,

6.13.1.5. Striving for reasonable growth on capital investments in addition to interest earned on investments,

6.13.1.6. Ensuring that monies due to JCT are collected and banked appropriately as soon as they are received, and

6.13.1.7. Ensuring that payments to creditors are made by the due dates.

6.13.2. The policy is also established to ensure appropriate asset levels are maintained and assets remain accessible and retain liquidity to be used for JCT expenses and initiatives.

6.14. PROCEDURES

JCT's sound cash management includes the following :

6.14.1. Collecting revenue when its due and banking it promptly in company's installed cash vaults

6.14.2. Making payments including transfers to other levels of government and non-government entities no earlier than necessary, with due regard for efficient effective and economical programme delivery and the government's normal terms for payments.

6.14.3. Avoiding prepayments for goods and services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier

6.14.4. Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates

6.14.5. Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the entity are collected and banked promptly

6.14.6. Accurately forecasting JCT's cash flow requirements so that surplus funds can be invested in short fixed deposits. Surplus funds refer to all money in excess of a given period's projected cash flow requirements plus a liquidity buffer needed to cover unforeseen expenditure on that period.

6.14.7. Timing the in and outflow of cash

6.14.8. Recognising the time value of money, i.e. economically, efficiently and effective managing cash

6.14.9. Performing bank reconciliation on a monthly basis to detect any unauthorized entries

6.14.10. Ensuring that dishnoured warrant vouchers and cheques are followed up immediately

6.14.11. The separation of duties to minimize the incidence of fraud

6.15. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES

The following ethics, principles and procedures shall apply: -

6.15.1. The Chief Financial Officer shall be responsible for managing municipal investments,

6.15.2. No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments

6.15.3. Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) will be obtained at the time of contemplating an investment

6.15.4. Financial institutions will be required to submit confirmation certificates upon the placement of investments, which will include a declaration that no commission was paid relating to the investment,

6.15.5. The Chief Financial Officer shall maintain a detailed investment register,

6.15.6. The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping,

6.15.7. Investments made must be in the name of the JCT

6.15.8. No funds will be borrowed for the purpose of investments

6.15.9. The Chief Financial Officer shall ensure that interest and capital is received and receipted when due, 6.15.10. Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).

6.15.11. JCT is not permitted to place investments denominated in foreign currencies

Asset Management Policy
Policy Number: FIN07/2015
Policy Date: 19 March 2015

7 PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a Board of Directors may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the Board of Directors of Joburg City Theatres wishes to adopt a policy to guide the Chief Executive Officer in the management of the Municipal Entity's assets.

And whereas the Chief Executive Officer as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

Now therefore the Board of Directors of the Joburg City Theatres adopts the following asset management policy:

7.2. DEFINITIONS

Accounting Officer means the Cheif Executive Officer appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

Agricultural Produce is the harvested product of the Municipal Entity's biological assets.

Biological Assets are defined as living animals or plants.

Assets are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

Chief Financial Officer (CFO) means an officer of a Municipal Entity designated by the Cheif Executive Officer to be administratively in charge of the budgetary and treasury functions.

Cost is 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, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Critical Assets are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

Depreciable Amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

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.

GAAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

Heritage Assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Infrastructure Assets are defined as any asset that is part of a network of similar assets. Examples are Stage equipment.

Intangible Assets are defined as identifiable non-monetary assets without physical substance.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

Property, Plant and Equipment (PPE) are tangible assets that:-

1. Are held by a Municipal Entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
2. Are expected to be used during more than one period.

Recoverable Amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

Residual Valueof 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 were already of the age and in the condition expected at the end of its useful life.

Useful Life is:-

3. The period of time over which an asset is expected to be used by the Municipal Entity; or
4. The number of production or similar units expected to be obtained from the asset by the Municipal Entity's accounting officer.

