



# **MTUBATUBA LOCAL MUNICIPALITY**

## **BANKING, CASH MANAGEMENT AND INVESTMENT POLICY**

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Management Act No. 56 Of 2003



## 1. DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

- “accounting officer”** means the municipal manager of a municipality;
- “Auditor-General”** means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General;
- “chief financial officer”** means a person designated in terms of section 80(2) (a) of the MFMA), in relation to the municipality refers to the head of the Budget and Treasury Business Unit;
- “creditor”** in relation to a municipality, means a person to whom money is owing by the municipality;
- “debt”** means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability;
- “debt agreement”** means any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time;
- “financial year”** means a year ending on 30 June;

<b>“Investee”</b>	means an institution with which an investment is placed or its agent;
<b>“investment”</b>	in relation to funds of a municipality, means- <ul style="list-style-type: none"> <li>a) the placing on deposit of funds of a municipality with a financial institution;</li> <li>b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;</li> </ul>
<b>“lender”</b>	in relation to a municipality, means a person who provides debt finance to a municipality;
“liquidity”	refers to a financial ability of the municipality or any other company to service its debts when falling due;
<b>“long-term debt”</b>	means debt repayable over a period exceeding one year;
<b>“Long-term investments”</b>	means any cash or liquid securities owned by a municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year;
<b>“MFMA”</b>	refers to the Municipal Finance Management Act, (Act 56 of 2003);
<b>“Minister”</b>	refers to a Cabinet member responsible for finance;
<b>“month”</b>	means one of the 12 months of a calendar year;

<b>“municipal entity”</b>	has the meaning assigned to it in section 1 of the Municipal Systems Act;
<b>“municipality”</b>	refers to uMkhanyakude District Municipality;
<b>“Municipal Systems Act”</b>	means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);
<b>“Policy”</b>	refers to the Cash Management uMkhanyakude District Municipality;
<b>“primary bank account”</b>	means the main bank account referred to in section 8(1) of the MFMA;
<b>“short-term debt”</b>	means debt repayable over a period not exceeding one year;
<b>“Short-term investments”</b>	means any cash or liquid securities owned by the municipality which is having a maturity date and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

## **2. OBJECTIVE OF POLICY**

- 2.1 The Council is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the Municipality's cash resources are managed effectively and efficiently, and in a manner which will ensure that sufficient cash resources are available to finance the capital and operating budgets of the Municipality.
  
- 2.2 The Council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
  
- 2.3 The investment policy of the Municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the Municipality's cash management programme, which must identify the amounts surplus to the Municipality's needs, as well as the time when and period for which such revenues are surplus. To ensure investments that will provide reasonable returns for the Municipality:

- a) The Municipality shall take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care as prescribed in its investment policy, to diversify its investment portfolio across institutions, types of investments and investment maturities.
  
- b) The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.
  
- c) The investment portfolio shall be designed with the objective of attaining a maximum rate of return subject to the investment risk constraints and liquidity requirements of the Municipality.

### **3. SCOPE OF THE POLICY**

This policy applies to Mtubatuba Municipality and any municipal entity established by Mtubatuba Municipality its area of jurisdiction, in terms of the Act; the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

### **4. LEGAL COMPLIANCE**

The Municipality shall at all times manage its banking arrangements and investments and conduct its Cash Management Policy, in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003. A paraphrase of the provisions of this Act is attached as Annexure I to this policy.

### **5. EFFECTIVE CASH MANAGEMENT**

#### **5.1 Cash Collection**

- a) All revenue received by the Municipality must be paid daily its bank account or,

for amounts less than R500, as soon as practicable, but at least by the last working day of the month. However, revenue collected must be receipted daily and locked in a safe until the day in which banking is made. The bank reconciliation should be prepared on a daily basis. Every month end it must reflect agreeing balances between the balances as per bank statement and that arrived at by the Municipality in its bank account in terms of Bank and Cash, as per the Municipal GRAP Manuals. Prepared bank reconciliations must be reviewed by the Chief Financial Officer within five (5) days after the end of each month. The Chief Financial Officer must investigate any irregularities and report them to the Accounting Officer. The respective responsibilities of the Chief Financial Officer and other Heads of Departments in this regard is defined in a code of financial practice approved by the Municipal Manager and the Chief Financial Officer, and this code of practice is attached as Annexure II to this policy.

