



Province of the
EASTERN CAPE

**COOPERATIVE GOVERNANCE
& TRADITIONAL AFFAIRS**

TRADITIONAL AFFAIRS BRANCH

**Policy on the Financial Management of Traditional
Councils and Transfer of Funds to Traditional Councils**

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SIGN OFF**1. Head of Department**

The Policy on the Financial Management of Traditional Councils and Transfer of Funds to Traditional Councils has been recommended by M. Baza, in my capacity as the Acting Head of the Department of Cooperative Governance and Traditional Affairs.

I am satisfied and concur with the content of the Policy.

The development of this policy will ensure that the Department is able to provide the necessary support to traditional councils as well as exercise its powers in compliance with the laws governing the management of public funds and guide decision-making in the organisation as far as the management of public funds are concerned.

Sign 	
Designation MEC	Acting Head of Department (M. Baza)
Date 21/12/2017	20/12/2017

SIGN OFF**2. Executive Authority**

The Department of Cooperative Governance and Traditional Affairs has unprecedented opportunity to improve the lives of the people by effectively rendering many services that it is expected to provide. We have envisaged a Department that has the *required capacity* to respond adequately to challenges of its people.

I therefore trust that this policy on financial management of traditional councils and transfer of funds to traditional councils will assist positively to contribute towards the Department's endeavour of creating an effective, efficient and transparent financial management and functionality of traditional councils and ultimately promote accountability and good governance.

Signed	
Designation	MEC: Honourable Fikile Xasa Department of Cooperative Governance and Traditional Affairs
Date	21/12/2017

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1. INTRODUCTION

The Department has a legal responsibility to support and capacitate institution of Traditional Leadership to effectively perform their statutory and customary obligation. Chapter 8 section 47 (1) of Act No.1 of 2017, Traditional Leadership and Governance Act, 2017 (Eastern Cape) places an onus on each traditional council head to keep full and proper records of financial affairs of their traditional council.

The Public Financial Management Act, 1999 (Act No. 1 of 1999) as amended, applies to the management of the funds referred to in section 40, 42 and 43 of the Traditional Leadership and Governance Act, 2017 (Eastern Cape). Chapter 7 of Treasury regulations, clearly states that the accounting officer of each department or institution must manage funds efficiently and effectively by developing and implementing appropriate processes that provide for the identification, collection, recording, reconciliation and safeguarding of information about revenue/funds.

2. PURPOSE OF THE POLICY

The purpose of this policy is to—

- 2.1. Provide guidelines to traditional council's on the financial management and recording of funds;
- 2.2. Strengthening financial internal control and accountability to community by traditional council;
- 2.3. Promote effective monitoring for generated funds and use of such funds by traditional councils;
- 2.4. Provide for the process of transferring funds to Traditional Councils and accountability and reporting on the part of Traditional Councils on the transferred funds; and
- 2.5. Promote uniform procedures and standards for making and managing transfers;
- 2.6. Ensure that all processes for transferring funds and payments are fair, transparent and timely.

3. GUIDING PRINCIPLES

Effective financial management of traditional councils is guided by values and ethics code for Public Service and as such the following fundamental principles must be adhered to—

- 3.1. **Accountability:** traditional councils must account to communities for any funds collected, donated, contributed, deposited into and used from the account of a traditional council.
- 3.2. **Development plans:** traditional councils must prepare a development plans for each financial year so that they can know how to spend their funds.
- 3.3. **Internal controls:** traditional councils must ensure that the use of funds is effective and efficient with reliable financial reporting and compliance with laws, regulations and policies.
- 3.4. **Risk management:** effective and efficient internal control systems must be put in place and ensure that appropriate internal measures are equal to the financial risks that are applied to mitigate.
- 3.5. **Transparency:** traditional councils must be open about their work and finances; making information available to all stakeholders.
- 3.6. **Value for money:** traditional council's funds must be managed with cautiousness, honesty; assets be safeguarded and resources used in the most effective, efficient and economic manner in order to achieve goals and objectives of a traditional council and that of the department.

4. LEGISLATIVE AND REGULATORY FRAMEWORK

The functions and processes that define the financial management system are derived from but not limited to the following legislative and regulatory frameworks—

- 4.1. The Constitution of the Republic of South Africa Act, 1996;
- 4.2. Division of Revenue Act, 2015 (Act No. 1 of 2015);
- 4.3. Public Finance Management Act, (Act No. 1 of 1999) as amended;

- 4.4. Treasury Regulations for Departments, Constitutional Institutions and Public Entities, 2005;
- 4.5. Traditional Leadership and Governance Framework Act, 2003 (Act No. 41 of 2003); and
- 4.6. Eastern Cape Traditional Leadership and Governance Act, 2017 (Act No. 1 of 2017).

