NATIONAL TREASURY

GUIDE FOR THE PREPARATION OF ANNUAL REPORTS

NATIONAL AND PROVINCIAL DEPARTMENTS

FOR THE YEAR ENDED 31 MARCH 2003
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A: OVERVIEW

1. PURPOSE

The purpose of this document is to provide guidelines on annual reporting to both National and Provincial Departments. Some of the information in this guide such as the human resources management and performance management may also apply to trading entities and constitutional institutions.

The guideline incorporates annual reporting requirements as set out in the various policy documents namely, the Constitution, 1996, the Public Finance Management Act (PFMA), 1999, the Division of Revenue Act, 2002, the Treasury Regulations and the Public Service Regulations, 2001.

This preparation guide with the specimen financial statements constitutes Generally Recognised Accounting Practice (GRAP) for departments. Trading entities and constitutional institutions are required to comply with Statements of Generally Accepted Accounting Practice (GAAP) as issued by the Accounting Practice Board. The financial statements of trading entities and constitutional institutions should indicate clearly that they have been prepared in accordance with statements of GAAP and any area of non-compliance should be disclosed.

A brief background on the need for annual reporting will be provided, followed by the criteria for good reporting and a detailed discussion on what to report. A specimen annual report has also been prepared.

2. BACKGROUND

When a government is voted into office, an inevitable contract of accountability is entered into between government and the citizens it serves. It is therefore incumbent on government to inform the citizens on what they intend to achieve by way of pre-determined objectives. These pre-determined objectives are reflected in:

Performance agreements between a Minister/MEC and the head of the department;

Service delivery improvement programmes;

Strategic plans; and

Estimates of expenditure.

The accountability process culminates with the publishing of the annual report, which serves to inform the citizens of the country as to what progress Government has made in the achievement of its objectives. Accounting officers are therefore required to compile annual reports for the institutions that they are responsible for and these annual reports must fairly represent their institution’s performance and financial position for a particular fiscal year. The information contained in the annual report should reflect the institution’s achievements in relation to the objectives as set out in year 1 of the institution’s strategic plan and annual budget for the financial year in question.

The executive authority must critically assess this annual report, which must be presented to Parliament or the relevant provincial legislature.

The following is a diagrammatic representation of the planning, budgeting and reporting cycle:
3. CRITERIA FOR GOOD REPORTING

The information on performance provided in annual reports must be useful for the purpose of assessing that performance. Ideally, this information should include quantified, compared and verifiable service delivery information. The requirements regarding the quality of information necessary to assess performance are:

- Information criteria; and
- Credibility of information

3.1 INFORMATION CRITERIA

Information contained in annual reports must be:
3.1. Comparable
To be of value for purposes of evaluation, performance data should be compared to:

(a) The department’s predetermined objectives (intentions) and service standards, which are stated in measurable terms;
(b) needs of target groupings;
(c) the performance of similar organisations;
(d) performance during a previous period; or
(e) other benchmarks.

3.1.2. Consistent
Performance measures should be consistent from one reporting period to the next, and the information should be prepared on the same basis in order to compare and assess performance adequately.

3.1.3. Explained
Each key performance measure should be explained and the methodology outlined, i.e. how the information was obtained, from what data sources, etc. The significance, limitations, reliability and relevance of the measures and indicators should be explained.

3.1.4. Analysed
It is important to show that any significant variances have been analysed. The reasons for variances should be examined, analysed and explained. Periodic programme evaluations are therefore important to assess the relationship between anticipated outputs and actual achievements.

3.1.5. Range of measures
The information should reflect the key attributes of performance. For example, focusing only on the cost of outputs is not sufficient to describe the quality of performance. If costs are decreasing, an indication must be given as to whether or not quality is being compromised.

3.1.6. Verifiable
It must be possible for the report user to trace the sources and systems from which information is derived and, if necessary, information should be attested to by an independent third party to ensure its credibility.

3.1.7. Objective
Information should be provided in a balanced and objective way by keeping matters in perspective and presenting without bias the positive and the negative in whatever proportion they might present themselves.

3.1.8. Relevant
The information should pertain directly to the interests, concerns and expectations of the members of legislatures and other stakeholders.

3.1.9. Comprehensive
The information provided should be a concise and complete overview of the activities of the department under review, including the identification of any areas deliberately left out.

3.1.10. Understandable
The readers for whom the report is intended should be able to clearly understand the contents of the report, which can be achieved by using terminology and reasoning that is comprehensible to any lay reader - especially when technical matters are discussed.
3.2 CREDIBILITY OF INFORMATION
Supplementing reporting with monitoring and evaluation reports by independent bodies can ensure credibility. This will demonstrate to the legislature, citizens and other stakeholders that the information is true, fair and complete.

4. MONITORING AND EVALUATION SYSTEMS
For departments to be able to report intelligently and systematically on performance instead of just on their activities, supporting monitoring and evaluation systems and information systems are a prerequisite. The following steps will be necessary:

Clarification of goals in strategic and operational plans.

Development of performance indicators and targets for all programmes.

Adaptation or development of information systems to capture appropriate performance data.

Introduction of a regular evaluation programme in respect of all major programmes.

Integration of the various planning and evaluation processes of Government so that the information flow through the system is well coordinated.

5. ACCOUNTING STANDARDS AND GUIDES
The Accounting Practices Board (APB) of South Africa (i.e. the private sector equivalent of the Accounting Standards Board (ASB)) sets accounting standards for the private sector. The South African Institute of Chartered Accountants (SAICA), a member of the Accounting Practices Board, is represented on the Public Sector Committee (PSC) of the International Federation of Accountants (IFAC). IFAC PSC has a mandate to set International Public Sector Accounting Standards.

To date, twenty accounting standards have been published by the IFAC Public Sector Committee as well as a number of exposure drafts on proposed International Public Sector Accounting Standards. Exposure Draft 9 (ED9), deals specifically with financial reporting under the cash basis of accounting.

5.1 STATUTORY REQUIREMENTS
The table below reflects all the sections of the PFMA, the Division of Revenue Act and the paragraphs of the Treasury Regulations that refer to the annual financial statements. This table is an explanatory guide of why much of the information called for in the financial statements has been included.

<table>
<thead>
<tr>
<th>Sect</th>
<th>Requirement</th>
<th>Compliance/comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Definition: “financial statements” means statements consisting of at least a balance sheet an income statement a cash flow statement any other statements as may be prescribed any notes to these statements</td>
<td>See TR 18.2</td>
</tr>
<tr>
<td>40 (1) (b)</td>
<td>Must prepare financial statements for each year in accordance with generally recognised accounting practice</td>
<td>See TR 18.2 re GRAP i.r.o. Y/E 2003</td>
</tr>
<tr>
<td>40 (3) (a)</td>
<td>The annual report and audited financial statements referred to in subsection (1) (d)</td>
<td></td>
</tr>
</tbody>
</table>
must-
Fairly present
the state of affairs of the department, trading
entity or constitutional institution,
its business,
its financial results,
its performance against predetermined
objectives and
its financial position as at the end of the financial
year concerned

| 40 (3)  | Include particulars of –
(b) (i)  | Any material losses through criminal conduct, and
any unauthorised expenditure and
fruitless and wasteful expenditure, that occurred during the financial year

| 40 (3)  | Include particulars of –
(b) (ii) | Any criminal or disciplinary steps taken as a result of such losses, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure

| 40 (3)  | Include particulars of –
(b) (iii) | Any material losses recovered or written off

| 40 (3)  | Include particulars of –
(b) (iv) | Any other matters that may be prescribed

<table>
<thead>
<tr>
<th><strong>TREASURY REGULATIONS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1.13 (a)</td>
</tr>
<tr>
<td>3.1.13 (c)</td>
</tr>
</tbody>
</table>
| 4.3.3 | The accounting officer must, on an annual basis, submit to the provincial treasury (if applicable), National Treasury and Auditor-General a schedule of-
the name and rank of officials facing disciplinary hearings or criminal charges;
the outcome of any disciplinary hearings and/or criminal charges; and
the sanctions and any further action taken against the relevant official;
Such report must refer to any changes in the institution’s system of financial and risk management or any other matter dealt with in the Act, as the result of the investigation. | For various reasons this cannot be a published report (as part of the annual financial statements) and is obviously intended to be a separate report for the treasuries and A-G only. |
<p>| 7.3.2 | Information on the tariff policy must be disclosed in the annual report, including information on any free service(s) rendered, but not taken into account in the budget and which could have yielded significant revenue | Although not specifically required to be included in the annual financial statements, the requirement is so closely financially related that its inclusion in the financial statements is appropriate. See Item 2 of the Management Report. |
| 9.1.5 | The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be | See Notes to the Annual Financial Statements. |</p>
<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Requirement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.4.3</td>
<td>Any debt written off by the accounting officer must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off</td>
<td>See Statement of Accounting Policies and Related Matters and Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td>13.1.4</td>
<td>The accounting officer must report on all known contingent liabilities of his or her department in its annual report.</td>
<td>See Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td>14.3.1(d)</td>
<td>The accounting officer must for each separate portion of trust money annually prepare separate financial statements in accordance with GAAP.</td>
<td>Such financial statements do not form part of the department’s annual financial statements.</td>
</tr>
<tr>
<td>18.2</td>
<td>For the financial year ending 31 March 2003, the following reporting standards comprise generally recognised accounting practice: For departments, Parliament and provincial legislatures - a balance sheet; an income statement; a cash flow statement; notes to the annual financial statements, and such other statements as may be determined by the Accounting Standards Board. The statements must be prepared on a modified cash basis and be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the institution.</td>
<td>The ASB has agreed that the Accountant-General can determine what GRAP is until the ASB issues Standards. Done See Management Report</td>
</tr>
<tr>
<td>18.4.1</td>
<td>A department’s annual report must include a list of trading and/or public entities controlled by the department, together with: an indication of the legislation under which the trading and/or public entity was established; a statement of the functions of each trading and/or public entity; and the accountability arrangements between the accounting officer and the management of the trading entity and/or public entity.</td>
<td>See the management report</td>
</tr>
<tr>
<td>18.3.1(c)</td>
<td>Include information on transfer payments per organisation for the entire financial year as well as a report on the compliance with Section 38(1)(j) of the Act.</td>
<td>See Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td>18.3.1(e)</td>
<td>Include any additional information required by Parliament or the provincial legislature.</td>
<td>To be supplied upon request.</td>
</tr>
<tr>
<td>18.3.1(f)</td>
<td>Report on the use of foreign aid assistance, detailing the source and intended use of the assistance (including the value of any aid-in-kind in rand), performance information on the institution’s use of the assistance, and any pending applications for assistance.</td>
<td>See Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td>18.3.1(g)</td>
<td>A report from the audit committee commenting on the effectiveness of internal control in the institution, as required by paragraph 3.1.3(b).</td>
<td>Report by the Audit Committee on the Effectiveness on Internal Control of the Department to be included elsewhere in the annual report.</td>
</tr>
<tr>
<td>Section</td>
<td>Description</td>
<td>Notes</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
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</tr>
<tr>
<td>19.8.4</td>
<td>The annual financial statements in respect of a trading entity must be complied in accordance with paragraph 18.2.</td>
<td>This guideline applies unless the trading entity applies generally accepted accounting standards, in which case Statements of Generally Accepted Accounting Practice applies.</td>
</tr>
<tr>
<td>20.2.4</td>
<td>The remuneration of all members of a commission or committee must be disclosed as notes to the financial statements of the institution.</td>
<td>See Note on Personnel in the Notes to the Financial Statements.</td>
</tr>
<tr>
<td>21.2.4</td>
<td>All gifts, donations and sponsorships received [and made] during the course of a financial year must be disclosed as a note to the annual financial statements of the institution.</td>
<td>It appears that “and made” was an omission in the Regulations. The omission is “corrected” as stated below. See Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td>22.1.4</td>
<td>All remissions, refunds or payments made as an act of grace during the financial year must be disclosed as a note to the annual financial statements of the institution.</td>
<td>See Notes to the Annual Financial Statements.</td>
</tr>
<tr>
<td><strong>DIVISION OF REVENUE ACT, No. 5 of 2002</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18.(1)</td>
<td>A department transferring funds in respect of an allocation set out in Schedules 3, 4, 5, and 6 must, in its annual report and financial statements, also: indicate the total amount of that allocation transferred to a province or municipality during the financial year; indicate the funds, if any, which were delayed or withheld, and the reasons for such delay or withholding; certify that all transfers to a province or municipality were deposited into the accredited bank account of that province or municipality; certify that, except in respect of allocations contemplated in Schedule 6, no other funds were transferred to a province or municipality, directly, or through a public or private entity; indicate to what extent a province or municipality was monitored for compliance with the conditions of an allocation and the provisions of this Act; indicate to what extent the allocation achieved its purpose and outputs; indicate whether any portion of the allocation was retained by the transferring department for administration costs; and indicate any non-compliance with this Act, and the steps taken to deal with such non-compliance.</td>
<td>See Report on Programme Performance and Management report.</td>
</tr>
<tr>
<td>18.(2)</td>
<td>The annual report and financial statements must, for a department or municipality receiving an allocation in terms of this Act, also: indicate the total amount of that allocation received during the financial year; certify that all transfers in terms of this Act to a province or municipality were deposited into the accredited bank account; indicate to what extent a province or municipality</td>
<td>See Statement on Programme Performance.</td>
</tr>
</tbody>
</table>
met the conditions of such an allocation and complied with the provisions of this Act; indicate to what extent outputs were achieved; and contain such other information as the National Treasury may determine.

| 24.2 | For the purposes of this section, the following conduct may be taken into account to determine whether a serious breach of the measures contemplated in section 216 (1) of the Constitution has been committed: | The Auditor-General reports on the promptness of submission of financial statements. |

### 5.2 GENERAL RULES

There are a few issues that apply to all sections of the AFS and these are dealt with below:

#### 5.2.1. Material amounts/differences

There are many instances where legislation refers to material amounts or material differences and the same terminology will be found in the format of the financial statements as well as in this guide.

A balance or an amount is material for disclosure purposes if the omission thereof could influence the decisions of the users of such financial statements. Materiality depends also on the nature and extent of the item, given the particular circumstances. The materiality as determined by the auditors will differ from that determined by the department.

There is no single rule to describe what is material and what is not material in all instances. One cannot for instance say that all amounts larger than R 10 000 are material or all differences of more than 2% are material. If, for example, petty cash payments amounting to R 10 000 were unaccounted for, this would be material because it would indicate a serious lack of control over cash funds. However, if R10 000 was spent on lockers for staff, it will not be regarded as being a material increase in the cost of the building. On the other hand, all cases of theft, fraud or corruption must be regarded as being material regardless of the amount involved.

#### 5.2.2. Language, underlining, bolding and use of uppercase letters, brackets, correct use of headings

Financial statements must be submitted in English. It is however the prerogative of a Province/Department to also compile these reports in any of the other official languages.

Departments are requested to abide by all the detail provided in the prescribed layout and format of the 2003 annual financial statements. Careless use of underlining, bolding or uppercase letters can create the impression that one item is more important than another, when it has the same importance or status in the financial statements.

Brackets ( ) must be used to indicate negative values. However note that certain headings, such as liabilities, imply already that all entries are negative values, therefore brackets are not required in such cases.

The use of headings per the specimen is important, for example the income statement is presented for the year ended, whilst the balance sheet is presented at the accounting date.

It is also important to provide the name of the department/entity for each page in the financial statements, to facilitate easy identification of the reporting entity when extracts are made from the annual report.

#### 5.2.3. Wording and references in boxes

These words and references must not be included in the published annual financial statements. They are only shown in the prescribed format for ease of reference, or to provide further instructions or explanations to preparers.
5.2.4. Rounding

All figures on the face of the various statements must be rounded to the nearest R1 000 (one thousand rand). This also generally applies to all figures in the notes to the annual financial statements except where amounts smaller than a thousand rand are considered to be material (See 5.2.1 above).

Tip: When initially preparing the financial statements, do not use rounding because you will find it very difficult to balance the balance sheet and the cash flow statement. Only apply rounding once the entire set of financial statements has been completed and is ready for publishing. Make sure that figures that relate to each other e.g. an amount on the face of a statement that is explained by means of a note, are rounded the same. For example, if an amount of R 112 583 in balance sheet is rounded as R 113 thousand ensure that the total of the corresponding note is also rounded as R 113 and not R 112.

5.2.5. Nil Value for a line item

For a line item in the balance sheet that has a nil balance, and the comparative figure is also nil, then the line item must be deleted from the balance sheet, and the numbering of notes be accordingly adjusted.

5.2.6. Changes to Comparatives

A number of comparatives will need to be reclassified. In order to assist the Office of the Auditor-General and to eliminate potential difficulties, a working paper should be prepared to reconcile this reclassification of comparatives to the previous year’s audited financial statements. These working papers must be available at the start of the audit.

6. KEY SUBMISSION DATES

The following are the submission dates for financial statements in terms of the PFMA:

<table>
<thead>
<tr>
<th>Action</th>
<th>PFMA</th>
<th>Date</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting date</td>
<td>40(1)(b) &amp; 55(1)(b)</td>
<td>31/03</td>
<td>Accounting officer</td>
</tr>
<tr>
<td>Certifying date for issue to Auditor-General</td>
<td>40(1)(c) &amp; 55(1)(c)</td>
<td>31/05 (Final Date)</td>
<td>Accounting officer</td>
</tr>
<tr>
<td>Audit report issued to Accounting Officer</td>
<td>40(2)</td>
<td>31/07 (Final Date)</td>
<td>Auditor-General</td>
</tr>
<tr>
<td>Audit Committee Meeting for Evaluation of AFS</td>
<td>To meet 31 Aug</td>
<td>Meeting Within 7 days of A-G Report date. Final Report date 08/08</td>
<td>Accounting officer</td>
</tr>
<tr>
<td>Submission to A-G of Final Annual Report</td>
<td>To meet 31 Aug</td>
<td>Within 7 days of Audit Committee Meeting date. Final date 15/08</td>
<td>Accounting Officer</td>
</tr>
<tr>
<td>Submission to relevant treasury and the executive authority</td>
<td>40(1)(d) &amp; 55(1)(d)</td>
<td>31/08</td>
<td>Accounting officer</td>
</tr>
<tr>
<td>Table in National Assembly or provincial legislature</td>
<td>65(1)(a)</td>
<td>30/09</td>
<td>MEC / Cabinet member</td>
</tr>
</tbody>
</table>
7. TABLING OF THE REPORT IN PARLIAMENT OR THE PROVINCIAL LEGISLATURE

In terms of section 65(1)(a) of the PFMA, the executive authority of a Department must table the annual report of his or her department in the National Assembly or Provincial Legislature (whichever applicable), within one month after the accounting officer received the audit report.

8. MATTERS CONCERNING THE ISSUANCE OF FINANCIAL STATEMENTS

8.1 CONSOLIDATED FINANCIAL STATEMENTS

Section 19(1) of the Public Finance Management Act, 1999 (Act No. 1 of 1999)(PFMA), effective from 1 April 2003, requires a provincial treasury to prepare consolidated financial statements in accordance with generally recognised accounting practice, for each financial year. Those statements must be submitted to the Auditor-General within three months after the end of that financial year. Section 19(2) requires the Auditor-General to audit the consolidated financial statements and submit an audit report on the statements to the provincial treasury of the province concerned, within three months of receipt of the consolidated financial statements.

However, certain provinces have chosen to prepare consolidated financial statements before 1 April 2003.

If a province submits consolidated financial statements to the Auditor-General the reasons why they submit it must be clarified. If it is submitted for audit purposes, the Auditor-General may audit it and recover the cost from the province. If it is submitted for information purposes, the province must indicate in a letter to the Auditor-General that it is not expected from his office to perform an audit. Consolidated financial statements that are not audited and is published must be published as being “unaudited financial statements.” The Auditor-General may issue a report indicating that those financial statements were not audited. The report should be printed with the consolidated financial statements.

Where a province prepares consolidated financial statements for inclusion in the annual report its position in the annual report will be determined by whether or not the information has been audited. If it is audited, it should be positioned before the Annexures. The authorisation section of the management report should be amended to include the page numbers of the consolidated financial statements. If the consolidated financial statements have not been audited, it should be positioned after the Annexures and the Management Report should not refer to those page numbers at all.

8.2 WITHDRAWAL AND REISSUE OF AUDITED ANNUAL FINANCIAL STATEMENTS

Amending the AFS after it has been audited is subject to various legal, accounting and auditing requirements. It is necessary to determine if the relevant legislation allows for changes to be made to the AFS, the circumstances that would warrant an amendment to the AFS and the aspects that needs to be considered by the auditor before revising the audit report.

