DEPARTMENT OF TRANSPORT, SAFETY & LIAISON

FINANCIAL MANAGEMENT POLICY

ACCOUNTING AND REPORTING REQUIREMENTS

Version control

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Responsible Manager	:	**Thabo R. Holele**
Recommended	:	**Chief Financial Officer** **Date: May 7th, 2018**

Approved by the Head of department

Approved:

Mr M.P. Dichaba
Date: 07/05/2018

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Document reference library

Document file name	Context and relevance
Public Finance Management Act, Act 1 of 1999	Paragraph 40
Treasury Regulations	Part 7
Departmental Financial Reporting Framework Guide	• The financial reporting framework and the preparation process • AFS template
Practice notes	Issued by the Office of the Accountant-General
BAS notices	Financial year-end notices

Business area impacted by this policy

Name of business unit / Area	Context and relevance
All divisions and business units within the Department	Monthly and annual reports,
Corporate Services	Annual financial statements and annual reports. Budget inputs and budget statements.
Office of the CFO	Annual financial statements and annual reports. Budget inputs and budget statements. Management reporting

Glossary of terms

Term	Definition
Department	Transport, Safety & Liaison
Chief Financial Officer	The person designated to assist the accounting officer in discharging the duties prescribed in Part 2 of Chapter 5 of the PFMA and the DORA
Divisional heads	Means an employee with a designation of deputy director-general or an employee acting in that capacity
Senior manager	Means a person in the employ of the Department appointed on levels 13 to 16
Budget manager	Means the employee designated in writing and who is responsible and accountable for all resources allocated to business unit/cost centre
Official	Means a person in the employ of a department or constitutional institution including the Minister or Deputy Minister
Executive Authority	Means Minister or MEC

1. Policy overview

1.1 In order to discharge the duties of accountability and transparency, it is necessary for records to be kept of all financial transactions and to regularly report on the financial status of the department.

1.2 Where the department has negative audit outcomes relating to accounting it is usually mainly related to suspense accounts and/or missing documentation.

2. Purpose (Ref. TR Part 7)

2.1 The purpose of this document is to provide guidelines to financial managers pertaining to the record keeping and the accounting and reporting requirements of the Department as prescribed in part 7 of the Treasury Regulations.

3. Policy development areas

- Authority
- Criteria
- Retention of basic accounting records
- Reporting responsibilities

4. Policies

Authority

4.1.1 The Chief Financial Officer or his/her delegate shall designate an employee to approve payments from suspense, clearing and/or control accounts. These approvals should be limited to exceptional cases only and should only be allowed to prevent incurring expenses i.e. interest.

4.1.2 All relevant supporting documentation for the adjustment entries identified by the reconciliation process must be duly authorised by the delegated official and kept on file for audit purposes.

4.2 Criteria

4.2.1 All transactions of the Department must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation.

4.2.2 Financial information should be available for auditing purposes and monthly, quarterly and annual reporting requirements as prescribed by the PFMA, Treasury regulations and the National or Provincial Treasuries should be adhered to.

4.2.3 The PFMA requires departments to prepare financial statements for each financial year in accordance with generally recognised accounting practice.

4.3 Retention of basic accounting records

4.3.1 The Accounting Officer must subject to the provisions of the relevant Provincial legislation, retain all financial information in its original form as follows:-

- Information relating to one financial year – for one year after the audit report for the financial year in question has been tabled in Parliament or the provincial legislature; or
- Information relating to more than one financial year- for one year after the date of the audit report for the last of the financial years to which the information relates.
- After the expiry of the above retention periods, the information may, if required, be secured in an alternative form that ensures the integrity and reliability of the data and ensures that the information can be reproduced, if necessary, as permissible evidence in a court of law.
- Irrespective of paragraph 5.1 the following standards apply to the retention of certain types of records

Type of record	**Years after which records can be disposed of**
General ledger and cash books or similar records	15
➢ Main transaction summary records, including general journals and transaction summaries ➢ Internal audit reports ➢ System appraisals	10
➢ Primary evidentiary records, including copies of forms issued for value, vouchers to support payments made, pay sheets, returned warrant vouchers or cheques, invoices and similar records associated with the receipt or payment of money; ➢ Subsidiary ledgers, including inventory cards and records relating to assets no longer held or liabilities that have been discharged	5
Supplementary accounting records, including cash register strips, bank statements and time sheets	5
General and incidental source documents not included above, including stock issue and receivable notes, copies of official orders (other than copies of substantiating payments or for unperformed contracts), bank deposit books and post registers	5

4.4 Reporting responsibilities

4.4.1 The PFMA prescribes certain reporting responsibilities for the Accounting officer. These are summarised in the table below:

Responsibility	Action required	When	PFMA Reference
Unauthorised and other expenditure	Report, in writing, to the relevant treasury (and tender board in case of irregular expenditure) particulars of unauthorised, irregular or fruitless and wasteful expenditure	On discovery	S 38(1(g)
Under collection or over expenditure	Report to the executive authority and the relevant treasury any impending: • Under collection of revenue • Shortfall in budgeted revenue • Overspending of the vote or main division	No specific time stipulated	S 39(2)(b)
Financial statements	Submit financial statements to the Auditor-General and the relevant treasury	Within two months of the end of the financial year	S 40(1)(c)
Annual reports	Submit to the relevant treasury and executive authority: • Annual report • Audited financial statements • Report of the Auditor-General	Within five months of the end of a financial year	S 40(1)(c)
Breakdown per month	Provide the relevant treasury with a monthly breakdown of the anticipated revenue and expenditure for the year	Before the beginning of the financial year	S 40 (1) (4) (a)
Actual anticipated figures	Submit to the relevant treasury revenue and expenditure information for the previous month and the budget for that month	Within 15 days of each month-end	S 40 (4) (b)

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Actual anticipated figures	Submit to the relevant treasury revenue and expenditure information for the previous month and the budget for that month	Within 15 days of each month-end	S 40 (4) (b)

Projected figures	Submit to the relevant treasury and executive authority: • A projection of expenditure and revenue to the year-end • An explanation of material variances • The remedial actions taken to remain within budget	Within 15 days of the end of each month	S 40 (4) (c)
Conditional grants	Ensure all conditional grants and transfers are made in terms of the DoRA or an appropriation Act	Promptly	
Inability to comply	Report to the relevant treasury and executive authority the reasons for failure to comply with the reporting requirements	Promptly	S 40 (5)
Other information	Supply to the relevant legislature, treasury, executive authority and the Auditor-General any information, documents or explanations, as prescribed or required	As regulated or required	S 40 (1) (f) and 41
Inventory	When transferring assets and liabilities to another department, file a copy of the signed inventory with the relevant treasury and the Auditor-General	Within 14 days of the transfer	S 42 (3)
Utilisation of saving	Submit to the executive authority details of the exercise of virement	Within seven days	S 43 (3)
Directive that will lead to unauthorised expenditure	If any directive of an executive authority will result in unauthorised expenditure, file copies of the directive with the Auditor-General, the national Treasury and, in the case of a province, with the provincial Treasury	Promptly	S 64 (3)
Submit to the CFO at month-end Reconciliations and management information	• Reconciliation Persal/BAS • Bank statement and PMG schedules • Suspense accounts	Promptly/Daily and or monthly	S 40

5. Process development areas

5.1 Monthly, quarterly and Annual Reports;

5.2 Annual Financial statements;

5.3 Proper recording and safekeeping of supporting documentation;

5.4 Journals;

5.5 Suspense accounts.

6. Processes

6.1 Monthly, quarterly and Annual Reports

6.1.1 The Chief Financial Officer or his/her delegate must:

a) Submit information in the prescribed format to the relevant authority as per the table above

b) Compile financial statements as prescribed by the Act, and government accounting policies issued by the Office of Accountant-General

c) May issue a quarterly circular to request inputs from the relevant managers responsible for managing assets and other financial instruments, in order to compile the interim financial statements. The circular should include specifics of the required information as well as return dates

d) Request a manager responsible for managing a particular budget to accompany him/her, if the Accounting Officer requires additional information pertaining to the interim, annual financial statements and annual report

e) Ensure that the required certifications are submitted to the Accounting Officer timeously on a monthly basis, before the closure of the accounting months. Such certification should include the following financial management performance indicators:

- The recording of all issued warrant vouchers in the General Ledger;
- The recording of all deposits in the General Ledger;
- The recording of all receipts in the General Ledger;
- The recording of all journals in the General Ledger and Sub Ledgers;
- That all interfaces for the month have taken place and have been reconciled;
- That the bank reconciliation has been prepared;
- That all transactions were supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation;
- In all exceptional cases, where it were necessary to account for revenue and expenditure transactions in a control account, because the classification has not been resolved, ensured that-
    - The source of the transactions is readily identifiable;

- Amounts included in the control accounts are cleared each month, and correctly allocated to the relevant cost centre;
- Monthly reconciliations are performed to confirm the balance of each account; and
- Reports are provided on a monthly basis to the Chief Financial Officer or his/her delegate about un-cleared items.

6.1.2 The relevant managers must:

a) Obtain in advance all financial information, reports, statements and certificates required by all relevant legislation and government prescripts the Department must report on;
b) Supply any and all information required by the Chief Financial Officer or his/her delegate in respect of the compilation of the interim and annual financial statements relating to his/her division. Information must be checked, verified and signed-off by manager for quality assurance before submission for compilation of statements.
c) `Submit all reports, information required for reporting and any other information with a financial connection, required by the Parliament, Executive Authority, Treasury, and Auditor-General, to the Chief Financial Officer or his/her delegate on the set return dates.
d) Ensure that all the required information and reports will be of a high standard, complete and according to the prescription of the department requiring the reports or information.