5. SCOPE OF APPLICABILITY

This policy is applicable to all traditional councils and departmental employees.

6. DEFINITION OF TERMS

In this policy unless the context indicates otherwise the following terms shall mean—

TERM	DEFINITION
"accountability"	means the requirement to perform duties including but not limited to financial and operational responsibilities, in line with applicable legislation, procedures, processes and expected standards of conduct.
"accounting officer"	means the head of a traditional council.
"books of accounts"	means original records and books used in recording business transactions of a traditional council.
"chairperson"	means the chairperson of a traditional council.
"department"	means the provincial department of Cooperative Governance and Traditional Affairs.
"financial management"	means the planning, controlling, implementation and monitoring of fiscal policies and activities, including but not limited to the accounting and audit of revenue, expenditure, assets and liabilities of a traditional council.
"financial records"	means records resulting from the conduct of business and activities relating to financial management of a traditional council.
"Head of Department"	means the Head of Department responsible for Cooperative Governance and Traditional Affairs in the Province.
"head of a traditional council"	means the senior traditional leader or any person designated as a chairperson of a traditional council.

"records management"	means the general administrative management concerned with achieving efficiency in the creation, maintenance, use and disposal of the records of a traditional council throughout their entire life cycle and in making the information they contain readily available in support of the business and activities of a traditional council.
"secretary"	means an administrative clerk or government official responsible for providing administrative and secretariat support to a traditional council.
"the Act"	means Eastern Cape Traditional Leadership and Governance Act, 2017 (Act No. 1 of 2017).
"traditional council"	means a council established in terms of Section 3
"traditional community"	means traditional community recognised as such in Section

ACCRONYMS

DoRA	Division of Revenue Act, 2015 (Act, No. 1 of 2015)
PFMA	Public Finance Management Act, 1999 (Act No. 1 of 1999)
HOD	Head of Department for Cooperative Governance and Traditional Affairs
T/C	Means traditional council established in terms of Section 3

7. The significance of good and sound financial management of traditional councils.

It is the Department's held view that a sound and good financial management system will help traditional councils to among others—

- 7.1. Make effective and efficient use of all resources at their disposal in line with development plans.
- 7.2. Become more accountable to the donors, funders and other stakeholders including members of the community they serve.

- 9.3.2. Fines collected by a traditional leader or traditional council in accordance with the traditional community's customs and practice;
- 9.3.3. All monies derived from any property (including natural resources) in the possession of the traditional community concerned;
- 9.3.4. Administrative grants or payments transferred or made by the Department to a relevant traditional council;
- 9.3.5. Any donations made by any person or organisation for the benefit of the traditional community concerned which the donor had directed that it should be deposited into the account of a traditional council; and
- 9.3.6. Any monies payable to the traditional council in accordance any applicable law.
- 9.3.7. A traditional council may not impose any levy on any member of the traditional community or on any section of the traditional community.
- 9.4. All monies received/ donated must be receipted and recorded on cashbook on a daily basis.
- 9.5. All monies collected by the traditional council must be deposited to bank account within three days, for amount more than R1000 as soon as practicable.

10. Petty Cash

- 10.1. Resolution must be taken by the council to decide whether they need petty cash, how much and not exceed R500.00.
- 10.2. Secretary must be responsible for safe keeping of petty cash and be kept in locked safe.
- 10.3. Secretary must record amount received on a petty cash book.
- 10.4. A traditional council must maintain petty cash on an impress system (reimburse)
- 10.5. Secretary must reconcile petty cash before reimbursed and keep records on how it was spent.
- 10.6. Secretary must report to head of traditional council on how petty cash was spent.

11. Purchasing and payment (expenditure) of services

- 11.1. All expenditure to be incurred must be approved by traditional council.
- 11.2. Secretary must request three quotations for expenditure in excess of R1000 and choose the lowest amount.
- 11.3. In case of urgent matters (not for personal use) traditional head can approve and report to the next council meeting.
- 11.4. Expenditure of traditional council must be approved by the traditional head or any designated member of a council.
- 11.5. Secretary must inform the awarded supplier in writing and sign it.
- 11.6. Secretary must keep register of suppliers in their area.
- 11.7. All invoices must be submitted to secretary and confirm receipt of goods before payment.
- 11.8. No payment must be made to a supplier without prior approval of services to be rendered.
- 11.9. All payment must be accompanied by the following documentations—
- (a) Letter of appointment of service provide
 - (b) Quotations; and
 - (c) Invoice
- 11.10. All payments must be made by means of cheques and signed only by authorised signatories.
- 11.11. All payments of civil cases must be accompanied by—
- (a) Minutes of traditional court;
 - (b) Receipt of payment of judgement by defended; and
 - (c) Copy of ID of a plaintiff.
- 11.12. Secretary must write on the cheque book counterfoil the name of payee, date, purpose of payment and amount paid.
- 11.13. All supporting documentations must be inserted with paid stamp and filed for audit purposes.

