

# **MOSSEL BAY MUNICIPALITY**



## **CASH MANAGEMENT AND INVESTMENT POLICY**

## CASH MANAGEMENT AND INVESTMENT POLICY

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# CASH MANAGEMENT AND INVESTMENT POLICY

## 1. INTRODUCTION

- 1.1. In terms of the Section 13(2) and 99(2) g of Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003) (The Act)", the municipality must establish an appropriate and effective cash management and investment policy within a prescribe framework.
- 1.2. The Minister of Finance published under Government Notice Regulation 308 in Government Gazette 27341 the prescribed framework. .
- 1.3. The Mossel Bay Municipal Council considered and approved the underlying policy as its "Cash Management and Investment Policy" to which all functionaries of the municipality and Municipal Entities of Mossel Bay Municipality involved in cash management and investments must comply.

## 2. SCOPE OF THE POLICY

- 2.1. In order to ensure the sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash management and investments.
- 2.2. This policy also governs the investment of money not immediately required for the defrayment of expenditure and applies to all new and existing investments.

## 3. OBJECTIVES OF THE POLICY

- 3.1. The objectives of the policy are to:
  - 3.1.1. Provide the general framework within which the municipality should invest and managed funds;
  - 3.1.2. Ensure compliance with all legislation governing the investment of funds;
  - 3.1.3. Maintain adequate liquidity to meet cash flow needs;
  - 3.1.4. Set the minimum acceptable credit rating for institutions where or through which investments may be made;
  - 3.1.5. Ensure diversification of permitted investments;
  - 3.1.6. Ensure optimal performance with the least possible risk, in managing and investing the cash resources of the municipality;

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- 3.1.7. Ensure transparency, accountability and appropriate lines of responsibility in the process; and
- 3.1.8. Ensure timeous reporting of the investment portfolio as required by the Municipal Finance Management Act, 2003.

### **4. DUE CARE**

- 4.1. Each functionary in the cash management and investment process must do so with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs and with his or her primary regard being to the probable safety of his or her own capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.
- 4.2. Officials entrusted with investment and management of funds, have a responsibility and are accountable to exercise due care when investing funds.
- 4.3. Speculation may not be undertaken in any of the processes.

### **5. DELEGATION OF AUTHORITY**

- 5.1. The management of all the cash resources of the municipality is the responsibility of the Municipal Manager, as Accounting Officer, who must, for the proper application of this policy, develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the management of the cash resources.
- 5.2. The Chief Financial Officer, as designated in writing by the Accounting Officer, must advise the Accounting Officer on the exercise of the powers and duties with regards to this policy and must assist the Accounting Officer in the administration of the cash resources, the bank accounts and the investment accounts. The Chief Financial Officer may not sub – delegate the duty to assist the Accounting Officer in the administration of the municipality's bank and investment accounts.

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- 5.3. The delegation to withdraw money from the municipality's bank or investment accounts may only be given to the Chief Financial Officer or any other senior financial officer as determined, in writing, by the Accounting Officer and of which a copy, signed by the Accounting Officer, must be kept with the official set of delegations of the municipality.
- 5.4. The Accounting Officer may not delegate any power or duty in the administration of the municipality's cash resources to a political structure or councillor and no councillor is allowed to interfere or attempts to interfere in the management of the municipality's cash resources.
- 5.5. Any delegation by the Accounting Officer in terms of this policy:
  - 5.5.1. Must be in writing;
  - 5.5.2. Is subject to any limitations and conditions as the Accounting Officer may impose;
  - 5.5.3. May either be to a specific individual or to the holder of a specific post in the municipality and may not be to a committee of officials; and
  - 5.5.4. Does not divest the Accounting Officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty
- 5.6. The Accounting Officer may confirm, vary or revoke any decisions taken in consequence of a delegation or sub – delegation in terms of this policy, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.
- 5.7. For the application of this policy any referral to "Accounting Officer" also means "Any other person acting under a delegated power or performs a function delegated by the Accounting Officer" in terms of paragraph 5 of this document.

## **6. MANAGEMENT AND INTERNAL CONTROL PROCEDURES**

- 6.1. The Accounting Officer, assisted by the Chief Financial Officer, must take all reasonable steps to ensure:
  - 6.1.1. That the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
  - 6.1.2. That the municipality has and maintains a management, accounting and information system that accounts for all bank and investment accounts, receipting, withdrawals, cash management and investment transactions;
  - 6.1.3. That, in the case of investments, such investments are valued in accordance with GRAP guidelines and standards; and
  - 6.1.4. That the municipality has and maintains a system of internal control over its bank and investment accounts, receipting, withdrawals, cash management and investment transactions.

