



Zululand
District Municipality

CASH MANAGEMENT POLICY FINAL

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1 DEFINITIONS

- **Accounting Standards Board** is a legislative entity established by chapter 11 of the Public Finance Management Act No.1 of 1999 to set standards of generally recognized accounting practice as required by section 216 (1) (a) of the Constitution.
- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Fair value** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
- **GRAP-** general recognized accounting practice as required by section 216. (1) (a) of the Constitution to ensure transparency and expenditure control.
- **Interest** money born from investment, which is expressed in a form of percentage rate over a certain period and reflects the rate of exchange of present consumption for future consumption.
- **Investment** means the placing the funds of the municipality on deposit with a financial institution to obtain interest or the equivalent.
- **Liquidity** means the ability to make funds available to meet all anticipated obligations and maintaining a prudent reserve to meet unanticipated cash requirements. It is also the ability to change an investment into its cash equivalent on short notice.
- **Long-term investments** are funds not immediately required and deposited for a period exceeding one year, either as security to loans obligations or as an interest earning investments.
- **Maturity** is the date upon which the principal or stated value of an investment becomes due and payable.
- **Municipality** refers to Zululand District Municipality.

- **Municipal Manager or Accounting Officer** means a person appointed in terms of section 82 of the Municipal Structures Act.
- **Policy** refers to the Cash Management Policy of Zululand District Municipality.

- **Risk Analysis** means that the overall value of funds shall not be diminished in the process of securing and investing those funds or over the duration of the investment.
- **Short-term investments** are funds not immediately required and deposited for a period not exceeding one year.
- **Trust money** is the money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Municipal Financial Management Act.
- **The Act or “MFMA”** means the Municipal Financial Management Act (Act 56 of 2003)
- **The Regulation** means is the Municipal Investment Regulation No. R 308 Gazetted on 1 April 2005 in Gazette number 27431.

2 OBJECTIVES

2.1 *Primary Objective*

This policy gives effect to the requirements to implement a Cash Management policy as stated in the Municipal Financial Management Act no 56 of 2003 section 13(2) being.

“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).”

2.2 *Specific objectives*

- To ensure Zululand District Municipality and its Chief Financial Officer, as trustee of public funds, exercise their obligation to ensure that cash resources are preserved and safe guarded against loss.
- To ensure that the MFMA requirements regarding bank accounts are adhered to.
- To ensure the cash resources of Zululand District Municipality are

managed in the most efficient, effective, and economical manner possible.

- To ensure that the Municipality will function as a viable going concern.
- To ensure the liquidity needs of the Municipality are appropriately planned and provided for through cash flow projections.
- To ensure compliance and transparency in all processes.
- To ensure that all monies due to Council are collected, receipted, safeguarded, and banked appropriately when they are received.
- To ensure that payments to creditors are made within the legislative timeframe (30 days).

3 SCOPE

- This policy covers all Cash and Cash related transactions belonging to Zululand District Municipality.
- This policy covers all Cash and Cash related Transactions by all municipal entities of the Municipality.
- This policy covers all Cash and Cash related transactions by all bodies holding surplus funds or cash belonging to Zululand District Municipality.

This policy does not cover.

- General Investment, Funding or Reserves Management outside of the scope above (Refer to the “Investment Policy” and “Funds and Reserves Policy”).

4 RESPONSIBILITIES AND ACCOUNTABILITIES

4.1 Statutory Delegations

- The Municipal Finance Management Act, 2003, paragraph 81 (1) “The Chief Financial Officer of a municipality –
 - (c) must assist the Accounting Officer in the administration of the Municipality’s bank accounts and, in the preparation, and implementation of the Municipalities budget.
 - (e) must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review, and other duties as may in terms of Section 79 be delegated by the Municipal Manager to the Chief Financial Officer.
- The Municipal Finance Management Act, 2003, paragraph 82 (1) “The Chief Financial Officer of a Municipality may sub-delegate any of the duties referred to in Section 81(1)(b), (d) and (e)—
 - (a) to an official in the budget and treasury office.
 - (b) to the holder of a specific post in that office; or
 - (c) with the concurrence of the Municipal Manager, to—
 - (i) any other official of the Municipality; or
 - (ii) any person contracted by the Municipality for the work of the office.

