



the dr&pw

Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

**INSTRUCTIONS / POLICIES
AND
STANDARD OPERATING PROCEDURES
PAYABLES MANAGEMENT**

*Issued in terms of section of the Public Finance Management Act, 1999 (Act 1 of 1999) –
[PFMA] and Treasury Regulations 2016*

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1. Purpose

- 1.1 The purpose of these Instructions / Policies and Standard Operating Procedures is to foster a culture of responsibility and accountability in the management of payables in the DRPW.
- 1.2 It serves to outline the responsibility of each employee in the policy(ies), procedures and the processing of payments and aims to ensure uniformity in its application.
- 1.3 It also serves as a reference tool for educational and training purposes.

2. Scope

- 2.1 These Institutional Instructions / Policies and Standard Operating Procedures are applicable to all employees of the DRPW including the Accounting Officer.

3. Abbreviations, definitions and descriptions

- 3.1 The comprehensive list of Abbreviations and Definitions are covered in detail in *General Concepts, Definitions and Principles*, and should be read in conjunction with these Instructions / Policies and Standard Operating Procedures.
- 3.2 The abbreviations and definitions that are pertinent to these Instructions / Policies and Standard Operating Procedures are described below:

AFS	Annual financial Statements
CFO	Chief Financial Officer
DRPW	Department of Roads and Public Works
PFMA	Public Finance Management Act of 1999 (Act 1 of 1999, as amended)
PPP	Public-Private Partnerships
HRM	Human resources management
LOGIS	Logistical information system.

'Budget' means a quantitative expression of a plan for a defined period of time. It may include planned revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. It expresses the strategic plans of a specific Project/Programme

'Commitments approved and contracted' represent goods/services that have been ordered and contracted for by the department, but no delivery/payment has taken place at the reporting date.

'Commitments approved but not yet contracted' where the expenditure has been approved and the contract is awaiting finalisation at the reporting date.

'Control' means any action, procedure or operation undertaken to increase the likelihood that activities and procedures achieve their objectives. Control is a response to risk and is intended to contain uncertainty of outcome.

'Lease' means an agreement whereby the lessor conveys to the lessee in return for a payment or a series of payments the right to use an asset for an agreed period of time.

'Financial management' means all decisions and activities, including supply chain activities, of management that impact on the control and utilisation of limited financial resources entrusted to achieve specified and agreed objectives.

'Financial system' means for departments, the transversal Basic Accounting System or such other system as approved by the National Treasury or, in the case of constitutional institutions or public entities listed in Schedules 3 A and 3C to the Act, the financial systems used by constitutional institutions or by the relevant public entities.

'Loss' means an act or an instance of losing money or financial value in a transaction.

'Negligence' means a breach of duty of care which results in a loss to the establishment or institution in which the duty is owed.

4. Financial management governance and regulatory framework

4.1 Legislation

4.1.1 The Public Finance Management Act, 1999(Act No.1 of 1999).

4.1.2 Public Service Act of 1994.

4.2 Treasury Regulations

4.2.1 The AO and CFO are responsible for establishing of a system of internal control, and processes for the effective and efficient risk assessments in their institution. The following Treasury Regulations (2016) must be complied with in the execution of this Instructions / Policies and SOPs.

Para 6 - Institutional instructions and standard operating procedures

Para 9 - Functions of Chief Financial Officers

Para 16 - System of internal control [sections 38(1) (a) (i) and 51(1) (a) (i)]

Para 17 - Control environment

Para 18 - Risk assessment [sections 38(1) (a) (i) and 51(1) (a) (i)]

Para 19 - Control activities

Para 90 - System for expenditure management

Para 91 - Approval of expenditure and commitments

Para 119 - Loans, guarantees, leases and other commitments

Para 120 - Borrowings

Para 121 - Corporate credit cards

Para 122 - Guarantees for housing loans

Para 123 - Lease transactions

Para 228 - Feasibility study – Treasury Approval I (PPP)

4.2.2 Provincial Treasury Instructions are those Instructions issued by a Provincial Treasury in terms of the PFMA for and in respect of provincial institutions of a province.

4.2.3 General Recognised Accounting Practice (GRAP) are standards issued by the Accounting Standards Board in terms of the PFMA, to regulate the reporting and accounting frameworks for municipalities and public entities.

