public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

DIRECTIVE: FINANCIAL STATEMENTS WORKING FILES FRAMEWORK

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Chief Financial Officer
DEPARTMENT OF PUBLIC WORKS

APPROVED DATE: 28/2/2011

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Glossary of terms

"The Department / DPW" means The National Department of Public Works and its Regional Offices.

"Line Manager" means an official at the level of Director and above at Head Office and Regional Offices, and includes officials that are so designated.

"Official" means an employee of the Department.

"Headquarters" means the place of operation at which the official is based.

"SMS member" or **"Senior Manager"** means an official at salary level 13 to 16.

"HO/RO" means Head office or Regional Office.

"PFMA" means Public Finance Management Act.

"SCM" means Supply Chain Management.

DELEGATIONS

"ASD 1" means Assistant Director SCM (Provisioning and Logistics)

"ASD 2" means Assistant Director Financial Accounting

"DD 1" means Deputy Director Accounts and Budget

"DD 2" means Deputy Director SCM (Provisioning and Logistics)

"DD 3" means Head of Finance and SCM

"D 1" means Director SCM (Provisioning and Logistics)

"D 2" means Head of Finance and SCM

"PM AND D 3" means Project manager and Director Projects and Maintenance

"DD 4 and D 4" means Deputy Director Leasing and Director Property Management

1. PURPOSE

The purpose of this document is to guide regional offices and head office staff on the treatment of financial statements inputs and the preparation of the working files supporting inputs for the financial statements and ensure that Management assertions are adhered to.

2. ROLES AND RESPONSIBILITIES

2.1. ACCOUNTING OFFICER AND CHIEF FINANCIAL OFFICER

Effective implementation of the Departmental Financial Reporting Framework requires departments to have in place a range of delegations, policies and procedures that outline the responsibilities within the department for the various elements of the framework. This is primarily the job of the Chief Financial Officer (CFO) who, if delegated by the Accounting Officer, must:

- maintain a close liaison with the accounting officer and all managers;
- respond to changing needs for financial information and advice;
- make a major contribution to the financial aspects of the strategic planning process;
- ensure that internal financial targets and budgets are fully consistent with the strategic plan and any associated agreement with Government;
- manage working capital, assets and liabilities;
- manage the accounting and finance staff;
- pay accounts and collect receipts;
- meet reporting requirements (for example, monthly reports under the PFMA and DoRA, and annual financial statements);
- maintain systems of internal control, which comply with internal audit requirements;
- undertake product and service costing tasks

3. RELATIONSHIP WITH OTHER POLICIES AND CIRCULARS

3.1. MANAGEMENT ASSERTIONS

Management makes implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements in the financial statements and related disclosures. These assertions are outlined below.

In relation to classes of transactions and events for the period under audit:

Assertion	Description
Occurrence	Transactions and events that have been recorded have occurred and pertain to the department.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been recorded in the proper accounts.

In relation to account balances at period end:

Assertion	Description
Existence	Assets, liabilities, and net assets (where applicable) exist.
Rights and obligations	The department holds or controls the rights to assets, and liabilities are the obligations of the department.
Completeness	All assets, liabilities and net assets that should have been recorded have been recorded.
Valuation and allocation	Assets, liabilities, and net assets are included in the financial report at appropriate amounts and any resulting valuation or allocation adjustments are appropriately disclosed (where required).

In relation to presentation and disclosure:

Assertion	Description
Occurrence and rights and obligations	Disclosed events, transactions, and other matters have occurred and pertain to the department.
Completeness	All disclosures that should have been included in the financial report have been included.
Classification and understandability	Financial information is appropriately presented and described, and disclosures are clearly expressed.
Accuracy and valuation	Financial and other information are disclosed fairly and at appropriate amounts.

The figure below illustrates the interaction between the most common types of errors and management assertions to be considered in the design and implementation of internal controls:

Error	Management assertions
Recorded but not real →	Existence/Occurrence
Real but not recorded →	Completeness
Wrong amount →	Valuation Classification
Classification →	Existence/Occurrence Completeness Valuation
Cut-off →	Existence/Occurrence Completeness Valuation
Not authorized →	Rights & obligations Occurrence

3.2. POLICIES AND CIRCULARS

Other policies and circulars that are closely related to the Financial Statements Framework Directive are:

- Records Management Policy
- Irregular Expenditure Management Policy
- Commitments and Accruals Circular
- Contingent Liabilities and Assets Circular
- Debtors and Revenue Management Policy

4. REGULATORY FRAMEWORK

The Public Finance Management Act (PFMA), No. 1 of 1999, requires departments to "prepare financial statements for each financial year in accordance with generally recognised accounting practice1"
The PFMA was promulgated prior to the establishment of the Accounting Standards Board (ASB), therefore Treasury Regulation 18.2 stipulates that: "In the absence of any implementation dates set for the standards of generally recognised accounting practice issued by the Accounting Standards Board, the following reporting standard comprise generally recognised accounting practice and must be adhered to for the preparation of annual financial statements, unless otherwise approved by the National Treasury:

A department's Annual financial statements must consist of:

a) A Statement of financial position (Previously balance sheet);
b) A statement of changes in net assets (Previously the Statement of Changes in Equity);
c) A statement of financial performance (previously income statement);
d) A cash flow statement;
e) An appropriation statement;
f) Notes (including disclosure notes), comprising a summary of significant accounting policies and other explanatory notes; and
g) Such other statements as may be determined by the National Treasury.

The statements must be prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury and must be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the department.

Order of reports included in the financial statement section of the annual report:

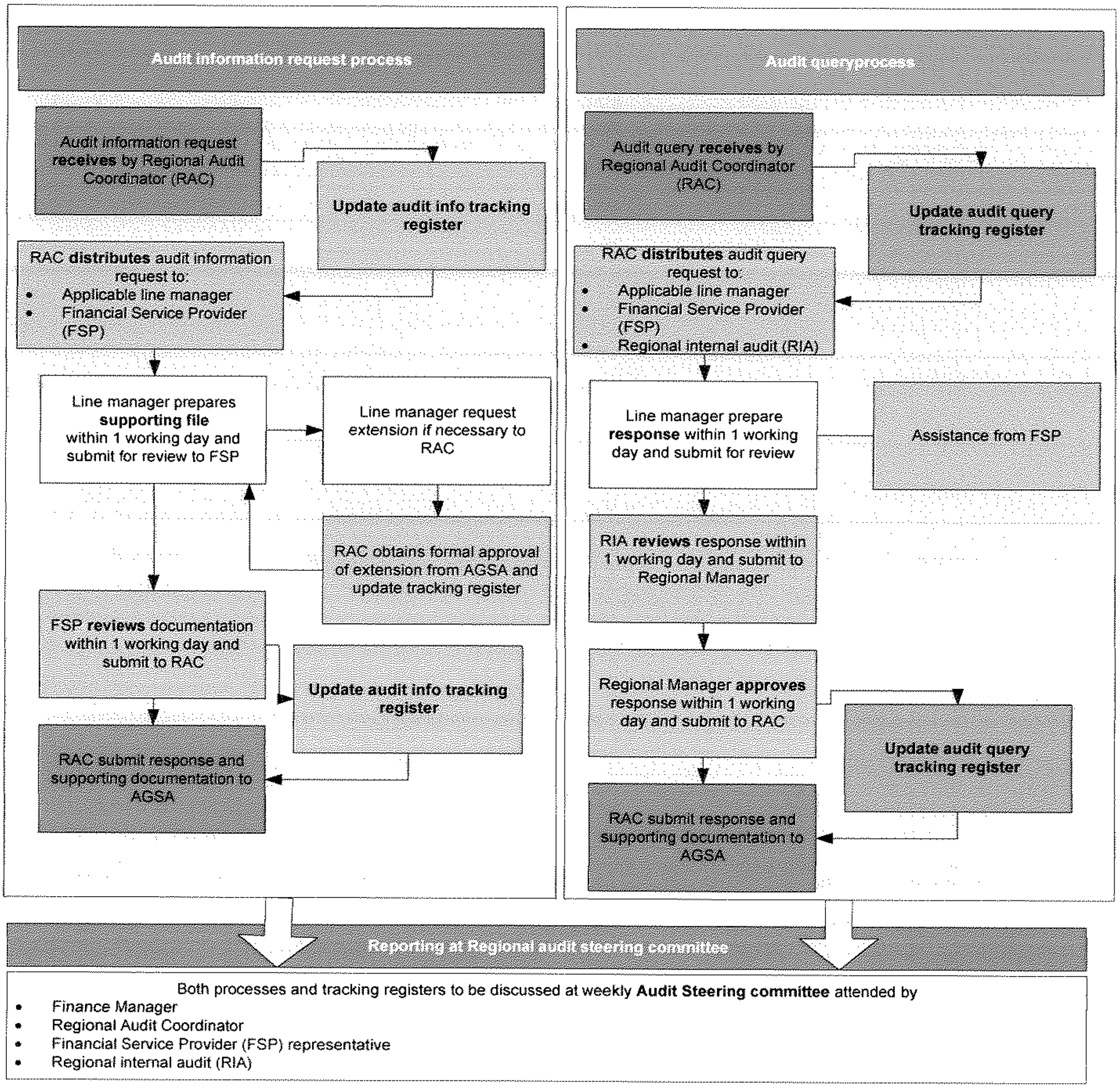
The annual financial statements within the annual report of DPW comprise of the following reports in ascending order:

a) Report of the Audit Committee;
b) Report of the Accounting Officer
c) Report of the Auditor General;
d) Appropriation Statement;
e) Statement of Financial Performance;
f) Statement of Financial Position;
g) Statement of Changes in Net Assets;
h) Cash Flow Statement;
i) Notes to the Financial Statements (includes accounting policies and disclosure notes); and
j) Unaudited supplementary schedules.

5. AGSA and Audit Interaction Process

The following process flow was drafted to demonstrate the recommended control of information requests, audit query responses and the effective reporting of the interactions.

The process might not be applicable at all regions; however it is recommended that the turnaround team be involved at all three activities. The extent of involvement will depend on the maturity of the region.



Initials

6. WORKING FILES

5.1 FINANCIAL STATEMENTS

Working Papers enables you to work smarter and faster than ever before. The working file will contain the relevant information (working papers) used to compile the financial statements. The working file connects all the voluminous data in the books of account with the final draft.

Below are procedures to prepare working papers:

1. Open an indexed working file as per the indexed working file template.
   a) Open a file with file dividers
   b) Reference your working files in line with index
2. Verify the veracity of transactions, ensure each transaction agrees with supporting documents and represents the true state of affairs.
3. Include the signed standard confirmation letter addressed to the Chief Financial Officer
4. Print a first trial balance. This trial balance and the general ledger should be included in the working file.
5. The trial balance and ledger is examined and compared to important data and source documents.
6. At each level of the examination, the appropriate supporting documentation as further described in this document should be included in the working file.
7. Validate and process all necessary adjustments required to the first trial balance. All adjustments made should have its supporting documents attached to it and included in the working file. These adjustments are to be signed in terms of the appropriate delegation of authority.
8. The finance team should clearly demonstrate the process of validation and review through signing off the appropriate documentation and supporting schedules.
9. Lead schedules (all related templates) are summaries of the assets and liabilities and income and expenditure items as per the relevant classification.
10. Perform a high level comparison between the trial balance of the current year and that of the final trial balance of the previous year and explain significant variances. Identify anomalies (e.g. credit balances in debtors) and obtain explanations for these anomalies.

Two working files have to be prepared:

1. The first file is for the use of the regions. This working file should clearly indicate review by the Director of Finance of the working file through the use of signatures and review procedures performed.

2. The second file should be a copy of the first file and is to be presented to the Auditor General.

Example of a lead-sheet:

Period ended 31 March 2013								
		31 March 2013 accruals		**31 March 2012 accruals**		**Movement**		**Explanation for movement**
DR	Rent on land	-		19 939.31		19 939.31		
DR	REC:DOM:CLMS RECOVER MUN SRV:DPW	45 723.00		105 179.00		59 455.00		
DR	REC:DOM:CLMS:NAT PACE:CLAIM RECO	50 681.00		31 232.00		-19 448.00		
DR	REC:DOM:CLMS:N/DE PT:CLAIM RECOV	6 371 994.61		33 327 804.17		26 955 809.56		

Analysis to include explanation of significant variances

1. Notes are prepared based on provided lead schedule and must take into account any additional requirements and guidelines provided for in this Preparation Framework Guide.
2. After posting all journals and adjusting entries, a trial balance is printed and a final review of the trial balance is performed and the final draft is printed.
3. A copy is placed in the working file, and all other working papers are cross-referenced to the trial balance and ledgers.
4. Heads of units must ensure that information provided is accurate and information must be provided by the set deadline date to the finance unit.

The files are closed and archived. A properly prepared working file can go a long way in addressing concerns by relevant stakeholders. It contains extremely valuable information.

5.2 PROCESS FOR YEAR END JOURNALS ENTRIES / ADJUSTMENTS

To ensure efficient processing and record keeping, all journal entries must be properly prepared and reviewed in terms of the delegations of authority.

5.3 GENERAL PROCEDURES

The following procedures are described as the general procedures that have to be performed per each section of the working file:

1) Prepare the lead schedule with the different categories of departmental revenue or expenses or balance sheet items;
2) Cross reference all amounts to the final trial balance;
3) Prepare a listing of all journal entries /in the relevant general accounts. Agree these journals to supporting documentation;
4) Identify from the relevant general ledger any large or unusual items and agree these to the supporting documentation;
5) Cross reference the lead schedule to the disclosure template per section.

The following documentations are those 'general working papers' that have to be included in each individual section of the working file:

1) Lead schedule;
2) A listing of all journals processed during the year;
3) Narrative descriptions and supporting documentation of all large and unusual amounts that have been recorded in the ledger accounts.

5.4 PRESENTATION OF WORKING FILES

Working files must be presented by Head of Finance & SCM to Director Financial Accounting; the presentation dates will be issued during the reporting period.

The date of presentations will be determined and communicated by the Director of Financial Accounting.

DEADLINE OF SUBMISSION OF THE WORKING FILE – latest file submission which was reviewed by the Heads of Units to AGSA by 31 May. Regions should also adhere to the submission deadline dates as determined by the Department.

7. STATEMENT OF FINANCIAL PERFORMANCE

6.1 DEPARTMENTAL REVENUE

It is extremely important that the SCOA accounts are understood and applied in all transactions processed on the systems used by the departments.

Definition

Departmental Revenue is defined as the inflow of cash arising in the course of the ordinary activities of the department, normally from the sale of goods, the rendering of services, and the earning of interest and dividends.

All departmental revenue is recognized in the statement of financial performance when **received.**

Guidance

A short definition for the different categories of departmental revenue is included below:

a) **Sale of goods and services other than capital assets** include most of the regular sales of goods and services, which might take place in a department.

b) **Interest** is revenue associated with the ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, and bills and bonds issued by others.

c) **Rent on land** includes revenue earned due to the ownership of land. (This will have an impact on the receivables to be raised).

d) **Sale of capital assets** includes compensation received from the sale of capital assets. (*Capital assets comprise of assets and intangible items such as computer software with a cost exceeding R5,000, all inclusive).* (For all sale of capital assets it should be ensured that the asset register was adjusted accordingly and that due processes were followed).

