

**TO: ACCOUNTING OFFICERS
PROVINCIAL HEADS OF DEPARTMENT
NATIONAL AND PROVINCIAL CHIEF FINANCIAL OFFICERS**

NATIONAL TREASURY PRACTICE NOTE 9 OF 2008/09

**ACCOUNTING FOR MONEY RECEIVED FROM THE NATIONAL SKILLS FUND (NSF)
FOR SUPPORTING SPECIAL PROJECTS ON GROWTH AND DEVELOPMENT
STRATEGIES IN NATIONAL AND PROVINCIAL DEPARTMENTS**

1. Purpose

The purpose of this practice note is to discuss the accounting procedures and processes with regard to money received by national and provincial departments from the National Skills Fund (NSF) for supporting special projects on growth and development.

2. Background

2.1 National Skills Fund (NSF)

2.1.1 The NSF is administered by the Director-General of the Department of Labour in terms of the Skills Development Act (No.97 of 1998). The NSF is funded from a portion of the skills development levies, currently 20%, including interest and penalties paid into the National Revenue Fund. The remaining 80 % is paid to the Sector Education and Training Authorities.

2.1.2 Section 28 of the Skills Development Act stipulates that money in the NSF may only be used for:

- Projects identified in the national skills development strategy as national priorities; or
- Such other projects related to the achievement of the purpose of the Skills Development Act as the Director-General may determine.

2.1.3 The Director-General of the Department of Labour on behalf of the NSF entered into a Memorandum of Agreement with national and provincial departments for projects that support growth and development strategies. Each of the agreements entered into are specific to the national or provincial department.

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3. Treatment of the money received from the NSF by departments

- 3.1 In terms of the Memorandum of Agreement a department may receive learner allowances or grants from the NSF. Section 13(1)(f)(iii) of the Public Finance Management Act, (Act 1 of 1999, as amended by Act 29 of 1999) states *'All money received by the national government must be paid into the National Revenue Fund, except money received by – a national department – from another department to render an agency service for that department'*
- 3.2 Section 22(1)(d)(iii) of the Public Finance Management Act, (Act 1 of 1999, as amended by Act 29 of 1999) states *'All money received by a provincial government, including the province's equitable share, and grants made to it, in terms of the annual Division of Revenue Act, must be paid in to the province's Provincial Revenue Fund, except money received by – the provincial department in the province – from another department to render an agency service on behalf of that department'*
- 3.3 In terms of the aforementioned legislation a department may in terms of the agreement with the NSF, and only for this agreement, receive these amounts in their bank accounts and spend the amounts for purposes set out in the agreement between the relevant parties.
- 3.4 Paragraph four (4) addresses the recognition of the revenue and the accounting entries that need to be followed in the financial systems of the department upon receipt of the revenue.

4. Accounting procedures and related matters

4.1 The Standard Chart of Accounts (SCOA) allocations

- 4.1.1 Money transferred by the NSF to a department should be treated as *'agency revenue'* received in the books of the receiving department. Any excess cash remaining in the provincial or national department's bank account on completion of the project pertaining to the NSF should be refunded to the National Skills Fund (within 3 months).
- 4.1.2 The allocation of funds specifically earmarked for special projects of the NSF should be treated as follows in the segments of the SCOA:
- (a) The financial system, BAS, *fund segment* indicates the source of funding utilised and distinguishes between voted funds; discretionary and earmarked and specific funds for each department. In addition to these categories of fund a new fund has been created and labeled as the *'Agency Service Fund'*. The fund has been created to allow for a breakdown of detail and a department needs to create the relevant details of the agency service they are going to render on behalf of another department. However to have consistent creation, treatment, monitoring and reporting on these NSF projects in the *fund segment* the National Treasury would like to propose the creation of the following structure for departments who is funded by the NSF for these projects.

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<u>Level</u>	<u>Description</u>
1	Agency Service (BAS code 664) <i>(Non posting)</i>
2	NSF Growth&Dev Strat (BAS code XXX) <i>(Non posting) (department to create)</i>
3	NSF Growth&Dev Strat Expenditure (BAS code XXX) <i>(Non posting) (department to create)</i>
4	NSF Growth&Dev Strat Expenditure (BAS code XXX) <i>(posting) (department to create)</i>
3	NSF Growth&Dev Strat Ass&Liab (BAS code XXX) <i>(Non posting) (department to create)</i>
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4	Gen Acc of NSF Growth&Dev Strat (BAS code XXX) <i>(Posting) (department to create)</i>

- (b) The *objective segment* will identify the purpose of the departmental spending and in this segment the relevant programme, subprogramme and activity against which the NSF funding will be spent needs to be identified. The *responsibility segment* identifies the relevant cost centre and should also be selected by the department where it is most applicable.
- (c) The *Item segment* – Refer to annexure A of the practice note for the accounting entries in the item segment.
- (d) In the *asset segment* the *Non-asset related (BAS code 31)* should be used to complete the leg of the transaction. The Non-asset related posting level code should be used for all expenditure that is not directly related to asset formation and therefore not recorded as part of the tangible or intangible asset categories.
- (e) Departments can further include details of the NSF funding received in the *project segment* if specific information needs to be monitored on these programmes or projects. If a department decides to monitor the programmes or projects the code *not related to infrastructure projects current (BAS code 27)* or *not related to infrastructure projects capital (BAS code 24)* can be used depending on the nature of the spending. Departments need to create their own posting level project description and code in the financial system. If the department decides not to monitor the projects the code *no project stand alone current (BAS code 16)* or *no project stand alone capital (BAS code 17)* should be used.
- (f) The *regional segment* needs to assign government expenditure to the lowest relevant geographical region so as to identify the communities that benefit from government spending. The *lowest relevant geographical region* refers to the ward, municipality, district or province where the intended beneficiaries normally live or are located. Note that the lowest relevant geographical region is not necessarily restricted to the municipality where the service or capital investment is located, since the intended beneficiaries may be from neighbouring municipalities, even neighbouring provinces, depending on the nature of the service or investment.

