



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Accounting Manual for Departments

Provisions and Contingents

Chapter Content

1	Overview	4
2	Key Learning Objectives	4
3	Scope	5
4	Provisions and other liabilities	6
5	Provisions	9
5.1	Recording of provisions	9
5.1.1	Present obligation	9
5.1.2	Past event	9
5.1.3	Probable outflow of resources embodying economic benefits or service potential	10
5.2	Measurement of Provisions	11
5.2.1	Best estimate	11
5.2.2	Risks and uncertainties	12
5.2.3	Future events	13
5.2.4	Reimbursements	14
5.2.5	Changes in provisions	15
5.2.6	Use of provisions	15
5.3	Specific Types of Provisions	15
5.3.1	Capped leave (leave payable in the event of death, retirement and medical boarding)	15
5.3.2	Performance bonus	16
5.3.3	Long service awards	16
5.3.4	Retention	17
6	Contingent Liabilities	17
6.1	Specific Types of Contingent Liabilities	18
6.1.1	Guarantees	18
6.1.2	Claims against the department	18
6.1.3	Settlement using services in lieu of cash	18
7	Contingent Assets	19

8	Commitments	21
9	Disclosures	26
	9.1 Notes	26
10	Summary of Key Principles	28
	10.1 Identification and recording	28
	10.2 Measurement of provisions, contingent liabilities and contingent assets	28
	10.3 Specific issues	28
	ANNEXURE 1: Long service awards	30
	ANNEXURE 2: Applying provisions and contingents chapter in a principal-agent arrangement	35
	ANNEXURE 3: Reports pertaining to Payables, Accruals and Commitments	37





1 Overview

The purpose of this Chapter is to provide guidance on how to identify and provide information to be disclosed as secondary information in the notes to the financial statements about provisions, contingent liabilities, contingent assets and commitments.

The Office of the Accountant-General has compiled a Modified Cash Standard (MCS) and this manual serves as an application guide to the MCS which should be used by departments in the preparation of their financial statements.

Any reference to a "Chapter" in this document refers to the relevant chapter in the MCS and / or the corresponding chapter of the Accounting Manual.

Explanation of images used in the manual:

	Definition
	Take note
	Management process and decision making
	Example

2 Key Learning Objectives

- How to distinguish provisions from other liabilities, such as payables and accruals
- Understanding the relationship between provisions and contingent liabilities
- Understanding the criteria for recording accruals, provisions, contingent liabilities, contingent assets and commitments


- Understanding the disclosures required for accruals, provisions, contingent liabilities, contingent assets and commitments

3 Scope

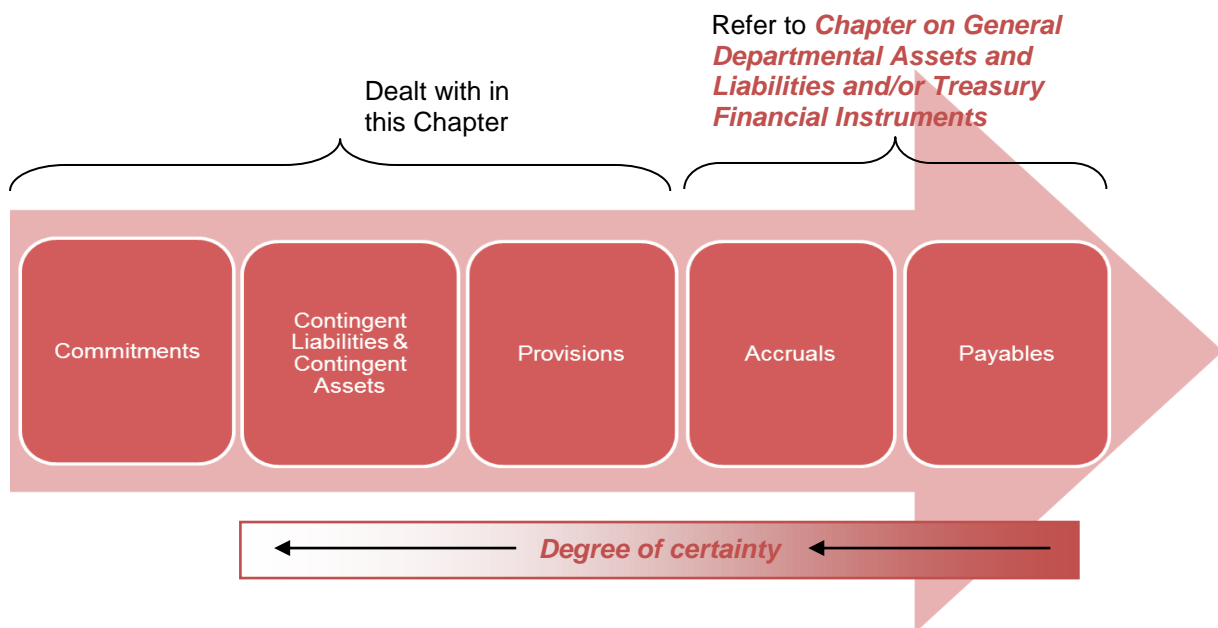
The Chapter on Provisions and Contingents in the MCS, and consequently this guide applies to all provisions, contingent liabilities and contingent assets applicable to a department.

Accordingly, the Chapter also applies to:

- ✓ certain executory contracts;
- ✓ certain employee benefits; and
- ✓ guarantees issued by government to employees and other departments or entities.

	<p>Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent (also known as a commitment).</p>
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A department typically has one or more types of liabilities. The figure below illustrates these and provides an indication of where guidance on accounting for these liabilities can be found:



Refer to the section on **Probable outflow of resources embodying economic benefits or service potential** for a discussion on the degree of certainty.

4 Provisions and other liabilities

	Location in AFS	Examples
Provisions	Secondary information (Note: Employees-related provisions are specifically covered as part of employee benefits note)	<ul style="list-style-type: none"> ✓ dilapidations payable at the end of an operating lease; ✓ payments for damages connected with legal cases that are probable; ✓ costs of cleaning up contaminated land and the department is legally obligated to do so;
Payables	Primary information	<ul style="list-style-type: none"> ✓ amounts due to parties on behalf of employees (such as UIF, medical schemes and pension funds, SARS etc); ✓ deposits such as for access cards, housing keys, rentals etc; ✓ bonds issued by the treasury; ✓ advances received;
	Secondary information	<ul style="list-style-type: none"> ✓ amounts due to suppliers for the delivery of goods and or capital assets, and invoice received; ✓ property rentals due and unpaid by 31 March;
Accruals	Secondary information (Note: Employees-related accruals are specifically covered as part of employee benefits note)	<ul style="list-style-type: none"> ✓ utility bills (e.g. water & electricity); ✓ inventory delivered without an invoice;
Contingent liability	Secondary information	<ul style="list-style-type: none"> ✓ guarantees issued by a government department;



