

TOPIC 2.3: BANK ACCOUNTS AND CASH

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding Bank Balances and Cash. The FSOP's are drafted in the following categories:

- 2.3.1 Overview of the accounting for bank accounts and cash.**
- 2.3.2 Determining the reasonability of the bank balance and other general procedures regarding bank balances**
- 2.3.3 Procedures to be performed on reconciling the bank account**
- 2.3.4 Procedures to be performed regarding other cash resources**
- 2.3.5 AFS disclosure requirements**

2.3.1 OVERVIEW OF THE ACCOUNTING FOR BANK ACCOUNTS AND CASH

When accounting for bank accounts and cash the municipality must ensure that the necessary finance standard operating procedures (FSOP's) are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	FSOP Section
<p>1. Determining the reasonability of the bank balance(s) and other general procedures regarding bank balances. Prescribed bank accounts should be held by the municipality. Confirmation requests should be compiled and bank certificates obtained.</p>	<p>Section 2.3.2</p>
<p>2. Procedures to be performed on reconciling the bank account(s). The CFO is responsible for: banking arrangements with the municipality's bankers, ensuring that the relevant MFMA requirements are met, the creation and application of an accounting policy for cash and cash equivalents, proper cash management procedures, control over cash received and paid and bank reconciliations.</p>	<p>Section 2.3.3</p>
<p>3. Procedures to be performed regarding other cash resources. Petty cash and cashier advances should be properly managed and controlled.</p>	<p>Section 2.3.4</p>
<p>4. AFS disclosure requirements. The municipality must ensure that all the disclosure requirements for cash and cash equivalents, in accordance with the prescribed accounting framework for financial statements, are met.</p>	<p>Section 2.3.5</p>

2.3.2 DETERMINING THE REASONABILITY OF THE BANK BALANCE(S) AND OTHER GENERAL PROCEDURES REGARDING BANK BALANCES

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1		Obtain certificates from bank/ banks confirming the bank account balance/ balances as at 30 June 20xx as shown in the bank's accounting records. Ensure that the balances reflected on these certificates are the ones used in the various bank reconciliations, as discussed in Section 2.3.3 below, " Procedures to be performed on reconciling the Bank Account(s) ".	ACP	CFO	Date of implementation of GRAP
2		Ensure that the municipality maintains the following minimum bank accounts: <ul style="list-style-type: none"> • General Bank Account – normal municipal receipts and payments. • External Financing Fund – to record loan receipts and accumulations towards the repayment of such loans. The external financing fund represents the unspent portion of long-term loans. • Capital replacement reserve – this reserve must be cash backed at all times and therefore requires a separate bank account. • Unutilised Capital Receipts – this is to account for unutilised conditional capital grant monies. Ideally, municipalities will organise sub-bank accounts and will arrange their banking accounts to be swept to minimise interest charges on overdrawn accounts. Municipalities should also invest surplus money in dedicated investment accounts again to maximise interest earning potential within the context of the proposed investment framework.	ACP/ LCP	CFO	Date of implementation of GRAP

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
3		<p>Confirm the bank balances as follows:-</p> <ul style="list-style-type: none"> • Compile a bank confirmation request for each of the bank accounts held in the name of the municipality. • Send the bank confirmation requests to each banking institution where accounts are held. • Review the confirmation certificates received directly from the institutions and ensure that the confirmation certificate contains details pertaining to: <ul style="list-style-type: none"> ▪ Pledged or ceded credit balances and deposits; ▪ Security provided for overdraft; ▪ Overdraft facility and conditions; ▪ Contingent liabilities; and ▪ Authorised signatories. 	ACP	CFO	Date of implementation of GRAP
4		Ensure that the balance reflected on the confirmation certificate agrees to that reflected on the bank reconciliation and bank statement.	ACP	CFO	Date of implementation of GRAP
5		Ensure that the information provided in the bank confirmation (per 3 above) has been adequately disclosed in the financial statements of the municipality as appropriate.	ACP	CFO	Date of implementation of GRAP
6		Differences between the confirmations received and the general ledger must be investigated and treated according to the normal reconciliation procedures as described in paragraph 2 hereunder.	ACP	CFO	Date of implementation of GRAP
7		<p>Perform a monthly reconciliation for each bank account between the following accounts:-</p> <ul style="list-style-type: none"> • Bank Control - general ledger account; and • Bank Statement received from banking institution. 	ACP	CFO	Monthly

