



Molemole Municipality

CASH MANAGEMENT AND INVESTMENT POLICY

2013 - 2014

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1. Definition

In this cash and investment management policy , unless the context indicated otherwise, a word of expression to which a meaning has been assigned in the local government MFMA act no56 of 2003 and other related legislations/regulations, norms, by-laws, having the same meaning with the act

- Accounting officer; is the municipal manager
- Act: means the local government MFMA act 56 of 2003 MSMA act 32 2000
- Accounting principles: means the guidelines to be observed
- Acquisition : means acquiring goods and services through procurement policies
- Agent means professional bodies appointed to execute a specific task on behalf of the municipal entity
- Accounts means statements of monies received
- Assignee means a person with a delegated authority
- Bank means an institution recognized by register of bank
- Bank accounts are the recognized statement of financial holdings on behalf of the municipality
- Cash means monies such as bank notes and coins or cash equivalents
- Chief financial officer means a responsible official for financial affairs of the municipality
- Constitution of the republic of South Africa act 108 of 1996: means the supreme law of South Africa
- Cash management: means efficient and effective management of funds
- Delegated authority: means any person/persons committee delegated with the authority to act for on behalf of municipal entity
- Diversification of investments: means investing in more, or more than one type of financial instruments
- Investment ethics: means ethical framework within which investment must take place
- Liquidity means the ease with which financial instrument can be converted to cash or cash equivalents
- Municipality means the agent of the central government at local level
- Ownership means all investment must be made in the name of municipal entity
- Short-term investments means a financial instrument with a lifespan or maturity of less than 1 year
- Long-term investments means financial instrument with a lifespan or maturity of greater than a year

2. Introduction

In terms of MFMA section 13(2) each municipal council and governing body shall adopt by resolution an investment policy regarding the investment of its monies not immediately required



An accounting officer has an obligation to ensure that cash resources are managed as efficiently and economically as possible. Competitive investment and effective cash management ensures both short term and long terms viability and sustainability of the municipal entity. Hence, it is critical for the municipal entity to have its own investment and cash management policy located within the local government framework. This policy should be read and understood against this background

3. Objectives of the policy

The primary and the ultimate goal of the investment of funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and providing the highest return on investment at minimum risk, within the parameters of authorized instruments as per the MFMA

4. Cash flow estimates

Before monies can be invested, the accounting officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary requirements

To be able to make investments for any fixed terms; it is essential that the cash flow estimates be drawn up.

The auditor general requires the financial institution, whereby the investment is made to issue a certificate for each investment made. This certificate must state that no commission has nor will, be paid to any agent or third party, or to any person nominated by the agent or third party

5. Investment ethics

The municipal manager and his/her subordinates are responsible for the investment of funds and must ensure that there is no interference in such proceedings. Under no circumstance may he/she accept any gift unless that gift can be deemed so small that it would not have an influence on his/her relationship with the said institution. The gift must be declared to the municipality. The municipal manager and his/her delegate must act in accordance to discretion and must report any serious cases of payment in kind or gifts, to the municipal council. Excessive gifts and hospitality should be avoided at all costs

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6. Risk management

The preservation of principal is the foremost objective of the investment program. To accomplish this objective, diversification is required to ensure that the municipal manager or his/her nominee prudently manages risk exposure. Risk profiles should be minimized by only placing investment with institutions and Instruments approved by the public investment, commission or the republic of South Africa National minister of finance.

7. Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the municipality. Investment official are required to:

- i) Adhere to written procedures and policy guidelines.
- ii) Exercise due diligence
- iii) Prepare all reports timorously.
- iv) Exercise strict compliance with all legislation.

8. Ownership

All investment must be made in the name of the municipal entity.

9. Delegation of authority

The delegation to authorize investments must distinguish between short-term & long-term investments. The authority to make long-term investment as provision of security is vested with the municipal council in terms of section 48 of the MFMA and with reference to section 11 (1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the municipal manager or chief financial officer or any other senior financial officer authorized by either the municipal manager or chief financial officer/ relevant assignee.

The local government municipal system act of 2000 section 2 (60) (2) states that the municipal council may only delegate to an accounting officer, executive committee or executive mayor or chief financial officer decision to make investments on behalf of the municipality within a policy framework determined by the minister of finance.

The chief financial officer is responsible for the investment of the municipality's funds that are made under section 13 of MFMA

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10. Investments issue pertaining to municipal council approval

In the event that an investment that need to be made, quotation is required from the various financial institutions. In the case scenario of telephonic quotation, the following information is required:

- ⊕ The name of the person who gave the quotation
- ⊕ The relevant terms and rates
- ⊕ Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

Where payments to financial institution in respect of investment are to be effected by cheque,

The following procedures must be observed

The senior accountant must complete a cheque requisition form and submit it to the municipal manager or the chief financial officer together with the supporting quotations. The municipal manager and the chief financial officer must either authorize the requisition or submit it to municipal council for authorization depending on the value of such an investments.