- b) The unremitant support of and commitment to the Municipality's Credit Control policy, both by the Council and the Municipality's officials, is an integral part of proper cash collections, and by approving the present policy the Council pledges itself to such support and commitment.

## 5.2 Debtor Collections

All monies due to the municipality must be correctly reflected in the debtor system. The following control measures are necessary:

- a) A well managed debtors and banking control system will ensure that funds owed to the municipality are received and banked;
- b) A review of debt collection performance by comparing the debtors outstanding in relation to total turnover and comparing this to previous financial years.
- c) Monies collected by some other agency on behalf of the municipality shall be paid over to the municipality or deposited in the bank account of the municipality in a manner prescribed by the Municipal Manager.

## 5.3 Receipt of money by post

- a) When money (including postal orders and cheques) is received with the Council's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The cheque register shall be regarded as the register of remittances received by post;
- b) The cheque register together with all remittances received must be sent to a designated official in the finance section;
- c) The designated official, on receipt of the cheque register together with the remittances, will code all remittances and submit it to the cashier for receipting;
- d) The cashier will receipt all remittances and issue official receipts to the designated official;
- e) The designated official will record all receipts in the cheque register and return same to registry. The Registry Clerk must ensure that all receipts are recorded in the cheque register;
- f) All documents relating to remittances received in the mail must be filed for audit purposes;
- g) A separate register for post dated cheques will be maintained by the registry strong- room; and the Registry Clerk will ensure that all post-dated cheques, which become due, are sent promptly to the designated official for receipting and recording of receipts in the post-dated cheque register.

## **5.4 Receipt of Payments**

### **5.4.1 Receipt of money over the counter:**

- a) Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a pre-numbered official receipt or cash ticket; and
- b) Every receipt form, which is cancelled, will be reattached, in the correct place, in the receipt book and indicated as cancelled. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

## **5.5 Payments to Creditors**

a)

The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the Municipality stipulate payment terms favourable to the Municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the Municipality. This rule shall be departed from only where there are financial incentives for the Municipality to effect earlier payment, and any such departure shall be approved by the Chief Financial Officer before any payment is made.

b)

In the case of Small, Micro and Medium Enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen (14) days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the Chief Financial Officer before any payment is made.

c)

Notwithstanding the foregoing policy directives, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the Chief Financial Officer determines that there are financial incentives for the Municipality to do so.

d)

The Chief Financial Officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. When considering the timing of payments to creditors, proper consideration must be given to the conditions of credit / terms of payment offered. In cases where a cash discount is offered for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds. If

discounts are therefore offered for early settlement, they should be assessed and utilised if beneficial. 6 In addition, the normal conditions of credit / terms of payment offered by suppliers should be considered and utilised by timing payments so that they are received by the creditor on the due date. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

e)

Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

## **6. Cheque Management**

Cheques are printed in batch format. To prevent the removing of cheques, cheques are delivered in sealed boxes where strict control is exercised over the numerical sequence of cheques on the expenditure system by means of a cheque register.

### **6.1 Delegation/Rights**

The incumbents of the following post are authorized to sign cheques on behalf of Council

### **6.2 Cheques**

**A-Signatories:** Municipal Manager

Chief Financial Officer

**B-Signatories:** Finance Manager

Each payment needs to be signed by at least two A-signatories, or one A-signatory and one B-signatory.

### **6.3 Electronic Funds Transfer (EFT)**

Authorisation same as cheques above

### **6.4 Bank Overdraft**

- 6.4.1 Barring the fact that Council has an approved overdraft facility with its primary banker for possible unanticipated short-term cash flow shortfall, its general policy is to avoid going into overdraft.
- 6.4.2 Short-term debt is incurred based on expected income and must be repaid within the same financial year. (Section 45 of the MFMA)
- 6.4.3 Council set the credit limit for the bank overdraft facility at R6,000,000 (six million rand).
- 6.4.4 The terms of the agreement for the bank overdraft facility, including the credit limit, may be changed only by a resolution of council.
- 6.4.5 Any overdrawn bank account at any date must be reported without avail to Council supported by reasons therefore.
- 6.4.6 Any short term facility that requires review must first be approved by the Accounting Officer.

## **7. Cash Management Programme**

- a) The Chief Financial Officer shall prepare an annual estimate of the Municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either Long-term or Short-term debt must be incurred. Heads of Departments shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.
  