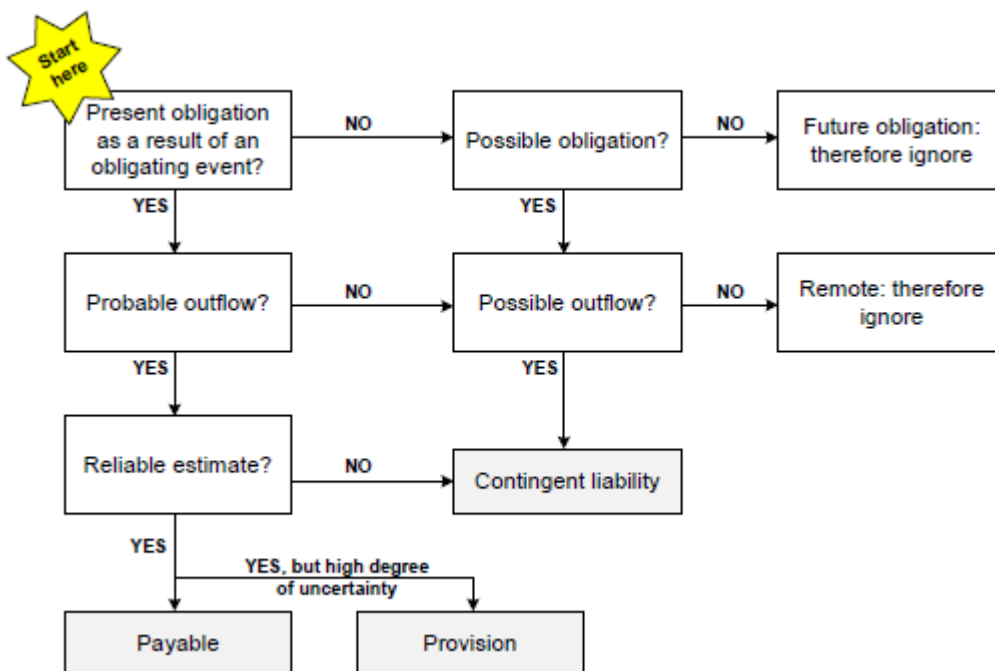
Example: Distinguishing between different liabilities and contingencies




Department ABC has the following transactions at year end (March) which the accountant is unsure as how they need to be treated:


- Monthly telephone contract at Telkom for R500 for which the March invoice was not yet received.
- An invoice for a new printer received in March of R2 000 which only needs to be settled at the end of the next month.
- A claim from an employee for breaking her arm while performing her work duties of R20 000.

	<ul style="list-style-type: none"> A performance bonus to be paid out to the HOD estimated to be R50 000. The assessment of the performance of the HOD has taken place in December. PAYE of R35 000 for the month of March which will only be paid over to SARS in April of the next financial year. <p>The liabilities will be treated as follows:</p> <ol style="list-style-type: none"> At year end the department has an obligation to pay the monthly telephone contract payment of R500 as the department already received the services from Telkom at year end. The R500 will therefore be recorded as an accrual. At year end the department has an obligation to pay for the printer as the department already received the printer, however payment only needs to be made after year end. The amount will therefore be recorded as a payable. At year end it is not yet probable whether the department would need to reimburse the employee for breaking her arm at work. The department has a possible obligation which will be confirmed after the lawsuit or claim has been finalised. This is therefore a contingent liability as the obligation is not probable at year end. The department will disclose a contingent liability of R20 000. The department has an obligation to pay the HOD a performance bonus if an assessment of the HOD's performance throughout the year was made and if the department has a practice of paying performance bonuses. If we assume above is true, the department has a liability to pay the amount at year end. The amount will therefore be recorded as an accrual. At year end the department has an obligation to pay the R35 000 over to SARS. The R35,000 will be recorded as a payable - the salary deduction control account was credited with the amount due via the monthly PERSAL interface.
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The following decision tree can be used to distinguish between a payable (or accrual), provision and a contingent liability:



	<p>Example: Provision versus contingent liability</p> <p>A supplier is suing Department ABC for breach of contract to the amount of R15 million. The year-end of the department is 31 March 20x2.</p> <p>The following two possibilities exist as at 31 March 20x2 in respect of the accounting treatment of the claim:</p> <p>Option 1: Provision</p> <p>Should the legal advisers of the department be of the opinion that the claim will be successful and the amount of R15 million (or any other amount estimated as reasonable by the legal advisers) represents a reasonable estimate of the amount to be paid, the department records (discloses) a provision for the reasonably estimated amount. A provision is defined as a liability of uncertain timing or amount. In this case uncertainty as to when the amount will be paid exists, but sufficient certainty exists about the fact that there is a liability as well as the approximate amount that would have to be paid.</p> <p>Option 2: Contingent liability</p> <p>If the legal advisers are of the opinion that it is merely possible that the claim may be successful, but not probable, the matter will be disclosed as a contingent liability. In terms of the definition of a contingent liability, the possible obligation arises from past events (alleged breach of contract) and the existence of an obligation will only be confirmed by the occurrence or non-occurrence of uncertain future events (outcome of claim).</p>
	<p>Third party confirmations required from State Attorneys</p> <p>As part of identifying possible provisions or contingencies, the department should obtained third party confirmations from state attorneys.</p>
	<p>The phrase “formally agreed with the supplier” included in the definition payables and accruals</p> <p>The term “formally agreed with suppliers” refers to instances where payment is not triggered by an invoice. Certain payments do not require any invoice to be produced before the department can raise a payable or an accrual; the contract is sufficient. Usually there would be a legitimate binding arrangement such as a contract that stipulates the amount payable and frequency of payment. For example, if legislation requires payment of a fee no invoice will be issued or if payment is required in terms of a lease agreement.</p> <p>Another example is payment for social benefits. Although there are processes to validate the recipient’s eligibility to social benefits, an invoice is not a requirement for the payment to be made. The amount payable would be based on the formal agreements for specified amounts.</p>


	<p>Payables recognised are only raised when cash has flown to create the payable. For example, amount received that gives rise to a clearing account and has not been cleared by year end. Payables not recognised comprise of amounts due to the suppliers for goods or services delivered where cash has not yet flown as a payment has not yet been made and an invoice was received by reporting date. For example, if one department provides a service to another department and no payment has been made as yet.</p>
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5 Provisions

5.1 Recording of provisions

For the purposes of disclosure only, a provision is recorded when **all of the following** criteria are met:

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

	<p>Remember that the terms 'allowance for impairment', 'provision for bad/doubtful debts', 'provision for impairment of assets', and any other similar 'provisions' are not actual provisions as meant in this section.</p> <p>For instance 'allowance for impairment' is actually an impairment of debtors and is accounted for in accordance with the Chapter on General Departmental Assets and Liabilities.</p>
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5.1.1 Present obligation


A present obligation is an existing duty or responsibility to perform. In some cases it may not be clear if a present obligation exists. In such cases it should be determined if there was a past event giving rise to a present obligation. This is discussed in more detail in the following section.

In certain situations the existence of a past event might be disputed (for example in a court case there might be a dispute over the occurrence or non-occurrence of a past event), which may cast doubt on the existence of a present obligation. All available evidence must be considered in the evaluation of the existence of a present obligation and this includes evidence provided by events after the reporting date.


5.1.2 Past event

A past event that leads to a present obligation is called an obligating event. This is an event that creates a legal or constructive obligation that results in a department having no realistic alternative to settling the obligation.

The question one can consider to determine if an obligating event exists is: Is it possible for the department to walk away from the situation? If the answer is yes, then no present obligation exists.

	<p>An obligating event can occur in either of the following instances:</p> <ul style="list-style-type: none"> • Legal obligation - arises when the settlement of the obligation can be enforced by law. For example: Departments have a legal obligation to pay PAYE over to the South African Receiver Service (SARS). That obligation exists in terms of the Income Tax Act. Obligations can also arise in terms of a contract, for example an employment contract. • Constructive obligation - arises where past practices creates a valid expectation on the part of a third party and the department may have no realistic alternative but to incur the expense. For example: Department A does not have a contract in place that states that employees are entitled to a bonus (in the form of a 13th cheque), however it has been the Department's practice for the last few years to pay a 13th cheque to employees in December. Department A has a constructive obligation to pay bonuses that was created due to its past practices.
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Financial statements are a snapshot of the financial position of a department on a specific date and not its possible position in the future. Thus, provisions should not include costs to be incurred to continue a department's ongoing activities in the future.