4.2.4 The Modified Cash Standard (MCS) is "GRAP" for departments and any other entity that claims compliance with the modified cash basis of accounting. The MCS, as prescribed by the National Treasury: Office of the Accountant-General, sets out the principles for the recognition, recording, measurement, presentation and disclosure of information required in terms of formats prescribed by the National Treasury.

4.3 Other Instructions/Policies SOPs to be read with this SOP

4.3.1 *SOP 1: General Concepts and Principles.*

4.3.2 *SOP 6: Accounting and Month End.*

4.3.3 *SOP 7: Management of Losses.*

4.3.4 *Public Service and Administration (DPSA) financial handbook.*

4.3.5 *DPSA Resolutions.*

4.3.6 *SMS handbook.*

4.3.7 *Ministerial Handbook.*

4.3.8 *Chief Financial Officers Handbook*

4.3.9 *Government Gazette No 37042 dated 15 November 2013.*

5. Capacity development

5.1 Capacity development is covered in detail in General Concepts, Definitions and Principles, and should be read in conjunction with these specific Instructions / Policies and Standard Operating Procedures.

6. Institutional Instructions / Policies: Payables Management

6.1 The CFO must

6.1.1 Implement effective control measures and ensure that these are strictly adhered to.

7. Annexure

- 7.1 Annexure 1: Process for classification and disclosure of commitments flowchart (high level).
- 7.2 Annexure 2: Process for housing guarantees flowchart.
- 7.3 Annexure 3: Process and procedures motor vehicle guarantees flowchart.
- 7.4 Annexure 4: Process and procedures disclosure of leases (Operating and finance leases-liability portion only).
- 7.5 Annexure 5: Payables Management: Internal control checklist
- 7.6 Appendix 1: Example arrangement contains a lease
- 7.7 Appendix 2: Example: present value of minimum lease payment amounts to at least substantially all of the fair value of leased assets
- 7.8 Appendix 3: Example: majority of economic useful life used by lessee
- 7.9 Appendix 4: Example: lessee continues to use leased asset at the end of initial lease at a lower than market value.
- 7.10 Appendix 5: Example: calculating the present value of minimum lease payments due
- 7.11 Appendix 6: Amortisation table (Example)
- 7.12 Appendix 7 Finance lease obligation (Lessees)
- 7.13 Appendix 8 Operating lease (Lessee)
- 7.14 Appendix 9 Recognition and disclosure of finance lease (Lessee)

7.15 Appendix 10 Recognition and disclosure of operating lease (lessees)

7.16 Appendix 11: Checklist for compliance, reporting, monitoring and evaluation in relation to payables management

7 Delegations of authority

7.1 Role-players involved in payables management should strictly adhere to the Institutional delegations of authority.

8 Non-compliance

9.1 Departure from the provisions of these Instructions / Policies and SOPs, without prior written authorisation by the AO will be treated as financial misconduct and will result in appropriate disciplinary or criminal procedures being considered and instituted against the relevant person where deemed necessary. Refer to the SOP on *Financial Misconduct* for additional information.

9 Monitoring, oversight and maintenance

10.1 To ensure these Instructions / Policies and SOPs operate efficiently, users must report any required changes to their superiors. Whenever something changes in the payments processing areas and / or environment, it should be reviewed for appropriateness. These Instructions / Policies and SOPs must be reviewed periodically as set out in *General Concepts, Definitions and Principles*.

10 Conclusion

10.1 The content of these Instructions / Policies and SOPs must be brought to the attention of all officials within the Institution.

10.2 These Instructions / Policies and SOPs are effective from 1 April 2017.

11 Contact person

11.1 For any queries related to these Instructions and Standard Operating Procedures, contact B Slingers:

12. Approval



MS A MPOTSANG
CHIEF DIRECTOR: CORPORATE AND MANAGEMENT SERVICES
Recommended / ~~Not Recommended~~

2017-10-02

DATE



MR K NOGWILI
HEAD OF DEPARTMENT
Approved / ~~Not Approved~~

04.10.17

DATE

Annexure 1: Process for classification and disclosure of commitments flowchart

Classification

Disclosure Calculation

Disclosure

Reconciliation

Disclose amounts paid as Capital expenditure in the Statement of Comprehensive income

Results must be reviewed by senior official

Classification of commitments

Disclose amounts paid as Capital expenditure in the Statement of Comprehensive income

Classification of commitments

Results must be reviewed by senior official

Approved and not contracted

Approved and contracted/Approved and not contracted

Ensure prior year balance is brought forward as opening balance for current year

A list of all approved contracts relating to commitments should be maintained. Approval and validity of contracts should be maintained.