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- 6.2. The internal control procedures involve the Internal Audit Activity and the Auditor General reviewing and testing the systems of the Investment Department on a regular basis. In order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the investment and cash management portfolios.
- 6.3. Controls deemed most important include:
- 6.3.1. Control of collusion, separation of duties;
  - 6.3.2. Custodial safekeeping;
  - 6.3.3. Clear delegation of duties;
  - 6.3.4. Written confirmation of telephonic transactions;
  - 6.3.5. Minimising the number of authorised investment officials;
  - 6.3.6. Checking and verification by senior officials of all investment;
  - 6.3.7. Documentation of transactions and strategies;
  - 6.3.8. Code of ethics and standards;
  - 6.3.9. Strict adherence to Investment Framework Policy and Guidelines;
  - 6.3.10. Limits placed on investments by the various officials;
  - 6.3.11. Procedures manuals;
  - 6.3.12. Electronic Funds Transfer limits and a detailed procedure manual for the system; and
  - 6.3.13. Regular reporting to Committee of all investments.

## **7. CASH MANAGEMENT**

### **7.1. BANK ACCOUNT ADMINISTRATION**

- 7.1.1. The Accounting Officer or delegated nominee is responsible for the administration of the municipality's bank accounts including the opening of the bank accounts, the designation of the primary bank account and all banking and withdrawal procedures. The bank account may only be managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 3 of the Act as well as section 64 of the Act.
- 7.1.2. The Accounting Officer may delegate the duties attached to the administration of the bank accounts as per paragraph 5 of this policy.
- 7.1.3. The Accounting Officer, in conjunction with the Chief Financial Officer (CFO), is responsible for the effective and efficient management of the council funding, namely:
- a) The municipality must open at least one bank account in the name of the municipality;
  - b) The municipality may not open a bank account:
    - i) abroad;
    - ii) with an institution not registered as a bank in terms of the Banks Act, 1990 (Act 94 of 1990); or

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- iii) otherwise in the name of the municipality.
  - b) Ensure that it's funding always has sufficient money for appropriated expenditure and direct charges to meet the progressive cash flow requirements.
- 7.1.4. Bank account requirements, guidelines and regulations in terms of sections 7, 8, 9, 10 and 11 of the MFMA are adhered to.
- 7.1.5. Ensure that the Municipality accounts daily for the cash movements of all bank accounts in the financial records.
- 7.1.6. The Accounting Officer, in conjunction with the CFO are responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management for the treasury and budget offices.
- 7.1.7. Sound cash management would include:
- a) Collecting revenue when it is due and banking it promptly;
  - b) Making payments, including transfers, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the municipality's normal terms for account payments;
  - c) Avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier;
  - d) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates and is in accordance with the municipality's normal terms for account payments;
  - e) Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;
  - f) Accurately forecasting the municipality's cash flow requirements so that the National Treasury can optimise its central cash management responsibilities on behalf of the government;
  - g) Timing the in and outflow of cash;
  - h) Recognising the time value of money, i.e. economically, efficiently and effectively managing cash;
  - i) 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 under-utilised assets in terms of the asset management policy;
  - j) Performing bank reconciliation on a daily basis to detect any unauthorised entries;
  - k) Ensuring that dishonoured cheques are followed up immediately; and
  - l) Separation of duties to minimise the incidence of fraud.
- 7.1.8. Private money, private bank accounts and cashing private Cheques is prohibited.

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- 7.1.9. Delegated authority by the Directors of departments must assign authority in writing to officials to approve warrant vouchers, cheques or electronic payments.
- 7.1.10. Only authorised officials may sign or authorise cheques and approve electronic transfers and must initial the counterfoils.
- 7.1.11. All cheques must be crossed "NOT TRANSFERABLE" between parallel lines. The cancellation of crossings is not permitted.
- 7.1.12. When an issued cheque is lost, stolen or damaged, an instruction to stop payment must immediately be issued to the responsible bank. Once confirmation has been received that the cheque was stopped, the transaction must be reversed and a new cheque issued and accounted for.
- 7.1.13. Deposit all money received into the bank account(s) promptly and in accordance with the MFMA, Chapter 3.
- 7.1.14. Withdrawals from bank account(s) should be completed in terms of the MFMA, Section 11.
- 7.1.15. Designate and advise National Treasury (NT) in writing of details of the primary bank account, or any change in the primary bank account.
- 7.1.16. In cases where a municipality has more than one bank account, ensure that only the municipal manager or Chief Financial Officer (CFO) is delegated authority to withdraw funds from the primary bank account.
- 7.1.17. Check to ensure that all relief, charitable and trust accounts are set up in the name of the municipality and are administered by the Accounting Officer, or his/her duly authorised delegate.
- 7.1.18. Deposit all money received for relief, charitable and trust accounts into the correct account, and make withdrawals from those accounts only for the purposes for which the fund was established and where appropriately authorised by the municipal manager in terms of the MFMA.
- 7.1.19. Notify National Treasury (NT) of occasions when the bank account(s) of the municipality show an (consolidated) overdraft position for a period exceeding a prescribed period, and provide details of the amount, the reasons for the overdraft and the steps taken to correct the matter.
- 7.1.20. Table in council a consolidated report of withdrawals each quarter, and submit a copy of the consolidated report to the Provincial Treasury and Office of the Auditor General.



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- 7.1.21. Submit to Provincial Treasury and the Office of the Auditor General written details of new bank accounts when opened, and all bank accounts each year.