	<p>Example: Past event versus ongoing activities</p> <ol style="list-style-type: none"> 1. A department is required by law to rehabilitate landfill sites. The department has a legal obligation to rehabilitate, thus a provision should be recorded. 2. Because of legal requirements (for example safety laws) a government department needs to carry out expenditure to ensure that its laboratory will operate within the safety laws in the future. To ensure compliance, the department decides to install extractor fans in its laboratory to protect employees from chemical fumes. <p>No obligating event occurred. The department can avoid this specific expenditure of installing extractor fans by their future actions, for example, by changing their operating methods or by incurring a different expense, thus it has no present obligation for this future expense and no provision should be recorded. In the event that the department does not comply with the legal requirements, an obligation can possibly be recorded for the payment of fines and penalties if the criteria are met.</p>
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An obligation always involves another party to whom the obligation is owed. It is not necessary to know the identity of the other party. A decision by management will not give rise to a constructive obligation, unless the decision is communicated sufficiently to those affected before the reporting date in such a way that it raises a constructive obligation, i.e. the department would have no realistic alternative but to go through with it.

5.1.3 Probable outflow of resources embodying economic benefits or service potential

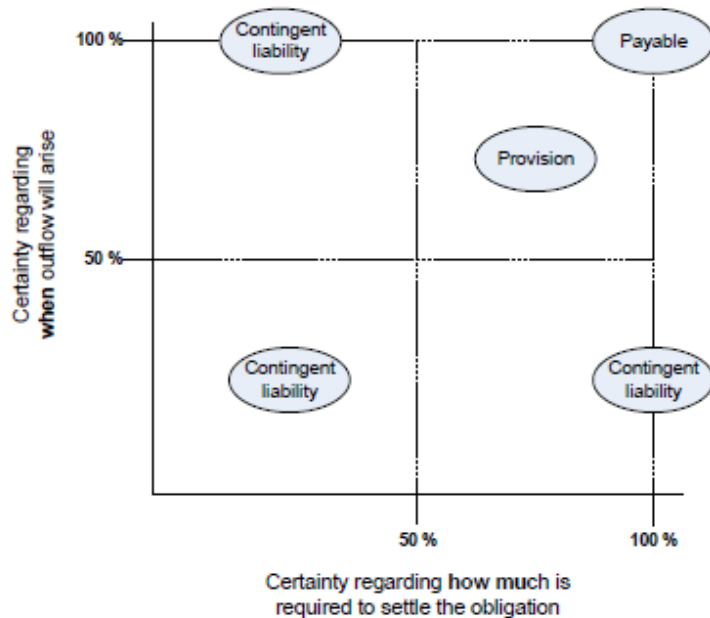
A third characteristic of a liability, is the probability of an outflow of economic benefits or service potential. A liability arises when the department has little or no alternative to avoid an outflow of economic benefits and service potential.

The outflow of resources is recorded as a provision, depending on the uncertainty involved with regards to timing or amount, in the year in which the outflow becomes probable.

The term "probable" is interpreted as an outflow of economic benefits or service potential being "more likely than not" to occur, that is, the probability that the event will occur is greater than the probability that it will not.

It can thus be inferred that if the likelihood of an outflow is 50% or less then the obligation is only “possible”.

Where it is not likely that a present obligation exists, a contingent liability may have to be recorded (disclosed).



Example: Probable outflow

Management is planning a maintenance program at four of its infrastructure plants in two years' time. The anticipated cost is R250 000. Planning for future expenditure does not establish an obligating event. The intention to incur future maintenance costs does not create a constructive obligation or a legal obligation and no liability (accrual or provision) should be recorded.

Only once the maintenance plan has been implemented and costs have been incurred should an expense be recognised for the cost already incurred in the statement of financial performance and a liability (accrual or payable) recorded for the costs not yet paid in the notes.

5.2 Measurement of Provisions

5.2.1 Best estimate



The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date.

The time value of money is ignored where the obligation will be settled sometime after the reporting date.

The best estimate is normally the amount that the department would rationally pay to settle the obligation or to transfer it to a third party at reporting date. These estimates are based on judgements

by management and these judgements are supported by experience of similar transactions and, in some cases, reports from independent experts. Any events after reporting date should also be considered and included.

Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, for example:

- where there is a continuous range possible outcomes, and each point in that range is as likely as the other, then the midpoint of the range is used; alternatively
- where the provision measured involves a large population, the obligation is estimated by weighting all possible outcomes by the associated probabilities. This statistical method of estimation is referred to as the 'expected value'; and
- for a single item, the most likely outcome is the best estimate.



Example: Range of possible outcomes

A department is currently in litigation for allegedly breaching a contract with a private company. The department is being sued for R1 million for loss in income. State Attorneys assessed the possible outcomes of the case as follows:

- 5% that the lawsuit will fail;
- 10% that an amount of R200 000 will have to be paid;
- 20% that an amount of R500 000 will have to be paid;
- 30% that an amount of R700 000 will have to be paid; and
- 35% that an amount of R1 million will have to be paid.

The MCS states that a department can use a range of possible outcomes, if it is reliable, as the value of the provision to be recorded.


The department will record the most likely outcome based on a range of possible outcomes (determined by the State Attorneys) calculated as follows:


	R
5% x 0	-
10% x R200,000	20 000
20% x R500,000	100 000
30% x R700,000	210 000
35% x R1 million	<u>350 000</u>
Expected value	<u>680 000</u>

Therefore the department will not record the full R1 million, but only the expected value of R680 000. Note that this amount can or will change over time depending on the possible outcomes changing due to new information or events that come to light subsequently.

5.2.2 Risks and uncertainties


Provisions are always measured under conditions of uncertainty. The risks and uncertainties that inevitably surround many events and circumstances should be taken into account in reaching the best estimate of a provision. The department should therefore take into account all the possible outcomes. A risk adjustment may increase the amount at which a liability is measured.

	<p>The department should take caution when making judgements under conditions of uncertainty, so that the amounts disclosed are not understated. However, uncertainty does not justify the creation of excessive provisions.</p> <p>It is therefore best that the department takes into account prior knowledge or perform research as to what the possible outcomes in similar situations are before concluding on the amount for the provision.</p>
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	<p>Taking into account risks and uncertainties in measuring a provision</p> <p>During the month of May 20x3, Department ABC is finalising the financial statements for the year ending 31 March 20x3. The performance bonus for the 2012/2013 financial year is however not yet finalised and a number of performance assessments are still taking place. The department is unsure as to the amount that it should include in the financial statements for the performance bonus provision.</p> <p>Based on prior knowledge of the Director: Finance and experience of the prior financial years, 94% of the employees are employed for more than 12 months at the department and will therefore be eligible for performance bonuses. The HR records also supports this assumption. Further records and experience indicated that normally only 79% of the employees achieve all their performance indicators.</p> <p>Should all the employees in service of the department as at 31 March 20x3 get a performance bonus, the total performance bonus will be R2,550,000.</p> <p>The department calculates the amount for the provision as follows:</p> <p>Achieving their performance indicators: $R2\ 550\ 000 \times 79\% = R2\ 014\ 500$</p> <p>Employees in service for more than 12 months: $R2\ 014\ 500 \times 94\% = R1\ 893\ 630$</p> <p>An amount of R1 893 630 is therefore disclosed as a provision for the performance bonus in the notes to the financial statements.</p> <p>Note that the department would have overstated the provision if it disclosed an amount of R2 550 000. By calculating the performance bonus provision based on prior years' experience, it took all the risks and uncertainties into account without overstating the provision.</p>
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5.2.3 Future events

Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

	<p>Future events</p> <p>The Department ABC believes that the cost of cleaning up the tar, ash and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology.</p> <p>The amount disclosed reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up.</p> <p>However, the department does not anticipate the development of completely new technology for cleaning up unless it is supported by sufficient objective evidence.</p>
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Note that the possible effect of possible new legislation or a change in legislation should only be taken into consideration where sufficient objective evidence exists that the legislation is virtually certain to be enacted.

