JOURNAL ENTRIES

POLICY, PROCESSES & PROCEDURES

<u>RECOMMENDED</u>

THAT the **Journal Entry Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version	Version 5.2023
Date	March 2023
Document Name	**Journal Entry Policy and Procedures**
Reviewed By	

_____   **Date**:   _____
INTERNAL AUDITOR

Supported By

_____   **Date**:   _____
ACTING CHIEF FINANCIAL OFFICER

Signature

_____   **Date**:   _____
ACTING MUNICIPAL MANAGER

Adopted by the Mayoral Committee

_____   **Date**:   _____
CHAIRPERSON

Approved by the Council	Approved: A1532	08 June 2016
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_____   **Date**:   _____
RESOLUTION

Effective date	**01 July 2023**
Next revision date	**April 2024**

Contents

1. **Policy**

    1.1. Overview

    Sedibeng District Municipality in recognising its:

    i. community orientation; and

    ii. the need for good governance;

    iii. has developed a transparent and codified internal control system aimed at promoting its core District Objectives. Compliance with the codified best practice will ensure that the limited resources at the disposal of Sedibeng District Municipality will be focused towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and aligned to approved budgets and broader financial policies of Sedibeng District Municipality.

    The Journal Entry Policy and Procedures document institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

    i. A guideline for all stakeholders as to the requirements for the recording of financial data;

    ii. An internal dynamic document detailing the processes required for the efficient discharge of duties for all transaction undertaken in the normal business life of the municipality relative to financial controls necessary to ensure the efficient administration of the Sedibeng District Municipality budgets.

    1.2   Purpose

    Sedibeng District Municipality recognizes that journal entries are needed and made *inter alia*, but not limited to transfers, advances, settlements, charge backs, prior year adjustments, payments from other accounts, and payments between departments.

    This policy document serves to assist management, employees and all other stakeholders of the Sedibeng District Municipality to implement and maintain consistent, effective and efficient

accounting principles, thereby contributing to the early detection and prevention of unauthorized, irregular, fruitless and wasteful expenditure and leading to good governance.

1.3 Objective

In discharging the purpose of the Journal Entry policy, the key objectives are tabulated as follows:

a. To effectively guide and manage all service areas by infusing business processes into internal control which complies with all legislation and statutory requirements;

b. To safeguard cash resources and optimize cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources relative to contract payment schedules and benefits derived from early settlement discounts;

c. To drive a culture of accountability over Sedibeng District Municipality's cash flow management by skilling staff and stakeholders alike on a multifunctional level for improved budgetary control;

d. Provide the paper trail for revenue recognition and the duality of consideration / benefit due based on the performance;

e. Verification of the validity of payments and ensuring that accurate and completeness of recording of payments occur;

f. Provide a means of communication aimed at service delivery for communities, businesses and vendors.

1.4 Business Process Framework

1.4.1 Legislative Framework
The Municipal Systems Act (MSA) (No. 32 of 2000);
Municipal Finance Management Act   (No. 56 of 2003);
Value Added Tax Act 89 of 1991,

King IV Code on Corporate Governance in South Africa (2016);

and other applicable legislation informs and seeks to regulate the functioning of Journal Entries so as to lead to the early detection of abnormal trends and unauthorised, irregular, fruitless and wasteful expenditure, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

1.4.2 Accounting Framework

The responsibility of revenue recognition lies with the Municipal Manager, as the Accounting Officer and the delegated subordinate, the Chief Financial Officer. The performance of this function may be delegated to subordinates, but this however does not alleviate the responsibility of the Municipal Manager and the Chief Financial Officer.

1.5 Recommendations

i. This policy, processes and procedures document supersedes all previously issued journal entry policies;

ii. This policy, processes and procedures document be recognised as identifying, characterizing and addressing the various stages of the Journal Entry transaction cycle;

iii. This policy, processes and procedures document be recognised as denoting all internal control mechanisms relevant to the efficient and effective discharge of journal entries;

iv. This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Journal Entries.

2. Processes

2.1. Scope

This procedure covers entering journal transactions for posting to the general ledger. It includes making journal entries from manually prepared journal entries, including automatically reversed entries.

2.2 Definition of a Journal Entry

Journal entries is the recording of financial data (taken usually from a journal voucher) pertaining to a business transaction in a journal such that the debits equal credits. As a double-entry bookkeeping convention, all debits are entered before credits. Journal entries provide an audit trail and means of analyzing the effects of the transactions on a Municipality's financial position.

2.3 Overview of Journal Entry

The types of financial transactions that are recorded through a journal entry in the General Ledger are:

2.3.1 Transferring of Funds

The permanent movement of resources from one fund to another fund, or within the same fund from one business unit to another. Some transfers are mandatory (required by external or legal obligations), and others are non mandatory (made at the discretion of the governing board or management). Transfers can happen within the same fund or between two different funds. Transfers can be related to sponsored funds, and non sponsored funds.

