



CASH MANAGEMENT AND INVESTMENT POLICY

2016 - 2017

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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 municipality
- 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 municipality
- 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 municipality
- 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) a municipality must establish an appropriate and effective cash management and Investment policy in accordance with any framework that may be prescribed in terms of subsection (1) and in terms of Municipal Investment Regulation (GRN 308 of 1 April 2005).

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 Accounting Officer 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 Accounting Officer 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 Accounting Officer 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 municipality.

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 Accounting Officer or chief financial officer or any other senior financial officer authorized by either the Accounting Officer or chief financial officer/ relevant assignee.

The local government municipal system act 32 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



10. Procedures to be followed when making an Investment

The Budget manager must draw up a cash flow of the municipality to identify the surplus cash for investment and submit it to the Chief Financial Officer.

The Chief Financial Officer must review the cash flow and give authorization to the budget Manager to request quotation to three different banks that are registered in terms of the Banks Act.

Upon receipt of quotation, the budget manager prepares a spreadsheet for quotations and attaches the quotations and submits to the Chief Financial Officer for recommendation.

The chief Financial Officer must submit to the Accounting Officer for approval all the necessary documentation

The Chief Financial Officer must forward the documents to the bank that the Investment was accepted.

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. Procedures for Reporting and Monitoring**

An investment register should be kept of all investment made. The register should entail the following:

- Name of institution
- Capital invested
- Date invested
- Interest rate and
- Maturity date

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

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:

- Investment certificate
- Receipt for capital invested
- Copy of electronic transfer
- Schedule of comparative investment figures
- 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 are registered in terms of the Banks Act 94 of 1990, Corporation to the Public Deposit Act 46 of 1984.

Reporting

The Accounting Officer must report to the Mayor within 10 working days of each month and the market value and movements held by the municipality during the period.



12. Approved Investment Types

- 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)
- Any other investment type as a minister may identify by Regulation in terms of section 168 of the Act in consultation with the Financial Services Board.

13. 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].

14. 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.

15. 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

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- 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 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.

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16. 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.

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

17.1 PART 1

- 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

17.2 MANAGEMENT OF STOCK

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

17.3 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.

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17.4 SHORT TERM DEBT

A municipality 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.

17.5 A MUNICIPALITY

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

17.6 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 inhabitant.
- 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

18. Conclusion

The Accounting Officer 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.

19. Performance Evaluation and Benchmarking.

The performance of an Investment policy must be evaluated quarterly. The time weighted yield attributable to the investment policy must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.

A report discussing the performance of the investment portfolio must be submitted to the



Chief Financial Officer within ten working days of the end of each quarter.

20. Policy review

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

Signature:	
Initial & Surname:	
Designation:	
Council Resolution Number:	
Council Date:	