5.2.4 Reimbursements

It sometimes happens that when a provision is settled that some or all of the expenditure is to be reimbursed by a third party. The reimbursement should only be recorded when it is virtually certain that the reimbursement will be received. This reimbursement may not be netted off against the provision, but should be disclosed separately in the provisions note because the department will remain liable for the full amount should the third party fail to reimburse the department. The amount recorded for the reimbursements may not exceed the amount of the provision.

Once recognised in the statement of financial performance the expense relating to the provision may be presented net of the amount recognised as a reimbursement.

Should it happen that the department will not be liable for the cost if the third party fails to pay, then neither the provision nor the reimbursement should be recorded by the department in respect of those costs.



Reimbursements

The department has a legal obligation of R100 000 to pay for damages caused as a result of a motor vehicle accident involving an employee in a government owned vehicle. The department will be able to recover 80% from its insurance. The reporting date is 31 March 20x0.

The department should record a provision for R100 000 as they have a present obligation as a result of a past event. Should the department be virtually certain that they can recover the 80% from insurance, then a reimbursement should be recorded for R80 000 (R100 000 x 80%).

The disclosure would be as follows:

Extract from <i>Notes to the financial statements</i>		20x1
Provisions		R
Opening balance		-
Increase in provision		100 000
Payments made during the year		-
Unused amount reversed		-
Reimbursement expected from third party		(80 000)
Closing balance		20 000

If the department is not virtually certain that they will receive R80 000 from insurance, but it is probable, then a contingent asset should be disclosed and not a reimbursement.

5.2.5 Changes in provisions

Provisions should be reviewed at each reporting date and be adjusted to reflect the current best estimate. Should it happen that an outflow of resources or service potential is no longer probable, the provision should be reversed.

5.2.6 Use of provisions

A provision should be used only for expenditures for which the provision was originally disclosed.

Any unused amounts should be reversed and not be utilised for other purposes. Setting off expenditure against a provision that was originally recorded for another purpose would conceal the impact of two different events.



Change in and use of provisions

Department ABC breached an environmental law in the 20x1 financial year and knows that it is probable that the department would have to pay a fine of approximately R600 000. In the 20x2 financial year the department received the fine and the actual amount was only R520 000.

The provision will be treated as follows:

20x1 financial year	
Provision – disclosed	R600 000
20x2 financial year	
Expenditure: Fines – paid and recognised	R520 000

Extract from *Notes to the financial statements*

20x1

Provisions	R
Opening balance	600,000
Increase in provision	-
Payments made during the year	(520 000)
Unused amount reversed	(80 000)
Closing balance	-

Take note that the expenditure which was recognised in 20x2 relates to the fine which is the same as what the provision relates to. The unused amount of R80 000 (i.e. the difference between the provision and the actual expense) was reversed and not used for any other purpose.


5.3 Specific Types of Provisions

5.3.1 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 guide *Determination on Leave of Absence in the Public Service*, 2008.

Departments must ensure that amounts accrued up to end of March of the financial year are taken into account in calculating leave entitlement.

	<p>Leave with negative balances</p> <p>If there are any negative leave balances, an additional descriptive note should be added to the employee benefits note stating the nature and total amount of the negative leave as at year-end.</p>
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5.3.2 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).

In the public sector a performance bonus is granted to an employee in recognition of sustained performance that is significantly above expectations and is rated as such in terms of the rating scale established by the DPSA.

A performance bonus, specifically for senior managers, is not guaranteed and as mentioned above is based on the achievements of the individual against the targets set out in his/her performance agreement. It can be said that if the payment of bonuses is purely based on performance then there is no legal obligation on a department to make such payments. However a constructive obligation is created through the assessment of employees' performance throughout the year and the fact that the department has a practice of paying performance bonuses.

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

- 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);
- Percentage of the compensation of employees budget as specified by the law; or
- past practices or payments made.

5.3.3 Long service awards

Long service amount payable in future years meets the provision definition. The cash awards may be revised from time to time. For example the following indicates an extract of a previous approval:

The Public Service Co-ordinating Bargaining Council (PSCBC) issued Resolution 1 of 2012 titled "Agreement on salary adjustments and improvements on conditions of service in the public sector for the period 2012/13 – 2014/15". The effective date of the Long Service Recognition is 31 July 2012. The Resolution was clarified by a letter from the Director-General (DG) of the Department of Public Service Administration (DPSA).

Long service recognition is as follows:

- All employees with 10 or more years of continued service will qualify for 30 working days leave and a certificate
- 20 years continued service- a cash award of R7,500 (R7,920 according to the DG of DPSA letter) plus a certificate
- 30 years continued service- a cash award of R15,000 (R15,840 according to the DG of DPSA letter) plus a certificate
- 40 years continued service- a cash award of R20,000 (R21,120 according to the DG of DPSA letter) plus a certificate

The department is required to determine the cash award by determining the cash awards due to employees in the ensuing financial year. Should the department be unable to extract such reports, a

past trend can be used to estimate the ensuing financial year's long service awards amount. The process should be summarised in the narrative.

The requirement to reflect long service awards as a provision was specified in the year ending 31 March 2015. For the financial years after 2014/15 there will be comparative information. However, at this stage departments are not able to reliably measure the long term portion of the long service awards. This should be specified in the Employee Benefits note where long service awards should be disclosed.

Annexure 1: shows how the reports that will assist to determine the long service amount can be extracted from the system.

5.3.4 Retention


Retentions are amounts of progress billings not paid until satisfaction of conditions specified in the contract, for examples until defects are rectified. The department will need to assess the probability of paying out the amount to determine the appropriate accounting treatment. Usually retentions are liabilities of uncertain timing or amount thus they meet the definition of a provision. Once all the conditions specified in the contract have been satisfied, the department will record the payment as capital expenditure in the statement of financial performance. As a result, the department should only add the retention on capital works to the cost of the asset when the retention money is paid by the department.

6 Contingent Liabilities

A contingent liability may arise from unexpected events that are not in the control of the department.

The amount disclosed as a contingent liability should be measured in the same manner as any provision i.e. the best estimate of expenditure required to settle the obligation (refer to the section on **Measurement of Provisions**). For example, any legal fees that may be incurred in a court case would be included in the estimate of the costs of the contingent liability. However where these fees cannot be reliably estimated the fact should be disclosed indicating the extent to which such costs are included in the amount disclosed.

Contingent liabilities should be reviewed continuously to determine if the outflow of resources has become probable.

	<p>Example: Change in the probability of the outflow of resources</p> <p>Department ABC terminated the employment of one of its employees. A few months after the termination the employee sued Department ABC for unfair dismissal.</p> <p>At reporting date, 31 March 20x2, the attorneys of Department ABC advised that the department will probably not be held liable.</p> <p>There were some developments in the case and by the next financial year end the attorneys advised the department that they will probably be found liable.</p> <p>Accounting treatment at 31 March 20x2</p> <p>It is not probable that the department will be liable thus no provision will be recorded, however there is a possible obligation due to a past event (dismissal) that will only be confirmed by the occurrence or non-occurrence of an uncertain future event (outcome of the court case). Hence the department has to disclose a contingent liability at 31 March 20x2.</p> <p>Accounting treatment at 31 March 20x3</p> <p>At this financial year end it is probable that the department will be liable and therefore a provision is recorded. The provision will be measured as the best estimate of the</p>
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	<p>amount required to settle the obligation.</p> <p>Note that the provision recorded at 31 March 20x3 will not be disclosed for the comparative year as well since conditions changed in the current financial year.</p>
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For the purposes of recording contingencies, a department should maintain a contingencies register that will enable it to implement proper internal control and to ensure that the disclosure requirements of the MCS are adhered to.

