



KGATELOPELE LOCAL MUNICIPALITY

FINAL BANKING AND CASH MANAGEMENT POLICY

INTRODUCTION

The Municipal Finance Management Act, Act 56 of 2003, deals in Part 1 of Chapter 3 with the operation of municipal bank accounts. Section 7(1) of the Municipal Finance Management Act requires that every municipality must open and maintain at least one bank account in the name of the municipality.

Section 8(1) of the Municipal Finance Management Act stipulates that a municipality must have a primary bank account. If a municipality –

- (a) has only one bank account, that account is its primary bank account; or
- (b) has more than one bank account, it must designate one of those bank accounts as its primary bank account.

Aligned with the operation of banking accounts by a municipality is the cash management operation of the local government institution. Section 13(1) of the Municipal Finance Management Act indicates that the Minister of Finance, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must –

- (a) conduct their cash management and investments; and
- (b) invest money not immediately required.

Section 13(2) of the Municipal Finance Management Act requires a municipality to establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed. The investment aspect is dealt with extensively in the municipal investment management policy. This policy instrument will deal with the cash management aspect – this is closely linked with the operation of banking facilities by the municipality.

OPERATION OF MUNICIPAL BANK ACCOUNTS

Primary Bank Account

Section 8(2) of the Municipal Finance Management Act requires that the following moneys must be paid into a municipality's primary bank account:

- (a) all allocations to the municipality, including those made to the municipality for transmission to a municipal entity or other external mechanism assisting the municipality in the performance of its functions;
- (b) all income received by the municipality on its investments;
- (c) all income received by the municipality in connection with its interest in any municipal entity, including dividends;
- (d) all money collected by a municipal entity or other external mechanism on behalf of the municipality; and
- (e) any other moneys as may be prescribed.

Section 8(3) stipulates that a municipality must take all reasonable steps to ensure that all moneys referred to in subsection 8(2) are paid into its primary bank account. This process is assisted by the requirement of Section 8(4) of the Municipal Finance Management Act which indicates that no organ of state in the national, provincial or local sphere of government may transfer an allocation of money to a municipality except through the municipality's primary bank account.

In accordance with Section 8(5) of the Municipal Finance Management Act, the accounting officer of a municipality must submit to the National Treasury, the relevant provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, together with the type and number of the account. If a 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 effecting the change.

Management of Bank Accounts

In terms of Section 10(1) of the Municipal Finance Management Act, the accounting officer of a municipality –

- (a) must administer all the municipality's bank accounts;
- (b) is accountable to the municipal council for the municipality's bank accounts; and
- (c) must enforce compliance with sections 7, 8 and 11 of the Act.

Section 10(2) of the Municipal Finance Management Act indicates that the accounting officer may delegate the compliance responsibilities of subsection 10(1)(c) to the municipality's Chief Financial Officer only.

Section 7(2) of the Municipal Finance Management Act notes that all money received by a municipality must be paid into its bank account or accounts and this must be done promptly in accordance with Chapter 3 of the Act and any other requirements that may be prescribed. Section 7(4) of the Municipal Finance Management Act equally notes that money may be withdrawn from a municipal bank account only in terms of Section 11(1) of the Act.

In accordance with the provisions of Section 9 of the Municipal Finance Management Act, the accounting officer of a municipality must submit to the relevant provincial treasury and the Auditor-General, in writing –

- (a) within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, the type and number of the bank account; and
- (b) annually before the start of a financial year, the name of each bank where the municipality holds a bank account, together with the type and number of each account.

Section 13(3) of the Municipal Finance Management Act requires any bank where a municipality at the end of a financial year holds a bank account, or held a bank account at any time during the financial year to –

- (a) within 30 days after the end of that financial year notify the Auditor-General, in writing, of such a bank account, including –
 - (i) the type and number of the account; and
 - (ii) the opening and closing balances of that bank account in that financial year; and
- (b) promptly disclose information regarding the bank account when so requested by the National Treasury or the Auditor-General.

In terms of Regulation 1536 that appeared in the *Government Gazette* dated 14 November 1997, the accounting officer of a municipality is required to report to the municipal council on a monthly basis on the reconciliation of the municipal cash book with the bank statement of every bank account. This requires that all bank accounts operated by the municipality are reconciled monthly; the accounting officer is further

required to include in his/her report to the municipal council an explanation of all reconciling items that have been outstanding for more than three months.

