



# PROVINCIAL TREASURY

Provincial Government of the Western Cape

PROVINCIAL GOVERNMENT ACCOUNTING SERVICES

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**REFERENCE:** T7/2/1  
**ENQUIRIES:** HJ du Toit

## TREASURY CIRCULAR 36 OF 2010

### THE PREMIER

THE MINISTER OF AGRICULTURE AND RURAL DEVELOPMENT  
THE MINISTER OF COMMUNITY SAFETY  
THE MINISTER OF CULTURAL AFFAIRS AND SPORT  
THE MINISTER OF EDUCATION  
THE MINISTER OF FINANCE, ECONOMIC DEVELOPMENT AND TOURISM  
THE MINISTER OF HEALTH  
THE MINISTER OF HOUSING  
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING  
THE MINISTER OF SOCIAL DEVELOPMENT  
THE MINISTER OF TRANSPORT AND PUBLIC WORKS  
THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

For information

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THE SENIOR MANAGER: INTERNAL AUDIT: ECONOMIC CLUSTER (MR J RADEBE) ✓  
THE SENIOR MANAGER: BUDGET MANAGEMENT: PROVINCIAL GOVERNMENT (MS M SHERATON) ✓  
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THE HEAD: OFFICE OF THE MINISTRY (MS A SMIT) ✓

THE PROVINCIAL AUDITOR ✓

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT ✓

File - 23/09/2010

## **REQUEST FOR QUARTERLY REPORTING ON COMMITMENTS AND ACCRUALS**

### **PURPOSE**

1. To request Accounting Officers and Chief Financial Officers of departments to provide quarterly reporting on commitments and accruals according to the guidelines provided.

### **BACKGROUND**

2. In terms of section 38(1) of the PFMA, 1999 "the accounting officer of a department, trading entity or constitutional institution:-
  - (d) is responsible for the management, including the safeguarding and the maintenance of the assets, and for the management of the liabilities, of the department, trading entity or constitutional institution;
  - (f) must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period;
  - (g) on discovery of any unauthorized, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in case of irregular expenditure involving the procurement of goods and services, also to the relevant tender board."
3. The Departmental Financial Reporting Framework Guide, issued by the National Treasury: Office of the Accounting General requires departments to report on commitments and accruals in the Annual Financial Statements.
4. In terms of the aforementioned Financial Reporting Framework Guide, commitments and accruals entails the following:
  - 4.1 Commitments  
Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date. Through entering into a commitment, an institution commits a future outflow of resources that will be funded in current, as well as future reporting periods. Commitments are not recognized in the statement of

financial position as a liability or as expenditure in the statement of performance but are included in the disclosure notes.

Commitments are categorized as follows:

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.
- Items are classified as commitments where the department commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Material contracts entered into after the reporting date but prior to the approval of the financial statements must be disclosed under subsequent events in the report of the accounting officer.

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:

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

Calculation of commitments:

In calculating commitments the following should be taken into account pertaining to tenders awarded (Departmental Financial Reporting Framework Guide):

- the period of the tender awarded;
- amounts already paid pertaining to that tender/contract;
- amounts for which invoices have been received and which are therefore included in accruals should be deducted;
- commitments loaded on the procurement systems (such as LOGIS); and
- commitments not loaded on the procurement system.

#### 4.2 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 authorization for payment has not been effected on the system. Accurate information on commitments should form the basis for accurate reporting on accruals.

Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. 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 or goods received note. Accruals should be disclosed in the AFS as listed by economic classification as well as by programme level (Departmental Financial Reporting Framework Guide).

#### **MOTIVATION**

5. It is imperative that departments keep track of their commitments and accruals, in order to properly manage their budget. On the modified cash basis of accounting these amounts are not recognized in the financial reports and it is therefore necessary to perform manual calculations to determine the values thereof.

6. The Provincial Treasury will be reporting to Cabinet on commitments and accruals on a quarterly basis as part of reporting on the status of revenue and expenditure of Provincial departments.
7. In a survey it was established that certain Departments are not optimally utilizing the functionality on LOGIS and BAS to effectively manage commitments and accruals.
8. The quarterly reporting on accruals and commitments should contribute towards improving and maintaining the integrity of data during the financial year to effectively manage cashflow. To achieve this and in order to provide useable information throughout the year as well as to avert and reduce misstatements at year – end in the AFS submitted for auditing, it is important that accurate data be maintained.