- b) The Chief Financial Officer shall report to the Executive Committee or the Executive Mayor, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or

revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.

- c) The cash flow estimates shall be divided into calendar months, and in reporting the Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the Municipality's investments, together with appropriate details of the investments concerned.

## **8. INVESTMENT ETHICS**

- 8.1 The Chief Financial Officer shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in consultation with the Mayor or Chairperson of the Executive Committee, as the case may be, and in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.
- 8.2. In making such investments the Chief Financial Officer, shall at all times have only the best considerations of the Municipality in mind, and, except for the outcome of the consultation process with the Executive Mayor or Chairperson of the Executive Committee, as the case may be, shall not accede to any influence by or interference from Councillors, investment agents or institutions or any other outside parties.
- 8.3 Neither the Chief Financial Officer nor the Mayor or Chairperson of the Executive Committee, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

## **9. INVESTMENT PRINCIPLES**

### 9.1 Limiting Exposure

Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than institution, wherever practicable, in order to limit the risk exposure of the Municipality. The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

### 9.2 Risk and Return

Although the objective of the Chief Financial Officer in making investments on behalf of the Municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see 6.4 below).

### 9.3 Payment of Commission

Every financial institution with which the Municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

### 9.4 Call Deposits and Fixed Deposits

- a) Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions. Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be

relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

- b) Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).
- c) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party.
- d) Once the investment has been made, the Chief Financial Officer shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

9.5 Restriction on tenure of investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Executive Mayor or the Executive Committee, as the case may be.

**10. INVESTMENT PROCEDURES AND REPORTING**

10.1 After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

10.2 Short-term Investment:

- a) The term of Investment shall not be more than 3 months
- b) Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.

- c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.
- d) Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made.
- e) The person responsible for requesting quotations from institutions must record the following:-
  - i. name of institution;
  - ii. name of person quoting rates;
  - iii. period of the investment
  - iv. relevant terms; and
  - v. other facts i.e. are interest payable monthly or on maturation date.
- f) Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
- g) No attempts must be made to make institutions compete with each other.
- h) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
- i) The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.
- j) The financial institution where the investment is made must issue a faxed or written confirmation stating the details of the investments.
- k) The Chief Financial Officer must ensure that the investment document received is authentic.

- l) The financial institution, where the investment is made, must issue a confirmation for each investment made stating 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.
- m) The Council must be given a quarterly report on all investments.
  - i. The Accounting Officer of the Municipality must within ten (10) working days of the end of each month submit to the Mayor of the Municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of the Municipality as at the end of the month.
  - ii. The report referred to in subsection(i) above and as set out in the Government Gazette No:27431, published Municipal Investment Regulations, must set out at least:-
    - the market value of each investment as at the beginning the reporting period;
    - additions and changes to the market value during the period;
    - ending market value for the period;
    - fully accrued interest/yield for the reporting period.
- n) Where money is kept in current accounts, the Municipality must bargain for more beneficial rates with regards to deposits.

#### 10.3 Long-term investments:

- a) Written quotations must be obtained for all investments made for periods longer than twelve months.
- b) The prior approval of the Mayor or the Executive Committee must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

#### 10.4 Re-investment

- a) Upon maturity of the investment the Council:-

- i. Shall withdraw the whole amount invested
- ii. Shall make quotations from various Financial Institutions approved by Council, and
- iii. Shall re-invest 100% interest plus the original amount that had been invested, unless if Council wishes to utilise the original money or the interest.

## **11. CONTROL OVER INVESTMENTS**

- 11.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate the following facts:
  - a) Name of institution;
  - b) capital invested;
  - c) date invested;
  - d) interest received;
  - e) interest rate;
  - f) maturation date;
  - g) capital repaid; and
  - h) balance invested.
- 11.2 The Chief Financial Officer shall ensure that all interest and capital properly due to the Municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.
- 11.3 The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the Municipality's bankers or attorneys.

## **12. OTHER EXTERNAL INVESTMENTS**

- 12.1 From time to time it may be in the best interests of the Municipality to make longer-term investments in secure stock issued by the National Government,

Eskom or any other reputable parastatal or institution, or by another reputable municipality. In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the Municipality requires, and to the best and most secure instrument available at the time.