6.1.3 The Head: Policy and Planning must:

a) Ensure that an annual report is prepared and submitted, in the format issued by the Accountant-General, on the activities of the Department to the relevant Treasury and the Executive Authority within five months after the end of the financial year.
b) Must ensure that a quarterly performance report is prepared and submitted, in the format issued by the relevant Treasury, on the activities of the Department to Treasury and the Executive Authority within one month after the end of each quarter.

6.2 Annual Financial statements

6.2.1 Annual financial statements are prepared as prescribed in the PFMA No 1. Of 1999 for each financial year in accordance with GRAP. The Office of the Accountant-General, National Treasury annually issue the Departmental Financial Reporting Framework Guide and AFS template which should be used by the Department in compiling the AFS for submission to the Auditor-General and executive authority as per the table above.

6.2.2 The Chief Financial officer or his/her delegate shall prescribe information to be kept up to date at all times throughout the year in order to be able to disclose accurate information in the notes to the Financial Statements. This will include inter alia:

a) Accruals and commitments
b) Leases
c) Provision for Leave Pay
d) Receivables (including what is not yet in the ledger)
e) Inventory
f) Assets
g) Any other information as might be prescribed by Treasury.

6.3 Proper recording and safekeeping of supporting documentation

6.3.1 The relevant functional manager, the CFO or his/her representative, any internal or external auditor or any investigator must be able to inspect the supporting documentation for any transaction without undue delay or effort and be able to understand the transaction from the supporting documentation.

6.3.2 All supporting documentation must record the nature, purpose, value, accounting classification and authority for each particular transaction.

6.3.3 Supporting documentation must be stored to be readily accessible and identifiable.

6.4 Journals

6.4.1 A journal voucher shall consist of the following:

a) A fully completed journal form;
b) A copy of the accounting system report showing the entry to be changed;
c) Documentation substantiating the need for the original accounting classification and allocation to be changed.

6.5 Suspense accounts

6.5.1 The system of government accounting systems provides for the use of suspense accounts to accommodate transactions that cannot be immediately recognised or allocated to the relevant account.

6.5.2 Suspense accounts are usually utilised when there is insufficient information available to correctly identify the relevant account or in the case of timing differences or similar reasons. The use of a suspense account is temporary and once the relevant transaction information is obtained the transaction must be "cleared" from the suspense account.

6.5.3 The types of suspense accounts are distinguished between control or clearing accounts used for specific purposes and informed by specific transaction processing rules.

6.6 Conversion accounts

a) Conversion accounts are used when as a temporary holding place for accounts when major changes are made to the financial systems. Asset and liability accounts on an old financial system such as BAS version four (4) will be marked for conversion to the accounts within BAS. The conversion accounts can also be used when a functional transfer is done from one department to another department.

b) After the conversion these accounts should be cleared so that they maintain a zero balance. When the conversion accounts are cleared the system controller should close them to prevent further posting of transactions.

c) All conversion accounts must have a zero balance at financial year-end so that the department can successfully close the financial year.

6.7 Control or Clearing Accounts

a) Financial systems utilise control accounts to aid systems processing per the predefined transaction processing rules. Control accounts are mainly used for transactions that are automatically generated, such as monthly debit orders and interest charged on outstanding debt. These accounts should have a zero balance at year end closure.

b) Most control accounts are system generated accounts where transactions are posted to and cleared through interfaces.

c) Manual intervention on control accounts is only allowed when the department resolves exceptions.

6.8 Interface control or clearing accounts

a) Interfaces facilitate the transfer of financial information from an external system to the general ledger system e.g. from PERSAL to BAS.

b) Financial data from an external system interfaces with the accounting system. The interface process requires specific validation criteria to be met else exceptions will arise and these will programmatically be allocated to a suspense account. The general ledger system interfaces with the following systems:

- **Open Interfaces:** Payments; Journals; Receipts
- **Banking:** ABSA; Standard Bank; First National Bank; Nedbank; PMG/SARB
- **First Auto**
- **PMG Interfaces or Bank Interfaces:**

6.9 Monitoring Suspense Accounts

a) The monitoring of suspense accounts should ideally be done daily however the frequency of monitoring would depend on the volume of transactions allocated to the various categories of suspense accounts.

b) Suspense accounts that must have a zero balance at month-end must be cleared on a daily basis. It is recommended that other suspense account balances be cleared within ONE month.

c) The following steps should be followed to monitor suspense accounts:

- Check the trial balance daily;
- Identify the suspense accounts with incorrect balances;
- Request matching/detail report on identified suspense account;
- Identify incorrect debit and credit entries;
- Identify and locate the source document that supports the incorrect entry;
- Clear the accounts either by processing the journals or clearing the exceptions
- Ensure the account is cleared and properly allocated;
- Long outstanding uncleared debits should be addressed in terms of the department's write-off policy with approval from the Accounting Officer.

d) Departments must comply with requirements as set out in the annual BAS notification for certain categories of suspense accounts that must be cleared at month end and financial year end before the department can successfully close the month and/or financial year.

