

# CASH MANAGEMENT & INVESTMENT



## POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Cash Management and Investment Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

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**Document Name** **Cash Management and Investment Policy and Procedures**

**Reviewed By**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**Supported By**

**INTERNAL AUDITOR**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**Signature**

**CHIEF FINANCIAL OFFICER**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**MUNICIPAL MANAGER**

**Adopted by the  
Mayoral  
Committee**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**CHAIRPERSON**

**Approved by the  
Council**

\_\_\_\_\_ **Date:** \_\_\_\_\_

**RESOLUTION**

**Effective date** .....

**Next revision  
date** .....

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## **1. Policy**

### **1.1. Introduction**

The cash management and investment policy for Sedibeng District Municipality defines the scope of activities of all municipal officials mandated to conduct municipality business thus.

Sedibeng District Municipality in recognising its:

- i. community orientation;
- ii. compliance with Generally Recognised Accounting Practice (GRAP);  
and
- iii. standards of Generally Accepted Municipal Accounting Practice (GAMAP)

has devised the necessary cash management and investment policy in a manner which will lead to a compliant chart of accounts as required by The Accounting Standards Board.

The policy seeks to present a system of internal control to regulate the manner in which cash is dealt with, and to implement and maintain consistent, effective and efficient investment principles.

### **1.2 Purpose**

This policy document serves to assist management and employees of the Sedibeng District Municipality to implement and maintain consistent, effective and efficient cash management principles. It serves as an internal dynamic document detailing the processes required for the efficient discharge of duties for cash management relative to financial controls necessary to ensure the efficient administration of the Sedibeng District Municipality budgets. All surplus funds of Sedibeng District Municipality will

be subject to this investment policy and the policy will be reassessed annually to keep up with industry norms

### 1.3 Objective

To ensure procedures and internal controls are in place to ensure that cash flow is optimised for the Municipality whilst maintaining prudent fiscal policies. It also defines the individual responsibilities in the cash management process by:

- i. Infusing business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguarding cash resources and optimising cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources;
- iii. Driving a culture of accountability over Sedibeng District Municipality's cash by skilling staff and stakeholders alike for all investment activities;
- iv. Provide a means of communication aimed at service delivery for communities, businesses and vendors;
- v. Communicate to all staff that any monetary loss as a result of non-compliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

### 1.4 Business Process Framework

#### 1.4.1 Legislative Framework

The ***Municipal Systems Act (No. 32 of 2000)***, ***Municipal Finance Management Act (MFMA)(No. 56 of 2003)***, the ***King II Code on Corporate Governance in South Africa (2002)*** and other applicable legislation informs and seeks to regulate the functioning of cash handling so as to lead to the early detection of irregular and unauthorised, activity, and allow for reporting thereof in

terms of the Code of Conduct for Councillors and Municipal Staff Members.

The policy is drafted in terms of subsection 64(2)(d) of the MFMA which holds that:

- “64: Revenue Management
- 64.1 The accounting officer of a municipality is responsible for the management of the revenue of the municipality;
- 64.2 The accounting officer must for the purposes of *subsection 1* take all reasonable steps to ensure - .....
- 64.2(d) That all money received is promptly deposited in accordance with this Act into the municipality’s primary and other banking accounts.

#### **1.4.2 Accounting Framework**

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; however this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

#### **1.5 Recommendations**

- This policy, processes and procedures document supersedes all previously issued cash management and investment policies;
- The Investment Policy is to be read in conjunction with the cash management policy.
- This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality charged with cash management and investing activities on behalf of the municipality in their daily routines;
- This policy document is adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Accounts Payable.

## 2. Processes

### 2.1 Cash Management and Investment Function

Cash management leading to investment activities is at the core of financial management, and is one of the key contributors to the preparation of a GRAP compliant chart of accounts. This as the allocation of various revenue generating activities to journals lead to a pooling of income which has to be managed in a way which allows for the efficient discharge of the core municipal activity, that of service delivery. The municipality then needs to implement strict measures of internal control for transparency, compliance and safety.

Generally there are a large number of business units in a typical municipality, and in the pursuit of its core function of service delivery, payment for goods and services are a necessary consequence. Sedibeng District Municipality thus has to regulate and streamline receipting, depositing and reconciliation via effective and efficient records and controls that allows for the processing of all transactions which allows for a real time understanding of the cash flow position of the municipality.

