

CITY OF MATLOSANA



INVESTMENT & CASH MANAGEMENT POLICY

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1. **PURPOSE**

The purpose of establishing a formal investment and cash management policy is to set broad guidelines within which investment of funds can be made in compliance with the Municipal Finance Management Act, 2003 (Act No.56 of 2003), and the Municipal Investment Regulations prescribed by the Minister of Finance on 1 April 2005 in a Government Gazette No. 27431.

2. **INVESTMENT OBJECTIVES**

The primary objective of all investments will be based on a proper risk analysis before any investment is made. The secondary objective is the investment made shall be met by the liquidity of the council. The third objective shall be to achieve the maximum return as possible after the primary and secondary objectives are fulfilled.

- a. **"Analysis"** means that the overall value of funds shall not be diminished in the process of securing and investing those funds during the duration of the investments.
- b. **"Liquidity"** means that funds shall be made available to meet all anticipated obligations and a prudent reserve shall be kept available to meet unanticipated cash requirements. Availability has two elements, namely liquidity and the scheduling of cash flows. Liquidity is the ability to transform an investment into cash on short notice at its prevailing market value. Scheduling of cash flows means that investments are to mature or are to be transformed into cash in parity with the anticipated cash requirements.
- c. **"Achieve a return"** means to earn the optimum interest/income from funds proportionate to the objectives of safety and availability of the

principle investment. At no time shall funds be invested in any security that could result in zero interest accrual if held to maturity.

3. **DEFINITIONS**

“Act” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

“Financial institution” means Banks, Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984); Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No.46 of 1984); and any other legal brokers and dealers of the financial instruments.

“Investee” means an institution with which an investment is placed, or its agent;

“Investment officer” means an official who is delegated by the Chief Financial Officer (CFO), in accordance with the Act, to handle the Council's investments.

“Investment manager” means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989), and Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by the Council entity to –

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) advise it on investments and manage investments on its behalf;

“Trust money” means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Act.

4. SCOPE

This investment policy applies to all investments. Investment income and interest will be allocated according to the requirements of Generally Accepted Municipal Accounting Practices and Generally Recognized Accounting Practices.

5. ROLE CLARIFICATION

The Municipal Manager as an Accounting Officer remains the overseeing authority over all investments that has been made on behalf of the Council.

The CFO must perform the cash Management and investment of funds as prescribed in Section 81 (e) of the Act and the delegation authority of the Council as prescribed in Section 60 (2) of the Local Government Municipal Systems Act, 2000 (Act 32 of 2000).

6. DELEGATIONS

The Chief Financial Officer may delegate the cash management and investment responsibility to either his deputy or to the assistant directors as prescribed in Section 82 (1) of the Act.

7. ADMINISTRATION

The Investment Committee will meet at least once a quarter to review and evaluate previous investment activity and yield, to review the current status of all funds held by the City of Matlosana, to discuss anticipated cash requirements and investment activity for the future, and to determine an investment strategy.

Any two members of the Committee may call a special meeting and two members shall constitute a quorum.

8. PERMITTED INVESTMENTS

As prescribed in a Municipal Investment Regulation in the Government Gazette No.27431 issued by the Minister of Finance, the permitted investments are as follows:

- a) securities issued by the national government;
- b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- c) deposits with banks registered in terms of the Bank Act, 1990 (Act No 94 of 1990);
- d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act no. 45 of 1984);
- e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- f) bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act,1990;
- g) guaranteed endowment policies with the intention of establishing a sinking fund;
- h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- i) municipal bonds issued by a municipality; and
- j) any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.
- k)

9. PROHIBITED INVESTMENTS

The Council shall not be permitted to make the following investments:

- (a) investments in listed or unlisted shares, or unit trusts
- (b) investments in standalone derivative instruments

- (c) investments denominated in, or linked to, foreign currencies
- (d) investments in market linked endowment policies

The Council shall not borrow for the purpose of investing.

10. INVESTMENT ETHICS

- (a) The Municipal Manager; Chief Financial Officer or their delegate are responsible for the investment of funds and must ensure that there is no interference in these processes.
- (b) No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her relationship with the said institution.
- (c) The gift must be declared to their Superior.

The Municipal Manager, Chief Financial Officer or their delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Municipal Council. Excessive gifts and hospitality should be avoided at all costs.