The Municipal Council determines policies and has an oversight role to see these policies are implemented.

4.2 Municipal Council oversight role includes:

- Council retains the responsibility to determine and approve this policy and to monitor its application.
- Council may delegate this to the Mayor and the Mayor may sub-

delegate this to one of the committees of Council.

- Council may not delegate this oversight role to any official of the Municipality or person not being part of Council.

The Municipal Manager is responsible to Council for the implementation and administration of Council policies.

4.3 The Municipal Manager must ensure that:

- The Municipality has and maintains a management, accounting and information system that accounts for the cash and cash related transactions of the Municipality.
- The Municipality's cash and investments are valued in accordance with standards of generally recognized accounting practice.
- The Municipality has and maintains a system of internal control over cash and surplus cash.
- The General Manager's and Senior Managers and their teams comply with this policy.

The Chief Financial Officer is responsible to the Municipal Manager to assist in the implementation of the policy and to ensure that the financial assets of the Municipality are safeguarded.

4.4 The Chief Financial Officer must ensure that:

- Appropriate systems of financial management and internal controls are established and carried out diligently.
- The financial and other resources of the Municipality are utilized effectively, efficiently, economically, and transparently.
- Any unauthorized, irregular, or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.

- The systems, processes and registers required to substantiate the financial values of the Municipalities' Cash and Cash transactions are maintained to standards sufficient to satisfy the requirements of the Auditor General.
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate Cash flow planning and budgeting.
- The Municipal Manager is appropriately advised on the exercise of delegated powers and duties pertaining to the financial administration of Cash and Cash related transactions.
- The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of Cash and Cash related transactions.
- This policy and any supporting procedures or guidelines pertaining to Cash and Cash related transactions are established and effectively communicated.
- The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions, but s/he will remain accountable for ensuring these activities are performed.

4.5 Process of Delegation

- The process of delegation must conform to appropriate legislation and Municipal policies on delegations. These guidelines will include:
 - The need for delegations to be in writing,
 - The need for delegations to be recorded in a delegations register.
 - The need for the delegated person to report back on how they have acted on this delegation.

5 INTERNAL CONTROLS

Controls around the cash and cash equivalents should be sufficient to provide an accurate, reliable, and up to date account of assets and transactions under their control to the standards specified by the Chief Financial Officer and as required by the Auditor General of South Africa. The internal controls should also safeguard cash transactions and actions from loss.

5.1 *Cash Management Procedures*

The Chief Financial Officer or delegated Official must for:

Cash Flow Management

- Ensure regular and effective cash flow monitoring and forecasting, which is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. Surplus cash shall be immediately invested to maximize interest earnings. The balance on the Municipality's current account shall be maintained at the minimum required level considering the day-to-day cash and expenditure requirements of the Municipality.
- Be responsible for the Municipality's cash flow management and establish and always implement a cash management plan and reports which entails at least the following:
 - Daily Cash flow reporting:
 - a summary of the preceding day, and month date, closing bank account and investment balances, cash receipts, payments, and inter-bank transfers
 - a detailed schedule of investment capital and interest maturing on the current day.
 - a summarized schedule of daily investment maturities for

all existing investments.

- a summary of daily cash receipts and payments, actual against forecast for the month to date
- a daily projection of cash receipts and payments through to the end of the current month
- Timing the in and outflow of cash.
- Monthly Cash flow reporting:
 - comparisons of actual cash flow with forecast, current month and year to date and an explanation of any variances
 - updating the estimates monthly and in reporting provides comments or explanations regarding any significant cash flow deviation in any calendar month.
 - a summarized monthly projected cash flow over the next 12 (twelve) months
 - an analysis of actual year to date cash receipts and payments and projected cash flows for the remaining months of the current financial year to be submitted to National Treasury
 - the cash backing of statutory funds and reserves balances at the end of the month.
- Quarterly Cash flow reporting preparing a revised detailed cash flow projection for the next 12 (twelve) months.
 - Determine the likely dates for receipt of grants from the government and the estimated amounts.
 - Accurately forecasting the institution's cash flow requirements.
 - Determine procedures for maximizing interest on surplus funds.
 - Determine which officials are to receive the cash flow report.

- Timing the in 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 program delivery and selling surplus or underutilized assets on auctions.

