

# CITY OF MBOMBELA



## CASH MANAGEMENT POLICY

# TABLE OF CONTENTS

1	DEFINITIONS.....	3
2	OBJECTIVES .....	5
2.1	Primary Objective .....	5
2.2	Specific objectives .....	5
3	SCOPE .....	6
4	RESPONSIBILITIES AND ACCOUNTABILITIES .....	7
4.1	Statutory Delegations.....	7
4.2	Municipal Council oversight role includes:.....	7
4.3	The Municipal Manager must ensure that: .....	8
4.4	The Chief Financial Officer must ensure that:.....	8
4.5	Process of Delegation .....	9
5	INTERNAL CONTROLS .....	10
5.1	Cash Management Procedures.....	10
5.2	Municipal Bank Accounts (MFMA Chapter 3 sec 7).....	13
5.3	Reconciliation of the Municipalities accounting records to the Bank account statements.....	17
5.4	Managing of other Cash Resources .....	21
5.5	Cash Control procedures best practices .....	23
5.6	Investments .....	26
6	REPORTING AND MONITORING.....	27
6.1	Monthly Reporting.....	27
6.2	Quarterly Reporting .....	27
6.3	Annual Financial Statements .....	27
6.4	Annual Reporting.....	28
6.5	Performance Evaluation.....	29
7	PROCEDURE FOR THE ANNUAL REVIEW .....	30

# 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 in order 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 City of Mbombela.
- **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 City of Mbombela.

- **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 City of Mbombela 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 City of Mbombela 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 City of Mbombela 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.

### 3 SCOPE

- This policy covers all Cash and Cash related transactions belonging to City of Mbombela.
- This policy covers all Cash and Cash related Transactions by all municipal entities of City of Mbombela.
- This policy covers all Cash and Cash related transactions by all bodies holding surplus funds or cash belonging to City of Mbombela.

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 Executive Mayor and the Executive 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 manager's and their teams comply with this policy.
- Must administer the City of Mbombela's bank accounts of the municipality and must enforce compliance with section 7 (Opening of Bank accounts), 8 (Primary Bank account) and 11 (Withdrawals from Municipal bank accounts) of the Municipal Finance Management Act 56 of 2003.

**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 recording 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 in order to maximise interest earnings. The balance on the Municipality's current account shall be maintained at the minimum required level taking into account the day to day cash and expenditure requirements of the Municipality.
- Be responsible for the municipality's cash flow management and establish and implement at all times 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 summarised 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 on a monthly basis and in reporting provides comments or explanations regarding any significant cash flow deviation in any calendar month
  - a summarised 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 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.
  - Recognising 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 underutilised assets on auctions.

- Payment to Suppliers :
  - The Accounting Officer, assisted by the Chief Financial Officer, shall establish written creditors' payment procedures in terms section 65(2) of the MFMA in order to ensure that the Municipality maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.
  - The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the Municipality stipulate payment terms favorable 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.
  - Suppliers shall be paid in accordance with the services level agreements concluded with such suppliers and the provisions of the Supply Chain Management Policy of the Municipality. The number of electronic batch payment runs shall be minimised and shall be done in a structured scheduled manner in order to facilitate efficient cash flow management.
  - The Chief Financial Officer shall ensure that the Municipality optimises financial incentive opportunities arising from effecting earlier payments.
  - In order to ensure continuous effective control of cash any 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. Discount shall be negotiated for these special payments if they are creditors seeking quick payment (i.e. 2.5%).

- Regular reports indicating, 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
- Annually prepare:
  - the annual estimates for the budget year of the municipality's cash flows per revenue sources divided into calendar months
  - the annual cash flow budget for the new financial year
- Budget related Cash flow projections
  - All capital projects worth more than R1, 000,000 shall include a cash flow forecast as part of the Business Plan to be submitted prior to budget approval by all departments.
  - All operational budgets shall include cash flow forecasts where the expenditure pattern will vary significantly over the year submitted by all departments.

## *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 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 on a daily basis 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.
- Process the daily transfers or direct deposits into the municipal bank account and the accounting system by processing the credits through the municipality’s receipting procedures. In this event, it is desirable to keep these transactions separate from the normal transactions. A daily direct deposit control sheet should be completed as a record of what direct deposits have been processed.
- 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 on a monthly basis.
- Advertise yearly in 3 separate newspapers the unidentified receipts so as to allow the public to claim, with proof, against the suspense account.
- The CFO shall determine the maximum amount on Credit Card Payments from the customers as to encourage the customers to rather do EFT payments to save Bank costs for the municipality and improve cash management.