Legal perspective:
- The question is who, if anybody has the authority to withdraw AFS that have already been tabled in Parliament/legislature, and submit new statements for audit purposes. The further question emanating is whether the Auditor-General would be obliged to audit the revised statements and issue a new audit report.
The compilation of financial statements of provincial departments as well as the responsibility of reporting on those statements is regulated by sec. 40 and 65 of the PFMA. Section 40(1) states, inter alia, the following:

1) “The accounting officer for a department, trading entity or constitutional institution-

   a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

   b) must prepare financial statements for each financial year in accordance with generally recognised accounting practice;

   c) must submit those financial statements within two months after the end of the financial year to-

      i) the Auditor-General for auditing; and

      ii) the relevant treasury to enable that treasury to prepare consolidated financial statements in terms of section 8 or 19;

   d) must submit within five months of the end of a financial year to the relevant treasury and, in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity-

      i) an annual report on the activities of that department, trading entity or constitutional institution during that financial year;

      ii) the financial statements for that financial year after those statements have been audited; and

      iii) the Auditor-General’s report on those statements.

   e) ...........

   f) ...........

2) The Auditor-General must audit the financial statements referred to in subsection (1)(b) and submit an audit report on those statements to the accounting officer within two months after receipt of the statements.”

Section 65 of the PFMA proceeds by stating as follows:

1) “The executive authority responsible for a department or public entity must table in the National Assembly or a provincial legislature, as may be appropriate –

   a) the annual report and financial statements referred to in section 40(1)(d) or 55(1)(d) and the audit report on those statements, within one month after the accounting officer for the department or the accounting authority for the public entity received the audit report; and

   b) ...........

2) If an executive authority fails to table, in accordance with subsection (1)(a), the annual report and financial statements of the department or the public entity, and the audit report on those statements, in the relevant legislature within six months after the end of the financial year to which those statements relate-
a) the executive authority must table a written explanation in the legislature setting out the reasons why they were not tabled; and

b) the Auditor-General may issue a special report on the delay."

- The Department submits AFS within two months after the end of the financial year to the Auditor-General, who audits those statements and issues an audit report within the prescribed period. The financial statements as well as the audit report would be submitted within five months of the end of the financial year to the executive authority responsible for the department who, in turn, tables the statements and reports within one month after the accounting officer of the department receives the audit report. From the above it is evident that the reporting process as prescribed by the PFMA must be complete and consequently, no provision is made in the PFMA or any other applicable legislation for the withdrawal and resubmission of financial statements.

- If the financial statements and audit report on the statements have already been tabled in the legislature, it is further imperative to consider the powers and functions of such legislature. In this regard section 114(2) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) stipulates as follows:

  “A provincial legislature must provide for mechanisms-

  a) to ensure that all provincial executive organs of state in the province are accountable to it; and

  b) to maintain oversight of –

  i) the exercise of provincial executive authority in the province, including the implementation of legislature; and

  ii) any provincial organ of state.”

- From the above it is evident that the provincial legislature has been provided with very wide powers to ensure that all provincial organs of state are accountable to it. It is further trite that the legislature will be entitled to fulfil all the functions reasonably necessary to enable it to exercise the powers as expounded in the above section 114(2) of the Constitution. In this regard section 115 of the constitution provides, from a practical point of view, certain powers to ensure that the provincial legislature has the necessary mechanisms at its disposal to enforce its powers as expounded in section 114 of the constitution. Section 115 of the constitution reads as follows:

  “A provincial legislature or any of its committees may-

  a) summon any person to appear before it to give evidence on oath or affirmation, or to produce documents;

  b) require any person or provincial institution to report to it

  c) compel, in terms of provincial legislation or the rules and orders, any person or institution to comply with a summons or requirement in terms of par. (a) or (b); and

  d) receive petitions, representations or submission from any interested persons or institutions.”

The legislature does have the authority to order all relevant parties to provide it with information, documents, evidence, explanatory notes, etc. which, are reasonably necessary to ensure that the departments are fully accountable to it. The parties (including the provincial departments and the Auditor-General) are legally obliged to adhere to such a request. Consequently, neither the accounting officer and the Provincial Treasury nor the national executive or the Auditor-General is entitled to approve the withdrawal of the already tabled
financial statements. The provincial legislature is constitutionally mandated to do whatever is reasonably necessary to ensure that organs of state are accountable to it.

8.3 TECHNICAL IMPLICATIONS RELATING TO SUBSEQUENT EVENTS IN THE PUBLIC SECTOR

Events after the accounting date

Events after the accounting date are events, both favourable and unfavourable, that occur in the period after 31 March 2003 up to the date of approval of the financial statements. Two types of events can be identified:

- those that provide evidence of conditions that existed at year end (adjusting events after the year end), and
- those that are indicative of conditions that arose after the year-end (non-adjusting events after the year-end).

An example of an adjusting event is the discovery of fraud or errors that show the financial statements were incorrect. An example of a non-adjusting event is an announcement and receipt of a grant by a donor organisation after the year-end date to provide additional benefits directly to participants in a programme.

Accounting perspective - Events after the reporting date:

The PFMA stipulates that the accounting officer must prepare AFS in accordance with generally recognised accounting practice (GRAP). In terms of section 89 of the PFMA it is the Accounting Standards Board’s responsibility to set the standards of GRAP. Until the Accounting Standards Board is established the National Treasury may perform the functions of the board (Section 93(3) of the PFMA). In the absence of GRAP, the International Public Sector Accounting Standards (IPSAS) should be followed if there is no clear and proper guidance on the accounting prescripts that should be followed. The International Federation of Accountants recently approved IPSAS 14 that extensively discusses events after the reporting date in the public sector. Although the effective date of this IPSAS is 1 January 2003, IFAC encourages earlier application. IPSAS 14 should be read in conjunction with the PFMA.

The objective of the Standard is to prescribe:

- when an entity should adjust its financial statements for events after the reporting date; and
- the disclosures that an entity should give about the date when the financial statements were authorised for issue and events after the reporting date.
Scope

IPSAS 14

- An entity that prepares and presents financial statements under the accrual basis of accounting should apply this Standard in the accounting for, and disclosure of, events after the reporting date.

- This Standard applies to all public sector entities other than Government Business Enterprises.

- Government Business Enterprises (GBEs) are required to comply with International Accounting Standards (IAS) issued by the International Accounting Standards Committee.

PFMA

- Section 40 and 65 of the PFMA

Definitions

IPSAS 14

The following terms are used in this Standard with the meanings specified:

- Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

- It includes events that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

PFMA

The departments’ reporting period (financial year) is from 1 April of one year to 31 March of the following year. The reporting date is 31 March and all transactions until that date should thus be included.

Authorising the financial statements for issue

IPSAS 14

In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorised for issue. The reporting date is the last day of the reporting period to which the financial statements relate (31 / 03). The date of authorisation for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those statements for issue. Events after the reporting date are all events, even if it occurs after the publication of an announcement of the net surplus / deficit, the authorisation of the financial statements of a controlled entity, or publication of other selected information relating to the financial statements.

The process involved in preparing and authorising the financial statements for issue may vary for different types of entities or policies. It can depend upon the nature of the entity, the governing structure, the statutory requirements and the procedures followed in preparing and finalising the financial statements and is explained in the following paragraphs.
In terms of the PFMA the accounting officer is responsible for the AFS and it must be submitted on or before the 31 May for audit. Although the AFS is scrutinised by the executive authority and the designated committee from parliament, the accounting officer remains the responsible person for the AFS. The audit opinion is provided on those finalised financial statements. As previously explained the office does allow departments in certain cases to change and resubmit the AFS.

**Submission for consideration**

IPSAS 14

In some cases, as the final step in the authorisation process, an entity is required to submit its financial statements to another body i.e. a legislative body such as parliament or a designated committee. This body may have the power to require changes to the audited financial statements.

**PFMA**

The PFMA requires from the accounting officer to submit the AFS, annual report and the audit report within the five months after year-end to the relevant treasury and the executive authority. The executive authority is responsible to table it in the National Assembly or provincial legislature within one month after the accounting officer received the audit report (before 30/09). If the executive officer fails to submit it within six months after year-end to the relevant legislature he/she must provide a written explanation to the legislature. No section in the PFMA authorises the executive authority to refer the AFS back to the accounting officer to affect changes thereto.

**National assembly or provincial legislature**

Once it is been tabled in the National Assembly or provincial legislature it is the speaker’s responsibility to include the AFS, annual report and audit report in the Announcements, Tablings and Committee report (ATC). This is a submission to parliament and once it has been included in the ATC it is regarded as a public document. The tabled annual report will be referred to a designated committee of parliament who can request the accounting officer to provide written reasons and explanations on any questions that may arise. The designated committee does not have executive powers, but their findings and recommendations carries considerable weight.

The committees have the following rights and powers:

- **Permanent referral to:**
  - i) all accounts and financial statements;
  - ii) all reports of the office tabled in parliament;
  - iii) information in respect of any disciplinary actions taken in terms of the PFMA, tabled in parliament; and
  - iv) instances of overspending;

- **Right of access to all financial information.**

As indicated in paragraph 2.1.6 the committee can request the accounting officer to submit additional information, documents, evidence and explanations. The mere fact that the committee can request additional information does not imply that they formally approve the AFS.
If the executive authority wants to withdraw the AFS after it has been included in the ATC, he/she can in a memorandum in the ATC request parliament to discard the AFS and the annual report previously received. He/she will have to give appropriate and substantiated reasons why it is recommended/proposed to withdraw the reports.

Submission as protocol (IPSAS 14)

In other cases, the submission of statements to the other body may be merely a matter of protocol or process and that body may not have the power to require changes to the statements. The date of authorisation for issue of the financial statements will be determined in the context of the particular jurisdiction.

Recognition and measurement (IPSAS 14)

In the period between the reporting date and the date of authorisation for issue, elected government officials may announce a government’s intentions in relation to certain matters. Whether or not these announced government intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is insufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting events after the reporting date (IPSAS 14)

An entity should adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

The following are examples of adjusting events after the reporting date requiring an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- the resolution after the reporting date of a court case which, because it confirms that an entity already had a present obligation at the reporting date;
- the receipt of information after the reporting date indicating that an asset was impaired bankruptcy of a debtor;
- the discovery of fraud or errors that show that the financial statements were incorrect.

The discovery of fraud or errors is the events after the reporting date that would most likely require changes to the AFS.

Disclosure (IPSAS 14)

Disclosure of date of authorisation of issue

An entity should disclose the date when the financial statements were authorised for issue as well as the person authorising it. If another body has the power to amend the financial statements after issuance, the entity should disclose that fact and details of any amendments that have been made by that other body.

It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date. It is also important for users to know of the rare circumstances in which any person or organisation has the authority to amend the financial statements after issuance and whether any such amendments have been made to the financial statements. Examples of individuals or bodies that may have the power to amend the financial statements after issuance are the Ministers, the government of which the entity forms part e.g. Treasury, Parliament or an elected body of representatives.

If an entity receives information after the reporting date, but before the financial statements are authorised for issue, about conditions that existed at the reporting date, the entity should update disclosures that relate to these conditions, in the light of the new information.
Disclosure of non-adjusting events after the reporting date (IPSAS 14)

Where non-adjusting events after the reporting date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an entity should disclose the following information for each significant category of non-adjusting event after the reporting date:

- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

Conclusion

In terms of the PFMA the responsible person for the AFS remains the accounting officer. The fact that the relevant Treasury receives the AFS does not authorise them to make any changes nor are they allowed to send it back to the accounting officer of the department. However, the Treasury could provide guidance to accounting officers. The relevant treasury can advise a designated committee i.e. the Provincial Standing Committee on Public Accounts to question matters of concern included in the AFS. This will be achieved by requesting additional information from the accounting officer or by referring it back to him/her. If the committee decides to refer the AFS back to the accounting officer it should be based on conclusive evidence. It would not be cost effective to change the AFS and audit it if no adjusting events were discovered.
9. THE WAY FORWARD

Changes will be made to the format of the annual financial statements in the years to come as we gain experience, introduce systems to generate additional information, promulgate new legislation, the Accounting Standards Board issues accounting standards and we adopt new accounting policies.

National Treasury is in the process of developing new policies for future years. Practical guides will be issued for all new policies developed giving clear guidance and practical examples of how to account for the new policy in term of accrual accounting in the general ledger. The practical guides will not replace this financial statement preparation guide, which will still be produced on an annual basis. The following represents the changes made from the prior year in progression towards accrual accounting.

<table>
<thead>
<tr>
<th>2001/02</th>
<th>2002/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure of Exchange Revenue</td>
<td>Disclosure of Exchange Revenue</td>
</tr>
<tr>
<td>Disclosure of Additions to Fixed Assets (including Intangibles &amp; Investment Properties) during 2002/03</td>
<td>Disclosure of depreciation on Additions to Fixed Assets (including Intangibles &amp; Investment Properties) during 2002/03</td>
</tr>
<tr>
<td>Disclosure of Inventories</td>
<td>Disclosure of Inventories</td>
</tr>
<tr>
<td>Enhancement of Transfer Payments Recognition</td>
<td>Recognition of Cash and Cash Equivalents</td>
</tr>
<tr>
<td>Recognition of Cash and Cash Equivalents</td>
<td>Recognition of Loans/Borrowings</td>
</tr>
<tr>
<td>Recognition of Loans/Borrowings</td>
<td>Recognition of Loans/Borrowings</td>
</tr>
<tr>
<td>Disclosure of Subsequent Payments</td>
<td>Disclosure of Accruals</td>
</tr>
<tr>
<td>Disclosure of Leases</td>
<td>Disclosure of Leases</td>
</tr>
<tr>
<td>Disclosure of Payables</td>
<td>Disclosure of Payables</td>
</tr>
<tr>
<td>Disclosure of Short-term Employee Benefits</td>
<td>Disclosure of Short-term Employee Benefits</td>
</tr>
</tbody>
</table>

National Treasury should be notified of any need to provide additional information in the financial statements to provide for specific requirements. They would then assess the appropriateness of whether or not to request all departments and provinces to add the information.

Finally, a guide such as this cannot accommodate the nature of all the financial transactions of each and every department. The underlying principles should always be transparency and fair presentation of the financial state of affairs of the department, as well as meaningful and useful financial reporting. Accordingly preparers are urged to share their experiences in the use of this guide with us. Send your comments and suggestions for further improvements to Jayce Nair on Jayce.Nair@Treasury.gov.za or faxed to 012 – 326 5445.
B: CONTENTS OF THE ANNUAL REPORT

It is important that institutions, after completion of the financial year, report on the institution’s actual performance as measured against pre-determined objectives. The report also needs to show that money has been spent in accordance with the appropriations and priorities of Parliament or the relevant Provincial Legislature.

To accomplish this, institutions need to adhere to the following guidelines for the compilation of annual reports:

1. GENERAL INFORMATION
2. PROGRAMME PERFORMANCE
3. REPORT OF THE AUDIT COMMITTEE
4. ANNUAL FINANCIAL STATEMENTS (See Section C)
5. HUMAN RESOURCE MANAGEMENT (See Section E)

The date authorised for publication of the annual report should be displayed prominently on the first page of the annual report. This date may differ from the date of the management report.
1. GENERAL INFORMATION

The following information must be provided under this section.

1.1 Submission of the annual report to the executive authority

Under this sub-heading, the accounting officer should formally submit the annual report to the executive authority responsible for the institution.

1.2 Introduction by the head of the institution

The head of the institution should summarise the institution’s highlights and indicate publications and key documents published for the period of reporting.

1.3 Information on the Ministry

A summary should be given as to what work the Ministry is involved with and (if practical) the names of institutions falling under the executive authority’s control. The executive authority should also give an indication of the bills that he or she has submitted to the legislature during the financial year. Further, the executive authority’s official visits abroad, indicating the dates and purposes of visit would ideally complete the information required under this sub-heading.

1.4 Mission statement

The mission statement must be a concise statement indicating the institution’s fundamental unique purpose that distinguishes it from any other organisation of its type and identifies the scope of its operations in terms of its products, services and the clients that it serves. The mission is a general statement of an institution’s reason for existence. The mission defines what the institution does, whom it serves and how this should be done.

1.5 Legislative mandate

The legislative mandate refers to the legislation that governs the existence of the institution and its operations (core mandates). An indication must also be given of the trading and/or public entities controlled by the institution, clearly indicating the:

- legislation under which the trading and/or public entity was established;

- functions of each trading and/or public entity; and

- accountability arrangements established between the accounting officer/executive authority and the management of the trading and/or public entity.
2. PROGRAMME PERFORMANCE

For the 2002/03 financial year, the annual reporting framework for programme performance must be in accordance with the 'ESTIMATES OF NATIONAL EXPENDITURE, 2002' as tabled in Parliament and their respective STRATEGIC PLAN. The information presented in this section together with the Annual Financial Statements, must be presented to the relevant legislature.

The following serves as a format for this particular part, using the Department of Trade and Industry as an example. Each department must adapt this format to their own specific circumstances:

<table>
<thead>
<tr>
<th>Voted Funds</th>
<th>To be appropriated by</th>
<th>Vote</th>
<th>R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory appropriations</td>
<td>Responsible Minister</td>
<td>Minister of Trade and Industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Administering Department</td>
<td>Department of Trade and Industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounting Officer</td>
<td>Director-General of Trade and Industry</td>
<td></td>
</tr>
</tbody>
</table>

Aim of the Vote

The aim of the Vote reflects the social and economic outcomes or results that the Department wishes to achieve and should be consistent with the aim as contained in the Estimates of National Expenditure (ENE).

The aim of the Department of Trade and Industry is to facilitate access to sustainable economic activity and employment for all South Africans through higher levels of investment ……………

Key objectives, programmes and achievements

Requiring departments to publish information on key objectives, programmes and achievements strengthens the link between annual reporting and budgeting. There must be a distinct link between the annual report and the programmes specified in the budget documentation (ENE).

The Department of Trade and Industry identified the following as its key objectives:

- To provide an environment conducive to the promotion of higher levels of investment, for both foreign direct investment and domestic investment.
- To increase access to international markets for South African products.
- To create a fair, competitive and efficient market place in South Africa for domestic and foreign business and consumers.

In relation to the above, the Department of Trade and Industry has achieved the following:

Strategic overview and key policy developments: Period covered by the annual report (financial year)

This section must describe the major policy developments and legislative changes that have taken place during the period of review.

The Department of Trade and Industry embarked on a process of revising its incentive schemes and introduced new schemes, such as the tax holiday scheme. In addition to the Department evaluating the effectiveness of the new schemes, it also developed strategies and policies for competitiveness in a global environment.
The Department established a closer co-operation with its family of institutions (including the CSIR and SABS), which allows direct linkages between the goals of the respective institutions and the policy direction of Government.

SUMMARY OF PROGRAMMES

The activities of the Department of Trade and Industry are organised in the following five programmes:

- Programme 1: Administration
- Programme 2: International trade and economic development
- Programme 3: Enterprise, commerce and industry development
- Programme 4: Enterprise organisation
- Programme 5: Trade and Investment South Africa

PROGRAMME 1: ADMINISTRATION

Aim:
To conduct the overall management of the Department

Programme policy developments:

Output and service delivery trends:

PROGRAMME 2: INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT

Aim:
This programme aims to promote and maintain South Africa’s trade relations and agreements with other countries in order to stimulate internal growth and empowerment, and maximise foreign exchange earnings through policy and strategy development, programme development, monitoring and evaluation, negotiations and relationship building. It also aims to promote the quality of life of people in South Africa and the common customs areas of the South African Customs Union by promoting the international competitiveness of industries in the Customs Union through customs tariffs, including anti-dumping and countervailing import and export control measures.

Programme policy developments:

The International trade and economic development programme comprises the following three sub-programmes:

- International economic development
- African economic development
- International trade administration

The sub-programme International economic development focused on multilateral and bilateral trade relations. The multilateral and trade section has undertaken and maintained trade relations and agreements with other countries and organisations, and has also contributed to the International Customs Bureau and the World Trade Organisation.
The African economic development sub-programme focused on the opening of new offices in targeted African countries in order to secure projects and to promote economic development in Africa.

The main activity within the sub-programme International trade administration was the tariff and trade investigations to promote industrial and trade development through appropriate customs and excise duties, tariffs and trade investigations in term of the Board on Tariffs and Trade Act of 1986.

Outputs and service delivery trends

<table>
<thead>
<tr>
<th>Sub-programmes</th>
<th>Outputs</th>
<th>Output performance measures/service delivery indicators</th>
<th>Actual performance against target</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Number of new trade agreements and number of existing trade relations maintained</td>
<td>5</td>
</tr>
<tr>
<td>International economic development</td>
<td>Negotiations with other countries within the WTO w.r.t new contracts or agreements, and maintaining the existing contracts or agreements</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Africa economic development</td>
<td>Open new offices in targeted African countries</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>International trade administration</td>
<td>Conduct 200 tariff investigations</td>
<td>Number of investigations</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of investigations</td>
<td>210</td>
</tr>
</tbody>
</table>

*Although section 27(4) of the PFMA (measurable objectives) has been delayed for implementation from 1 August 2002 (2003/04 financial year), departments are expected to start with initiatives in preparation for its implementation.