#### ***General Treasury regulations with respect to cash management***

In terms of the MFMA, a municipality must establish appropriate and effective cash management practices in accordance with the framework prescribed by National Treasury. These practices should ensure that:

- Revenue is collected efficiently when due and promptly banked.
- Bank accounts are to be in the name of Sedibeng District Municipality as opened by either the Accounting Officer or the Chief Financial Officer.
- The making of payments, including transfers to other levels of government and non-government entities, is done no earlier than is strictly necessary, with due regard for efficient, effective and economical program delivery and the government's normal terms for account payments;



- Pre-payments for goods and services are avoided (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
- Settlement discounts are accepted only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- Debtors are pursued with appropriate sensitivity and rigor to ensure that amounts receivable by the Municipality are collected and banked promptly;
- The institution's cash flow requirements are accurately forecasted;
- The inflow and outflow of cash is accurately timed;
- The time value of money is recognised, i.e. economically, efficiently and effectively managing cash;
- Any other appropriate action is taken that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective program delivery, and selling surplus or underutilised assets.
- Bank reconciliation statements are performed on a daily basis to detect any unauthorised entries; and
- Dishonoured warrant vouchers and cheques are followed up immediately.

## **2.2 Cash Management and Investing**

Cash management and investing is thus deemed to have the following major functions:

- Management of Bank Accounts
- Collecting, Receipting, Depositing, Reconciling And Monitoring;
- Cash Flow Forecasting;
- Investing.

## **2.3 Management of 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 Chief Financial Officer, to whom such authority has been delegated, may open a bank account. This may not be sub delegated further. SDM needs to have a primary bank account for depositing money and all general banking transactions. Deviations thereto for secondary accounts are based on legal, practical or efficiency reasons, and must comply with all the constraints placed on the primary account.

The bank account is to be clearly designated Sedibeng District Municipality, as per **MFMA** Circular 55. Section 9(b) of the **MFMA** holds that before the start of the new financial year – 1 July annually, the municipality is to return to national Treasury a list of all bank accounts in the name of the municipality. Such report is to list the name of the bank, account type, purpose of account and opening and closing balances for the year under review. In addition the following reporting obligations need to be upheld:

<b>Reporting obligations – Municipal Bank Accounts as per National Treasury MFMA Circular No. 61</b>				
<b><i>Action</i></b>	<b><i>Information to Report</i></b>	<b><i>To whom</i></b>	<b><i>Other</i></b>	<b><i>MFMA section</i></b>
Opening primary bank account	Name of Bank Type of account Account Number	1. Auditor General 2. National Treasury 3. Provincial Treasury	Must be in writing, original bank stamp and signed by the AO or CFO ( Form A)	8(5)
Changing primary account	Name of Bank Type of account Account Number	1. Auditor General 2. National treasury 3. Provincial	Must be in writing, original bank stamp and signed by the AO or CFO ( Form A)	8(5) 74

		Treasury		
Opening other bank account	Name of Bank Type of account Account Number	1. Auditor General 2. National treasury 3. Provincial Treasury	Within 90 days of opening the bank account and in writing (Form A)	9(a) 74
Annually before 1 July	Listing of all bank accounts Name of Bank Type of account Account Number	1. Auditor General 2. National treasury 3. Provincial Treasury	Must be in writing (Form C)	9(b) 74
Annually	Bank accounts to be disclosed in the Annual Financial Statements		Include bank name, account type, purpose, opening and closing balances	125(2)

Section 8(5) - **MFMA** dictates that any changes to a primary bank account needs to be reported 30 days prior to change of bank. The old bank account should be kept active for 2 months post change of primary account so as to accommodate system updates. All monies are to be transferred from old bank accounts to new to keep an effective audit trail.

Withdrawals from the municipal bank account are subject to the following authorities:

- Primary bank account – AO and CFO only;
- All other bank accounts – AO or CFO, or any other senior official duly mandated by the AO.

#### **2.4 Collecting, Receipting, Depositing, Reconciling and Monitoring**

Reconciliation of bank statements will be performed weekly and the Chief Financial Officer will append his signature to the reconciliation as evidence of review of the reconciliation statement.

#### **2.5 Cash Flow Forecasting**

Cash flow forecasts are to be prepared daily by the financial accountant and reviewed by the CFO. The CFO needs to ensure that changes in debt collection ratio's and spending patterns are aligned to the cash flow forecasts and the budgets.

#### **2.6 Investing**

Surplus cash will be invested in line and in accordance with the Investment Policy approved by Council from time to time, and would include the following elements.

##### **2.6.1 Investment Portfolio Committee**

An Investment portfolio committee will be established to monitor investment activities of the municipality. The Investment Portfolio Committee will have, as a minimum, the Municipal Manager, in his capacity as Accounting Officer, the Chief Financial Officer and The Member of The Mayoral Committee responsible for Finance.