### Returned Cheque Management (RD Cheques)

- The Chief Financial Officer or delegated Official must establish a process for managing returned cheques which should include maintaining a “Returned cheque register” which should record the following:
  - The date on which the cheque was debited by the bank.
  - The name of the drawer.
  - The amount of the cheque.
  - The drawer’s debtor account number.
  - Receipt number issued by cashier on the day of presentation as payment.
  - The bank costs on the RD cheque involved.

- The Chief Financial Officer or delegated Official must establish a process for managing returned cheques which should include:
  - Debiting the amount of the cheque returned to the returned debtors account on a weekly basis, either from the cheque returned register, or a journal voucher made out for the purpose.
  - Debiting the monthly total of returned cheques to the debtors control account or the relevant income account.
  - Recover the bank cost of the RD cheques from the debtor.

#### 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
    - R/D Cheques
    - 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 R/D cheques, hand the amounts over to the billing department for processing and recording into the Returned cheque register.
  - In the case of transfers to other municipal bank accounts, verify the transfers back to the authorised transfer voucher that have been authorized by the originating official.
  - Cheques can only be issued up to an amount of R49 999.99 as the bank act does not allow for amounts of R50 000.00 and higher to be processed and to avoid these related unnecessary bank charges.



#### 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 authorised 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 authorised designate official.
  - Allocate the responsibility for the preparation of the bank reconciliation to an authorised designate official.
  - Allocate the responsibility for retrieving information from the bank to an authorised 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 on a monthly basis (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 on a daily basis 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 dishonoured cheques). Process these debits by capturing to the relevant votes on the system.
  - Identify all the direct credits on the bank statement, such as direct deposits by ratepayers, 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”).
  - Scrutinise 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 manual cheque payment to the cashbook and bank statement.
  - Cheques that have not been cashed by the payee within six months (stale cheques) of the date appearing on the cheque must be written back in the cash book and general ledger control account as they will be refused by the bank. Be satisfied from a scrutiny of subsequent bank statements that all cheques outstanding at the close of the period were accounted for in the bank reconciliation (listed under outstanding cheques)

- Each deposit from the cashier's deposit book to the cashbook/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 in a special file labelled "Bank Reconciliation for &Month&" and the presented cheques in numerical sequence.

#### Authorisation and control procedures of the Bank Reconciliation

- The Chief Financial Officer or delegated Senior official should:
  - Ensure that the bank statement balance agree to the balance reflected on the Bank Reconciliation at month end date.
  - Ensure that the cash book balance agree 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.
- Scrutinise the cash book for unusual transactions or entries and obtain explanations from officials.

#### Bank Overdraft Authorisation

- The Chief Financial Officer or delegated official should:
  - In respect of a bank overdraft ensure that:-
    - It is authorised 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 of other Cash Resources

### Petty Cash

*The delegated official responsible for the management of the petty cash should be independent of all other cash functions such as cashiering.*

- When a Section needs petty cash, a petty cash Requisition Form is completed and approved by the respective Head of Section.
- The petty cash requisition form details must include the vote to be debited before a cheque is made out for the incurring of expense.
- The requisitioned amount should not exceed a maximum amount set by the CFO.
- Every petty cash requisition must be supported by proper supporting documents such as cash sale slips or receipts etc. Therefore if cash is advanced without supporting documents it should be on the basis of an advance until the purchase is made and the supporting document is submitted within the prescribed time - a week.
- Ensure that each requisition/ expense is entered onto the petty cash register.
- Ensure that a senior official performs the following at the end of each month:
  - counts the petty cash money at hand and confirm the monthly closing balance of cash at hand as reflected in the petty cash register
  - adds up all the receipts submitted as proof of payment and agrees the total to the total reflected in the petty cash register
  - verifies that the total petty cash as at the beginning of the month plus receipts less payments for the month, equals the petty cash at hand at the end of the month
  - reconciles the petty cash total on hand with the requisition forms, vouchers and other supporting documentation.
- Ensure that any differences arising during the above mentioned monthly procedures are followed up and resolved.
- Ensure that the senior official responsible for the review of the petty cash funds and register, signs as proof of the review.

- When a specific department's float reaches the minimum amount determined by the CFO, ensure that a standard voucher is prepared and submitted with the register (or a copy of the register) for replenishment.
- The designated official should then process the voucher and issue a manual cheque to the official who cashes it at the bank.