6.1 Specific Types of Contingent Liabilities

6.1.1 Guarantees

A department may issue guarantees on behalf of employees. These are classified as contingent liabilities.

The most common guarantees issued by departments are:

- Motor vehicle guarantees; 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 practice note (refer to Practice Note 4 of 2004/05). This practice note 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 the annexures to the financial statements.

6.1.2 Claims against the department

A department should, as part of the contingent liabilities note, disclose the estimated settlement value of claims instituted against the department as at year end.

The claim will only be settled when either the court decides that the department is liable or the department accepts the liability, both of which are unknown.

Civil claims against the state (department / province) that have not been settled (by a court order or mutually between the parties) must be included in contingent liabilities. Certain types of claims are normally overstated. The amount disclosed is not necessarily the claim amount, but rather the amount determined as the most likely amount that the court will settle on. The "most likely" outcome of the settlement must be determined by a qualified legal person (such as the State Attorney or a department's internal legal services). Departmental / provincial history can also assist in determining such an estimate. The department should have processes in place that corroborate how the "most likely" outcome is determined and how the "most likely amount" is arrived at.

6.1.3 Settlement using services in lieu of cash

There may be instances where a settlement requires that a debt be extinguished using goods or services in lieu of cash. The following example shows how this should be accounted for.



Example: Debt only recoverable in the subsequent financial year using services in lieu of cash as per court ruling

Department A prepaid a service provider R100 000 in Year 1 as required by the contract. At the end of Year 1, Department A had discovered an amount that it believed the service provider owed. However the service provider want this matter to go to court for a ruling. In Year 2, a court ruling determined that a service provider owes Department A R100 000. The service provider will provide services to the value of the amount owed to Department A in line with the court ruling.

The accounting entries will be as follows:

Year 1	Debit	Credit
	R	R
Expenditure	100 000	
PMG Account (Bank)		100 000
Expenditure recognised when payment is made for service. (Prepayment expensed)		

Year 1	Debit	Credit
	R	R
Debt Account	100 000	
Expenditure		100 000
Services to be recovered from service provider		

Year 2	Debit	Credit
	R	R
Relevant Expenditure	100 000	
Debt Account		100 000
Derecognising the debt extinguished using services (

If the department received a capital asset in lieu of cash, the department should add it to the asset register.

7 Contingent Assets

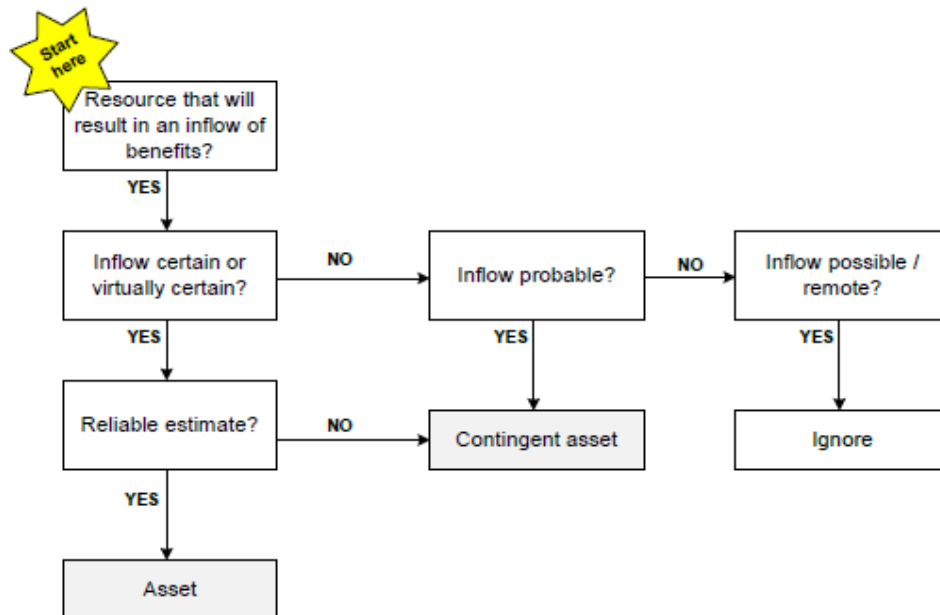


A **contingent asset** is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department.


A contingent asset arises from unplanned or unexpected events and is normally not under the control of the department.

The department should record a contingent asset where an inflow of economic benefits or service is probable. The amount disclosed as a contingent asset should be measured in the same manner as any provision i.e. the best estimate of the potential financial effect for the department (refer to the section on **Measurement of Provisions**).

The following decision tree can be used to distinguish between an asset (receivable) and a contingent asset:



Contingent assets should also be assessed on a continuous basis and should an inflow of resources become virtually certain then the related asset should be recorded as a receivable for departmental revenue in the notes.


	<p>Example: Contingent asset</p> <p>Department ABC instituted an action against CTV on 31 January 20x2 for breach of copyright. The court case is currently in progress, and Department ABC's lawyers advised them that it is probable that the court will award an amount of R750 000. CTV is a financially sound entity and will be able to pay the R750 000.</p> <p>At year end, 31 March 20x2, Department ABC will disclose a contingent asset. There is a probable asset (the claimed amount) that arose from a past event (breach of copyright) and whose existence will only be confirmed by the occurrence or non-occurrence of an uncertain future event (outcome of the court case).</p>
---	---


As defined, a contingent asset is a possible asset, the realisation of which will only be determined in future by an event outside the department's control. Where the department cannot estimate the amount that may fall due, it need only disclose the facts and circumstances that lead to management's assessment that it has a contingent asset.

8 Commitments

Items are classified as commitments where the department commits itself to future transactions that will normally result in the outflow of resources. **With tenders, a commitment exists when the award has been formally communicated to the service provider that won the tender since a legitimate expectation of appointment has been created at year end.**

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the notes to the financial statements.

	<p>It is important to note that these disclosures are required in respect of unrecognised contractual commitments. Therefore, if an obligation or expenditure has been recognised in the financial statements, or an accrual, payable or provision has been recorded in the notes to the financial statements, a commitment will not be disclosed (to the extent that it has already been recognised or recorded elsewhere).</p>
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	<p>Example: Accrual vs. commitment</p> <p>Accrual: Department X received goods before 31 March, but only received and paid the invoice after 31 March.</p> <p>Commitment: Department issued an order before 31 March for goods to be delivered, but the goods were not received or paid before 31 March.</p> <p>Payable not recognised: Department X received an invoice in March for services rendered to the department in March, but only paid the invoice after 31 March.</p> <p>Commitment: A contract was awarded before 31 March to a supplier for the rendering of services to the Department in the following financial year.</p> <p>Commitment: Tender was awarded before 31 March to a supplier for the rendering of services to the Department in the following financial year, but no contract was signed yet. Since a legitimate expectation of appointment has been created at year end, a commitment should be disclosed.</p>
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For the purposes of recording commitments, a department should maintain a commitment register that will enable it to implement proper internal control and to ensure that the disclosure requirements of the MCS are adhered to.

General disclosure required for commitments

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


- Contracts should be non-cancellable or only cancellable at significant cost to the department (for example, contracts for computer or building maintenance services); and
- Contracts pertaining to goods and services, including capital assets irrespective of their routine (administrative) nature. Salary recurring commitments relating to employment contracts or social security benefit commitments and transfer and subsidies commitments are excluded.