5.2 *Municipal Bank Accounts (MFMA Chapter 3 sec 7)*

Opening of bank accounts

- (MFMA section 7)
 - (1) Every municipality must open and maintain at least one bank account in the name of the municipality.
 - (2) All money received by a municipality must be paid into its bank account or accounts, and this must be done promptly and in accordance with this Chapter and any requirements that may be prescribed.
 - (3) A municipality may not open a bank account—
 - (a) abroad.
 - (b) with an institution not registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990); or
 - (c) otherwise, than in the name of the municipality.

Bank account management.

- The Chief Financial Officer must establish the following with the municipality's bankers:
 - Procedures regarding the frequency of printing and receipt of

bank statements

- Access to on-line banking facilities
 - Security of information when transacting with the bank through on-line facilities or otherwise
 - The basis for calculating bank charges.
 - The extent of bank overdraft facilities.
 - The bank overdraft interest rate; and
 - Cash management arrangements to transfer surplus funds to a call investment account.
- The Chief Financial Officer must ensure that the following MFMA requirements regarding bank accounts are adhered to:
 - Bank account(s) must be in the name of the municipality (MFMA Sec7(3)(c)).
 - Bank account(s) must be with an institution registered as a bank in terms of the Banks Act no94 of 1990, (MFMA Sec 7(3)(b)).
 - The Municipality must have no bank accounts abroad (MFMA Sec 7(3)(a))
 - Bank account details - name, type and number - must be submitted to Provincial Treasuries and the Auditor-General as follows:
 - Annually before the start of the financial year (MFMA Sec 9); and
 - Within 90 days after a new account has been opened
 - A specific account should be identified as the primary bank account (MFMA Sec 8(1)), for this account the details must also be submitted to the National Treasury (once-off). In addition, this primary account can only be changed after informing the National Treasury and the Auditor-General, 30 days in advance.
 - All municipal bank accounts should be administered by the

accounting officer of the municipality (MFMA Sec 10(1)(a)) and should be accountable to the municipal council for the accounts (MFMA Sec 10(1)(b))

Bank Deposits, Direct Transfers and Electronic Banking Management

- Establish daily credits to the municipal bank account and follow up to ensure that these deposits or credits are accounted for in the records of the Municipality.
- Cash on hand should be deposited into the bank account of the Municipality daily except for public holidays and weekends.
- Identify full details of each credit timely to avoid having to account for these credits in the “Default Cash/Unidentified receipts” suspense account.
- Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up.
- Balance the unidentified receipts register to the “Default Cash/Unidentified receipts” suspense account in the general ledger monthly.
- Advertise yearly the unidentified receipts to allow the public to claim, with proof, against the suspense account.

Payments and Debits on the Municipal Bank account.

- The Chief Financial Officer or delegated Official must:
 - Verify all debits on the municipal bank accounts to ensure that these entries are correct and accounted for.
 - Inspect the bank statements to confirm that the only debits on the account other than municipal cheques are:
 - Bank Charges
 - Interest paid on overdraft.
 - Electronic transfers such as transfers to salaries accounts.
 - Electronic payments to suppliers made by the municipality.

- Check the bank charges and interest amounts for reasonableness and make out a payment voucher for these costs and process to the ledger. This voucher should reflect the bank statement number and line per entry.
- In the case of transfers to other municipal bank accounts, verify the transfers back to the authorized transfer voucher that have been authorized by the originating official.

Withdrawals from the municipal bank accounts (MFMA sec11).

- The Accounting Officer or delegated Official must within 30 days after the end of each quarter:
 - table in the municipal council a consolidated report of all withdrawals made in terms of section 11 (1) (b) to (j) during that quarter.
 - submit a copy of the report to the relevant provincial treasury and the Auditor General.

5.3 Reconciliation of the Municipalities accounting records to the Bank account statements.

Bank Reconciliations and account management.