11.14. All cancelled cheques must be stapled in the cheque book counterfoil.

12. Books of Accounts

A traditional council must have and maintain the following books of accounts—

12.1. Cash Book

- 2.1.1. All receipts and payments made must be recorded in the cash book on a daily basis.
- 12.1.2. Secretaries must balance all transactions in the cashbook against total receipts and payments
- 12.1.3. Secretaries must code totals in the cashbook as per charts of accounts
- 12.1.4. Secretaries must post totals of allocated receipts and payments per item in general ledger on a monthly basis
- 12.1.5. Secretaries must reconcile on a monthly basis
- 12.1.6. Regional head/ district coordinators must review cashbook transactions
- 12.1.7. Outstanding cheques must not be recorded in the cash book if are not cashed.

12.2. General Ledger

- 12.2.1. Secretary must post all subsidiary books to the general ledger at the end of the month.
- 12.2.2. Regional head/ district coordinators must review general ledger against cashbook transactions.

12.3. Trial Balance

- 12.3.1. Secretary must extract trial balance from general ledger on a monthly basis
- 12.3.2. All transactions must be recorded and balance
- 12.3.3. Regional head/ district coordinators must review general ledger against cashbook transactions.

13. Bank Reconciliation

- 13.1. Secretary must prepare bank reconciliations on a monthly basis.

- 13.2. Secretary must have these documents when preparing bank reconciliation i.e. Cashbook, bank statements and cheque book.
- 13.3. Bank reconciliation must balance with bank statement.
- 13.4. Regional head/ district coordinators must review bank reconciliation on a monthly basis.
- 13.5. Bank reconciliation must be signed by preparer and reviewer.
- 13.6. The head of a Traditional Council must within three days after the end of each month request the bank statement and give the Secretary to prepare bank reconciliation.

14. Financial Reports

- 14.1. Secretary must compile reports on a monthly and quarterly basis in a prescribed format.
- 14.2. Secretary must report on a quarterly to the council meeting on financial matters of traditional council.
- 14.3. Regional head / district coordinators must review the quarterly and annual financial reports.
- 14.4. Traditional head must approve the quarterly / annual financial report after adoption.
- 14.5. Signed quarterly financial reports must be submitted to traditional finance directorate on or before the ten of the month after the quarter.
- 14.6. Annual financial report must be reported to council and community.
- 14.7. Signed annual financial report must be submitted to traditional finance directorate on or before the 10 of the month after financial year end closure.

15. Donations made by traditional council to community

- 15.1. Resolution must be taken by the traditional council to donate to the community.
- 15.2. Secretary must issue a cheque to the donee.
- 15.3. Donee must acknowledge receipt of donation in writing.
- 15.4. Donation must be requested in writing

16. Donations / Gifts made to the traditional council

- 16.1. A traditional council must maintain a register of gifts and donation made in kind or otherwise.
- 16.2. A traditional council may not accept a gift or donation from any person or organisation in exchange for favours.
- 16.3. A traditional council must ensure that all donors and contributors receive proper acknowledgement of their contributions.

17. Transfer of Funds and Payments

Transfer of funds is an important aspect of the intergovernmental system in South Africa. Since the dawn of democracy in 1994, a number of different forms of transfers have been introduced through legislation such as conditional grants given to other spheres of government, transfer to public entities, constitutional institutions and NGOs.

17.1. Transfer of Grants

- 17.1.1. The Department must transfer conditional grants to traditional councils each financial year taking into consideration the provisions of DoRA and PFMA.
- 17.1.2. A conditional grant transferred / allocated to a traditional council must be used for payment of sitting allowance to members of a traditional councils (non-traditional leaders) and travelling costs for incidental purposes;

17.2. Responsibilities and Accountability (Institutional Support Services)

- 17.2.1. The directorate (Institutional Support Services) must ensure that—
 - (a) There is available budget to cater for sitting allowances and travelling costs;
 - (b) Any grant or transfer of payment to traditional councils forms part of its voted funds;

- (c) All supporting documents in respect of conditional grant to traditional councils must be properly kept for audit purposes;
 - (d) All grants or payments made to traditional councils are done in accordance with the provisions of DoRA and PFMA;
- 17.2.2. Institutional Support Services must ensure that all transfers, grants, and payments made outside the terms and conditions of the DoRA are gazetted by a notice in the Provincial Gazette as required by the law;
- 17.2.3. The Directorate (Institutional Support Services) must ensure that Secretaries and heads of traditional councils are subjected to training and workshops on financial management.
- 17.2.4. Whilst the Department is facilitating the appointed of Secretaries for traditional councils, Institutional Support Services must where practical possible assign and attach officials from head office to a cluster of traditional councils to provide administrative support.

