

Departmental Guide



Interdepartmental Transactions and Balances

Contents

1. Purpose.....	2
2. Definitions.....	2
3. Transactions and balances between departments	2
4. Binding arrangements	4
5. Accounting for interdepartmental transactions and the resulting balances.....	4
6. Procedures	10
Annexure A: Z59 Form	14
Annexure B: Letter of notification.....	15
Annexure C: Inter departmental monthly report	16
Annexure D: Interdepartmental Account Reconciliation.....	17
Annexure E: Interdepartmental Account.....	18

1. Purpose

The purpose of this document is to discuss the types of engagements between departments in the public sector and to recommend processes and procedures to be followed in initiating, recording and reconciling transactions and balances on a timely basis.

The interdepartmental transactions and balances addressed herein are between:

- departments within the national sphere of government;
- departments within a province; and
- a department with another department in a different province or the national sphere.

Transactions and balances between departments and public entities/municipalities are excluded from this document.

2. Definitions

An **interdepartmental transaction** occurs when one department provides a good or service to or for another department for a fee, on a cost recovery basis or for free.

An **interdepartmental balance** is the amount due to or due from a department at month or year-end arising from one or more interdepartmental transactions.

The **receiving department** (debtor) is the department that requests the goods and or services and as a result incurs the expenditure.

The **supplying department** (creditor) is the department that supplies the goods and or services to the receiving department or to another party on behalf of the receiving department.

3. Transactions and balances between departments

Departments often work together in order to achieve their respective mandates. The procurement of goods and or services from another department is done either because it is the only institution offering that good or service or for other reasons such as the cost of the good and or service provided. The location and reach of a department or its employee skill set is also often a compelling reason for another department to utilise its personnel or infrastructure.

A department can provide a good and/or service to another department for free, on a cost recovery basis or for a fee. An interdepartmental transaction can arise even if there is no charge. However, there has to be a charge for there to be an interdepartmental balance at the end of a period.

Cost recovery basis

A supplying department that provides goods or services on a cost recovery basis will supply the good or the service and recover the cost thereof from the client (receiving) department. The costs can be recovered by way of an advance before the goods and service are provided or by way of a claim once the goods or services are provided. The method of recovery will depend on the requirements in the binding arrangement between the departments.

For example, in providing the service to Department X, the DOJ's state law advisor sought a view externally and the DOJ pays for such external assistance and recover the cost from Department X. The claim submitted by DOJ to Department X creates an interdepartmental transaction and an interdepartmental balance if the amount is not settled by month or year-end.

Free goods and/or services

Providing a good or service for free implies that the supplying department has the **funds on its budget** to cover the cost of the good or service. For example, Department X engages with a state law advisor within the Department of Justice and Constitutional Development (DOJ). The cost of the legal advice provided (i.e. time spent in researching the issue and documenting an opinion) is not recovered from Department X as the funds for paying the salary and associated costs of providing such services are within the budget of DOJ. Although there is an “exchange” between Department X and DOJ, there is no actual recording of an interdepartmental transaction. Departments should however consider whether a related party disclosure should be made.

In terms of Treasury Regulation 16A.7.2 “...accounting officers and accounting authorities may transfer movable assets for free of charge to other departments, constitutional institutions or public entities by means of formal vouchers.” Similarly in terms of Treasury Regulation 16A.7.7 the transfer of computer equipment to any department of education may also be done free of charge. The transfer of computer equipment free of charge from one department to another will result in a transaction in the asset register. However the non-cash transaction is excluded from the PER (revenue is not recognized from the non-exchange transaction) in the modified cash basis of accounting..

Fee charged for services

The amount charged can either be on a cost recovery basis or be similar or equal to the amount charged to other organisations or the general public for the same good and or service. A fee is usually charged for the sale of goods produced by the department for public consumption or for certain taxes due to the department, for example, the sale of animals or maps or the payment of a motor vehicle or a firearm license.

The fee charged for the rendering of services, the sale of assets or goods (such as inventory) should be set out in the revenue management policy that relates to fees, charges, rates, scales or tariffs of a department. It is up to a department to determine whether or not a fee will be charged for the sale of services, assets or goods to another state institution. For legislated fees however, the applicable Act or supplementary regulations or policy documents may specify amounts to be charged (if any) to other state institutions.