Procedures to be performed in the preparation of the working file

1. Perform all general procedures.
2. Review all receipt numbers and confirm that there are no missing numbers. In the event of missing numbers, obtained detailed explanations and supporting documentation.

3. Identify all debit adjustments to revenue and ensure valid explanations and supporting documentation are obtained for these adjustments;
4. Rental debtors - In respect of lease agreements:
   a. Prepare a schedule of the leases that have been recorded in revenue (as per the trial balance) in terms of:
      i. Income accrued
      ii. Rental paid (BAS)
      iii. Debtors
      iv. Separate classification of deposits
      v. Payments in advances classification
   b. Cross reference the amounts recorded in the general ledger to the lease agreements
5. Prepare a schedule of all sale of capital assets and:
   a. Cross reference the total to the final trial balance; and
   b. Agree the amounts recorded on the schedule to the supporting sale documentation.

Documentation to be included in the working file

1. All general working papers to be included in the working file.
2. Documented explanations and supporting documentation of all missing receipt numbers.
3. In respect of the revenue from renting land and buildings:
   a. A summary schedule of all known leases of which the total agrees to the lead schedule;
   b. Cross referenced all amounts to the relevant lease agreement.
   c. The relevant lease agreements
4. In respect of all capital assets sold,
   a. Summary schedule of capital assets sold that agrees to the lead schedule;
   b. agree to the related supporting sale documentation;
   c. Follow through to the fixed asset register to ensure that the asset has been removed from the asset register.

6.2 CURRENT EXPENDITURE

Guidance

Payments are accounted for in the period in which the monies were paid and not in the period in which the underlying transaction or event occurred that gave rise to the expenditure.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures
2. Prepare a summary sheet of all "consultants, contractors, and agency / outsourced services
   a. Agree summary schedule to lead schedule
   b. Agree amounts to supporting documentation to ensure process was followed; and
   c. Provide a brief description of the reason for the use of the consultant (E.G Specialist skills, capacity issues, etc).
3. Review all expenditure general ledger accounts for any credit adjustments. Obtain the necessary explanations and supporting documentations.
4. Review the payment dates of all invoices against the date per the invoices and ensure that all expenses were paid within 30 days. Prepare listing of all invoices that were not paid within 30 days.

Documentation to be included in the working file

1. Summary sheet of all "consultants, contractors, and agency / outsourced services
2. Payments listing of all invoices not paid within 30 days as well as descriptions of the reasons as to why it was not timeously paid..

6.3 COMPENSATION OF EMPLOYEES

Definition

Salary and Wages comprise of amounts paid to the employees of a department including all payments made on their behalf such as PAYE/SITE and the employee's contributions to pension and / or medical schemes.

Guidance

The *salaries and wages* line item includes costs incurred on:

- salaries and wages paid at regular weekly and or monthly intervals;
- remuneration to staff members employed on a contractual basis provided that they are paid at regular intervals and are listed on the government payroll;
- supplementary allowances such as housing allowances and special allowances for overtime or dangerous work;
- salaries and wages paid to employees away from work for short periods such as leave pay; and

- performance bonuses.

This line item does not include:

- reimbursements of expenses incurred by employees on tools, equipment, uniforms etc;
- reimbursement of expenses incurred by employees when they take up new jobs (relocation expenses);
- payments for travel and subsistence;
- purchases of services provided by individuals who are not government employees (consultants, occasional workers); and
- social benefits to employees which are in the form of allowances made for accidental injury, severance and incapacity pay.

Social contributions include the employer's contributions to social insurance schemes paid on behalf of its employees. Any contribution made by the employee is included under basic salary. Examples of social contributions are social security funds, unemployment insurance funds, pension funds, provident funds and medical aid schemes. *Social contributions* are normally made on behalf of employees currently employed but can also be paid on behalf of former employees.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures
2. Prepare a reconciliation between the print-out of the salary system and the amounts disclosed per the lead schedule
3. Listing of all manual payments and explanations / supporting documentation thereof.
4. Verify that all employee files include their respective:
    a. Employments contracts / salary increase letters
    b. Performance / bonus contracts.
5. Prepare a listing of all new employees and verify that all supporting documentation have included in their respective employee files.
6. Prepare a listing of all employees that resigned, retired or whose services were terminated and verify that all supporting documentation have been included in their respective employee files.

Documentation to be included in the working file

1. The payroll print out as well as the reconciliation thereof;
2. Listing of all manual payments;

3. Listing of all new employees;
4. Listing of all employees that resigned, retired or whose services were terminated.

6.4 EXPENDITURE FOR CAPITAL ASSETS (Assets over R5 000)

Definition

The expense is classified as capital if the goods and/or services were acquired for a capital project or if the total purchase price exceeds the capitalisation threshold (currently R5,000). All other expenditures are classified as current.

Guidance

Payments for goods and services, to be used as input into a capital project executed by government, are also excluded from *goods and services*. Such payments are classified as *capitalised payments* and are explained in more detail below under the heading *expenditure for capital assets*.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures
2. Prepare the lead schedule that summarizes acquisitions from:
    a. Buildings and other fixtures;
    b. Machinery and equipment
    c. Software and intangible assets (such as computer software)
3. Ensure all acquisitions are supported by valid invoices; and
4. In respect of the acquisition of capital assets, assess that acquisition was necessary in terms of needs analysis and that it did not constitute fruitless and wasteful expenses.

Refer to public sector guide on immoveable assets. Engage with project team for moveable assets with Sekela and E&Y for immoveable assets regarding completeness.

Documentation to be included in the working file

1. All supporting documentation in respect of additions; and
2. Schedule detailed an analysis of the funds utilized to acquire capital assets (being voted funds vs. aid assistance). The analysis should be performed per category of capital asset.

8. STATEMENT OF FINANCIAL POSITION

A statement of financial position illustrates, at the end of the last day of a reporting period, an entity's assets and liabilities. The difference between total assets and total liabilities (assuming the value of assets is higher than the value of its liabilities) is termed **net assets.**

7.1 <u>FRUITLESS AND WASTEFUL EXPENDITURE</u>

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

Guidance

Fruitless and wasteful expenditure is recognized as expenditure in the statement of financial performance according to the nature of the payment and not as a separate line item on the face of the statement. If the expenditure is recoverable it is treated as an asset until it is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

When should the fruitless and wasteful expenditure be recorded in the relevant register and/or disclosure note?

1. On **discovering** a possible fruitless and wasteful expenditure, the department must record the alleged fruitless and wasteful expenditure in the relevant register.
2. The department must **evaluate** if the alleged fruitless and wasteful expenditure is valid.
3. If the fruitless and wasteful expenditure is **valid**, the relevant register must be updated stating that the expenditure is in actual fact fruitless and wasteful expenditure. These amounts must be included in the disclosure notes.
4. If the fruitless and wasteful expenditure is **not valid**, the relevant register must be updated stating that the alleged fruitless and wasteful expenditure was found not to be valid.
5. Validity of fruitless and wasteful expenditure must be determined before submission of the annual financial statements for audit purposes. If fruitless and wasteful expenditure that occurred in the year under review is discovered during the audit, validity thereof must be determined before the audit is concluded.

Fruitless and wasteful expenditure is deemed to be an in-house matter, and is thus the responsibility of the department's accounting officer to deal with as prescribed. Only in exceptional cases, such as where the accounting officer incurs the fruitless and wasteful expenditure, would the relevant treasury need to intervene and make recommendations on how to resolve the matter.

How should an entity disclose fruitless and wasteful expenditure that was discovered in the current year but dates back to prior years?

If a department discovered fruitless and wasteful expenditure in the current year (say 2011/12) resulting from a prior period transaction the following must be presented and disclosed in the notes to the financial statements:

- Show the fruitless and wasteful expenditure amount in the current year (2011/12) column on the line item "Fruitless and wasteful expenditure – relating to prior year";
- No adjustment to prior year (2010/11) disclosure notes or the opening balance for the current year (2011/12) is required;
- Include narrative information concerning the period of time over which the expenditure occurred and what gave rise to it along with the investigation process and progress in resolving the fruitless and wasteful expenditure.

Procedures to be performed in the preparation of the working file

1. Cross references amounts to final amount recorded per the disclosure template;
2. In respect of new instances of fruitless and wasteful expenditure:
    a. Confirm that it was immediately recorded;
    b. Review and ensure that all new instances were investigated and that the expenditure meets the definition of fruitless and wasteful expenditure;
    c. Confirm that the fruitless and wasteful expenditure was reported:
        i. To National Treasury; and
        ii. The monthly report on revenue and expenditure that is submitted to National Treasury
3. In respect of amounts condoned:
    a. Confirm that a letter was obtained from National treasury / Accounting Officer in which the expenditure was condoned;
    b. Verify the individual amount condoned agrees to the fruitless and wasteful expenditure register;
    c. Verify that the total of all condoned fruitless and wasteful expenditure agrees to that disclosed in the disclosure template; and
    d. Confirm that the fruitless and wasteful expenditure was classified correctly in terms of the expenditure relating to the economic classification.

4. Review the following accounts and ensure that an assessment was made that no expenditure was incurred that can be considered fruitless and wasteful:
   a. Repairs and maintenance; and
   b. Travel and Subsistence.

Documentation to be included in the working file

1. The register of fruitless and wasteful expenditure
2. Payment documents
3. Proof of validation;
4. Progress status report for all reported cases (provide proof) e.g. If the matter is under investigation, proof must be presented and if condoned proof must be attached.
5. Disclosure template.

7.2 <u>CASH AND CASH EQUIVALENT / BANK OVERDRAFT</u>

Cash and cash equivalents are carried in the statement of financial position at cost.

Bank overdrafts are the amount by which withdrawals exceed deposits in the bank account of a department and are shown separately on the face of the statement of financial position.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

Guidance

If there were no outstanding deposits or payments, the bank statement balance and the ledger balance would have been the same. As this may not always be the case, the bank statement balance and the ledger balance are reconciled on a regular basis. The **general ledger balance** reconciled to the bank statement is shown in the notes under the description Paymaster General Account which will **either** form part of "Cash and cash equivalents" or "Bank overdraft" in the statement of financial position.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures
2. Perform / Verify that year end bank reconciliation has been performed for all items related to cash and cash equivalents;

3. Confirm that the bank balance per the bank reconciliation agree to the balance per the bank statement;
4. Ensuring all long outstanding cheques and deposits have been 'cleared'; and
5. Perform petty cash reconciliation as per the petty cash count template. Procedures to be performed
    a. Obtain the amount per the bank statement; and
    b. For the difference between the actual amount in the bank and the prescribed petty cash amount, ensure that there is supporting documentation for all outstanding vouchers that have not been replenished.

Documentation to be included in the working file

1. Bank reconciliation/s;
2. Copies of the year-end bank statements; and
3. Petty cash reconciliation.

7.3 RECEIVABLES

Receivables comprise of amounts due to the State as a result of the sales of goods or provision of services or the recovery of expenditure incurred by the state.

Guidance

In an accrual environment receivables comprise of amounts owed to the entity by others, including other government entities and the public. These types of receivables may include:

- interest receivable;
- amounts due in relation to goods and services provided to others;
- amounts due in relation to fines and penalties levied by the entity;
- amounts due from another government entity or a different level of government in relation to non-reciprocal transfers to the entity

Doubtful debts (Receivables)

The determination of the need for an allowance for doubtful debt accounts will be based on the individual assessment of each debt where no movement has taken place and all steps have been taken to recover the debt. If there is no supporting documentation for the receivable the debt should be classified as doubtful.

The column has been provided on the suspense accounts schedule for doubtful debt.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures;
2. Perform procedures as per Annexure D;
3. Reconcile:
    a. Receivable reconciliations;
    b. All suspense / clearing accounts;
    c. Ensure that all reconciling items have been cross referenced to supporting documentation; and
    d. Detailed description to be documented as to why the amounts have not been settled.
4. Supporting documents for the amount receivable.
5. Provide reasons why the balance remains not cleared.
6. Ensure that the amounts included in clearing of suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;
    a. All reconciling items have been followed up and are supported by supporting documentation.
    b. If applicable, that items that are recorded as reconciling items that should be accrued for, have been accrued for.

Documentation to be included in the working file

1. Annexure D
2. Payments documents.
3. Age analysis.
4. Claims sent.
5. Statements sent to clients.
6. Progress reports on each case.
7. Template of the accounts.
8. All credit amounts be matched with the debit amount (where it relates to each other).
9. Credit amounts with no corresponding debit, must be investigated and taken to payables if no corresponding debit). Ensure proof of receipt for each and every credit.
10. Decisions must be made on transactions that cannot be recovered or resolved.

7.4 PAYABLES

Payables comprise of all money owed by an entity which is due after the reporting date.

Guidance

Payables are only raised when cash has flowed and are not raised if or when one department provides a service to another department.

Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are carried at cost in the statement of financial position.

Ensure debit amounts are matched with credit balance (for related transactions)

Debits that are not matching must be investigated and taken to receivables with full supporting documents

Clearing accounts: The typical departmental clearing accounts available in the financial system included the following:

Inter-responsibility clearing account

Salary deduction control accounts: These accounts comprise of all salary deductions that must be paid over to a third party on behalf of an employee.

Debit order control accounts: The control accounts comprise of the following:

- *Debit order control account:* any debit orders registered in BAS are automatically credited against this account on a monthly basis. This account is cleared via the bank reconciliation process and must be cleared with month and year-end close.
- *Debit order erroneous account:* Any debit orders not belonging to the department will be posed to this account and is cleared once the bank has rectified the mistake. This account should have a zero balance at month and year-end close.
- *Debit order exception account:* Any balance on this account shows that the department did not resolve all the Debit Order exceptions. All debit or credit Debit Order transactions that are not automatically matched against the Debit Order register are posted to this account. These transactions must be cleared at month and year-end close.

Telephone control accounts: The telephone control accounts comprise of the following:

- *Telephone control account*: in BAS this account is used for the interface from Telkom on a monthly basis. Through the interface this account is credited with the amount due to Telkom and is cleared once the payment is made. This account should be zero with month and year-end close.
- *Telephone exception account*: any Telkom interface exceptions are posted to this account. These exceptions should be resolved immediately as this account should also have a zero balance at month and year-end close.
- *Telephone erroneous interface account*: this account is debited when a department is charged incorrectly by Telkom. Any amount must be claimed back from Telkom.

Transport control accounts: These accounts are used for the government garage interface on a monthly basis. Any error and/ or exceptions must be cleared on a monthly basis. The accounts comprise of the following:

- *Transport interface control account:* the transport interface into BAS debits the expenditure allocations captured against the transport requisitions in the transport Register and credits the full amount of the interface against this account. This account debited with a BAS payment that is used to pay the full account to the Payee. This account should be zero with month and year-end close.
- *Transport exception account:* Any balance on this account shows that the department did not resolve all the transport interface exceptions. These transactions must be resolved immediately. This account must have a zero balance at month and year-end.