Withdrawals from Municipal Bank Accounts

Section 11(1) of the Municipal Finance Management Act stipulates that only the accounting officer of a municipality, or any other senior 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, and may do so only –

- (a) to defray expenditure appropriated in terms of an approved budget;
- (b) to defray expenditure authorised in terms of Section 26(4) of the Municipal Finance Management Act;
- (c) to defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1) of the Act;
- (d) in the case of a bank account opened in terms of Section 12 of the Act, to make payments from the account.
- (e) to pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including –
 - (i) money collected by the municipality on behalf of that person or organ of state by agreement; or
 - (ii) any insurance or other payments received by the municipality for that person or organ of state;
- (f) to refund money incorrectly paid into a bank account;
- (g) to refund guarantees, sureties and security deposits;
- (h) for cash management and investment purposes in accordance with Section 13 of the Act;
- (i) to defray increased expenditure in terms of Section 31 of the Act; or
- (j) for such purposes as may be prescribed.

Section 11(3) of the Municipal Finance Management Act indicates that money may be withdrawn in terms of subsection 11(1)(b) to 11(1)(j) without appropriation in terms of an approved budget. In this regard Section 11(4) of the Municipal Finance Management Act requires the accounting officer within 30 days after each quarter to –

- (a) table in the municipal council a consolidated report of all withdrawals made in terms of subsection 11(1)(b) to 11(1)(j) during that quarter; and
- (b) submit a copy of the report to the relevant provincial treasury and the Auditor-General.

The expenditure authorised in terms of Section 26(4) of the Municipal Finance Management Act relates to funds being withdrawn in anticipation of the budget being approved when this has not happened prior to the commencement of the financial year in question. Section 12 of the Municipal Finance Management Act deals with bank accounts opened by a municipality for a relief, charitable, trust or other fund. The increased capital expenditure referred to in Section 31 of the Municipal Finance Management Act relates to the shifting of expenditure is contained within the appropriation for the following year.

In terms of Section 11(2) of the Municipal Finance Management Act any authorisation in terms of subsection 11(1) of the Act to a senior financial official to withdraw money or authorise the withdrawal of money from a bank account must be in accordance with a framework that is 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 that is separate from its other bank accounts.

Summary of Operation of Municipal Banking Accounts

The Municipal Finance Management Act provides for a municipality to operate a primary bank account and other bank accounts, the number of which is not limited to a specific number. The ways in which the bank accounts are operated are common in a number of respects but different in a number of key areas. The purpose of this summary of the legislation is to clarify the common and different operational requirements.

Common Operational Requirements

- All banking accounts operated by the municipality must be in the name of the municipality;
- All money received by a municipality must be paid into its bank account or accounts and this must be done promptly;
- The accounting officer of a municipality must administer all the municipality's bank accounts;
- The accounting officer must advise the relevant provincial treasury and the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account. This information must indicate the name of the bank where the account has been opened, the type and number of the account;
- The accounting officer must annually advise the relevant provincial treasury and the Auditor-General, in writing, before the start of the financial year, the name of each bank where the municipality holds a bank account, the type and number of each account.
- All banks where a municipality holds a bank account, or held a bank account during a particular financial year, must indicate this information in writing to the Auditor-General within 30 days after the end of that financial year. The information to be submitted must reflect the type and number of the account held, together with the opening and closing balances of the account in that financial year, where applicable.
- The accounting officer is required to ensure that all bank accounts held by the municipality are reconciled with the municipal cash book on a monthly basis.

Different Operational Requirements

<i>Primary Bank Account</i>	<i>All other Municipal Bank Accounts</i>
A Municipality must have a primary bank account.	A Municipality may have only a primary bank account or as many other bank accounts as it requires
The income to be paid into the Municipality's primary bank account is specified in the legislation.	All other income is to be paid in to the other bank accounts operated by the Municipality.
No organ of state in the National, Provincial or Local sphere of Government may transfer an allocation of money except through the Municipality's primary bank account.	Revenue generated locally by the Municipality is paid into banking accounts other than the primary bank account held by the Municipality.

The accounting officer must advise the National Treasury, the relevant Provincial Treasury and the Auditor-General of the name of the bank where the Municipality's primary bank account is held, the type and number of the account.	For all other bank accounts, the information regarding the name of the bank, type and number of bank account must be provided by the accounting officer of the municipality to the relevant Provincial Treasury and Auditor-General only.
A Municipality may only change its primary bank account after the accounting officer has informed the National Treasury and the Auditor-General, in writing, at least 30 days before effecting the change.	No requirement of this nature exists for any of the other Municipal banking accounts.
The accounting officer can authorise only the Chief Financial Officer to withdraw or authorise the withdrawal of money from the Municipality's primary bank account.	The accounting officer can authorise any senior financial official to withdraw or authorise the withdrawal of money for all the Municipality's other bank accounts.