Agent/principal relationship

Interdepartmental transactions also arise where a department acts as an agent and undertakes an activity on behalf of another department. A claim is submitted for the costs incurred in carrying out the tasks as agreed. In another scenario, a department may act as a revenue collecting agent for example the collection of fees abroad by the Department of International Relations and Cooperation (DIRCO) on behalf of Home Affairs. In this instance, the agent collects the revenue and pays over the cash to the principal periodically as agreed.

4. Binding arrangements

A binding arrangement is an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract. Binding arrangements include, but are not limited to formal contracts or service level agreements. In the public sector, other forms of binding arrangements may exist between different entities such as requirements established by legislation, government policy, or common law.

It is recommended that interdepartmental transactions be governed by a binding arrangement between the receiving and supplying department. The binding arrangement should stipulate the terms and conditions of the relationship, the responsibilities of each party as well as the processes to be followed to resolve disputes. The binding arrangement must provide as much detail as possible to prevent any disputes and misunderstanding between the parties involved. This is of particular importance when the relationship between two departments is over an extended period of time.

5. Accounting for interdepartmental transactions and the resulting balances

Example 1: Cost recovery basis – no advance

The Department of Defence transports a Cabinet Member to an international destination. The costs incurred in relation to the flight and ancillary costs are recoverable from the relevant Ministry. The fuel, landing, running costs etc. amounted to R60,000.

Department of Defence			Ministry		
	DR '000	CR '000		DR '000	CR '000
Various expenditure items Bank <i>Expenditure of R60,000 incurred for transportation of Minister</i>	60	60		-	-
Claims recoverable Various expenditure items <i>Submission of a claim to the relevant Ministry</i>	60	60		-	-
Bank Claims recoverable <i>Payment of claim in full</i>	60	60	Various expenditure items Bank	60	60

The above transactions will be reflected in the Statement of Financial Performance of both departments as follows:

	Department of Defence	Ministry
Statement of financial performance		
EXPENDITURE		
Current expenditure		
Goods and services	R-	R60,000
Statement of financial position		
ASSETS		
Current assets		
Receivables	R;	R-

Example 2: Cost recovery – Advance in full

The Department of Agriculture contracted Stats SA to count livestock on their behalf for R370,000. In terms of the agreement the Department of Agriculture would pay the full amount in advance. At year-end the total actual costs incurred by Stats SA amounted to R300,000.

Stats SA			Department of Agriculture		
	DR '000	CR '000		DR '000	CR '000
Bank Advances received (CL) <i>Payment and receipt of the R370,000 advance</i>	370	370	Prepayments and advances Bank	370	370

Stats SA			Department of Agriculture		
Various expenditure items Bank <i>Stats SA incurs expenditure in of R300,000 executing the count</i>	300	300	-	-	-
Advances received Various expenditure items <i>Allocating the expenditure of R300 000 to the claim and informing Agriculture of expenditure incurred</i>	300	300	Various expenditure items Prepayments and advances	300	300

The above transactions will be reflected in the Statement of Financial Performance and Statement of Financial Position of both departments as follows:

	Stats SA	Department of Agriculture
Statement of financial performance		
EXPENDITURE		
Current expenditure		
Goods and services		
		R-
		R300,000
Statement of financial position		
ASSETS		
Current assets		
Prepayments and advances		
		R70,000
Current liabilities		
Payables (advances received)		
	R70,000	

Example 3: Cost recovery - employee costs

When an employee moves from one department (home department) to work for another department (new department) it may take some time to change the employee’s existing PERSAL information hence the employee’s salary and related deductions may be paid by the home department for one or two months after the employee has left for the new department. In this case the home department must reclaim the employee’s salary and related costs from the new department.

Assume that an internal auditor was transferred from the Department of Correctional Services to SAPS. The employee earned a salary of R18,300 per month (cost to company being R28,000). The employee began at SAPS on 1 July 2012 but his salary for July was still paid by the Department of Correctional Services.