7.3. OBJECTIVE

7.3.1. The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

7.3.2. With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

7.3.3. With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified and the condition assessed periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

7.3.4. According to the MFMA, the Accounting Officer in the Municipal Entity should ensure:

7.3.4.1. That the Municipal Entity has and maintains an effective and efficient and transparent system of financial and risk management and internal control; the effective, efficient and economical use of the resources of the Municipal Entity; the management (including safeguarding and maintenance) of the assets of the Municipal Entity;

7.3.4.2. That the Municipal Entity has and maintains a management, accounting and information system that accounts for the assets and liabilities of the Municipal Entity;

7.3.4.3. That the Municipal Entity's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and

7.3.4.4. That the Municipal Entity has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

7.3.5. The objective of this Asset Management Policy is to ensure that the Municipal Entity:

7.3.5.1. Has consistent application of asset management principles;
7.3.5.2. Implements accrual accounting;
7.3.5.3. Complies with the MFMA, Treasury Regulations, GRAP and other related legislation;
7.3.5.4. Safeguards and controls the assets of the Municipal Entity; and
7.3.5.5. Optimises asset usage.

7.4. Asset Recognition

Classification of Assets

7.4.1. General

7.4.1.1. When accounting for assets, the Municipal Entity should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

7.4.1.2. Property, Plant and Equipment (GRAP 17)
Land and Buildings (land and buildings not held as investment)
Infrastructure Assets (immovable assets that are used to provide basic services) Heritage Assets (culturally significant resources)
Other Assets (ordinary operational resources)

7.4.1.3. Intangible Assets (GRAP 102)
Intangible Assets (assets without physical substance held for ordinary operational resources)

7.4.1.4. Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

7.4.1.5. To facilitate the practical management of infrastructure assets and Asset Register data, infrastructure assets have been further classified.

7.5. Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard.

7.5.1. Procedures and Rules

The Finance Departments shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the Municipal Entity are adhered to.

The Finance Department shall inform Heads of Departments of the classification requirements.

Heads of Departments shall ensure that all fixed assets under their control are classified correctly.

Identification of Assets

7.5.2. General

An asset identification system is a means to uniquely identify each asset in the Municipal Entity in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

7.5.3. Policy

An asset identification system shall be operated and applied in conjunction with an Asset Register. As far as practicable, every individual asset shall have a unique identification number.

7.5.4. Procedures and Rules

The Finance Department shall develop and implement an asset identification system, while acting in consultation with Heads of Departments.

Heads of Departments shall ensure that all the assets under their control are correctly identified.

As far as practicable, all movable assets must be bar-coded or uniquely marked.

Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.

Asset Register

7.5. General

7.5.1. An Asset Register is a database of information related to all the assets under the control of the Municipal Entity. The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the Asset Register. The data requirements for the Asset Register are as follows:

Data type	Movable	Infrastructure/ Buildings
Identification		
1. Unique identification number or asset mark	✓	✓
2. Unique name	✓	✓
3. National Treasury Classification	✓	✓
4. Internal Classification	✓	✓
5. Descriptive data (make, model, etc.)	✓	✓
6. Registration	✓	✓
Accountability		
7. Department	✓	✓
Performance		
8. Age	✓	✓
9. Condition	✓	✓
10. Remaining Useful life	✓	✓
11. Expected Useful Life	✓	✓
Accounting		
12. Historic cost	✓	✓
13. Take on value	✓	✓
14. Depreciation method	✓	✓
15. Depreciation charge for the current	✓	✓

Data type	Movable	Infrastructure/ Buildings
financial year		
16. Depreciation charge for ensuing year (for purposes on current portion)	✓	✓
17. Impairment losses in the current year	✓	✓
18. Accumulated depreciation	✓	✓
19. Carrying value	✓	✓

7.5.2. Assets remain in the Asset Register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

7.3. Policy

An Asset Register shall be maintained for all assets. In some cases, such as Heritage Assets and Intangible Assets, separate Asset Registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The Asset Register should be continuously updated and asset records should be reconciled to the general ledger on a monthly basis.

7.3.1. Procedures and Rules

7.3.1.1. The CFO must define the format of the Asset Register in consultation with the Heads of Departments and must ensure that the Asset Register format complies with legislative requirements.

7.3.1.2. The Finance Department must ensure that a defined process and forms exist to update and maintain the Asset Register.

7.3.1.3. The Heads of Departments must provide the CFO with the information required to compile and maintain the Asset Register.

7.3.1.4. The Senior Accountant is responsible for maintaining a complete asset register and for management and control of such assets.