CASH MANAGEMENT

Cash management in a local authority context consists primarily of control over revenue inflow, expenditure outflow and managing the cash available within the Municipality.

Revenue Inflow

Legislative Imperative

In terms of Section 64(1) of the Municipal Finance Management Act, Act 56 of 2003, the accounting officer of a municipality is responsible for the management of the revenue of the municipality. In order to fulfil this responsibility, the accounting is required, in terms of Section 64(2) of the Municipal Finance Management Act, to take all reasonable steps to ensure –

- (a) that the municipality has effective revenue collection systems consistent with Section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy;
- (b) that revenue due to the municipality is calculated on a monthly basis;
- (c) that accounts for municipal tax and charges for municipal services are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;
- (d) that all money received is promptly deposited in accordance with the appropriate provisions of the Municipal Finance Management Act referred to above into the municipality's primary and other bank accounts;
- (e) that the municipality has and maintains a management, accounting and information system that –
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue.
- (f) that the municipality has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed;
- (g) that the municipality charges interest on arrears, except where the municipal council has granted exemptions in accordance with its budget-related policies and within a prescribed framework;

- (h) that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled at least on a weekly basis.

Principles and Procedures

- Although there is an obvious relationship between the billing and receipting procedures, the linkage is of vital importance. Prompt billing provides the municipality with revenue due as early as possible while efficient and prompt receipting enables the municipality to provide consumers with accurate bills that minimises the time taken to handle queries.
- The Chief Financial Officer is responsible for the collection of all moneys due to the municipality; however, by arrangement with the Chief Financial Officer and subject to his/her overall control, moneys may be collected by other departments within the municipality. The responsibility for collecting revenue on behalf of the municipality is delegated in writing to the Chief Financial Officer by the accounting officer of the municipality.
- All moneys collected by departments within the municipality must be paid over to the Chief Financial Officer or banked in conformity with the requirements as laid down by the Chief Financial Officer.
- Each cashier responsible for the receiving of money on behalf of the municipality must issue an official receipt. The receipt must reflect the name of the person, business entity or institution from whom the money was received, the amount received (in words and figures), the date and purpose of the receipt of the money. The receipt may further reflect the method of payment – by cheque or cash; this assists the cashier concerned in his/her daily reconciliation. All receipts handed to consumers must be original receipts.
- Receipts issued for moneys collected by departments for the credit of the municipality must be in a form approved by the Chief Financial Officer and in conformity with the requirements of the financial regulations as outlined above. No moneys are to be accepted by departments unless a receipt therefore can be issued immediately.
- The daily banking reconciliation to be prepared by each cashier employed by the municipality must have the amount reflected on the deposit slip exactly reconcile to the day's receipts issued by the cashier and the physical cash (including cheques) in the hands of the cashier.
- If the amount of cash (including cheques) in the possession of a cashier, when the daily reconciliation has been prepared, is less than what he/she has in terms of the receipts issued, the shortage must be recorded in the daily financial report and the amount of the shortfall recovered from the cashier immediately.
- If the amount of cash (including cheques) in the possession of a cashier, when the daily reconciliation has been prepared, is less than what he/she has in terms of the receipts issued, the surplus must be recorded in the daily financial report, receipted by the cashier concerned and paid in against the "cashier surplus" vote.

- The Chief Financial Officer of the municipality must ensure that all moneys received by the municipality are duly banked and that sufficient security is provided to ensure that the banking takes place in a risk-free manner. All moneys received by the municipality must be banked; under no circumstances may any cash, collected by the municipality, be diverted for any other purpose.
- On a daily basis (less frequently during the quieter periods of the month) the Chief Financial Officer will obtain an interim bank statement from the banking institution where the primary and other accounts are held. The Chief Financial Officer must ensure that all deposits made are reflected, identify and direct deposits made that must be receipted and reinstate the debit balances of debtor's whose cheques have been dishonoured by their bankers.
- Where funds are received from external sources, whether in the form of an intergovernmental grant or other funding, the receipt by the municipality of such funding must be acknowledge by the Chief Financial Officer. These funds are normally transmitted to the municipality electronically; however, should payment be made by cheque form, such a cheque must be banked without undue delay.