For the 2001/02 to 2002/03 financial years, departments should at least try and furnish the information (as set out in the strategic and operational plans and budget documentation) in the above format, even if not in totality, together with the actual performance.

Transfer payments

Information on transfer payments per organisation for the entire financial year must be tabulated as follows:

<table>
<thead>
<tr>
<th>NAME OF INSTITUTION</th>
<th>AMOUNT TRANSFERRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Trade Organisation</td>
<td>R 3 068 000</td>
</tr>
<tr>
<td>Commission for International Trade Administration</td>
<td>R 10 000 000</td>
</tr>
</tbody>
</table>

A report must also be included on the institution’s compliance with section 38(1)(j) of the PFMA.

Conditional grants

The Division of Revenue Act 2001, requires that annual reports and financial statements of the transferring and receiving departments must also include information on conditional grants set out in schedules 3, 4, 5 and 6 of the Act.
Section 19(1) outlines information that should be included in the annual reports of the transferring national officers. Section 19(2) outlines information that should be included in the annual reports and financial statements of the receiving department or municipalities.

In order to comply with this requirement, the annual report of the transferring department should include the following information on conditional grants:

(a) Overview of conditional grants, types of grants, total allocations and transfer trends. A summary of all grants should be provided in the following tables:

**Summary of Conditional Grants for 2001/02**

<table>
<thead>
<tr>
<th>Conditional Grant</th>
<th>Total Allocation</th>
<th>Total transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) Reporting on grants (per name) shall be represented in the following format:

**Name of grant**

<table>
<thead>
<tr>
<th>Province</th>
<th>Total Allocation</th>
<th>Total transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(c) Explain whether or not transfers were made as scheduled, into the accredited accounts for the receiving spheres. In situations where payments were either delayed (failure to pay according to the payment schedule) or withheld (non-transfers) explain the reasons and the extent to which the department complied with sections 21 and 22 of the Act.

(d) Indicate whether the transferring department retained any portion of the grant for administration costs. Briefly describe the nature of the administration costs.

(e) Provide an analysis of spending trends for each grant, indicating the extent to which the department monitored compliance with the conditions of the grant. Specific areas must be highlighted in which compliance fell short of requirements and what steps were taken in situations where a province or municipality failed to comply.

(f) Indicate the extent to which the outputs were achieved, providing a comparative analysis of provincial performance against their targets. Where performance fell short of expectations and the grant is continuing, outline the reasons and measures taken to improve performance in the forthcoming years.

(g) Provide an overall assessment of compliance with the Division of Revenue Act, both by the department and the receiving spheres and explain any measures taken in situations where there was non-compliance.
CAPITAL INVESTMENT, MAINTENANCE AND ASSET MANAGEMENT PLAN

The following information must be provided with regard to the department’s capital investment programme:

(a) What building projects are currently in progress and when are they expected to be completed?

(b) Are there plans to close down or down grade facilities any current facilities?

(c) What is the current maintenance backlog and how does the department plan to deal with such over the MTEF period?

(d) How are the developments in (a) to (c) above expected to impact on the department’s current expenditures?

The following information must be provided on the management of key moveable assets and should provide details of medium term maintenance plans focusing on the following:

(a) What is the current state of the department’s capital stock? I.e. what percentage is in good, fair or bad condition?

(b) What major maintenance projects have been undertaken during the financial year?

(c) Details must also be provided with regard to assets under the control of the department and how its asset holding has changed over the financial year in review. In addition, the following information must be furnished with regard to capital projects:

(d) What projects will be carried forward from the financial year in review to the following financial year?

(e) What new projects will commence in the forthcoming financial year?

(f) What processes are in place for the tendering of projects?

In each of the above, cognisance must be taken of:

(a) What expenditures are involved?

(b) Will funds be rolled over from the existing budget or will projects be financed from the forthcoming financial year’s budget or from future years?

(c) Has provision been made in future budgets to maintain the infrastructure created by the capital investment?

PROGRAMME 3: ENTERPRISE AND INDUSTRY DEVELOPMENT

(Ditto)

PROGRAMME 4: ENTERPRISE ORGANISATION

(Ditto)

PROGRAMME 5: TRADE AND INVESTMENT SOUTH AFRICA

(Ditto)
3. REPORT OF THE AUDIT COMMITTEE

Guidelines for Audit Committee Members

This guideline serves as a minimum requirement for Audit Committee Members to discharge their responsibilities in terms of the PFMA and the regulations thereto. In applying this guideline Audit Committees would be in a position to provide the Report of the Audit Committee for the Annual Report of a Department, Trading Entity or Constitutional Institution as prescribed.

A. Requirements regarding Annual Financial Statements

The Public Finance Management Act in Sec 40 states the responsibilities of the Accounting officer for reporting as follows:

40. (1) The accounting officer for a department, trading entity or constitutional institution -
(a) must keep full and proper records of the financial affairs of the department, trading entity or constitutional institution in accordance with any prescribed norms and standards;

(b) must prepare financial statements for each financial year in accordance with generally recognised accounting practise;

(c) must submit financial statements within two months after the end of the financial year to –
(i) the Auditor-General for auditing; and
(ii) the relevant treasury to enable that treasury to prepare consolidated financial statements in terms of section 8 or 19;

(d) must submit within five months of the end of a financial year to the relevant treasury and, in the case of a department or trading entity, also to the executive authority responsible for that department or trading entity–
(i) the annual report on the activities of that department, trading entity or constitutional institution during that financial year;
(ii) the financial statements for that financial year after those statements have been audited; and
(iii) the Auditor-General’s report on those statements;

(e) must, in the case of a constitutional institution, submit to Parliament that institution’s annual report and financial statements referred to in paragraph (d), and the Auditor-General’s report on those statements, within one month after the accounting officer received the Auditor-General’s audit report; and

(f) is responsible for the submission by the departments or constitutional institution of all reports, returns, notices and other information to Parliament, the relevant provincial legislature, an executive authority, the relevant treasury or the Auditor-General, as may be required by this Act.

(2) The Auditor-General must audit the financial statements referred to in subsection (1) (b) and submit an audit report on those statements to the accounting officer within two months of receipt of the statements.
B. Treasury Regulation Section 3 on internal controls at 3.1.13 require the following from Audit Committees

3.1.13 In addition to the requirements stipulated in regulation 3.1.1 to 3.1.12, an audit committee must, in the annual report of the institution, comment on:

(a) the effectiveness of internal control;

(b) the quality of in year management and monthly / quarterly reports submitted in terms of the Act and the Division of Revenue Act; and

The report of the Audit Committee would comment on the above requirements based on the Committee’s functioning during the year under review.

(c) its evaluation of the annual financial statements.

In order to comply with the above requirement it is suggested that the matters listed under D below be used as a basis to comment on the Annual Financial Statements.

C. Process and Timelines

(a) The Accounting Officer must complete the Annual Financial Statements and submit to the Auditor-General for Audit by no later than 31 May. These financial statements should contain a draft report of the Audit Committee to be included in the Annual Report. No special meeting is required for this. It is envisaged that this would be a specimen report based on the outcome of the Audit Committees activities during the year under review and agreed with the Chairperson of the Audit Committee.

(b) Auditor-General must audit the financial statements within two months of receipt of such statements from the Accounting Officer and submit an audit report on those statements to the Accounting Officer within the required period but by no later than 1 August.

(c) The Audit Committee must evaluate the audited financial statements, review the audit report of the Auditor-General and the management letter and management’s comments thereon within seven days of the audited financial statements received from the Auditor-General by the Accounting Officer but by no later than 7 August. The Auditor and Auditee should plan this process carefully to meet the determined timelines.

N.B. Internal audit reports would have been reviewed as and when they were submitted to the Audit Committee during the year.

(d) The Audit Committee must determine its final report to be included in the Annual Report based on the outcome of (c) above but by no later than 8 August. This report may differ from the specimen report submitted based on the outcome of the evaluation of the Financial Statements by the Audit Committee.
D. Evaluation of the Annual Financial Statements (Minimum Guideline)

Review of Audited Annual Financial Statements (AFS)

- Inspect and confirm that the AFS have been signed by the Accounting Officer (AO) on or before the date of the Audit Report;
- Enquire from AO if the AFS have been prepared in accordance with GRAP as determined by the specimen financial statements and preparation guide issued by National Treasury;
- Review AFS for abnormal and/or significant transactions of the department and the disclosure of in the AFS;
- Obtain explanations for all significant variances in the financial statements as compared to the appropriated budget and prior year;
- Review any new or proposed legislation that may have a material impact on policies, the financial statements and disclosure thereof and departmental compliance thereto;
- Enquire from management, the Auditor-General and Internal Audit about all outstanding litigation, contingencies and claims and how these matters are reflected in the department’s financial statements.

Review Accounting Policies

- Ensure that the Accounting Policies are as per the policies disclosed in the specimen financial statements issued by National Treasury. Where there are deviations, ensure that there is evidence of satisfactory consultation regarding the changes with the Office of the Accountant-General.
- Consider the reasons for the changes in policies, if any. Assess whether changes have been correctly dealt with and disclosed in the AFS;
- Enquire whether these changes are in line with the required accounting framework and if not, whether National Treasury Office of Accountant-General approval has been obtained.

Review Management Letter and Audit Report

- Determine how significant financial reporting issues discussed for the reporting period between management and the internal and external auditors were resolved;
- Review significant adjustments arising from the external audit (“overs and unders schedule”) and their impact on the AFS, the transactions agreed with management and processed and those not adjusted for;
- Enquire from Internal Audit if there is any significant non-compliance to legal requirements and the impact thereof on the AFS;
- Determine the extent to which the work of Internal Audit contributed towards the total external audit coverage;
- Understand the reasons for audit qualification and emphasis of matter (if any) and the impact thereof on the AFS and entity’s operations and assess the adequacy of the action taken/proposed by management to rectify the qualifications; and
- Ensure that the items that gave rise to audit qualification or emphasis of matter in the prior year/s have been satisfactorily resolved and if not assess the adequacy of proposed action plans, their timelines and the reporting thereof by the Internal Audit to the Audit Committee.
Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 200X.

Audit Committee Members and Attendance:

The audit committee consist of the members listed hereunder and meets x times per annum as per its approved terms of reference. During the current year x number of meetings were held.

<table>
<thead>
<tr>
<th>Name of Member</th>
<th>Number of Meetings Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>BM Holms (Chairperson)</td>
<td>4</td>
</tr>
<tr>
<td>IM Sitholi</td>
<td>4</td>
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<td>A Khan (resigned dd mm yyyy)</td>
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<td>S Botha</td>
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<tr>
<td>T Shidi (appointed dd mm yyyy)</td>
<td>2</td>
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</tbody>
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Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 38 (1)(a) of the PFMA and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control (Select the appropriate paragraph below)

The system of internal control is effective as the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, the matters of emphasis and management letter of the Auditor-General have not reported any significant or material non compliance with prescribed policies and procedures. Comment may be made on Risk Assessment.

or

The system of internal control is not effective as compliance with prescribed policies and procedures are lacking. During the year under review several instances of non compliance were reported by internal and external auditors that resulted from a breakdown in the functioning of controls. Significant control weaknesses have been reported by the Auditor-General under emphasis of matter and in the management letter. The weaknesses reported previously have not been addressed satisfactorily by the Accounting Officer. The effect of these instances has been included in the annual financial statements and the report of the Accounting Officer. Comment may be made on Risk Assessment.

The quality of in year management and monthly / quarterly reports submitted in terms of the Act and the Division of Revenue Act (Select the appropriate paragraph below)

The Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer and the Department during the year under review. However, it was noted that................................. (e.g. suspense accounts were not cleared on a monthly basis).
The Committee is not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer and the Department during the year under review.

**Evaluation of Financial Statements**

The Audit Committee has

- Reviewed and discussed with the Auditor-General and the Accounting Officer the audited annual financial statements to be included in the annual report;
- Reviewed the Auditor-General’s management letter and management response;
- Reviewed changes in accounting policies and practices (delete if not applicable);
- Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Chairperson of the Audit Committee

Date: ..........................

N.B. Items reported in the Annual Financial Statements should not be repeated here but reference made to the relevant section in the Annual Report. An item should only be specifically mentioned in this report if it is significant and material.

4. **FINANCIAL STATEMENTS (REFER SECTION C)**

5. **HUMAN RESOURCE MANAGEMENT (REFER SECTION E)**
C: FINANCIAL STATEMENTS PREPARATION GUIDE

1. BACKGROUND TO FINANCIAL STATEMENTS

1.1 INTRODUCTION

The annual financial statements, as required by the PFMA and the Treasury Regulations, are published in this part of the annual report and consists of the following:

- Management report and approval;
- Report of the Auditor-General;
- Statement of accounting policies and related matters;
- Appropriation Statement
- Notes to the appropriation statement
- Income statement (statement of financial performance);
- Balance sheet (statement of financial position);
- Statement of changes in Net Assets/Equity;
- Cash flow statement;
- Notes to the annual financial statements;
- Disclosure notes to the Annual Financial Statements
- Annexures
- Copies of audited annual financial statements of trading entities to be attached;
- Copies of audited annual financial statements of constitutional institutions and public entities to be submitted with the departmental annual report to the Executive Authority.
The guidance that follows hereunder shall be utilised for the compilation of the annual financial statements. The Office of the Accountant-General has also compiled a set of specimen annual financial statements for departments, a copy of which is available on National Treasury’s web site http://www.treasury.gov.za. Amendments to the guide are posted on the web site. Please monitor the web site for updates. To access the specimen annual financial statements and amendments to the preparation guide, follow the following path:

1) http://www.treasury.gov.za
2) Organisation (top left hand side of the screen)
3) Division: Office of the Accountant General
4) Then under documents you will find Annual Report 2002/03 where the respective documents will be listed.
5) All documents at this location is in Adobe Acrobat format and can not be used as a working document.

Working documents can be downloaded from the following location:
1.2 HOW TO GET ASSISTANCE?

A help line has been established at a national level between the Office of the Accountant-General and the Office of the Auditor-General to deal with unresolved matters and differences between the departments and the Office of the Accountant-General. The process is as follows:

- Where there is an unresolved matter between a National department and the Office of the Auditor-General about an accounting issue, the matter can be referred to any of the persons listed below for consideration.
- Where there is an unresolved matter between a Provincial department and the Office of the Auditor-General about an accounting issue, the matter should be referred to the Provincial Auditor-General and the Provincial Treasury in the first place, and if it cannot be resolved to any of the persons listed below for consideration.
- The persons listed below will meet within a week of the issue being raised to propose a resolution of the matter.

The contact persons for queries by preparers with regard to the financial statements:

I Mamoojee  
Accountant-General  
Telephone: 012 315 5711  
Fax: 012 315 5790  
E-mail: ismail.mamoojee@treasury.gov.za  
Wayne De Wet  
Office of the Accountant-General  
Telephone: 012 315 5711  
Fax: 012 315 5790  
E-mail: wayne.dewet@treasury.gov.za

The contact persons for queries by auditors of the financial statements:

M Shaw  
Office of the Auditor-General  
Telephone: 012 422 9592  
Fax: 012 422 9557  
E-mail: micheles@agsa.co.za  
A Botha  
Office of the Auditor-General  
Telephone: 012 426 8146  
Fax: 012 426 8333  
E-mail: abotha@agsa.co.za

The contact person for queries with regard to human resource management:

H Serfontein  
Department of Public Service and Administration  
Telephone: 012 314 7210  
E-mail: Henk_S@dpsa.gov.za

All other PFMA and Annual Report queries should be addressed to:

Jayce Nair  
National Treasury  
Fax: 012 326 5445  
E-mail: Jayce.Nair@Treasury.gov.za
1.3 MANAGEMENT REPORT

Purpose

The purpose of this report is to afford management the opportunity to deal with the state of financial affairs, the activities and the results of the department and to comply with various statutory requirements. The information in this report is historic in nature, while the report on programme performance and a report by the Director-General or the Minister will allow the department to give an indication of future prospects. The report of the Director-General or the Minister forms part of the annual report and not the financial statement section.

The information in this report should not duplicate information presented elsewhere, for example where information on transfer payments is required, a brief description of the nature of transfer payments made by the department, with a cross reference to the relevant section under programme performance or elsewhere in financial statements is sufficient.

The information in this report should be balanced between both positive and negative developments. Focussing on highlights without reporting difficulties or challenges faced by the department does not represent a balanced picture.

This report should meet the requirements of Treasury Regulation 18.2, which states, inter alia: “The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the institution.”

Preparing the management report

The management report is similar to the directors’ report included in the financial statements of companies. The wording of the report should be clear, concise and precise. The headings supplied in the prescribed format are for guidance only. For example, if a department does not have trading activities, trading entities or public entities, the section of the report that deals with those activities should be ignored. However, if the department does conduct trading activities, sufficient information must be supplied under an appropriate heading.

General review of the state of affairs

The section should review generally the activities and the financial results of the department. Every fact or circumstance material to the appreciation by users of the annual financial statements should be included. It should not duplicate discussions elsewhere in the report, or specific disclosures elsewhere in the financial statements.

This section is normally in narrative form with all descriptive matters under appropriate headings and amounts or statistics, as far as practical, in tabular or graphic form.

Where amounts are stated, comparative figures, if any, of the preceding period should be given.

Progress with financial management improvement

Vast amounts of money have been allocated in the annual budget for improvement in financial management and a large number of legislative reforms, such as the promulgation of the PFMA, have been promulgated. Accordingly, users of the annual report and taxpayers in particular, are expecting a report on progress made.

This section should be a progress report on the implementation, providing details of strengths and weaknesses in financial management of the department, significant changes made during the reporting period and highlighting concerns and inefficiencies.
Performance information

With effect from 1 April 2003 information on performance is a requirement of the PFMA. Accordingly, management should start preparing the systems and processes required in order to report on that information. Preparers of this information should ensure that the information also meet the requirements of relevance, reliability, neutrality, understandability and completeness.

Preparers are asked to comment on the process adopted to achieve these requirements, or if no process has been put in place, what processes are planned, and what arrangements are being made to have the information verified by an external party.

Discontinued activities

Discontinued activities refer to activities discontinued during the year under review. Activities to be discontinued refer to any activities in respect of which a firm decision has been taken to discontinue them during any time in the future. Should a department have both discontinued activities and activities to be discontinued, separate headings should be used for each.

Events after the reporting (Balance Sheet) date

Events after the reporting (balance sheet) date refer to both favourable and unfavourable events that occur in the period after 31 March 2003 to the date of approval of the financial statements. Two types of events can be identified:

- Those that provide evidence of conditions that existed at year end (adjusting events after the year end), and
- Those that are indicative of condition that arose after the year end (non-adjusting events after the year end).

Other

This heading has been included to indicate that the list of headings should not be regarded as being comprehensive. Any other material facts or circumstances that the accounting officer may wish (or be obliged) to report on should be included (under a suitable heading rather than using the word “Other”).

Approval

The page numbers referred to must include the pages of the entire annual financial statements, including the statement of accounting policies, but must exclude the page numbers of the report of the Auditor-General and the Management Report itself.

The date of approval can be the same date as the date of the Report of the Auditor-General, but cannot be later than this date.
1.4 REPORT OF THE AUDITOR-GENERAL

Inclusion of audit report in annual financial statements

The audit report of the Office of the Auditor-General is included in the annual financial statements of the department. The original audit report as received from the Office of the Auditor-General should be included, without any alterations made to the content or wording of the report or to the annual report without the concurrence of the Auditor-General.

Submission of financial statements for audit

Two signed copies of the complete annual financial statements and any additional schedules that may have been requested should be submitted to the Auditor-General within 2 months after year end. Late submission may be reflected in the audit report. Neither the Auditor-General, nor Provincial or National Treasury can extend the deadline date for submission of the financial statements, as the deadline is a requirement set by law. See guide 1.5 for distribution details.

Other matters

Timeous consultation with the local representative of the Office of the Auditor-General with regard to any matters affecting the compilation of statements is recommended to speed up the finalisation of the statements. Such consultation will not result in a preliminary audit.

In order to expedite the delivery of statements, such statements, together with the covering minutes, may be handed to the local audit representative.

Further information for specific groupings of votes in order to enable reporting of transversal findings on a portfolio basis, or other information needed for audit purposes in consultation with the relevant stakeholders, may be requested by the Office of the Auditor-General for audit purposes.

A number of comparatives will need to be reclassified. In order to assist the Office of the Auditor-General and to eliminate potential difficulties, a working paper should be prepared to reconcile this reclassification of comparatives to the previous year’s audited financial statements. These working papers must be available at the start of the audit.

Audit process

No further changes can be made to the financial statements once they have been submitted to the Office of the Auditor-General. The Office will evaluate the financial statements received from the relevant department, trading entity or constitutional institution, or public entity to determine whether they are complete and whether the latest format required has been adhered too. The following options exist:

- If the financial statements only require a few changes in form and/or content, meetings are arranged with the relevant entity to resolve the situation as soon as possible. The original date of submission will be regarded as the submission date.