7.3.1.5. Implementing formal procedures for the reconciliation, checking and updating the asset register with the general ledger on a monthly basis.

7.3.2. Submitting a report in writing, setting out the relevant facts relating to the absence of any asset brought to their notice.

7.3.3. The asset register is reconciled to the general ledger every month and reconciled to the physical assets at least once a year.

RECOGNITION OF ASSETS: INITIAL MEASUREMENT

7.4. General

7.4.1. An asset should be recognised as an asset in the financial and asset records when:

7.4.2. It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipal Entity;

7.4.3. The cost or fair value of the item to the municipal Entity can be measured reliably;

7.4.4. The item is expected to be used during more than one financial year.

7.4.5. The asset has been identified as a critical asset.

7.4.6. Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the Municipal Entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

7.4.7. Further guidance for the recognition of assets is provided below:

7.4.7.1. Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the Municipal Entity is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the Municipal Entity should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

7.4.7.1.1. Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Asset
7.4.7.1.2. The cost of site preparation;
7.4.7.1.3. Initial delivery and handling costs;
7.4.7.1.4. Installation costs;
7.4.7.1.5. Professional fees such as for architects and engineers;
7.4.7.1.6. The estimated cost of dismantling and removing the asset and restoring the site; and
7.4.7.1.7. Interest costs when incurred on a qualifying asset in terms of GRAP 5.

7.4.8. When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

7.5. Subsequent Expenses

7.5.1. Only expenses incurred on the enhancement of an asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of an asset shall be capitalised.

7.5.2. Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

7.6. Leased Assets

7.6.1. A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

7.6.1.1. A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as an asset.

7.6.1.2. Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

7.7. Policy

All assets shall be correctly recognised as assets and capitalised at the correct value.

7.7.1. Procedures and Rules

7.7.1.1. Heads of Departments shall ensure that all leased assets under their control are correctly accounted for and recognised as assets.

7.7.1.2. The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

SUBSEQUENT MEASUREMENT OF ASSETS

7.8.1. General

7.8.1.1. After initial recognition of Property, Plant and Equipment, the Municipal Entity values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model.

7.8.1.2. When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

7.8.1.3. When an asset’s carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

7.8.1.4. When an asset’s carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

7.8.2. Policy

Assets acquired or owned by the municipal entity shall be subsequently measured at cost less accumulated depreciation and impairment losses

7.8.3. Procedures and Rules

The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the Asset Register and revalued (if applicable) in terms of the Municipal Entity Entity's policies.

Asset Types

Asset Types Property, Plant and Equipment: Other Assets

7.8.4. NGeneral

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

7.8.5. Policy

7.8.5.1. Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

7.8.5.2. Other assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register.

7.8.5.3. *Other Assets* shall be recorded under the following main categories;

7.8.5.3.1. Furniture and Fittings;
7.8.5.3.2. Motor Vehicles;
7.8.5.3.3. Office Equipment;
7.8.5.3.4. Stage Equipment;

7.8.6. Procedures and Rules

7.8.6.1. The Finance Department, in consultation with Heads of Departments, shall ensure that all other assets are appropriately recorded in terms of the Municipal Entity's policies.

7.8.6.2. Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Heads of Departments must inform the Finance Department of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly

Asset Types Property, Plant and Equipment: Heritage Assets

7.9.1. General

7.9.1.1. A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- *7.9.1.1.1.* Archaeological sites;
- *7.9.1.1.2.* Conservation areas;
- *7.9.1.1.3.* Historical buildings or other historical structures (such as war memorials);
- *7.9.1.1.4.* Historical sites (for example, historical battle site or site of a historical settlement);
- *7.9.1.1.5.* Museum exhibits;
- *7.9.1.1.6.* Public statues; and
- *7.9.1.1.7.* Works of art (which will include paintings and sculptures).

7.9.2. Policy

7.9.2.1. Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses.

7.9.2.2. No depreciation shall be charged against such assets. If the cost price of heritage assets are not known, then the heritage asset will be valued at fair value.

7.9.3. Procedures and Rules

7.9.3.1. For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Asset Register.

7.9.3.2. The Finance Department, in consultation with Heads of Departments, shall ensure that all heritage assets are appropriately recorded and valued in terms of the Municipal Entity's policies.