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		Ensure that all differences and reconciling items are followed-up upon discovery thereof.			
8	<p>Section 85 of the MFMA stipulates:</p> <p>(a) A Municipality must open and maintained at least one bank account in the name of the entity.</p> <p>(b) all the money received by the municipal entity must be paid into its bank account or accounts and this must be done promptly and in accordance with any requirements that may be prescribed.</p> <p>(c) A municipal entity may not open a bank account -</p> <p>(i) abroad;</p> <p>(ii) with an institution not registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990);</p> <p>(iii) otherwise than in the name of the entity; and</p> <p>(iv) without the approval of its board of directors.</p> <p>(d) Money may be withdrawn from a municipal entity's bank account only in accordance with the requirements that may be prescribed.</p>	Ensure compliance with section 85 of the MFMA	LCP	CFO	30 June each year

2.3.3 PROCEDURES TO BE PERFORMED ON RECONCILING THE BANK ACCOUNT(S)

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1		<p>Bank Account Management:</p> <p>1. The Chief Financial Officer must establish the following with the municipality's bankers:</p> <ul style="list-style-type: none"> • 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 automatically transfer surplus funds to a call investment account. <p>2. The Chief Financial Officer must ensure that the following MFMA requirements regarding bank accounts are adhered to:</p> <ul style="list-style-type: none"> • 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, 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 	ACP	CFO	Ongoing
			ACP	CFO	Ongoing

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<ul style="list-style-type: none"> - 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. • MFMA Section 8(5) states that 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 making such a change. • 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)) <p>3. The Chief Financial Officer must ensure that there is an accounting policy for cash and cash equivalents and the municipality applies such policy.</p>	ACP	CFO	Ongoing
2		<p>Allocation of Responsibility for the Management of the Bank Account:</p> <p>The Chief Financial Officer should:</p> <ul style="list-style-type: none"> • Allocate the responsibility for the management and accounting for all deposits or credits to the bank statement to an authorised designate; • Allocate the responsibility for the management and 	ACP	CFO	Ongoing

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		<p>accounting for all debits to the bank statement cheques, stop orders, transfers and other debits to an authorised designate;</p> <ul style="list-style-type: none"> • Allocate the responsibility for the preparation of the bank reconciliation to an authorised designate; • Allocate the responsibility for retrieving information from the bank to an authorised designate; • Check the accuracy of the bank reconciliation on a regular basis; and • Determine the frequency of performing the bank reconciliation (preferably monthly). <p>The bank reconciliation must be reviewed by the CFO on a monthly basis (and initialled as evidence of review) to satisfy himself that that the cash book is being properly and timeously written up. These monthly reconciliations should be kept for audit purposes.</p>			
3		<p>Cash Management Procedures:</p> <p>The Chief Financial Officer must:</p> <ul style="list-style-type: none"> • Be responsible for the municipality's cash flow management; • Determine the format for cash flow reports and the period of cover; • Determine the likely dates for receipt of grants from government and the estimated amounts; • Determine procedures for maximising interest on surplus funds; and <p>Determine which officials are to receive the cash flow report. Refer to Annexure 1 (Topic 2.5 – Investments), for an example of a Cash Flow forecast.</p>	ACP	CFO	Ongoing

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
4	Monies received by the municipality must be paid into the municipality's bank account and this must be done promptly and in accordance with chapter 3 of the MFMA.	<p>Bank Deposits, Direct Transfers and Electronic Banking:</p> <p>1. The Chief Financial Officer must:</p> <ul style="list-style-type: none"> • 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; • 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 deposits into the municipal bank account into the accounting system by:- <ul style="list-style-type: none"> ◦ 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; or ◦ Journal vouchers with a supporting control sheet. • Record all unidentified credits (receipts) in a suitable register to facilitate future claims against the amount and follow up; and • Balance the unidentified receipts register to the "Default Cash"/"Unidentified receipts" suspense account in the general ledger on a monthly basis. <p>2. The Chief Financial Officer must establish a process for managing returned cheques which should include:</p> <ul style="list-style-type: none"> • Maintaining a returned cheque register which should record the following:- <ul style="list-style-type: none"> ◦ The date on which the cheque was debited by the bank; ◦ The name of the drawer; 	ACP	CFO	Ongoing
			ACP	CFO	Ongoing