- If the financial statements require significant changes to be acceptable for audit purposes, they will be handed back to the relevant entity to effect the necessary changes. The resubmission of the corrected financial statements is regarded as the date of submission.
• If significant changes are required to be acceptable for audit purposes, and the entity is unwilling to effect such changes, the office will consider accepting those financial statements as submitted and report on any shortcomings in the audit report.

The auditors will also allow a reasonable time for the auditee to effect changes to the financial statements based on the audit findings. Such changes on request of the auditor would not constitute a resubmission of financial statements. Auditors will provide continuous feedback during the audit regarding possible adjustments that may be needed based on audit findings, and to agree on a timetable for such adjustments to be effected to the financial statements. Changes to financial statements have to be signed; however, the original date of submission will not change.

However, if the financial statements have already been accepted for auditing, and the auditee subsequently makes significant changes of his own accord resulting in significant audit work to be conducted, the auditor will consider the date of submission of such revised financial statements as the submission date. The financial statements should be re-signed and dated by the accounting officer before submission to the Office of the Auditor-General.

Where a Treasury requires a department to submit the financial statements for review, prior to submission to the Office of the Auditor-General, then the review must be completed before the two month period as set out in the PFMA for the submission of financial statements.

Where there are concerns about the appropriate accounting between the department and the Treasury, then the Office of the Auditor-General should also be informed of the matter. The department should submit the final financial statements for the year ended 31 March 2003 to the Auditor-General by 31 May 2003. Within 5 months after the year-end, the audited financial statements should be submitted as described below in 1.5.
1.5 DISTRIBUTION OF FINANCIAL STATEMENTS

Submission of the financial statements are to be made to the following persons in hard copy and electronically.

**National Departments**

Submitted to:  
Rensie Hurn  
(Office of the Accountant-General)  
Barend Lange  
(The National Statistics Office)  

Physical Address:  
240 Vermeulen Street  
Pretoria  
0002  

Due date:  
- Unaudited financials 31/05/2003  
- Audited financials 31/07/2003  
- Annual reports 31/08/2003  

Number of hard copies:  
3 11  

Tel:  
(012) 315 5567  
Fax:  
(012) 323 8247  
E-mail:  
Rensie.hurn@treasury.gov.za  
Barend.lange@treasury.gov.za

**Provincial Departments**

Submitted to:  
Rigard Lemmer  
(Intergovernmental relations)  

Physical Address:  
40 Church Square  
Pretoria  
0002  

Due date:  
- Unaudited financials 31/05/2003  
- Audited financials 31/07/2003  
- Annual reports 31/08/2003  

Number of hard copies:  
12  

Tel:  
(012) 315 5821  
Fax:  
(012) 315 5045  
E-mail:  
Rigard.Lemmer@treasury.gov.za
1.6 STATEMENT OF ACCOUNTING POLICIES AND RELATED MATTERS

Purpose
The disclosure of accounting policies is a requirement of the Companies Act, Generally Accepted Accounting Practice (GAAP), International Accounting Standards (IAS) and International Public Sector Accounting Standards (IPSAS).

Consistent with 2002, the accounting policies are disclosed as a separate statement as part of the annual financial statements. Also included in this separate statement are other matters that relate to the financial statements in general.

A reader’s interpretation of a set of financial statements can be significantly influenced by the accounting policies adopted by the reporting entity and for this reason the statement of accounting policies is included at the beginning of the financial statements.

Common policies in use
National Treasury is responsible for the development of the accounting policies. Any deviations from these policies should be brought to the attention of the Accountant-General at National Treasury.

The exception to the above rule is the policies for provisions, retirement benefits and medical benefits, which are not consistent in all departments. For example, the Military Pensions Act only applies to the Department of Defence. Accordingly, each department would need to assess its own policies on provisions, retirement benefits and medical benefits and amend the suggested policy accordingly.

Should a department need to change the wording of any other accounting policy for good reason, the matter must be brought to the attention of the Accountant-General at National Treasury and the Auditor-General.

Retirement benefits
Specific legislation that may have an impact on your department and the retirement benefits granted, for example, The Military Pensions Act, should be considered in finalising the wording of this particular policy.

Medical benefits
The benefits provided to all the employees of the department may differ. In some departments employees do not contribute to the medical aid and the department pays the full benefit. In other departments, the payment is split between the employee and the employer. Accordingly, each department should amend the wording of the policy to reflect the specific circumstances applicable.

Other departmental specific policies
The headings used in the prescribed format should not be regarded as being exhaustive and any other matters that relate to the financial statements as a whole can be included, provided they enhance the reader’s interpretation of the financial statements.

Departments are required to develop policies in accordance with their business needs. These policies are policies that enable managers to manage and are not the accounting policies used in the preparation of financial statements. The intention with the development of standard
accounting policies by National Treasury for use in the preparation of the annual financial statement are not intended to preclude this right.

Preparers of financial statements are asked to forward non-standard accounting policies used in the preparation of financial statements to National Treasury for review and evaluation and possible inclusion in future annual financial statements.

1.7 INCOME STATEMENT

Purpose
An income statement measures an entity’s performance over a specified period. For that reason the heading clearly states that it is for a “year ended 31 March 2003”. The International Public Sector Accounting Standards also refer to the income statement as a “statement of financial performance”.

The PFMA and TR18.2 require departments and provinces to present an income statement.

The income statement is a summary of all the revenue and expenditure of an entity during the defined period. A large surplus of voted funds at the end of the year usually indicates inefficiency. The cash basis of accounting does not provide information regarding the amount of funds invested to produce whatever services a department is rendering. Under these circumstances, the only practical way of determining a department’s performance is to compare its output against predetermined measurable objectives.

Preparing the income statement
As in the past, all amounts must be rounded to the nearest thousand.

The format of the income statement has changed from the previous year in order to continue the implementation of GRAP. The individual items of the income statement are dealt with below under the same headings as shown in the income statement.

1.8 BALANCE SHEET

Purpose
A balance sheet illustrates, at the end of the last day of an accounting period, an entity’s assets and liabilities. Accordingly the title of the balance sheet contains the phrase “at 31 March 2003”.

The difference between total assets and total liabilities (assuming the value of assets is higher than the value of its’ liabilities) is termed net assets/equity. In the private sector environment equity belongs to the owners and is made up by share capital and reserves. Under the cash basis of accounting, government department items included under this heading will be surrendered to Treasury, although there may not be a present obligation to do so. Where there is an immediate obligation to surrender, for example the difference between Amount Voted and Expenditure must be surrendered, the amount is shown as a liability. In the private sector, the directors can propose that a dividend be declared out of the surplus, but until the dividend is in fact declared, the surplus is retained in equity without amendment for the dividend. The dividend declaration creates the obligation to recognise a liability, not the fact that it has been proposed or that there is a surplus. In a similar way, until the department has a present obligation to transfer monies to the revenue fund, it is regarded as equity.

The PFMA and TR 18.2 require the inclusion of a balance sheet in the financial statements.
Items not applicable

Some of the items listed in the balance sheet are not applicable to most departments such as investments, other financial assets, and provisions, and in such cases these descriptions must not be included in the balance sheet. In other words if a line item in the balance sheet has a nil balance, and the comparative figure is also nil, then the line item must be deleted from the balance sheet, and the numbering of notes be accordingly adjusted.

Totals
Total assets minus total liabilities equal total net assets/equity.

1.9 STATEMENT OF CHANGES IN NET ASSETS/EQUITY

The objective of the statement of changes in net assets/equity is to illustrate the movements in balances included in net assets/equity. Movements in these balances are not always readily apparent from a review of the income statement or balance sheet. For example, the payments, cash receipts of recoverable revenue transferred into the revenue fund are not reflected in the balance sheet or income statement.

The opening balance must agree to last year’s audited financial statements (with restatement of comparatives as discussed previously). The closing balance must agree to the amounts reflected in the balance sheet.

Reclassification of investments, loans and deposits paid referred to elsewhere in the guide to the balance sheet and recoverable revenue referred to elsewhere in the guide to the balance sheet are reclassifications of amounts previously included under non-current and current liabilities.

The preparers of the financial statements should ensure that amounts that are transferred from another statement agree exactly. Examples are the amount listed in the income statement under Analysis of net surplus/deficit should match exactly.

1.10 CASH FLOW STATEMENT

(NB: In order to prepare the cash flow statement, information from the income statement, the balance sheet and the statement of changes in net assets/equity is required.)

Purpose

Users of financial statements unfortunately do not always understand this very useful statement. Its importance is emphasised by its statutory inclusion in the annual financial statements of companies, its inclusion in GAAP statements as well as in International Public Sector Accounting Standards. The cash flow statement shows the effect that operating activities, investing activities and financing activities have on the movement of cash and cash equivalents during the year.

- **Operating activities** are the activities of the entity that are not investing or financing activities.

- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
• **Financing activities** are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

This statement is, however, far more useful when the accrual basis of accounting is used. When the cash basis of accounting is used the cash flow statement is not much more than re-arranging the items in the income statement to arrive at the movement in cash and cash equivalents.

The distinction between current and non-current is of particular importance in the preparation of the cash flow statement. As a general rule, movements in current assets and current liabilities will be cash flow from operating activities, and movements on non-current assets can either be cash flow from financing activities or investing activities.

1.11 **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**Purpose**

The purpose of notes to the financial statements is to supplement information already disclosed in the primary statements, i.e. the income statement, balance sheet, statement of total net assets/equity and the cash flow statement.

The notes have been grouped in the sequence of the statements to which they belong and a distinction has been made between those that are for disclosure purposes only and those that also relate to items recognised in one of the primary statements.

Certain notes such as contingencies, commitments, lease liabilities and related party transactions are not primary statement specific, and, accordingly are not cross-referenced to any particular primary statement.

The amounts included in the notes should also be rounded to the nearest R'000. It is important that where an item has been cross-referenced to a primary statement, the total in that note agrees to the amount reflected in the primary statement. There should be no differences between these amounts that can be attributed to rounding.

Where an item includes the phrase “amount not included above”, the information disclosed need not agree to the note summary reported elsewhere. An example of such a note is the note that requires disclosure of gifts, donations and sponsorships received in kind excluding RDP funds.

1.12 **APPROPRIATION STATEMENT**

**Format**

The appropriation statement will include a summary of the information in the Appropriation Act. This will include the various programme and sub-programme allocations, with current/capital split as well as a summary of economic and standard item classifications. Details of transfer payments and amounts specifically and exclusively appropriated will be included in the notes to the annual financial statements. The format in the guide is an illustration on how departments should prepare this statement, based on their own actual programmes. The final document should be printed on A4 portrait or landscape, whichever is more readable and presentable.

**Virement**

The accounting officer of a department may utilise a saving in the amount appropriated under a main division within a vote towards the defrayment of excess expenditure under another main division within the same vote, unless the relevant treasury directs otherwise.
The amount of a saving under a main division of a vote that may be utilised may not exceed eight percent of the final amount appropriated under that main division. The adjustments estimate that is approved by Parliament and published is the FINAL document that discloses each department’s total and final budgeted amount for the financial year under review.

Section 43(3) of the PFMA does not authorise the utilisation of a saving in:

- an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote;
- an amount appropriated for transfer to another institution; and
- an amount appropriated for capital expenditure in order to defray current expenditure.

The Treasury Regulations state the following:

- Personnel expenditure and transfers to other institutions may not be increased without approval of the relevant treasury.
- New transfers may not be introduced without the approval of the relevant treasury.
- Allocations earmarked by the relevant treasury for a specific purpose (excluding personnel expenditure) may not be used for other purposes, except with its approval.

Accordingly, personnel expenditure may be decreased and used for another purpose.

Where over-expenditure on personnel expenses has occurred, it is treated as irregular expenditure and retained in the income statement.

Shifting of funds after the adjustment estimate must be reflected in the annual financial statements. The Appropriation statement in the specimen provide for this to be indicated in the column “virement” after the adjustment estimate. In provinces legislation must be tabled to permit virement after publication of the adjustment estimate.

**Amount voted**

Where an amount has been appropriated to a department, but has not been drawn, the amount is recognised as revenue and included under the heading “Voted funds” in the income statement and the debit is included under “Voted funds to be surrendered” in the balance sheet. Reasons for under/overspending are determined in relation to the voted amount and not the amount received.

**Expenditure**

The amounts to be included in economic classification and standard items of expenditure are the actual expenditure during the period.

**Explanations of variances**

Actual expenditure should be measured against voted funds available (adjustment estimate after taking into account allowed virement), and not only the funds received.

The explanations reflected in the previous financial statements were deemed to be inadequate by the Auditor-General. Any information disclosed should be limited to the key reasons for the variances, and should also address the impact on programme and service delivery. The information should be concise, but provide an adequate explanation to a user of the financial statements, highlighting savings/under spending and overspending.

*Under spending* is defined as the amount that a department did not spend from its voted funds, while *savings* are defined as amounts that were saved by the department because they actively sought a more cost effective option thereby saving money.
Economic classification of expenditure

The purpose of the economic classification is to distinguish between those activities where the benefit are short term in nature and those that have benefit over a longer period, being capital.

Reconciliation of appropriation statement to income statement

Included in the income statement is a range of items not included in the adjustment estimate, including non-voted funds received (e.g., sales of goods and services) and other receipts, including dividends received incorporated in miscellaneous income. The items in the reconciliation should agree to the income statement where such amounts are disclosed individually. The objective of the reconciliation is to ensure that items compared in the appropriation statement are in fact items that should be compared. The relevance of this reconciliation will become even more significant as we move towards accrual accounting, while the budget remains on a cash basis.
2. DETAILED GUIDANCE ON THE INCOME STATEMENT AND BALANCE SHEET

2.1 INCOME STATEMENT

2.1.1 VOTED FUNDS AND OWN REVENUE

Definitions

**Voted funds** are the amounts appropriated to a department in accordance with the final budget known as the adjustment estimate as well as the statutory appropriation. It is funded to a (National/Provincial) department from the (National/Provincial) Revenue Fund, which collects the funds in the form of the equitable share portion, conditional grants received, as well as **revenue from sales of goods and services and other receipts, defined as own revenue**. Such own revenue is collected by (Provincial) departments, who acts as collecting agencies, and transferred to the (Provincial) Revenue Fund.

**Other Revenue** is defined as the inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the government entity, normally from the sale of goods, the rendering of services, and the earning of interest, taxes and dividends. It does not include borrowings, such as debenture proceeds, or transfers from other funds or include repayments of loans, receivables, advances, etc. Departments require specific authority to be able to respond revenues, either through a voted appropriation or in a statutory appropriation, or specific legislation.

**Revenue:** The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners. (IPSAS 2)

Departments will have “**Voted funds**” and “**statutory appropriations**”. The amount to be shown is the amount voted after virement as disclosed in the appropriation statement. The difference between the voted amount and the amount actually expended during a financial year is repayable to the revenue fund and is included in the balance sheet item with the heading “Voted funds to be surrendered”.

Local and Foreign Aid Assistance (including RDP funds) is in line with Practice Note 16. The information included in the income statement and the note to the annual financial statements must agree with the information disclosed in the Summary statement of Aid Assistance.

**Appropriation:** An authorisation by the legislature to expend or commit funds. (IFAC)

**Other revenue to be surrendered to the revenue fund** includes amounts earned from:

- taxes;
- interest.
- stale cheques
- receivables inflows e.g. payments received for accounts receivables or loans;
- refunds of expenditure; and gains on sale of assets (both capital and non-capital)
- custodial receipts e.g. deposit and trust accounts, etc return on investments
- dividends received
**Voted funds** are the amounts appropriated to a department in accordance with the final budget known as the Adjusted Estimates of National/Provincial Expenditure. Unexpended voted funds are surrendered to the National/Provincial Revenue Fund.

Provincial departments must differentiate between “Conditional grants” voted and “Portion of equitable share”. Further details regarding the conditional grants must be given in note 1. Written confirmation for audit purposes must be obtained for all conditional grants received from the department who made the grant.

National departments will have “Voted funds” and “statutory appropriation”. The amount to be shown in the amount voted after virement as disclosed in the appropriation statement as revised allocation.

The difference between the voted amount and the amount actually transferred to the department by the Treasury is included in the balance sheet item with the heading “Voted funds to be surrendered”.

**Statutory appropriations** are amounts charged to National/Provincial department’s specific legislation applicable to the department. The department is still accountable for the administration of the charge vested in them.

At the time of the audit, a confirmation of the transfer of funds from the donor organisation to the department must be on hand. Receipts from the RDP fund must be confirmed with the RDP Office.

The PFMA and/or the Treasury Regulations prescribe the separate disclosure of most of the items under “Other revenue to be surrendered to the revenue fund”.

**Other revenue to be surrendered to the revenue fund** includes all other revenue received by a National/Provincial department that cannot be retained by it, but surrendered to the National/Provincial revenue fund. For example, fines and penalties collected on behalf of the revenue fund.

The information included in the income statement and the note to the annual financial statements must agree with the information disclosed in the Summary statement of Aid Assistance.

Interest and dividends received from trading entities are included under the heading “Other revenue to be surrendered to the revenue fund”.

**Net surplus/(deficit)** is the difference between total revenue and total expenditure.

**Expenditure** is the cost of goods and services acquired plus assets purchased in the accounting period when the payment is made.

**Accounting**

**Voted monies** as per the adjustment estimate, transferable to a department from the Revenue Fund, is viewed as a receivable. Voted monies not utilised is viewed as a payable (shown as surplus due to the Revenue Fund). Own revenue is recognised when a department receives cash. A payable (shown as surplus - or indeed monies due to the Revenue Fund) is raised for any amount that has not been transferred to the Revenue Fund. Conditional grants are recognised as income when the department has received the cash.

Where an amount has been appropriated to a department, but has not been drawn, the amount is recognised as revenue and included under the heading “Voted funds” in the income statement and the debit is included under “Voted funds to be surrendered” in the balance sheet. Reasons
for under/overspending are determined in relation to the voted amount and not the amount received.

Other revenues - these are accounted for in the period in which the monies were received and not in the period in which the underlying transaction or event occurred that gave rise to the revenues.

Other revenue collected in the year, but not yet transferred to the revenue fund, would be an account payable.

The PFMA and/or the Treasury Regulations prescribe the separate disclosure of most of the items under “Other receipts”.

Dividends received from trading entities are included under the heading “Other revenue to be surrendered to the revenue fund”.

Local and foreign assistance is shown as Non-voted funds, expenditure, monies rolled over, transferred to the Revenue Fund and as repayable to donors. A problem is encountered when a donor makes the donation to a province, rather than a provincial department, as the monies will now be deposited into the Provincial Revenue Fund, from where it cannot be transferred without an appropriate Act.

<table>
<thead>
<tr>
<th>NON-VOTED FUNDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-voted funds is revenue collected by (National/Provincial) departments and that is not funded from the accredited banking account of the (National/Provincial) Revenue Fund (i.e. the Exchequer account) and the expenditure of which does not depend on the final budget. Such monies will flow directly to the relevant Paymaster General’s account of the receiving department and will be spent directly from the said account. Examples include local and foreign aid assistance.</td>
</tr>
</tbody>
</table>

Special Considerations

Legislation

Other revenue received to be surrendered by a provincial government

PFMA 22 (1) All monies 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 into the province’s Provincial Revenue Fund, except money received by...

c) Except from donor agencies.

Other revenue to be surrendered by national government

PFMA 13 (1) All monies received by a national government must be paid into the National Revenue Fund, except money received by...

e) Except from donor agencies.

Voted funds to be surrendered

TR 15.8.1 At the end of each financial year, and after the books of account of a department have been closed, the accounting officer must surrender to the relevant treasury any unexpended voted money, for the re-depositing into the Exchequer bank account of the relevant revenue fund.
2.1.2 CONDITIONAL GRANTS AND EARMARKED FUNDS

Definition
Grants introduced in 1998/99 to support national priorities, particularly in the social services sector. It enables national priorities to be provided for in the budgets of other spheres of government. It is viewed as part of voted funds.

Further details regarding the conditional grants must be given in note 1 to the Annual Financial Statements. Written confirmation for audit purposes must be obtained for all conditional grants received from the department who made the payment.

Disclosure of conditional grants authorised in the adjustment estimate, but where the conditions have not yet been met should be made.

Disclosure of conditional grants where the conditions have been met, but departments have not yet utilised the facility should also be made.

Accounting
It is part of voted funds. Conditional grants are recognised as expenditure when the department has paid the cash and as Voted Funds when received by the department. Care should be taken to ensure that there are no timing differences in the payment and receipt of funds.

Annual Reporting
The Division of Revenue Act 5 of 2002, requires that annual reports and financial statements of the transferring and receiving departments must also include information on conditional grants set out in schedules 3, 4, 5 and 6 of the Act.