Creditors control accounts

These accounts comprise of the following:

- *Allocated invalid before distribution*: an auto transaction will post to this account when a payment is being cancelled before the disbursement process when the user allocation is no longer valid. This account will have a credit balance and must be cleared before month and year-end close.
- *Goods received voucher discount variance*: an auto transaction will post to this account when the Purchase Order / Purchase Order Line is being paid in full or if it is the final payment and there is a credit balance left in the GRV Suspense account. This account will have a credit balance and must be cleared before month and year-end close.
- *Goods received voucher overpaid variance*: an auto transaction will post to this account when the Purchase Order / Purchase Order Line is being paid in full or if it is the final payment and there is a debit balance left in the GRV Suspense account. This account will have a debit balance and must be cleared before month and year-end close.

- *Goods received voucher suspense*: All the Creditor Payments, Goods Received Voucher and Return Voucher / Credit Note transactions will post to this account. This account can have a debit or credit balance at month and year closure. No journals can be posted to this account, only auto transactions are allowed.

Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the accounting officer must ensure that:

(a) the sources of the transactions are readily identifiable;

(b) the amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;

(c) monthly reconciliations/ schedules are performed to confirm the balance of each account; and Reports are provided to the accounting officer about items not cleared on a monthly basis.

Procedures to be performed in the preparation of the working file

1. Perform all general procedures;
2. Reconcile:
    a. Payable reconciliations;
    b. All suspense / clearing accounts;
    c. Ensure that all reconciling items have been cross referenced to supporting documentation; and
    d. Detailed description to be documented as to why the amounts have not been settled.
3. <u>Supporting documents</u> for the amount received
4. Provide reasons why the balance remains unpaid and the supplier not yet paid.
5. Ensure that the amounts included in clearing of suspense accounts are cleared and correctly allocated to the relevant cost centres on a monthly basis;
6. Obtain a creditors' listing and cross reference to individual creditors' reconciliations and ensure that:
    a. All creditors' have been reconciled and agrees to creditors' listing
    b. All reconciling items have been followed up and are supported by supporting documentation.
    c. If applicable, that items that are recorded as reconciling items that should be accrued for, have been accrued for.

Documentation to be included in the working file

1. Include the general working papers;
2. Creditors' listing;
3. Reconciliations of payables accounts; and
4. Reconciliations of all suspense accounts and clearing accounts;

7.5 PREPAYMENTS AND ADVANCES

Prepayments are payments in advance for goods and services to be received in future. The actual amount paid is known.

Advances are amounts made available to other entities or employees for expected operating expenditure (S&T), as well as preliminary salary advances to employees who were employed during the month and did not receive their salary at month end.

Guidance

Included in this category are accounts used to record advances made to and due from officials who are required to perform his/her duties away from his/her headquarters or magisterial district. The types of advances are:

Normal advance: A Normal Advance is an Advance that is paid to officials before expenses are incurred. An Advance is usually granted to an official to cover Travel and Subsistence cost while away from his/her headquarters (magisterial district).

Standing advance: A Standing Advance is granted to officials who have Travel and Subsistence and casual expenses on a regular basis and where the use of the ordinary Travel and Subsistence Advance would cause unnecessary administration.

Procedures to be performed in the preparation of the working file

1. All credit amounts be matched with the debit amount (where it relates to each other)
2. Credit amounts with no corresponding debit, must be investigated and taken to payables if no corresponding debit). Ensure proof of receipt for each and every credit.

Documentation to be included in the working file

1. Perform all general procedures;
2. If payments in advance exist and have been outstanding for longer than 30 days, this amount should be transferred to the debtors' account;
3. Payments documents; and
4. Supporting documentation for advances provided to employees.

9. DISCLOSURE NOTES

8.1 <u>CONTINGENT LIABILITIES AND ASSETS</u>

Contingent liability

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 department.

A contingent liability is a present obligation that arises from past events but is not recognized because:

- It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

Guidance

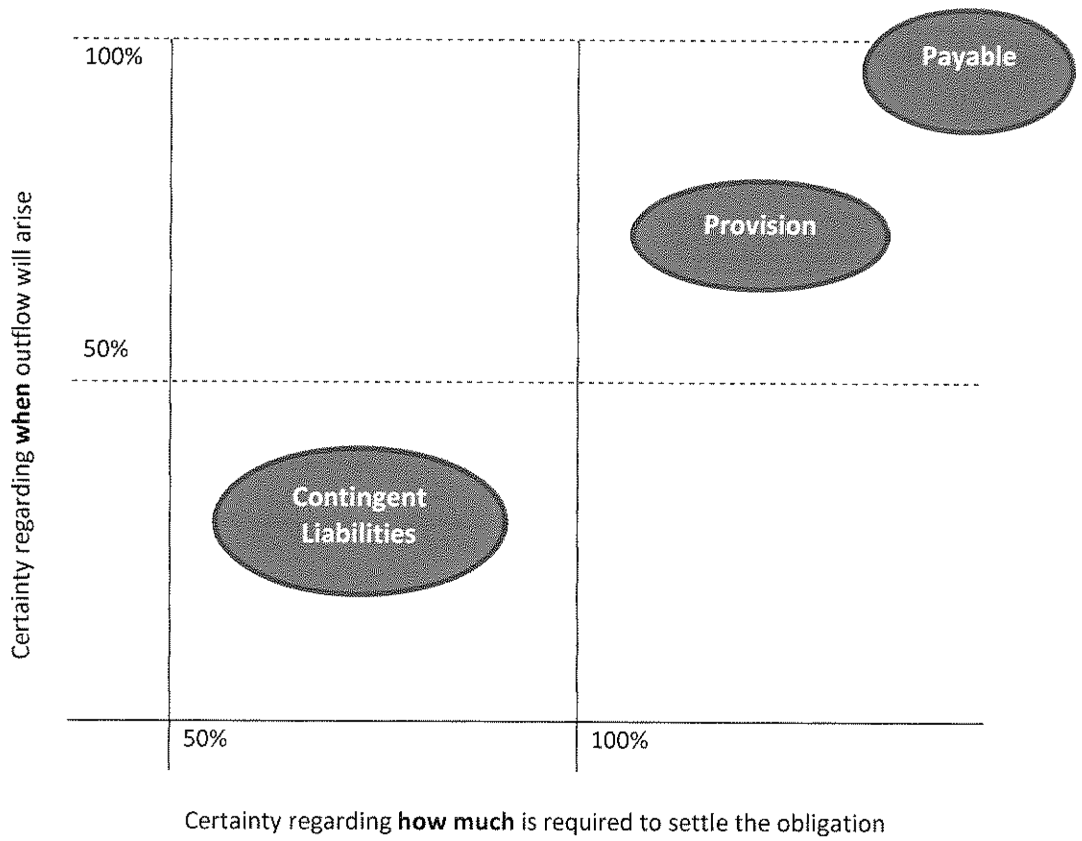
To understand a contingent liability it is important to first understand the concept of a liability and a provision.

In an accrual environment, a liability is recognized when it is either virtually certain or probable (more likely than not) that the entity has a present obligation and the amount can be determined with absolute certainty.

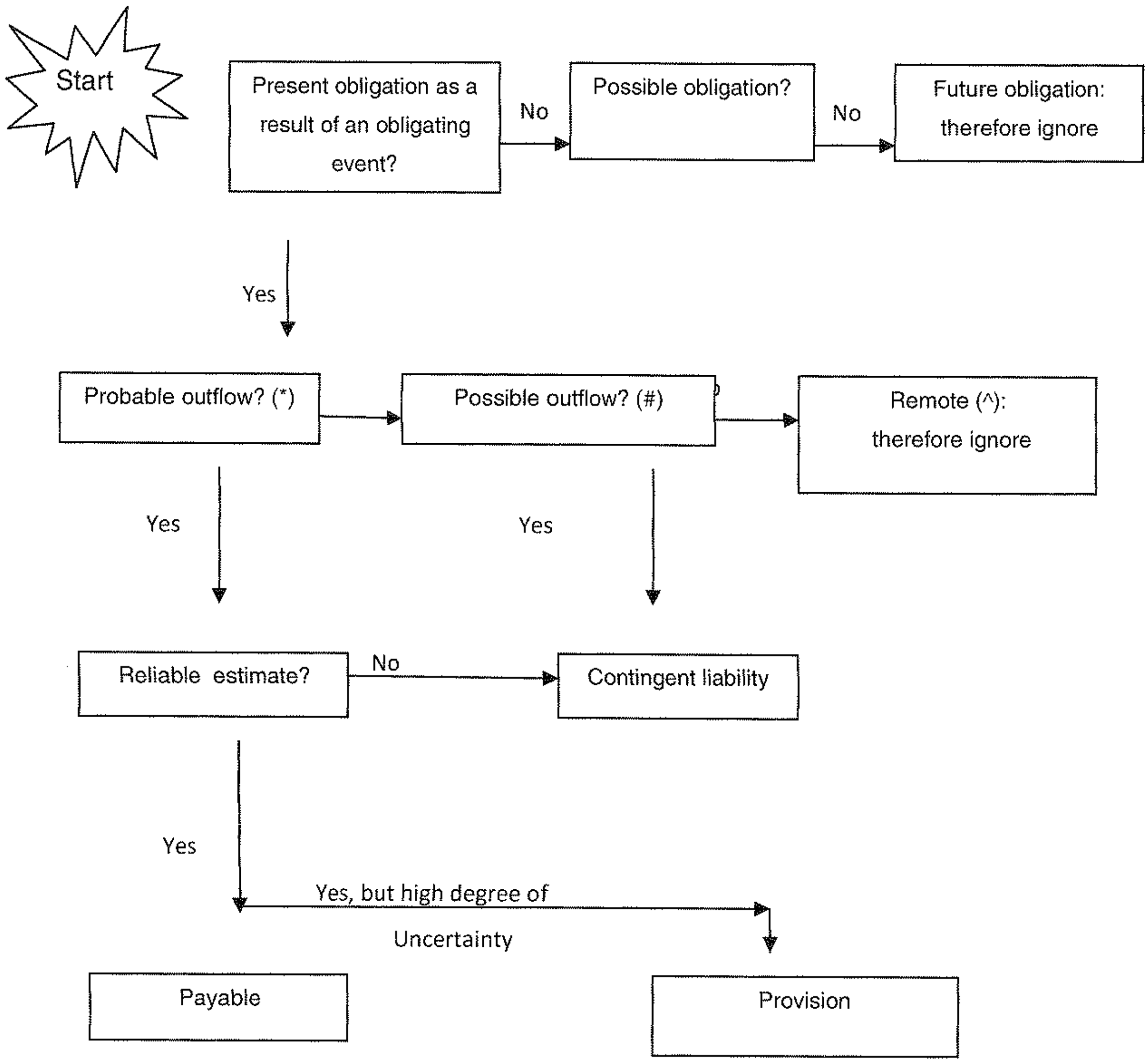
A provision is a liability and it is recognized when the entity has a present obligation to transfer resources to another party, but there may not be absolute certainty about when it will happen and it is measured at an amount that represents at least a reasonable estimate of the liability.

With a contingent liability, there is a greater measure of uncertainty about the fulfillment of the obligation (i.e. it is possibly a liability) or there is uncertainty as to when or how much the present obligation will cost the entity.

This concept is illustrated in the decision tree below.



Contingent Liability Decision Tree



Examples per payable / accruals and contingent liability

*** - Probable:**

This category means that the future event will likely occur.

For example:

a) A claim for damages was submitted based on physical injuries sustained by Plaintiff in privately-owned building leased, DPW's legal services is fairly certain that the Plaintiff's claim will be successful. Therefore a contingent liability will be raised.

b) A vehicle belonging to the Department collided with a vehicle belonging to the plaintiff. The Plaintiff is not entitled to the full amount, although there are admissions made by the Department. We are of the view that the Plaintiff also contributed to the collision and have pleaded to the Court for it to apportion damages.

 # Possible outflow:

The chance of the future event happening is more than remote but less than probable.

For example, DPW is involved in a lawsuit, but at this point in the proceedings, not enough evidence has been presented in court to rule out a judgment for or against the company.

^ - Remote:

The chance of the future event taking place is remote.

For example; Damages suffered as a result of motor vehicle collision. The Department has denied liability for the claim on the basis that it has been miss-joined to the proceedings. This denial stems from the fact that the vehicle allegedly involved in the collision with the Plaintiff's vehicle does not appear on the register of vehicles belonging to or leased by the Department as verified by the Logistics Unit.

Claims

The amount that must be disclosed in the disclosure note to the annual financial statements of the Department is the estimated settlement value of claims instituted against the Department as at year end.

The following disclosure is required in the sub note on contingent liabilities:

Example:

A vehicle of DPW was in an accident with a civilian driver. However the civilian driver claims that the accident was the fault of the DPW employee. Based on witness accounts of the events, it appears that it was the fault of the DPW employee. The civilian driver instituted a claim against the department.

Decision tree:

Is there a probable/ present obligation?

- Yes, it's a probable obligation as the accident occurred

Is there a possible outflow

- Yes. If the claim is successful, it could result in the Department having to pay damages to the driver of the other vehicle

Can it be reliably measured?

- No

Therefore a contingent liability exist

However, if the witness accounts of events indicated that the accident was the fault of the other driver, and legal services assessed that it is not probable that it would result in an outflow of money, no contingent liability exist and therefore it is not recognized as such by the department.

Motor vehicle and housing guarantees

Motor vehicle guarantees are issued by the National Treasury to assist government employees (SMS) to secure a loan for vehicle financing purposes. The maximum amount of the guarantee is prescribed by the National Treasury a practice note (refer to Practice Note 4 of 2004/05). This practice not also prescribes the procedures to be followed in applying for a motor vehicle guarantee.

Housing guarantees on the other hand are regulated in terms of the policy and procedure manual, *Guarantee Scheme for Housing Loans for Officials and Employees in the Public Sector* as issued and administered by the National Department of Public Works.

Unlike the motor vehicle scheme, housing loan guarantees are only granted for a (top slice) portion of the loan that the bank regards as too risky for them (e.g. the bank may be willing to grant an 80% loan, while the official require 100%; government will then issue a guarantee for the difference, in this example 20%).

The disclosures required for both motor vehicle and housing guarantees are set out in annexure 3A.

The following should be disclosed under each heading in the annexure:

1. Guarantor institution

   Name of the institution in respect of whose liabilities the guarantee was issued, e.g. Telkom, Land Bank, etc

2. Guarantee in respect of

   Examples would be capital markets loans, Transnet T018 (10.75%; 15-Jul-14), etc.

3. Original guaranteed capital amount

4. Capital amount for which the guarantee was issued that appears on the guarantee documents.

5. Opening balance of guarantee

6. The capital amount outstanding at 1 April 2012 in respect of the guarantee amount is shown here (face value of bond loans). This amount excludes guaranteed interest.