12.2 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Executive Mayor or Executive Committee, as the case may be, and without guidance having been sought from the Municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

Council will only make investments with approved institutions which have an **A** rating as per

12.3 Not more than 30% of available funds will be placed with a single institution.

12.4 Council must regularly monitor its investment portfolio and when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in 4.4.1 above.

## **13. INTERNAL CONTROLS OVER INVESTMENTS**

### **13.1 Delegations**

In terms of section 79 of the MFMA Act, the Accounting Officer has delegated to the Director: Finance(CFO), in writing, his duty under section 65(2)(h) to manage the councils available working capital effectively and economically in terms of the prescribed cash management and investment framework. The CFO has sub delegated this duty to the Manager Financial Administration.

### **13.2 Concluding deals**

Written mandates, signed by the Municipal Manager and the CFO, shall be issued to all investees with whom the Council of Mtubatuba invests funds setting out the following:

- I. 4.6.2.1 Authorised dealers: name and particulars of the Councils officials who are authorised to transact investments deals with the investees;

- II. 4.6.2.2 Authorised signatories: name and particulars of the Councils officials who are authorised to sign written confirmations or any other correspondence in respect of investments transactions.
- III. 4.6.2.3 A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee. The Manager Financial Administration, together with any one of the authorised signatories referred to above, shall be authorised to approve the transaction.
  - a. A written confirmation of the terms of each investment transaction shall be prepared, and signed off by the Manager Financial Administration and the CFO.

### **Ownership**

- 4.7.1 All investments must be made in the name of the Mtubatuba Local Municipality.
- 4.7.2 Written proof of investments made must be obtained from the institution where the investment is made and must be kept on file.
- 4.7.3 Council may not borrow money for the purposes of investment.

### **13.4. DUE CARE**

- 13.4.1 In dealing with financial institutions, the following ethical principles must be observed:
- 13.4.2 The Chief Financial Officer and all staff in his/her directorate shall not accede to any influence by or interference from Councillors, investment agents, institutions or any other outsiders.
- 13.4.3 Under no circumstances may inducements to invest be accepted
- 13.4.4 Interest rates quoted by one institution must not be disclosed to another institution; and
- 13.4.5 The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.
- 13.4.6 Investments must be made with such judgement and care, under prevailing circumstances like a person of prudence, discretion and intelligence would exercise.
- 13.4.7 Investment may not be made for speculation but must be a genuine investment; and
- 13.4.8 Investments must in the first instance be made with the primary regards being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality and lastly to the probable income derived from the investment.

## **14 BANKING ARRANGEMENTS**

- 14.1 The Municipal Manager is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Executive Committee or the Executive Mayor, as the case may be, on a monthly basis, as part of the report dealing with the Municipality's investments.
- 14.2 In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the Municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the Municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the Municipality.
- 14.3 The Municipal Manager shall invite tenders for the placing of the Municipality's bank accounts within six months after the election of each new Council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the

Municipal Manager, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the Municipality's current bankers are materially defective, or not cost-effective, and the Executive Mayor or the Executive Committee, as the case may be, agrees to the invitation of such tenders.

#### 14.4 The primary bank account

In terms of section 7(1) of the MFMA, the municipality must open and maintain at least one bank account in its name. All money received by the municipality must promptly be paid into its bank account or accounts. The municipality may not open a bank account abroad, with an institution that is not registered as a bank in terms of the Banks Act 94 of 1990, or otherwise than in the name of the municipality.

The municipality must have a primary bank account. If the municipality only has one bank account, that account is its primary bank account. However, if the municipality has more than one bank account, it must designate one of its bank accounts as the primary bank account.

The Municipal Manager must submit to the National Treasury, Provincial Treasury and the Auditor- General, in writing, the name of the bank where the primary bank account of the municipality is held and the type and number of the account.

If the municipality decides to change its primary bank account, it may do so only after the Municipal Manager has informed the National Treasury, Provincial Treasury and the Auditor- General, in writing, at least 30 days before effecting the change.

The following monies must be deposited into the municipality's primary bank account:

- i. All allocations to the municipality, including those made to it for transmission to an external service-delivery mechanism assisting the municipality in the performance of its functions;
- ii. All income received by the municipality on its investments;
- iii. All income received by the municipality in connection with its interest in any municipal entity, including dividends;
- iv. All money collected by an external-delivery mechanism on behalf of the municipality and v. Any other monies as the Minister of Finance may prescribe by regulation.