### **7.2. RECEIPTING MANAGEMENT**

- 7.2.1. The Accounting Officer, or his/her duly authorised delegate, is responsible for the administration of all receipting procedures and must take all reasonable steps to ensure receipting is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 64 of the Act.
- 7.2.2. The Accounting Officer may delegate the duties attached to receipting as per paragraph 5 of this policy.

### **7.3. EXPENDITURE MANAGEMENT**

- 7.3.1. The Accounting Officer, or his/her duly authorised delegate, is responsible for the administration of all expenditure procedures and must take all reasonable steps to ensure expenditure is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 65 of the Act, giving due consideration to Section 11 of the Act.
- 7.3.2. The Accounting Officer may delegate the duties attached to expenditure as per paragraph 5 of this policy.

### **7.4. WITHDRAWALS**

- 7.4.1. The Accounting Officer, or his/her duly authorised delegate, is responsible for the administration of all withdrawals procedures and must take all reasonable steps to ensure withdrawals are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 11 of the Act.
- 7.4.2. The Accounting Officer may delegate the duties attached to withdrawals as per paragraph 5 of this policy.

## **7.5. DEBT MANAGEMENT**

- 7.5.1. In order to ensure adequate cash – flow the municipality may incur short – or long-term debt, provided that the Council approves all debt agreements, the Mayor must sign the resolutions approving the debt agreements and the Accounting Officer, or his/her duly authorised delegate, signed the debt agreements.
- 7.5.2. The municipality is, in terms of Section 46(5) of the Local Government: Municipal Finance Management Act, 2003, allowed refinancing its long – term debt for the purpose of saving on the cost of debt. The Accounting Officer, or his/her duly authorised delegate, must, for this purpose, at least annually and as part of the budget process evaluate and report to the Council on the cost of existing debt and whether re-financing such debt will be beneficial to the municipality. As part of the evaluation the Accounting Officer, or his/her duly authorised delegate, must determine the types of repayments and whether bullet payments at the end of the debt period and the reasonably determined nett cost thereof will not be more beneficial to the Council if the repayments are invested in sinking funds and the reasonable projected yield on the investments are being brought into account.
- 7.5.3. The Accounting Officer, or his/her duly authorised delegate, is responsible for the administration of all debt procedures and must take all reasonable steps to ensure debt is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 6 of the Act.
- 7.5.4. The Accounting Officer may delegate the duties attached to debt management as per paragraph 5 of this policy.

## **7.6. CASH FLOW BUDGET**

- 7.6.1. In order to ensure that the municipality has sufficient cash available to comply with the municipality's commitments to its lenders, creditors, statutory payments and any other commitments, it is necessary to annually compile and submit to Council, as part of the budget documentation, a cash-flow projection for the budget year by revenue-source, broken down per month.

## **7.7. WORKING CAPITAL MANAGEMENT**

- 7.7.1. The Accounting Officer, or his/her duly authorised delegate, must take all reasonable steps to ensure that the municipality obtains maximum performance on its assets and for this purpose the working capital of the municipality must as far as possible be managed to the maximum benefit of the municipality.

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- 7.7.2. The Accounting Officer, or his/her duly authorised delegate, must ensure that the Municipality maintains an acceptable level of working capital.
- 7.7.3. Working capital in this Municipality is defined as all current assets such as cash, short term investments, debtors (accounts receivable), inventory and other forms of short-term assets that are expected to be converted into cash within the next 12 months. The net working capital represents the difference between current assets and current liabilities. An acceptable level for working capital level for this Municipality is 2:1 whilst 2 represents current assets and 1 represents current liabilities.
- 7.7.4. The Accounting Officer, or his/her duly authorised delegate, must, as part of the monthly reporting to the Mayor within 10 working days of the end of each month, report on:
- a) The combined nett balance of the bank and investment accounts of the municipality excluding any balances of unutilised conditional grants, trust moneys kept in accordance with trust deeds, sinking fund investments made in accordance with any borrowing- or other agreements with investors/lenders, other conditional funds for which moneys were received in accordance with Section 12 of the Act, debt guarantee reserve funds and other cash- backed funds for which spending authority must be obtained from other persons or spheres of government.
  - b) Whether all commitments and accounts had and can be paid on time from the nett balance above and nett realisable accounts receivable.
  - c) Whether there is a nett outflow of cash not in accordance with the cash-flow budget.
  - d) Whether all of the above might cause a financial problem on which the Mayor must act in accordance with the provisions of the Act.
- 7.7.5. The Mayor must, within 30 days of the end of each quarter, report to the municipal council on the above, and, in the case of identifying a financial problem, promptly inform the council and act in accordance with the provisions of the Act.

### **7.8. CASH PROCEDURES**

- 7.8.1. Payments received at the Municipal Cashiers, Traffic and Amenities / Resorts and Municipal Court must comply with the criteria listed below:

#### **7.8.1.1. Internal Controls:**

With regard to internal controls the conditions listed below must be complied with:

- a) Segregation of duties (Cashier and Banker);
- b) Rotation and switching of Cashiers, must be preceded by a cash up procedure (including the float on hand)
- c) Cash float values should be recorded;

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- d) Cash floats should be periodically reviewed and samples should be checked on a monthly basis; the cash floats of the main libraries must also be checked on a monthly basis, whilst samples for the smaller libraries are checked quarterly
- e) Shortages and surpluses in cash should be recorded.
- f) All Postal Orders received should be encashed at the post office the same day as received and deposited into the cash register and treated as a cash receipt.
- g) No payment for municipal services may be received by any official other than a municipal cashier at an official pay point.