7. Guarantees drawn down during the year

   The total amount in respect of draw downs (further borrowings) on a guaranteed loan during the financial year

8. Guarantees repayments/cancelled/reduced/released during the year

   Amounts in respect of a guarantee repaid or realised during the financial year.

9. Currency revaluation

10. The difference due to exchange rate movements on the closing balance. The exchange rate to be used for the currency translation of foreign guarantees at 31 March 2013 will be the ***South African Reserve Bank middle rate***. The exchange rate as at 31 March 2013 will be published on the OAG's website during the first week of April 2013.

Closing balance of guarantees

11. The capital amount outstanding at 31 March 2013 in respect of the guarantee amount is shown here (face value of bond loans).

Guaranteed interest

12. Where interest is guaranteed, interest on the guaranteed amount from the last date of interest paid until 31 March 2013, is disclosed here. The amount must be disclosed separately in this column and not be included in the closing balance.

13. Realised losses i.r.o. claims paid out

14. Losses realised in respect of claims paid must be shown here. In the case of a housing loan to an official, a guarantee claim paid out is not necessarily a loss to the State, because the amount paid can be recovered from the relevant person. If the amount cannot be recovered and has to be written off, it is regarded as a loss.

    Note: Where interest is guaranteed, the guaranteed exposure that should be disclosed in this note is *the sum of the capital closing balance and guaranteed interest outstanding.*

Procedures to be performed in the preparation of the working file

1. In respect of all possible obligations that arose from past events, perform assessment whether it is contingent liability through the use of the contingent liability decision tree. These considerations should be documented and included in the working file.
2. Prepare a schedule of all contingent liabilities and contingent assets which includes the following:
    a. Opening balance
    b. New contingent liabilities;
    c. Movement of contingent assets that exists in the prior year;
    d. Re-evaluation of the current year status.
3. To ensure completeness of schedule of contingent liabilities perform the following procedures;
    a. Examine prior year contingent liabilities and assess whether these:
        i. Possible obligations were resolved and no longer applicable in the current year;
        ii. Certainty was obtained and the obligation was raised as an accrual or a provision; or
        iii. The matter remains a possible obligation and therefore remains a contingent liability in the current year.
    b. Review creditors' listing, for all interdepartmental creditors with unconfirmed balances.
    c. Review all legal correspondence
4. In respect of motor and housing guarantees, departments **MUST** confirm the value of the guarantee with the guarantor prior to completing the disclosure requirements.

5. Cross reference the schedule of the contingent liabilities to disclosure schedule;

Documentation to be included in the working file

Legal matters and guarantees are consolidated and assessed at a head office.

Regions are required to ensure that all relevant information is submitted to legal services timeously.

1. A register of all contingent liabilities
2. For each contingent liability, the Method used for the assessment (formal memo.)
3. <u>For contingent liabilities (Legal services):</u>
   a. Summons
   b. Court order or mutual agreement between the parties(settled claims)
4. Status reports on all assessed cases
5. Motivation for all redeemed or cancelled cases
6. Disclosure template
7. <u>For constructive obligations (labour relations)</u>
   a. Submission to the delegated official
   b. Supporting document of the submission to the delegated official

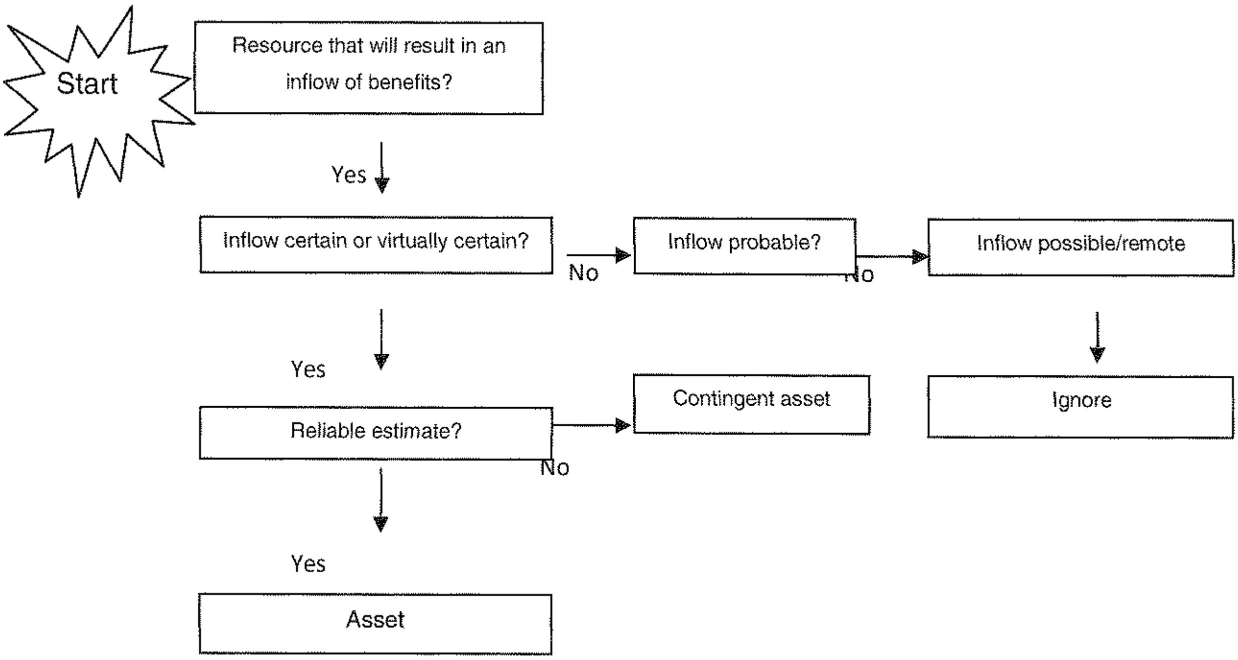
8.2 CONTINGENT ASSETS

A contingent asset is a possible asset 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.

Guidance

A contingent asset is a possible asset 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. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable (more likely than not). The disclosure requirement is only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the entity. That is, there is no requirement to disclose this information about all contingent assets.

Contingent Asset Decision Tree



Contingent Asset examples

a) Terms in condition in contract for penalties / guarantees

Procedures to be performed in the preparation of the working file

1. In respect of all possible receivables that arose from past events, perform assessment whether it is contingent assets through the use of the contingent asset decision tree. These considerations should be documented and included in the working file.
2. Prepare a schedule of all contingent assets which includes the following:
   a. Opening balance
   b. New contingent assets;
   c. Movement of contingent assets that exists in the prior year;
   d. Re-evaluation of the current year status.
3. Cross reference all amounts to disclosure schedule;
4. To ensure completeness of schedule of contingent assets perform the following procedures;
   a. Examine prior year contingent assets and assess whether these:
      i. Possible receivables were resolved and no longer applicable in the current year;
      ii. Certainty was obtained and the obligation was raised as a receivable; or
      iii. The matter remains a possible receivable and therefore remains a contingent asset in the current year.

Documentation to be included in the working file

1. A summary schedule of all contingent assets
2. Method used for assessment (formal memo)
3. For contingent assets (Legal services):
    a. Summons
    b. Court order or mutual agreement between the parties(settled claims)
    c. Disclosure template

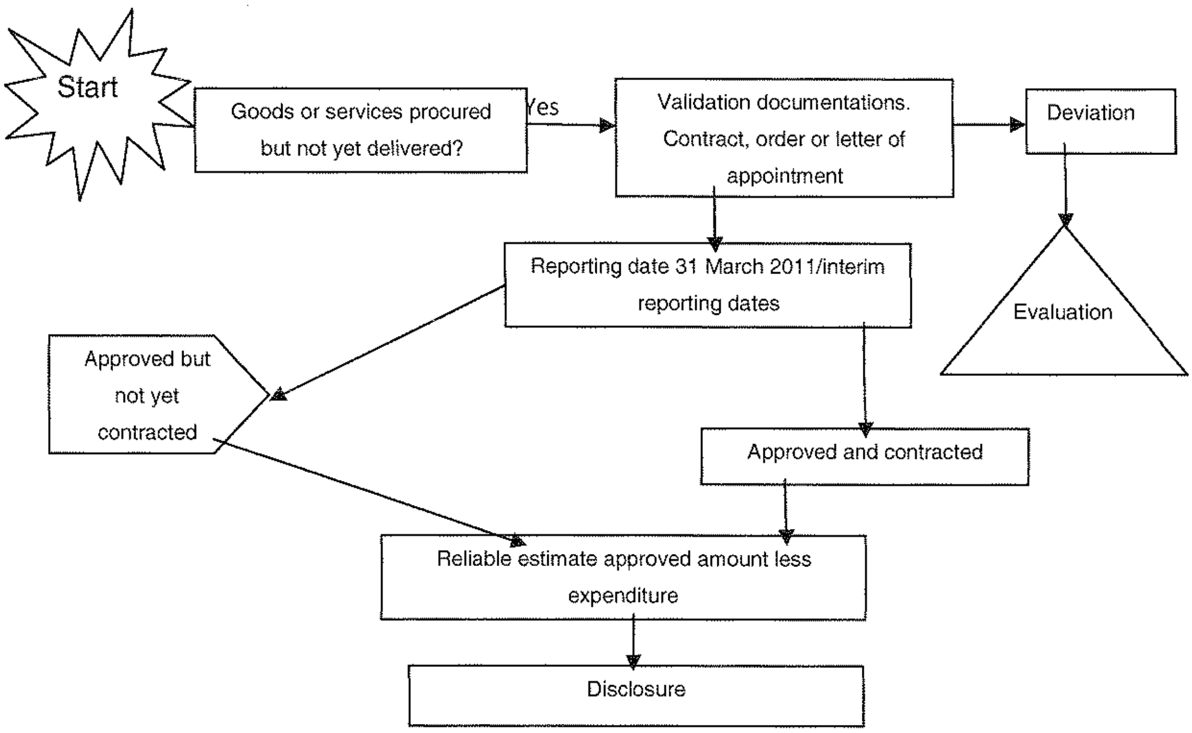
8.3 COMMITMENTS

Commitments represent goods/services that:

a) have been approved and/or contracted, but where no delivery has taken place at the reporting date; and

b) Goods/services that have been ordered, but no delivery has taken place at the reporting date.

Commitment Decision Tree



Guidance

Approved and Contracted Commitments: Where the expenditure has been approved and the contract has been awarded at the reporting date.

Approved but not yet contracted commitments: Where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

A distinction must be made between capital and current commitments. Asset greater than R5000 i.e. capital assets and where an asset is less than R5000 i.e. current asset)

Other commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note if both the following criteria are met:

a) contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services);

   and

b) contracts should relate to something other than the routine, steady, state business of the department – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Ensure that there is no duplication of information e.g. operating lease commitments. Where departments have made a commitment for a period longer than 1 year, it should be stated in the note. For example, if a department committed to rent a pool of cars for a period of 2 years, this should be stated in this note.

8.5.1 LOGIS Commitments

Guidance

To avoid double accounting there must be a reconciliation of the original order amount, expenditure to date and accruals as at reporting date and the difference be disclosed as commitments.

Logis commitments examples

Cases where there are commitments with any public entity that must be disclosed as normal commitment they should be included as such.

All known contracts that the department is and has committed to pay for more than one year must be disclosed under normal commitment e.g. in the event where the department is paying for a licensing contract i.e. Microsoft/ database licensing contracts for more than one year, the amount of the outstanding commitment which is not loaded on LOGIS should be disclosed under normal commitment. In case where the expenditure is more than the original commitment amount, an investigation must be done to determine or identify the course of the increase or discrepancy, but supporting documentation must be provided to justify the credit commitment.

Procedures to be performed in the preparation of the working file

1. Print the Logis commitment report and review for outstanding order;
2. Cross reference outstanding order to supporting documentation and verify that the order was not received and the commitment is a valid commitment; and
3. For invalid orders made the appropriate adjustments.

Documentation to be included in the working file

- Logis commitment report
- Order form
- Requisition form
- Disclosure template

8.5.2 WCS Commitments

WCS commitments represent projects that are currently running under PMTE on behalf of DPW as client.

Guidance

All offices are requested to authenticate each commitment and ensure monthly reconciliations are reviewed to resolve all exceptions or challenges.

Commitments that can be included are services that are recoverable from DPW by PMTE e.g.

Recoverable CA, Special Projects PACE, however, commitments for unplanned/planned maintenance, damages and losses are disclosed as future benefits on Related Party Disclosure note.

Documentation to be included in the working file

- Obtain appointment letters or contracts signed by both parties or Tender document

- Check the Variation orders and ensure that they include all VOs eg VO1, VO2........
- Validated retention amount
- Method used to come up with the retention amount
- Disclosure template

8.5.3 Public Entity Commitments

Public Entity commitments represent projects that are currently running under public entities (IDT/PMTE/etc.) on behalf of Public Works as a client.

Guidance

An entity has to be contracted to a third party on behalf of the department of Public Works.

All Project managers are required to authenticate each commitment and ensure monthly reconciliation are reviewed to resolve all exceptions or challenges.

Any unit within DPW that enters into a memorandum with a public entity must disclose the "Memorandum of Understanding".

