



Cash and Investment Management Guidelines

MUTALE LOCAL MUNICIPALITY

POLICIES: CASH MANAGEMENT POLICY

CASH MANAGEMENT POLICY

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1. Cash Management Policy

1.1 Introduction

This document is provided to assist management and employees of Mutale Municipality and to implement and maintain consistent, effective and efficient cash management principles

The objectives of this document are:

- To safeguard cash resources of mutale municipality and to ensure the effective, efficient and economical use thereof; and
- To gain the highest possible return on investment, within the framework prescribed on permitted investments, during period when excess funds are not being used,
- To emphasize a culture of accountability over mutale municipality's cash

This policy supersedes all financial policy instruction that have previously been issued.

Failure to comply with the prescribed guidelines will results in the institution of disciplinary procedures in terms of the stipulated human resources policies and procedures of mutale municipality.

1.2 General Treasury Regulations

In terms of the municipal Finance management bill a municipality must establish appropriate and effective cash management in accordance with framework prescribed by national treasury.

- Collecting revenue when it is due and banking it properly
- Making payments, including transfers to other levels of government and non government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments;
- Avoiding pre-payments for goods or services(i.e. payments in advance of the receipts of goods or service),unless required by the contractual arrangement with supplier;
- Accepting discount to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury
- Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the municipal are collected and banked promptly;
- Accurately forecasting the institution's cash flow requirements;

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- Timing the inflow and outflow of cash;
- Recognizing the time value of money, i.e. economically, efficiently, and effectively managing cash;
- Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery and selling surplus or underutilized assets.
- Performing bank reconciliation's on a daily basis to detect any unauthorized entries; and
- Ensuring that dishonored warrant vouchers and cheques are followed up immediately.

1.3 Strategy

First steps to be taken in addressing cash flow difficulties are:

- Ensuring that the IDP, budget and tariff structure are accurate and valid
- Compiling a proper business plan to be discussed with financial institutions and provincial government, to ensure that sufficient resources be made available to avoid liquidity and/or going concern problems.
- Implementing and monitoring sufficient controls and systems.(This would include ensuring that all funds are collected and banked promptly, and monitoring debt collection ratios)
- Utilizing professional to investigate organizational restructuring to ensure Council concentrate on the core business units and make recommendations on privatization, other cost saving measures and to investigate that necessary skills and training are obtained to ensure best value for the consumers and ratepayers.
- Ensuring that adequate systems, skills and capacity are available to ensure that accurate cash flow forecasts are compiled that must lead to budget adjustments if necessary
- The responsibility of cash management lies with the municipal manager and the Chief Financial Officer. The performance of this function may be delegated to subordinates; this however does not alleviate the responsibility of the municipal Manager and Chief Financial Officer.
- The Municipal Manager must open any new bank account new bank account in accordance with statutory regulations. (This may lead to the municipality informing national treasury of any new bank account opened)
- Only municipal Manager or the person to whom such authority has been delegated, may open a bank account

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- Bank reconciliations should be performed weekly and the CFO should review such reconciliations monthly
- Cash flow forecasts are to be prepared daily, and changes in debt collection ratio's and spending patterns should be aligned (adjusted) to the cash flow forecasts and the budgets.

2. Investment policy

2.1 Introduction

All surplus of the municipality will be subject to the investment policy of the council.

Investment policies have to be reassessed regularly to keep up with industry norms.

Counter-party credit risk has to be reassessed based on the credit rating of the financial intuitions in which investments are held, or in which investment are intended to be made.

Investment instruments have to be assessed based on liquidity requirements, therefore any monies not necessary for the current operating expenditure of the municipality will be subject to the investment policy.

All counter parties have to be selected through a credit risk analysis

2.2 Statutory Guidelines

The minister may with the concurrence of the minister of finance by notice in the Gazette determine instruments or investments other than those referred to below in which municipality may invest (Local Government Transition Act No.209 of 1993, section 9, paragraph (b))

- Deposits with banks registered in terms of the banks Act,1990(Act No.94 of 1990)
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public deposits Act,1984(Act No.46 of 1984)
- A municipality's own stock or similar type of debt;
- Internal funds of a municipality which have been established in terms of a law to pool money available to the Municipality and to employ such money
- Money for the granting of loans or advances to departments within a municipality to finance capital expenditure;
- Bankers, acceptance certificates or negotiable certificates of deposits of banks;

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- Long term securities offered by insurance companies in order to meet the redemption fund requirements of the Municipalities; and
- Any other instruments or investments in which a Municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996: Provided that such instruments shall not be extend beyond the date of maturity or redemption thereof.