Intangible Assets

7.10. General

7.10.1. *Intangible Assets* can be purchased, or can be internally developed, by the Municipal Entity and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.

7.10.2. Policy

7.10.2.1. Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the Municipal Entity, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 has been met.

7.10.2.2. Procedures and Rules

The Finance Department, in consultation with Heads of Departments, shall ensure that all intangible assets are appropriately recorded in terms of the Municipal Entity's policies.

It is the responsibility of the Head of Information Technology to ensure that all licensed computer software other than operating software are accounted for.

Asset Acquisition

Acquisition of Assets

7.11.1. General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

7.11.2. Policy

Should the Municipal Entity decide to acquire an asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

The purpose for which the asset is required is in keeping with the objectives of the municipal Entity and will provide significant, direct and tangible benefit to it;

The asset fits the definition of an asset (as defined in GRAP 13, GRAP 17, GRAP 101 and GRAP 102)

The asset has been budgeted for;

The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;

The purchase is absolutely necessary as there is no alternative municipal Entity asset that could be economically upgraded or adapted;

The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.

The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;

Space and other necessary facilities to accommodate the asset are in place; and

7.11.3. Procedures and Rules

The Finance Department shall ensure that the Supply Chain Management Policy makes provision for these principles.

The CFO shall ensure that all acquired assets are appropriately insured.

Donated Assets

7.11.4. General

A donated asset is an item that has been given to the Municipal Entity by a third party in government or outside government without paying or actual or implied exchange.

7.11.5. Policy

Donated assets should be valued at fair value, reflected in the Asset Register, and depreciated as normal assets.

7.11.6. Procedures and Rules

All donated assets must be approved by the Finance Department and ratified by Council prior to acceptance.

The Finance Department must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the Municipal Entity.

The conditions associated with the donation must be agreed upon and signed by the Chief Executive Officer.

Municipal officers must inform the Finance Department of any donations made to the Municipal Entity.

Asset Maintenance

Useful life of Assets

7.11.7. General

7.11.7.1. *Useful Life* of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the Municipal Entity.

7.11.7.2. National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the Municipal Entity decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

7.11.2. Policy

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

7.11.3. Procedures and Rules

Heads of Departments must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the Finance Department.

During annual physical verification the condition of each asset must be reviewed to determine the validity of its remaining useful live as reflected on the Assets Register. All items identified as being impaired (with remaining useful live shorter than anticipated as per the Assets Register) must be reported to the Chief Financial Officer who will implement steps to ensure that the impairments are incorporated in the Assets Register and reported on as required by the standards of GRAP.

The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

The Finance Department shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

Depreciation of Assets

7.12. General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of an asset is consumed by the Municipal Entity. The following are the allowed alternative depreciation methods that can be applied by the Municipal Entity:

Straight-line;
Diminishing Balance; and
Sum of the Units.

7.12.2. Policy

All assets, except heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the Municipal Entity, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

Depreciation is provided on all property, plant and equipment other than freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

Furniture and fittings	10 – 15 years
Motor vehicles	10 - 15 years
Artworks	indefinite
Computer equipment	5 – 13 years
Computer software	5 - 8 years
Stage Equipment	10 - 15 years

7.12.3. Procedures and Rules

Heads of Departments must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.

Heads of Departments must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Finance Department for approval.

In the case of an asset which is not listed in the asset classification list, Heads of Departments shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

The Finance Department must be informed of the additional asset classification and amend the Asset Management Policy accordingly.

Alternative depreciation methods may be used in exceptional cases, if motivated by the Head of Department controlling the asset to the Finance Department.

The Head of Department must then provide the Finance Department with sufficient statistical information to make estimates of depreciation expenses for each financial year.

The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the Asset Register and the general ledger.

The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

Impairment Losses

7.13. General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. For example:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value.* The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

7.13.2. Policy

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus.* The reversal of previous impairment losses recognised as an expense, is recognised as an income.

7.13.3. Procedures and Rules

- The Finance Department must ensure that annual impairment surveys are performed.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

Maintenance of Assets and the Asset Register

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

Policy

Maintenance actions performed on assets shall be recorded against the individual assets that are individually identified in the Asset Register.