### **7.8.1.2. Issuing of Receipts:**

With regard to the issuing receipts the criteria listed below must be complied with:

- a) All payments should be accompanied by a computer generated receipt.
- b) Receipts numbers should be sequential and missing sequences should be accounted for.
- c) Original receipts must be given to the customer.
- d) The receipting paper are in duplicate and the duplicate rolls are kept for audit purposes. Cashiers at the Traffic Department does not use the duplicate rolls but keep a duplicate computer generated receipt for audit purposes.
- e) The following should appear on a computer generated receipt:
  - i) Date on which the receipt was issued;
  - ii) Amount for which the receipt was issued;
  - iii) Cashier responsible for issuing the receipt;
  - iv) Vote or Account to which the payment is to be credited;
  - v) Type of payment transaction (cash, , debit order, etc.); and
  - vi) Computer generated receipt number.

### **7.8.1.3. Cancellation of Receipts:**

When receipts are cancelled the conditions listed below must be complied with:

- a) Receipts that are cancelled are to be clearly marked with cancelled written across the face of the receipt;
- b) Cancelled receipts are to include the original receipt (attached to transaction report);
- c) Reasons for the cancellation are to be marked on the cancellation summary and should include the signatures of the cashier and banker / senior cashier;
- d) The transaction trail for the Cashier for the day should be reconciled to the number of cancelled receipts on hand; and

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- e) Cancellations of receipts for Prepaid electricity must be communicated with Head Cashier immediately, who will then send it through to the Accountant (Consolidated Accounts and Meter Readings) for cancellation on the prepaid system. . In the case of cancelling Prepaid electricity for Indigent Level 1 and 2, the cashiers must inform the client that he may only make another purchase once the cancellation has been processed on the Prepaid system.
- f) Cancellation of receipts requested by a client or an official, must be done in writing. The request must be attached to the cancellation sheet.
- g) Prepaid tokens not generated on the financial system must be reported to the Head Cashier immediately, who will then send it through to the Accountant (Consolidated Accounts and Meter Readings) for cancellation on the prepaid system.
- h) No refund because of cancellations are allowed at the cashier after the client have left the paypoint. When such request are received, the official refund process through the creditors section must be followed.

### **7.8.1.4. Cash Balancing:**

When dealing with cash and the balancing thereof the following procedures must be complied with:

- a) The deposit bags must be collected every business day, with the exception of Friemersheim and Herbertsdale offices which are collected once a week. The timing of the collections should vary in order to avoid a set pattern which could result in a highjack. The Senior Cashier must report any problems experienced in this regard to the Accountant / Head Income immediately.
- b) Cash on hand should be counted and the cash float should be removed before balancing to the computer records for the receipts of the day, for a given cashier. All bank notes must be counted under a counterfeit detector before the client is issued with a receipt. Counterfeit notes identified at the bank will be the cashier's responsibility for replacement of that notes.
- c) Cash received for the day must be captured on the financial system for each note and coin denomination and for Debit or Credit Cards and postal orders.
- d) Once this has been captured on the financial system, the Cashier must immediately inform the Principal Clerk: Cashiering to perform the cash up for the day.
- e) The cash up program will compare the receipts issued for the day against the cash and other type's of income for the day.
- f) If a difference is found the Senior Cashier must ask the cashier to recount the cash, without informing the cashier of the specific difference in the amount is or whether it is a shortage or surplus.
- g) If the cashier finds that he/she has made a mistake when the cash received was captured in the financial system, it must be corrected

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on the financial system and the Head Cashier must again do the electronic cash-up.