The transfer of an allocation of money by another organ of state in the national, provincial or local sphere of government to the municipality must be made through the municipality's primary bank account.

## **14.5 Collection and Banking of Revenue**

- 14.5.1 The Municipal Manager must implement and enforce the municipality's credit control and debt collection policy and by-laws and establish effective administrative mechanisms, processes and procedures to collect money that is due to the municipality. All monies due to the municipality must be collected as soon as possible, either before or on the due date.
- 14.5.2 The Budget and Treasury Office must receive all payments. No cash payment may be accepted unless an official receipt can be issued immediately.
- 14.5.3 The Chief Financial Officer must ensure that all monies received by any department other than the Budget and Treasury Office are regularly paid to his/her department, or alternatively, deposited into the bank account of the municipality designated by the Chief Financial Officer.
- 14.5.4 All monies received must be deposited in the municipality's bank account(s) not later than the first working day after its receipt.
- 14.5.5 In respect of monies received at smaller cashiers offices of the municipality (i.e. where receipts are small amounts), the Municipal Manager:
- i. Shall make appropriate arrangements to ensure that all monies received are deposited into the municipality's bank account, as designated by the Chief Financial Officer, as often as practicably possible, or alternatively, the risk of keeping cash on the premises should be adequately addressed;
  - ii. May appoint another party, which may include the South African Post Office, to receive payments on behalf of the municipality.
- 14.5.6 Every departmental head must, without delay, notify the Chief Financial Officer in writing of any monies due to the municipality and the reasons why such monies are owed must be explained in such notification. All amounts owing to the municipality must be levied by way of a debit in the applicable debtors system.
- 14.5.7 The Chief Financial Officer shall ensure that:
- i. All revenues are properly accounted for; and
  - ii. The municipality's accounting system recognises revenue when it is earned and accounts for debtors and receipts of revenue.
- 14.5.8 Permissible Methods of Payment

A debtor may settle his/her debt with the municipality by:

- i. Cash payment or payment by cheque at a pay point of the municipality;
- ii. Posting of a cheque by prepaid ordinary post to the municipality or postal orders;
- iii. Stop-order in favour of the municipality against his/her bank account; or iv. Direct deposit or EFT into the municipality's bank account.

14.5.9 In order to reduce the risk of theft and fraud, the Chief Financial Officer shall encourage debtors to effect payment by any method in paragraph 6.7.1 (iii) and (iv).

14.5.10 A debtor who settles his/her debt to the municipality using a payment option other than that stipulated in paragraph 6.7.1 (i) shall ensure that his/her account number with the municipality is clearly indicated on any deposit slip or other confirmation of payment issued.

#### **14.5.11 Receipts**

The receipt of all monies must immediately be recorded by means of a pre-numbered / system generated official receipt.

No alterations shall be made to a receipt or other for of acknowledgement of payment.

Any error that appears on a receipt must be corrected by issuing a new receipt and the cancellation of the erroneous one.

Every cancelled receipt must be returned to its proper place in the receipt book, or in the absence of a receipt book, file according to the instructions of the Chief Financial Officer.

Any cash surplus found at any time must immediately be declared, a receipt issued for the amount of such surplus and deposited without delay into the municipality's bank account.

Any cash deficits must immediately be reported and made good in accordance with the instructions of the Chief Financial Officer.

#### Security of cash at pay points

The municipal manager shall:

- i. Regularly, in co-operation with the Chief Financial Officer and the Internal Auditor, assess the impact and likelihood of loss to monies received due to theft, robbery or fraud or its destruction; and
- ii. Implement such measures as may be necessary to reduce the risk of loss through theft, robbery or fraud or its destruction.

Nobody shall instruct or permit an employee who is responsible for receiving payments made to the municipality not to comply with any security measures or procedures prescribed by the Municipal Manager in terms of paragraph 6.9.1 (ii).