10. Risk Management

- 10.1 The preservation of principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Municipal Manager or their nominee prudently manages risk exposure. Risk profiles should be minimized by only placing investments with institutions and instruments approved by the Public Investment Commission or the Republic of South Africa: National Minister of Finance.
- 10.2 Investment shall be made with care, skill, prudence, and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

- (a) adhere to written procedures and policy guidelines
- (b) exercise due diligence
- (c) prepare all reports timeously
- (d) exercise strict compliance with all legislation

11. DELEGATION OF AUTHORITY

The delegation to authorise investments must distinguish between short-term & long-term investments as provision of security is vested with the Municipal Council in terms of Section 48 of the MFMA and with reference to section 11(1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the Municipal Manager or Chief Financial Officer or any other senior financial officer authorised by either the Municipal Manager or the Chief Financial Officer/relevant assignee.

The Local Government Municipal Systems Act of 2000 as amended, Section 3, (60) (2) states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee or Executive Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a financial year held, an investment for the municipality must:

- Promptly disclose information regarding the investment when so requested by the National treasury or the Auditor-General
- Promptly disclose information of any possible or actual change, in the investment portfolio, that could or will have a material adverse effect.

12. USE OF INDEPENDENT INVESTMENT MANAGERS

Should the need arise to use an investment manager at the cost of Council; one will be appointed using Supply Chain Management principles and practices.

13. CASH MANAGEMENT

FOREWORD

The Chief Financial Officer, inter-alia, has to ensure financial viability and sustainability of the municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the Municipality to detect mismanagement of funds.

In terms of section 7 (2) of the Municipal Finance Management Act No.56 of 2003 (chapter 3), 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 chapter 3 of MFMA and any requirements that may be prescribed.

Section 8 (2) of this Act states that the following moneys must be paid into a municipality's primary bank account:

- 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;
- All income received by the municipality on its investments;
- All income received by the municipality in connection with its interest in any municipal entity, including dividends;
- All money collected by a municipal entity or other external mechanism on behalf of the municipality; and
- Any other moneys as may be prescribed.

Section 8 (3) states that a municipality must take all reasonable steps to ensure that moneys referred to in sub-section (2) are paid into its primary bank account.

Section 13 (1) states that the Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must:

- Conduct their cash management and investments; and
- Invest money not immediately required.

Section 13 (2) states that 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 sub-section (1).

Section 64 of MFMA (Chapter 8) states also says that:

- Subsection (1) The accounting officer is responsible for the management of the revenue of the municipality;
- Subsection (2)(d) subsection The accounting officer must for the purpose of (1) take all reasonable steps to ensure that all money received is promptly deposited in accordance with MFMA into the municipality's primary bank account;
- Subsection (2) (e) (iii) The accounting officer of a the municipality must ensure that the Municipality has and maintains a management, accounting and information system which accounts for receipts of revenue.

13.1 **DEFINITIONS**

In this section 13, unless the context indicates otherwise –

“account”	means a notification by means of a statement of account to a person liable for payment of any amount for which he or she is liable to pay the Council in respect of the following: <ul style="list-style-type: none">- Electricity consumption based on a meter reading or estimated consumption;- Water consumption based on a meter reading or estimated consumption;- Refuse removal and disposal;- Property Rates;- Interest;- Basic Water- Basic Electricity- Sewerage- Miscellaneous and sundry fees and any other collection charges;
“accounting officer”	in relation to a municipality, means the official referred to in section 60 of the Municipal Finance Management Act;
“cashier”	means an official appointed to deal directly with customer monetary transactions. A Cashier receives money (cash, cheque, credit card, and direct deposits) on behalf of the municipality;
“fee”	means a fee prescribed for or in respect of any municipal service;

“municipal council” or “council”	means the council of a municipality referred to in section 18 of the Municipal Structures Act as amended, 2000;
“Municipal Finance Management Act”	means the Local Government: Municipal Finance Management Act No.56 of 2003, and any regulations made under that Act
“municipality”	when referred to as – <ul style="list-style-type: none"> - a corporate body, means a municipality as described in section 2 of the Municipal Systems Act as amended; or - a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act No.27 of 1998;
“Municipal manager”	means a person appointed in terms of section 82 (1) (a) or (b) of the Municipal Structures Act (is the head of administration and also the accounting officer of the municipality);
“municipal service”	means a service that a municipality in terms of its powers and functions provides or may provide to or for the benefit of the local community irrespective of whether such a service is provided, or to be provided, by the municipality through an internal mechanism contemplated in section 76 or by engaging an external mechanism contemplated in section 76; and fees, charges or tariffs are levied in respect of such a service or not;
“Municipal Systems Act”	means the Local Government: Municipal Systems Act No.32 as amended of 2000;
“prescribed”	means prescribed by the Council from time to time, by resolution;
“safe keeping”	means a designated area such as a safe, lockable room or cupboard