Section 18(1) outlines information that should be included in the annual reports of the transferring national officers. Section 18(2) outlines information that should be included in the annual reports and financial statements of the receiving provincial departments and municipalities.

In order to comply with this requirement the annual report of the transferring department should include the following information on conditional grants.

(a) overview of departmental grants, number types of grants, total allocations, transfer trends. A summary of all grants should be provided in the following table.

(b) Outline the purpose and expected outputs for each grant.

(c) Explain whether transfers were made as scheduled, into the accredited accounts for the receiving spheres. In situations where payments were either delayed (failure to pay according to the payment schedule) or withheld (non-transfers) explain the reasons and the extent to which the department complied with sections 21 and 22 of the Act.

(d) Indicate whether any portion of the grant was retained at the national for administration costs. Briefly describe the nature of the administration costs.

(e) Provide an analysis of spending trends for each grant, indicating the extent to which the department monitored compliance with the conditions of the grant. Highlighting specific areas in which compliance fell short of requirements, and steps taken in situations where a province or municipality failed to comply.
(f) Indicate the extent to which the outputs were achieved, providing a comparative analysis of provincial performance against their targets. Where performance fell short of expectations outline the reasons, and measures taken to improve performance in the coming years if the grant is continuing.

(g) Provide an overall assessment of compliance with the Act, both by the department and the receiving spheres, and explain any measures taken in situation where there was non-compliance.

Audit requirements

The following schedules are to be completed prior to the audit and handed to the auditors for audit purposes. The information on conditional grants and transfer payments contained in the annexures to financial statements is a summary of the information required for audit purposes.
### Conditional Grant transfers to provinces

<table>
<thead>
<tr>
<th>Grant Type</th>
<th>Division of Revenue Act</th>
<th>Adjustments Estimate</th>
<th>Roll Overs</th>
<th>Total Available</th>
<th>Actual Transfers</th>
<th>Amount not Transferred</th>
<th>% of Available Transferred</th>
<th>Amount Received by Province</th>
<th>Actual amount Spent by Province</th>
<th>% of Transferred Spent</th>
<th>Payment Schedule</th>
<th>Transfers</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>R'000</td>
<td>R'000</td>
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<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>% of Available Transferred</td>
<td>R'000</td>
<td>R'000</td>
<td>% of Transferred Spent</td>
<td>Date</td>
<td>Amount</td>
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<td>Total</td>
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</tbody>
</table>

### Conditional Grant transfers to municipalities

<table>
<thead>
<tr>
<th>Grant Type</th>
<th>Division of Revenue Act</th>
<th>Adjustments Estimate</th>
<th>Roll Overs</th>
<th>Total Available</th>
<th>Actual Transfers</th>
<th>Amount not Transferred</th>
<th>% of Available Transferred</th>
<th>Amount Received by Municipality</th>
<th>Actual amount Spent by Municipality</th>
<th>% of Transferred Spent</th>
<th>Payment Schedule</th>
<th>Transfers</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>R'000</td>
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<td>R'000</td>
<td></td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>% of Available Transferred</td>
<td>R'000</td>
<td>R'000</td>
<td>% of Transferred Spent</td>
<td>Date</td>
<td>Amount</td>
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<td>Total</td>
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</table>

### Notes

**Note 1**: Explain reason for underspending, should this be less than 90 percent, what corrective steps were taken, mention early warning report on corrective steps and result.

**Note 2**: Explain reason for variance between receipts and the payment schedule.

**Note 3**: Explain reason for deviation of receipt/transfer not into accredited account number ###.

**Note 4**: Have all transfers to municipalities been gazetted.

**Note 5**: Payment schedule originally agreed and signed of by the DG (National Treasury on 31 March 2003).

**Note 6**: Adjustments Estimate refers to additional Funds.

**Note 7**: Departments to obtain confirmation certificates from Provincial Treasuries and Municipal Managers for amount spent per transfer at year end (31/03/03) of the transfer received.
Conditional Grant transfers to municipalities

<table>
<thead>
<tr>
<th>Grant</th>
<th>Grant Allocation</th>
<th>Transferred</th>
<th>Spent</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government</td>
<td>Division of Revenue Act</td>
<td>Adjustments Estimate</td>
<td>Roll Overs</td>
<td>Total Available</td>
</tr>
<tr>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
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</tbody>
</table>

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**Note 2** Explain reason for variance between receipts and the payment schedule

**Note 3** Explain reason for deviation of receipt/transfer not into accredited account number ###

**Note 4** Have all transfers to municipalities been gazetted

**Note 5** Payment schedule originally agreed and signed of by the DG (National Treasury on 31 March 2003)

**Note 6** Adjustments Estimate- refers to additional Funds
## Conditional Grant receipts

<table>
<thead>
<tr>
<th>Grant</th>
<th>Grant Allocation</th>
<th>Expenditure</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Division of Revenue Act</td>
<td>Adjustments Estimate</td>
<td>Roll Overs</td>
</tr>
<tr>
<td>R'000</td>
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</table>

**Total**

**Note 1**: Explain reason for underspending, should this be less than 90 percent, what corrective steps were taken; mention early warning report on corrective steps and result.

**Note 2**: Explain reason for variance between receipts and the payment schedule.

**Note 3**: Explain reason for deviation of receipt/transfer not into accredited account number ###.

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2.1.3 **STATUTORY APPROPRIATIONS**

The amount shown as statutory appropriations on the face of the income statement and note 2 thereto, should only be disclosed if the amount has been budgeted as a separate line item in the published budget. This expense forms a direct charge against the applicable revenue fund. The salaries of the Ministers should in all other cases be included as part of voted funds.

2.1.4 **PERSONNEL**

The amounts included under the heading pension contributions and medical aid contributions are the employer’s contributions. Any contribution made by the employee is included under basic salary.

**Average number of employees**

The number of individuals is determined on a full time equivalent basis at the beginning and the end of a financial year. The numbers reported here should agree to the numbers published in the annual report.

2.1.5 **PROFESSIONAL AND SPECIAL SERVICES**

The following should be used as guidelines to determine the categorisation of items under this heading:

**Consulting Services**

Consulting Services refer to those specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis.

**DPSA definition of a consultant:**

A Consultant is a professional person appointed by the Public Service to provide technical and specialist advice or to assist with the design and implementation of projects/programs. The legal status of this person can be an individual, a partnership or a corporation.

The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advice or service is in line with a contractual arrangement (usually commissioned on a project basis).

Remuneration is usually based on an hourly fee or a fixed fee for a product/deliverable. Funding of the costs can be either directly through the budget of the department or indirectly through the International Donor Agency (IDA).

**Contractors**

Contractors are required to provide services that are of a current and non-specialised nature, that are not core business of the department. It is normally not cost effective to maintain these skills within the department, i.e. cleaning services.

**Auditors’ remuneration**

A distinction should be made between fees paid for the audit and fees paid for other services. Audits of departments are performed by the Auditor-General or by a firm of auditors on behalf of the Auditor-General. That firm may not render other services to the department, unless prior approval of the Auditor-General has been obtained. Accordingly any fees paid to firms that also act as auditors, but not to the department, would be included under the heading of consultants and advisory services, particular, where for example, the internal services have been outsourced.
2.1.6 TRANSFER PAYMENTS

Before a transfer payment is made, the accounting officer must in accordance with section 38(1)(i) and (j) of the PFMA “when transferring funds in terms of the annual Division of Revenue Act:

- ensure the provisions of that Act are complied with”, and
- “obtain written assurance from the entity that that entity implements effective, efficient and transparent financial management and internal control systems, or, if such written is not or can not be given, render the transfer of the funds subject to conditions and remedial measures requiring the entity to establish and implement effective, efficient and transparent financial management and internal control systems”.

The accounting officer must maintain appropriate measures to ensure that transfer payments are applied for their intended purposes. These measures include:

- regular reporting procedures
- audit requirements and submission of audited statements
- regular monitoring procedures
- scheduled or unscheduled inspection visits or reviews of performance
- any other control measures deemed necessary.

An accounting officer may withhold a transfer payment if he or she is satisfied that:

- conditions attached to the transfer or grant have not been complied with
- financial assistance is no longer required
- agreed objectives have not been attained
- the transfer payment does not provide value for money in relation to its purpose or objective.

Accordingly, in order to meet the disclosure requirements that arise from the above, the report on Programme Performance has detailed disclosure requirements for transfer payments made. Reference to transfer payments is also made in the Management Report. Disclosure in the Notes to the financial statements as Annexure 1, and is limited to a split between conditional grants and other transfers, and a requirement to split this information between transfers to fund capital expenditure and transfers to fund current expenditure. It is important that the information that is disclosed, is not duplicated, but where relevant cross-referenced.

2.2 BALANCE SHEET

2.2.1 DISTINCTION BETWEEN CURRENT AND NON CURRENT

A distinction is made between current and non-current assets and liabilities. The distinction is normally made on the expected amounts to be settled or recovered both before and after twelve months from the balance sheet date. The expectation of settlement is normally in accordance with a contractual agreement and not based on the actual payment experience.

Therefore, the split between current and non-current cannot be made on the basis of an age analysis that indicates that certain amounts are outstanding for a period of more than twelve months.

This distinction provides useful information by distinguishing receipts and payments circulating as working capital from those used or required for long-term activities. Items expected to be realised within the next twelve months and liabilities that are due for settlement within the same period are highlighted.
Credit balances in debtors are of concern. These items should be investigated and corrected before the balance sheet date. If they are not corrected before the closure of the books, they must be reclassified as payables.

2.2.2 UNAUTHORISED EXPENDITURE

Definition of unauthorised expenditure

Unauthorised expenditure means the overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
Procedure for the treatment of unauthorised expenditure

Unauthorised expenditure discovered by the accounting officer

Accounting officer must immediately report in writing in terms of sec 38(1)(g) to National Treasury and in terms of Treasury Regulation (TR) 9.1.2 in the monthly report as required in terms of sec (40)(4)(b)

Accounting officer must in terms of sec 38(1)(h) take effective and appropriate disciplinary steps (in determining steps, TR 9.1.3 must be taken into account)

Unauthorised expenditure must be reported in the annual report (as a note to the financial statements) in terms of TR 9.1.5

Branch: Public Finance in consultation with the budget Office submit a report to Parliament (SCOPA) on unauthorised expenditure as reported in departmental annual reports and advise on
- approval/non-approval
- additional funds/charge against funds allocated for future financial years (sec 34)

either
Parliament does not approve unauthorised expenditure in terms of sec 34

Unauthorised expenditure must be recovered from the person responsible in terms of TR 12.7

If the amount is irrecoverable the debt can be written off by the accounting officer in terms of TR 11.4. Amounts written off must be disclosed in the annual financial statements.

or
SCOPA recommend to Parliament approval of expenditure in terms of sec 34(1) & (2)

Prepare legislation for tabling in Parliament (not a money bill therefore as a direct charge against NRF)
2.2.3 IRREGULAR EXPENDITURE

Definition of irregular expenditure
Irregular expenditure means expenditure other than unauthorised expenditure, incurred in contravention of or not in accordance with a requirement of any applicable legislation, including:

- The PFMA,
- State Tender Board Act, or any regulations made in terms of this act, or
- Provincial legislation providing for procurement procedures.

Principle of dealing with irregular expenditure
Irregular expenditure is treated as expenditure in the income statement until such expenditure is either not condoned by National/Provincial Treasury or the Tender Board, at which point it is treated as a current asset until it is recovered from a third party.

Failure to comply with a departmental regulation is non-compliance and not irregular expenditure. For example, if a delegation is exceeded, it is non-compliance and internal disciplinary processes should be followed. It cannot be authorised by National Treasury.

Procedure for the treatment of irregular expenditure

- Irregular expenditure discovered by the accounting officer
  
  Accounting officer must immediately report in writing in terms of sec 38(1)(g) to National Treasury and in terms of TR 9.1.2 in the monthly report as required in terms of sec 40(4)(b)
  
  If irregular expenditure relates to procurement, also report to the relevant tender board in terms of sec 38(1)(g)

  National Treasury or the Tender Board may consider condonation of non-compliance with Treasury Regulations or Tender Regulations respectively in terms of relevant legislation (In process of amending the PFMA to provide for condonation)

  If irregular expenditure is not condoned the accounting officer must:
  - take appropriate disciplinary steps (sec 38(1)(h))
  - recover the amount in terms of TR 12.7

  If the amount is irrecoverable the debt can be written off by the accounting officer in terms of TR 11.4. Amounts written off must be disclosed in the annual financial statements.
2.2.4 FRUITLESS AND WASTEFUL EXPENDITURE

Definition of fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. Such fruitless and wasteful expenditure must be recovered from a responsible official (a debtor account should be raised), or the vote if responsibility cannot be determined. The write-off must be authorised and the amount debited to “Special functions: authorised losses”.

Procedure for the treatment of fruitless and wasteful expenditure

1. Fruitless and wasteful expenditure discovered by the accounting officer
2. Accounting officer must immediately report in writing in terms of sec 38(1)(g) to National Treasury and in terms of TR 9.1.2 in the monthly reports as required in terms of sec 40(4)(b)
3. Accounting officer must take appropriate disciplinary steps (sec 38(1)(h))
   recover the amount in terms of TR 12.7

2.2.5 ANALYSIS OF NET SURPLUS FOR THE YEAR

This is done under three headings:

The first heading “Voted Funds to be surrendered to Revenue Fund” indicates the amount of voted funds to be surrendered to Treasury.

The second heading “Other revenue to be surrendered to Revenue Fund” is to account for revenue collected by the department and transferred to the Revenue Fund via SARS.

The third heading “Local and foreign Aid Assistance (including RDP funds)” is to account for unused donor funds to be surrendered to the Revenue fund, or rolled over for use in the following year, or to be repaid to the donor.

The total is for control purposes only and must agree with “Net surplus/deficit for the year”.

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2.2.6  CASH AND CASH EQUIVALENTS

If the balance of the Paymaster General account in the ledger is a credit balance, then the amount should be reflected under current liabilities as a bank overdraft.

Short-term investments are investments that are easily convertible into cash, for example a notice deposit, fixed deposit or call account held at a financial institution. It is not an investment in a trading entity or public entity. Investments in trading entities or public entities are included under the line item Investments.

If there were no outstanding deposits or payments, the bank statement balance and the ledger balance would have been the same. As that is not the case, the bank statement balance and the ledger balance are reconciled on a regular basis. The amount shown in the ledger is the amount included under the description Paymaster General Account included with the detailed note supporting the amount described as “Cash and cash equivalents” or “Bank overdraft” in the balance sheet.

If the balance in the ledger is a debit balance the item is included under cash and cash equivalents.

Should cash on hand (petty cash balances) and cash in transit be insignificant, i.e. smaller than one thousand rand, these amounts may be included in the Paymaster General Account.

2.2.7  RECEIVABLES

2.2.7.1 TRADE RECEIVABLES

Legislation
Treasury Regulations: 11.2.1
PFMA: S 38 (1) (c)

Definition
Trade Receivables is an amount due to the State as a result of the sales of goods or provision of services by the state, for example hospital debtors where the service is rendered to patients long before payment is received.

Background and Accounting treatment
A department must collect all money due to it. In order to achieve this, the department needs to record all debts due to the department/state.

Departments only record the transaction once the cash has been collected from the debtor / 3rd party.

For the 2002/03 financial year the trade debtors will be disclosed as a note to the receivables notes.

Where an existing module of a system is used for receivables and a credit balance is maintained in order to report a nil balance, the receivable should be included with “Receivables – current” (other debtors) Note 16 and the credit showed with recoverable revenue in the equity section of the balance sheet.
Disclosure

Statement of Accounting Policies

Receivables are not normally recognised under the cash basis of accounting. However, receivables included in the balance sheet arise from cash payments that are recoverable from another party.

Receivables for services delivered are not recognised in the balance sheet as an asset or as revenue in the income statement as the financial statements are prepared on a cash basis of accounting, but are disclosed separately in the notes to enhance the usefulness of the financial statements.

Gross trade receivables less amounts considered to be irrecoverable are disclosed as a note and therefore no recognition in either the balance sheet or the income statement is required.

2.2.7.2 RECEIVABLES AND LOANS: AMOUNTS DUE BY STAFF DEBTORS

Amounts due by staff members must be identified by category. As amounts due by staff members are normally payable in a short period, it is highly unlikely that non-current staff debt exist.

All staff debts should be included under the heading “receivables” and not “loans”.

2.2.7.3 PRE-PAYMENTS AND ADVANCES

Definition

“Pre-payments” are payments in advance for goods and services to be received in future. The actual amount payable is known.

“Advances” are amounts made available to employees for expected operating expenditure (S&T), as well as preliminary salary advances to employees that was employed during month end and did not receive their salary at month end. The actual amount to be expensed against the vote is not known.

Statutory requirements

Treasury Regulations Chapter 8,11 and 17.

2.2.8 CONTROLLED ENTITIES/ TRADING ENTITIES/ PUBLIC ENTITIES

A user of the financial statements should be able to form a clear picture of the nature of the various activities performed in entities separate from the department, the purpose of each activity...
and the financial impact that each activity has, separately. It should also be clear whether these activities were performed in a trading entity, a public entity or a public/private partnership. The user should be able to answer the following question: 'Do they generate funds or do they require additional funding?'

A controlled entity is an entity under the control of another entity. Ownership control is defined in section 1 of the PFMA. Control in accounting terms is defined as the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Significant influence is defined as the power to participate in the financial and operating policy decision of the investee, but is not control or joint control over those policies.

The information required may have been provided elsewhere in the annual report. In that case a statement referring the user to the relevant section is sufficient. Information should not be duplicated. Where the activities have been performed by a trading entity, a public entity or a public/private partnership, the level of control exercised by the department over that trading entity, public entity or public/private partnership should be explained, including the accountability arrangements that have been established. Section 1 of the PFMA defines ownership control and the glossary of terms defines significant influence.

A certificate of confirmation must be obtained for each transfer payment made and the confirmations must be available for audit purposes.

The following information, as an example, should be presented for each transfer payment, unless it has already been presented in the Report on Programme Performance, included elsewhere in the annual report:

<table>
<thead>
<tr>
<th>NAME OF INSTITUTION</th>
<th>AMOUNT TRANSFERRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Trade Organisation</td>
<td>R 3 068 000</td>
</tr>
<tr>
<td>Commission for International Trade Administration</td>
<td>R 10 000 000</td>
</tr>
</tbody>
</table>

Dividends received from trading entities or public entities are included under the heading “Other revenue to be surrendered to the revenue fund”.

Investments in trading entities or public entities are included under the line item Investments in controlled entities. Annexure 2 to the financial statements should be completed in this regard. All investments are to be disclosed, including those with a nil value.

Investments in controlled entities are shown at cost. Where an investment has been impaired, it is recognised as an expense in the period in which the impairment is identified.

Increases in the carrying amount of investments in controlled entities are credited to revaluation and other reserves in shareholders’ equity. Decreases that offset previous increases of the same marketable security are charged to the income statement.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.
2.2.9 CONFIRMATION OF BALANCES, RECEIPTS AND PAYMENT WITH DEPARTMENTS

Definition

Amounts owing by and to other departments results from:

Departmental transfers, secondments, as well as services rendered by one department on behalf of another as a result of parliamentary budgetary approval.

Departmental transfer

This is when an employee is transferred from one department to another.

Secondments

This is the rendering of human resource assistance amongst departments in the Public Service or other Institutions.

Interdepartmental Services

This is where Departments use the environment of the other to render a service on behalf the other, i.e. Legal Services by Department of Justice; printing by the State Printers and the erection of buildings by the Department of Public Works.

Statutory requirements

Public Finance Management Act Sec 38(1)(f)

The accounting officer for a department, trading entity or constitutional institution:

must settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.

Treasury Regulations 11.1.1

This regulation applies to all debts accruing to an institution and includes any amount owing to or receivable by the institution, such as invoices for charges for goods or services, fees or fines outstanding.

Public Service Regulations Part VII paragraph B.4

An executing authority may, with the agreement of the employee concerned, second the employee to another department in the public service or for a period of time.

The recipient department shall bear the inclusive costs of secondment, unless both departments agree otherwise, or, the Treasury approves another arrangement.

As operating activities certificates of confirmation of amounts owing by other departments and amounts owing to other departments at the reporting date are required for audit purposes for each department with whom a department has transacted. These certificates should be available at the time of the audit. No certificate is required for amounts below R10 000.

Where there is a dispute between departments about the balance owing/due that cannot be resolved before the completion of the financial statements for submission to the auditors, the balance according to the records of the department that is owed is used for financial statement preparation purposes. The department that owes the money must record the difference as a receivable or payable under the description “funds in transit”.

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This difference must be resolved immediately after finalisation of the audit and the appropriate accounting entries processed to correct the difference.

For example, the South African Police Services are requested by the Department of Foreign Affairs to provide protection services during a state visit by a foreign dignitary. The Department of Foreign Affairs do not agree with the amount charged by the South African Police Services. The Department of Foreign Affairs should raise the full liability if they are not able to resolve the dispute by the time of finalisation of the financial statements.