Whenever loss or destruction of monies received occurs, the Chief Financial Officer shall report the loss to the Internal Auditor who shall:

i. As soon as practicable after he/she became aware of the matter:

Report the matter to the Internal Auditors for investigation of the circumstances of the loss or destruction; and

Determine the amount of the loss or damage the municipality suffered;

ii. Take appropriate to:

Recover any loss the municipality may have suffered; and

Prevent a recurrence of the event; and iii. In appropriate cases:

Institute disciplinary action; and

#### **15 Report the matter to the South African Police Services.**

An employee who fails or refuses to implement or to comply with any security measures and procedures prescribed by the Municipal Manager in terms of paragraph 6.9.1 (ii) shall be guilty of a disciplinary offence. In any disciplinary enquiry pursuant to paragraph 6.9.3 (iii) it shall not be a defence for an employee or a councilor if it is found that he/she did not comply with any security measures or procedures prescribed by the Municipal Manager.

#### **16 PETTY CASH PROCEDURES**

All petty cash procedures relating to viz:-

- a. Petty Cash Limits;
- b. Petty Cash Custodians per Department/ Directorate;
- c. Banking/ Reconciliation of Cash Floats;
- d. Petty Cash Requisitions and Authorisations;
- e. Petty Cash Registers;
- f. Supporting documents, etc.

Petty cash shall be handled in terms of the Petty Cash Policy of the Municipality as determined by the Chief Financial Officer.

#### **17. RAISING OF DEBT**

- 17.1 The Municipal Manager is responsible for the raising of debt, but may delegate this function to the Chief Financial Officer, who shall then manage this responsibility in consultation with the Municipal Manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the Council.
- 17.2 Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.
- 17.3 Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the Chief Financial Officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.
- 17.4 All borrowing costs arising from short and long-term debts shall be dealt with in accordance with GRAP 5.

**18. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

- 18.1 In managing the Municipality's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the Municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the Council at the time that the loan itself is approved.
- 18.2 If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account

maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

**19. INTEREST ON INVESTMENTS**

19.1 The interest accrued on all of the Municipality's investments shall, in compliance with the requirements of Generally Recognised Accounting Practice (GRAP), be recorded in the first instance in the Municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

19.2 In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

19.3 If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the appropriation account and re-appropriated to the asset financing reserve.

**20. ANNUAL REVIEW OF POLICY**

This policy on investments will be reviewed annually or earlier if so required by legislation. Any changes to the investment policy must be adopted by council and be consistent with the Act and any National Treasury regulations.

**21. POLICY ADOPTION**

This policy has been considered and approved by the Council of the **Mtubatuba Municipality** on this day..... of ..... 2015

## **ANNEXURE I**

### **PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003**

Note: In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000 the council may delegate the authority to take decisions on making investments on behalf of the municipality only to the executive mayor, executive committee or chief financial officer. The foregoing policy is based on the assumption that such authority has been delegated to the chief financial officer.

#### **SECTION 7: OPENING OF BANK ACCOUNTS**

Every municipality must open and maintain at least one bank account. This bank account must be in the name of the municipality, and all monies received by the municipality must be paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise than in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990.

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

#### **SECTION 8: PRIMARY BANK ACCOUNT**

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality;
- all income received by the municipality on its investments;
- all income received by the municipality in connection with its interest in any municipal entity;
- all money collected by a municipal entity or other external mechanism on behalf of the municipality, and;
- any other monies as may be prescribed.

The accounting officer of the municipality must submit to the national treasury, the provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

#### **SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR-GENERAL**

The accounting officer of the municipality must submit to the provincial treasury and to the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

#### **SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS**

The accounting officer of the municipality must administer the entire municipality's bank accounts, is accountable to the municipal council for the municipality's bank accounts, and must enforce compliance with Sections 7, 8 and 11 of the present Act.

The accounting officer may delegate the duties referred to above only to the municipality's chief financial officer.

#### **SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS**

Only the accounting officer or the chief financial officer of the municipality (presumably where this power has been appropriately delegated), or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget;
- defray expenditure authorised in terms of Section 26(4) (this Section deals with situations in which the budget was not timeously approved, and the province has been compelled to intervene);
- defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1);
- in the case of a bank account opened in terms of Section 12, make payments from the account in accordance with Section 12(4);
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- refund money incorrectly paid into a bank account;
- refund guarantees, sureties and security deposits;
- make investments for cash management purposes in accordance with Section 13;
- defray increased expenditure in terms of Section 31; or
- for such other purposes as may be prescribed.