13.2 PRINCIPLES

Section 64 (2)(d) and 64(e and h) of the Municipal Finance Management Act of 2003 indicates that all money received be promptly deposited in accordance with the Act into the Municipalities primary and other bank accounts, that it accounts for all receipts of revenue and that all revenue received be reconciled on at least a weekly basis

13.3 CASHIERS

- 1) Cashiers are expected to perform their duties diligently and with honesty;
- 2) Cashiers are not allowed to have more than two (2) cash shortages in one month
- 3) Cashiers are not allowed to have more than two (2) cash surpluses in one month
- 4) In case the shortages or surpluses exceed the pre-set number, a verbal warning will be issued to the Cashier in front of a witness. This warning will be effective for 3 (three) months;
- 5) If there is a shortage by the same Cashier within the three (3) months of a verbal warning, a written warning will be issued in front of a witness. This warning will be effective for 6 (six) months;
- 6) If there is a shortage by the same Cashier within the six (6) months of written warning, this Cashier will face a disciplinary hearing;
- 7) The above measures will not apply to a new Cashier within the first three months of their appointment, but measures must be taken to ensure that such occurrences should not occur and in the case of shortages the matter must be resolved on the same day ;
- 8) Cashiers must explain all cash surpluses and shortages as and when required
- 9) All newly appointed cashiers are expected and will undergo the necessary training during their probation period in the first three (3) months;
- 10) All Cashiers are expected to sign a declaration that they will safeguard Councils income by ensuring that they work in a safe environment as provided by Council and any deficiencies in their working environment must be reported immediately.
- 11) Each cash shortage must be receipted and paid in by the Cashier on the same day or before 08h00 the next day;
- 12) Each cash surplus belongs to the municipality, as it might be claimed at a later date and the cash surplus must be receipted and banked by the cashier
- 13) All cash shortages and surpluses are to be recorded and reported to the Manager Revenue or a Senior Official in the Revenue Division on a weekly basis;
- 14) Original receipts that are cancelled must be retained and filed.

- 15) Bank notes must be checked for counterfeit notes and reported immediately and training shall be supplied by Councils banking institution.
- 16) All Cashier cash shortages must be paid in according to point 11 or not later than the last day of the same month by salary deduction, but only with approval of the Chief Financial Officer.
- 17) Cashiers must ensure that post-dated cheques are not accepted and receipted;
- 18) No landline telephones or cell phones will be allowed in the Cashier cubicles;
- 19) No Cashier may leave their cubicle to answer a phone or cell phone whilst account customers are waiting to pay;
- 20) Cashiers are expected to work at different offices within the municipalities jurisdiction;
- 21) Cashiers may not cash-up one another, unless an arrangement has been made with a senior official or supervisor who will take the responsibility of the actions;
- 22) Cashiers are not allowed to use other Cashier's passwords for the selling of pre-paid electricity, processing payments on accounts or cancelling receipts;
- 23) Cashiers must not take more than 45 (forty five) minutes lunch, unless an prearrangement is made with their supervisor;
- 24) A cashier may not leave their working area to attend to personal matters unless a prearrangement is made with their supervisor;
- 25) Cashiers must never leave their cubicles unlocked during working hours;
- 26) Only Cashiers, Supervisors and authorised senior persons may enter the cubicles of other Cashiers and only when that Cashier is present;
- 27) Any work by private companies may not be undertaken in the cubicles
- 28) If a Cashier has to leave the cubicle, no one may remain in the cubicle;
- 29) Cashiers may not have visitors in their cubicles at any given time of the day;
- 30) Only Cashiers, Supervisors or authorised senior officials may take cash from Cashier cubicles to the safe in the strong room;
- 31) No eating is be allowed in the cubicles;