- h) If the balancing still shows a difference, shortages must be paid in within 24 hours by the Cashier and surpluses must immediately be receipted into the cashier surplus account.
- i) If the cashier is not able to pay the shortage within 24 hours the Head Income may deviate from the within 24 hour ruling, but must do so in writing giving the cashier a written deadline.
- j) Balancing of the cash on hand to the computer records must be performed by means of reconciliation before closing of offices every day. Exeptions must be communicated via email to Head Cashier, Accountant and Head Income and the Cashiers' immediate supervisor should the Cashiers not be in the Financial Directorate.
- k) The Senior Cashier is responsible for ensuring that the records do balance.
- l) The bank deposit of the cashiers in the case of Mossel Bay cashiers must be checked by the Senior Cashier and placed in the deposit bag; the deposit bag must be sealed under supervision of the Senior Cashier, before close of day.
- m) Bank deposits must be locked in the safe of the senior Cashier for collection by the security firm, the following day.
- n) The Cashiers float must be locked away in the other save.
- o) Daily end-of-day cash-up procedures must be completed before the Cashier and Senior Cashier may leave the municipal premises.
- p) The number on the deposit bag must be recorded on the cash upload audit file. This audit reports must be scanned and emailed to the bank/ or are automatically send to Bankers when Cash- online process is done. A hard copy must be sent with the security firm, depending on the requirements of our Bankers at the time.
- q) The Security firm responsible for lifting and banking the municipal takings records the bag number in their records and the Senior Cashier and the Security firm representative sign the documentation as receipt of the takings from the Municipality to the Security firm for banking purposes.
- r) All the documentation of a cashier for each day, including daily summary sheet, cancelled receipts, signed cancellation form, Security Company receipt, stamped bank deposit slip, etc. must be kept together in a file for audit purposes. This file may only be taken out of the Senior Cashiers office after signing a register with the necessary motivation.
- s) All Cashiers takings must be entered into a cash register daily and the Senior Cashier and Accountant must sign the daily summaries. A register of all takings per cashier is kept online for reference purposes. This register or copies of it must be used for reconciliation done by other departments.
- t) As the cashier is responsible for the cash he/she must at all times ensure that the cash is his/her possession is safely locked away.
- u) No person other than the cashier, Senior cashier or accountant is allowed in the cashier cubicle.

**7.8.1.5. Deposit Books for Municipal Takings:**

With regard to deposit books the following procedures must be complied with:

- a) The electronic banking deposit serves as an agreement between the municipality and the bank for the funds forwarded to the bank for deposit purposes, into the appropriately defined municipal banking account.
- b) Deposit books are only used in exceptional cases where cheque payments, to the maximum of R50 000 per cheque, are made by State Departments at either the Municipal Court, Traffic or Mossel Bay Cashiers. Deposit books are also used for bank shortages identified by the Bank or Snr Clerk (Banking / Costing).
- c) The deposit book sheets are in triplicate:
  - i) Original for the bank;
  - ii) Copy 1 for the Cashier; and
  - iii) Copy 2 copy attached to the book.
- d) The original and copy of the deposit books are forwarded to the bank for stamping purposes.
- e) On return from the bank the stamped deposit slips are reviewed by the Senior Cashier to follow-up on any discrepancies.
- f) The stamped deposit slips are attached to each of the cashier's daily summary sheets.

**7.8.2. Other Payment Methods**

These relate to other payment mediums such as internet banking, direct deposits, ACB's and other third parties who entered into an agreement with the Municipality. The methods of payment must comply with the criteria listed below:

**7.8.2.1. Direct Deposits:**

Direct deposits must be dealt with as follow:

- a) These transactions are handled by the Senior Clerk: Finance.
- b) A file must be generated by importing information from the banking system, this information must then be uploaded onto the financial system.
- c) The financial system creates a receipting batch for updating, this only contains transactions with valid reference numbers.
- d) Invalid transactions must be dealt with on a manual basis, these sundry transactions must be captured into the receipting system by a Cashier.
- e) Balancing between the Senior Clerk: Finance summary and the cashier transactions summary must be completed.

**7.8.2.2. Third Party (Any third party that entered into a signed agreement with the Municipality):**

Third party payments must be dealt with as follow:

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- a) All payments must be handled by the Accountant by means of an internet download and a transfer to the financial system.
- b) The Senior Clerk within the Financial Information Section transfers the payments received from the third parties to the Debtors System.
- c) Balancing of the third party transaction totals to the Bank totals received by the Accountant must be completed by the Senior Clerk who completes the cashbook reconciliation.
- d) Variances must be followed up by the Senior Clerk – Financial Information Section. Variances in banking totals identified by the Senior Clerk: Finance must be sent to Cashier section for follow up with the service provider.
- e) The serial numbers of receipt transfers from the institutions must be checked on a daily basis by accountant to ensure that all receipts/deposits are transferred to the Municipality on a daily basis. These serial numbers must be recorded by the accountant and any discrepancies must be followed up on a daily basis by the accountant.

### 7.8.3. Legal Tender:

- a) According to the South African Reserve Bank Act Number 90 of 1989 a Legal Tender refers to banknotes or coin that may be legally offered in payment of an obligation and that a creditor is obliged to accept.
- b) Any amount in banknotes may be offered for payment. In the case of coin, the acceptable amount per individual transactions, is equal to the total amount, not exceeding the following:
  - i) fifty rand, where coin of the denomination of one rand or higher are so tendered;
  - ii) five rand, where coin of denominations of ten cents up to and including fifty cents are so tendered;
  - iii) fifty cents, where coin of the denomination of five cents or less are so tendered; and
  - iv) the value of each coin so tendered shall be equal to the amount specified on that coin.

## 8. INVESTMENTS

### 8.1. INVESTMENT MANAGEMENT

- 8.1.1. The Accounting Officer, or his/her duly authorised delegate, is responsible for the administration of all investment procedures and must take all reasonable steps to ensure investments are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 13 of the Act.