2.3. Strategy

An investment portfolio committee should be established to monitor investments activities of the municipality

The manual of delegation should indicate the authorization for the various limits of investments to be made or withdrawn.

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

Implementing and monitoring sufficient controls and systems. (This would include reconciling investments to certificates, or reconciling interest recalculation)

3. Cash management Guidelines

Most of the under mentioned factors are prescribed by legislation. Items overlap with the revenue management policy. These policies will need to be considered and updated in tandem. The overriding philosophy of cash management is to collect more cash than is necessary to spend. In doing so, all policies of the municipality should be adhered to.

3.1 Cash Receipts of funds

Control should be implemented to ensure the completeness of revenue. The revenue guidelines should be applied simultaneously in this aspect.

- All direct deposits and cash received from customers should be recorded, and a sequential/numerical receipt should be issued for every cash transaction entered into.
- All copies of cancelled receipts should be retained.
- Daily receipts should be reconciled to till slips, debtors and income accounts, and actual cash.
- Sufficient physical controls should be implemented over cash and transit of cash
- Sufficient security controls should be implemented in the municipalities' premises that would prevent theft and fraud.
- Cash should be banked daily with the use of a security company
- Once the cash is banked, the deposits slips should be reconciled to the daily receipts summary and authorized as correct

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- Variance reports should be prepared daily for non reconciling items. These variance reports should be followed up and reviewed by a senior official daily.
- Sufficient controls should be implemented to allocate direct deposits to individual debtor accounts. Customers should be warned that if no reference to their account can be obtained from the deposit slip, their accounts would not be credited.
- Unfavorable cash collection ratios should be followed up in line with the revenue guidelines.

3.2 Cash payments of funds

In order to realize the benefits of expenditure management, the municipality should be structured to be cost effective. Staff structures should be efficient, effective and economical in order for the municipality to realize the benefits of economies of scale.

- All payments should adhere to the municipality's procurement policy
- Creditors should be paid in lines with budgets, cash flow forecasts, and limits in terms of the delegation of authority.
- Advantage should be taken of good credit terms and early settlement of discounts
- Payments should only be made for services/goods once delivery has taken place
- Preventative maintenance should be conducted to avoid increased future costs
- Adequate buffer stock should be kept to take advantage of price increases, at the same time redundant stock should not be purchased
- Wasteful and unnecessary expenditure should be avoided.
- The principles of time value of money should be taken into account when payments are made'
- All aspects of the treasury guidelines (See section 2) in the policy should be adhered to at all times.

3.3 Bank reconciliations

The following procedures and systems should be in place.

Refer to drawer cheques

Accounts should immediately be debited with cheque amount and bank costs.

The normal credit control procedures should apply

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“RD” cheques should be recorded in a register to follow up the replacement thereof with cash per Department or to record the approval for the write off thereof.

“RD” cheques not replaced by cash should be recorded in the cashier’s system to minimize the acceptance of another cheque from the same person/establishment.

Proper recording of cheques received (Cheques lost in transit)

The purpose for recording is:

- To have information on date of cheques received and to determine the validity of interest on late payments
- To reconcile cheques received and cheques recorded on cashier systems
- To have a complete database of cheques received, especially to follow up cheques lost in transit. To prevent financial loss and unnecessary complaints from clients, the following detail should be recorded:
 - Name of drawer
 - Cheque account and sequence number
 - Amount of cheque
 - Reference to account number

Due to capacity problems, we recommend an efficient scanning system to address the recording of cheques lists; this is to be used for the recording of cheque deposits slips as well. A database thereof will ensure efficient follow up of receipts not deposited in the bank.

Minimize other deposits variances

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

- Ensure that cashier deposits and cashbook deposit entries are the same per bank transaction.
- Electronic payments to council should be net commission or admin fees. (Arrange with service suppliers to charge commission and other administration fees separately, or distinguish between administrative costs and income per account by program with a proper bank reconciliation system.)
- Arrange with service suppliers always to provide account numbers per electronic payments, and to accept payments without account detail.
- A proper bank reconciliation system will minimize matching problems by the availability of many matching options by special programs to address matching problems. (To remove commission/admin fees from certain electronic transfers)

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- Deposits through cash book and not through bank represent a high risk area, and should be immediately and thoroughly investigated.

Follow up of outstanding cheques

Outstanding cheques should always be followed up to prevent unnecessary legal action or interest payments. Therefore, outstanding cheques that cannot be traced (taking delivery time into consideration) should immediately be cancelled and be replaced with other cheques.