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<ul style="list-style-type: none"> o The amount of the cheque; o The drawer's debtor account number; o Details of fresh cheque / cash in respect of R/D cheques. • 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; and • Recover the cost of R/D cheques. <p>3. The Chief Financial Officer must:</p> <ul style="list-style-type: none"> • 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:- <ul style="list-style-type: none"> o Bank charges; o Interest on overdraft; o R/D cheques; o Electronic transfers such as transfers to salaries accounts; and o Electronic payments to suppliers; • Check the bank charges and interest amounts for reasonableness, and make out a payment voucher for processing to the ledger. This voucher should reflect the bank statement number and total costs per page; • In the case of R/D cheques, hand the amounts to the billing department for processing; and • In the case of transfers to other municipal bank accounts, verify the transfers back to the authorised transfer 	ACP	CFO	Ongoing

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		voucher that should have been authorised by the originating official.			
5		<p>Reconciliation of the municipality's Accounting Records to the Bank Statements:</p> <ol style="list-style-type: none"> 1. Obtain the transfer batch report (report reflecting all payments made by electronic bank transfer/cheque list to creditors for the month). 2. Obtain bank statements from the bank on a daily basis and do daily deposit reconciliation. 3. Identify all the direct debits on the statement and match to the corresponding vote from the direct debit vote register (including 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. 4. 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. 5. If the credit cannot be identified it is posted to the vote for unidentified receipts ("Default Cash"). 6. Scrutinise bank charges for reasonableness and query with the bank if it appears too high. 	<p>ACP</p> <p>ACP</p> <p>ACP/AP</p> <p>ACP/AP</p> <p>ACP/AP</p> <p>ACP</p>	<p>CFO</p> <p>CFO</p> <p>CFO</p> <p>CFO</p> <p>CFO</p> <p>CFO</p>	<p>Monthly</p> <p>Daily</p> <p>Daily</p> <p>Daily</p> <p>Daily</p> <p>Daily</p>

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>7. Match:</p> <ul style="list-style-type: none"> • 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 no been cashed by the payee within six months 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; and • All other direct debits from the bank statements to the cashbook. 	ACP	CFO	Daily
		<p>8. 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.</p>	ACP	CFO	Daily
		<p>9. When all entries are processed, print the reconciliation. 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</p>	ACP	CFO	Monthly

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>process to detect the error. Differences must be corrected immediately and not left as reconciling items to be reconciled at a later stage.</p> <p>10. Present the reconciliation to the Manager: Budgets and Chief Financial Officer for signature and approval.</p> <p>11. Reconciliation approved and signed by Manager: Budgets and CFO.</p> <p>12. File and safeguard the approved reconciliation in a special file labelled "Bank Reconciliation for &Month&" and the presented cheques in numerical sequence.</p> <p>13. Withdrawals from municipal bank accounts: MFMA 11 states that the accounting officer must within 30 days after the end of each quarter-</p> <p>(a) table in the municipal council a consolidated report of all withdrawals made in terms of 11 (1) (b) to (j) during that quarter</p> <p>(b) submit a copy of the report to the relevant provincial treasury and the Auditor General.</p>	ACP	CFO	Monthly
			ACP	CFO	Monthly
			ACP	CFO	Monthly
			LCP	CFO	Monthly
6		<p>Authorisation of the Bank Reconciliation:</p> <p>1. Ensure that the bank statement balance agree to the balance reflected on the bank statement at month end date.</p> <p>2. Ensure that the cash book balance agree to the general ledger.</p>	ACP	CFO	Monthly
			ACP	CFO	Monthly