(Note that Section 11(1) does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget; to repay loans; or to repay consumer deposits). Any authorisation to a senior financial official to withdraw money or to authorize the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The accounting officer may not authorise any official other than the chief financial officer to withdraw money or to authorise the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank

account which is separate from its other bank accounts. The accounting officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget, and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

## **SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS**

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

## **SECTION 13: CASH MANAGEMENT AND INVESTMENTS**

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must, within 30 days after the end of

such financial year, notify the Auditor-General, in writing, of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year. The bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General.

A bank, insurance company or other financial institution which the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

#### **SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS**

The following documents must accompany each tabled draft annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source, divided into calendar months
- particulars of the municipality's investments.

#### **SECTION 22: PUBLICATION OF ANNUAL BUDGETS**

The accounting officer must make public, immediately after a draft annual budget is tabled, the budget itself and all the prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

#### **SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES**

In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the accounting officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the national treasury or the relevant provincial treasury as may be appropriate, of all proposed allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for finance in the province must, when tabling the national annual budget in the national assembly or the provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

#### **SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES**

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of every municipality responsible for the transfer of any allocation to another municipality, must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

#### **SECTION 45: SHORT-TERM DEBT**

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic income to be received within that financial year; or to bridge capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

The council may approve a short-term debt transaction individually, or may approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that the credit limit must be specified in the resolution of the council; the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and if the council approves a credit facility limited to emergency use, the accounting officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

The municipality must pay off short-term debt within the financial year in which it was incurred, and may not renew or refinance short-term debt, whether its own debt or that of any municipal entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

#### **SECTION 46: LONG-TERM DEBT**

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in Section 152 of the Constitution; or refinancing existing long-term debt subject to the requirements of Section 46(5).

#### **SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONGTERM DEBT**

The municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

#### **SECTION 64: REVENUE MANAGEMENT (EXCERPTS)**

The accounting officer of the municipality is responsible for the management of the revenue of the municipality. The accounting officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The accounting officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The accounting officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis, and that such funds are not used for purposes of the municipality.

#### **SECTION 65: EXPENDITURE MANAGEMENT (EXCERPTS)**

The accounting officer of the municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The accounting officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The accounting officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

## **CODE OF PRACTICE IN REGARD TO PAYMENTS, REVENUE COLLECTION AND STORES**

### **1. STORES ADMINISTRATION**

The chief financial officer shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any head of a department, such head of the department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the chief financial officer, acting in consultation with the head of department concerned. No sub-store may be established without the prior written consent of the chief financial officer

### **2. CONTRACTS: MANAGEMENT OF**

Within such general buying and related procedures as the chief financial officer shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined by the Executive Mayor or executive committee, as the case may be:

- all buying contracts shall be administered by the chief financial officer, and all payments relating to such contracts shall be authorised by the chief financial officer or the head of department concerned; and
- all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorised by such head of department in accordance with the provisions of Section 3 below. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the chief financial officer for payment.

### **3. PAYMENTS**

- 3.1 All payments, other than petty cash disbursements, shall be made through THE MUNICIPALITY's bank account(s).
- 3.2 The chief financial officer shall draw all cheques on this account, and shall, in consultation with the municipal manager and with due regard to the council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the municipal manager decide on appropriate signatories.
- 3.3 All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the chief financial officer. Such vouchers shall be authorised in terms of such rules and procedures as are determined from time to time by the chief financial officer.
- 3.4 The maximum amount and nature of petty disbursements, where not covered by the general buying procedures referred to in Section 2, shall be generally determined from time to time by the chief financial officer. No cash float shall be operated without the authority of the chief financial officer, who may prescribe such procedures relevant to the management of such float as are considered necessary.
- 3.5 The chief financial officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors, and for the determination of the payment system to be used.

#### **4. REVENUE AND CASH COLLECTION**

- 4.1 Every head of department shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.
- 4.2 The chief financial officer shall ensure that all revenues are properly accounted

for.

4.3 The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the chief financial officer in terms of any policies determined by the council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the chief financial officer shall report the matter adequately and timeously to the finance and executive committees.

4.4 The chief financial officer shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

## **5. BANKING OF RECEIPTS**

5.1 Guidelines and procedures for the banking of cheques and other receipts shall, if necessary, be determined from time to time by the chief financial officer.

5.2 Where applicable, every head of department shall ensure that all revenues are banked daily with the Municipality's banker(s), or less frequently if so approved by the chief financial officer.