Failure to implement these conditions will result in disciplinary actions

13.4 SUPERVISORS

- 1) Supervisors must ensure that Cashier's cash for the day balances with the machine's (Cash drawer) total;
- 2) Supervisors must ensure that Cashier's cheques for the day balances with the machine's (Cash drawer) total;
- 3) Supervisors must ensure that post-dated cheques are not receipted and banked
- 4) Supervisors must ensure that Cashier's credit cards for the day balances with the machine's (Cash drawer) total;
- 5) Supervisors must ensure that cash is accounted for and given to the security company for banking each day;
- 6) Supervisors will be held liable for bank charges for incorrect deposit totals.
- 7) Supervisors must ensure that only bank guaranteed cheques are receipted, unless arranged otherwise by the section head
- 8) Supervisors must assist in finding the cash shortages and surpluses of Cashiers;
- 9) Supervisors must ensure that cash is transported to the bank within 24 hours (with an exception for weekends and holidays, money will be banked on the next working day);
- 10) Supervisors must do daily reconciliations of receipts and daily summaries of Cashiers;
- 11) Supervisors must report any misconduct by Cashiers as well as suspected criminal activities to the Manager Revenue or Senior Official;
- 12) Supervisors must assist Cashiers in resolving any disputes with account payers;
- 13) Supervisors are to be in contact with the cash collecting company for any new persons employed, to avoid robberies;
- 14) Supervisors must check the authenticity of identity cards of officials from the cash collecting company;

- 15) Supervisors are to report any suspicious activities by the cash collecting company to the Manager Revenue or Senior Official or Head of Security: City of Matlosana Local Municipality;
- 16) Supervisors must always be present each time cash is handed over to the cash collecting company;
- 17) Supervisors must ensure that there are security officers present when Cashiers balance cash for the day;
- 18) Supervisors are the only ones permitted to process the cancellation of receipts;
- 19) Supervisors must report all cancellations, cash shortages, surpluses and any pending transactions on the prepaid system to the Manager Revenue Office or a Senior Official on an as and when occurred basis and at least twice a week. Supporting documentation must always be kept safe;

In case of a dispute with the bank about cash shortages and surpluses, an investigation will be undertaken and depending on the outcome of the investigation, a decision will be taken by the senior supervisor of Payment Collections to resolve the dispute.

Failure to implement these conditions will result in disciplinary actions

13.5 DIRECT DEPOSITS

- 1) Direct deposits clerks must request and receive bank statements daily for reconciliation;
- 2) Correctly allocate unallocated receipts;
- 3) Draw up a spreadsheet of all unknown direct deposits for verification with the bank;
- 4) Check all the RD (Refer to Drawer Cheques) payments for following up with the debt collection section ;
- 5) Issue receipts for all grants received;
- 6) Ensure that payments from Easy-Pay, Pay@, and Conlog are updated

- 7) Ensure safe-keeping of all receipts and reports in a designated place of safe keeping;
- 8) Ensure that payments from all Council's bank accounts are updated

13.6 CASH FLOAT

- 1) Each Cashier must have equal amount of cash float;
- 2) Supervisors must do impromptu cash float counting as regular as possible
- 3) Only cashiers will have keys to cash float drawers;
- 4) Cashiers are solely responsible for any shortages or surpluses in the cash float boxes;
- 5) Supervisors have the authority to count any Cashier's float at any given time of the day or week or month;
- 6) Cashiers must immediately pay in any shortages in their cash float drawers, and receipt any surpluses in case it may be claimed later.
- 7) Cashiers must sign for the cash float they use and be responsible for the drawers and the keys;
- 8) Transfer of Cashier floats – Cashiers who goes on leave or resigns must ensure that the float amount is correct when transferring the float to another cashier, when the responsible cashier goes on leave or resigns
- 9) The relevant section heads within council who have cashiers, must supply the Chief Financial Officer with a schedule of all cashier floats within their section at the end of each financial year

14. BANK AND CASH IN TERMS OF THE LOCAL GOVERNMENT:

MUNICIPAL FINANCE MANAGEMENT Act N0.56 of 2003, Chapter 3, Part 1

- All names of bank accounts must be changed to the name of the newly created municipality,
- New bank accounts must be opened if required,

- All cheques received from the disestablished municipalities must be banked,
- All bank accounts currently held and transferred to the municipality must be accounted for in the new accounting system,
- The official responsible must ensure that the name change on the accounts has been effected,
- All bank and cash must be made in terms of Cash Management Policy
- Every municipality must open and maintain at least one bank account in the name of the municipality and
- All money received by a municipality must be paid into its bank account in the name of the municipality as per the above mentioned legislative framework

15. INVESTMENTS PROCEDURE

- (a). Quotations should be invited from at least three financial institutions for the term for which the investment is to be placed. In the event of one of the financial institutions offering a more beneficial rate for an alternative term, the other institutions invited to quote should be approached for their rates on the alternative term.
- (b) It is acceptable to obtain telephonic quotations, when placing funds.
- (c) The person responsible for calling for quotations from institutions should note the name of the institution, the person who has given the telephonic quote and the terms and interest applicable, e.g. whether interest is payable monthly or on maturity.
- (d) Having obtained the necessary number of quotations, the decision needs to be made regarding the best terms offered and the institution with whom the investment is to be placed. The investment objectives must be kept in mind.
- (e) An investment may only be made if it is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the

Rand against any foreign currency.