Expenditure Outflow

Legislative Imperative

Section 65(1) of the Municipal Finance Management Act, Act 56 of 2003, indicates that the accounting officer of a municipality is responsible for the management of the expenditure of the municipality. How this is to be undertaken is dealt with by Section 65(2) of the Municipal Finance Management Act which stipulates that the accounting officer must take all reasonable steps to ensure –

- (a) that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds;
- (b) that the municipality has and maintains a management, accounting and information system that –
 - (i) recognises expenditure when it is incurred;
 - (ii) accounts for creditors of the municipality; and
 - (iii) accounts for payments made by the municipality.
- (c) that the municipality has and maintains a system of internal control in respect of creditors and payments;
- (d) that the payments by the municipality are made –
 - (i) directly to the person to whom it is due unless agreed otherwise for reasons that may be prescribed; and
 - (ii) 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.
- (e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;
- (f) that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
- (g) that any dispute concerning payments due by the municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;

- (h) that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
- (i) that the municipality's supply chain management policy is implemented in a way that is fair, equitable, transparent, competitive and cost-effective; and
- (j) that all financial accounts of the municipality are closed at the end of each and reconciled with its records.

Principles and Procedures

- The Chief Financial Officer is responsible for the payment of all accounts due by the municipality. This responsibility must be delegated to the Chief Financial Officer or by the accounting officer of the municipality in writing.
- No operating or capital expenditure is to be incurred by the municipality unless provision therefore has been made in the appropriate budget and any external approval to incur such expenditure has been obtained.
- In the case of an emergency where it is not possible to convene a meeting of the municipal council, any proposed expenditure not provided for in the budget must be authorised by the accounting officer of the municipality in conjunction with the mayor, head of department concerned and the Chief Financial Officer. The accounting officer must in respect of this expenditure incurred:
 - where operating expenditure has been incurred, report as soon as possible to the designated advisory committee concerned, and nominate equivalent reductions in operating expenditure;
 - where capital expenditure has been incurred, report as soon as possible to the designated advisory committee concerned, and recommend a reallocation of capital expenditure;
 - submit the designated advisory committee's recommendation to the municipal council for ratification and approval; and
 - where applicable, obtain the necessary external approvals.

Should no equivalent reduction in operational expenditure or reallocation of capital expenditure be possible, the municipal council's approval must be obtained for the incurring of excess expenditure. Again, where applicable, the appropriate external approvals must be obtained.

- The heads of department within the municipality must advise the Chief Financial Officer of the names of officials within the department empowered to sign vouchers authorising the payment of accounts and furnish the Chief Financial Officer with their specimen signatures.
- Vouchers submitted to the finance function by any other department in the municipality for payment must be submitted in such form as may be required by the Chief Financial Officer. The vouchers must also indicate the activity, description and vote number where budgetary provision has been made and funds are available to affect this payment.
- Any department submitting a voucher for payment to the Chief Financial Officer must ensure that –
 - the goods have been received or the services have been rendered;
 - sufficient budgetary provision exists;

- the expenditure is allocated to the correct vote number;
 - if excess expenditure is involved, the municipal council has approved the excess, in which case the resolution authorising the excess must be quoted on the voucher; and
 - authority for the purchase exists.
- Payment requiring special authority from the municipal council or an external source must have the reference to the authority for the payment quoted on the voucher submitted to the Chief Financial Officer; alternatively (preferably) a copy of the authority should be affixed to the voucher submitted for payment.
- Each payment, other than petty cash payments, must be made from a banking account operated in the name of the municipality and each cheque drawn on a banking account must be signed by duly authorised officials of the municipality.
- The Chief Financial Officer or an official authorised by him/her is required to certify in writing that each account for goods supplied or services rendered must be paid by the municipality. The individual concerned certifies payment on the strength of the supporting vouchers submitted reflecting that –
 - the goods supplied or services rendered or work performed for the municipality were in fact supplied or rendered or that the work was in fact done;
 - the price charged was reasonable or in accordance with the relevant contract;
 - it falls within a vote authorised by the municipal council; and
 - the vote has funds available and the account may be paid.

The primary supplementary voucher in respect of each individual purchase is an invoice accompanied by a delivery note/goods received note. As far as the payment of suppliers with whom the municipality has negotiated terms of payment are concerned, the Chief Financial Officer will affect payment only once the supplier's statement has been reconciled with the creditor account maintained in the municipality's ledger.

