



**"People's power in action"**

## **Cash and Investment Policy**

**Approved by Council on: 31 May 2017**

**Resolution Number: 98**

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## **A. Definitions**

For the purpose of this policy, unless the context indicates otherwise, any word or expression to which a meaning has been attached in the Act shall bear the same meaning and means:

### **“Accounting Officer”**

A person appointed by the Municipality in terms of Section 82 of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998) and who is the head of administration and also the Municipal Manager for the Municipality.

### **“Chief Financial Officer”**

An officer of the municipality appointed as the Head of the Finance Department and includes any person:

- a) acting in such position; and
- b) to whom the Chief Financial Officer has delegated a power, function or duty in respect of such a delegated power, function or duty.

### **“Council” or “municipal council”**

A municipal council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and for purposes of this policy, the municipal council of the Moqhaka Local Municipality.

### **“Councillor”**

A member of the Municipal Council.

### **“Investments”**

Funds not immediately required for the defraying of expenses and invested at approved financial institutions.

### **“Municipal Manager”**

The accounting 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) and includes any person:

- a) acting in such position; and
- b) to whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty.

### **“Municipality”**

The institution that is responsible for the collection of funds and the provision of services to the customers of Moqhaka.

### **“Public funds”**

All monies received by the municipality to perform the functions allocated to them.

## **B. Cash management policy**

### **1) Introduction**

This document is provided to assist management and employees of Moqhaka Local Municipality and to implement and maintain consistent, effective and efficient cash management principles.

*The objective of this document is:*

- to manage the investments of the municipality in such a manner that it will not tie up the municipality's scarce resources required to improve the quality of life of the citizens;
- to manage the investments of the municipality in such a manner that sufficient cash resources
- to gain the highest possible return on investments during periods when excess funds are not being used, without unnecessary risk.
- To safeguard cash resources of Moqhaka Local Municipality and to ensure the effective, efficient and economical use thereof; and
- To emphasise a culture of accountability over the municipality's cash.

This policy supersedes all financial policy instructions that have previously been issued.

- 2) Failure to comply with the prescribed guidelines will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of MLM.

### **3) Responsibility / Accountability**

The responsibility of cash management lies with the Municipal manager and the Chief Financial officer. The performance of this function may be delegated to subordinates; this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of investments.

Efficient and effective investment management include:

- a. Accurately forecasting the institution's cash flow requirements.
- b. Timing of the in- and outflow of cash.
- c. Recognising the time value of money.
- d. Taking any other action that avoids locking up money unnecessarily and inefficiently.
- e. Avoiding bank overdrafts.

### **4) Opening bank accounts**

The Municipal Manager must open any new bank account in accordance with statutory regulations. (This may lead to the municipality informing national treasury of any new bank account opened).

Only the Municipal Manager or the person, to whom such authority has been delegated, may open a bank account.

### **5) Performing bank reconciliations**

Bank reconciliations should be performed monthly and the CFO should review such reconciliations on a monthly basis.

## **6) Cash flow forecasts**

Cash flow forecasts are to be prepared daily, and changes in debt collection ratio's and spending patterns should be aligned (adjusted) to the cash flow forecasts and the budgets.

## **7) Investing surplus cash**

Surplus cash should be invested in line with this Investment Policy as approved by Council from time to time.

## **C. Investment Policy**

### **1) Introduction**

This document is provided to assist management and employees of Moqhaka and to implement and maintain consistent, effective and efficient investment principles.

All surplus funds of a municipality will be subject to this investment policy.

This policy will be reassessed annually to keep up with industry norms.

This policy supersedes all investment policy instructions that have previously been issued.

Failure to comply with the prescribed guidelines will result in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of MLM.

### **2) Short-term and long-term investments**

Short-term investments are those for which the period does not exceed 90 days. These investments are made under the authority of the Chief Financial Officer or the Municipal Manager.

Long-term investments are those for which the period exceeds 90 days. These are made under the authority of the Municipal Manager.