The manual of delegation indicates the authorisation for the various limits of investments to be made or withdrawn.

### **2.6.2 Short-term and long-term investments**

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

Long-term investments are defined as those for which the investment period exceeds 90 days. These are made under the authority of the Investment Portfolio Committee.

### **2.6.3 Procurement policy**

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

### **2.6.4 Permitted Investments**

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

Investments are permitted with the following institutions:

- Banks registered in terms of the Banks Act 1990
- National and Local Government
- Insurance companies

The following types of investments are permitted:

- Fixed deposits and call accounts at banks,
- Municipality stock,
- Bankers acceptance certificates or negotiable certificates of deposits of banks, and
- Long-term securities offered by insurance companies in order to meet the redemption fund requirements of Municipalities.

**No more than R30million of the total amount invested by Council at any time shall be in one institution or type of investment. No more than 50% of the total amount invested by Council shall be in one institution or type of investment if the total investment is more than R30million.**

### **2.6.5 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.

### **2.6.6 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 stringent credit risk analysis.

## **3. Procedures**

### **3.1 Management of Bank Accounts**

Access to and control of the Sedibeng District Municipality bank accounts are to be for the sole control of the Municipal Manager in terms of the Powers delegated to the Municipal Manager as approved by the Sedibeng Council on who in turn has delegated such authority to the CFO.

### **3.2 Collecting, Receipting, Depositing, Reconciling and Monitoring**

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.

#### **3.2.1 Collecting, Receipting and Depositing**

- 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;

- The cashier should ensure that all cash transactions are accurate. Cashier should count and recount cash before issuing to customer or depositing in the till;
  - The cancellation of receipts should be authorized by the supervisor. All copies of the cancelled receipts should be retained;
  - Daily receipts should be reconciled to till slips;
  - All cash should be deposited daily. The cash should be recounted by the supervisor before its deposited. Both the cashier and the supervisor should sign the cash control sheet for accuracy;
- 
- All shortages and over's should be reported and disciplinary action taken against the cashier;
  - Sufficient physical controls should be implemented over cash and the transit thereof;
  - Sufficient security controls that would prevent theft and fraud should be implemented in the Municipality's premises;
  - Cash should be banked daily with the use of a private security company;
  - Once the cash is banked, copies of deposit slips should be reconciled to the daily receipts summary and the deposits appropriately authorised;
  - 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 cannot be credited;
  - Unfavourable cash collection ratios should be followed up in line with the revenue guidelines.

### **3.2.2 Controls for bank reconciliations**

The following procedures and systems should be in place:

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

The purpose of recording is:

- To have information on the date of receipt of cheques and to determine the validity of interest on late payments;
- To reconcile cheques received with those recorded on the cashiers' 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 have to be recorded:

- Name of drawer
- Cheque account and cheque sequence number
- Amount of cheque
- Reference to account number

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

For cheques received through post and through the cheque boxes, refer to Cheque Box Procedures document.

### **3.2.2.2 Minimisation of other deposit variances**

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

- Ensure that cashier deposits and cash-book deposit entries are the same as per the bank transaction.
- Electronic payments to Council should not include commission or administration fees. (Arrange with service suppliers to charge



commission and other administrative fees separately, or distinguish between administrative costs and income per account by programme with a proper bank reconciliation system).

- Arrange with service suppliers to always provide account numbers for electronic payments, and not to accept payments without account details.
- Proper bank reconciliation will minimise matching problems by the availability of many matching options and special

programmes to address the follow up of variances. (To remove commission/ admin fees from certain electronic transfers).

- Deposits not recorded through the cashbook could pose a fraud risk, and should be immediately and thoroughly investigated.

### **3.2.2.3 Refer to Drawer(R/D) cheques**

- The debtors' accounts should immediately be debited with the cheque amount of the returned cheque and the attendant bank costs.
- The normal credit control procedures should then be immediately applied to the accounts of all levy payers with cheques that are returned by the bank.
- 'RD' cheques should be recorded in a register for follow up of their replacement thereof with cash.
- The 'RD' cheques not replaced by cash should be recorded in the cashier's system so that cashiers are made wary of accepting potentially problematic cheques from the same levy payers.
- When all possible means to recover the Council's money have been exhausted to no avail, the Council must then submit the defaulter's details to Kredit Inform for black listing.

#### **3.2.2.4 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 new cheques.

Cheques that have been processed through the bank account, but have not been recorded in the cash-book could represent fraud risk and should be immediately and thoroughly investigated.