- The person responsible for requesting a cheque to be drawn to effect payment on an invoice received from a supplier may not also be the person responsible for the ordering and/or receiving of goods. This principle is referred to as the separation of duties.
- Both signatories to any cheque issued by the municipality must initial the invoice or reconciliation as having been paid when signing the cheque.
- All cheques issued by the municipality are to be endorsed "not transferable" and the word bearer deleted.
- The Chief Financial Officer has the authority to make advances to heads of department and other municipal officials who are away from the municipality's premises on municipal business. Payment of these advances (for example to defray accommodation expenses) is made to the municipal official concerned on presentation of the necessary authorisation to undertake the trip. The municipal official will be entitled to reimbursement of any expenditure incurred in terms of the municipality's subsistence and travel policy, provided the necessary vouchers are presented as proof of payment. Where an advance has been made to the municipal official concerned, the amount advanced will

be deducted from the subsistence and travel claim before payment is affected to the official.

- On a monthly basis the finance function within the municipality will be provided with a schedule of payments to be made to the staff of the municipality in respect of net salaries earned. The schedule will reflect the total salary bill for the month less the deductions to be made from each official in respect of income tax, medical aid and pension fund contributions etc. These deductions, together with the municipal contribution, where appropriate, are to be forwarded to the relevant institutions concerned prior to the 7th of the month following the month for which salaries have been paid. Payment of net salaries is affected directly into the personal banking accounts of each of the officials employed by the municipality.
- The finance function of the municipality is also required to affect the payment of allowances to members of the municipal council. The process followed in this regard is the same as that for the payment of salaries of officials. All deductions from the allowances paid to the councillors, together with any municipal contribution, must be paid to relevant institutions prior to the 7th of the month following the month for which the allowances have been paid. Payment of net allowances to councillors can be affected by direct deposit or by issuing cheques to the councillors concerned.
- The Chief Financial Officer is responsible for the maintenance of all records essential to the determination of emoluments due to both officials and members of the council of the municipality. These records are to be kept in such a form as the Chief Financial Officer may determine from time to time.
- The Chief Financial Officer is responsible for the maintenance of accurate records of deductions and the authority for deductions made from both staff and council emoluments.
- The Head of Department concerned is required to certify in respect of each municipal official reflected on a pay sheet for each payment period that the official was employed by the municipality during that period. In the case of pay sheets pertaining to overtime, the head of department must certify on each pay sheet that the overtime worked was in accordance with council policy, that the overtime was necessary and actually worked by each official to be paid overtime.
- An imprested account for petty cash disbursements may be opened with the approval of the accounting officer. The municipal council will determine the amount that may be kept in the imprested account, the nature and extent of the payments that may be made from it and the supporting vouchers that are to be completed in respect of petty cash payments.

Managing Available Cash

Legislative Imperative

Section 17(3)(c) of the Municipal Finance Management Act, Act 56 of 2003, requires that, when an annual budget is tabled, it must be accompanied by a projection of cash flow for the budget year by revenue source, broken down per month.

Section 71 of the Municipal Finance Management Act deals with the monthly budget statements that are the responsibility of an accounting officer of a municipality. Section 71(1) of the Municipal Finance Management Act notes the information that has to be included for the month under review and the financial year up to the end of that month. Two of the items are the recording of actual revenue, per revenue source and actual expenditure, per vote. Then Section 71(2)(a) of the Act stipulates that the monthly budget statement must include a projection of the municipality's revenue and expenditure for the rest of the financial year, including any revisions from the initial projections.

Principles and Procedures

- As part of the development of an operational budget for the municipality, a monthly cash flow projection for the ensuing financial year is determined. In this regard it is noted that the expenditure incurred by a municipality is relatively regular and predictable in nature while the revenue generated is as easily predicted.
- The monthly cash flow projection compiled as part of the operational budgetary process provides an early indication of anticipated cash surpluses and cash shortfalls. Cash surpluses provide an indication of potential investment opportunities while the shortfalls require the municipality to make arrangements, normally with its bankers, to bridge the anticipated shortfalls.
- At the end of each month, the actual revenue generated during the month and expenditure incurred during the month is entered into the cash flow projection and the projected revenue and expenditure for the remaining months in the financial year adjusted accordingly. Where either actual revenue or actual expenditure, or both, is significantly different from that projected for the month under review, it could have implications for either the investment strategy or financing strategy of the municipality, or both.
- The ability of a municipality to expend is constrained by the revenue that is able to generate. Section 70(1) of the Municipal Finance Management Act requires the accounting officer of a municipality to report in writing to the municipal council –
 - (a) any impending shortfalls in budgeted revenue and/or overspending of the municipality's budget; and
 - (b) any steps taken to prevent or rectify such shortfalls or overspending.



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Municipal Manager

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