	<p>Routine commitments</p> <p>Prior to the 2015/16 financial year, departments were not required to disclose contracted commitments of a routine nature. From 2015/16 onwards departments are required to disclose all current and capital contracted commitments irrespective of the routine nature. This will promote consistency and comparability. This is not a prior period error.</p>
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	<p>Example: Non-cancellable contracts or only cancellable at a significant cost</p> <p>As specified above one of the criterion for disclosing contracted commitments is that the contract should either be non-cancellable or only cancellable at significant cost to the department. Non-cancellable contracts are those whose terms specify that may not be rescinded for any reason. Some contracts are cancellable at a significant costs. An example of cost that can be incurred for cancelling a contract is a penalty.</p> <p>For example a department leases an asset for 3 years. The terms of the contract specify that should the department rescind the contract during the 3 year period, it will be liable for payment of the remainder of the lease term. If the department does not honour the contract it may be sued. Financial and non-financial losses, such as reputational damage, are highly likely and severe.</p>
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The following, as a minimum, should be disclosed in the notes to the financial statements for commitments:


- Distinction should be made between operational and capital commitments;
- The aggregate amount of operational and capital expenditure contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements; and
- If a commitment is for a period longer than a year, it should be stated in the note.

	<p>The total outstanding contract value is disclosed in the notes to the annual financial statements. If there is a variation order, the amount thereof is added to the total disclosed in the annual financial statements.</p> <p>The note excludes amounts provided for in the budget of the department unless these amounts are contractually committed at the reporting date.</p>
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	<p>Ensure there is no duplication of commitments, for example under leases it is required to disclose the future minimum lease payments (i.e. lease commitments) which are already disclosed elsewhere in the financial statements. Refer to the Chapter on Leases for detail.</p>
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Departments must categorise and disclose commitments into the following:

- ✓ Approved and contracted (i.e. unrecorded expenditure approved and contracted for before / at the reporting date); and
- ✓ Approved and not yet contracted (i.e. unrecorded expenditure approved but not yet contracted for at reporting date).

	<p>Example: Expenditure approved and contracted for before reporting date</p>
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	<p>No goods and service delivered at reporting date</p> <p>During the financial period Department A awarded a tender and signed a contract with Company ABC for the erection of an office building. The tender to the value of R15,000,000 is a 18-month project. At reporting date Company construction has not yet begun.</p> <p>The disclosure in the financial statements of Department A would be as follows:</p>																					
	<table><tr><th>Extract from <i>Notes to the financial statements</i></th><th>20x1</th><th>20x0</th></tr><tr><td>1. Commitments</td><td></td><td></td></tr><tr><td>Capital expenditure</td><td></td><td></td></tr><tr><td>Approved and contracted: Property, plant and equipment</td><td>15 000 000</td><td>-</td></tr><tr><td><i>The department entered into an 18-month contract for the construction of an office building.</i></td><td></td><td></td></tr><tr><td>Approved but not yet contracted</td><td>-</td><td>-</td></tr><tr><td>Total commitments</td><td>15 000 000</td><td>-</td></tr></table>	Extract from <i>Notes to the financial statements</i>	20x1	20x0	1. Commitments			Capital expenditure			Approved and contracted: Property, plant and equipment	15 000 000	-	<i>The department entered into an 18-month contract for the construction of an office building.</i>			Approved but not yet contracted	-	-	Total commitments	15 000 000	-
Extract from <i>Notes to the financial statements</i>	20x1	20x0																				
1. Commitments																						
Capital expenditure																						
Approved and contracted: Property, plant and equipment	15 000 000	-																				
<i>The department entered into an 18-month contract for the construction of an office building.</i>																						
Approved but not yet contracted	-	-																				
Total commitments	15 000 000	-																				
	<p>Portion of contract fulfilled at reporting date</p> <p>Assume the same information as above, but at reporting date, Company ABC has already invoiced Department A for an amount of R1 000 000 for progress certificate 1.</p> <p>If Department A has not yet paid the R1 000 000, then payables not recognised would be recorded at reporting date. The disclosure for the capital commitment would be only the portion of the contract not yet received at year end:</p>																					
	<table><tr><th>Extract from <i>Notes to the financial statements</i></th><th>20x1</th><th>20x0</th></tr><tr><td>1. Commitments</td><td></td><td></td></tr><tr><td>Capital expenditure</td><td></td><td></td></tr><tr><td>Approved and contracted: Property, plant and equipment (R15 mil - R1 mil)</td><td>14 000 000</td><td>-</td></tr><tr><td><i>The department entered into an 18-month contract for the construction of an office building for R15 million of which R1 million has been recorded as payables not recognised.</i></td><td></td><td></td></tr><tr><td>Approved not yet contracted</td><td>-</td><td>-</td></tr><tr><td>Total commitments</td><td>14 000 000</td><td>-</td></tr></table>	Extract from <i>Notes to the financial statements</i>	20x1	20x0	1. Commitments			Capital expenditure			Approved and contracted: Property, plant and equipment (R15 mil - R1 mil)	14 000 000	-	<i>The department entered into an 18-month contract for the construction of an office building for R15 million of which R1 million has been recorded as payables not recognised.</i>			Approved not yet contracted	-	-	Total commitments	14 000 000	-
Extract from <i>Notes to the financial statements</i>	20x1	20x0																				
1. Commitments																						
Capital expenditure																						
Approved and contracted: Property, plant and equipment (R15 mil - R1 mil)	14 000 000	-																				
<i>The department entered into an 18-month contract for the construction of an office building for R15 million of which R1 million has been recorded as payables not recognised.</i>																						
Approved not yet contracted	-	-																				
Total commitments	14 000 000	-																				

As illustrated above, the commitment disclosed is only the portion of the commitment that has not been received and not yet recorded in the financial statements as an accrual or payable.

	<p>The treatment of quotations</p> <p>No commitment is entered into when quotations are requested and therefore a quotation will <u>not</u> lead to the disclosure of a commitment. The expense will only be considered to be contracted for when an order is issued (see below). Only once the order has been issued will a commitment be disclosed:</p> <ul style="list-style-type: none"> For the full order amount when the order has been issued, but the goods or
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	<p>services have not yet been delivered at reporting date; and</p> <ul style="list-style-type: none"> For the portion of services or goods not yet delivered at reporting date, when an order has been issued and only a portion of the services or goods have been delivered at reporting date.
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Expenditure approved but not yet contracted is one where a service provider has been appointed and this has been communicated with the service provider, for example by way of an award letter, but a contract has not yet been signed with the service provider and the department.


Example: Expenditure approved but not yet contracted for at reporting date


During the financial period, Department A has advertised a tender for the erection of an office building. At reporting date a supplier has been approved by the accounting officer, and this has been communicated with the supplier, but a contract has not been signed with the supplier. The tender amount of the approved supplier is R15 500 000 and the project is expected to be for a 20-month period. The disclosure in the financial statements of Department A would be as follows:


Extract from <i>Notes to the financial statements</i>	20x1	20x0
1. Commitments		
Capital expenditure		
Approved and contracted	-	-
Approved but not yet contracted: Property, plant and equipment	15 500 000	-
Total commitments	15 500 000	-

No additional disclosure is required.

The third type of unrecorded expenditure is those approved after reporting date. It is where the process started before reporting date, but the expense was only approved after reporting date. These expenses should not be disclosed as commitments at reporting date, however if there were material contracts entered into after reporting date, but before approval of the financial statements, then they should be considered in accordance with the **Chapter on Events After the Reporting Date** as non-adjusting events and disclosed accordingly.