### **3) Procurement policy**

All investments made should adhere to the procurement policy of the municipality.

### **4) Permitted investments**

Investments shall only be made in those institutions and for those periods as prescribed by this policy.

The municipality may invest funds only in any of the following permitted investment types;

- a) Securities issued by the National Government,
- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency,
- c) Deposits with Banks registered in terms of the banks Act 1990 (Act No. 94 of 1990),
- d) Deposits with Public Investment Commissioners as contemplated by the Public Investment Commissioner Act, 1984 (Act Bi, 45 of 1984),
- e) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990,

- f) Guaranteed endowment policies with the intention of establishing a sinking fund,
- g) Repurchase agreements with banks registered in terms of the Banks Act, 1990,
- h) Municipal bonds issued by a municipality, and
- i) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## **5) Controlling investments**

Sufficient controls and systems should be implemented and monitored to ensure the efficient and effective management of the Council's investments. (This would include reconciling investments to certificates, or reconciling interest recalculations). Instituting the appropriate systems is the responsibility of the Chief Financial Officer.

## **6) Risk Analysis**

Investment instruments have to be assessed based on liquidity requirements, therefore any monies not necessary for the current operating expenditure of the municipality will be subject to the investment policy.

Counter-party credit risk has to be reassessed based on the credit ratings of the financial institutions in which investments are held, or in which investments are intended to be made. All counter parties have to be selected through a credit risk analysis.

## **7) Reporting requirements**

The accounting officer must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the executive mayor a report regarding the investment portfolio of the municipality as at the end of the month, in line with the Municipal Investment Regulations GNR 308 of 01 April 2005.

### **D. Treasury Regulations in respect of cash management**

In terms of the Municipal Finance Management Bill a municipality must establish appropriate and effective cash management in accordance with framework prescribed by National Treasury.

- Collecting revenue when it is due and banking it promptly;
- 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 account payments;
- Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
- Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
- Accurately forecasting the institution's cash flow requirements;
- Timing the inflow and outflow of cash;

- Recognising the time value of money, i.e. economically, efficiently, and effectively managing cash;
- Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets.
- Performing bank reconciliation's on a *daily* basis to detect any unauthorised entries; and
- Ensuring that dishonoured warrant vouchers and cheques are *followed up* immediately.
- Petty cash payments refers to expenditure related to the purchasing of small items or expenditure or re imbursement for out of pocket expenditure, and will be *limited to R2000*.
- A petty cash voucher must be authorised by a delegated official and signed for receipt of it by the relevant official.
- Expenditure vouchers must be handed in *within 7* working days as of the petty cash expenditure.
- Petty cash payments must be reconciled with every cheque payment request to top up the petty cash.

#### **E. Controls over investments**

- All investments should be made in line with statutory regulations (Ordinance requirements, GRAP, the Local Government Transition Act, and the Municipal Finance Management Bill (when enacted).
- Surplus funds should be reviewed monthly by the CFO, and were such surpluses are not necessary for current operational or capital expenditure; it should be invested within 10 working days.
- Cash flow forecasts should be prepared to determine whether surplus funds should be invested long term or short term.
- Prior to approving any investment the CFO should review counter-party credit risk based on credit ratings and submit recommendations to the Municipal Manager.
- The CFO or the Municipal Manager - for short-term investments - and the CFO and the Municipal Manager – for long-term investments - should select all counter parties through credit risk analysis, and prepare a list of all prospective counter parties.
- From the list of counter parties, the relevant parties should select at least 3 institutions in order of credit risk analysis.
- Requests for proposal should be issued to these 3 institutions requesting them to provide quotations for all details of the investments (i.e. interest rates offered, time frames, maturity values, confirmed values etc.)
- When an investment needs to be encashed or invested, the CFO must submit a recommendation to the Municipal Manager, as to why.
- The Municipal Manger after consultation with the relevant parties will then authorize the institution, instrument, and the amount to be withdrawn or invested by signing the transfer approval, and submitting it to the CFO for processing.
- The CFO will make the transfer to or from the municipality's bank account.
- A register of investments should be maintained and reviewed by the CFO.