2.3.2 Redistributing Expenses

Decreasing the expenses of one account and increasing the expenses of another. This is commonly used when expenses are split between multiple units for a common activity (e.g., sharing a copy machine). Expenses may also be redistributed based on actual end use of items

2.3.3 Correcting General Ledger Entries

Effort should be made to correctly process transactions using the appropriate accounting system. If this is not done, the transaction must be corrected as soon as possible. Revenue and expenses may both need to be corrected from time to time. Keep in mind that negative revenues and expenses cannot be created with a correction, and there may be restrictions based on the fund value and sponsored activity

2.3.4 Balance Sheet Transactions

Transactions between operating accounts and balance sheet accounts, or transactions among balance sheet accounts. Municipalities generally use balance sheet accounts to record assets and liabilities in the General Ledger. Balance sheet accounts are to be used to accrue expenses or revenue, defer expenses or revenue, record an asset, and record a long-term liability.

2.4 Stakeholders, Role and Responsibilities

2.4.1 The Preparer

Verify that the journal entry is complete and correct, verifying the following journal elements:

i. The correct naming convention is used

ii. The posting date and fiscal period are correct

iii. The correct category has been chosen

iv. The required entries for deposit journals are present

v. No errors in account references or account transactions have been made

vi. The debit and credit totals have been entered

vii. Control totals are entered at the journal (not batch) level

viii. The appropriate documentation is attached or filed

ix. Updating the journal entry.

x. Forwarding the journal entry to the appropriate approver.

2.4.2 The Approver

Verify that the journal entry is correct

i. Appropriate accounts are affected.

ii. The magnitude of individual account and journal entry transactions is reasonable.

iii. The impact of the transactions on departments, balance sheet, and income statement is reasonable.

iv. Journal naming convention is followed

v. Control totals are entered at the journal (not batch) level

vi. Deposit journals include date of deposit in the journal header's Description field and Deposit Control Number in the Description fields of the Debit and Credit lines

2.4.3 The Accountant

i. Verify that the journal entries have been entered correctly and that they are in the correct accounting period.

ii. Reject incorrectly prepared journal entries with clear, concise notes on problems in the Approver's comments field.

iii. Notify the Financial Manager of questionable manual journal entries.

2.4.4 The Financial Manager

i. Review questionable or problematic manual journal entries and determine what action(s) need to be taken.

3. Procedures

3.1. The Journal Entry

Journal entries are entered into the General Ledger in two ways:

3.1.1 Manual Online Journal Entry

Transactions are input directly into the system by an individual.

3.1.2 Automatically Created Journal Entry *(Journal Generate Process)*

Runs regularly scheduled batch jobs midday and overnight. The system accumulates all of the detailed accounting entries from other modules, such as Accounts Payable and Expenses, and creates journal entries that are then posted to the General Ledger. All

transactions have already been balanced, edited, and approved before they enter the General Ledger.

3.2. The Journal Edit

After the data is entered, a journal edit takes place. A journal edit verifies the journal is balanced. Journal edits can take place through a manual process or a batch process. Both of these processes are described below:

3.2.1 Manual Process

For journals that are manually entered online, journal edits take place after the data has been entered. This can be done at the creation of the journal, or later during updates, as long as the journal hasn't been posted

3.2.2 Batch Process

Journals can also be edited automatically during regularly scheduled nightly batch edit jobs. Any journal that hasn't yet been submitted for approval and that doesn't have a positive journal status will be picked up for batch processing

When the journal edit is executed or the batch edit process is run, a status appears in the journal entry indicating whether the journal has passed journal edit, or has errors.

- If the status is "V" (valid), the journal can continue on to the budget check process;
- If the status is "E" (error), the journal must be corrected before it can continue being processed.

3.3. The Journal Budget Check

Journal budget checks can take place manually or in a batch process. Both of these processes are described below.

3.3.1 Manual Process

When journals are manually entered, a budget check occurs at the same time a journal edit is done for newly created entries. Thereafter, the preparer needs to manually select "Budget Check" from a list of processes for subsequent checks. A budget check should be done whenever data in the fields have been changed.

3.3.2 Batch Process

Journals can also be budget checked during regularly scheduled batch edit jobs. These are automatically done nightly once a journal is saved

When the budget check is executed, a status appears indicating the budget status.

- If the status is "V" (valid), it indicates that the entry is within budget and that a budget has been set up. The process can continue to the next step
- If the status is "V" (valid) and a warning sign appears notifying the user that the entry is not within budget, the journal can continue processing but the preparer should be aware the journal is over budget
- If the status changes to "E" (error), it means a budget has not been set up. The journal cannot continue processing.