Balances with trading entities or public entities are not included in the above process, as these entities are already on the accrual basis. For example an amount owing to the Government Printer, a trading entity of the Department of Home Affairs would not be included under this note.

The following is an example of the confirmation letter that should be sent on a departmental letterhead by the CFO to the CFO of the Department with whom confirmation is required:

**PRO FORMA CONFIRMATION LETTER**

Dear Sir/Madam

In accordance with the year-end procedures of a department we are required to obtain written confirmation of transactions with your department and the balance outstanding at 31 March 2003.

The amount owing by/to your department at 31 March 2003 is:

R………………………………

Please confirm the above by signing the enclosed attachment. Should you not agree with the above, please provide details of the differences.

Thanking you in anticipation.

Yours faithfully

Chief Financial Officer

2.2.10 **RECOVERABLE REVENUE**

**Definition**

Payments previously incurred which have now become payable due to the occurrence or non-occurrence of an event e.g. a bursary

**Special considerations**

Treasury regulations Chapter 7

**Accounting**

If the contract has not been fulfilled, a debt must be created which will be recorded under a debtors account and a vote / cost centre will be credited for the current financial year.
If the contract has not been fulfilled, a debt must be created which will be recorded under a
debtor’s account and the recoverable revenue account will be credited for the previous financial
year.

When the debt is repaid, bank will be debited and debt account is credited

When the receipt is paid to SARS, the general account of revenue is debited, and bank account is
credited.

Automatic transactions will debit recoverable revenue account and credit general account
of the revenue at the end of the financial year.

2.2.11 BORROWINGS

Departments, as a general rule, cannot borrow money. The only exception is that
constitutional institutions may be permitted by the Minister of Finance to borrow for
bridging purposes, including a temporary bank overdraft.

It is therefore, highly unlikely that departments would need to provide the information
required in the note to the balance sheet.

2.2.12 CLEARING OF SUSPENSE ACCOUNTS

Definition
Temporary posting of financial transactions to relevant suspense accounts where the correct
allocation is still to be established

Special considerations
Treasury Regulations Chapter 17, Section 40 (1) (a) of PFMA

Accounting
Posting of transactions to a relevant suspense account.

By the end of the month posting the transactions permanently to the correct ledger account

Adjusting all incorrectly allocated transactions by passing journals

Monthly reconciliation should be performed showing details of actions taken to establish correct
allocations and supported by verified authentic documents

An Age analysis should be shown for all outstanding balances in suspense accounts.

Suspense accounts reflecting income and expenditure items must be clearly defined and
accounted for in the Income Statement if they remain uncleared at year-end. Suspense accounts
carrying asset and liability transactions must be clearly defined and accounted for in the balance
sheet if there are still uncleared at year-end.
3. PREPARING THE CASH FLOW STATEMENT

Because of its similarity to the income statement under the cash basis of accounting, the cash flow statement should not present problems to preparers. The preparation of this statement is explained by means of steps listed below:

Step 1
Start with the first note to the cash flow statement and enter the “Net surplus” as per the income statement. Should this be a “Net deficit” in the income statement (which is highly unlikely), change the wording to “Net deficit” and enter the amount in brackets. When starting with a deficit, change all the “Add” to “Deduct” and all the “Deduct” to “Add”.

Step 2
Adjust for the net surplus for all items separately disclosed

Establish whether any revenue was derived from the sale of assets or sale of investments under “Other revenue to be surrendered to the revenue fund” in the income statement. If so, enter the amounts in the appropriate lines in the note. If there were no such proceeds, ignore this line.

Enter the total of the section “Capital Expenditure” from the income statement.

Enter the amount paid for investment purchased

Adjust for any amounts not requested/not received included under Voted Funds (See note 24 to the annual financial statements).

Add up all the amounts and enter them in the appropriate line under the first note of the cash flow statement as the total for “Adjusted for the net surplus for all items separately disclosed”.

Adjust the net surplus for all non-cash items:

Analyse the Provisions relating to employee costs and other provisions by comparing the balance of each item separately to its balance at the end of the previous year. Adjust for all non-cash movements such as journal entries that do not affect cash and cash equivalents. The full balance of new provisions that has been introduced in 2002 year would usually be non-cash items.

Add up all the amounts and enter them in the appropriate line under note 1 as the total for “Adjusted for items for non-cash items”

Adjust for cash required/utilised to increase/decrease in working capital:

Movements on receivables and payables are calculated as the net difference between the balance sheet amounts from the beginning to the end of the financial year.

An item that requires careful consideration is staff loans and debts included in current assets (receivables and/or loans), non-current assets (receivables or loans).

Movements in other current assets need to be analysed to determine if it should be classified as changes in working capital or cash flows from investing activities. Movements in the short-term portion (receivable within 12 months) of loans and investments may be classified as movements in working capital.

Movements in other current liabilities need to be analysed to determine if it should be classified as changes in working capital or cash flows from financing activities. Movements in the short-term
portion (payable within 12 months) of borrowings may be classified as movements in working capital.

These amounts affect the cash requirements of the entity. An increase in debtors requires funds but when some or all of the debtors repay their debts, funds are received by the entity. When creditors increase, cash funds are “saved”, but when the entity repays its debts, cash is “used”. Compare the balance of each item separately to its balance at the end of the previous year. Debit balances that have increased have required funds and must be entered between brackets. Debit balances that have decreased have provided funds and these decreases must be entered without brackets. Do the same for the items with credit balances but credit balances that have increased have “saved” or generated funds and are entered without brackets. The opposite applies to credit balances that have decreased. Add up all the amounts in brackets and all the amounts not in brackets and enter them in the appropriate line in the cash flow statement as the total for “Adjusted for cash required/utilised to increase/decrease in working capital”.

Step 3
Voted funds and revenue surrendered to Treasury are cash flows that reduce the net cash flow generated by operating activities to the calculate the net cash flow available from operating activities. For each item, start with the information on payments made obtainable from the Statement of Changes in Net Assets/Equity.

Local and foreign aid assistance (including RDP funds) repaid to the donor organisation is identified in the reconciliation suggested in note 5. The reconciliation presented in support of the balance sheet item Local and foreign aid assistance (including RDP funds) repayable to donors identifies the amount paid as a separate item. Enter the amount on the Cash Flow Statement.

Deduct these cash outflows to calculate net cash flow available from operations.

Step 4
Enter the amounts of “Purchase of plant and equipment”, “Purchase of land and buildings”, “purchase of investments”, and “Purchase of other financial assets” on the face of the cash flow statement. The combined value will be the same as “Capital expenditure” under the relevant section in the income statement.

Purchases are to be shown as in brackets because they are cash outflows.

Step 5
Enter the amounts of “Proceeds from sale of plant and equipment, Proceeds from sale of land and buildings, Proceeds from sale of investments and proceeds from sale of other financial assets”. (Proceeds from sale of land and buildings normally only apply to some departments).

These amounts and amounts in step 4 should be the same as items added back for separate disclosure under the first note of the cash flow statement.

Step 6
Total the amounts in the block and enter the sum above the block. Add or deduct this amount to or from the amount of “Net cash flow available from operating activities” to arrive at Net cash flow from operating and investing activities below the block.

Step 7
Enter proceeds from and repayment of borrowings or loans in the appropriate lines under “Cash flows from financing activities” (This normally only applies to Treasury)
Step 8
Add all the amounts in the block and enter the sum above the block and in the line “CASH FLOWS FROM FINANCING ACTIVITIES”. Add or deduct this amount to or from the amount in the line “Net cash flows from operating and investing activities” and enter this sum in the line “Net increase/(decrease) in cash and cash equivalents.

Step 9
Establish and enter the amounts of cash and cash equivalents at the beginning and end of the year. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Enter the totals of the relevant notes to the cash flow statement on the face of the cash flow statement. The difference must obviously agree with the amount established in the line “Net increase/(decrease) in cash and cash equivalents” above otherwise the cash flow statement does not balance.

Tip: If the cash flow statement does not balance (but assuming the balance sheet does):
- Ensure all the balance sheet items have been brought into account in the cash flow statement.
- Ensure all the previous year’s balance sheet items have been brought into account and that they are in fact the final figures after all adjustment entries had been made.
- Check all additions and subtractions.
- Check that brackets have been used correctly.
- Check the worksheet used for calculating the amounts entered under the various notes.
D: DETAILED GUIDANCE ON NOTES FOR DISCLOSURE PURPOSES ONLY

1. INVENTORY

Inventory is loosely defined as goods that are normally disposed/consumed within 12 months, such as medical supplies used in the rendering of healthcare services. Capital inventory would be those items that are used on capital assets, for example, engine spares for aircraft. Current inventory would be all inventory that is not capital in nature.

Consumed is defined as “issued from the main depot(s)” and not necessary physically consumed. Therefore, only inventory on hand in the main depot(s) on 31 March must be disclosed in note 6 to the income statement.

Disclosure must be done by category (stationary, aircraft spares, vehicle spares, etc). The costing method First In First Out (FIFO), weighted average cost (WAC), Last In First Out (LIFO) – irrespective that LIFO is no longer allowed as an acceptable valuation basis by the accounting standards or any other method of valuation that is currently being used) must also be disclosed.

2. PROPERTY, PLANT AND EQUIPMENT

Legislation
PFMA s 38 (1) (d)

National Treasury’s Guideline on asset management

Definition
An Asset is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (Refer NT Guideline on asset management).

Non-Current Assets have an extended useful life greater than one year and it is usually expected that these assets would be used during more than one reporting period. This may reflect their physical life in the case of tangible assets or their legal life in the case of intangible assets. Property, plant and equipment are classified as non current assets.

Tangible assets are physical in nature. These are assets that one can touch and feel.

Immovable assets consist of all non-produced, non-financial tangible assets, namely land, subsoil assets, non cultivated biological resources and water resources; and some fixed tangible assets, namely fixed structures (bridges, houses, roads and buildings).

Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, aircrafts, engines and motors)
Dwellings are buildings that are used entirely or primarily as residences, including garages and other associated structures. It includes mobile homes, caravans and housing for military personnel. Dwellings can be further subdivided into:

- **Residential** Residences (Presidential, Embassies etc), Military personnel dwellings and Other.
- **Non-Residential** is all buildings other than dwellings – Hospitals, Office buildings, Industrial buildings, Public entertainment buildings, Universities and technikons, School buildings, Non residential buildings under construction.
- **Other Structures (infrastructure)** is also known as infrastructure. It includes Highways, Streets, Roads, Airfields, Sewers, Harbours, and Dams and other waterworks, Shafts, Tunnels and other structures associated with Mining, Communication lines, Power lines and Outdoor Sport and Recreation facilities.

**Machinery, Plant & Equipment** are assets that are generally long-lived and large. They will normally need regular servicing and their lifespan is often measured by hours of use/service. Include Furniture and Office Equipment and Computer Equipment.

**Other Equipment** Determined by function (eg construction, laboratory)

**Transport Assets** is equipment for moving people and objects, including Motor Vehicles, Trailers, and Semi-Trailers, Ships, Railway Locomotives and Rolling Stock, Aircraft, Motorcycles, and Bicycles.

**Depreciation**

Depreciation is the allocation of the total acquisition cost of a capital asset over its estimated useful life. Infrastructure assets are long lived capital assets that are normally stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Depreciation should be calculated for all fixed assets with a finite useful life by allocation the cost less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use. The disclosure of depreciation is not required for 2002/03 but it is however encouraged.

The useful economic lives of assets and their residual values should be estimated on a realistic basis. The depreciation method prescribed is straight line. Where a tangible fixed asset comprises two or more major components with substantially different useful economic lives, each component should be disclosed separately for depreciation purposes and depreciated over their respective useful economic life. Where an asset has been re-valued, the depreciation is based on the re-valued amount. Assets in the course of construction should not be depreciated. Depreciation should be done in whole months from the month in which it is brought into use. Land is not depreciated, however non-investment buildings are depreciated.
Background
In terms of financial management an institution needs to manage its assets. This can only be achieved by starting with the recording of the assets. Therefore the recognition of assets in the accounting records is key for financial management. This will also assist the institutions to allocate resources and costs more effectively.

Accrual accounting requires the recording of all financial transactions irrespective of the source of funding

Current accounting treatment
Assets are written off, when paid for, against voted funds i.e. the assets are not capitalised to the balance sheet. No depreciation is provided for on the assets.

Donated assets are not recorded in the books of accounts

Accounting Treatment

Cost
Only tangible assets purchased in the 2002/03 financial year will be disclosed in Annexure 4 to the financial statements. The total additions per Annexure 4 must agree to the total of capital expenditure in the income statement. Movements relating to disposals and transfers in or out of tangible assets purchased in the current year are to be disclosed in Annexure 4.

Donations received will be disclosed at fair value at date of receipt.

All costs associated with the construction of the asset need to be included in the cost of the asset e.g. professional and special services.

Depreciation will be disclosed on a straight-line basis in line with the department’s write-off policy.

Costs incurred to bring the asset to its present condition for use, should be added to the cost of the asset to determine the final cost. Therefore the professional and special services costs incurred should be added to the cost of the asset disclosed.

Land and buildings must be disclosed in the department’s AFS which accepts the risks and rewards of utilising the land and buildings.
### PHYSICAL ASSET MOVEMENT SCHEDULE AS AT 31 MARCH 2003 (Not including inventories)

#### COST

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<tr>
<th></th>
<th>Opening Balance</th>
<th>Additions</th>
<th>Disposals</th>
<th>Transfers In</th>
<th>Transfers Out</th>
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<td>Non Residential Buildings</td>
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<td>Other structures (Infrastructure Assets)</td>
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<tr>
<td>Mineral &amp; Similar Non Regenerative Resources</td>
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<td>Heritage Assets</td>
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<td>MACHINERY AND EQUIPMENT</td>
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<td>Transport Assets</td>
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#### ACCUMULATED DEPRECIATION

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<th>Current depreciation</th>
<th>Disposals</th>
<th>Transfers In</th>
<th>Transfers Out</th>
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#### NET BOOK VALUE

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<td>R'000</td>
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<td>LAND AND BUILDINGS</td>
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<td>Land</td>
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<td>Non Residential Buildings</td>
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<td>Investment Properties</td>
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<td>Other structures (Infrastructure Assets)</td>
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<tr>
<td>Mineral &amp; Similar Non Regenerative Resources</td>
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<td>Capital work in Progress</td>
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<td>Heritage Assets</td>
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<td>Transport Assets</td>
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**Physical asset movement schedule (Not including inventories)**

The schedule above is to be submitted to the Auditor-General at the time of the audit. The Auditor-General will in turn submit the schedule to National Treasury for review. Movements relating to disposals and transfers in or out of assets purchased in the current year are to be disclosed along with the current year’s depreciation.

**Depreciation**

Refer National Treasury’s Guideline to asset management

**Disclosure**

Statement of Accounting Policies

Physical assets acquired are expensed i.e. written off in the income statement when the payment is made.

**Income Statement**

As an expense when payment is made for the asset.

**Balance Sheet**

Assets are written off in the income statement when purchased therefore they are not capitalised on the balance sheet.

3. PROPERTY, PLANT AND EQUIPMENT – OWN ACCOUNT CONSTRUCTION

**Legislation**

National Treasury’s Guideline to asset management.

IPSAS 11: Construction Contracts.

IPSAS 17: Property, Plant and Equipment

**Definition**

Own-account construction is where government may supply the labour, services and material to be used as inputs in the construction of a capital asset, for example a road, building and other fixtures etc.

**Accounting Treatment**

All own-account construction that commenced prior to 1 April 2002 but only completed after 1 April 2002 must be disclosed. All own-account construction commenced after 1 April 2002 must be disclosed in the current year.

IPSAS 17 furthermore states that the cost of a self-constructed asset is determined using the same principles as for an acquired asset. The cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

When disclosing these costs it must be ensured that the cost is not greater than the fair value of the asset, therefore the fair value needs to be regularly assessed.
Disclosure
Statement of Accounting Policies
Costs incurred on own account construction assets are expensed i.e. written off in the income statement when payment is made.

Income Statement
As an expense when payment is made over the period of construction.

Balance Sheet
Own account construction assets are written off in the income statement when being constructed therefore they are not capitalised on the balance sheet.

4. INTANGIBLE ASSETS

Legislation
IAS 38: Intangible Assets.
AC 129: Intangible Assets
IFAC Public Sector Committee: Transition to the Accrual Basis of Accounting, Guidance for Governments and Government Entities

Definition
An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

An asset is resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Future economic benefits are probable if an entity can demonstrate:

- how the intangible asset will enhance the net inflow on economic benefits to the entity;
- the entity’s ability and intention to use or sell the intangible asset;
- the availability of adequate technological, financial and other information to obtain future economic benefits;
- technical feasibility to complete;
- ability to measure the expenditure.
Background

In broad terms, intangible assets represent recognisable rights to future economic benefits and service potential. They may be purchased or internally generated, separately identifiable or non-identifiable. Identifiable intangible assets can be sold or acquired separately from other assets, for example patents, databases and concessions. Identifiable intangible assets may be referred to as having a marketable value. Non-identifiable intangible assets cannot be sold separately, for example goodwill, human resources, good labour relations and the power to tax.

Intangible assets include:

- Goodwill;
- Patents;
- Copyrights;
- Brand names;
- Subscription lists;
- Trade secrets/intellectual property;
- Trademarks;
- Franchises;
- Computer software;
- Concessions;
- Operating rights or rights of use, such as rights/licenses to extract mineral ore, access rights, rights to operate a radio spectrum; and
- Capitalised research and development costs

The incidence of intangible assets is potentially much broader in the public sector than in the private sector due to the wide scope of the powers of the government to create and delegate powers and rights. Examples of intangible assets held by public sector entities include:

- Rights under licensing agreements for films, videos, plays and manuscripts in entities such as broadcasting, tourism, arts and culture;
- Patents and copyrights held by government entities in fields such as tourism, research, education, health, agriculture, archives;
- Databases and database management software created and maintained by government entities, such as those containing information on the demographic statistics of the population, land ownership, private sector entity ownership and registers of securities and charges;
- Airport landing rights;
- Licenses to operate radio or television stations;
- Import/export licenses;
- Fishing quotas;
- Right to control the extraction of mineral resources;
- Agreements with other entities which give that other entity a right to provide utilities; and
- Rights to issue rights, licenses and quotas.

**Accounting treatment**

All intangible assets are written off in the income statement as an expense when the payment is made.

Items that meet the recognition criteria for an intangible asset should be disclosed in Annexure 5 to the financial statements at their original cost price as well as on the movement schedule detailed below.

The cost of additions per Annexure 5 will be reviewed by the Auditor-General to ensure that it agrees to the income statement. Movements relating to disposals and transfers in or out of intangible assets purchased in the current year are to be disclosed in Annexure 5.

If an intangible item does not meet the recognition criteria for an intangible asset, then it should be expensed immediately in the income statement and not recorded in Annexure 5 or the movement schedule detailed below.

Internally generated intangible assets should not be disclosed because there is no way of determining their value unless there is an active market where the asset could be sold, in which case the value would be measurable.

Where an item such as a casino licence has been granted the value of the intangible asset that should be disclosed should be determined by calculating the net present value of all licence income over the period of the licence agreement. The asset should be amortised over the period of the licence agreement. Below are amortisation periods suggested:

<table>
<thead>
<tr>
<th>Intangible Asset</th>
<th>Amortisation Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>Straight-line basis over the lesser of its effective economic life and 20 years</td>
</tr>
<tr>
<td>Negative Goodwill</td>
<td>Systematic basis over the useful life of the underlying assets purchased</td>
</tr>
<tr>
<td>Trademarks and Brand Names</td>
<td>Straight-line basis over their anticipated useful life</td>
</tr>
<tr>
<td>Software Costs</td>
<td>Straight-line basis over 3 - 5 years</td>
</tr>
<tr>
<td>Research Costs</td>
<td>Expensed in the period in which they are incurred.</td>
</tr>
<tr>
<td>Development Costs</td>
<td>Straight-line basis over the estimated useful life.</td>
</tr>
<tr>
<td>Patents</td>
<td>Straight-line basis over estimated useful life.</td>
</tr>
<tr>
<td>Other Intangible Assets</td>
<td>Straight-line method over estimated useful life, generally not exceeding 20 years.</td>
</tr>
</tbody>
</table>
Subsequent expenditure on an intangible asset should be expensed and not added to the cost of the intangible item, unless:

- Those costs will specifically create future economic benefits / service potential in excess of original standard performance, and
- The costs involved can be measured and attributed to the asset reliably.

