public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

PROPERTY MANAGEMENT TRADING ENTITY

EXPENDITURE AND PAYABLES POLICY

Prepared by:	Mr Cox Mokgoro
Designation:	Chief Financial Officer
Signature:	
Date:	11 - 10 - 2013

Approved by:	Mr Mziwonke Dlabantu
Designation:	Director-General
Signature:	
Date:	

Effective date:	01 April 2013

Expenditure and Payables Policy

CONTENTS

Expenditure and Payables Policy

1. Purpose and objectives

1.1. The purpose of this policy is to:-

1.1.1. Provide guidelines to be used by the PMTE as a basis for the management, recording and accounting for transactions relating to Expenditure and Payables in accordance with the requirements of the Public Finance Management Act, Act 1 of 1999 (PFMA) and the Treasury Regulations;

1.1.2. Define a policy for the management of Expenditure and Payables in line with the Public Finance Management Act, No 1 of 1999 (as amended) (PFMA) and Treasury Regulations which are aimed at ensuring effective accountability and promoting good financial management practices;

2. Scope

2.1. This policy document covers transactions relating to expenditure incurred by the PMTE and payables resulting from goods and or services received from third parties.

2.2. This policy applies to all divisions and functions responsible for the administration and management of Expenditure and Payables within the PMTE and the regions

2.3. This policy supersedes all policies which were previously applicable to Expenditure and Payables.

3. Definitions

3.1. The terms included hereunder shall, unless the context indicates otherwise, have the meanings ascribed hereto:

- **Accounting Officer** is the Accounting Officer as defined in section 1 of the PFMA. The Accounting Officer of the PMTE is the Director-General of the Department of Public Works.

- **Accounting period** refers to a 12 month period commencing on 1 April of one year and ending on 31 March of the following year.

- **Accruals** - are obligations to pay for goods or services that have been received or supplied at the end of the accounting period/year end, but have not been paid, or not invoiced or formally agreed with the supplier, including amounts relating to accrued leave pay. Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

- **A contingent liability** is:

  - A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

  - A present obligation that arises from past events but is not recognised because:

    i. It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

    ii. The amount of the obligation cannot be measured with sufficient reliability.

- **Deferred income** - An obligation to transfer economic benefits by providing goods or services for which payment has been received in advance.

- **Employee related liabilities** - Employee related liabilities are the following:

  - Salaries or wages owed to employees at end of the accounting period
  - Payroll deductions
  - Compensated absences
  - Bonuses

- **Exchange transactions** are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

- **Fair Value** refers to the amount **for** which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at an arms' length transaction.

- **Financial liability** is any liability that is a contractual obligation to:
  - Deliver cash or another financial asset to another entity; or
  - Exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

- **Fruitless and wasteful expenditure** – means expenditure which was made in vain and would have been avoided had reasonable care been exercised

- **Irregular expenditure** - means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation. Including:
  - This Act
  - State Tender board act or any regulations made in terms of that act
  - Any provincial legislation providing for procurement procedures in that provincial government

- **A legal obligation** is an obligation that derives from:
  - A contract (through its explicit or implicit terms);
  - Legislation; or
  - Other operation of law.

- **Liabilities** are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

- **Loans and borrowings** are financial liabilities, other than short term payables on normal credit terms

- **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- **An obligating event** is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.
- **An onerous contract** is a contract for the exchange of assets or services in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.
- **A provision** is a liability of uncertain timing or amount.
- **A restructuring** is a programme that is planned and controlled by management, and materially changes either:
    - The scope of an entity's activities; or
    - The manner in which those activities are carried out.
- **Trade payables, sundry payables-** Accounts payable (also referred to as creditors) consist of amounts owed by the entity to others, including other government entities and the public. Types of accounts payable include:
    - Those which occur when goods and services have been purchased on credit, and an invoice has been received (or the amount is payable under the terms of an on-going contract or agreement) but not paid at the end of the accounting period
    - Amounts due to individuals in relation to non-exchange transactions
    - Amounts due to other government entities or different levels of government in relation to non-exchange transfers such as grants
- **Year-end** refers to end of the accounting period being the 31st March of each year.