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- 8.1.2. The Accounting Officer may delegate the duties attached to investments as per paragraph 5 of this policy.
- 8.1.3. In order to ensure that the Accounting Officer or any person delegated in terms of paragraph 5 complies with this policy in terms of investments and to capacitate the municipality further, the Accounting Officer may contract an Investment Manager who is a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act (Act No. 55 of 1989) and Stock Exchanges Control Act (Act No. 1 of 1985). The Investment Manager must advise the Accounting Officer or delegated officials on investments and may manage investments on the municipality's behalf, subject to any conditions and controls the Accounting Officer may determine, examples this investment and cash management policy.

### **8.2. INVESTMENT ETHICS**

- 8.2.1. All functionaries in the investment management process must act with fidelity, honesty, integrity and in the best interest of the municipality and must seek, within the spheres of influence of the functionaries, to prevent any prejudice to the investments of the municipality.
- 8.2.2. No functionaries in the investment management process may use their position or privileges of, or confidential information obtained as, functionary in the process for personal gain or to improperly benefit another person. Interest rates quoted by one institution should never be disclosed to another institution during the quotation processes. Rates may only be disclosed after the investment was finalised and banking confirmation of the investment was received.
- 8.2.3. No person contracted by the municipality for the purpose of investments or no person submitting quotes, bids or any other means of competitive submissions may, either directly or through a representative or intermediary promise, offer or grant any reward, gift, sponsorships, loan, bursary, favour or hospitality as a bribe to:
- a) any official, spouse or close family member of such official or spouse; and
  - b) any councillor, spouse or close family member of such councillor or spouse.
- 8.2.4. The Accounting Officer must promptly report to the Mayor and National Treasury any alleged contravention of the above and may make recommendations as to whether the alleged offending party should be listed on the National Treasury's database of persons prohibited from doing business with the public sector. Any such report by the Accounting Officer must give full details of the alleged breach and a written response from the alleged offending party, as well as proof that the alleged offending party received the allegations in writing and were given at least 7 (seven) working days to respond, in writing, to the allegations.

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- 8.2.5. Any sponsorship promised, offered or granted to the municipality must promptly be disclosed to the National Treasury.
- 8.2.6. Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality:
- a) Must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
  - b) May not be made for speculation but for investment; and
  - c) Must in the first instance be made with primary regard being to the probable safety of the investment, the second instance to the liquidity needs of the municipality or entity and lastly to the probable income derived from the investment.

### **8.3. INVESTMENT OBJECTIVES**

#### **8.3.1. Objective 1 – Security**

The first and foremost objective for investments is the preservation and safety of the principal amount invested. It is a requirement that investments may only be made with institutions with a national credit – worthy Moody's rating of P-3 and higher for short term investments (0 – 12 months) and Moody's Baa3 and higher for long term investments (more than 12 months). Any investments made must be liquidated if an institution's credit- worthy rating falls below the level of P-3 for short term and Baa3 for long term. Only when a general down grading of institutions is performed by Moody's, the Accounting Officer on recommendation of the Chief Financial Officer may allow a lesser favourable grading that is still acceptable according to their management judgement. In the case of a general upgrading of institutions, the above mentioned ratings will be adjusted upwards in line with the above ratings and the upgrade.

#### **8.3.2. Objective 2 – Liquidity**

The cash flow budget must be used as an instrument in determining liquidity needs. Other factors such as the payment runs for creditors, dates for salary and statutory payments and dates for debt repayments must also be brought into account to ensure cash requirements, and resultant investment periods, are being calculated to such an extent that maximum yield on surplus cash can be obtained.

#### **8.3.3. Objective 3 - Yield**

It is necessary to ensure optimal yield on the municipality's investments, but a higher yield should never increase the risk of preservation and safety of the principal amount invested or not meeting cash flow requirements. Where an institution has a sudden increase above the average market increase in investment returns, the Accounting Officer, or his/her duly authorised

## CASH MANAGEMENT AND INVESTMENT POLICY

delegate, must determine whether the institution is in liquidity or financial problems, and in such an instance liquidate the investments with such an institution as soon as possible.

### 8.4. TYPES OF INVESTMENT ACCOUNTS

8.4.1. The following cash – backed investment accounts should be established:

- a) General surplus cash;
- b) Cash requirements of all reserve funds;
- c) Accumulated employee benefits ;
- d) Trust funds where a trust deed exist;
  - e) Conditional Transfers and subsidies funds received from other spheres of Government or private institutions, but excludes the equitable share;
  - f) Sinking funds, if applicable;
  - g) Debt guarantee reserve fund, if applicable; and h) Housing development funds, if applicable

8.4.2. Where a Trust Deed prescribes how the trust money is to be invested, the prescriptions in the Trust Deed will prevail over this policy.

8.4.3. It is a general principle, the higher the investment the better the yield, and for this purpose the Accounting Officer, or his/her duly authorised delegate, should combine as much cash as possible, and invest it as one investment.

### 8.5. APPROVED INVESTMENTS

8.5.1. Investments should be structured according to the best yield available and the liquidity needs of the municipality. This can include Call Deposits, Fixed Term Deposits and Endowment Policies for the purpose of Sinking Funds only. Sinking funds must be created for the purpose of bullet payment borrowings and to provide for future commitments such as building enough cash to be able to cover post-retirement benefits in full.