Documentation to be included in the working file

- A report that shows the amount transferred but not yet spent
- A bank statement which reflects the amount of interest earned on the transferred amount.
- A progress report (report that shows spending on the transferred amount)

Procedures to be performed in the preparation of the working file

1. Prepare a summary schedule of all commitments;
2. Prepare schedules of all commits per type, being
   a. LOGIS Commitments,
   b. WCS Commitments
   c. Public Entity Commitments
3. In calculating commitments the following should be taken into account pertaining to tenders awarded:
   a) the period of the tender awarded;
   b) amounts already paid pertaining to that tender/contract;

c) amounts for which invoices have been received and which are therefore included in accruals should be deducted;

d) commitments loaded on the procurement systems (such as LOGIS); and

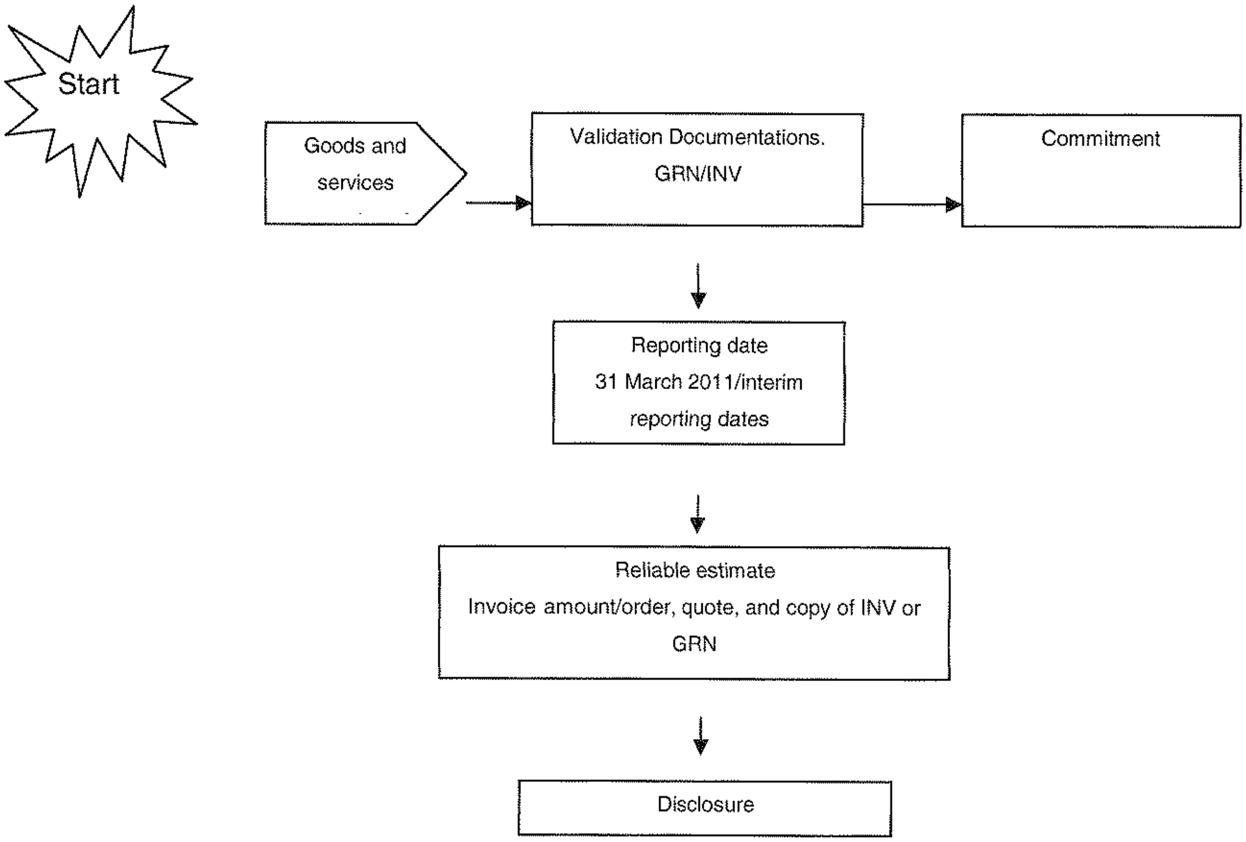
e) commitments not loaded on the procurement system

4. Disclosure template

8.4 ACCRUALS

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

Accrual Decision Tree



Guidance

It is required that **all** invoices that have not been approved for payment (but relate to the current financial year) at year-end must be disclosed, regardless of whether payment was made subsequent to year-end.

Where goods/services have been delivered and no invoice has been received at year-end, an estimate of the invoice amount should be made based on the order, quote, copy of invoice or goods received note.

The department must have controls in place that ensure that when goods/services are received/ delivered, the financial system is updated to reflect the received/delivered goods/services. Once such recording has taken place, reporting on accruals can be attained.

When ageing the accrual, ensure that all cases where the goods or services were delivered and the department did not receive an invoice at the reporting date, those transactions must be aged as 30 days.

It is a requirement that for all accruals disclosed there must be proof that the service was rendered. Confirmed balances that have not yet been paid at a reporting date should be disclosed on accruals. The confirmed balances are excluded from the workings but a narrative note should be inserted on the workings.

Human Resources accruals i.e. any amount that is due to an official at a reporting date must be disclosed under accruals.

Common services that should be listed as Accruals

- Fleet services e.g. Phakisa –Completeness check on fleet
- Courier services
- Photocopy Machine services e.g. Minolco number of machines for completeness
- Cell phone and 3G cards services e.g. Vodacom/MTN – number of employees
- Employee claims (S&T)
- Once of LOGIS orders – trace order that it has not been paid for

Accruals examples

- If the court of law has given a verdict on a case that is listed as contingent liability and no payment was processed at reporting date that transaction should be disclosed as an accrual.
- If at a reporting date there is a transaction with an original order that consists of 100 units of stationery (all received) with a cost price of R1000, which is not yet paid at the reporting period should be disclosed as an accrual.

Non-Accrual examples

1. When a service provider has submitted an invoice at or before the reporting date but services are not yet rendered, the transaction thereof should not be disclosed as an accrual.
2. If at a reporting date there is a transaction with an original order that consists of 100 units of stationery with a value of R1000 but only 50 units with a value of R500 are received and paid for and 50 units with a value of R500 are still not yet received, the transaction thereof should not be disclosed as an accrual as it's a remaining commitment

Procedures to be performed in the preparation of the working file

1. Prepare a summary schedule of all accruals;
2. Cross reference all amounts to the disclosure template;
3. Ensure all accruals are supported with invoice / supporting documentation;
4. To ensure completeness of accruals listing:
    a. Review all payments for April and May to ensure that it has been recorded in the correct financial period and, if applicable, accrual has been raised for goods received and services rendered before year-end.
    b. Review commitments managing process to understand is there is possible accruals
    c. Refer to Payables section, review creditors' statement and ensure that all accruals that should have been accounted for has been accounted for.
    d. If applicable, review all GRV for the two weeks before and after year end that all expenses in respect of goods and services have been accounted.

Documentation to be included in the working file

1. A summary schedule of all accruals
2. Supporting invoices;
3. Goods received note or order; and
4. Proof that the service was rendered prior to year end.

8.5 LEASE COMMITMENTS

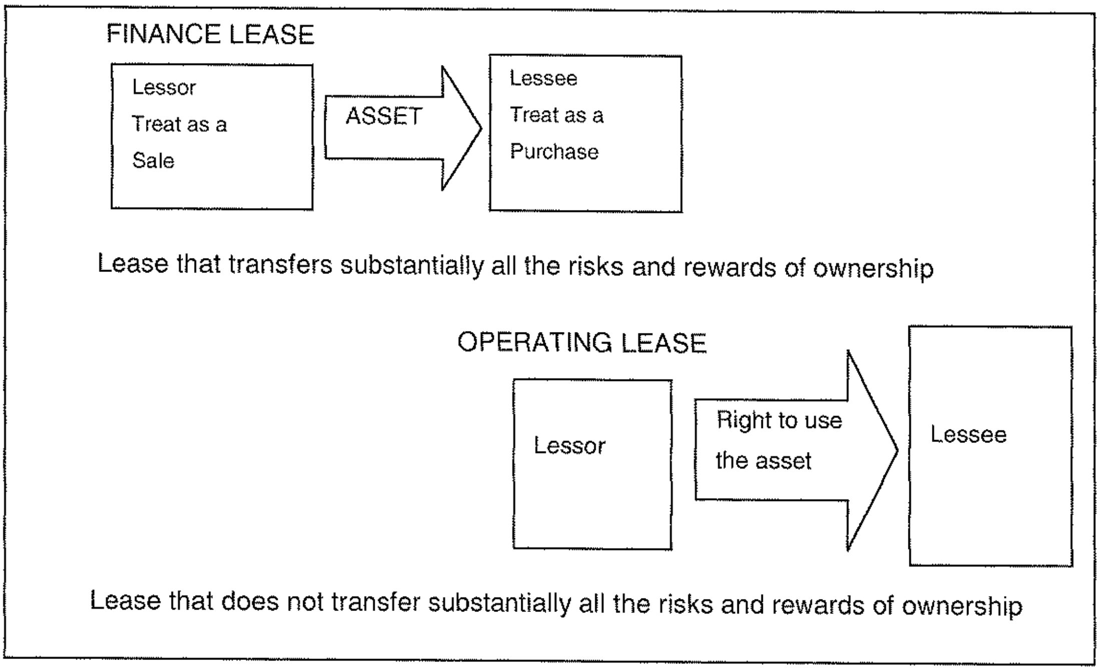
Lease commitments represent amounts owing from the reporting date to the end of the lease contract.

A lease is a contract that gives the lessee (the renter) the right to use an asset for an agreed period of time in return for a payment or series of payments.

At the inception of the lease contract, it must be pre-determined that the lease is finance or operating lease

Guidance

Differences between a Finance Lease and Operating Lease



The classification of leases is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee rather than on which party has legal ownership over the asset.

8.5.1 <u>Finance lease commitments</u>

A finance lease is a lease that transfers substantially all risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

Guidance

A Finance lease is more economical than an operating lease; and

The period of the finance lease does not exceed 60 months in respect of motor vehicles and 36 months for equipment except with written approval by the relevant Treasury; and

The finance lease was entered into in terms of RT3 of 2006 or a transversal contract entered into by the National Treasury

For land and buildings, prior approval must have been obtained from the relevant executive authority and relevant treasury. There are no limits to the lease period.

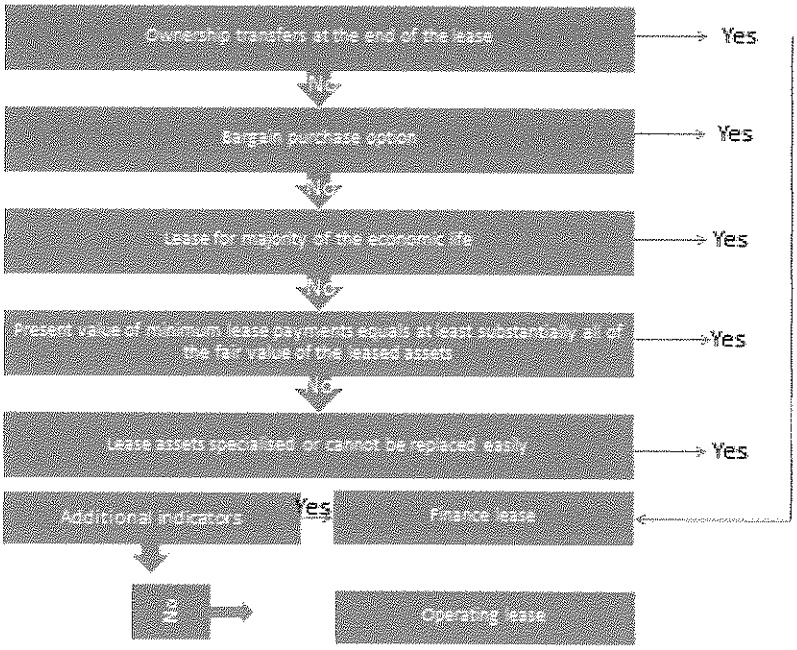
Criteria's for a lease to be classified as a finance lease

Although the following are examples of **situations**, which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable, so that at the inception of the lease it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life (i.e. 75 %) of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the asset.

The purpose of the lease arrangement may help the classification: If there is an option to cancel, and the lessee is likely to exercise such an option, then the lease is likely to be an "operating lease".

Lease decision tree:



It is important to note that classification of the lease is performed at the inception date of the lease, whereas the actual accounting entries are only performed at the commencement date of the lease. *Commencement date* of the lease is the date from which the lessee is entitled to exercise its right to use the asset. *Inception date* is the date on which the lease agreement is signed.

Procedures to be performed in the preparation of the working file

1. Prepare a summary of all leases
2. Prepare disclosure based on the disclosure template;
3. Cross reference the lease agreements to the summary of lease
4. Based on the lease agreements determine payments due:
    a. The year under review;
    b. Payable within the next year;
    c. Payable within the next 1 to 3 years; and
    d. Payments after 3 years
5. Consideration whether lease are finance lease should be documented, including all supporting calculations.

Documentation to be included in the working file

- A summary of all leases, including detailing the timing of payments
- Perform a reconciliation of the contracts that have been classified as a finance lease and the fixed asset register

  (Ensure that all assets that relates to finance leases have been captured in the asset register)
- In respect of Cell phone and 3g cards:
  - a) Contract between the service provider and the department
  - b) Request forms from employees.
  - c) Letters requesting to upgrade after expiry from the service provider
  - d) List of interest rates
  - e) Asset value confirmed by the service provider
  - f) Hand over certificate
  - g) Disclosure template
- Photocopy machines:
  - a) Contract between the service provider and the department
  - b) List of interest rates
  - c) Asset value confirmed by the service provider
  - d) Disclosure template

8.5.2 <u>Operating lease commitments</u>

An operating lease is a lease other than a finance lease.

Guidance

Operating leases that are open-ended details of the nature and terms of such leases must be provided in a narrative form under the operating lease commitments disclosure note.

Any extension on the finance lease contract that has elapsed will result in an operating lease (E.g. if a two year cell phone contract is extended with an extra year , the extended year i.e. third year will be disclosed as an operating lease.

Procedures to be performed in the preparation of the working file

1. Prepare a summary of all leases

2. Prepare disclosure based on the disclosure template;
3. Cross reference the lease agreements to the summary of lease
4. Based on the lease agreements determine payments due:
    a. The year under review;
    b. Payable within the next year;
    c. Payable within the next 1 to 3 years; and
    d. Payments after 3 years

Documentation to be included in the working file

1. A summary of all leases, including detailing the timing of payments
2. Lease agreement
3. Memorandum Of Understanding
4. Bid committee approval for month to month
5. Disclosure template

8.6 EMPLOYEE BENEFITS

Employee Benefits are benefits that employees accumulate as a result of rendering services to their employer up to the reporting date.

Guidance

Not all employee benefits are recognised under the cash basis of accounting. Therefore certain benefits that give rise to a present legal or constructive obligation is shown in the disclosure notes to the annual financial statements.

Employee benefits should be made up of the following accrual amounts:

- Leave entitlement
- Thirteenth cheque (service bonus)
- Performance bonuses
- Capped leave commitments
- Other benefits
- Accruals template

Leave entitlement

The annual leave dispensation (applicable to all those that are employed either on full-time, part-time or occasional basis in terms of the Public Service Act and those who fall within the scope of the PSCBC).
Unused annual leave is paid out only in the following circumstances:

a) an employee terminates his or her services; or
b) If the application for annual leave was declined due to operational requirements, and could not be rescheduled in the course of the leave cycle.

At 31 March of each year the department estimates the amount payable to employees for disclosure purposes using the formula included in the DPSA Financial Manual. Departments must ensure that amounts accrued up to end of March of the financial year are taken into account in calculating leave entitlement.

Capped leave (leave payable in the event of death, retirement and medical boarding)

"Capped leave" means leave due to an employee as at and including 30 June 2000.

The cash value payable in respect of personnel with capped and audited leave credits is determined using the formula included in the DPSA Financial Manual. Departments must ensure that amounts accrued up to end of March of the financial year are taken into account in calculating leave entitlement.

Thirteenth cheque (Service bonus)

The service bonus represents the amount payable to an employee in his/her birthday month and is equal to a month's salary.

The amount of service bonus owed to the person as at the end of March is calculated from the last date since a service bonus was paid. In cases where no previous service bonus was paid, the date will be used from when the person became entitled to service bonus. Service bonus payable to employees is determined using the formula included in the DPSA Financial Manual.

Performance bonus

Performance bonuses are generally accrued when a past event creates either a legal or constructive obligation to make such payments (i.e. the entity has no realistic alternative but to make the payments).