If the above criteria are met then the costs may be added to the cost of the specific intangible asset

**Intangible asset movement schedule**

The schedule below is to be submitted to the Auditor-General at the time of the audit. The Auditor-General will in turn submit the schedule to National Treasury for review. Movements relating to disposals and transfers in or out of intangible assets purchased in the current year are to be disclosed along with the current year’s depreciation.
## INTANGIBLE ASSET MOVEMENT SCHEDULE (Not including inventories)

### COST

<table>
<thead>
<tr>
<th>Patents, Copyrights, brand names &amp; trademarks</th>
<th>Opening Balance R'000</th>
<th>Additions R'000</th>
<th>Disposals R'000</th>
<th>Transfers In R'000</th>
<th>Transfers Out R'000</th>
<th>Closing Balance R'000</th>
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### ACCUMULATED DEPRECIATION

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<tr>
<th>Patents, Copyrights, brand names &amp; trademarks</th>
<th>Opening Balance R'000</th>
<th>Current depreciation R'000</th>
<th>Disposals R'000</th>
<th>Transfers In R'000</th>
<th>Transfers Out R'000</th>
<th>Closing Balance R'000</th>
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### NET BOOK VALUE

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<tr>
<th>Patents, Copyrights, brand names &amp; trademarks</th>
<th>Opening Balance R'000</th>
<th>Closing Balance R'000</th>
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<td>Capitalised development costs</td>
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</table>
Disclosure

Accounting Policy

Intangible assets acquired are written off in the income statement when the payment is made in accordance with the cash basis of accounting.

Income Statement

The purchase of intangible assets is shown as an expense when the payment is made.

Balance Sheet

No entry is made to the balance sheet since the transaction is recognised on a cash basis of accounting

5. LEASES

Legislation

References: IPSAS 13

PFMA: Sec 66

Treasury Regulations 13.2

The PFMA prohibits borrowing by National / Provincial Departments. The Treasury Regulations issued during May 2002 makes it clear that finance leases are also deemed to be borrowings and are therefore not permitted.

The leasing of photocopiers, facsimile machines, PABX boards and other similar office equipment shall be regarded as operating leases even though such leases may fulfil some of the criteria for finance leases, as mentioned in paragraph 13.2.3 (a) to (g) of the Treasury Regulations.

Accounting officers who (in contravention of the Treasury Regulations) have entered into finance leases because such leases were found to be more economically viable than operating leases, shall treat the expenditure related thereto as irregular expenditure, which could be referred to the relevant treasury to consider condonation.

Definitions

A lease is a contract that gives the lessee (the renter) the right to use a property, plant or equipment for a fixed period of time with a fixed schedule of payments to the lessor (the owner).

A finance lease is a lease that transfers substantially all risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred

An operating lease is a lease other than a finance lease.

Economic life is the period over which an asset is expected to yield economic benefits or service potential to one or more users;
Useful life is the estimated remaining period, from the beginning of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the entity.

The definition of a lease includes contracts for the hire of an asset, which contain a provision giving the option to acquire title upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

**Background**

The classification of leases is based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee.

Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value due to changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset’s economic life and of gain from appreciation in value or realisation of a residual value.

Although the following are examples of situations, which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

b) the 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 the option becomes exercisable, so that at the inception of the lease it is reasonably certain that the option will be exercised;

c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

d) at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset;

e) the leased assets are of a specialised nature such that only the institution can use the asset without major modifications being made;

f) the lessor’s losses associated with cancellation of the lease by the lessee is borne by the lessee; or

g) the leased assets cannot easily be replaced by another asset.

Other indicators that individually or in combination could also lead to a lease being classified as a finance lease are:

a) gains or losses from the fluctuation in the fair value of the residual fall to the lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease; and

b) the lessee has the ability to continue the lease for a secondary period at a rent, which is substantially lower than market rent.

Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. While the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance lease the substance and financial reality are that the lessee acquires the economic benefits or
service potential of the use of the leased asset for the obligation to pay for that right an amount approximating to the fair value of the asset and the related finance charge.

Leases of land and building are classified as operating or finance leases in the same way as leases of other assets. However, a characteristic of land is that it normally has an indefinite economic life and, if title is not expected to pass to the lessee by the end of the lease term, the lessee does not receive substantially the entire risks and rewards incident to ownership. A premium paid for such leasehold represents pre-paid lease payments, which are amortized over the lease term in accordance with the pattern of benefits provided.

It is common practice for contracts to be termed rental agreements. This therefore does not mean that this is excluded from being a lease. One still needs to go through the condition of the contract to determine whether it is a finance lease or an operating lease.

The interest rate to be used in the calculation of the net present value is the government’s borrowing rate or the rate of the contract. The maintenance part of the contract must not be included with the lease payments when calculating the net present value.

Current accounting treatment

Operating Leases

The lease payments are recognised as expenditure when paid for.

Finance Leases

Lessees should disclose assets acquired under finance leases as assets (in Annexure 1) and the associated lease obligations as liabilities in disclosure note 6. The assets and liabilities should be disclosed at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

In calculating the present value of the minimum lease payments the discount factor is either the rate as set out in the lease agreement or the interest rate implicit in the lease, if this is practicable to determine; if not the government borrowing rate should be used.

A finance lease gives rise to a depreciation charge for the depreciable leased asset for each accounting period. The depreciation policy for these assets should be consistent with that for depreciable assets that are owned. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset should be fully depreciated over the shorter of the lease term or its useful life.

Disclosure

Accounting Policy

Finance leases

Finance leases entered in the current financial year are disclosed at the equivalent of their cash cost or the present value of the underlying lease payments, when the institution assumes substantially all the benefits and risks of ownership on the asset concerned. The corresponding finance lease obligations are raised net of finance charges as financial liabilities, being the open market value of the leased assets at the commencement of the lease.

Depreciation on leased assets (finance lease) should be disclosed in accordance with the depreciation rates of owned assets (property, plant and equipment).
Finance leases entered into in contravention with the PFMA should be treated as irregular expenditure.

Operating leases

Lease payments under an operating lease are expensed as and when payment is made.

Income Statement

Lease payments are expensed when payment is made for both finance and operating leases. Finance lease expenditure must be treated as irregular.

Balance Sheet

No entry is made to the balance sheet since the transaction is recognised on the cash basis of accounting.

6. ACCRUALS

This amount represents goods/services that have been delivered prior to year end, but no invoice has been received from the supplier at year end, OR where the goods/services have been delivered, and an invoice is on hand but remains unpaid at year end. These amounts are not recognised in the balance sheet as a liability or as expenditure in the income statement as the financial statements are prepared on the cash basis of accounting.

All such amounts should be disclosed in disclosure note 34. Note the difference in reporting required compared to the 2001/02 financial statements. In 2001/02 all payments made that related to an invoice dated prior to year-end were disclosed. For 2002/03 it is required that ALL unpaid invoices at year-end must be disclosed, regardless of whether payment was made subsequent to year-end. Where goods/services have been delivered and no invoice has been received at year-end, an estimate of the invoice amount should be made based on the order, quote or goods received note.

7. COMMITMENTS

Definition

Commitments are future payments and expenditure to be incurred on contracts that have been entered into at the balance sheet date and where there are unperformed obligations. The commitments would include both capital and current items.

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

Accounting treatment

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 balance sheet date, but goods and services have not yet been received, are disclosed in the notes to the financial statements.

Material contracts entered into after the balance sheet date but prior to the approval of the financial statements must be disclosed under subsequent events in the management report.

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:

a) contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

b) contracts should relate to something other than the routine, steady, state business of the department – and therefore salary commitments relating to employment contracts, or social security benefit commitments are excluded.

Disclosure
Income Statement and Balance Sheet

No expenditure has been incurred and therefore no recognition in either the balance sheet or the income statement.

Notes to the financial statements

Commitments must be disclosed in a note as the aggregate amount of capital expenditure approved and contracted for at the balance sheet 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.

8. PROVISIONS, CONTINGENT ASSETS & CONTINGENT LIABILITIES

8.1 PROVISIONS

Provisions do not normally arise under a cash basis of accounting. Please provide full details of any provisions that may exist and a reconciliation of the movement in the balance for the year for each type of provision as shown in disclosure note 4.

A provision is defined as a liability of uncertain timing or amount. In other words, a provision cannot be created unless there is a liability.

A liability is a present obligation arising from past events, the settlement of which is expected to result in an outflow on resources embodying economic benefits.

There are two types of obligations:

- A legal obligation is an obligation that derives from a contract (through its explicit or implicit terms, legislation or other operation of law).

- A constructive obligation is an obligation that derives from an entity’s actions that have created a valid expectation on the part of other parties that it will discharge those responsibilities. This valid expectation could arise as a result of an established pattern of past practice, published policies or sufficiently specific current statement indicating that the entity will accept certain responsibilities.
The definition of a provision will be satisfied only where there is an obligating event at the balance sheet date. This requires that there must be no realistic alternative to settling the obligation created by the event that occurred before the balance sheet date.

Provisions should only be disclosed for obligations arising from past events that exist independently of an enterprise’s future actions. In contrast, a provision should not be created for expenditure relating to future action of the entity.

**In those cases where no reliable estimate can be made, a provision should not be disclosed. Rather, the situation should be disclosed as a contingent liability.**

### 8.2 CONTINGENT LIABILITIES

A contingent liability is defined as (SAICA AC 130):

“A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or

A present obligation that arises from past events but is not recognised because:

- It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
- The amount of the obligation cannot be measured with sufficient reliability.”

Disclosure of a contingency should be given unless the possibility of an outflow of resources is remote, in which case no disclosure is required.

### 8.3 CONTINGENT ASSETS

A contingent asset is defined as (SAICA AC 130):

“A possible asset as a result of past events, the existence of which will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the control of the entity”

Disclosure of a contingent asset will only be given if the inflow of economic benefits is probable.

### 9. HOUSING GUARANTEES

The amount that must be disclosed in the annual financial statements of the Departments is the rand value of the amount guaranteed at 31 March 2003. Housing guarantees should be disclosed as part of contingent liabilities in disclosure note 1.

For practical reasons the full amount guaranteed is disclosed and not the outstanding amount of the guarantee.

### 10 MOTOR VEHICLE GUARANTEES

The amount that must be disclosed in the annual financial statements of the Departments is the lesser of
• rand value of the amount guaranteed or
• the amount outstanding on the loan

as at 31 March 2003. Vehicle guarantees should be disclosed as part of contingent liabilities in disclosure note 1.

The guarantee will only be settled if a member defaults and the guarantee is called up and is therefore contingent upon that uncertain future event.

11. STATEMENT OF FINANCIAL GUARANTEES ISSUED
The following should be disclosed under each heading in the statement:

• **Guaranteed institution**
  Name of the institution in respect of whose liabilities the guarantee was issued, e.g. Telkom, Land Bank, etc

• **Guarantee in respect of**
  Examples would be capital markets loans 1/95, water purification plants, access roads to water project ST5, etc

• **Guaranteed capital amount**
  Capital amount for which the guarantee was issued and which appears on the guarantee documents.

• **Guaranteed capital amount outstanding**
  The capital amount outstanding in respect of the guarantee amount is shown here (face value of bond loans).

• **Guaranteed interest outstanding as from last date of interest until 31/3/2003**
  Where interest on a guaranteed amount is also guaranteed, interest outstanding as from the last date of interest until 31 March 2003 is shown here.

• **Claims paid out during past financial year**
  The amount in respect of a guarantee realised during the financial year is shown here.

• **Realised losses i.r.o. claims paid out**
  Losses realised in respect of guarantee claims paid out are to be shown here. As in the case of a housing loan to an official, a guarantee claim paid out is not necessarily a loss to the State, seeing that the amount paid out can be recovered from the person in question. If such an amount cannot be recovered and has to be written off, it is regarded as a loss.
STATEMENT OF FINANCIAL GUARANTEES ISSUED AS AT 31 MARCH 2003

DOMESTIC/ FOREIGN (provide separate returns for Domestic & Foreign)

<table>
<thead>
<tr>
<th>Guaranteed institution</th>
<th>Guarantee in respect of</th>
<th>Original Guarantee capital amount</th>
<th>Opening Balance 01/04/2002</th>
<th>Guarantees issued during the year</th>
<th>Guarantees Paid/ Cancelled/ Reduced During the year</th>
<th>Closing Balance 31/03/2003</th>
<th>Realised losses i.r.o. claims paid out</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>New Inc. Paid Canc. Red</td>
<td></td>
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<tr>
<td>R'000</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>
12. CLAIMS

Definition

The amount that must be disclosed in the annual financial statements of the Departments is the estimated settlement value of claims instituted against the Department as at 31 March 2003.

The claim will only be settled when either the court decides that the Department is liable or the Department accepts the liability, both of which are unknown.

Civil claims against the state (department/province) that have not been settled (by a court order or mutually between the parties) must be included in contingent liabilities. Claims are normally overstated. The amount disclosed is not necessarily the claim amount, but rather the amount determined as the most likely amount that the court will settle on. “Most likely” must be determined by a qualified legal person (such as the State Attorney) or from departmental/provincial history. The Quantum Yearbook by Robert Koch (published by Van Zyl & Rudd Associates Pty (Ltd) may be utilised.

Special considerations

The following categories are used in respect of payments:

- Ex-gratia (excluding vehicle collisions)
- Vehicle collisions: Ex-gratia payments
- Payment of compensation: Other
- Vehicle collisions: Payments of compensation

Regulation 18(a) of the SA Police Service Act (Act No 68 of 1995) is applicable only in those cases where an official suffered a loss or damage to personal belongings, which are usually carried on such officials during the performance of official duties.

The following regulatory framework exists:

- Section 40 & 76 of the Public Finance Management Act, (Act No 1 of 1999)
- Treasury Regulations 12 and 22
- Regulations 18 issues in terms of the SA Police Service Act, (Act No 68 of 1995)
- Section 57 of the SA Police Service Act (Act No 68 of 1995)
- Apportionment of Damages Act, 1956 (Act No 34 of 1956)

Accounting

Where final settlement was reached and payment was made

These payments will be expensed against the vote, and will be included in the Income Statement under the heading: Miscellaneous.

Where final settlement was reached but payment is outstanding as at 31 March 2003

In this instance it represents a provision and should be disclosed as such in disclosure note 4.
13. EMPLOYEE BENEFITS

Employee benefits are not normally recognised under the cash basis of accounting. Details of these benefits are disclosed in disclosure note 5 to the financial statements.

The following types of leave payouts have to be disclosed:

1 Leave payouts in the event of death, retirement and medical boarding

Officials are entitled to payouts of audited capped leave credits as well as leave credits in respect of the current and previous leave cycle.

Calculation:

\[
\frac{(A - B) + (C - D) + E}{F} \times F
\]

Where –

A = Full annual or pro rata leave entitlement in a leave cycle
B = Leave taken in the previous leave cycle
C = Pro rata leave entitlement in the new leave cycle
D = Leave taken in the new leave cycle
E = Capped leave
F = Employee’s annual basic salary as at the last day of duty

2 Leave payouts in the event of Casual Employees

Employees who have been in employment for longer than 4 months are entitled to payments in respect of any unused annual leave credits in event of termination of their services.

With effect of 1 June 2000 casual employees are entitled to one (1) day annual leave for every 17 days worked.

Calculation:

\[
\frac{A \times 8 \times B}{22} = \frac{C \times B}{22} = \frac{D \times B}{22}
\]

Where –

A = The total remuneration per hour
B = The number of days of annual leave credits
C = The total remuneration per day
D = The total remuneration per month
3 Leave payouts in the event of service termination

Officials are only entitled to a payout in respect of leave credits accumulated for the current and the previous leave cycle, to a maximum of 22 days.

All capped leave is forfeited.

Calculation:

\[
\frac{(A - B) + (C - D)}{261} \times F
\]

Where –

\[A = \text{Full annual or pro rata leave entitlement in a leave cycle}\]
\[B = \text{Leave taken in the previous leave cycle}\]
\[C = \text{Pro rata leave entitlement in the new leave cycle}\]
\[D = \text{Leave taken in the new leave cycle}\]
\[F = \text{Employee's annual basic salary as at the last day of duty}\]

4 Leave payouts in the event of employer denying and not reschedule leave as a result of service delivery requirements/operational requirements.

Such leave must be paid out to the employer at the end of 18 months leave cycle taking into consideration the leave policy of the department.

Calculation:

\[
\frac{A \times F}{261}
\]

Where –

\[A = \text{Leave days denied}\]
\[F = \text{Employee's annual basic salary}\]

5 Leave payouts in the event of long service recognition

(Departmental specific policy needs to be considered)

A. Employee who has rendered 20 years of continuous and consistently satisfactory service for the government. Ten days vacation leave at the employee’s current salary, if the employee has accrued that much leave and wishes to exchange it for cash.

B. Employee who has rendered 30 years of continuous and consistently satisfactory service for the government. Fifteen days vacation leave at the employee’s current salary, if the employee has accrued that much leave and wishes to exchange it for cash.
Definitions:

Leave cycle: 1 January to 31 December of the same year

18 month period: An additional six (6) months is added to the leave cycle (12 months) during which remaining leave days must be taken, thereafter credits are forfeited.

Capped leave: Leave credits due to employees as at 30 June 2000, in terms of the provisions that were in place at that time. The relevant credits must be audited and capped on PERSAL.

Casual employees: Employees appointed on an hourly, daily or monthly basis

Basic Salary: Basic salary with the exclusion of benefits

Total remuneration of casual employees: Basic salary, benefits any payment in kind, excluding any discretionary payment that are not related to her or his work performance.

14. RELATED PARTY TRANSACTIONS

Information about related party transactions is required for accountability purposes and to facilitate a better understanding of the financial position and performance of an entity. The principle issues in disclosing information about related parties is identifying which parties control or significantly influence the entity and determining what information should be disclosed about transactions with those parties.

Key management are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Key management includes the Minister and Deputy Ministers responsible for the department, the Director-General, the Deputy Director-General, the Chief Financial Officer and any key advisors. It includes close members of the families of the individuals identified. It is unlikely that all members of the Senior Management Service are also key management.

Remuneration includes:

Short term employee benefits such as salaries, contributions to unemployment insurance and workmen’s compensation funds, paid annual leave and paid sick leave, profit sharing and bonuses and non-monetary benefits such as medical benefits, housing, cars and free or subsidised goods and services,

Post employment benefits such as pensions, other retirement benefits, post-employment life insurance and medical care,

Other long term employee benefits, including long-service leave or sabbatical leave, long term disability benefits and deferred compensation,

Termination benefits, and

Equity compensation benefits (if any – unlikely in government).

Amounts advanced to members of key management for travel and subsistence are not included under loans that are not widely available (and/or widely known) to persons outside the key management.
15. GIFTS, DONATIONS AND SPONSORSHIPS

Information about material gifts, donations and sponsorships received should be disclosed here when the donation is not made to the department itself for the carrying out of its work, but rather for the internal activities of the department. Examples would be:

- Donations to the social club
- A community forum painting a police station
- A sponsor for an official's retirement party

These funds may not have been deposited into the department's bank account, but rather into another bank account that is still under their control e.g. the department's social club.

16. PUBLIC / PRIVATE PARTNERSHIPS

A Public / Private Partnership (PPP) generally deals with an entity that enters into an arrangement with another entity to provide services that gives the public access to major economic and social facilities. Examples of these could involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks

All aspects of the PPP should be considered in determining the disclosure in the financial statements. For each PPP the department has entered into the following must be disclosed:

- A description of the arrangement
- Significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows
- The nature and extent of:
  1. rights to use specified assets
  2. obligations to provide or rights to expect provisions of services
  3. obligations to acquire or build items of property, plant and equipment
  4. obligations to deliver or rights to receive specified assets at the end of the concession period
  5. renewal and termination options, and
  6. other rights and obligations (e.g. major overhauls), and
- Changes in the arrangement occurring during the period
17. **BIOLOGICAL / CULTIVATED ASSETS**

A distinction should be made between biological assets, agricultural produce and products that are the result of processing after harvest. Examples are as follows:

<table>
<thead>
<tr>
<th>BIOLOGICAL ASSETS</th>
<th>AGRICULTURAL PRODUCE</th>
<th>PRODUCTS THAT ARE THE RESULT OF PROCESSING AFTER HARVEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A living animal or plant)</td>
<td>(The harvested product of the entity’s biological asset)</td>
<td></td>
</tr>
<tr>
<td>Sheep</td>
<td>Wool</td>
<td>Yarn, carpet</td>
</tr>
<tr>
<td>Trees in a plantation forest</td>
<td>Logs</td>
<td>Lumber</td>
</tr>
<tr>
<td>Plants</td>
<td>Cotton</td>
<td>Thread, clothing</td>
</tr>
<tr>
<td>Sugar Cane</td>
<td>Harvested cane</td>
<td>Sugar</td>
</tr>
<tr>
<td>Dairy cattle</td>
<td>Milk</td>
<td>Cheese</td>
</tr>
<tr>
<td>Pigs</td>
<td>Carcass</td>
<td>Sausages, cured hams</td>
</tr>
<tr>
<td>Bushes</td>
<td>Leaf</td>
<td>Tea, cured tobacco</td>
</tr>
<tr>
<td>Vines</td>
<td>Grapes</td>
<td>Wine</td>
</tr>
<tr>
<td>Fruit trees</td>
<td>Picked fruit</td>
<td>Processed fruit</td>
</tr>
</tbody>
</table>

**Measurement**

A biological asset should be shown in the notes to the balance at fair value less estimated point-of-sale costs. **Fair value** is the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction. **Point-of-sale costs** include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties, but exclude transport and other costs necessary to get assets to a market.