4.2 Monitoring, reporting and reconciliation

4.2.1 The NSF will amend the Memorandum of Understanding for NSF Funding received by Offices of the Premier's and National Departments to include a reconciliation process.

4.2.2 NSF Funds received by Provincial Departments for Provincial Growth and Development Strategies

4.2.2.1 Reconciliation Stage 1

- a) Each Department that receives skills development funding from the respective Premiers Offices for Provincial Growth and Development Strategy initiatives must forward certified copies of invoices to the Premiers Office for reconciliation;
- b) These invoices must be reconciled to funds disbursed from the Office of the Premier to the respective provincial departments;
- c) The reconciliation sheet must be certified by the Chief Financial Officer in the Premiers Office and the reconciliation sheet together with the certified copies of invoices forwarded to the NSF on a monthly basis i.e. by the 7th working day of the next month.

4.2.2.2 Reconciliation Stage 2

- a) The NSF upon receipt of the certified reconciliation from the Chief Financial Officer in the Office of the Premier will reconcile the amounts on the reconciliation sheet to funds disbursed by the NSF.

4.2.3 NSF Funds received by National Departments

4.2.3.1 Reconciliation Stage 1

- a) Each National Department that receives skills development funding from the NSF for skills development must reconcile the relevant invoices paid with the Funds received;
- b) The reconciliation sheet must be certified by the Chief Financial Officer of the National Department and the reconciliation sheet together with certified copies of the invoices must be forwarded to the NSF on a monthly basis i.e. by the 7th working day of the next month.

4.2.3.2 Reconciliation Stage 2

- a) The NSF upon receipt of the certified reconciliation from the CFO of the National Department will reconcile the amounts on the reconciliation sheet to funds disbursed by the NSF.

4.2.4 NSF Reconciliation to National Treasury

- a) On a quarterly basis the NSF must complete the prescribed forms in the In-Year Monitoring report (IYM) for submission to National Treasury together with the monthly reconciliation sheets from the Offices of the Premiers in the respective Provinces and from the National Departments that have received NSF funding.

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4.3 Bank accounts and interest

The National Treasury does not support the opening of a separate bank account for this source of funding. This together with the issue of accrued interest will be dealt with in the amended memorandum of understanding between the NSF and the relevant departments.

4.4 Annual financial statements

For purpose of the financial statements at financial year end departments should acknowledge the revenue in the statement of financial performance and the liability for amounts payable to the NSF in the statement of financial position. Reasons should be provided for amounts payable to the NSF at year end and the fact that projects funded for that year have not been fully completed or implemented. More detailed guidance will be provided in the guide for compiling annual financial statements and annual report at financial year end.

5. Applicability

This practice note applies to all national and provincial departments.

6. Effective date

The procedures contained in this practice note takes effect from 1 April 2008 and must be adhered to by all accounting officers and accounting authorities.

7. Authority for this practice note

This practice note is issued in terms of sections 76(1) to 76(4) of the PFMA which empowers the National Treasury to issue instructions applicable to all institutions to which this Act applies concerning any matter that may be prescribed for all institutions in terms of this Act.

Freeman Nomvalo
Accountant-General
Date: 29 September 2008

National Skills Fund Practice note - Annexure A

1. The following entries are passed once amounts are received from the National Skills Fund in the bank accounts of departments:
2. Amounts transferred from the NSF will be deposited in the bank account of the relevant department and upon receipt of these amounts the following entry should be passed and the relevant *item* codes in brackets should be used:

Dr	Bank Account (Pos) (Segment No. 1385)
Cr	Exchequer Grant Account (Pos) (Segment No. 2708)

3. Upon receipt of the amount from the NSF through the bank account of the department, the amount should be allocated from the Exchequer Grant Account to the General Account of the Fund/Vote by making the following entries:

Dr	Exchequer Grant Account (Pos) (Segment No. 2708)
Cr	General Account of the Fund/Vote (Pos) (Segment No. 2709)

It is important to note that there is only one exchequer grant account and general account of the fund/vote. The fund segment is used to distinguish between the different funds available to the department in the current financial year as explained above.

4. Allocation of expenditure:

Dr	Expenditure (Per) (relevant programme & item)
Cr	Bank Account (Pos) (Segment No. 1385)

For the purpose of this example all the expenditure is in respect of the purchase of 'current' goods and/or services.

5. At financial year end the expenditure account should close off to the exchequer grant account and the transactions will look as follow:

Dr	Exchequer Grant Account (Pos) (Segment No. 2709)
Cr	Expenditure (Per) (relevant programme & item)

6. Once the financial year has come to an end there might be a balance on the funds received from the NSF or all amounts might have been spend and all the accounts might be zero.
7. In the event where there is a balance for NSF funding, and the project has not yet reached the finalisation phase, the amount should be kept in the exchequer grant account and brought forward to the next financial year. This amount should be disclosed as a payable (CL) (Pos) to the NSF in the financial statements of the department.
8. Where there is a zero balance it means that all the amounts transferred from the NSF has been spent by a department. No further entries are required.
9. If there is balance at year end and the project has reached the finalization phase the balance should be surrendered to the NSF by:

Dr	Exchequer Grant Account (Pos) (Segment No. 2709)
Cr	Bank Account (Pos) (Segment No. 1385)

10. If there is a shortfall of funds not yet received from the NSF, the department should disclose a receivable (CA) (Pos) in the financial statement of the department.