The risk and criticality of all assets must be assessed in conjunction with the annual physical asset verification process. All assets with a condition rating greater than 3 (three) must be reported to the Finance Department who will give instructions with regard to the criticality grading of the assets on the Asset Register.

Heads of Departments must ensure that the assets identified as critical are attended to in order to prevent possible failure.

Procedures and Rules

Heads of Departments responsible for the control and utilisation of assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control.

Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.

Heads of Departments shall ensure that the operating expenses are expended against the operating budget and not the capital budget.

Heads of Departments shall report to the CEO annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.

Heads of Departments shall report to the CEO annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;

Heads of Departments shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

Asset Disposal

Transfer of Assets

7.14.1. General

The processes and rules for the transfer of an asset to another Municipal Entity, or national/provincial organ of state are governed by an MFMA regulation namely "the Local Government: Municipal Asset Transfer Regulations".

Transfer of assets or inventory items refers to the internal transfer of assets within the Municipal Entity or from the Municipal Entity to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed Asset Register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

7.14.2. Policy

The transfer of assets is regulated by the SCMP and shall be controlled by the transfer processes in the policy and the Asset Register shall be updated accordingly.

7.14.3. Procedures and Rules

- Heads of Departments must ensure that all asset transfer information is passed to Finance.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipal Entity, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the Head: Information Technology.
- Heads of Departments must immediately report to the Finance Department any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

Exchange of Assets

7.15.1. General

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- The exchange transaction lacks commercial substance; or
- The fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

7.15.2. Policy

The SCMP will be applied when assets are exchanged. The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

7.15.3. Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The Finance Department shall approve all asset exchanges in consultation with the relevant Heads of Departments.

Alienation / Disposal of Assets

7.16.1. General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the Municipal Entity.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of assets. Specifically:
A Municipal Entity may not …" permanently dispose of a asset needed to provide the minimum level of basic municipal services"
Where a Board of Directors has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the Municipal Entity's supply chain management policy.

7.16.2. Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. When deciding on a particular disposal method and consideration of the following, the SCMP on disposal of assets must be applied:

The nature of the asset
The potential market value
Other intrinsic value of the asset
Its location
Its volume
Its trade-in price
Its ability to support wider Government programmes;
Environmental considerations
Market conditions
The asset's life

Appropriate means of disposal may include:
Public auction
Public tender
Transfer to another institution
Sale to another institution
Letting to another institution
Trade-in
Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the Asset Register.

7.16.3. Procedures and Rules

Heads of Departments shall report in writing to the Finance Department on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.

The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Finance Department, recommending the process of alienation to be adopted.

The Council shall delegate to the Finance Department the authority to approve the alienation of any asset.

The Council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the Municipal Entity may not alienate any asset required to provide a minimum level of service. The Municipal Entity may alienate any other asset, provided the Municipal Entity has considered the fair market value and the economic and community value to be received in exchange for the asset.

Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.

Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Finance Department for approval.

Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.

Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Finance Department.

Once the assets are alienated, the CFO shall write-off the relevant assets in the Asset Register.

The letting of immovable property must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

The Finance Department must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

Selling of Assets

7.17.1 General

Selling of assets refers to the public sale of municipal assets approved for alienation.

7.17.2. Policy

The selling of assets must be within the parameters laid down in the SCMP. Further must all assets earmarked for sale be sold by public auction or tender and the following steps shall be followed:

A notice of the intention of the Municipal Entity to sell the asset shall be published in a local newspaper;

In the case of a public auction, the Municipal Entity shall appoint an independent auctioneer to conduct the auction; and

In the case of a tender, the prescribed tender procedures of the Municipal Entity shall be followed.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph 6.10 of this Policy and shall not attract any further depreciation.

Sold assets shall be written-off in the Asset Register.

7.17.3. Procedures

A request for assets to be sold must be submitted to the Finance Department for approval. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.

Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.

The Finance Department may approve the engagement of auctioneers either on a quotation basis or by tender depending on the goods to be alienated.

Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.

Tenders: Tenders shall be invited according to the Municipal Entity's tender procedures.

Once the assets are sold, the CFO shall write-off the relevant assets in the Asset Register.

If the proceeds of the sales are less than the carrying value recorded in the Asset Register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.