The amount disclosed in the financial statements at the end of the financial year should be based on:

a) the outcome of the performance evaluation process (the department has either approved the amount payable or can estimate the amount payable based on the ratings agreed with employees);
b) 1.5 % of the *compensation of employees* budget; OR
c) past practices or payments made;

<u>Leave with negative balances</u>

If there are any negative leave balances, an additional descriptive note should be added to the employee benefits disclosure note stating the nature and total amount of the negative leave as at year-end.

Procedures to be performed in the preparation of the working file

1. Prepare a lead schedule
2. Prepare a schedule of performance bonuses. Ensure that it cross references to performance contracts.
3. Human Resource should submit a 12 months report of Leave entitlement for all reporting period.
4. The leave entitlement report should be cross reference to leave register. Any discrepancies should be followed up and resolved.
5. Prepare the estimated amount payable to employees using the formula included in the DPSA Financial Manual.
6. The leave register to be validated through verification of completeness and accuracy of leave forms to the leave register.

Documentation to be included in the working file

1. Disclosure template for benefits
2. Persal report
3. Staff Establishment Report;
4. Leave pay schedule;
5. Leave register;
6. Schedule of performance bonuses
7. Disclosure template for benefits
8. Persal report

8.7 RECEIVABLES FOR DEPARTMENTAL REVENUE

Receivables for services rendered and/or goods sold where no cash has been received at year-end.

Guidance

Receivables for services delivered and/or goods sold are not recognised in the statement of financial position as a current asset or as income in the statement of financial performance, as the financial statements are prepared on a cash basis system of accounting, but are disclosed separately as part of this note to enhance the usefulness of the financial statements.

The determination of the need for an allowance for doubtful debt accounts will be based on the individual assessment of each debt where no movement has taken place and all steps have been taken to recover the debt.

On the debt age analysis there must be a column for provision for doubtful debts for all cases that are doubtful.

Examples:

- Rental debtors
- Any other amount to be recovered not in trail balance (interest from public entities)

Procedures to be performed in the preparation of the working file

1. Perform all general procedures;
2. Prepare a schedule of all receivables per category;
3. Prepare a schedule of rental debtors and validate against supporting documentation;
4. Prepare a schedule of recoverable expenses and validated against supporting documentation;
5. Prepare a list of debtors with credit balance. Investigate all balance and validate with supporting documentation;
6. Where applicable, obtain interdepartmental confirmations.
7. Prepare a schedule of provision for doubtful debt
8. Assess recoverability of individual debtors

Documents that must be on the working file for prepayments and advances

1. All general working papers to be included in the working file.

2. The a schedule of all receivables per category;
3. Include the following prepared schedule in the working file:
    a. schedule of staff debtors
    b. schedule of recoverable expenses
4. Debtor's age analysis;
5. Analysis of debtors in terms of the following categories (also refer to provisions):
    a. Less than 1 year;
    b. Between 1 and three years; and
    c. Longer than 3 years
6. A list of debtors with credit balance as well as a narrative description of the reason and cross reference to the supporting documentation; and
7. All inter-departmental confirmations.
8. Schedule of provision for doubtful debt
9. Documented explanations per individual debtors as to the recoverability of the debt or not - If debtor is irrecoverable, that debtor / transaction should be provided for as a doubtful debt. Please provide detailed reasons for recoverability.

8.8 IRREGULAR EXPENDITURE

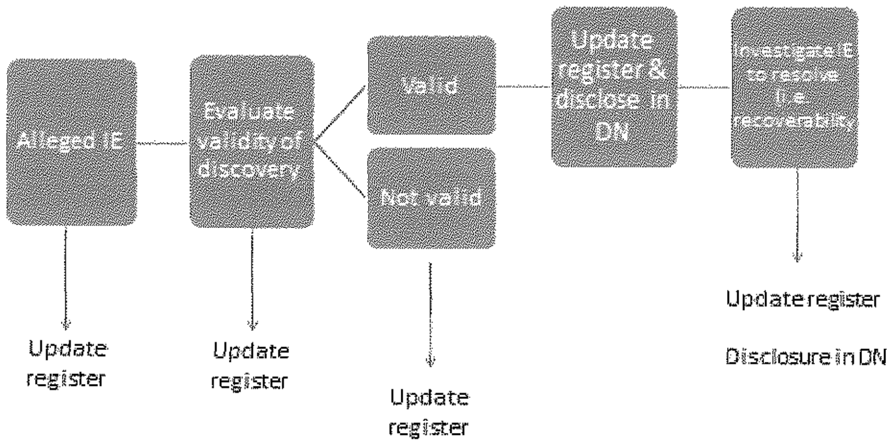
Irregular expenditure comprises expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Guidance

When should the irregular expenditure be recorded in the relevant register and/or disclosure note?

1. On **discovering** a possible irregular expenditure, the department must record the alleged irregular expenditure in the relevant register.
2. The department must **evaluate** if the alleged irregular expenditure is valid.
3. If the irregular expenditure is **valid**, the relevant register must be updated stating that the expenditure is in actual fact irregular expenditure. These amounts must be included in the disclosure notes.
4. If the irregular expenditure is **not valid**, the relevant register must be updated stating that the alleged irregular expenditure was found not to be valid.
5. Validity of irregular expenditure must be determined before submission of the annual financial statements for audit purposes. If irregular expenditure that occurred in the year under review is discovered during the audit, validity thereof must be determined before the audit is concluded.

The process of evaluating audit findings must be completed prior to the finalisation of the audit.



Application and interpretation (with examples) on dealing with irregular expenditure

Expenditure incurred as referred to in **Treasury Regulation 6.3.1** without the necessary treasury approval should be regarded as irregular expenditure and not as unauthorised expenditure.

Compensation of employees on a specific programme may be increased without Treasury approval as long as the department stays within the total personnel allocation. If the total personnel expenditure is to be increased, Treasury approval must be obtained.

How should an entity disclose irregular expenditure that was discovered in the current year but dates back to prior years?

If a department discovered irregular expenditure in the current year (say 2011/12) relating to a contract that was entered into some time ago, or resulting from a prior period transaction the following must be presented and disclosed in the notes to the financial statements:

Show the irregular expenditure amount in the current year (2011/12) column on the line item "Irregular expenditure – relating to prior year";

No adjustment to prior year (2010/11) disclosure notes or the opening balance for the current year (2011/12) is required;

Include narrative information concerning the period of time over which the expenditure occurred and what gave rise to it along with the investigation process and progress in resolving the irregular expenditure.

To what extent should a department measure and disclose irregular expenditure?

The disclosure of irregular expenditure incurred is a legal rather than an accounting requirement. It is the act that results in irregular expenditure that is of importance to the user of the financial statements. The amount does not add to its significance and focusing on the quantification of irregular expenditure, while it is important, may divert attention away from the act itself. The primary focus from an oversight perspective is ensuring that spending agencies abide by the law in executing their mandates.

The amount disclosed as irregular expenditure arising / discovered in a particular financial year, however, will allow the user to assess the extent to which that period's allocated funds were utilised in an irregular manner. The amount disclosed does not necessarily give a reliable measure of internal control weaknesses in an entity but the nature and or the regularity of the infraction.

It is acknowledged that there may be instances where the irregular expenditure arose from fraudulent, corrupt and criminal activities or actions that deprived the state of value for money and may result in the state instituting a civil claim against a third party. In such cases the department would have to evaluate the impact of the infraction and the likelihood of someone being liable in law. The extent of the liability would thus have to be established. If the total amount could not be established by the date of approval for issue of the annual financial statements, the sub-notes should disclose this fact along with the reasons why.

	Unauthorised Expenditure	**Irregular Expenditure**	**Fruitless and Wasteful Expenditure**
Definition	*The overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division*	*Irregular expenditure comprises expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including:* • *PFMA Act* • *The State Tender Board Act; or* • *Any provincial legislation providing for the procurement procedures in the provincial government*	Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.
Accounting policy /	<u>**Current Asset**</u> • *<u>Approved with funding</u>*	<u>**Disclosure Note**</u> *(Expenditure – Against actual*	<u>**Disclosure Note**</u> *(Expenditure – Against actual*

recognition	• *Approved without funding – use savings*	*expense line)* *Receivable, if not condoned* • Recover from official • Write off (Financial transactions in Assets and Liabilities)	*expense line)* *Receivable, if not condoned* • Recover from official • Write off (Financial transactions in Assets and Liabilities)
Other considerations	• Relates to CY or PY • Only occurs when cash has flown and not when funding is over-committed	• Relates to CY or PY' • Arises at transaction date	• Relates to CY or PY' • Arises at transaction date
Example	• Overspending on budget • Earmarked funds used for other purposes • Funds outside mandate e.g. NT buys condoms for the public	Incurred as a result of • PPP expenditure without prior approval by relevant treasury • Purchase exceeding threshold • Procuring without inviting competitive bids • Non-compliance with Delegation of Authority • Non-compliance with legislation, e.g. Public Service Regulations	• Negligence – reasonable man's test / accounting officer's judgement e.g. miss flight – cancellation fees • Interest on overdue accounts • Penalties
Conclusion	There has to be expenditure incurred before consideration of whether or not it is unauthorised is made. The entity must spend only funds provided and spend it only for the purposes provided.	There has to be expenditure incurred before consideration of whether or not it is irregular is made. The entity may only incur expenditure if expenditure is within legislative framework.	There has to be expenditure incurred before consideration of whether or not it is fruitless and wasteful is made. Management's judgement required to determine fruitless and wasteful expenditure within ambit of law.

Procedure to be performed in the preparation of the working file:

Refer to Annexure C

8.9 ASSET MANAGEMENT

8.9.1 Acquisition, maintenance/operation and disposal plan

- Acquisition and maintenance/operational plan should be compiled and integrated with the Departmental budget processes.
- They will be essential monitoring tools to ensure that spending is aligned with allocated budget for all new acquisitions and maintenance/repairs/refurbishment of existing machinery and equipment,.
- All deviations to the approved plans will be approved by RM (RO) and CFO (HO).
- Asset plans inputs will be compiled by Cost Centre Managers consolidated by Movable Asset Management (Regions) and an approved Regions plan will submitted to Head office.
- Disposal plan will be compiled by Movable Asset Management and submitted to HO for consolidation.
- Head Office will consolidate all inputs and compile departmental asset plan and submit to CFO for approval before the 31st March yearly.

8.9.2 Physical verification of Assets

- All Regional Office with the exception of DRBS, PTA and CT) will conduct at least two cycle counts, one random spot check and annual verification of assets.
- DRBS/CT/PTA/HO will conduct at least one cycle count for office environment, random spot checks for prestige environment and annual verification for all locations.
- Verification Schedules, count sheet and report on discrepancies identified together with recommendation must be filed for audit purposes and copy of report sent to Head Office for monitoring and audit trail purposes.
- During cycle counts physical condition/performance/capacity of all existing assets will be done and Asset Register recorded accordingly.

8.9.3 Asset Register Audits and updating of the Asset Register

Asset Register Audits will be conducted on a monthly basis to ensure completeness and accuracy of the AR.

- Data integrity of the Asset Register (order numbers reflected per asset reconciles with the description, amount in the original batch)
- Receipt price and the correct price are the same if not investigate and adjust accordingly.
- Assets received before 31 March 2002 without supporting documents are recorded at R1 value.
- Assets received after 31 March 2002 without supporting documents are recorded at fair value (fair value methodology submission attached)
- No duplicate barcodes, asset without location (lying @ store)
- All curtains/cutlery/crockery within prestige is recorded per set/room
- Uniformity in the barcoding of curtains/heritage/cutlery/crockery/software
- Correct descriptions/classification and asset categories
- Additional information updated for new acquisition on WMMT
- Compile a list of assets that have fully depreciated, the condition thereof and recommendation per asset
- Asset on the approved exclusion list are not on the AR
- Redundant/obsolete assets disposed of to ensure that stores are cleared at all times.

8.9.4 Asset Register Audits and updating of the Asset Register

- Each Region is therefore requested to submit complete and correct recons and IFS/AFS including all supporting documents.
- Accurate monthly recons submitted to Head office by the 10th of every month for all regions, except CT/PTA – 15th of every month.
- Ensure that all non-cash additions, disposals and adjustment amount on the RY reports, and IFS/AFS inputs are validated and supported.
- All transfers from HO to Regions are received within 2days on the AR and proof sent to HO. (RO non-cash transfer in to reconcile with HO transfer out)

8.9.5 Reporting/Monitoring and Compliance

- Head of finance to check and verify inputs before signing the certificate

- Head Office will verify all recons/IFS submitted for completeness and accuracy.
- All incomplete and/or inaccurate recons will be referred back to the respective regions for correction.
- Provide feedback on all monthly reports sent to HO
- Responsible person in the Audit Int. & Project plan will be held accountable for non-implementation.
- Region to submit quarterly progress report on activities outlined in the project plans and audit intervention plan
- Late submission and non-compliance to this circular will be escalated to the Office of the Chief Financial Officer.

8.10 RELATED PARTY TRANSACTIONS

Related party transaction is a transfer of resources or obligations between related parties regardless of whether a price is charged.

Related party – parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Guidance

The principle issues in disclosing information about related parties are identifying which parties are controlled or significantly influenced by the department and determining what information should be disclosed about transactions with those parties.
Information about related parties and related party transactions is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the department because:

- related party relationships can influence they way in which an entity operates with other entities in achieving its objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;
- related party relationships might expose an entity to risks or provide opportunities that would not have existed in the absence of the relationship;

- Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties (e.g. sale of goods/services at less than cost).

Are the following related parties?

All departments and public entities in the national sphere of government are related parties and all departments and public entities in each province are related parties.

For example:

	DPW	Public Entity reporting to DPW	Provincial DPW	Municipality A
National Department B	Yes	Yes	No	No
Public Entity reporting to National Department B	Yes	Yes	No	No
Provincial Department B	No	No	No	No
Municipality B	No	No	No	No

Indirect Cost Allocation

The final policy for the allocation of indirect cost will be provided to regions for the allocation of transactions between DPW and PMTE.

Identifying related parties

Departments are related parties because they are subject to common control (they operate together to achieve common objectives determined by Cabinet/Provincial Legislature). However, a department in one province is not "related" to another department in a different province. In addition a municipality is not a related party to a department

Disclosure - related party transactions A department should disclose all transactions with its related parties other than those undertaken at arm's length (i.e. where the transactions are consistent with a normal supplier of client/recipient relationship and are undertaken on terms and conditions that are normal for such transactions in the circumstances). For example, a national department would not need to disclose the total amount paid to Telkom for 2011/12 for its telephone lines and calls unless the department was granted a discount that's not ordinarily available to other entities. Similarly, a national department would not need to disclose payments to South African Revenue services (SARS) as related party transactions.