Correctional Services			SAPS		
	DR '000	CR '000		DR '000	CR '000
Various expenditure and control accounts Bank <i>Payment of salary (and deductions) to the employee and relevant institutions</i>	28	28	-	-	-
Claims recoverable Various expenditure and control accounts <i>Submission of claim to SAPS</i>	28	28	-	-	-
Bank Claims recoverable <i>Payment of claim in full</i>	28	28	Various expenditure items Bank	28	28

The above transactions will be reflected in the Statement of Financial Performance of both departments as follows:

	Correctional Services	SAPS
Statement of financial performance EXPENDITURE Current expenditure Compensation of employees		
	R-	R28,000
Statement of financial position ASSETS Current assets Claims recoverable		
	R-	

Example 4: Fee charged for services

The Department of Human Settlements owes the Department of Transport R2,600 for motor vehicle fees. The debt is settled upon receipt of the license form.

Department of Transport			Department of Human Settlements		
	DR '000	CR '000		DR '000	CR '000
Bank Motor vehicle license fees (revenue) <i>Payment of license fee</i>	28	28	Transfers and subsidies Bank	28	28

The above transactions will be reflected in the Statement of Financial Performance of both departments as follows:

	Department of Transport	Department of Human Settlements
Statement of financial performance		
REVENUE		
Departmental revenue	R2,600	
EXPENDITURE		
Transfers and subsidies		R2,600

Example 5: Detailed interdepartmental claim for the acquisition of assets

On 20 February 2013 the Department X (Receiving Department) entered into an agreement with the Department Y to acquire furniture, to the value of R770,000, on behalf of Department X. Department Y paid the supplier an advance of R200,000 on 25 February 2013, and immediately claimed R200,000 from Department X. According to the supplier half the furniture would be delivered to Department X on 01 March 2013, and the remainder on 25 March 2013. Department Y submitted the second claim of R185,000 (50% of cost of furniture less the advance) to Department X on 04 March 2013 after paying the supplier. The third claim from Department X of R385,000 (R770,000 – R200,000 – R185,000) was not paid in full by Department X due to a discrepancy in the quantities delivered. Only R320,000 worth of goods are accepted and paid for by the Department X. Department Y follows up discrepancies with the supplier. The supplier delivers R65,000 (R385,000 – R320,000) worth of goods on The transactions are represented in tabular form as follows

Date	Activity/Transaction	Amount
20 February 2013	<ul style="list-style-type: none"> Agreement date 	R770,000
25 February 2013	<ul style="list-style-type: none"> Advance payment by the supplying department (Department Y) to the supplier. Amount is claimed from the receiving department (Department X). 	R200,000
28 February 2013	<ul style="list-style-type: none"> Payment of claimed amount, R200,000, by Department X to Department Y 	R200,000
1 March 2013	<ul style="list-style-type: none"> Delivery of 50% of goods by supplier to receiving department. 	
4 March 2013	<ul style="list-style-type: none"> Payment by Department Y to supplier Claim by Department Y to Department X 	R185,000
7 March 2013	<ul style="list-style-type: none"> Payment of claimed amount, R385,000, by Department X to Department Y 	R185,000
22 March 2013	<ul style="list-style-type: none"> Delivery of the remaining 50% of goods by supplier to receiving department. Goods have discrepancies. Only R320,000 worth of goods 	R320,000

	are accepted by the receiving department.	
25 March 2013	<ul style="list-style-type: none"> • Payment by Department Y to supplier • Claim by Department Y to Department X 	R385,000
02 April 2013	<ul style="list-style-type: none"> • Payment of amount owing by Department X to Department Y (Department X only agrees to pay for what was received) 	R320,000
02 April 2013	<ul style="list-style-type: none"> • Supplier delivers R65,000 of goods to Department X 	R65,000
08 April 2013	<ul style="list-style-type: none"> • Payment of claimed amount, R65,000, by Department X to Department Y 	R65,000

	Department Y			Department X		
		DR '000	CR '000		DR '000	CR '000
25 February 2013	Prepayments and advances Bank <i>Advance made by Department Y to the supplier</i>	200	200	-		
25 February 2013	Claims recoverable Prepayments and advances <i>Claim for R200,000 submitted to Department X</i>	200	200	-		
February 2013	Bank Claims recoverable <i>R200,000 paid to Department X</i>	200	200	Prepayments and advances Bank <i>R200,000 paid to Department X</i>	200	200
1 March 2013				Furniture and fittings Prepayments and advances <i>Receipt of goods</i>	200	200
4 March 2013	Furniture and fittings Bank <i>Payment by Department Y to supplier</i>	185	185		-	-
4 March 2013	Claims recoverable Furniture and fittings <i>Claim by Department Y to Department X</i>	185	185		-	-
7 March 2013	Bank Claims recoverable <i>R185,000 received from Department X</i>	185	185	Furniture and fittings Bank <i>R385,000 paid to Department X</i>	185	185
25 March	Furniture and fittings	385			-	

