



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**ACCOUNTING OFFICERS OF ALL NATIONAL DEPARTMENTS
CHIEF FINANCIAL OFFICERS OF ALL NATIONAL DEPARTMENTS**

OFFICE OF THE ACCOUNTANT-GENERAL PRACTICE NOTE 6 OF 2006/2007

**ACCOUNTING FOR TRANSACTIONS BETWEEN DEPARTMENTS AND THE
PROPERTY MANAGEMENT TRADING ENTITY**

1. Purpose

- 1.1 The purpose of this practice note is to inform financial practitioners of the procedures to be followed in respect of municipal utility charges and other accommodation expenses paid by the Property Management Trading Entity (PMTE) on behalf of client departments.

2. Background

- 2.1 With effect from 1 April 2006, accommodation-related costs have been devolved by the National Department of Public Works (DPW) to client departments. As set out in letters of allocation for the 2006 Budget Medium Term Expenditure Framework (MTEF) cycle, national department appropriations now include amounts earmarked for accommodation expenses and municipal services.
- 2.2 DPW has established the PMTE as part of a longer term reform programme to provide improved property management services to client departments. Amounts due to DPW in respect of accommodation expenses and municipal services administered on behalf of departments must be paid to the PMTE, on a quarterly basis. (This arrangement does not apply to departments that have elected to administer municipal service accounts themselves, in which case accounts are payable directly to municipalities, or in respect of departments that by agreement with DPW have responsibility for their own functional accommodation expenditure, including maintenance and repairs.¹)
- 2.3 Annexure A provides an overview of the flow of funds between DPW, the PMTE and National Departments.
- 2.4 Since the introduction of this arrangement, it has been reported that the PMTE has experienced difficulties in recovering the costs of devolved municipal services from certain client departments. This is largely due to client departments requiring certified

¹ Separate arrangements will be arranged with departments exercising 'optionality'.

copies of all invoices paid by the PMTE prior to reimbursement thereof, which in turn results from current legislative and regulatory prescripts.

- 2.5 In addition, the PMTE experiences cash flow difficulties associated with the present quarterly reimbursement arrangement.
- 2.6 As more than 12 000 accounts are currently handled monthly it is administratively impractical and inefficient to furnish municipal invoices to client departments as part of PMTE service to client departments.
- 2.7 Various uncertainties have also arisen in respect of the accounting and reporting of other accommodation expenses, such as repairs and maintenance.

3. Policy and procedures

3.1 In terms of Section 76(4)(g) of the Public Finance Management Act (PFMA), Act No. 1 of 1999, the following arrangements are hereby approved, and the PMTE:

- a) The PMTE will recover municipal service costs on a monthly basis from client departments; **and**
- b) A Municipal Service Claim (including a Z59 claim), generated by the PMTE and duly certified by the Chief Financial Officer (CFO) of the PMTE shall be deemed acceptable as the payment certificate and must be settled within 30 days (see Treasury Regulation 8.2.3). The CFO of the PMTE must ensure that the claim includes a reference (such as invoice and erf number) to the original documentation received from the municipalities.
- c) The PMTE shall be responsible for the safe-keeping of all invoices and any other supporting documentation, for audit purposes, in keeping with its debtors system;
- d) The auditing of invoices from municipalities and any other supporting documentation shall be conducted at the PMTE by the auditors of the PMTE only.

3.2 Client department may request a copy of any original invoice, based on the reference numbers provided (see 3.1(b)), from the PMTE where deemed necessary.

3.3 All supporting documentation relating to accommodation charges and the Z59 claim must be retained for audit purposes by the client department.

3.4 Client departments must make use of the following accounts when allocating payments made to the PMTE:

- a) *Accommodation charges and private leases*: this includes both the lease installments relating to private sector and PMTE leases. The relevant accounts under the non-posting level item "Operating leases including rentals" (BAS segment number 1058) must be utilised for this purpose.
- b) *Municipal services*: the relevant item under "Owned and leasehold property expenditure: Municipal services" (BAS segment number 3622) must be utilised for the payment for municipal services on the buildings. This item is used where the client department **or** PMTE makes the payment to the municipality.
- c) *Administration costs*: this item is used to record the administrative fee charged by PMTE for municipal services paid on behalf of client departments. The account "Owned and leasehold property expenditure: Commission on Municipal services" (BAS segment number 6455) has been created for this purpose.