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A list of all approved contracts relating to commitments should be maintained

Approval and validity of contracts should be maintained

Management accountant to perform detailed calculation also be disclosed in the commitment note as Capital expenditure under approved and contracted

Reconciliation must be performed between the GL, commitment register and Commitment note. Institution must distinguish the various types of commitments in their disclosure note for secondary financial information. All contracts should be entered into the contract register

Reconciliation must be performed between the GL, commitment register and Commitment note

All contracts should be entered into the contract register

Management accountant to perform detailed calculation

Retention should also be disclosed in the commitment note as Capital expenditure under approved and contracted

PAYABLES MANAGEMENT
Reconciliation must be performed between the GL, commitment register and Commitment note

Institution must distinguish the various types of commitments in their disclosure note for secondary financial information

Annexure 1 : Process for classification and disclosure of commitments.

Action	Template reference	Responsibility
Classification of Commitments		
<p>1. The purpose of this process is to distinguish between the various types of commitments and to disclose such in their disclosure note for secondary financial information.</p> <ul style="list-style-type: none"> • Institution must have a list of all approved contract relating to commitments. • Institution contract with supplier must be valid, approved by senior officers or board of directors. • Contract register must be kept by institution with the following details : <ul style="list-style-type: none"> - Value of contract ; - Type of goods and services; - Service provider,; - Department name; and - Terms and condition 	<p>Contract Register Contract register</p>	<p>Contract Management</p>
Disclosure of lease commitments		
<p>2. The purpose of this process is to gather relevant information for disclosure as required by National Treasury. Commitment is a disclosure note item that has no effect on the face of the AFS. It is secondary financial information. A distinction must be made between capital and current commitments ensuring that there is no duplication information.</p> <ul style="list-style-type: none"> • Institution must calculate amount that must be disclosed as commitments. In the calculation the following must be taken into account : <ul style="list-style-type: none"> - The period of tender award; - Amounts already paid pertaining to that tender/contract; - Amount for which invoices have been received and which are therefore included in accruals should be deducted; - Commitment loaded on the procurement system; and - Commitment not loaded on procurement system. • Once calculations are approved the following should be done : <ul style="list-style-type: none"> - Current invoices must be captured in financial system or other relevant financial system. 	<p>Calculation and AFS disclosure note on secondary financial information Invoices ,LOGIS ; Register Commitments</p>	<p>Contract Management/ Management accounting CFO</p>

Action	Template reference	Responsibility
<ul style="list-style-type: none"> - Amounts paid must be disclosed in statement of profit, loss and comprehensive income as capital expenditure. - The prior year balance must be carried forward as the current year opening balance and reduced with amount paid for current period. - Commitment register must be manually modified taking all current year movement into account. - Reconciliation must be done between commitment registers, applicable GL, LOGIS and disclosure note. 	And Annual Financial Statement.	
Disclosure of retention monies		
<p>3. The purpose of this process is to gather relevant information for disclosure of retentions as required by National Treasury. Retentions are amounts of progress billings not paid until satisfaction of conditions specified.</p> <ul style="list-style-type: none"> • Institution must disclose retentions as capital expenditure – under approved and contracted in this note. • Institution must assess if conditions specified in the contract have been satisfied. • Institution must record the payment as capital expenditure in the statement of financial performance. 	Contract	Contract Management

Annexure 3 : Processes and procedures for the classification and disclosure of leases