- The CFO should obtain confirmation of the transfers, from the investment institutions and the bank.
- The CFO should prepare reconciliation between the transfer approval, the confirmations received, and the investment register, and he/she should sign the reconciliation as correct monthly.
- Investments withdrawn and made should only be posted to the general ledger once reviewed by the CFO.
- The Accountant should reconcile the investments in the general ledger to statements, and transfer approvals monthly.
- Interest earned on investment should be recalculated and agreed to the confirmations.
- The reconciliation has to be approved by the CFO or a delegated manager in finance department, and he/she has to sign it as correct.
- The CFO should monitor the limits of investments weekly, and bring any major abnormalities to the attention of the Municipal Manager.

#### **F. Steps for addressing cash flow difficulties**

First steps to be taken in addressing cash flow difficulties are:

- Ensuring that the IDP, budget and tariff structure are accurate and valid.
- Compiling a proper business plan to be discussed with financial institutions and Provincial government, to ensure that sufficient resources be made available to avoid liquidity and/or going concern problems.
- Implementing and monitoring sufficient controls and systems. (This would include ensuring that all funds are collected and banked promptly, and monitoring debt collection ratios)
- Utilising professionals to investigate organizational restructuring to ensure Council concentrate on the core business units and make recommendations on privatisation, other cost saving measures and to investigate that the necessary skills and training are obtained to ensure best value for the consumers and ratepayers.
- Ensuring that adequate systems, skills and capacity are available to ensure that accurate cash-flow forecasts are compiled that must lead to budget adjustments if necessary

#### **G. Controls for cash receipts**

Most of the under mentioned factors are prescribed by legislation. Items overlap with the revenue management policy. These policies will need to be considered and updated in tandem. The overriding philosophy of cash management is to collect more cash than is necessary to spend. In doing so, all policies of the municipality should be adhered to.

Controls should be implemented to ensure the completeness of revenue. The revenue guidelines should be applied simultaneously in this aspect.

- All direct deposits and cash received from customers should be recorded, and a sequential/numerical receipt should be issued for every cash transaction entered into.
- All copies of cancelled receipts should be retained.
- Daily receipts should be reconciled to till slips, debtors and income accounts, and actual cash.
- Sufficient physical controls should be implemented over cash and the transit of cash.



- Sufficient security controls should be implemented in the municipalities' premises that would prevent theft and fraud.
- Cash should be banked *daily* with the use of a security company.
- Once the cash is banked, the deposit slips should be reconciled to the daily receipts summary and authorised correct.
- Variance reports should be prepared daily for non-reconciling items. These variance reports should be *followed up* and reviewed by a senior official daily.
- Sufficient controls should be implemented to allocate direct deposits to individual debtor accounts. Customers should be *warned* that if no reference to their account can be obtained from the deposit slip, their accounts would not be credited.
- Unfavourable cash collection ratios should be followed up in line with the revenue guidelines.

## H. Controls for cash payments

In order to realise the benefits of expenditure management, the municipality should be structured to be cost effective. Staff structures should be efficient, effective and economical to realise the benefits of economies of scale.

- All payments should adhere to the municipality's procurement policy
- Creditors should be paid in line with budgets, cash flow forecasts, and limits in terms of the delegation of authority.
- Advantage should be taken of good credit terms and early settlement discounts.
- Payments should only be made for services/goods once delivery has taken place.
- Preventative maintenance should be conducted to avoid increased future costs.
- Adequate buffer stock should be kept to take advantage of price increases, at the same time redundant stock should not be purchased.
- Wasteful and unnecessary expenditure should be avoided.
- The principles of time value of money should be taken into account when payments are made.
- All aspects of the treasury guidelines (See section 2) in the policy should be adhered to at all times.

## I. Controls for bank reconciliations

The following procedures and systems should be in place.