### 8.6. QUALIFYING INSTITUTIONS

8.6.1. It is of utmost importance that the investments only be placed with credit-worthy institutions with a national Moody's credit rating of P-3 and higher for short term (0 -12 months) credit ratings and Moody's Baa3 and higher for long term (more than 12 months) credit ratings, if any general down grading of institutions is performed by Moody's, the Accounting Officer on recommendation of the Chief Financial Officer may allow a lesser favourable grading that is still acceptable according to their management judgement.

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- 8.6.2. Moody's and or CA ratings to be obtained for preferred investment institution before a financial institution may be considered for investing funds.
- 8.6.3. Ratings must be updated before an investment is made or when there has been structural change in the market or at the particular institution.
- 8.6.4. The optimal combination of the most favourable rated institution and the institution offering the best returns for the investment sought, should be the determining factor when choosing the institution.
- 8.6.5. The following investments are permitted:
- a) Securities issued by National Government;
  - b) Listed corporate bonds with an investment grade rating from a nationally or an internationally recognized credit rating agency;
  - c) Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
  - d) Deposits with the Public Investment Commissioners as Contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984);
  - e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act. 1984 (Act 46 of 1984);
  - f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
  - g) Guaranteed endowment policies with the intention of establishing a sinking fund;
  - h) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990); Municipal Bonds issued by the municipality; or
  - i) Any other as might be approved by the Minister of Finance.

### **8.7. INVESTMENT DIVERSIFICATION**

- 8.7.1. Without limiting the Accounting Officer, or his/her duly authorised delegate, to any specific amount or percentage of investments, it is hereby established that investments made by the municipality should be diversified as much as possible between different institutions, maturity dates and types, but nothing prevents the Accounting Officer, or his/her duly authorised delegate, from investing more cash with an institution than by another institution with due regards to the standard of care and objectives set in this policy. The diversification threshold is not more than 50% may be invested with one investment institution. The threshold for the investment portfolio should be calculated based on the investment amount at inception of the investments after including the new envisaged investment, in other words excluding interest already earned during the investment period.

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8.7.2. Having determined that funds are available for investment and the maximum period for which the funds may be invested, the Chief Financial Officer (CFO) (or his delegated nominee) needs to consider the manner in which the investments are placed. As rates can vary according to the money market perception related to the term of the investment, there is merit in obtaining quotes for periods within the maximum determined.

### **8.8. COMPETITIVE SELECTION OF BIDS OR OFFERS**

8.8.1. The selection of an investee for any investment shall be a competitive process.

8.8.2. In establishing where investments must be made, written quotations must be obtained by the Accounting Officer, or his/her duly authorised delegate from qualifying institutions. The Accounting Officer may not divulge interest rates to other institutions during the quotation process. If Investments Managers use treasury desks for the purpose of obtaining quotations, the quotations, with a written reason why a specific institution was chosen if the yield is lower than that of another institution, must be forwarded to the Accounting Officer or his/her duly authorised delegate, who must evaluate the reasons and issue such instructions as deemed necessary.

8.8.3. Before placing funds externally, consideration must be given to whether the funds cannot be utilised at an equivalent rate to substitute short-term external borrowing, as there is normally a margin between the rate at which local authorities can borrow funds and the rate at which investments can be made over similar periods.

8.8.4. Where funds are held in current account, it is possible and good practice to negotiate deposits at more beneficial rates, e.g. call deposits.

8.8.5. These rates can normally be bettered by fixed terms investments. The overriding principle is that funds in the current account must be kept to the absolute minimum.

8.8.6. If the yields quoted is the same for more than one institution, the Accounting Officer, or his/her duly authorised delegate, has the authority to decide where the investment should be made, taking into consideration the diversification of investments.

### **8.9. CALL AND FIXED DEPOSIT PROCEDURES**

8.9.1. Quotations should be invited from all approved financial institutions for the term for which the investment is to be placed. In the event of one of the financial institutions offering a more beneficial rate for an alternative term, all the institutions invited to quote should be approached for their rates on the same alternative term.

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- 8.9.2. It is acceptable to obtain telephonic quotations that should be confirmed by fax or e-mail, as in most instances, rates can change quite regularly on a daily basis and time is of the essence when placing funds.
- 8.9.3. The person responsible for calling for quotations from institutions should not mention the name of the institution, the person who has given the telephonic quote, and the terms and interest applicable, e.g. whether interest is payable monthly or on maturity. Written confirmation of the quote accepted should be obtained.
- 8.9.4. Having obtained the necessary quotations, the decision needs to be made regarding the best yield offered and the institution with whom the investment is to be placed. With due regard to the investment principles, it is customary to accept the best offer made (but subject to section 8.7 of this policy on investment diversification) and no further negotiations are to be entered into with any of the persons who have tendered their investment rates and terms in an effort to try and push up one against the other.
- 8.9.5. Having been invited to quote on a particular package, institutions should be advised that they must offer their best rate when they respond and that no further negotiation or discussion will be entered into.
- 8.9.6. The above procedure should be followed in respect of placing surplus cash on a fixed investment or on a call basis.
- 8.9.7. As a standard practice investment are only made directly with the Banks and not through intermediaries. The Accounting Officer, or his/her duly authorised delegate, need first to approve any deviation from the standard practice subject to the principles set in section 8.9.8 and 8.9.9 which must be complied with.
- 8.9.8. Certain agents indicate that they can obtain quotations and act on the investors behalf with the various institutions, in order to obtain the best rate. In the event of use being made of an agent, this should not be the sole quotation received. In order to make an investment via an agent, independent quotations must be obtained from other financial institutions, without disclosing the proposal received. Such quotations need to adhere to all principles mentioned in this policy.
- 8.9.9. In the event of an investment being made through an agent, it is essential to ensure that the agent is registred with the Financial Service Board of South Africa and that the paper received is an authentic paper issued by an approved financial institution, and the investment payment must only be made to the investment institution where the investment is placed and not to the agent concerned. Any commission's payable to the agent needs to be declared to the municipality.