- The Chief Financial Officer should:
 - Allocate the responsibility for the management and accounting for all deposits or credits to the bank statement to an authorized designate official.
 - Allocate the responsibility for the management and accounting for all debits to the bank statement i.e. cheques, stop orders, transfers, and other debits to an authorized designate official.
 - Allocate the responsibility for the preparation of the bank reconciliation to an authorized designate official.
 - Allocate the responsibility for retrieving information from the bank to an authorized designate official.
 - Check the accuracy of the bank reconciliation on a regular basis.
 - Determine the frequency of performing the bank reconciliation (i.e. monthly).
 - Review the bank reconciliation monthly (and initialed as evidence of review) to satisfy himself/herself that the cash book

is being properly and timeously written up. These monthly reviewed reconciliations should be kept for audit purposes.

Electronic bank payments, direct deposits and Bank Reconciliation procedures

- The Chief Financial Officer or delegated official should:
 - Obtain the transfer batch report (report reflecting all payments made by electronic bank transfer/cheque list to creditors for the month).
 - Obtain bank statements from the bank daily and do daily reconciliation.
 - Identify all the direct debits on the statement and match to the corresponding vote from the direct debit vote register (if any of the following: loan agreements, cell phone contracts, credit cards, rentals, service charges and dishonored cheques). Process these debits by capturing the relevant votes on the system.
 - Identify all the direct credits on the bank statement, such as direct deposits by consumers, consumers and levy payers, subsidies and grants paid by National and Provincial Governments, interest on investments and miscellaneous credits. Process these credits by capturing to the respective votes on the system.
 - If the credit cannot be identified it is posted to the vote for unidentified receipts ("Default Cash").
 - Scrutinize bank charges for reasonableness and query with the bank if it appears to be too high.
 - Match:
 - Each electronic payment from the batch transfer report to the cashbook and bank statement

- Each deposit from the cashier's deposit book to the cash book/receipts listing and the bank statement.
- The bank charges from the bank statement to the cashbook
- The interest earned on investments from the bank statements to the cashbook.
- All other direct debits from the bank statements to the cashbook.
- If payments are matched on the cashbook and bank statement, then change the fields on the cashbook to indicate that the cheque was successfully presented.
- Print the reconciliation when all entries are processed.
 - If all entries were correctly posted, the balance as per the reconciliation statement will match the balances on the bank statement. No "miscellaneous" or other balancing items must be shown on the bank reconciliation. If the balances do not match repeat the process to detect the error. Differences must be corrected immediately and not left as reconciling items to be reconciled at a later stage.
- Present the reconciliation to the Budget Manager and Chief Financial Officer for signature and approval.
- File and safeguard the approved reconciliation.

Authorization and control procedures of the Bank Reconciliation

- The Chief Financial Officer or delegated Senior official should:
 - Ensure that the bank statement balance agrees to the balance reflected on the Bank Reconciliation at month end date.
 - Ensure that the cash book balance agrees to the general ledger.
 - Test the mathematical accuracy of the bank reconciliation.
 - Test the reconciling items on the bank reconciliation as follows:

- Trace outstanding cheques to subsequent bank statements.
- Trace outstanding deposits to subsequent bank statements.
- Ensure that other reconciling items agree to supporting documentation.
- Ensure that all stale outstanding cheques (older than 6 months) have been written back and re-issued as appropriate.
- Inspect whether all bank accounts were accounted for by comparison with previous month's working papers and examining it for accounts omitted.
- Inspect whether reconciling items are cleared on a timely basis.
- Explain all reconciling items which have been outstanding for more than three months in a report to the council in terms of regulation 18435 (Government Gazette of 14 Nov 1997).
- Review bank reconciliations and investigate large or unusual items.
- Scrutinize the cash book for unusual transactions or entries and obtain explanations from officials.

Bank Overdraft Authorization

- The Chief Financial Officer or delegated official should:
 - In respect of a bank overdraft ensure that: -
 - It is authorized by a council resolution.
 - The credit limit is specified in the resolution of the council.
 - The terms of the agreement, including the credit limit, are only changed by another resolution of the council.
 - Where the credit facility was approved by the council - only for emergency use, the Accounting Officer notify the

council in writing, as soon as is 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 debts. (Section 45 (3) of the Municipal Finance Management Act, Act No 56 of 2003.)

5.4 Managing other Cash Resources

Cashier procedures

Cashier advances should be treated as standing advances. The CFO should review the level of the advances based on cashier requirements.

- On the issuance of advances the following accounting entries should be affected:

Debit - Cashier Advances

Credit - Bank

(The advances can be paid back at year end with the relevant advance accounts then being cleared.)