4. Legislative framework

4.1. This document was developed in response to the legislative requirements of the Public Finance Management Act ("PFMA") no 1 of 1999, Section 38(1) and (2) read with Treasury Regulations, which states that the Accounting Officer must:

- Ensure that the entity maintains an effective, efficient and transparent systems of financial and risk management and internal control;
- Ensure effective, efficient, economical and transparent use of the resources of the trading entity;
- Prevent unauthorised, irregular and fruitless and wasteful expenditure and losses resulting from criminal conduct; and
- Settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.

5. Background

5.1. Introduction

5.1.1. The primary responsibility of the PMTE is to deliver accommodation services to client departments and maintain the immovable assets of National Government.

5.1.2. In order to deliver on its mandate, the PMTE assumes the "agency role" where it incurs and pays for trade payables with regard to the maintenance of immovable assets as well as other expenses (for e.g. property rates and municipal services) incurred on behalf of client departments.

5.1.3. The PMTE also incurs expenditure in relation to the construction of properties on behalf of client departments, these expenses are recovered directly from clients.

5.2. Expenditure categories

5.2.1. The categories of expenditure managed by the PMTE includes the following:

- Goods and services

- Interest and rent on land
- Payments for financial assets
- Expenditure for capital assets
- Compensation of employees

6. Policy

6.1. Introduction

6.1.1. The PMTE must only incur expenditure where there is sufficient assurance that the expenditure is necessary and appropriate.

6.2. Approval of Commitments and expenditure

6.2.1. An official of the PMTE may not spend or commit public money unless expressly approved (either in writing or by duly authorised electronic means) by the Accounting Officer or a duly delegated officer.

6.2.2. Before approving expenditure or incurring a commitment to spend, the delegated or authorised official must ensure that:

- Any limitations or conditions attached to the instrument of delegation or authorisation are complied with
- The expenditure or commitment is strictly in accordance with the purpose of the PMTE
- The amount of the expenditure or commitment can be met within the monetary limit of the PMTE's budget and that the expenditure or commitment will not give rise to unauthorised, irregular, fruitless or wasteful expenditure.
- The purpose of the expenditure will contribute positively to the achievement of the relevant goals and objectives of the entity
- The expenditure represents the best value of money for the institution

6.2.3. All transactions must be recorded promptly and accurately at the correct amount and in the correct accounting period to which it relates.

6.2.4. Commitments must be recorded in a commitment register and must be updated on a regular basis.

6.3. Payments for Goods and/or Services

6.3.1. Prior to effecting any payments on behalf of the PMTE, a delegated official of the entity must ensure that:

- The correct goods or services (quality and quantity) have been received in accordance with the original order
- The amount to be paid is correct
- The correct beneficiary is paid

6.3.2. All payments must be supported by a payment checklist

6.3.3. All payments must be effected electronically

6.3.4. Payments will only be made on presentation of original invoices and statements.

6.3.5. All payments due to creditors must be settled within thirty (30) days from receipt of a valid and correct invoice or in the case of civil claims from the date of settlement or court judgement unless determined otherwise in a contract.

6.3.6. No payment shall be made in advance for goods and/or services, unless such pre-payment is provided for in terms of the contractual arrangements with the supplier.

6.4. Overpayments relating to suppliers and or individuals

6.4.1. In the event that the PMTE has overpaid a supplier or third party, the delegated official must ascertain the circumstances and details regarding the overpayment.

6.4.2. Such overpayment must be pursued for recovery within the same financial period and progress included in the monthly reports submitted to the Accounting Officer.