Transfer of assets to other municipalities, municipal entities (whether or not under the Municipal Entity's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

Writing-off of Assets

7.18.1. General

The write-off of assets is the process to permanently remove the assets from the Asset Register. Assets can be written-off after approval of the Finance Department of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.
- The SCMP has been adhered to.

The CFO may approve the *ad hoc* writing-off of assets without prior approval of the Executive Committee on condition that –

- The write-offs fall after but between the next scheduled Executive Committee meeting and financial year end closure; and
- The Executive Committee is informed of the write-offs at the next scheduled Executive Committee meeting.

7.18.2. Policy

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.

7.18.3. Procedures and Rules

Heads of Departments shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Executive Director wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Finance Department on the assets to be written off.

An asset, even though fully depreciated, shall be written-off only on the recommendation of the Executive Director controlling or using the asset concerned, and with the approval of the Finance Department.

In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.

Assets that are replaced should be written-off and removed from the Asset Register.

Asset Physical Control

Physical Control / Verification

7.19.1. General

Movable assets require physical control and verification of existence.

7.19.2. Policy

All movable assets shall be actively controlled, including an annual verification process.

7.19.3. Procedures and Rules

All movable assets, where practicable, must have a visible bar code or unique asset marking as determined by the Finance Department.

Annual verification of movable assets should be conducted under the direction of Finance. This procedure would enable the Municipal Entity to identify discrepancies and dispositions and properly investigate and record the transactions.

Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.

The Finance Department shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the Finance Department.

Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control.

These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and signed by both parties concerned and a copy of this certificate must be forwarded to Finance. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.

If for any reason the person from whom the asset is being taken over is not available, the asset manager should assist the person taking over with the checking of the equipment and the certification of any discrepancies.

In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.

Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handling or reasonable wear and tear, shall be reported to the Finance Department.

Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.
Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.

All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets. Where this is not practicable, the acquired assets must be delivered to the section issuing the requisition and that section must notify the procurement section so that bar-coding or asset marking can be arranged.

Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.

The Finance Department may, on request of an Heads of Departments, waive full physical verification and accept written confirmation from the Executive Director of infrastructure assets being verified during the course of a financial period as part of routine and/or planned maintenance and/or physical inspections. Documentation in this regard must be kept by departments and be available for inspection. The Chief Financial Officer will inform the external auditors of the Finance Department's decision.

A Physical asset count that should be performed annually and compare the outcome thereof, with the asset register. The asset register should be updated where applicable.

When an asset under the control of the head of a section has been demolished, destroyed or damaged or any other event materially affecting its value has occurred or it has been lost or stolen, such head shall report this to the Senior Accountant and CEO in writing.

No member or official may use company assets for personal or any non-official purposes unless he/she has been authorised in writing to do so by the Finance Manager or the CEO.

No equipment shall be transferred between offices without the approval of the Senior Accountant

Equipment will only be allowed to be removed from the JCT's premises with the approval in writing of the General Manager: Building and Safety.
The Internal Auditors shall at regular intervals physically and in loco verify assets.

Assets issued to employees are controlled by the Senior Accountant.

An "Asset Issue Register" is maintained for these assets by the Senior Accountant

Employees using company assets are required to accept responsibility for the safekeeping of assets in their possession by signing a custody form.

When an employee leaves the employ of the theatre, the relevant General Manager: Building & Security should advise the HR Department whether assets in the custody of that employee were returned in good order, before any monies due to the employee are released.

All employees are ultimately responsible for assets under their control.

Insurance of Assets

7.20.1. General

Insurance provides selected coverage for the accidental loss of the asset value.
Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

7.20.2. Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft.

7.20.3. Procedures and Rules

The Finance Department will ensure that all assets are properly insured in terms of the policy.

Safekeeping of Assets

7.21.1. General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

7.21.2. Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

7.21.3. Procedures and Rules

The Finance Department must issue directives that detail the safekeeping of assets.

Heads of Departments must ensure that safekeeping directives are adhered to.

Malicious damage, theft, and break-ins must be reported to the CFO within 48 hours of its occurrence or awareness. The CFO will inform the Finance Department of such occurrence.

The Chief Executive Officer must report criminal activities to the South African Police Service.