	<p>Example: Expenditure approved after reporting date</p> <p>Discussions to buy a new laboratory has started long before the end of the reporting period, but only after the reporting date (but before the approval of the financial statements), was approval given to buy the laboratory to the value of R7 000 000.</p> <p>Because the expenditure was not approved before the reporting date, it cannot be disclosed as a commitment even if discussions started during the reporting period.</p> <p>This transaction is an event after reporting date because it occurred after the reporting date, but before the date of approval of the financial statements. The department should consider the requirements of the Chapter on Events After the Reporting Date for disclosure purposes.</p>
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	<p>Example: Distinguishing between approved and contracted and approved and not yet contracted commitments</p> <p>The normal sequence of events in a procurement process is as follows (on a high level):</p> <ol style="list-style-type: none"> 1. Department identifies a need and determines the specifications. 2. Department advertises and invites prospective suppliers to submit a tender. 3. Department evaluates all tenders received and chooses the winning bidder. 4. Department informs the winning bidder of their success. 5. Department enters into an agreement with winning bidder that specifies what is to be delivered, when and at what price, etc. 6. Goods / services are delivered to the department. 7. Department pays for the goods / services. <p>If you look at the steps above, a commitment exists only from step 4 onwards as there is no commitment before the department has informed the winning bidder of its successful bid.</p> <p>To distinguish between the categories:</p> <ul style="list-style-type: none"> - <i>“approved and not yet contracted”</i> would be at step 4. - <i>“approved and contracted”</i> would be step 5.
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	<p>Commitments involving leases</p> <p>There may be instances where one department enters into leases on behalf another department.</p> <p>The contracting department must record the arrangement either as a lessee or a lessor.</p> <p>For example, assume there is a contract between Department A and Department B. Department B requires that Department A sources accommodation for Department B. Department A enters into a contract with Service Provider Z to lease a building on behalf of Department B. Department B is required to pay Department A for accommodation and Department A pays Service Provider Z for Department B's accommodation and claims the accommodation costs incurred from Department B.</p> <p>In the MCS, a commitment is defined as contractual arrangement that binds the department to incur future expenditure based on items that are still to be received.</p> <p>Department A has a contract with Service Provider Z. However they will not incur expenditure as costs incurred are recovered from Department B.</p> <p>Department B will record the commitment for future expenditure in line with the arrangement with Department A.</p>
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9 Disclosures

9.1 Notes

Contingent liabilities, contingent assets, commitments and provisions are recorded in the notes to the financial

statements.

Contingent liabilities

For contingent liabilities the department should also complete Annexures to the financial statements which require more details to be provided on each line item.

Claims against the department that have **not been settled** (by a court order or mutually between the parties) must be recorded here.

Disclosure of this contingent liability is aimed at departments that have the responsibility to restore the environment back to its original state after it has completed its activities at the specific location. This will also include statutory or other liabilities against departments for environmental degradation.

Also refer to the National Environmental Management Act, No. 107 of 1998.

In extremely rare cases, disclosure of some or all of the information required can be expected to prejudice seriously the position of the department in a dispute with other parties. In such cases, the department need not disclose the information in detail, but should disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

10 Summary of Key Principles

This chapter provides guidance on how to identify and provide information to be disclosed in the notes to the financial statements about accruals, provisions, contingent liabilities, contingent assets and commitments.

10.1 Identification and recording

Provisions	Accruals
<p>A department records a provision when the following conditions exist:</p> <ul style="list-style-type: none"> • Present obligation; • Legal or constructive obligation; • Result of past event; • Probable outflow of economic benefits or service potential; • Reliable estimate of outflow; and • Uncertain timing exists. 	<p>A department records an accrual when:</p> <ul style="list-style-type: none"> • Goods or services have been received or supplied but have not been paid, invoiced or formally agreed with the supplier.
Contingent liabilities	Contingent assets
<p>A department should disclose contingent liabilities only when:</p> <ul style="list-style-type: none"> • Possible obligation arising as a result of a past event whose existence will only be confirmed by the occurrence or non-occurrence of an uncertain future event not wholly within control of the department; OR • Present obligation arising as a result of a past event not recognised because uncertainty of timing or amount or probable outflow; OR • Present obligation arising as a result of a past event not recognised because no reliable estimate can be made. 	<p>A department should disclose contingent assets only when:</p> <ul style="list-style-type: none"> • Possible asset arising due to past event whose existence will only be confirmed by occurrence or non-occurrence of uncertain future event not wholly within control of the department.

10.2 Measurement of provisions, contingent liabilities and contingent assets

The amount recorded is the best estimate of expenditure required to settle the obligation at reporting date or revenue to be received.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate.

Future events that may affect the amount required to settle an obligation are reflected in the amount where there is sufficient objective evidence that they will occur.

10.3 Specific issues

Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision should be reversed.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded when, and only when, it is virtually certain that reimbursement will be received if the department settles the obligation. The reimbursement is

treated as a separate disclosure item. The amount recorded for the reimbursement should not exceed the amount of the provision.

A provision should be used only for expenditure for which the provision was originally recognised.

If a department has a contract that is onerous, the present obligation (lower of present value of future payments and any penalties or recoveries) under the contract should be recorded and measured as a provision.

ANNEXURE 1: Long service awards

OPTION A

The long service award provision can be determined by following these steps:

1. Extract the following reports from PERSAL – Refer to screenshots (a) to (h) below.
2. Summarise the number of employees entitled to a cash reward in the ensuing financial year. (In 2015 only employees that had been in service for 20 years, 30 years and 40 years will be entitled to cash awards).

No of years in service in ensuing year	Number of entitled employees
20 years	XXX
30 years	YYY
40 years	ZZZ

3. Multiply the number of employees entitled to cash awards by the entitlement amount:

No of years in service in ensuing year	Number of entitled employees	Cash award	Total Cash award
20 years	X	7,920*	XXX
30 years	Y	15,840*	YYY
40 years	Z	21,120*	ZZZ
Total			XYZ

* Will change from time to time

4. Disclose XYZ as the long service award in the provision note.

OPTION B

In instances where the department can demonstrate that they were unable to obtain reports from the system the following process should be followed:

1. Use the current financial year's actuals and consider past trends to estimate the likely cash awards for the ensuing financial year.
2. Perform the Workings as follows:

No of years in service in ensuing year	Number of entitled employees	Cash award	
20 years	X	7,920*	XXX
30 years	Y	15,840*	YYY
40 years	Z	21,120*	ZZZ
Total			XYZ

* Updated from time to time

PERSAL download steps

The following are screenshots indicating PERSAL reports that can be used to obtain the number of employees who will be entitled to long service awards:

- (a) Identify number of years of service report required and relevant dates

PERSAL BETP
4.08.11(01)

REPORT OF NUMBER OF YEARS SERVICE

TYPE OF REPORT :

1. NUMBER OF YEARS SERVICE...: _

2. 10 YEARS SERVICE.....: _ (Y)

3. 20 YEARS SERVICE.....: y (Y)

4. 30 YEARS SERVICE.....: _ (Y)

5. 40 YEARS SERVICE.....: _ (Y)

DATE FROM.....: 20150401 DATE TO.....: 20160331

- (b) Select any "Choice" and "Print order" options

```

CHOICE.....: 1 1=ALPHABETICAL 2=NUMERICAL
PRINT ORDER.....: 2 1=COMPONENT 2=REGION/PAY POINT 3=COMPONENT STRUCTURE

COMPONENT.....: _____
WITH SUBSTRUCTURE....: _ (MARK WITH X)

SUBCOMPONENT.....: _____
WITH SUBSTRUCTURE....: _ (MARK WITH X)

REGIONS FROM.....: _____ TO...: _____
OR
REGIONS.....: _____

PAY POINTS FROM.....: _____ TO...: _____
OR
PAY POINTS.....: _____

PAGE BREAK ON : COMP: _____ SUBCOMP: _____ REGION: _____ PAY POINT: _____ (MARK WITH X)
REPORT: _____ OR WORK FILE: x OR DATA FILE : _____ (MARK WITH X)

```

(c) Indicate the printer

```

JOB NAME.....: PR1034PW JOB ACTIVE.....: YES
JOB DESCRIPTION.....: NUMBER OF YEARS SERVED
JOB TYPE.....: JOB TYPE ACTIVE:
JOB TYPE DESCRIPTION.:
ORGANISATION.....:
PROCESSING MODE.....: X BACKGROUND
JOB CLASSIFICATION...: ENQUIRY
REQUESTED BY.....:
DISTRIBUTION.....: 122501 REQUIRED RUN DATE: 20150129
DISTRB'S PERMITTED...: NUMBER OF COPIES.: 1_

-----
SYSTEM PRINTERS: SELECT PRINTER -----
                  PRINT AT BUREAU
REMOTE PRINTERS:
X PB300123

```

(d) Note the "Workfile name" for downloading to excel

```

*****
*
* CHECK YOUR JOB REQUEST NUMBER FOR THE
* STATUS OF YOUR JOB
*
* YOUR WORKFILE NAME IS
* BAPB3.JOB.P.F40811.K1.UB30002
*
*****

```

(e) The request is registered.