6.4.3. If the amount overpaid has not yet been recovered a debtor has to be created in the PMTE financial records.

6.4.4. Once all legal avenues have been exhausted to recover the overpayment and still has not recovered the payment, the overpayment should be recorded as fruitless and wasteful expenditure after approval by an authorised official.

6.4.5. Where the third party/ supplier who has been overpaid has an on-going relationship with the PMTE, prior approval must be obtained from the delegated official to issue a debit note against the supplier's account to correct the overpayment and the amount due to them reduced with the amount overpaid.

6.5. Reporting requirements

6.5.1. Monthly reconciliations of all creditors' accounts, including an age analysis must be done.

6.5.2. The CFO must prepare a monthly report (in the prescribed format) for National Treasury with information on the number of invoices and the value thereof that have not been paid within the prescribed period of thirty (30) days from receipt together with reasons for not making the payments timeously. This report must be signed by the Accounting Officer and must be submitted within ten (10) days after the end of the preceding month.

6.5.3. All expenditure, accruals, commitments and provisions must be recognised and disclosed in terms of Generally Recognised Accounting Practice (GRAP).

6.6. Unauthorised, irregular, Fruitless and Wasteful Expenditure

6.6.1. The management and administration of unauthorised, irregular, fruitless and wasteful expenditure shall conform to the requirements of the PMTE Supply Chain Management policies.

6.6.2. The Accounting Officer of the PMTE must exercise reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management and internal control.

6.6.3. Requests to condone irregular expenditure must be submitted in writing to the Accounting Officer or his delegated official with detailed reasons for the request to condone the expenditure.

6.6.4. In determining whether the expenditure incurred was fruitless and wasteful, a delegated official of the PMTE must consider:

- the purpose of any expenditure incurred or to be incurred; or
- whether such expenditure has contributed positively to the achievement of the entity's goals; or
- Whether the entity has derived best value for money.

6.6.5. The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the PMTE.

6.6.6. An official of the PMTE who discovers any unauthorised, irregular or fruitless and wasteful expenditure must immediately report such expenditure to the Accounting Officer for inclusion in the department's monthly report in terms of the requirements of section 40(4)(b) of the Act.

6.6.7. Where irregular expenditure is incurred by the trading entity in contravention of departmental tender procedures, such expenditure must be brought to the attention of the National Treasury.

6.7. Compensation of Employees

6.7.1. The Accounting Officer must ensure that the costs related to compensation of employees, as well as promotion and salary increases, can be met within the budgetary allocation of the PMTE.

6.7.2. The PMTE official in charge at the respective pay-points must certify, on the date of payment, that all employees listed on the payroll report are entitled to payment.

6.7.3. Payslips shall be distributed to the heads of each division who then distribute them to respective employees. Employees must sign the payroll report and provide positive identification (identity document) when collecting their pay slips.

6 Implementation

8.1 This policy shall be implemented through formal training for key users and on-going support by the process owner.

9 Non-compliance

9.1 Any deviation from this policy will be identified, reported immediately to the Chief Financial Officer and the necessary corrective measures shall be taken.

10 Responsibility

10.1 All regional managers and finance officials shall ensure that this policy is implemented and that officials are aware of the content and obtain the necessary training to ensure adherence to this policy.

11 Approval of the Policy

11.1 This policy shall be approved by the Accounting Officer or his delegate.

12 Review of policy

12.1 The Chief Financial Officer with the support of the Financial Planning and Reporting Directorate of the PMTE shall review the Expenditure and Payables policy, at least, once annually to ensure that it enables the achievement of the PMTE's strategic priorities as well as complies with legislation and regulations.

12.2 Any request to amend the policy shall be approved by the Chief Financial Officer and the Accounting Officer before it becomes policy

13 Acronyms

CFO	Chief Financial Officer
GRAP	Generally Recognised Accounting Practice
PFMA	Public Finance Management Act, Act No. 1 of 1999, as amended
PMTE	Property Management Trading Entity
TR	Treasury regulations issued by National Treasury, 2005