	Department Y			Department X		
2013	Bank <i>Payment by Department Y to supplier</i>		385			-
25 March 2013	Claims recoverable Furniture and fittings <i>Claim by Department Y to Department X</i>	385	385		-	-
2 April 2013	Bank Claims recoverable <i>R120,000 paid to Department X</i>	320	320	Furniture and fittings Bank <i>R120,000 paid to Department X</i>	320	320
8 April 2013	Bank Claims recoverable <i>R120,000 paid to Department X</i>	65	65	Furniture and fittings Bank <i>R120,000 paid to Department X</i>	65	65

At year end, the above transactions will be reflected in the Statement of Financial Performance and Statement of Financial Position of both departments as follows:

	Department Y	Department X
Statement of financial performance		
EXPENDITURE		
Expenditure for capital assets		
Tangible capital assets		R- R385,000
Statement of financial position		
ASSETS		
Current assets		R385,000
Receivables (<i>i.e. Claims recoverable</i>)		


The R385,000 paid by Department Y to the supplier is shown as a interdepartmental claim at year end in the claims recoverable note and claims recoverable annexure. The accrual recognised by Department X will be for the value of R320,000 (the actual asset received). The R65,000 will be included in the contingent liability note for Department X.

6. Procedures

6.1 Receiving department

The receiving department initiates the transaction by requesting the goods and or services of the supplying department in accordance with the conditions of the binding arrangement. The following actions are recommended when dealing with interdepartmental arrangements:

- a. A signed order is prepared by the receiving department detailing the goods and or services to be supplied/rendered by the supplying department¹;
- b. The signed order returned by the supplying department is retained by the receiving department as confirmation that the order has been accepted;
- c. Within 7 days of the receipt of the claim (in the form of a Z.59 form) from the supplying department, the receiving department must confirm the following in writing :
 - a. the claim was received and the goods and or services were supplied/rendered by the supplying department; and
 - b. whether the receiving department agrees or disagrees with the amount stipulated on the claim form.
- d. An order register should be maintained by the receiving department² along with the relevant supporting documentation (including the Z.59 form);
- e. It is the responsibility of the Accounting Officer, through the CFO of the receiving department to ensure that all claims are settled within 30 days of receipt of the claim ;
- f. The receiving department is required to confirm the balance of the money owed on the confirmation letter that is sent by the supplying department. If the receiving department doesn't agree with the claim, they should dispute the claim and submit supporting documents;
- g. The receiving department must compile a report of accruals for the financial statements indicating all confirmed and/or unconfirmed balances outstanding at year end.

	<p>At year end the following scenarios might be applicable to receiving department:</p> <p>Paid claim: this is treated a normal expenditure transaction;</p> <p>The amount owed has been confirmed but not paid: the confirmed balance must be disclosed in the accruals note;</p> <p>At year-end the amount owed is disputed: this unconfirmed amount must disclose contingent liability. Reasons for the unconfirmed balance should also be provided.</p>
---	---


6.2 Supplying department

The supplying department provides goods and or services to the receiving department in accordance with the conditions of the binding arrangement. The purchase of the goods and or services should be in accordance with supply chain management practices. The following actions are recommended when dealing with interdepartmental transactions:

¹ This process includes the capturing of the order in LOGIS or the procurement system used by the department.

² Maintained manually or electronically

- a. When both parties agree on the terms and conditions of the order, the signed copy is returned to the receiving entity as evidence that the order has been accepted;
- b. The supplying department must submit a claim in a Z.59 claim form to the receiving department attaching all source relevant documents (invoices, GRVs etc) within 7 days from the date that payment was made;
- c. The Z.59 claim form must be approved by the CFO or delegated official of the supplying department;
- d. The function of sending out claims should be centralised within each department to ensure adequate control and avoid duplication of claims being sent out;
- e. All claims must be acknowledged by the receiving department within 7 days of receipt. If after 7 days the receiving department has neither acknowledged the receipt of the claim nor whether it agrees with the claim , the supplying department must contact the receiving department to establish the reason for the delay;
- f. On a monthly basis a delegated official should:
 - a. perform a reconciliation on the claims recoverable account;
 - b. report to the CFO all the reconciling items and the status of the recovery of the claim; and
 - c. send confirmation letters to the receiving department detailing the amount(s) owed.
- g. The purpose of the confirmation letter is for the receiving department to confirm the balance of the money owed to the supplying department if the receiving department doesn't agree with the claim, they should dispute the claim and submit supporting documents. The confirmation letters should be sent out on a monthly.
- h. The supplying department must compile a report on claims recoverable for the financial statements indicating all confirmed and/or unconfirmed balances.