(a) However for reporting purposes the following applies: A department need only disclose those related party transactions that in terms of the above qualify for disclosure, between itself and the public entities falling under its Minister/MEC's portfolio. The disclosures exclude transfers and subsidies paid to public entities where these have been included in the annexures to financial statements. However, the fact that the public entity is a related party should be included in this note; (e.g. the Department of Public Works will only list the IDT/PMTE); but

(b) Where a department transacts with another party other than those under (a) above and these transactions were not at arms-length then the relationship and the transaction must be disclosed. (e.g. if Department A occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the Department A's AFS. Goods or services are provided free of charge are in kind goods or services and should be disclosed as such in the related party disclosure note. The disclosure of any related party transactions is limited to transactions between the department and another related party and should not include transactions between the related parties of the department. (e.g. Department of Public Works shall not disclose transactions between IDT and PMTE, both of which are Department of Public Works related parties

Examples of indications of related party transactions:

- arrangements where one party expenses on behalf of another party (these costs may or may not be recovered);
- lease arrangements at more or less than market value or for no consideration;
- sales without substance (funds are transferred to an entity for goods or services that were never rendered/delivered);
- services or goods are purchased at nominal or no cost;

Disclosure of:

- Name of the entity that entered into related party transactions with the department
- The types of the related party relationship
- The types of transactions that have occurred

- The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the Annual Financial Statements to provide relevant and reliable information for decision-making and accountability purposes.

The above excludes transfer payments and subsidies, as that is disclosed in the annexures to the Financial Statements.

Related parties include:

- entities that directly, or indirectly through one or more intermediaries, control or are controlled by the reporting entity;
- associates and joint ventures;
- individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close member of the family of any such individual;
- key management personnel, and close members of the family of key management personnel
- All SMS members and SCM official in the department

Procedures to be performed in the preparation of the working paper file:

1. Complete the disclosure template and include all additional related parties and related party transactions
2. Obtain confirmation letters from related parties regarding:
   a. The amounts of account balances owing to/from DPW; and
   b. The amount of the transactions entered into between the related parties

Working papers that must be on the working paper file:

1. Disclosure template
2. Confirmation letters with related parties

8.11 KEY MANAGEMENT PERSONNEL

Key management personnel are:

- All senior managers, directors or members of a governing body of the entity on level 14 or above; other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity. Where they meet this requirement key management personnel include:

(i) where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing and controlling the activities of the reporting entity, that member [e.g. Minister or MEC];

(ii) Any key advisors of that member; and

(iii) Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity [E.g. Accounting Officer]

(iv) Family member of employed by the department

Guidance

Key management members are those persons having the authority and responsibility for planning, directing and controlling the activities of the department. For the purpose of this disclosure note, senior management from level 14 and above are deemed to be key management personnel.

If an employee on level 13 or below is promoted to a level 14 position or above during the financial year, the employee's remuneration from the date that the employee is on level 14 or above must be included in this disclosure note. Remuneration of family members of the promoted employee must also be included in this disclosure note.

Remuneration of employees on level 13 or below acting for senior management of level 14 and above during the financial year must be included in this disclosure note. The amount that must be disclosed is the acting employee's full remuneration including his or her acting allowance during the acting period. The full month's or months' remuneration during the acting period must be disclosed and not pro-rated. Remuneration of family members of the acting employee must also be included in this disclosure note.

Procedures to be performed in the preparation of the working paper file:

1. Compete the disclosure template
2. Agree the Persal report to the disclosure template

Working papers that must be included in the working file:

1. Disclosure template
2. Persal report

8.12 PUBLIC PRIVATE PARTNERSHIPS FOR THE FINANCIAL STATEMENTS

A public private partnership (PPP) is a commercial transaction between the department and a private party in terms of which the private party

- performs an institutional function on behalf of the institution; and/or
- ·acquires the use of state property for its own commercial purposes; and

- ·assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
- receives a benefit for performing the institutional function or from utilizing the state property, either by way of:

  - consideration to be paid by the department which derives from a Revenue Fund;
  - charges fees to be collected by the private party from users or customers of a service provided to them; or
  - a combination of such consideration and such charges or fees.

<u>Guidance</u>

A Public Private Partnership (PPP) generally deals with an entity that enters into an arrangement with another entity to provide services that gives the public access to major economic and social facilities. Examples of these could involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks

<u>Documents that must be on the working file for public private partnership</u>

- A description of the arrangement
- Order forms for a requested
- Asset register
- Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows
- The nature and extent of:
  - rights to use specified assets
  - obligations to provide or rights to expect provisions of services
  - obligations to acquire or build items of property, plant and equipment
  - obligations to deliver or rights to receive specified assets at the end of the concession period
  - renewal and termination options, and
  - other rights and obligations (e.g. major overhauls), and
- Changes in the arrangement occurring during the period
- Details should be provided of any Contract fees received from any third party/ies to the agreement. This will for instance be applicable in those arrangements where the Department and the third party shares in the income flow of the project.

- Contract fees paid should disclose the fixed and variable components for the financial year. Where this is applicable, the details provided about the arrangements should also mention the terms or method of calculation of these amounts.
- Where the Department is responsible for some costs of the project, the costs paid must be included in the line items provided under "Current expenditure".
- Any rights, tangible or intangible, provided for in terms of the PPP agreement must be quantified and disclosed.

8.13 IMPAIRMENTS

Provision for doubtful debt

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Guidance

Impairment is a loss in value of an asset (i.e. the amount recognized in the statement of financial position or disclosed in the disclosure note is greater than its recoverable amount/recoverable service amount). Recoverable amount/ recoverable service amount of an asset is that amount which can be recovered through continuing to use the asset or by selling the asset.

It is important that the entity assesses, **at each reporting date** (i.e. annually by 31 March), whether there is any indication that the asset may be impaired. When the amount recognized or disclosed in the annual financial statements is greater than the amount the entity will receive for the asset, the difference is the impairment loss to be disclosed in the disclosure note *"Impairment and other provisions"*.

Loans

The accounting officer should consider impairing loans where the recoverability of such loans is questionable. The amount deemed irrecoverable should be disclosed here under the heading "Impairment – Loans".

Debtors

Debtors such as staff debtors should be assessed for recoverability. Impairment of the debtors that are not fully recoverable should be disclosed here. The amount included in the disclosure note should represent the irrecoverable portion of the debt recognized in the statement of financial position (POS) or disclosed in a disclosure note such as receivables for departmental revenue.

For example, a department has recognized staff debt of R12 million in the POS. R184 000 is irrecoverable but the Accounting Officer has not yet approved the write-off of the amount. This amount is disclosed in the *"Impairment and other provisions"* note under the heading "Impairment – Debtors".

Other

Any other impairment identified by the department.

<u>Procedure to be performed in the preparation of the working file:</u>

1. Per the information prepared in the "Receivable" section, perform an assessment of the recoverability of all receivables,
2. Based on the assessment performed of the recoverability of the receivables, populate a schedule of all impaired assets as well as a description as to why these debtors are considered to be impaired;
3. Where possible, agree the reasons for the assessment to supporting documentation
4. Agree the amounts per the impairment schedule to the disclosure template.

<u>Working papers that must be included in the working file</u>

1. Schedule of impairments that details:
    a. The name of the debtor; and
    b. The reason for the impairment.
2. Disclosure template

8.14 <u>PROVISIONS</u>

A **provision** is a liability of uncertain timing or amount.

A provision should be disclosed when:

a. entity has a present obligation (legal or constructive) as a result of a past event;
b. it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
c. a reliable estimate can be made of the amount of the obligation.

A liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow on resources embodying economic benefits or service potential.

Guidance

In operation of the department's activities there are some uncertainties, regarding future events, and the accounting officer is required to make informed estimates on the outcome of such events.

The accounting officer shall determine items to be included as *"Other provisions"* based on experience (history) and judgement. There should be a system of identifying provisions

Disclosure of any other financial transactions (i.e. other than that to be disclosed under "Impairment") that meet the definition of a provision shall be disclosed here. **The type of provision must be specified.**

The terms highlighted in the definition of a provision are further explained below to assist departments in understanding provisions:

Present obligation

There are two types of obligations:

A legal obligation is an obligation that derives from a contract (through its explicit or implicit terms, legislation or other operation of law).

A constructive obligation is an obligation that derives from an entity's actions that have created a valid expectation on the part of other parties that it will discharge those responsibilities. This valid expectation could arise as a result of an established pattern of past practice, published policies or sufficiently specific current statement indicating that the entity will accept certain responsibilities.

Past event

The obligating event happened in the past

The entity has no realistic alternative to settle the obligation created by the event

Probable outflow

The event is more likely than not to occur

When not probable that a present obligation exists then the entity discloses a contingent liability

Reliable estimate

Best estimate based on judgement by management and experience

If no reliable estimate can be made then disclose a contingent liability

<u>Procedures to be performed in the preparation of the working file:</u>

1. Prepare a listing of all provision
2. Per provision recognize include:
    a. A detailed description of the provision
    b. A description of the assessment performed to verify that the amount meets the definition of a provision; and
    c. The detailed calculation of the amount recognized which has been cross referenced to documentation supporting the calculation
3. Disclosure template

<u>Working papers that have to be included in the working paper file</u>

1. The listing of all provisions
2. The schedule containing:
    a. The description of the provision

b. The assessment that was performed whether the amount meets the definition of a provision

c. The detailed calculations on which the amount was determined

3. Supporting documentation in respect of:

    a. The assessment performed; and

    b. The calculations in support of the amount

4. Disclosure template

8.15 EVENTS AFTER REPORTING DATE

Events after the reporting date *are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:*

(a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

(b) those those are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Guidance

In order to ensure that the financial statements present an accurate and complete picture the entity cannot ignore information arising after the reporting date that may shed light on uncertainties that existed before year end or that may affect the decisions made by the users of the financial statements. Events after reporting dates that should be considered are those that occur between 31 March (Reporting Date) and 31 August (Submission of Annual report and AG report to executive authority.

The financial statements are either adjusted or updated with disclosures depending on the nature of the event and the facts that existed at the reporting date.

Examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized/disclosed in its financial statements, or to recognise/disclose items that were not previously recognized:

a) the settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date.

b) the receipt of information after the reporting date indicating that an investment was impaired at the reporting date;

c) the determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;

d) the determination after the reporting date of the amount of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date.

e) the discovery of fraud or errors that show that the financial statements are incorrect.

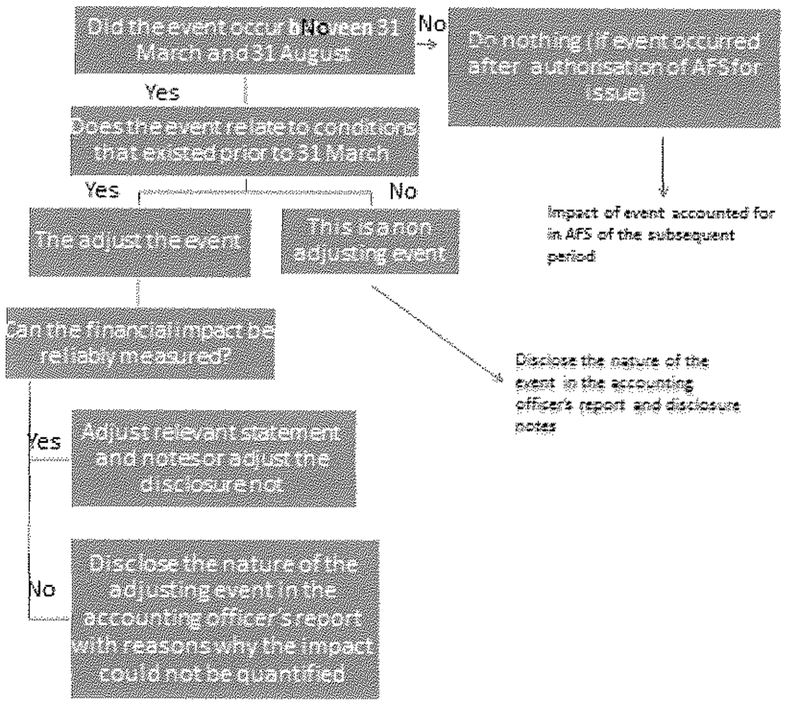
Non-adjusting events are only disclosed when the outcome would influence the users" assessment of the performance of the department. Examples of non-adjusting events that normally require disclosure are:

a) a major disposal of a capital asset or where an asset was destroyed due to unforeseen or unavoidable circumstances;

b) the announcement of a major restructuring plan such as a function/programme shift;

c) a breach in a major contract

The decision tree below provides guidance on the difference between adjusting and non-adjusting events.



9.1 INVENTORY

Inventories are assets in the form of materials or supplies to be consumed in the production process or distributed in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

Guidance

Inventory is generally required to ensure production or service delivery can continue as planned without interruptions. Departments are required to provide additional disclosure of inventory in a form of an annexure.

Opening balance

The opening balance is represented by the inventory closing balance as at 31 March 2012. This balance should agree to the amount previously disclosed in the annexure in the Annual Financial Statements of the 2011/12 financial year.

Adjustments to prior year balances

This represents adjustments to prior year inventory which were only corrected in the current year. The following can give rise to adjustments:

- Surpluses and shortages: A record of all inventory surpluses or shortages must be kept. The surpluses or shortages will represent the difference between recorded inventory amounts and actual inventory levels.
- Reclassification as assets: All inventories previously classified as inventory and reclassified as assets need to be accounted for and transferred from the inventory register to the major or minor asset register.
- Reclassification as inventory: All inventory previously classified as assets and reclassified as inventory need to be accounted for and transferred from the asset register to the inventory register.

Additions/Purchases – Cash

All additions for the year should be reflected. The cash additions must be reconciled to the amounts reflected in *goods and services* of the statement of financial performance.

(Total cash additions in the goods and services note may include the purchase of consumables that are not recorded in the inventory management system of the department. In such instances the additions for the year in the inventory annexure will not tie up to the total cash additions in the goods and services note.)

Additions – Non-cash

The fair value of inventory received in-kind or donated from sources outside government during the 2011/12 financial year is disclosed on this item. This also includes inventory that is transferred from another government department for no value. There should be adequate and appropriate substantiating records to support the transfer.

Disposals

All approved disposals of inventory, should be recorded here. These amounts will represent obsolete, lost or damaged inventory which is unable to be issued into production or for distribution.

Adjustments

This represents correction of errors that occurred in the current financial year that relate to inventory. This also represents the difference between the initial recognition amount (e.g. cost for inventory purchased) and weighted average.

Closing Balance

In an accrual environment this amount is shown as a current asset in the statement of financial position. The closing balance of inventory for the current financial year will be the opening balance for the following financial year. A stock take at year end or close to year end will assist with verifying the accuracy of inventory amounts reported in the annexure.

Quantity

Where weighted average is used to value inventory, the quantity must reconcile with the actual units counted to the units as per the inventory system.

<u>Procedures to be performed in the preparation of the working file</u>

1. Perform an inventory count as ay 31 March.
2. Determine whether any consignment stock is held with DPW's inventory or whether DPW's inventory is held by a third party as consignment stock.
3. Prepare a schedule of inventory write offs, include a description as to the reason for the write off.

