



CASH MANAGEMENT AND PAYMENT OF CREDITORS POLICY 2014 - 2015

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1. POLICY OBJECTIVES

The objective of this policy is to ensure that the Municipality has a sound cash management and payment system

2. STATUTORY FRAMEWORK

In terms of section 13(1) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA) the Minister of Finance may prescribe a framework within which the Municipality must conduct its cash management. Section 13(2) of the MFMA requires that the Municipality must establish an appropriate and effective cash management policy, which must comply with the framework prescribed by the Minister.

The Municipality must, when it approves the annual budget for each year, also approve a cash flow projection for the year by revenue source broken down per month in terms of section 17(3)(c) of the MFMA. The Municipality's service-delivery and budget implementation plan (SDBIP) must contain revenue and expenditure projections for each month as required by section 53(3)(a) of the MFMA. The Municipal Manager must ensure, in terms of section 54(1)(d) of the MFMA that spending of funds and revenue collection proceed according to the budget.

The Municipal Manager must for the purpose of giving account of the discharge of her/his responsibilities in respect of expenditure management 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 which recognises expenditure when it is incurred, and which accounts for creditors of and 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 payments by the Municipality are made directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed and either electronically or by way of non-transferable cheques, provided that cash payments and

payments by way of cash cheques may be made for exceptional reasons only, and only up to a limit prescribed by the Minister of Finance in terms of a regulation;

- e) that all money owing by the Municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise by the Minister of Finance in terms of a regulation 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 cash management and investment framework prescribed by the Minister of Finance;
- i) that the Accounting Officer take all reasonable steps according to the MFMA Act No. 56 of 2003 sec5(2) to ensure expenditure management
- j) that all financial accounts of the Municipality are closed at the end of each month and reconciled with its records.

3. PAYMENT OF CREDITORS

3.1 The Chief Financial Officer shall ensure that all contracts awarded by the Municipality stipulate payment terms that are favourable to the Municipality. As far as possible, payment should fall due not sooner than 30 days from the invoice date, unless –

- a) there are financial incentives for the Municipality to effect earlier payment; or
- b) in the case of small, micro and medium enterprises, this policy may cause financial hardship to the contractor in which case payment may be effected at the end of the month during which the service is rendered, goods supplied or work executed.

3.2 Notwithstanding the foregoing, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if there are financial incentives for the Municipality to do so. Contrary to S.65

- 3.3 No payment for the provision of a service, the supply of goods or the execution of work shall be processed unless an original supplier invoice containing a reference to the relevant purchase order and such other relevant information as the Chief Financial Officer may determine, has been received.
- 3.4 Supplier invoices processed for payment shall be certified to represent goods received, services rendered or work executed in a manner and to a standard acceptable to the relevant departmental head and, where applicable, the relevant contract manager or according to contract.
- 3.5 Supplier invoices shall be submitted to the Budget and Treasury Office. Any invoice submitted to another department shall be forwarded forthwith to the Budget and Treasury Office.
- 3.6 The Chief Financial Officer shall not ordinarily process payments for invoices received, more than once during each calendar month, such processing to take place on or about the end of the month concerned. 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.
- 3.7 Wherever possible, payment shall be effected by means of electronic transfer rather than by cheque. The Municipal Manager shall prescribe such procedures and measures as may be reasonably necessary to ensure that the banking details supplied by creditors who request payments by the Municipality to be made by electronic transfer or direct deposit into the relevant creditor's bank account are correct, including requesting the bank concerned to verify such information, provided that the Municipality may recover any cost it may have incurred in connection with such verification on the creditor concerned.
- 3.8 All payments, shall be made through the Municipality's bank account(s).
- 3.9 The Chief Financial Officer shall –
- (a) draw all cheques on the Municipality's bank account(s);
 - (b) in consultation with the Municipal Manager, determine –
 - (i) procedures relating to the signing of cheques; and
 - (ii) appropriate signatories.

3.10 All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the Chief Financial Officer. Such vouchers shall be authorised in terms of such procedures as are determined from time to time by the Chief Financial Officer and shall be accompanied by such supporting documents as the CFO may determine.

3.12 The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors and for the determination of the payment system to be used.

4. STOP PAYMENTS AND CANCELLING OF CHEQUES

4.1 The Chief Financial Officer shall install and maintain a system to stop payments and cancel issued cheques.

4.2 A written stop payment request shall be sent to the disbursements section if an issued cheque has been lost, stolen or mislaid. Such notification shall include such details as the Chief Financial Officer may determine but shall state at least the details of the payee, the amount of the payment and the reason for the request.

4.3 A replacement cheque shall be issued only after receiving written confirmation that the Municipality's bank has received the stop payment request. A replacement cheque shall be issued in due course, taking into account the operational requirements of the Municipality.

4.4 The Chief Financial Officer shall require that a creditor make arrangements for the electronic payment of her/his invoices if a stop payment request is received from that creditor on more than one occasion during a financial year.

4.5 Should a stop payment request be received and the cheque concerned clears the Municipality's bank account before or after a replacement cheque is issued, the Chief Financial Officer shall –

- (a) stop payment of the replacement cheque had such been issued but has not yet cleared the bank; or
- (b) immediately commence proceedings to recover the amount of the duplicate payment on the payee, if the replacement cheque has already cleared the bank; and

- (c) report the matter to the SAPS if it is suspected that the payee has attempted to defraud the Municipality.
- (d) Report the incident to the Municipal Manager as potentially fruitless expenditure.

5. MANAGEMENT OF INVENTORY

- 5.1 Each departmental head shall ensure that her/his department's inventory levels do not exceed –
- (a) normal operational requirements in the case of items which are not readily available from suppliers; and
 - (b) emergency requirements in the case of items which are readily available from suppliers.
- 5.2 Each departmental head shall periodically review the levels of inventory held and shall ensure that any surplus items are made available for disposal in accordance with the Municipality's supply chain management policy.
- 5.3 The CFO must annually review stock turnover periods for all items held in store and adjust reordering levels where required.

6. CASH MANAGEMENT PROGRAMME/ CASH FLOW PROJECTIONS

- 6.1 The Chief Financial Officer shall –
- (a) prepare an annual estimate of the Municipality's cash flows divided into calendar (per month per revenue source) months; and
 - (b) update this estimate at least on a monthly basis.
- 6.2 For the purpose of par 6.1 each departmental head shall supply such information to the Chief Financial Officer as may be required.
- 6.3 The cash flow estimate shall indicate –
- (a) when, for what periods and the amounts of surplus revenues that may be invested;
 - (b) when and for what amounts investments will have to be liquidated; and
 - (c) when, if applicable, either long-term or short-term debt must be incurred.

6.4 The Chief Financial Officer shall report on a monthly basis to the (Council) Municipal Manager –

- (a) the cash flow estimate or revised estimate for such month;
- (b) the actual cash flows for the month immediately preceding the month in respect of which an estimate is submitted;
- (c) the estimates or revised estimates of the cash flows for the remaining months of the financial year;
- (d) any movements in respect of the Municipality's investments; and
- (e) such other details regarding the Municipality's investments as may be relevant.

6.5 The Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report.

7. POLICY ADOPTION

This policy has been considered and approved by the Council of **Lesedi Local Municipality** on this day 27 of May 2014.

This policy will take effect at **Lesedi Local Municipality** on this day...1 of July. 2014.