When the municipal manager have authorized the requisition, the chief financial officer or their delegate signatories are required to sign the cheque and submit it to the financial institution concerned.

All investment documents must be signed by two authorized cheque signatories.

The chief financial officer must ensure that a bank, insurance company or other financial institution, which at end of a financial year holds, or at any time during a financial year held, an investment for the municipality must;

Within 30 days after the end of that financial year, inform the Auditor-general, in written form about all investment , including the opening and closing balances of such an investment(s) in that particular financial period.

Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-general.

Promptly disclose information of any possible or actual change in the investment portfolio that could or will have adverse effect.

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11. Internal control procedures

An investment register should be kept of all investment made. The following facts must be indicated;

Name of institution

- ⊕ Capital invested
- ⊕ Date invested
- ⊕ Interest rate and
- ⊕ Maturity date

Interest register and accounting records must be reconciled on monthly basis.

The investment register must be examined on a fortnightly basis by the senior official under the discretion of CFO or delegate official, to identify investment falling due within the next two weeks.

An investment plan must then be established for the next calendar month bearing in mind the cash flow prerogative

Interest, correctly calculated, must be received timeously, together with any distributable capital. The chief financial officer or his/her delegated assignee must check that the interest is calculated correctly, in relation to sound universally accepted financial management practices.

Investment document and certificates must be safeguarded in fire resistant safe, with dual custody.

The following document must be safeguarded:

- Ⓞ Fixed deposit letter or investment certificate
- Ⓞ Receipt for capital invested
- Ⓞ Copy of electronic transfer or cheque requisition
- Ⓞ Schedule of comparative investment figures
- Ⓞ Commission certificate indicating no commission was paid on the investment
- Ⓞ Interest rate quoted

All investment must be denominated in the republic of South Africa rand (zar)

The Chief Financial Officer or his/her delegated assignee are responsible for ensuring that the invested funds have been invested with financial institution that is or are inline and approved by the republic of south Africa: national minister of finance, public investors commission or and with rating of AA and endeavor to minimize risk exposure.

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12. Reporting and monitoring procedures

The Municipal Manager must within 10 days of the end of the month submit to the executive committee a report describing in full details the investment and cash flow position of the municipal entity at the end of the of month.

The report must contain a statement, prepared in compliance with generally recognized accounting principles/general municipal accounting principles, that states the

- ⊕ Beginning market value for period
- ⊕ Additions and changes to the market value during
- ⊕ Ending market value for the period
- ⊕ Fully accrued interest/yield for the reporting period
- ⊕ The credit risk rating for the institution whose securities are held by the municipality as at beginning and end of reporting period
- ⊕ Investment disposed due to adverse changes in credit ratings
- ⊕ Diversification of investments
- ⊕ Any investment locked into a time period with an institution that has a rating that is not acceptable according to Fitch, naspers or CA-ratings.

13. Permitted investments

The republic of South Africa national minister of finance may identify by regulation in terms of section 168 of the municipal finance management act instrument or investment other than those referred to below in which municipality may invest:

- ⊕ Deposit with banks registered in terms of banks act1990 (act 94 of 1990)
- ⊕ Securities issued by the national government
- ⊕ Investment with the public investment commissioners as contemplated by the public investment commission act (act no 5 1984)
- ⊕ Listed corporate bonds with an investment grade rating from a nationally or intention recognized credit rating agency
- ⊕ Deposits with the corporation for public deposits as contemplate by the corporation for public deposits act, 1984(act 46 1984)
- ⊕ Banker's accepted certificates or negotiation certificates of deposits of banks registered in terms of the banks act 1990 (act no 94 of 1990)
- ⊕ Municipal bonds issued by municipal
- ⊕ Guaranteed endowment policies with the intention of establishing a sinking fund
- ⊕ Repurchase agreements with banks registered in terms of the banks act 1990(act no 94 1990)

14. Existing investment

Current investments that were not permitted investment at the time of purchase do not have to be liquidated.

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15. Investment diversification

The chief financial officer must ensure that available money is not invested with one institution. Investment will be restricted to institution with a minimum credit rating of [AA].

The maximum term for any investment may be 1 year, other than ceded investments.

16. Use of independent investment managers

Should the need arise to use an investment manager at any time; one will be appointed using supply chain management and practice.