3.4. Journal Approval

Once the journal passes edit and budget check, the preparer must manually submit the journal for approval. If the preparer runs the manual edit and budget process, the journal can be immediately submitted for approval. If the preparer chooses to let the system pick up the journal for the nightly batch edit process, the following day the preparer must search and open up the journal entry and manually submit it for approval.

The system knows where to send the journal for approval based on certain selections made manually by the user when the journal is first created, on the **Header** page of the journal, a journal class that determines where the journal is routed for approval. Entries for sponsored projects are sent to an additional approver based on the value selected.

The entry appears on the designated approver's worklist, and the designated approver receives an e-mail notification that a journal needs to be approved. The approver can either approve or deny a journal entry

– *Approved Journal*

If it is approved, the journal continues automatically on to the posting process. The preparer is not notified.

– *Denied Journal*

If the approver denies the journal, an entry appears in the preparer's worklist and an e-mail notification is sent to the preparer, and no further processing occurs on the journal until changes are made. The preparer must go back in to that journal, make corrections, do a new edit and budget check, and then submit the journal for approval again.

3.5. Journal Posting

Journals that have been approved can be posted one of two ways:

3.5.1 Automatic posting

Once the journal has been approved, it is automatically sent to a nightly posting process.

3.5.2 Manual posting

If preparer wishes to post the journal before the automatic nightly processing, the preparer can manually do this.

3.6. Reversing a Journal Entry

Reversing journal entries are typically created at the end of a reporting period. A journal entry is processed to record an expense incurred or revenue earned prior to an actual invoice being received or a customer's account being created.

This entry is then reversed during the next period, when the actual transaction is recorded (invoice is processed or bill is created) so that the transaction is not double-counted.

A journal entry must be set up as a reversing journal at the time it is created or when it is updated. After it is posted, it cannot be set to reverse.

Consider this example:

It's July 5, 2010. The Finance Department purchased a computer. The computer arrived at the end of June 2010, but the invoice had not arrived yet. Because they have received the computers in the current financial year, the expense should be recorded in the current year. However, since they had not received the invoice, the only way to record the expense in the current year is by entering a journal directly into the General Ledger.

When the invoice is received and paid in the subsequent year, the expense is recorded again. To avoid double-counting this expense (once in each year), the journal entry entered at the end of the current year must be reversed in the next year.

Most reversing journal entries are entered into an adjustment period during the year-end process. Before completing the journal entry reversal option, the entry must be marked as an "Adjusting Entry" and the appropriate adjusting period selected.

Journals can be set to reverse on a variety of designated dates or at the beginning or end of an accounting period. Once a journal is marked as "Reversing," a reversal date option must be selected.

3.7. Creating a Standard Journal Entry

3.7.1 Standard journal entries (SJE)

Created by central and/or departmental accounting staff that has the need to input recurring journals into the system for a certain length of time—typically one year

*There are three kinds of SJEs: **recurring, template, and spread***.

Recurring	Repetitive transactions that use the same accounting information and amounts. Examples of recurring transactions include monthly rent, automobile lease payments, and repayment expenses
Template	Regular, periodic transactions that are charged to the same accounting combinations using varying amounts. Examples of template-appropriate transactions include distribution of monthly copier-use charges and monthly telephone expenses. Journal entries can automatically be scheduled on predetermined dates using template SJEs.
Spread	Transactions for which the entire cost is spread proportionately throughout the year. An example of this type of SJE is the expensing of a yearly insurance premium paid at the beginning of the year

3.7.2 The following processes are required to create standard journal entries

3.7.2.1 Create a model journal entry

The first step is to create a template which the recurring standard journal entries will be based on. In this stage of the process, the justification, and amounts (except for template SJEs) are entered.

3.7.2.2   Define a standard journal using the model entry

The second step is to define the parameters of the recurring standard journal entries. In this stage of the process, the date range *(e.g., from 3/1/2008 – 2/28/2009),* the frequency *(e.g., first day of every month)*, and the type *(e.g., recurring, template, spread or spread–day)* are selected.

3.7.2.3   Create a standard journal

The third step is when the actual standard journal entries are created based on the parameters and data indicated in the first two steps.

3.7.2.4   Review standard journals.

The fourth step is to view the standard journals created in step 3, to ensure they were created

3.7.2.5   Edit, approve, and post standard journals

The last step is to run an edit and budget checks of the journals, submit them for approval, and post them. This step in the process is done the same way as a regular journal entry for each individually created standard journal entry.

3.8.   Amendment and Review of the policy

The Journal Entry Policy shall be reviewed at the discretion of the Accounting Officer due to changing circumstances as a result of the legislation or otherwise.