#### **REQUIRED**

9. Departments are required to complete Annexure A pertaining to the remaining commitments for the current Year and Year 1 to Year 5, and Annexure B pertaining to accruals on a quarterly basis and submit to PT: Provincial Government Accounting Services by the 15<sup>th</sup> of the month following the end of the quarter.
10. The first report as at 30 September 2010 should be submitted before or on 20 October 2010.
11. CFOs and AOs are requested to approve the accrual and commitment reports before submission to PT: Provincial Government Accounting Services.

#### **RESPONSIBILITIES OF DEPARTMENTS**

12. Department should ensure the following:
  - Maintain a register of all contracts for goods and services, and payments made;
  - Ensure all costs are accrued and recognized in the proper accounting period;

- Develop accurate estimates of costs where goods and services are received before the invoice/billing;
- Ensure procedures are in place to record the receipt of services/supplies/equipment.
- Record accrued expenditure obligations and adjust the accrual and obligations when necessary;
- Record accrued expenditures denoting physical delivery, or constructive receipt of goods or other tangible property, upon delivery or receipt of the goods. Receiving reports are the most common documents you will use to record accrued expenditures; however, you may use other documents proving that work was performed, services rendered, or goods were received, in the same manner; and
- Note Annexure C, providing a generic framework to maintain a register of contracts to assist in the completion of Annexure A and B.

### COMMUNICATION

13. The following officials may be contacted for any enquiries on the compilation and submission of the reports on commitments and accruals:

Name	Entity
Yolanda Solomons Email: ysolomon@pgwc.gov.za Tel: 021 483 6415	Department of Public Works and Transport
Luthando Botshobana Email: <a href="mailto:lbotshob@pgwc.gov.za">lbotshob@pgwc.gov.za</a> Tel: 021 483 3884	Provincial Parliament Provincial Treasury Department of Cultural Affairs and Sports
Neil Schippers Email: Nschippe@pgwc.gov.za Tel: 021 483 8666	Department of Health

<p>Andrea Wolfaart  Email:  Awolfaar@pgwc.gov.za  Tel: 021 483 6289</p>	<p>Department of Social Development  Department of Agriculture  Department of Community Safety</p>
<p>Latimer Jeffery  Email: Ljeffery@pgwc.gov.za  Tel: 021 483 8621</p>	<p>Department of the Premier  Department of Local Government  Department of Human Settlements</p>
<p>Kwandisa Dinga  Email: Kdinga@pgwc.gov.za  Tel: 021 483 6802</p>	<p>Department of Environmental Affairs</p>
<p>Shaun Manuel  Email:  <u>Spmanuel@pgwc.gov.za</u>    Tel: 021 483 6600</p>	<p>Department of Education  Department of Economic Development  and Tourism</p>



**Mr TC Arendse**  
**Provincial Accountant-General**

**DATE:** 23/09/2010

**Annexure A: Commitments**

Department:

Quarter ended as at:

Description	Total commitments for the current year	Less Commitments settled	Remaining Commitments for current year	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Current expenditure: Approved and contracted</b>								
Goods and services								
Interest and rent on land								
Transfers and subsidies								
<b>Current expenditure: Approved but not yet contracted</b>								
Goods and services								
Interest and rent on land								
Transfers and subsidies								
<b>Sub - total</b>	0	0	0	0	0	0	0	0
<b>Capital expenditure: Approved and contracted</b>								
Buildings and other fixed structures								
Machinery and equipment								
Land and subsoil assets								
Investment property								
Biological assets								
Software and other intangible assets								
Transfers and subsidies								
Other								
<b>Capital expenditure: Approved but not yet contracted</b>								
Buildings and other fixed structures								
Machinery and equipment								
Land and subsoil assets								
Investment property								
Biological assets								
Software and other intangible assets								
Transfers and subsidies								
Other								
<b>Sub - total</b>	0	0	0	0	0	0	0	0
<b>Total</b>	0	0	0	0	0	0	0	0

Information verified to be an accurate and true reflection:

Chief Financial Officer:  
Date:

Accounting Officer:  
Date:







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