#### **3.2.2.5 Controls to minimise cash, cheque and electronic payment fraud**

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

- Proper controls on receipting system;
- Sufficient controls on depositing of money;
- Proper control over the authorisation 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 control over the issuing of cheques to prevent theft; and
- Adequate insurance to minimise the effects of theft and robbery.

#### **3.2.2.6 Monitoring**

The CFO will ensure that the 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
- Cashbook in date order
- Bank reconciliations in date order
- Securities in date order
- Direct deposit amounts with supporting documentation in date order.

### **3.3 Cash Flow Forecasting**

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 to make recommendations to Council to adjust the budget if necessary.

Without realistic cash inflows and outflows the cash 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.

### **3.4 Investing**

#### **3.4.1 Statutory guidelines with respect to permitted investments**

The Minister of Provincial and Local Government may with the concurrence of the Minister of Finance by notice in the Government Gazette determine instruments or investments other than those referred to below in which the Sedibeng District Municipality may invest

(Local Government Transition Act No. 209 of 1993, section 9, paragraph (b)):

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No. 46 of 1984);
- A Municipality's own stock or similar type of debt;
- Internal funds of a Municipality which have been established in terms of a law to pool money available to the Municipality and to employ such money for the granting of loans or advances to departments within a Municipality, to finance capital expenditure;
- Bankers acceptance certificates or negotiable certificates of deposits of banks;
- Long term securities offered by insurance companies in order to meet the redemption fund requirements of Municipalities; and
- Any other instruments or investments, in which a municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996: provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

#### **3.4.2 Sedibeng Municipality Guideline controls over investments:**

- All investments should be made in line with statutory regulations (Ordinance requirements, GAMAP, the Local Government Transition Act and the Municipal Finance Management Bill (when enacted)).

- Surplus funds should be reviewed monthly by the CFO, and where such surpluses are not necessary for current operational or capital expenditure, 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 Municipal Manager and the CFO should select all counter parties through credit risk analysis, and prepare a list of all prospective counter parties.
- Any employee that has an interest in any of the above investment institutions should disclose his/her interest and be prevented from making a decision in respect of that entity.
- From the list of counter parties, the relevant parties should select at least 3 in order of credit risk analysis.
- A Request for Proposal (RFP) 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.
- Not more than 20% of the funds of the Municipality should be invested within a single institution, and the investment should not exceed 10% of the relevant institution's shareholders funds.
- The Municipal Manager and the CFO should establish investment limits per institution. These limits must be approved annually by the Portfolio Investment Committee and Council. Where possible, at least the capital values of the investments should be secured.

- The CFO and Municipal Manager should determine the investment limits per instrument that has to be approved by the Portfolio Investment Committee and the Council annually.
  
- When an investment needs to be withdrawn or re-invested, the CFO must submit a recommendation to the Municipal Manager, detailing the rationale for the transaction.
- After consultation with the relevant parties, the Municipal Manager will then authorise 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 will be maintained by the CFO.
- The CFO will obtain confirmation of the transfers from the investment institutions and the bank.
- The CFO should prepare a reconciliation statement between the transfer approval, the confirmations received and the investment register, and he/she should sign the reconciliation monthly.
- Investments made and withdrawn should only be posted to the general ledger by the CFO.
- The accountant should reconcile the investments in the general ledger to statements and transfer approvals monthly.
- Interest earned on investments should be recalculated and agreed to the confirmations.
- The reconciliation has to be approved by the CFO, and he/she has to sign it as evidence of such approval.
- The CFO will monitor the limits of investments weekly, and bring any major anomalies to the attention of the Municipal Manager and the Portfolio Investment Committee immediately.

- An investment report on the performance of investments should be compiled monthly by the CFO and submitted to the Municipal Manager.
- The Municipal Manager will compile a monthly report on investments to the Portfolio Investment Committee and Council.
- Banks, Insurance companies or any other financial institution which hold or may hold an account or investment of the municipality during the course of the year is report it to National treasury and the Auditor General as per section 13 of the **MFMA** annually and such report is to disclose account information and opening and closing balances.

<b>Reporting Obligations – Banks, Insurance Companies and Financial Institutions</b>				
<b>Action</b>	<b>Information to report</b>	<b>To whom</b>	<b>How</b>	<b>MFMA Section</b>
Annually report within 30 days after financial year end – 30 July	Details of all bank accounts and investments held by municipality at any time during the financial year	National Treasury  Auditor General	In writing 30 days after financial year end (Form E)	13(3)  13(4)

### **3.5 Amendment and Review of the policy**

The Cash management and Investment Policy shall be reviewed at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.