17.3. Requirements before transferring funds

- 17.3.1. Before funds / administrative grants are transferred or allocated to a traditional council, the Directorate (Institutional Support Services) must—
- (a) Obtain the most recent quarterly reports and annual report;
 - (b) Request the relevant traditional council to submit written assurance and commitment in a prescribed format, that it will implement effective, efficient and transparent financial management and control systems; and
 - (c) Request the relevant traditional council to submit expenditure plan detailing the manner in which the grant payment is going to be spend.
- 17.3.2. The Department through Traditional Finance directorate, must ensure that all traditional councils receiving grants or payments from the Department have appropriate financial management and control systems in accordance with section 38 (1) (j) of the PFMA.
- 17.3.3. In instances where the relevant traditional council fail to submit written assurance or commitment, the transfer or allocation must be subject to conditions and remedial measures requiring on the part of a traditional

council to establish and implement such systems as required by the section 38 of the PFMA.

17.4. Transfer to designated bank account

- 17.4.1. Funds may only be transferred to a bank account that is in the name of the relevant traditional council.
- 17.4.2. The bank account of such traditional council must have been opened in accordance with the provisions of this policy.
- 17.4.3. The bank account referred to must have a minimum of R20 000.00 and the traditional council must have been submitting the financial reports consistently over a period of a year.

17.4. Payment schedule

- 17.4.1. The Directorate (Institutional Support Services) shall make electronic transfers of funds each financial year on the Basic Accounting System (BAS).
- 17.4.2. Payment of grants shall depends on the submission of correct supporting documents by the recipient traditional council.

17.5. Reporting and Accountability (Traditional Councils)

- 17.5.1. The head of a traditional council receiving grant / payments from the Department must ensure that his or her traditional council comply with the prescribed reporting systems.
- 17.5.2. The head of a traditional council must monitor the actual expenditure of the allocated grant.
- 17.5.3. A traditional council must report regularly on the prescribed reporting formats on the transferred grants or payments as per time intervals specified by the transferring directorate (Institutional Support Services).

17.6. Review of funding / payments

- 17.6.1. The Department has the right to reduce, suspend or terminate funding / payments due to non-compliance on the part of a traditional council.
- 17.6.2. The Department reserves the right to set and review specific time frames should the circumstances contemplated in the above paragraph become applicable.
- 17.6.3. In instances, where funding / grant is considered to be reduced, suspended or terminated as a result of non-compliance, the Department must as a general rule, act in accordance with the provisions of administrative justice (PAJA).
- 17.6.4. The reviewing of grant or payment by the Department with the relevant traditional council must be done subject to the provisions of the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000).
- 17.6.5. PAJA require on the part of the Department provide the affected traditional council with—
- (a) An adequate notice on the nature and purpose of the proposed administrative action;
 - (b) A reasonable opportunity to make representations on the administrative action to be taken;
 - (c) A clear statement of the administrative action to be taken;
 - (d) Adequate notice of any right of review or internal appeal where applicable; and
 - (e) Adequate notice of the right to request reasons.
- 17.6.6. The reduction, suspension or termination of funding must be done after efforts were made and given to a traditional council concerned to rectify the situation.
- 17.6.7. Reduction, suspension or termination of funding may be done where a traditional council has—
- (a) Mismanaged the allocated funds / payments;
 - (b) Failed to prepare monthly financial reports for three consecutive months;

- (c) Failed to submit quality quarterly reports in a prescribed format for three consecutive quarters;
- (d) Failed to submit annual financial report three months after the expiry date set for the submission of the annual reports in a prescribed format;
- (e) Failed to rectify the situation after efforts were made with the relevant traditional council;
- (f) Failed to establish and implement financial management and control systems;

18. Approval of the policy

This policy shall be approved by the Executive Authority on the recommendation of the Head of Department as per the updated departmental delegations.

19. Administration of the policy

Responsibility and accountability for implementing of the policy rests with the Head of Department and ultimately the Executive Authority.

20. Effective date of the policy

The policy shall become effective on the date it is signed by the Executive Authority (MEC) responsible for Cooperative Governance and Traditional Affairs.

21. Procedure of the policy

There is no separate procedure for the implementation of the policy as the policy will be incorporated into the daily activities of the management of all affected directorate's programmes. It is therefore critical that the management of affected programmes or directorates familiarise themselves with the contents of the policy.

23. Review of the policy

This policy will be reviewed every 3 years or when the need arises.