Procedure	Action	Template Reference / Input	Responsibility
Classification of leases			
<p>1. Transfer or risks and rewards:-</p>	<p>Institutions must determine whether arrangement contains a lease by testing the following conditions:</p> <ul style="list-style-type: none"> • Fulfilment depends on the use of the assets • Arrangements conveys a right to control the use of the asset <p>Determine whether above give a transfer of risk and reward: - where risk and rewards are transferred to the lessee; the Institution carries the risk of repairs and maintenance of the leased assets (risks), and where the lessee gains from the increase in values or the realisation of residual value upon disposal (reward).</p>	<p>Lease contracts Lease register</p>	<p>CFO Chief Works Director Accounting Officer Public</p>
<p>2. Classification</p>	<p>The arrangement must be analysed to determine if it meets the definition of Finance or an operating lease. The condition should be tested:</p> <ul style="list-style-type: none"> • Lease transfers ownership of the asset to the lessee by the end of the lease term; • Lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date of the option becomes exercisable so that the inception of the lease it is reasonable certain that the option will be exercised; • At the inception of the lease the present value of the minimum lease payments amounts to at least of the fair value of the asset. • The lease term is for the major part of the economic life of the asset even if title is not transferred. • If any or a combination of above condition are met and lease will be classified as Finance Lease. • Additional indicators can also determine and distinguish between Finance 		<p>Accounting Officer/ Accounting Authority</p>

Procedure	Action	Template Reference / Input	Responsibility
	<p>lease and Operating lease</p> <ul style="list-style-type: none"> • If Lessee can cancel the lease, the Lessee will carry any loss that will be incurred by the lessor as a result of the cancellation, • Gains or Losses due to changes in fair value of residual value are credited to lessee and • At the end of initial lease, the lessee has option to extend the lease rent that substantially lower than market rent. <p>E.g. Contract state that Lease can be cancelled but Lessee will pay all cost incurred by Lessor to find other Lessees e.g. Legal cost.</p> <p>E.g. Lessee gains from the increase in values or the realisation of residual value upon disposal. (Reward).</p>		
3.	<p>Recognition and measurement Finance Lease Lessee Initial (Accrual Basis)</p> <ul style="list-style-type: none"> • At commencement date, Lessee must recognise Lease asset and Liability.(Financial Position) • Initial direct cost that lessee incurred must be recognised as an asset. • Recognise asset and liability at lower of: <ul style="list-style-type: none"> ✓ Fair value of asset; or ✓ Present value of minimum lease payment at rate implicit in lease (or incremental borrowing rate if the preceding cannot be determined) 		Accounting Officer/ Accounting Authority
4.	<p>Recognition and measurement Finance Lease Lessee Subsequent Accrual Basis</p> <ul style="list-style-type: none"> • Determine the amount at which the asset and liability would be recognised. • Draw amortisation table to split lease payment between interest and capital portion. <ul style="list-style-type: none"> Pass in journals to account for all above. • Depreciable leased assets under Finance Lease will give rise to depreciations /amortisation. • Finance interest will be raised base on implicit rate. • Journals must be reviewed 		Accounting Officer/ Accounting Authority
5.	<p>Recognition and</p> <ul style="list-style-type: none"> • Lease payments must be straight lined when the escalations are fixed 		Accounting Officer/ Accounting Authority

Procedure	Action	Template Reference / Input	Responsibility
measurement Operating lease Lessee Accrual Basis	<ul style="list-style-type: none"> • Lease payment must be recognised as expense in statement of financial performance on straight line basis. • Differences between actual lease payment and straight line amount must be recognised as operating assets or liability <ul style="list-style-type: none"> • Journals must be passed for all above transactions. • No liability and asset recognised as risk and reward won't be transferrable. • Instances where straight line is not required; <ul style="list-style-type: none"> – Rental agreement is for an indefinite period – There is no escalation of lease payment. • Operating lease asset: actual amount paid exceeded straight lined amount • Operating lease liability: actual amount paid less than straight lined amount. 		Accounting Authority
6. Disclosure Finance Lease Lessee Accrual Basis	<ul style="list-style-type: none"> • Institution (lessees) must disclose the following with finance leases: <ul style="list-style-type: none"> – each class of asset, the net carrying amount at the reporting date; – Reconciliation between the total of future minimum lease payments at the reporting date, and their present value. – Institution must disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods: <ul style="list-style-type: none"> o not later than one year; o later than one year and not later than five years; and o later than five years; • Contingent rents recognised as an expense in the period; • Depreciation and the finance charge relating to the leased asset shall be included as part of the total depreciation and finance charges respectively. 	Lease contracts Lease register	Accounting Authority Officer/ Accounting Authority
7. Disclosure Operating Lease Lessee Accrual	<ul style="list-style-type: none"> • Institution must disclose lease payment straight lined in statement of performance. 	Lease contracts	Accounting Authority Officer/ Accounting Authority