#### Petty Cash and Internal Audit procedures

Internal audit must make surprise inspections of the petty cash at least once per quarter and perform the following procedures:

- Inspect the petty cash vouchers to ensure that all items on the voucher are items usually used by the municipality in the performance of duties and that no purchase was made for personal use. ***(Personal use: Any product purchased not for use of official business including food or entertainment for officials - other than official meetings or functions. Acceptable proof for the purchase of food/entertainment for an official meeting or function needs to be submitted with a petty cash claim or reimbursement. i.e. Agenda / Invitations, minutes and attendance register per meeting or claim. All purchases must adhere to the Municipal Cost Containment Regulations, 2019 published in Government Gazette no 42514 on 7 June 2019)***
- Perform a cash count, in the presence of the official responsible for petty cash, as follows:
  - Count the petty cash in petty cash box R xx
  - Add the total of invoices for the month R xx
  - Equals the float R xx
- Ensure that all petty cash expenses are captured on the system and that all input VAT is accounted for. Please note that no VAT can be claimed on entertainment expenses.
- Ensure that the petty cash balance in the general ledger agrees to the petty cash registers.

### 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.
- A cash count working paper should be prepared as evidence of the cash count and kept for audit purposes.
- 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.

**Municipal Cash money received may not be used to cash a private individual or a private official's cheques.**

## *5.5 Cash Control procedures best practices*

### Handling and Safeguarding Cash

- All cash, checks, and payment cards, 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.
  - Checks should be kept together separately, and credit card receipts and any other documentation, should also be kept together separately.
- Credit card machines and the receipts should not be left unattended and they should be kept in an inaccessible area.
- When possible, 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 coin, 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.
- By Mail - Check Payments:
  - All mail to treasury should be opened by two officials.
  - All check payments by mail should be logged daily in a register.
  - Payments should be input, or rung in, on the cash register or computer terminal, daily when they are received.
  - Checks should be endorsed immediately.
- 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.

#### 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 departmental Manager 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.

## 6 REPORTING AND MONITORING

### 6.1 *Monthly Reporting*

The Municipal Manager must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the Executive Mayor a report on the cash and cash related transactions of City of Mbombela. This report will comply with generally recognized accounting practice and include:

- A cash flow statement required by GRAP 2.
- A monthly cash flow forecast for the next 12 months in compliance with generally acceptable accounting standards.
- A daily cash flow forecast for the next month.
- A report on the how this policy was implemented for the month and any issues arising.

### 6.2 *Quarterly Reporting*

- In addition to the monthly reporting requirements The Municipal Manager of City of Mbombela or the municipal entity will comply with any quarterly reporting requirements specified by National Treasury.

### 6.3 *Annual Financial Statements*

The Annual Financial Statements must comply with the generally recognized accounting practice with particular reference to GRAP 2.

- Ensure that the financial information is presented, classified and disclosed in accordance with the prescribed accounting framework for the financial statements, including:
  - Bank and cash must be correctly disclosed in the financial statements distinguishing between favourable and unfavourable balances, unless the balances can legally be set off against each

other (a legal right to offset must exist). Therefore, there is a separate note in the AFS for bank overdrafts.

- That bank and cash is disclosed as current assets in the Statement of financial performance (it is shown at its face value (cash book value), as this constitutes its amortised cost) (*\* Amortised cost is defined in IAS 39 as the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down for impairment or uncollectability.*)
- The requirement of the Section 125 (2)(a) of the Municipal Finance Management Act (Act No 56 of 2003), that the notes to the financial statements must disclose in respect of each bank account held by the municipality during the financial year:
  - The name of the bank where the account is or was held;
  - Type of account; and
  - Year opening and year end balances in each of these bank accounts.
- Ensure that cash book balances as at the beginning and the end of the financial year (current and comparative) is disclosed in the AFS, also indicating whether these balances were favourable or unfavourable.
- Cash is classified as financial instruments and therefore disclosure requirements for financial instruments should be adhered to – refer to GRAP 2 Section 1.10: Financial instruments, where these disclosure requirements are set out.
- Also refer to Section 1.16: Presentation of Financial Statements, for a more comprehensive discussion regarding the presentation and disclosure of Cash and cash equivalents in the Statement of Financial Position.

## 6.4 Annual Reporting

Cash and Cash transactions must be included in the Annual Financial Statements in accordance with the requirements of standards specified by the Accounting Standards Board.

The Annual Report must include, as a minimum, an evaluation of the performance of the Cash related activities against the benchmarks contained in this policy.

## **6.5 Performance Evaluation**

The performance of the cash management of the municipality must be evaluated each quarter and submitted to the Mayor as part of the section 71 reports.

- In evaluation the performance of the Cash flow projections, consideration must be made of the general performance measure of the finance function including the benchmark ratios, like;
  - the current ratio,
  - the liquidity ratio
  - the prescribed ratios of sub-regulation 10g Of regulation N0.22605

## **7 PROCEDURE FOR THE ANNUAL REVIEW**

- The policy will be reviewed annually before the next budget cycle after the end of the financial year.
- The Municipal Manager must submit a report and recommendations on any changes to the existing policy that he may consider necessary to the Executive Mayor.
- Council should consider the recommendations and approve what changes that they deem necessary.