*MESS:REQ NO 323 REGISTERED AND WILL BE SUBMITTED NOW

TYPE OF REPORT :

1. NUMBER OF YEARS SERVICE...: _
2. 10 YEARS SERVICE.....: _ (Y)
3. 20 YEARS SERVICE.....: _ (Y)
4. 30 YEARS SERVICE.....: _ (Y)
5. 40 YEARS SERVICE.....: _ (Y)

DATE FROM.....: _____ DATE TO.....: _____

(f) Function to see status of report

LIST ALL JOB REQUESTS FOR:

USER ID.....:

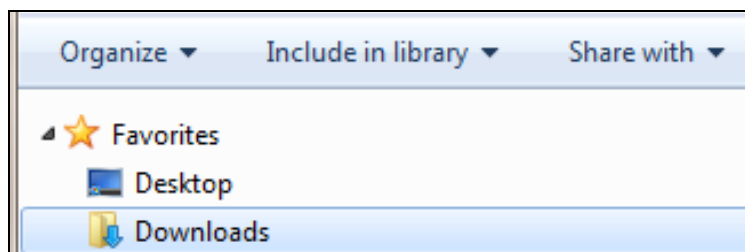
JOB TYPE.....: _____

JOB NAME.....: _____

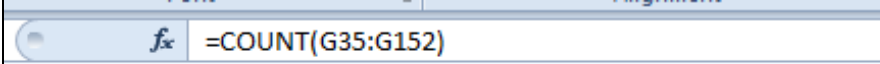
REQUIRED RUN DATE.....: _____

PRINT REPORT.....: _

(g) Check the excel download in the downloads folder



- (h) Determine the total number of employees to work out long service award due. The count function can be used.

						
C	D	E	F	G	H	I

ANNEXURE 2: Applying provisions and contingents chapter in a principal-agent arrangement

Background

This item is only for illustrative purposes and is not exhaustive of the steps leading to payment for work done applicable to all principal-agent arrangements as various principal-agent arrangements contain various terms and conditions. For this illustration, the department is the principal constructing a property, whereas the agent is a project manager acting on behalf of the department.

Processes from appointment of an agent to receipt of invoice by the department (principal)

- The Department (Principal) appoints an Agent.
- The Agent contracts Contractors to do the actual construction work
- The Agent further appoints an Engineer to certify the work done by the Contractor
- Engineer certifies the work completed and provides an Agent with the payment certificate
- Agent invoices the Department and attaches certification by the engineer contractor's invoice as evidence of work done

Parties involved in the construction project

Party	Contract with	Key activity
Contractor	Agent	Constructs the property as specified in the contracts
Engineer	Agent	Certifies work done by contractor in phases
Agent	Department	Project manager who also gives approval for phases due for payment
Department	Agent	Instructs the Agent to ensure the property is constructed on its behalf and makes payments in phases.

The following stages/activities are used for illustration purposes only.

NOTE: Commitment = Contract Value *minus* accumulative payments *minus* accruals or payable

	Stages/Activities	Classification at reporting date
a)	Contractor appointed, not yet informed about the appointment.	<ul style="list-style-type: none"> • No entry in the financial statements
b)	Contractor informed about the appointment	<ul style="list-style-type: none"> • Record approved and not yet contracted commitment • Indicate if project is for a period longer than a year.
c)	<ul style="list-style-type: none"> • One Phase of project completed by contractor, • One Phase not yet certified by contractor and consulting engineer 	<ul style="list-style-type: none"> • Record approved and contracted commitment, • Indicate if project is for a period longer than a year.
d)	<ul style="list-style-type: none"> • One Phase certified by contractor and consulting engineer • Invoice not yet raised by the contractor to the agent 	<ul style="list-style-type: none"> • Record an accrual. (<i>When the agent receives the invoice it is the same as the department receiving the invoice as the agent is an extension of the department. Therefore goods and services have accrued to the department.</i>)

		<ul style="list-style-type: none"> Record approved and contracted commitment (<i>Contract Value less Accrual</i>)
e)	<ul style="list-style-type: none"> Invoice raised by the contractor to the agent and received by the agent 	<ul style="list-style-type: none"> Record payable not recognised by moving accrual to payable not recognised. (<i>Agent is an extension of the department.</i>) Record approved and contracted commitment (<i>Contract Value less Payable</i>)
f)	<ul style="list-style-type: none"> Invoice raised by agent, but not yet received by the department 	<ul style="list-style-type: none"> Retain recorded payable not recognised by moving accrual to payable not recognised. (<i>Agent is an extension of the department.</i>) Retain recorded approved and contracted commitment (<i>Contract Value less Payable</i>)
g)	<ul style="list-style-type: none"> Invoice raised by agent, received but queried by the department 	<ul style="list-style-type: none"> Retain recorded payable not recognised by moving accrual to payable not recognised. (<i>Agent is an extension of the department.</i>) Retain recorded approved and contracted commitment (<i>Contract Value less Payable</i>)
h)	<ul style="list-style-type: none"> Invoice raised by agent, received and accepted (no longer queried) by the department 	<ul style="list-style-type: none"> Retain recorded payable not recognised by moving accrual to payable not recognised. (<i>Agent is an extension of the department.</i>) Retain recorded approved and contracted commitment (<i>Contract Value less Payable</i>)
i)	<ul style="list-style-type: none"> Invoice is authorised for payment 	<ul style="list-style-type: none"> Record expenditure by moving payable not recognised to expenditure. (<i>Agent is an extension of the department.</i>) Record approved and contracted commitment (<i>Contract Value less Payment</i>)

ANNEXURE 3: Reports pertaining to Payables, Accruals and Commitments

The following indicates LOGIS reports that can be used when reporting on payables, accruals and commitments. There may be instances where manual systems also need to be used to ensure reporting is complete. The following are examples:

- A contract is agreed with a service provider, but by reporting date it has not yet been entered into the LOGIS procurement workflow.
- A department has a contract with a service provider, but do not place an order for the full contract value. They only place partial orders as and when the service is being delivered. This practice could result in an understatement of the commitments if the Department does not disclose these contracts as part of this note.

Report name	Item	Trigger
RR102	Commitment: Approved but not yet Contracted	Procurement advice
RR102	Commitment: Approved and Contracted	Order
RR103-4	Accrual (including aging)	Goods Receipt
RR103-3 RR101 (Invoice Age Analysis)	Payable not recognised	Receipt of Invoice captured

Payables are triggered when an invoice for goods and services received or delivered is captured on the system. LOGIS has indicated that the following report already exists for reporting on such payables:

The reports to use for payments within 30 days of invoice are:

- **RR101** (Invoice age analysis) – this report will calculate the invoice age of unpaid invoices.
- **RR105** (Purchase to Payment age analysis) – this report calculates the invoice age of paid invoices.

Accruals are triggered when goods or services are received or delivered are captured on the system. According to LOGIS the following report can be used to report on accruals where goods and services received or delivered for which invoices have not been received:

- **RR103-4** has a breakdown of the accruals (received not yet invoiced) split into 0 – 30 days, 30 – 60 days, 60 – 90 days and 90+ days.