Cheques through bank and not through cashbook represent a risk area, and should be immediately and thoroughly investigated.

Controls to minimize cash, cheque and electronic payment fraud

A proper internal control system on cash cheques and electronic should be in place to prevent / minimize fraud. The following main controls should be in place:

- Proper controls on receipting system
- Sufficient controls on depositing of money
- Proper authorization of all payments
- Proper crossing of cheques received and issued
- Proper safeguarding of cheques (Cheques not yet issued and cheques already through bank)
- Proper issuing of cheques to prevent theft
- Sufficient insurance to minimize the effects of theft and robbery

3.4 Updating budgets and cash flow forecasts

Factors to be considered in preparing accurate cash flow forecasts include the following

The efficiency and effectiveness of the bank reconciliation system in use

The system should be efficient, effective and user friendly to ensure prompt reconciliation between bank and cashbook. The bank reconciliation should be performed on a daily basis.

It is of utmost importance that the bank reconciliation be updated on a daily basis for cash-flow forecasting purposes and to enable management in making recommendation to council to adjust the budget if necessary

Without realistic cash inflow and outflow the cash flow forecasts will not be relevant. Budgets should therefore be prepared taking into account debts collection ratio's and

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actual expenditure patterns to avoid the misconceptions that funds are available for spending.

3.5 Documents

The CFO should ensure that following documents are as follows

- Cancelled cheques in cheque sequence
- Cheque requisitions in cheque sequence
- Deposit slips in date order
- Bank statement in date order
- Retuned cheques with supporting documentation in cheques number order
- Cash book in date order
- Bank reconciliations in date order
- Securities in date order
- Direct deposits amount with supporting documentation in date order

4. Investment guidelines

All investment should be made in line with statutory regulations (ordinance requirements, GAMAP, the Local Government Transition Act, and the municipal finance management bill (when enacted)

Surplus funds should be reviewed monthly by the cfo, and were such surpluses are not necessary for the current operation or capital expenditure; it should be invested within 10 term working days

Cash flow forecast should be prepared to determine whether surplus funds should be invested long term or short term.

Prior to approving any investment the CFO should review counter-party credit risk based on credit ratings and submit recommendations to the municipal manger.

The municipal manger and the investment committee should select all counter parties through credit risk analysis, and then a list has to be prepared of all prospective counter parties.

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Any employee that has an interest in any of the above investment institutions should disclose his/her interest and be prevented from making a decision in respect of that entity.

From the list of counter parties, the investment committee has to select at least 3 institutions in order of credit risk analysis.

Requests for proposal should be issued to these 3 institutions requesting them to provide quotations for all details of the investments (i.e. interest rates offered, time frames, maturity values, confirmed values etc.)

Not more than 20% of the funds of the municipality should be invested within a single institution, and the investment should not exceed 10% of the relevant institutions shareholders funds.

The CFO and municipal manger should establish limits per investment institution and the investment committee and council should approve those limits annually. (The institutions should be in line with guidelines issued in the policy (see section 2 of the policy)). Were possible at least the capital values of the investments should be secured.

The CFO and municipal manager should determine the investment limits per instrument that has to be approved by the investment committee and council annually. (These should be made in line with guidelines issued in the policy (See section 2 of the policy)).

When an investment needs to be enchased or invested, the CFO must submit a recommendation to the municipal manger, as to why.

The municipal manger after consultation with the investment committee will then authorize the institution, instrument, and the amount to be withdrawn or invested by signing the transfer approval, and submitting it to the CFO for processing.

The CFO will sign the transfer approval and make the transfer to or from the municipality's bank account.

A register of investments should be maintained by the CFO

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The CFO should prepare reconciliation between the transfer approval, the confirmation received, and the investment register, and he/she should sign the reconciliation as correct monthly.

Investments withdrawn and made should only be posted to the general ledger by the CFO

The accountant should reconcile the investment in the general ledger to statement, and transfer approvals monthly.

Interest earned on investments should be recalculated and agreed to the confirmations

The reconciliation has to be approved by the CFO, and he/she to sign it as correct

The CFO should monitor the limits of investments weekly and any major abnormalities to the attention of the municipal manager and investments committee immediately

An investment report on the performance of investment should be compiled monthly by the CFO, and submitted to the municipal manager.

The municipal manager should compile a monthly on investment to the investment committee and council.

5. Conclusion

This policy aims to ensure effective and efficient cash management by the Mutale Municipality. It should be viewed as a dynamic instrument on those aspects of the policy which are informed by legislation and generally accepted accounting practices and will be subject to revision in response to changes, as and when they occur.