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		3. Test the mathematical accuracy of the bank reconciliation.	ACP	CFO	Monthly
		4. Test the reconciling items on the bank reconciliation as follows:- <ul style="list-style-type: none"> Trace outstanding cheques to subsequent bank statements; Trace outstanding deposits to subsequent bank statements; Ensure that other reconciling items agree to supporting documentation; and Ensure that all stale outstanding cheques (older than 6 months) have been written back and re-issued as appropriate. 	ACP	CFO	Monthly
		5. Inspect whether all bank accounts were accounted for by comparison with previous month's working papers and examining it for accounts omitted.	ACP	CFO	Monthly
		6. Inspect whether reconciling items are cleared on a timely basis.	ACP	CFO	Monthly
		7. 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).	ACP	FCO	Monthly
		8. Review bank reconciliations and investigate large or unusual items.	ACP	CFO	Monthly
		9. Scrutinise the cash book for unusual transactions or entries and obtain explanations from officials.	ACP	CFO	Monthly

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		10. In respect of a bank overdraft ensure that:- <ul style="list-style-type: none"> • It is authorised by 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 a resolution of the council; and • 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.) 	ACP	CFO	Monthly
		11. Initial bank reconciliation as evidence of review thereof by a senior official.	ACP	CFO	Monthly

2.3.4 PROCEDURES TO BE PERFORMED REGARDING OTHER CASH RESOURCES

a) Petty Cash

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1		The official responsible for the management of the petty cash should be independent of all other cash functions such as cashiering.	ACP	CFO	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
2		<p>When a Section needs petty cash, a petty cash Requisition Form is completed and approved by the respective Head of Section.</p> <p>The petty cash requisition form details must include the vote to be debited before a cheque is made out for the incurring of expense.</p> <p>The requisitioned amount should not exceed a maximum amount set by the CFO.</p>	ACP	CFO	30 June each year
3		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, eg. a week.	ACP	CFO	30 June each year
4		Ensure that each requisition/ expense is entered onto the petty cash register.	ACP	CFO	30 June each year
5		<p>Ensure that a senior official performs the following at the end of each month:</p> <ul style="list-style-type: none"> 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 	ACP	CFO	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		<p>the month; and</p> <ul style="list-style-type: none"> reconciles the petty cash total on hand with the requisition forms, vouchers and other supporting documentation. <p>Ensure that any differences arising during the above-mentioned monthly procedures are followed up and resolved.</p> <p>Ensure that the senior official responsible for the review of the petty cash funds and –register, signs as proof of the review.</p>			
6		<p>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.</p> <p>The designated official should then process the voucher and issue a manual cheque to the official who cashes it at the bank.</p>	ACP	CFO	30 June each year
7		<p>Remind internal audit that they should make surprise inspections of the petty cash at least once per quarter and perform the following procedures:</p> <ol style="list-style-type: none"> 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. Perform a cash count, in the presence of the official responsible for petty cash, as follows: 	ACP	CFO	30 June each year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		Count the petty cash in petty cash box R xx Add the total of invoices for the month <u>R xx</u> Equals the float <u>R xx</u>			
7		Remind internal audit that they should make surprise inspections of the petty cash at least once per quarter and perform the following procedures: 1. 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. 2. 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 <u>R xx</u> Equals the float <u>R xx</u>	ACP	CFO	30 June each year
8		Ensure that all petty cash expenses are captured on the system via journal entries 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 register.	AP	CFO	Monthly

b) Cashier Advances

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1		Cashier advances should be treated as standing advances. The CFO should review the level of the advances based on cashier requirements.	ACP	CFO	Quarterly
2		On the issuance of advances the following accounting entries should be affected: Dt Cashier Advances Cr Bank (The advances can be paid back at year end with the relevant advance accounts then being cleared.)	AP	CFO	On issuance of advance
3		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.	ACP	CFO	30 June each year

2.3.5 AFS DISCLOSURE REQUIREMENTS

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1		Ensure that the financial information is presented, classified and disclosed in accordance with the prescribed accounting framework for the financial statements, including:	AP/ LCP	CFO	30 June each year

	<ul style="list-style-type: none"> 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*) and 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:- <ul style="list-style-type: none"> - 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. <p>* 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.</p>			
2	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.	AP	CFO	30 June each year
3	Cash is classified as financial instruments and therefore disclosure requirements for financial instruments should be adhered to – refer to Section 1.10: Financial instruments ,	AP	CFO	30 June each year

		<p>where these disclosure requirements are set out.</p> <p>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.</p>			
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