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Department:
Environment & Nature Conservation
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

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DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

COMMITMENT POLICY
03 MARCH 2014
FINANCIAL MANAGEMNT UNIT
VERSION 02

"A PROSPEROUS AND EQUITABLE SOCIETY LIVING IN HARMONY WITH OUR NATURAL RESOURCES"

Table of Contents

DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION	1
1. CONCEPTUAL BACKGROUND	3
1.1 INTRODUCTION.....	3
1.2 LEGISLATIVE REQUIREMENTS.....	3
2. POLICY STATEMENT AND APPLICATION SCOPE	3
2.1 POLICY STATEMENT	4
2.2 APPLICATION SCOPE.....	6
3. POLICY FRAMEWORK.....	7
3.1 IDENTIFICATION AND CONSULTATION OF STAKEHOLDERS.....	7
3.2 TIMEFRAMES	7
3.3 IMPLEMENTATION STRATEGY	7
The implementation date for this policy is April 01, 2014	7
3.4 FINANCIAL IMPLICATIONS.....	7
3.5 COMMUNICATION	7
3.6 COMPLIANCE, MONITORING AND EVALUATION (M&E).....	7
3.7 POLICY REVIEW.....	8
3.8 POLICY IMPACT	8
3.9 INTERIM MEASURES	8
4. ADOPTION OF POLICY	9



1. CONCEPTUAL BACKGROUND

1.1 INTRODUCTION

This policy outlines the identification, treatment, recognition and reporting of commitments in the department according to the requirements of the PFMA

The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

DEFINITIONS

Commitments: Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Approved and Contracted Commitments: Where the expenditure has been approved and the contract has been awarded at the reporting date.

Approved but not yet contracted commitments: Where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

1.2 LEGISLATIVE REQUIREMENTS

Responsibility of the accounting officer [Section 38(1) (a) (i) of the PFMA] and Treasury regulation section 8.1

2. POLICY STATEMENT AND APPLICATION SCOPE

2.1 POLICY STATEMENT

The purpose of this policy is to:

- Ensure that Commitments are recorded accurately and completely in the financial statements;
- ensuring that employees have a clear and comprehensive understanding of the procedures they must follow to record these;
- ensuring that only valid commitments are recorded in the correct financial period

RECOGNITION

Accounting policy

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

PROCEDURES

Since procurement of goods and services starts in the Supply Chain Management, this is where the audit train of commitments should also begin. Commitments start with a requisition from the units and end with the placement of an order. The following procedures should be adhered to in order to ensure the accuracy and completeness of these commitments.

DEMAND AND REQUISITION MANAGEMENT

Commitments represent goods/services that have been ordered, but no delivery has taken place at the reporting date. These amounts are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are however disclosed as part of the disclosure notes.

Items are classified as commitments where the department commits itself to future transactions that will normally result in the outflow of resources.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements. Material contracts entered into after the reporting date but prior to the approval of the financial statements must be disclosed under subsequent events in the report of the accounting officer.

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

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the department – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.
- Periodic reconciliations must be performed between the department and Public Works to ensure that the department's capital commitments are complete and accurate.
- A program must be implemented for the co-ordination between the department and public works to ensure that all capital commitments are accurately and completely reflected in the department's Annual Financial Statements.
- The list of projects maintained by the department must be reconciled with Public Works capital projects executed.
- The details of the department's list and Public works must be compared to each other for any discrepancies.
- All orders that do not have goods received signatures must be accounted for as commitments.

In the note to the financial statements:

The commitments disclosed in disclosure note are the aggregate amount of capital and current expenditure approved and contracted for at the reporting date, to the extent the amount has not been recorded in the financial statements.

A distinction must be made between capital and current commitments. Ensure that there is no duplication of information e.g. operating lease commitments. Where departments have made a commitment for a period longer than 1 year, it should be stated in the note. For example, if a department committed to rent a pool of cars for a period of 2 years, this should be stated in this note.

In calculating commitments the following should be taken into account pertaining to tenders awarded:

- the period of the tender awarded;
- amounts already paid pertaining to that tender/contract;
- amounts for which invoices have been received and which are therefore included in accruals should be deducted;

- Commitments loaded on the procurement systems (such as LOGIS)
- Commitments not loaded on the procurement systems
- The commitment register should be signed by the compiler and reviewed by the chief financial officer for its completeness and accuracy thereof

COMMITMENT'S REGISTER

Supplier name	Economic Classification	Program	Order Number	Order Date	Amount

2.2 APPLICATION SCOPE

This policy will apply to all officials of the Department of Environment and Nature Conservation.



3. POLICY FRAMEWORK

3.1 IDENTIFICATION AND CONSULTATION OF STAKEHOLDERS

This policy does not warrant the inputs of employees because it is regulated by Financial prescripts (requirements of the PFMA) and the Provincial Treasury.

3.2 TIMEFRAMES

This policy was analysed and aligned by the Policy Development, Research and Coordination unit on May 12, 2011. This policy was further modified by incorporating the Departmental letterhead on September 22, 2011.

3.3 IMPLEMENTATION STRATEGY

- Dedicated personnel should be appointed
- quotations should be sourced and captured in the LOGIS system
- A commitment register should be compiled
- The Chief financial officer should review commitment registers

The implementation date for this policy is 01 April 2014

3.4 FINANCIAL IMPLICATIONS

The operational implications for this policy will be carried by the Supply Chain Management unit.

3.5 COMMUNICATION

- Provincial Treasury
- Department of Public Works

3.6 COMPLIANCE, MONITORING AND EVALUATION (M&E)

- There should be a dedicated official to receive the requisitions that come from the different units in the department;
- The official receiving the requisition should check that the requisition is completed correctly to ensure correct allocation of expenditure;
- The requisition should be recorded in a register;
- The requisition is then sent to the acquisition management unit for processing;

- In the acquisition unit officials source quotations and capture the requisition in the LOGIS system;
- The official then generates an order from LOGIS system;
- The order is then placed with the supplier;
- All outstanding orders at year end are generated from the system.
- Contracts in process at year end should be accounted for the remaining of the period in the financial statements
- The commitment register should be signed by the compiler and reviewed by the chief financial officer for its completeness and accuracy thereof

3.7 POLICY REVIEW

This policy will be reviewed when the need arises or in case of the occurrence of extenuating circumstances (political mitigation, or pronouncement by legislation and/or regulations). The contact person for this policy will be required to submit all relevant information pertaining to this policy in conjunction with a signed memo with all amendments (addition or omission) during the third quarter annually.

The exception, the Policy development unit will be conducting all extenuating reviews throughout the year, therefore it is paramount that any new information received be submitted to this unit, in order to coordinate the review process of this policy.

3.8 POLICY IMPACT

The desire of this policy is to ensure that Commitments are recorded accurately and completely in the financial statements; ensuring that employees have a clear and comprehensive understanding of the procedures they must follow to record them; ensuring that only valid commitments are recorded in the correct financial period

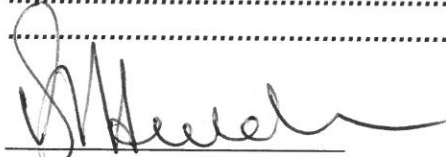
3.9 INTERIM MEASURES

The department has been using the notes issued in terms of the PFMA.

4. ADOPTION OF POLICY

Approved/~~Not Approved~~
Comments:

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D VAN HEERDEN
HEAD OF DEPARTMENT

20140303.
DATE