### ***Refer to drawer cheques***

Accounts should immediately be debited with cheque amount and bank costs.

The normal credit control procedures should apply

"RD" cheques should be recorded in a register to follow up the replacement thereof with cash per Department.

"RD" cheques not replaced by cash should be recorded in the cashier's system to minimize the acceptance of another cheque from the same person/establishment.

### ***Proper recording of cheques received (cheques lost in transit)***

The purpose for recording is:

- To have information on date of cheques received and to determine the validity of interest on late payments.
- To reconcile cheques received with those recorded on the cashier systems.
- To have a complete database of cheques received, especially to follow up cheques lost in transit. To prevent financial loss and unnecessary complaints from clients, the following detail should be recorded:
  - Name of drawer
  - Cheque account and cheque sequence number
  - Amount of cheque
  - Reference to account number

Due to capacity constraints, we recommend an efficient scanning system to record lists of cheques and cheque deposits slips. A database thereof will ensure efficient follow up of deposits not yet banked.

### **Minimize other deposit variances**

The follow up of deposit variances can be time a consuming exercise, therefore the following procedure and systems should be considered:

- Ensure that cashier deposits and cashbook deposit entries are the same per bank transaction.
- Electronic payments to Council should not include commission or admin fees. (Arrange with service suppliers to charge commission and other administrative fees separately, or distinguish between administrative costs and income per account by program with a proper bank reconciliation system.)
- Arrange with service suppliers always to provide account numbers for electronic payments, and not to accept payments without account detail.
- A proper bank reconciliation system will minimise matching problems by the availability of many matching options and special programs to address the follow up of variances. (To remove commission/admin fees from certain electronic transfers).
- Deposits through cash-book not banked could pose a fraud risk, and should be immediately and thoroughly investigated

### ***Follow up of outstanding cheques***

Outstanding cheques should always be followed up to prevent unnecessary legal action or interest payments. Therefore, outstanding cheques that cannot be traced (taking delivery time into consideration) should immediately be cancelled and replaced with other cheques.

Cheques through bank and not through cashbook could represent a fraud risk, and should be immediately and thoroughly investigated.

### ***Controls to minimize cash, cheque and electronic payment fraud***

A proper internal control system on cash cheques and electronic transfers should be in place to prevent / minimize fraud. The following main controls should be in place:

- Proper controls on receipting system.
- Sufficient controls on depositing of money.

- Proper authorization of all payments.
- No cash cheques should be issued.
- Proper crossing of cheques received and issued.
- Proper safeguarding of cheques (Cheques not yet issued and cheques already through bank).
- Proper issuing of cheques to prevent theft.
- Sufficient insurance to minimize the effects of theft and robbery.

#### **J. Updating budgets and cash flow forecasts**

Factors to be considered in preparing accurate cash flow forecasts include the following:

##### ***The efficiency and effectiveness of the bank reconciliation system in use***

The system should be efficient, effective and user friendly to ensure prompt reconciliation between bank and cashbook. *The bank reconciliation should be performed on a daily basis.*

It is of *utmost importance* that the bank reconciliation be updated on a daily basis for cash-flow forecasting purposes and to enable management in making recommendations to Council to adjust the budget if necessary.

Without realistic cash inflows and outflows the cash flow forecasts will not be relevant. Budgets should therefore be prepared taking into account debt collection ratio's and actual expenditure patterns to avoid the misconceptions that cash funds are available for spending.

#### **K. Records and Documents**

The CFO should ensure that following documents are filed as follows:

- Cancelled cheques in cheque sequence.
- Cheque requisitions in cheque sequence.
- Deposit slips in date order.
- Bank statements in date order.
- Returned cheques with supporting documentation in cheque number order.
- Cash book in date order.
- Bank reconciliations in date order.
- Securities in date order.
- Direct deposits amounts with supporting documentation in date order.

#### **IMPLEMENTATION AND REVIEW OF THIS POLICY**

This policy shall be implemented once approved by Council. This policy may be reviewed annually for amendments if any.