	<p>At year end the following scenarios might be applicable to supplying department:</p> <p>Paid claim: the claims recoverable account is cleared;</p> <p>The amount owed has been confirmed but not received: disclosed and recognised as a receivable as a confirmed balance;</p> <p>At year-end the amount owed is disputed: this unconfirmed amount is still recognised in claims recoverable. The unconfirmed amounts are specifically listed in annexure 4.</p>
---	--

6.3 Disputes

When the receiving department doesn't agree with the claim the following steps should be taken:

- a. The receiving department should dispute the claim and submit supporting documents within 7 days after receipt of the claim to the supplying department;
- b. Both parties are expected to make a concerted effort to settle the dispute within 10 days of lodging the dispute;
- c. Where material amounts are involved, the relevant treasury should be approached to act as a mediator.

When the receiving department hasn't settled their claim within 30 days of receipt of the claim the following steps should be taken:

- a. The CFO of the supplying department should send a letter to the CFO of the receiving department within 5 days requesting settlement of the claim,
- b. If no progress has been made within 10 days after receipt of the first letter, the Accounting Officer of the supplying department should send a second letter to the Accounting Officer of the receiving department requesting settlement of the claim,
- c. If there is still no progress made in terms of recovering the money within 10 days after receipt of the second letter, then the supplying department should approach the relevant treasury to intervene.



At year end the supplying and receiving department must confirm and agree on any interdepartmental balances that exist. Departments must therefore agree on both the confirmed and unconfirmed balances.

Annexure A: Z59 Form

G.P.-S.

*In reply please quote
Meld asb. in u antwoord*

No.....
THE
DIE

81/1203/2 (Z 59)

Date stamp



Datumstempel

The vouchers detailed in the subjoined statement are forwarded herewith.
Die bewysstukke in onderstaande opgawe vermeld, word hierby deurgestuur.

- * The amount of this claim will be debited against you through the Paymaster.
- * Die bedrag van hierdie vordering sal teen u in rekening gebring word deur die rekening

General's Account for the month of 19.....
van die Betaalmeester-generaal vir die maand

- * Please let me have payment of the amount at your earliest convenience.
- * Geliewe die bedrag so gou moontlik aan my te betaal.

.....
Accounting Officer—Rekenpligtige Amptenaar

Voucher Bewysstuk	Particulars Besonderhede	Amount Bedrag
	Total	

Annexure B: Letter of notification

Address of the receiving department

Address of the supplying department

Re: Notification of inter departmental account balance as at

According to our records the outstanding balance reflected on your inter departmental account is R as at .Attached please find the BAS report reflecting all transactions relating to the above mentioned account.

Regards

Annexure C: Inter departmental monthly report

DEPARTMENT:

MONTH END:

MONTHLY REPORT: INTER DEPARTMENTAL ACCOUNTS

Department name	Balance per report	Balance confirmed	Difference	Comments

Delegated official: _____

Date: _____

Authorised: _____

Date: _____

Annexure D: Interdepartmental Account Reconciliation

DEPARTMENT: Name of the receiving department

MONTH END:

ACCOUNT NUMBER:

Date	Details of the transactions	Z59 claim form number	DR	Credit	Balance
	Balance per BAS report				
	Z59 claim form not yet processed				
	Z59 claim forms in transit				
	Z59 claim forms in dispute				
	Other reconciling items				
	Balance as per claims form register				

Delegated official:
Date

Authorised
Date

Annexure E: Interdepartmental Account

DEPARTMENT:

MONTH END:

Receiving department	Amount due as at 31 March 20x	Current days	Period in arrears		
			60days	90 days	90 days – 1 year

Delegated official:

Date

Authorised

Date