6.10 Clearing Suspense Accounts

a) Suspense accounts should be followed up on a daily basis in order to clear outstanding transactions on those accounts.

b) A physical or electronic document should be available for audit purposes of a final "reconciliation" of all the suspense accounts that should be performed on a monthly basis before the closure of the financial system. This document should have relevant information and details of actions taken to establish correct allocations and should be supported by verifiable and authentic documentation.

c) An age analysis should be shown for all outstanding balances in clearing (suspense) accounts. Reports should be provided to the Accounting Officer about uncleared items.

d) Also, all the unmatched matching fields of suspense accounts must be cleared at month and year-end. After the closure of the current month, any outstanding transactions appearing on the following month's matching report must be cleared prior to the closure of that accounting month.

e) Credit balances, that cannot be identified and correctly allocated within THREE months, should be allocated to unallocated revenue item. Long outstanding debits/claims should be transferred to the Debt Account where it can be better followed up.

6.11 Reconciling Accounts

a) Reconciliation of an account is the procedure whereby the reliability of accounting records are ensured by comparing transaction balances from more than one source.

b) The reconciliation process identifies exceptions and differences in the account balance thereby initiating corrective actions such as adjustment or reclassification journal entries to resolve such exceptions and differences.

c) Reconciliations are required when the same accounting information is recorded on different systems that are not integrated e.g. accounting transactions recorded on LOGIS/PERSAL and accounting transactions recorded on BAS.

d) The following are examples of reconciliations that must be conducted at least monthly or daily in the case of bank statements:

- **Reconciliation between PERSAL and BAS (or relevant accounting system)**
  - to ensure that all PERSAL transactions have correctly interfaced into BAS or the relevant accounting system;
  - this is done by utilising the function 5.10.5 (Summarised control payroll per month) on PERSAL together with a BAS expenditure per month report or similar report from the relevant accounting system; and
  - It would be adequate if only the salary expenses are reconciled, because exceptions on the employers contributions control accounts will be highlighted during the follow up of those accounts.
- **Reconciliation between the bank statement and the PMG schedules**
  - to verify and follow up uncleared amounts
  - a reconciliation must also be done on BAS or the relevant accounting system to certify that all documents on the PMG account are applicable, have been thoroughly revised and approved; and all documents that are not applicable will be returned; and all errors outstanding for that month and previous month's accounts are reflected in the reconciliation
  - Prior to closure of the financial month and financial year, a physical reconciliation must be performed to ensure that all revenue deposited in the relevant revenue fund balances with the department's books
  - Any difference should be attributed to the amount still to be paid over to the relevant revenue fund
  - To keep bank exceptions to a minimum, all amounts paid from or deposited into a department's bank account, should be recorded on BAS or the relevant accounting system

- Bank interfaces are only complete once the department has confirmed that the bank balance on BAS or the relevant accounting system is the same as the balance on the bank statement.

e) The following guidelines must be followed when reconciling accounts

- Determine what must be reconciled i.e. the various sources of accounting information
- Collect all relevant records
- Begin with the comparison of data working systematically in date order
- A fixed format is recommended when proceeding with the reconciliation; a logical approach works best and while there is no specific rule about where to start, a common approach is to use your transaction record as the starting point and end with the "external" transaction record balance
- Use symbols such as a correct mark (✔) to note transactions that agree on both information sources and an (x) to indicate transactions that only appear on one information source's transaction listing; note that you can use whatever symbols or colour coding you prefer just apply them consistently.
- Upon completion of the comparison all the non-matching transactions or differences must be investigated.

Example: Where it is found that a transaction should or should not be in your records the necessary adjustment must be processed to add or deduct the transaction amount, whichever is applicable; this will bring the balances of both sources of information in sync. The additions and deductions are processed as journal adjustment entries where applicable.

	Note that all relevant supporting documentation for the adjustment entries identified by the reconciliation process must be duly authorised by the delegated official and kept on file for audit purposes.

- Prior to performing the next reconciliation the adjustments of the previous reconciliation must be verified for correctness; where these adjustments have not been effected reasons must be investigated and the adjustments will again appear on the current reconciliation i.e. adjustments are carried forward until they are resolved.

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