- At year-end a cash count should be performed on all advances to ensure that the cash on hand agrees with the G/L account.
 - The person performing the cash count (preferably an Internal Auditor), the Cashier and Senior Official of the Income section should sign the working paper as evidence of the cash count.
 - Surprise cash counts should be performed by Internal Audit on all Cashier advances or floats to ensure that the cash on hand is at the level set by the CFO. This should be performed at least 2 times in a financial year.
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- Municipal Cash money received may not be used to cash a private individual or a private official's cheque.

5.5 *Cash Control procedures best practices.*

Handling and Safeguarding Cash

- All cash should be kept in a locked / combination vault or safe, or in a locked room in a locked drawer or file cabinet, during non-business hours.
- Access to areas where cash is stored should be limited to only those employees who need access and have been designated to have access.
- During business hours, all forms of cash should be stored in locking drawers, cash registers, and cash boxes.
 - Only the cashier collecting these monies should have control over this cash, and make sure that the cash is securely locked when they take lunch, or a break.
 - The cashier should have complete control and responsibility for the cash they collect during business hours.
 - To reduce the risk of error, all cash should be separated according to the denomination, and should face the same direction.
- Credit card machines and the receipts should not be left unattended, and they should be kept in an inaccessible area.
- Areas that store cash should be alarmed during non- business hours.
- All types of cash should be deposited within the next business day.

Accepting Payments

- All types of payments should be input into an electronic device, such

as a cash register or computer terminal, or tracked manually with pre-numbered receipts, to ensure that all payments are documented.

- Payments for goods or services can be accepted in the form of cash and coins, checks, and payment cards.
- Payments can be received in-person, by mail, or armored car delivery.
 - In-Person Cash and Coin, and Check Payments Accepted Manually:
 - Payments accepted by departments without an electronic device should be tracked by pre-numbered receipts.
 - When cash and coin payments are accepted as payment, they should always be recounted in front of the customer to confirm the amount received from the customer.
 - A receipt must always be given to the customer for cash payments.
 - If change is given back to the customer, the change should be counted back to customer, to confirm that the correct amount is given back.
 - Checks should be endorsed immediately.
 - A completed receipt must be retained by the department.
 - Payments should be input, or rung in, on the cash register or computer terminal at the same time they are received.
 - Credit Card payments and Debit Card Payment:
 - Payment cards can be accepted in-person.
 - When accepting an in-person payment the cashier should look at the card to confirm that the card is signed and belongs to the customer.
 - The customer should always sign the payment card

receipt (By hand or by input of a pin number) and the payment should be input, or rung in, on the cash register or computer terminal, when received.

- A receipt should be given to the customer.

Separation of duties

- The cashier accepting the daily payments cannot balance these payments daily as well. This Bank deposit goes to another employee to have the monies confirmed, and a departmental bank deposit prepared in the Bank deposit book.
- The department's Senior confirms that the deposit is booked to the correct chart of accounts, and balances to the department's system.
- Dual controls should be established by departments to ensure that two employees count the cash together and deliver the deposits to the safe or the bank or cash in transit system.
- When an overage or shortage is identified, a supervisor should recount the deposit. If it is a valid overage or shortage, an accounting entry should be made immediately to document the difference in the general ledger. Cashiers are responsible for all average and shortages therefore daily balancing is expected.

Counterfeit Money

- Counterfeit bills can be any denomination.
- They can be detected by the way the bill feels, or by a print discrepancy or with electronic equipment.
- Once identified, the Supervisor and Police should be notified.
- The Police will ask to have the bill surrendered to them.
- Your immediate supervisor should handle the incident, and the

shortage will need to be booked if the money was already receipted.

- The CFO should also be notified of the incident.

Foreign Currency

- No Cash in foreign currency will be accepted by a junior official – only South African Rand. Any payment by another currency other than South African Rand needs approval from the CFO and Accounting Officer.
- Cash flows arising from transactions in a foreign currency should be recorded in a municipality's functional currency by applying to the foreign currency amount the exchange rate between the currency and the foreign currency at the date of the cash flow.

5.6 Investments

Investments will be guided by the Investment Policy of council and on the instruction of the CFO or delegated official