- (f) The above procedure should be followed for any investment irrespective of the duration of the investment.
- (g) All investments made by an investment officer, or by an investment manager on behalf of the Council, must be in accordance with this investment policy.
- (h) All investments withdrawals should be authorised by the Municipal Manager or the CFO or the responsibility be delegated to the deputy or assistant director.

16. PRUDENTIAL'S

- (a) Investments must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
- (b) May not be made for speculation but must be a genuine investment;

And

- (c) Must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality and lastly to the probable income derived from the investment.
- (d) Employees involved in the investment process should refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees who handle the investments should disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.
- (e) Investment officers should avoid any transactions that might impair public confidence in the City of Matlosana.

17. PAYMENT OF COMMISSION

- (a) No fee, commission or other reward may be paid to a councillor, manager or any official of the municipality to a spouse or close family member of such councillor, manager, or official in respect of any investment made or referred by the municipality.
- (b) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by the municipality, both the investee and the investment manager must declare such payment to the council of the municipality by way or a certificate disclosing full details of the payment.

18. RECORDS AND REPORTS

- (a) The CFO or the delegated official must keep all investment transaction in a proper register, in accordance with Generally Recognized Accounting Practices.
- (b) The CFO must within 7 working days at the end of each month report to the Accounting Officer/Municipal Manager the investment portfolio in a prescribed form as required by the Municipal Management Regulation.
- (c) The Accounting Officer must within 10 working days of the end of each month, submit to the Executive Mayor a report describing in accordance with Generally Recognized Accounting Practice the portfolio as at the end of the month.
- (d) The report must set out at least –
 - the market value of each investment as at the beginning of the reporting period;
 - any changes to the investment portfolio during the reporting period;
 - and the market value of each investment as at the end of the reporting period.

19. **PORTFOLIO DIVERSIFICATION**

- (a) Funds, which are not required for immediate cash expenditures or to maintain, required compensating cash balances should be invested in interest bearing investments or accounts.
- (b) To reduce overall portfolio risk while attempting to attain market rates of return consistent with the primary objectives of safety and availability of funds, investments shall be diversified across types of investments, maturities of those investments, and institutions in which those investments are made.
 - Investment Instruments
Investments shall be made only in those instruments specifically authorized by the law.
 - Institutions
The council must take all reasonable prudent steps consistent with the investment policy and according to standard of care set out in Prudentialism in this policy, to ensure that it places its investments with credit-worthy institutions.
 - i. Funds shall only be deposited in a financial institution whose performance has been reliable and whose safety rating, as determined by a reputable independent rating service
 - ii. No single institution shall have, in cumulative total, as deposits and investments (other than safe kept investments) more than 50% of the City of Matlosana available funds for investment.
 - iii. No funds may be invested in instruments that are prohibited by this policy.
 - iv. When the appropriate Investment Officer or the

Investment Manager must liquidate an investment that no longer has the minimum acceptable credit rating as specified in the investment policy.

20. RELATIONSHIPS WITH FINANCIAL INSTITUTIONS

All financial institutions with which the Council conducts investment activities must agree in writing to undertake reasonable efforts to prevent illegal and/or imprudent transactions involving the Council funds. Should it come to the attention of the Financial Services Manager that funds have been involved in illegal and/or imprudent transactions, this will be reported to the City of Matlosana along with options for dealing with the situation.

21. MISCELLANEOUS PROVISIONS

- (a) The responsibility and risk arising from any investment transaction vests in the Accounting Officer and the Chief Financial Officer.
- (b) All investments made by the municipality must be in the name of the Council.
- (c) No money may be borrowed for the purpose of investment.

22. INDEMNIFICATION OF INVESTMENT OFFICIALS

Any investment officer exercising his or her authority with due diligence and prudence, and in accordance with the requirements of the Act, will not be held personally liable for any individual investment losses or for total portfolio losses.

Council will however have the right to collect any losses from an official, if an investment is made contrary to the stipulation of this policy or when gross negligence can be proved.

The Investment Policy is changed in accordance with the regulations as set out by the Minister of Finance in the Government Gazette No 27431