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Department:
Roads and Public Works
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

INTERNAL MEMO

DATE:	20 September 2017	REF.NO.	
TO:	Head of Department (HOD)		
FROM	Director: Policies		
SUBJECT:	Payables Management		

Purpose:

1. The purpose of this submission is to obtain approval from the Head of Department (HOD) for the operationalization of the Payables Management Policy within the Department.

Recommendations:

1. The final draft of this policy has been circulated by the Communication Unit.
2. It is therefore recommended that the HOD approve this policy as departmental policy.
3. Please refer to email as evidence of departmental consultation.

Kind Regards



Mr K.L. Mathews – Director: Policies
Recommended / Not Recommended

Mail Message



Mail Properties

From: DRPW-InfoFriday - September 8,
2017 8:20 AM

To: AFanie; AFembers; AKula; ALesotho; ALKoopman; amaina@vodamail.co.za; AminaJinnah; AMkhize; AMoeti; AMofokeng; AMokwadi; AMotlagodisa; Ampotsang; andre.jooste17@gmail.com; AnthonyL; APulen; arpinm7@gmail.com; ARudman; ASwanepoel; Babalwa Bekebeke; BBarends; BBoebeje; BChotelo; BCloete; BDamon; BGoba; BLawrence; BMeruti; BosmanP; BPitso; BPlaatjies; BSedisho; BSlingers; bslingers@vodamail.co.za; BValentine; c28robertson@gmail.com; CAbrahams; CAdams; CBailey; cbailey@vodamail.co.za; CDenysschen; CFourie; CGeweldt; CKakora; CMrwebi; CNotuku; CRobertson; CValentine; CvanRooi; DBingwa; denicebingwane460@gmail.com; DKowa; DMAqutyana; DMokgatthe; DMokoena; DMonyamane; DMwembo; DPetersen; DPhirisi; DRPW-Info; DRPW-Switchboard; DSwartz; DTsoai; DvdMerwe; EBlaauw; EBreytenbach; ed.simon19@gmail.com; EduPlessis; EJonkers; EKhatwane; EKruger; ELecwedi; EMichaels; emodise@vodamail.co.za; EMoreothata; ENodoba; EricksenA; ESimon; esterhuysek133@gma

Subject: DEPARTMENTAL POLICIES

Attachments:

2. Payments Processing SOP.docx (264127 bytes)	[View] [Open] [Save As]
5. Revenue, Cash and Banking 6 June 2017.docx (383716 bytes)	[View] [Open] [Save As]
6. Clearing of Suspense Accounts SOP.docx (239794 bytes)	[View] [Open] [Save As]
10. Payables management SOP.docx (297502 bytes)	[View] [Open] [Save As]
12. Related Parties SOP.docx (269924 bytes)	[View] [Open] [Save As]
13. Travel and Subsistence SOP.docx (237839 bytes)	[View] [Open] [Save As]
DEPT PROCEDURES FOR JOURNALS.pdf (1717639 bytes)	[Open] [Save As]
ITDisasterRecoveryPlanVer2.doc (1010586 bytes)	[View] [Open] [Save As]
Mime.822 (6168269 bytes)	[Save As]

Good day Colleagues

Hereby receive correspondence below and departmental policies attached for your input and feedback.

1. Payments processing (SOP document)
2. Revenue, cash and banking
3. Clearing of Suspense Account
4. Payables Management
5. Related Parties
6. Travel and Subsistence
7. Departmental Procedures for Journals
8. Disaster Recovery Plan

Kindly note that the closing date is 14 September 2017 and inputs/feedbacks can be mailed to kmatthews@ncpg.gov.za.

For any clarification or queries, please consult with Mr. Kenny Matthews - POLICY UNIT.

NB! Also be informed that Mrs Melony Burger is assisting Mr Matthews due to the absents of his secretary.
MELONY BURGER

DIRECTORATI