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- 8.9.10. Once a schedule of investment options has been prepared a decision should be taken by the Chief Financial Officer (CFO) and Senior Manager Financial administration or their delegates..
- 8.9.11. The necessary documents for investing purposes should be completed and the investment should be authorised by two signatories, preferably not the same two signatories that will authorise electronic funds transfer for payment.
- 8.9.12. Interest must be accrued according to the principles set out in the general recognised accounting practices and receipted timeously together with any capital which matures.
- 8.9.13. An investment register should be maintained, defining the following detail:
- a) Investment, per institution;
  - b) Institution percentage held as a percentage of the total municipal investment portfolio;
  - c) Type of investment;
  - d) Investment time period / lifespan;
  - e) Amount invested;
  - f) Interest percentage receivable on the investment;
  - g) Engagement date;
  - h) Maturity date; and
  - i) Projected interest yield on maturity.
- 8.9.14. In accordance with the provincial notice on archiving, investment records are to be retained by the Municipality for an indefinite period.

### **8.10. COMMISSIONS OR COSTS**

- 8.10.1. No commission for investments made or referred is payable to an official or councillor, or spouse, business partner or close family member of an official or councillor by an institution or investment manager.
- 8.10.2. Any commissions, other rewards or costs paid to an investment manager by an institution must be declared to the municipality by the institution and Investment Manager by way of certificates. Any quotation given to the municipality by an institution or Investment Manager must be net of costs, rewards or commissions, but must also indicate the commissions, rewards or costs which will be paid in respect of the investments.

### **8.11. PERFORMANCE**

- 8.11.1. The Accounting Officer, or his/her duly authorised delegate, must annually measure and report to the Council on the performance of:
- a) Investments in terms of the stipulated objectives of this Policy; and
  - b) Investment Managers in terms of the stipulated objectives of this policy.

## **8.12. FORBIDDEN ACTIVITIES**

- 8.12.1. No investments may be made other than in the name of the Municipality.
- 8.12.2. Money may not be borrowed for the purpose of investments.
- 8.12.3. No person, including officials and councillors, may interfere or attempt to interfere in the management of investments entrusted to the Accounting Officer or persons delegated by the Accounting Officer including with the Investment Managers.
- 8.12.4. No investments may be made other than be denominated in Rand and which is not indexed to, or affected by, any fluctuations in the value of the Rand against any foreign currency.

## **8.13. REPORTING**

- 8.13.1. The Accounting Officer, or his/her duly authorised delegate, must, in addition to the reporting in paragraph 7.7 above, within 10 working days of the end of each month submit to the Mayor a report describing in detail the investment portfolio of the municipality as at the end of the month.
- 8.13.2. The report referred to above must contain at least a statement, prepared in compliance with Generally Recognised Accounting Practice (GRAP), as amended from time to time, that gives the:
  - a) Beginning market value of each investment for the month;
  - b) Additions and changes to the investment portfolio for the month;
  - c) Ending market value of each investment for the month; and
  - d) Fully accrued interest/yield for the month.
- 8.13.3. The Accounting officer, or his/her duly authorised delegate, in making investments, must remind the relevant institutions of the institutions' legal reporting responsibilities in terms of Sections 13 (3) and 13 (4) of the Local Government: Municipal Finance Management Act, 2003.

## **9. REVIEW OF THE POLICY**

- 9.1. This Cash Management and Investment Policy is the sole policy governing cash management and investments in the municipality. The Municipal Council must approve any reviews to this policy.
- 9.2. The Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.



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- 9.3. Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.

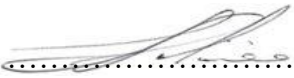
CASH MANAGEMENT AND INVESTMENT POLICY

**DOCUMENT AND VERSION CONTROL**

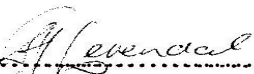
**Version:** **Revision 14**

**Date:** **May 2020**

**Summary:** This document describes Cash Management and Investments that will be applicable to the Mossel Bay Municipality, with effect from  
**1 July 2020**

Signature:  .....  
Municipal Manager  
(Accounting Officer)

Date: 28/05/2020

Signature:  .....  
Executive Mayor

Date: 28/05/2020