17. Cash management

The chief financial officer, inter-alia, has to ensure financial viability and sustainability of the municipality. In order to achieve this in a sustainable manner the chief financial officer must ensure that internal financial systems and controls are in place that will enable the municipality to detect the mismanagement of funds.

Cash is defined as: Actual cash, cheques, postal orders, and direct deposits into the Municipality's bank account.

Municipal controls regarding the above are as follows:

- ⊙ Cash on hand must be kept in a fireproof lockable safe during periods that it is not under control of the cashier. The Divisional Head or delegated official is responsible for the cash funds during the periods that it is kept in the lockable safe.
- ⊙ All entries that lead to the cashiers must at all times be locked to ensure that unauthorised persons do not gain entry.
- ⊙ The cashier is responsible for the control of cash funds in his / her possession during the day.
- ⊙ Cash amounts should be deposited into municipal bank account daily or the following day before 10 a.m.
- ⊙ Daily cash receipts will be verified for completeness.
- ⊙ All daily cash receipts transactions will be captured onto the Municipality's financial system on the day that the transaction occurs.
- ⊙ A pre-numbered computerised/manual receipt will be generated for each cash-received transaction. Pre-numbered manual receipts, must be issued during periods that the computerised system is not in working order. These issued manual receipts must be balanced and captured onto the computer system as direct deposits the moment that the system is in working order
- ⊙ For cross-reference purposes, the computer receipt number must be attached to the copy of the manual receipt.
- ⊙ The manual receipts must be checked for balancing after they have been captured

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on the computer.

- Ⓢ Access to the cash receiving function on the Municipality's financial system will be controlled by passwords. These passwords must only be known to the cashier and his / her direct supervisor.
- Ⓢ The cashier's float must be checked and set aside from the other cash before commencing the balancing of the receipts for the day.
- Ⓢ RD cheques should be recorded in an RD cheque register.
- Ⓢ A monthly reconciliation must be compiled and the responsible accountant - income must insure that sundry income transactions that appear on the bank statements are captured onto the Municipality's financial system.
- Ⓢ The accountant-income must ensure that the bank and cash on hand control accounts reconcile to the bank reconciliation cashbook balance.
- Ⓢ The Divisional Head or delegated official is responsible for ensuring that sufficient cash funds will be available at all times to ensure that the Municipality will be able to trade as a going concern.

18. Payment of creditors

Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to management and control).

When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.

If discounts are offered for early settlement they must be properly considered and utilized.

Besides this, the normal conditions of credit terms of payments offered by suppliers must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

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19. Bank and cash in terms of the local government MFMA act no 56 of 2003 chapter 3

19.1 PART 1

- ⓐ All names of bank accounts must be changed to the name of the newly created municipality.
- ⓐ New bank accounts must be opened if required
- ⓐ All banks accounts currently held and transferred to the municipality must be accounted for in the new accounting system
- ⓐ The official responsible must ensure that the name change on the accounts has been effected
- ⓐ Every municipality must open and maintain at least one bank account in the name of the municipality
- ⓐ All money received by a municipality must be paid into its bank account in the name of the municipality as per the above mentioned legislative framework

19.2 MANAGEMENT OF STOCK

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

19.3 SHORT AND LONG TERM DEBT

A municipality may only incur debt in terms of MFMA (Act no 56 of 2003). The municipality may incur two types of debt, namely short-term and long terms debt.

19.4 SHORT TERM DEBT

A municipal entity may incur short-term debt only when necessary to bridge:

- ⚡ Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or
- ⚡ Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

19.5 A MUNICIPALITY

- ← Must pay off short-term debt within a financial year and
- ← May not renew or refinance its short-terms debt.

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19.6 LONG TERM DEBT

A municipality may incur long-term debt for purpose of financing its long-term strategic object, as outlined in the constitution of republic of South Africa act no 108 of 1996 and chapter 7 on the local formation (government)

- ⊕ To provide democratic and accountable government for local inhabitants
- ⊕ To ensure the provision of services to inhabitants in a sustainable manner
- ⊕ To promote social and economic development, which is gear at the general welfare of the local inhabitants?
- ⊕ To promote a safe and healthy environment
- ⊕ To encourage the engagement of communities and community organizations in the manner of local governancy

20. Conclusion

The municipal manager in particular and chief financial officer must ensure that the operationalisation of the policy is done in accordance to the prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the municipal council in a written form and recommendation remedial solutions thereof.

21. Policy review

The investment policy must be reviewed annually and be tabled to the municipal council for approval.

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| Signature: | <i>M. P. Malegato</i> |
| Initial & Surname: | <i>M.P. Malegato</i> |
| Designation: | <i>Mayor</i> |
| Council Resolution Number: | <i>0004/2013-64/29/5/13</i> |
| Council Date: | <i>29 May 2013</i> |



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