Documentation that must be included in the working file:

1. Final stock sheets
2. Schedule of all inventory write-offs

11. DELEGATIONS

a. FINANCIAL STATEMENTS

The financial statements are compiled by the Deputy Director Financial Reporting and checked by the Director Financial Accounting. The Directorate Inspectorate and compliance will be responsible for reviewing the financial statements and submitting to the CFO for the final review.

b. INPUTS FOR THE FINANCIAL STATEMENTS

Inputs for The Financial Statements	**Regional Office / Head Office**	**Delegated official for compiling**	**Delegated official for reviewing**	**Delegated official for verifying at HO**
Contingent liabilities	HO/ RO	DD: Legal Services	D: Legal Services	DD: Financial Reporting
Contingent assets	HO/ RO	DD: Legal Services	D: Legal Services	DD: Financial Reporting
Logis Commitments	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
WCS Commitments	HO/RO	PM and ASD 2	D 2 and D 3	DD: Financial Reporting
Accruals	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Employee benefits	HO	DD: HRA	D:HRA	DD: Financial Reporting
Finance lease commitments	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Operating lease commitments	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Receivables for departmental	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting

Inputs for The Financial Statements	Regional Office / Head Office	Delegated official for compiling	Delegated official for reviewing	Delegated official for verifying at HO
revenue				
Irregular expenditure	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Fruitless and wasteful expenditure	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Related party	HO	DD:Management Accounting	D: Management Accounting	DD: Financial Reporting
Key management personnel	HO	DD: HRA	D:HRA	DD: Financial Reporting
Public Private Partnerships	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Impairment and other provisions	HO/RO	ASD 2 and DD 1	DD 3and D 2	DD: Financial Reporting
Inventory	HO/RO	ASD 1,ASD 2 and DD 1,DD 2	DD 3and D 1,D 2	DD: Financial Reporting
Movable Assets	HO	DD: Movable Assets	D: Movable Assets	DD: Financial Reporting
Immovable Assets	HO/RO	ASD and DD	DD and D	DD: Financial Reporting
Receivable	HO/RO	ASD 2 and DD 1	DD 3and D 2	DD: Financial Reporting
Payables	HO/RO	ASD 2 and DD 1	DD 3and D 2	DD: Financial Reporting
Prepayments and Advances	HO/RO	ASD 2 and DD 1	DD 3and D 2	DD: Financial Reporting

12. TRAINING

1. Directorate Financial Accounting will provide training on the document to regional offices and Head Office official at the beginning of the financial year.
2. During the financial year it will be the responsibility of the heads of units to ensure that officials are updated of any new developments with the financial statement framework.
3. The directive will be reviewed yearly in line with the financial statements preparation guide

ANNEXURE A

- National Treasury Regulation
- Departmental Finance Delegation
- Public Finance Management Act
- Financial Statements Preparation Guide

ANNEXURE B

Presentation of working files

Working files must be presented by Head of Finance & SCM to Director Financial Accounting; the presentation dates will be issued during the reporting period.

REGION	PRESENTER
PE	HEAD OF FINANCE AND SCM
BLM	HEAD OF FINANCE AND SCM
UMT	HEAD OF FINANCE AND SCM
KMBL	HEAD OF FINANCE AND SCM
NLSP	HEAD OF FINANCE AND SCM
MM	HEAD OF FINANCE AND SCM
JHB	HEAD OF FINANCE AND SCM
DBN	HEAD OF FINANCE AND SCM
CTA	HEAD OF FINANCE AND SCM
PTA	HEAD OF FINANCE AND SCM
HO SCM	Director: SCM
HO HR	Director: HR

HO LEGAL SERVICES	Director: LEGAL SERVICES
HO ASSETS	Director: MOVEBLE ASSETS
HO IMMOVABLE ASSETS	Director: IAM
HO APPROP STATEMENT, TRANSFERS AND ENTITIES	Director: MANAGEMENT ACCOUNTING

ANNEXURE C: IRREGULAR EXPENDITURE

Irregular Expenditure testing of BAS payments

Set out below is guidance on how Irregular Expenditure (IE) will be tested.

1. The FSP appointed regional head should assess if the region has compiled a suppliers database listing all the tenders that have been awarded. If one is available, please assess it for reliability, taking into account the below guidance and if reliable, use this listing in conjunction with the IE checklist to identify irregular expenditure.
2. If there is no supplier tender database, you will need to construct one (refer to Annexure A for the template). As part of the supplier tender database, please ensure that you record all related contracts in the space provided. This will be a key link needed to gain efficiencies between your contract and tender work, and identification of irregular expenditure work in your region. The contract and tender register is intended to contain tender details of only the successful tender bidders.

NB: The tender number, contract number and details recorded are a VITAL part to linking your work to the DPW project as a whole, therefore, please be sure it is recorded accurately in both the register and in the checklist where the relevant transactions are tested.

3. The audit programme provided (attached as Annexure B), provides guidance on how you should construct the supplier tender database.
4. The BAS data has been categorised into the value range of the relevant checklist in which the data is expected to be tested. This is based on the "ORDERRANGEKEY" field calculated at Head Office (see further detail in point 7 below).

Please therefore use these categorisations to assist you in linking the supplier (attached from the BAS order number) to the constructed contract database. Please note that individual transactions of a high enough value may exist where no order numbers are provided; these transactions should also have a related contract on the contract register. The "ORDERRANGEKEY" field can be used to identify these transactions as well.

5. Ideally you should start testing using the 'above R 500 000 checklist'.
6. The data for this checklist has been filtered as follows in a workbook with different tabs:

- The BAS payments transactions relating to Vodacom, MTN, Telkom, PERSAL, Phakisa Travel with Flair, Minolco, Minolta, Credits and General Journals have been removed.
- All the remaining BAS payments were analysed by Purchase Order Number (PO). Where there are multiple payments relating to a specific PO, and these multiple payments add up to over R 500 000, all the payments relating to this PO have been populated on the "above R 500 000" Tab in the workbook.
- For example: Purchase Order No 108180 has 4 payments that add up to R 600 000. The payments *are made up as follows:*
    - Payment 1 for R 460 000
    - Payment 2 for R 100 000
    - Payment 3 for R 30 000
    - Payment 4 for R 10 000

Since the total payment is above R 500 000, it means that the competitive bidding process would have been followed. All 4 of these transaction will then be populated on the "above R 500 000" tab. It will not be split over the other tabs based on the individual payment amounts. The reasoning is that if you have assessed that the process of awarding the contract is irregular, then all related payments would be irregular.

If you have assessed that there were no irregularities in awarding the contract, then the only thing that can render these individual payments as irregular is whether or not the appropriate delegated official authorised the payment. The checklists have been populated with the delegation levels appropriate for each threshold.

7. The workbook tab for 'between R 30 000 to R 500 000' has been populated on the same basis as explained above. So if the sum of the total individual payments per a PO are less than R 500 000, the individual payments relating to that PO will be populated on the workbook tab with the Threshold R 30 000 to R 500 000.

8. However the challenge we face are as follows:
    - A payment was made on a PO in 2012/13 amounting to R 400 000. This payment will be populated in the "R 30 000 to R 500 000" Tab.

However, what we will not know is whether this is an old contract with payments that were made in prior years. We will not know the original contract price from the BAS information. So it may be that payments were made in the prior year and this contract value is actually R 8 million. You, as the Region, will then have to move this transaction to the "above R 500 000" checklist and test this payment there.

- Furthermore, if multiple sundry payments are made as part of one contract this cannot be identified from the BAS information available. Please therefore bear in mind that you may identify payments making up part of a higher value contract that will necessitate moving the relevant payment to the checklist with the value applicable to the total value of the related contract.

In some cases you may note multiple payments are not, but should be part of a higher value contract, this may be either intentional or unintentional. These payments should be tested for irregular expenditure based on the total value of payments that should be under that contract. In the dataset provided by Head Office, please make use of the transaction analysis per supplier to help identify where higher value contracts should exist.

9. **The BAS control total for your regions total transactions must ALWAYS be maintained and checked – care must especially be taken when moving individual payments between checklists in order to ensure that the information and control totals remain correct.**

The Checklists

10. The Checklists have been split into the various thresholds.
11. The Checklist above R 500 000 is a very detailed checklist. It starts with the general contract procedures. Thereafter there are procedures for IT, Consultants and Construction related contracts. If you are working through a construction contract then you must leave out the procedures for the IT and Consultants contracts. Similarly if it is an IT contract you exclude the Construction and Consultant contracts procedures.
12. For the Checklist above R 500 000, it is best to start with the general contract procedures and as soon as one of the procedures results in irregular expenditure, you can mark off all transactions linked to that contract as irregular.
13. In order to ensure efficient testing, please populate the contract and tender number field related to a transaction in the checklist. This will be completed based on your work on the abovementioned tender and contract register.
14. If the contract is not irregular, you will have to check the payments process for the individual payments.
15. For the 'between R 30 000 to R 500 000' you can also follow the same process as above.
16. Please note that since you are working with the batches you can decide which procedure in the checklist you want to start with. You must, however, **stop the moment you identify that the transaction is irregular**.
17. If the transaction relates to leases please mark it as such and do not complete the procedures. We have not yet developed the lease checklist.
18. Where the regions Compliance Unit has done work on the transactions, see how you can incorporate their results into your transactions test. The interaction with the PTA region has indicated that a DPW developed checklist was used to test the payment part of the transaction, but not the procurement part. If you assess that you can rely on what they have done, you must please use their results to update the IE register.
19. With regards to the Delegations of Authority we have, together with the help of DPW officials, tried to populate the appropriate levels of delegations. However, if you find that the information on our checklist is incorrect and your information is supported by a circular or approved SCM or Finance delegation then please bring this to our attention.

20. You may insert additional lines on you checklist between the lines already provided. This is to control the 'sum' formulas, control totals and the drop down tabs.

General Information

21. The Head Office team has prepared a list of transversal contracts that DPW has participated in using the information available from the National Treasury website. This document may assist you in the procedure referring to the Transversal contracts.
22. The Head Office team has also compiled a document which lists all contracts advertised by DPW from April 2012 to 31 January 2013, on the Government tender bulletins.
23. Please also identify contracts that the AG has already identified as Irregular in the prior audits. If payments are still being made against these contracts, then the payments should be identified as irregular, IF you have confirmed the AG's conclusions are applicable to current year payments.

Reporting to Head Office

24. PLEASE RETURN your register of transactions tested in a given week to me (sharitha@papi.co.za) each Monday. Only transactions tested, and **not** previously sent to Head Office, must be sent. Please do this by copying and pasting the FULL row of your checklist into a new sheet. If you are sending an update on a previous transaction sent; please highlight these transactions in yellow.

25. Each Monday the Region will be required to provide feedback on the
    - The number of transactions tested for the week;
    - The Value of transactions tested for the week; and the
    - Percentage of the total Population that has been tested to date.

Recap of How to Proceed:

- ✓ Construct a database of all Tenders awarded / or use the database that the region has already prepared.
- ✓ Add a contract number to the BAS information provided; linking your register to transactions.
- ✓ Starting with the "Above R 500 000" checklist, work to identify a transgression in the process of awarding a tender. Should you conclude that the awarding process is Irregular, the Purchase Order and all of the related payments must be identified as Irregular Expenditure.

- ✓ If the Tender process is not irregular, then assess whether the individual payments have been approved by the delegated official for that payment category in order to identify any irregular payments.
- ✓ If you identify that the transaction has been populated in the incorrect checklist (with the incorrect threshold values) you will have to remove it (and all other transactions related to that contract) from the incorrect checklist and populate it in the correct checklist (with the correct threshold value).

NB The BAS control total for your regions total transactions must ALWAYS be maintained and checked – care must especially be taken when moving individual payments between checklists in order to ensure that the information and control totals remain correct.

- ✓ Assess whether you can use the results of the work done on Irregular Expenditure by the Regional Compliance Units.

Key tips on using the checklists and dataset:

- ✓ The "IEREFNO" field, appearing in the first column of each BAS transaction, has been inserted by the Head Office IE team to help track all transactions in the population that have been tested. Please **always include this reference** in the completed checklists and registers sent back to Head Office.
- ✓ The last 4 fields highlighted in yellow have been calculated by the Head Office team to assist you in easily identifying transactions and working in the correct value checklist ranges. In most cases the "ORDERRANGEKEY" will be used to identify the value checklist. The other 3 fields have been included for clarity and informational purposes, should you need them. The number keys represent the following transaction value ranges:
    - 0: Below R2 000
    - 1: Larger than or equal to R2 000 but below R10 000
    - 2: Larger than or equal to R10 000 but below R30 000
    - 3: Larger than or equal to R30 000 but below R500 000
    - 4: Equal or above R500 000
- ✓ The first few generic lines of the checklists have been locked in order to ensure all questions are adequately addressed for each transaction and for efficient compilation of the full IE, Fruitless and Wasteful, and Non-Compliance register.
- ✓ Locking the sheets results in users not being able to use the freeze pane view, therefore, please use the split window view for ease of use.
- ✓ Please complete all transaction details for the columns specified in the checklist, especially the "IEREFNO", tender number and contract number fields.
- ✓ Using regularly monitored control totals, please ensure that all data sent to your region is appropriately tested.

- ✓ Transaction details can be quickly populated in the checklists using excels VLOOKUP functionality, if you are having any trouble using the functionality please contact the Head Office team for assistance.
- ✓ The original dropdown boxes supplied should ALWAYS be used to answer questions in the checklist, when inserting rows for additional transactions and no dropdowns exist please copy and paste the full line of dropdowns from a transaction that has dropdowns.
- ✓ If there is no appropriate dropdown option; the drop downs are formatted to accept blank answers. Therefore, please delete the cell contents and write the details of your deviation from the dropdown options in the "General Comments" column. Please also clearly reference the cell location of the drop down you are referring to.
- ✓ When inserting lines: you may insert multiple lines by selecting multiple lines starting at the point you want to insert the lines, please only start inserting lines from the second line in the table recording your transactions, please add in the irregular expenditure automatic identifier in inserted lines using excels auto fill functionality.

ANNEXURE D: Provision for doubtful debts assessment criteria (Receivable)

All receivables that are classified as doubtful should have this form attached as reference of the procedures followed under section A and B for each single debtor.

Section A:

Do we have any supporting documents to substantiate the receivable/ claim? If there is no supporting documentation, then the receivable should be classified as doubtful and thus Section A should not be followed. However, the Heads of Finance and SCM should sign off that as evidence that such documents do not exist.

If supporting documents exist, complete Section B below.

Section B:

Debtor Name:

Amount outstanding: R

BAS, RENTAL, PRESTIGE DEBTORS , SUSPENSE ACCOUNTS	**Yes**	**No**
• The debtor has been informed about the outstanding debt		
• Regular follow-ups of the debt has been made		
• Statements, reminder letters and letters of demand have been sent to the debtor.		
• The case have been referred to Legal Services		
• If the debtor is not traceable, the case has been referred to the tracing agent (When economical)		
• The case is recommended for write-off		
If all of the above statements are "yes" the debt amount must be included in the provision for doubtfully debts "Provisions"		
Additional criteria or deviation from the above criteria must be motivated on the space provided below		
<u>Motivation for deviation on the standard criteria</u> .... **Compiled by:** **Verified by:**		