- d) *Rates and taxes*: paid by the PMTE must be allocated to the relevant accounts under the non-posting level item “Municipal rates and taxes” (BAS segment number 5733).
- 3.5 Any maintenance and repair work conducted by the PMTE will be recorded as such in its general ledger. No accounting entries are made in the client department’s financial records.
- 3.6 The payment for capital works continues to operate as per the directive issued by the National Treasury in 2001 (Number 10 of 2001).

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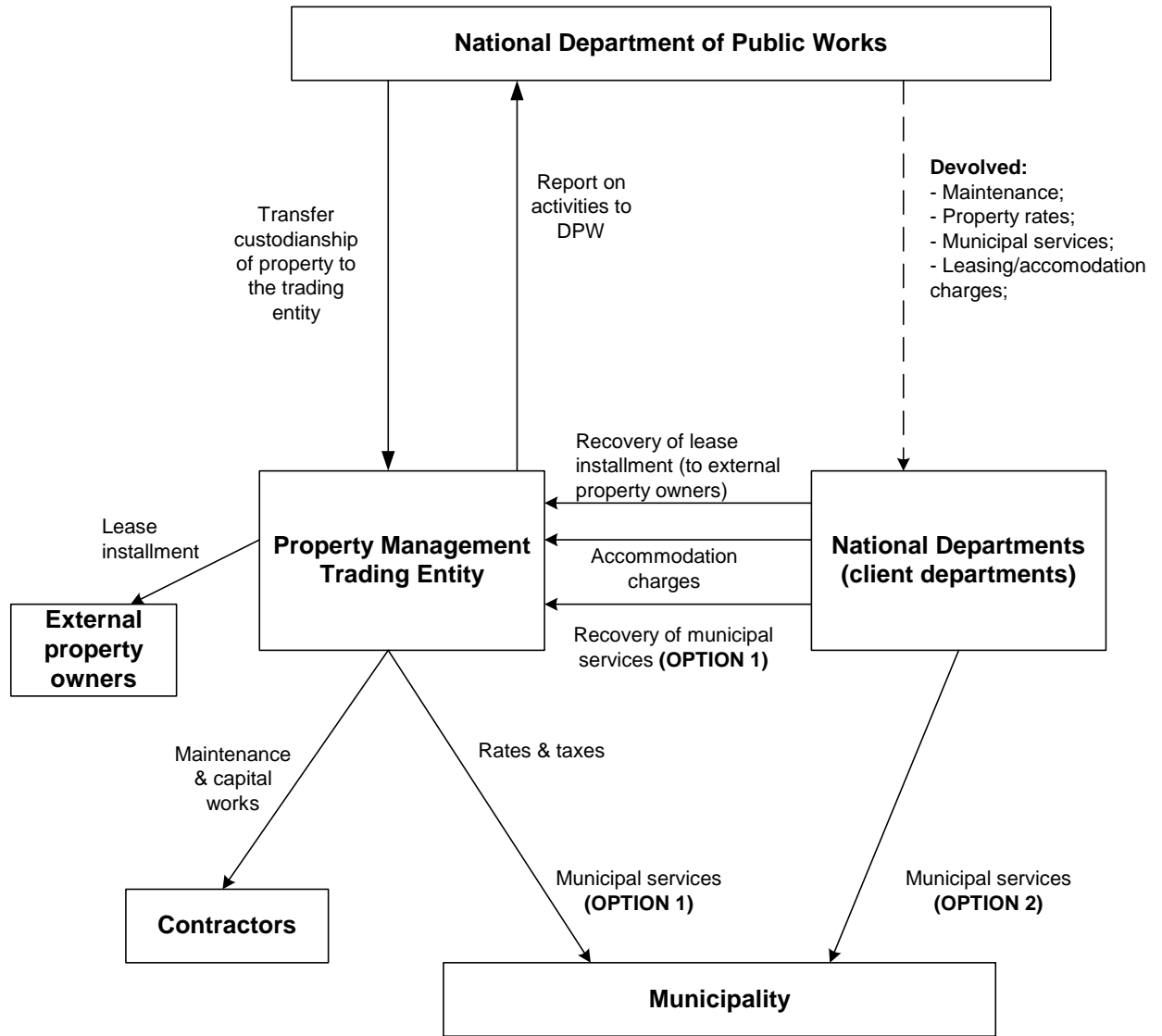
5. Effective date

- 5.1 This practice note applies to all departments or entities on behalf of which accommodation charges or municipal service accounts are administered by the PMTE.

Regards,

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Overview of the flow of funds between DPW, the PMTE and National Departments



OPTION 1: Municipal services paid by the PMTE on behalf of the client department and where the funds are recovered directly from the client department (in addition to the accomodation charges paid to the PMTE).

OPTION 2: Municipal services paid directly by client department.