Agricultural produce harvested from the biological assets should be measured at its fair value less estimated point-of-sale costs at the point of harvest.

If an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset.

If an active market does not exist, an entity should use one of the following in determining fair value:

- The most recent market transaction price
- Market prices for similar assets with adjustment to reflect differences, and
- Sector benchmarks
Disclosure

The entity should provide details on the following:

- A description of each group of biological assets;
- The nature of its activities involving each group of biological assets;
- Non-financial measures or estimates of the physical quantities; and
- Methods and significant assumptions applied in determining the fair values.
E: HUMAN RESOURCE MANAGEMENT
(OVERSEET REPORT)

PUBLIC SERVICE REGULATIONS

The statistics and information published in this part of the annual report are required in terms of Chapter 1, Part III J.3 of the Public Service Regulations, 2001 and have been prescribed by the Minister for the Public Service and Administration for all departments within the Public Service.

The statistical tables provide high-level information on key human resource issues. The information aims to empower legislatures, the media, the public and other key stakeholders to monitor whether departments:-

- Are exercising the powers granted under Public Service and Public Finance legislation in a responsible manner,
- Are achieving national transformation priorities established by the Cabinet, for example, affirmative action.

Annual reports are produced after the end of the financial year. This is aimed at strengthening the accountability of departments to key stakeholders.

The tables in this report are revised on a regular basis by the Department of Public Service and Administration (DPSA). If you wish to see additional information included in this report, please send suggestions (with a clear motivation) to:-

The Director-General
Department of Public Service and Administration
ATTENTION: Public Service Information Unit
P.O. Box 916, Pretoria, 0001
psiu@dpsa.gov.za
fax: (012) 314-7020

To ensure that enough time is available to evaluate and incorporate your suggestions, please ensure that all submissions are submitted on or before 31 August.

For a detailed description and explanation of the terminology used in this section of the report, please consult the publication from the DPSA entitled ‘A guide to understanding the oversight report of departmental annual reports’. A copy of the guide is available from all departments or can be accessed from the DPSA website (www.dpsa.gov.za).

1. - Service delivery
All departments are required to develop a Service Delivery Improvement (SDI) Plan. The following tables reflect the components of the SDI plan as well as progress made in the implementation of the plans.

Table 1.1 - Main services provided and standards

<table>
<thead>
<tr>
<th>Main services</th>
<th>Actual customers</th>
<th>Potential customers</th>
<th>Standard of service</th>
<th>Actual achievement against standards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

98
**Table 1.2 - Consultation arrangements with customers**

<table>
<thead>
<tr>
<th>Type of arrangement</th>
<th>Actual Customers</th>
<th>Potential Customers</th>
<th>Actual achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

**Table 1.3 - Service delivery access strategy**

<table>
<thead>
<tr>
<th>Access Strategy</th>
<th>Actual achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

**Table 1.4 - Service information tool**

<table>
<thead>
<tr>
<th>Types of information tool</th>
<th>Actual achievements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>
Table 1.5 - Complaints mechanism

<table>
<thead>
<tr>
<th>Complaints Mechanism</th>
<th>Actual achievements</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

2 - Expenditure

Departments budget in terms of clearly defined programmes. The following tables summarise final audited expenditure by programme (Table 2.1) and by salary bands (Table 2.2). In particular, it provides an indication of the amount spent on personnel costs in terms of each of the programmes or salary bands within the department.

TABLE 2.1 – Personnel costs by programme, 2002/03

<table>
<thead>
<tr>
<th>Programme</th>
<th>Total Expenditure (R'000)</th>
<th>Personnel Expenditure (R'000)</th>
<th>Training Expenditure (R'000)</th>
<th>Professional and Special Services (R'000)</th>
<th>Personnel cost as a percent of total expenditure</th>
<th>Average personnel cost per employee (R'000)</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>
### TABLE 2.2 – Personnel costs by salary bands, 2002/03

<table>
<thead>
<tr>
<th>Salary bands</th>
<th>Personnel Expenditure (R’000)</th>
<th>% of total personnel cost</th>
<th>Average personnel cost per employee (R’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
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</tbody>
</table>

The following tables provide a summary per programme (Table 2.3) and salary bands (Table 2.4), of expenditure incurred as a result of salaries, overtime, home owners allowance and medical assistance. In each case, the table provides an indication of the percentage of the personnel budget that was used for these items.

### TABLE 2.3 – Salaries, Overtime, Home Owners Allowance and Medical Assistance by programme, 2002/03

<table>
<thead>
<tr>
<th>Programme</th>
<th>Salaries</th>
<th>Overtime</th>
<th>Home Owners Allowance</th>
<th>Medical Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (R’000)</td>
<td>Salaries as a % of personnel cost</td>
<td>Amount (R’000)</td>
<td>Overtime as a % of personnel cost</td>
</tr>
<tr>
<td>Total</td>
<td></td>
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</tr>
</tbody>
</table>

### TABLE 2.4 – Salaries, Overtime, Home Owners Allowance and Medical Assistance by salary bands, 2002/03

<table>
<thead>
<tr>
<th>Salary Bands</th>
<th>Salaries</th>
<th>Overtime</th>
<th>Home Owners Allowance</th>
<th>Medical Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
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<tr>
<td>Highly skilled production (Levels 6-8)</td>
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<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
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<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>
3 – Employment and Vacancies

The following tables summarise the number of posts on the establishment, the number of employees, the vacancy rate, and whether there are any staff that are additional to the establishment. This information is presented in terms of three key variables: programme (Table 3.1), salary band (Table 3.2) and critical occupations (Table 3.3). Departments have identified critical occupations that need to be monitored. Table 3.3 provides establishment and vacancy information for the key critical occupations of the department.

The vacancy rate reflects the percentage of posts that are not filled.

**TABLE 3.1 – Employment and vacancies by programme, 31 March 2003**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Number of posts</th>
<th>Number of posts filled</th>
<th>Vacancy Rate</th>
<th>Number of posts filled additional to the establishment</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Total</td>
<td></td>
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</tr>
</tbody>
</table>

**TABLE 3.2 – Employment and vacancies by salary bands, 31 March 2003**

<table>
<thead>
<tr>
<th>Salary band</th>
<th>Number of posts</th>
<th>Number of posts filled</th>
<th>Vacancy Rate</th>
<th>Number of posts filled additional to the establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
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<tr>
<td>Highly skilled production (Levels 6-8)</td>
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</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>

**TABLE 3.3 – Employment and vacancies by critical occupation, 31 March 2003**

<table>
<thead>
<tr>
<th>Critical occupations</th>
<th>Number of posts</th>
<th>Number of posts filled</th>
<th>Vacancy Rate</th>
<th>Number of posts filled additional to the establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
The information in each case reflects the situation as at 31 March 2003. For an indication of changes in staffing patterns over the year under review, please refer to section 5 of this report.

4 – Job Evaluation

The Public Service Regulations, 1999 introduced job evaluation as a way of ensuring that work of equal value is remunerated equally. Within a nationally determined framework, executing authorities may evaluate or re-evaluate any job in his or her organisation. In terms of the Regulations all vacancies on salary levels 9 and higher must be evaluated before they are filled. This was complemented by a decision by the Minister for the Public Service and Administration that all SMS jobs must be evaluated before 31 December 2002.

The following table (Table 4.1) summarises the number of jobs that were evaluated during the year under review. The table also provides statistics on the number of posts that were upgraded or downgraded.

<table>
<thead>
<tr>
<th>Salary band</th>
<th>Number of posts</th>
<th>Number of jobs evaluated</th>
<th>% of posts evaluated by salary bands</th>
<th>Posts Upgraded</th>
<th>% of posts evaluated</th>
<th>Posts downgraded</th>
<th>% of posts evaluated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
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</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Senior Management Service Band A</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Management Service Band B</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Senior Management Service Band C</td>
<td></td>
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</tr>
<tr>
<td>Senior Management Service Band D</td>
<td></td>
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</tr>
</tbody>
</table>

The following table provides a summary of the number of employees whose salary positions were upgraded due to their posts being upgraded. The number of employees might differ from the number of posts upgraded since not all employees are automatically absorbed into the new posts and some of the posts upgraded could also be vacant.

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>African</th>
<th>Asian</th>
<th>Coloured</th>
<th>White</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
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</tr>
</tbody>
</table>
The following table summarises the number of cases where remuneration levels exceeded the grade determined by job evaluation. Reasons for the deviation are provided in each case.

**TABLE 4.3 – Employees whose salary level exceed the grade determined by job evaluation, 1 April 2002 to 31 March 2003 (in terms of PSR 1.V.C.3)**

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Number of employees</th>
<th>Job evaluation level</th>
<th>Remuneration level</th>
<th>Reason for deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

Total Number of Employees whose salaries exceeded the level determined by job evaluation in 2002/03

Percentage of total employment

Table 4.4 summarises the beneficiaries of the above in terms of race, gender, and disability.

**TABLE 4.4 – Profile of employees whose salary level exceed the grade determined by job evaluation, 1 April 2002 to 31 March 2003 (in terms of PSR 1.V.C.3)**

<table>
<thead>
<tr>
<th>Beneficiaries</th>
<th>African</th>
<th>Asian</th>
<th>Coloured</th>
<th>White</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Male</td>
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<tr>
<td>Total</td>
<td></td>
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</tr>
</tbody>
</table>

Employees with a disability

[If there were no cases where the remuneration bands exceeded the grade determined by job evaluation, use the following table as TABLE 4.3]

| Total Number of Employees whose salaries exceeded the grades determined by job evaluation in 2002/03 | None |
5 - Employment Changes

This section provides information on changes in employment over the financial year. Turnover rates provide an indication of trends in the employment profile of the department. The following tables provide a summary of turnover rates by salary band (Table 5.1) and by critical occupations (Table 5.2). (These "critical occupations" should be the same as those listed in Table 3.3)

TABLE 5.1 – Annual turnover rates by salary band for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Number of employees per band as on 1 April 2002</th>
<th>Appointments and transfers into the department</th>
<th>Terminations and transfers out of the department</th>
<th>Turnover rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
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<tr>
<td>Senior Management Service Band A</td>
<td></td>
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<tr>
<td>Senior Management Service Band B</td>
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<tr>
<td>Senior Management Service Band C</td>
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<tr>
<td>Senior Management Service Band D</td>
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<tr>
<td>Total</td>
<td></td>
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</tbody>
</table>

TABLE 5.2 – Annual turnover rates by critical occupation for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupation:</th>
<th>Number of employees per occupation as on 1 April 2002</th>
<th>Appointments and transfers into the department</th>
<th>Terminations and transfers out of the department</th>
<th>Turnover rate</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Total</td>
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</tbody>
</table>

Table 5.3 identifies the major reasons why staff left the department.

Table 5.3 – Reasons why staff are leaving the department

<table>
<thead>
<tr>
<th>Termination Type</th>
<th>Number</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death</td>
<td></td>
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<tr>
<td>Resignation</td>
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<tr>
<td>Expiry of contract</td>
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<tr>
<td>Dismissal – operational changes</td>
<td></td>
<td></td>
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<tr>
<td>Dismissal – misconduct</td>
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<td></td>
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<tr>
<td>Dismissal – inefficiency</td>
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<tr>
<td>---------------------------</td>
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<td></td>
</tr>
<tr>
<td>Discharged due to ill-health</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers to other Public Service Departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total number of employees who left as a % of the total employment</strong></td>
<td></td>
<td></td>
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</tbody>
</table>
### Table 5.4 – Promotions by critical occupation

<table>
<thead>
<tr>
<th>Occupation:</th>
<th>Employees as at 1 April 2002</th>
<th>Promotions to another salary level</th>
<th>Salary level promotions as a % of employees by occupation</th>
<th>Progressions to another notch within a salary level</th>
<th>Notch progressions as a % of employees by occupation</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td><strong>Total</strong></td>
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</tr>
</tbody>
</table>

### Table 5.5 – Promotions by salary band

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Employees as at 1 April 2002</th>
<th>Promotions to another salary level</th>
<th>Salary bands promotions as a % of employees by salary level</th>
<th>Progressions to another notch within a salary level</th>
<th>Notch progressions as a % of employees by salary band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
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<tr>
<td>Highly skilled production (Levels 6-8)</td>
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<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
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<tr>
<td>Senior management (Levels 13-16)</td>
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<tr>
<td><strong>Total</strong></td>
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</tr>
</tbody>
</table>

**6 – Employment Equity**
The tables in this section are based on the formats prescribed by the Employment Equity Act, 55 of 1998.

6.1 Total number of employees (including employees with disabilities) in each of the following occupational categories as on 31 March 2003

<table>
<thead>
<tr>
<th>Occupational categories (SASCO)</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
</tr>
<tr>
<td>Legislators, senior officials and managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technicians and associate professionals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service and sales workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled agriculture and fishery workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft and related trades workers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and machine operators and assemblers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary occupations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

6.2 Total number of employees (including employees with disabilities) in each of the following occupational bands as on 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Bands</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
</tr>
<tr>
<td>Employees with disabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Professionally qualified and experienced specialists and mid-management
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents
Semi-skilled and discretionary decision making
Unskilled and defined decision making
Total

### 6.3 Recruitment for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Bands</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
</tr>
<tr>
<td>Top Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionally qualified and experienced specialists and mid-management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
technical and academically qualified workers, junior management, supervisors, foreman and superintendents

<table>
<thead>
<tr>
<th>Occupational Bands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-skilled and discretionary decision making</td>
</tr>
<tr>
<td>Unskilled and defined decision making</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

6.4 Promotions for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Bands</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
</tr>
<tr>
<td>Top Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionally qualified and experienced specialists and mid-management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled technical and academically qualified workers, junior management, supervisors, foreman and</td>
<td></td>
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</tr>
</tbody>
</table>
superintendents

Semi-skilled and discretionary decision making

Unskilled and defined decision making

Total

Employees with disabilities

6.5 Terminations for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Bands</th>
<th>Male</th>
<th></th>
<th></th>
<th></th>
<th>Male</th>
<th></th>
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<tr>
<td>Top Management</td>
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<tr>
<td>Senior Management</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Professionally qualified and experienced specialists and mid-management</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents</td>
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<tr>
<td>Semi-skilled and discretionary decision making</td>
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</tbody>
</table>
### Employee with disabilities

#### 6.6 Disciplinary action for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th></th>
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<th></th>
<th>Female</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
<td>White</td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
<td>White</td>
<td>Total</td>
</tr>
<tr>
<td>Disciplinary action</td>
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</tbody>
</table>

#### 6.7 Skills development for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational categories</th>
<th>Male</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Female</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
<td>White</td>
<td>African</td>
<td>Coloured</td>
<td>Indian</td>
<td>White</td>
<td>Total</td>
</tr>
<tr>
<td>Legislators, senior officials and managers</td>
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<tr>
<td>Professionals</td>
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<tr>
<td>Technicians and associate professionals</td>
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<tr>
<td>Clerks</td>
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<tr>
<td>Service and sales workers</td>
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<tr>
<td>Skilled agriculture and fishery workers</td>
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<tr>
<td>Craft and related trades workers</td>
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<td>Plant and machine operators and assemblers</td>
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</tbody>
</table>

Total
To encourage good performance, the department has granted the following performance rewards during the year under review. The information is presented in terms of race, gender, and disability (Table 6.1), salary bands (table 6.2) and critical occupations (Table 6.3).

**TABLE 7.1 – Performance Rewards by race, gender, and disability, 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Beneficiary Profile</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries</td>
<td>Total number of employees in group</td>
</tr>
<tr>
<td>African Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
<tr>
<td>Asian Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
<tr>
<td>Coloured Male</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
</tr>
<tr>
<td>Employees with a disability</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 7.2 – Performance Rewards by salary bands for personnel below Senior Management Service, 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Salary Bands</th>
<th>Beneficiary Profile</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries</td>
<td>Number of employees</td>
<td>% of total within salary bands</td>
</tr>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 7.3 – Performance Rewards by critical occupations, 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Critical Occupations</th>
<th>Beneficiary Profile</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries</td>
<td>Number of employees</td>
<td>% of total within occupation</td>
</tr>
</tbody>
</table>
TABLE 7.4 – Performance related rewards (cash bonus), by salary band, for Senior Management Service

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Beneficiary Profile</th>
<th>Total Cost (R'000)</th>
<th>Average cost per employee</th>
<th>Total cost as a % of the total personnel expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of beneficiaries</td>
<td>Number of employees</td>
<td>% of total within band</td>
<td></td>
</tr>
<tr>
<td>Band A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Band B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Band C</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Band D</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8 – Foreign Workers
The tables below summarise the employment of foreign nationals in the department in terms of salary bands and by major occupation. The tables also summarise changes in the total number of foreign workers in each salary band and by each major occupation.

TABLE 8.1 – Foreign Workers, 1 April 2002 to 31 March 2003, by salary band

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>1 April 2002</th>
<th>31 March 2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% of total</td>
<td>Number</td>
</tr>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 8.2 – Foreign Worker, 1 April 2002 to 31 March 2003, by major occupation

<table>
<thead>
<tr>
<th>Major Occupation</th>
<th>1 April 2002</th>
<th>31 March 2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% of total</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9 - Leave utilisation for the period 1 January 2002 to 31 December 2002
The Public Service Commission identified the need for careful monitoring of sick leave within the public service. The following tables provide an indication of the use of sick leave (Table 9.1) and disability leave (Table 9.2). In both cases, the estimated cost of the leave is also provided.

### TABLE 9.1 – Sick leave, 1 January 2002 to 31 December 2002

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Total days</th>
<th>% days with medical certification</th>
<th>Number of Employees using sick leave</th>
<th>% of total employees using sick leave</th>
<th>Average days per employee</th>
<th>Estimated Cost (R'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TABLE 9.2 – Disability leave (temporary and permanent), 1 January 2002 to 31 December 2002

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>Total days taken</th>
<th>% days with medical certification</th>
<th>Number of Employees using disability leave</th>
<th>% of total employees using disability leave</th>
<th>Average days per employee</th>
<th>Estimated Cost (R'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled (Levels 3-5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 9.3 summarises the utilisation of annual leave. The wage agreement concluded with trade unions in the PSCBC in 2000, requires management of annual leave to prevent high levels of accrued leave being paid at the time of termination of service.

### TABLE 9.3 – Annual Leave, 1 January 2002 to 31 December 2002

<table>
<thead>
<tr>
<th>Salary Bands</th>
<th>Total days taken</th>
<th>Average per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled Levels 3-5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

117
TABLE 9.4 – Capped leave, 1 January 2002 to 31 December 2002

<table>
<thead>
<tr>
<th>Salary Bands</th>
<th>Total days of capped leave taken</th>
<th>Average number of days taken per employee</th>
<th>Average capped leave per employee as at 31 December 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower skilled (Levels 1-2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled Levels 3-5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled production (Levels 6-8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highly skilled supervision (Levels 9-12)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior management (Levels 13-16)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 9.5 – Leave payouts for the period 1 April 2002 to 31 March 2003

The following table summarises payments made to employees as a result of leave that was not taken.

<table>
<thead>
<tr>
<th>REASON</th>
<th>Total Amount (R’000)</th>
<th>Number of Employees</th>
<th>Average payment per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave payout for 2002/03 due to non-utilisation of leave for the previous cycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capped leave payouts on termination of service for 2002/03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current leave payout on termination of service for 2003/03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. HIV/AIDS & Health Promotion Programmes

TABLE 10.1 – Steps taken to reduce the risk of occupational exposure

<table>
<thead>
<tr>
<th>Units/categories of employees identified to be at high risk of contracting HIV &amp; related diseases (if any)</th>
<th>Key steps taken to reduce the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 10.2 – Details of Health Promotion and HIV/AIDS Programmes (tick the applicable boxes and provide the required information)
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Details, if yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Has the department designated a member of the SMS to implement the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>provisions contained in Part VI E of Chapter 1 of the Public Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulations, 2001? If so, provide her/his name and position.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Does the department have a dedicated unit or has it designated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>specific staff members to promote the health and well being of your</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees? If so, indicate the number of employees who are involved in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>this task and the annual budget that is available for this purpose.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Has the department introduced an Employee Assistance or Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion Programme for your employees? If so, indicate the key</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>elements/services of this Programme.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Has the department established (a) committee(s) as contemplated in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Part VI E.5 (e) of Chapter 1 of the Public Service Regulations, 2001?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>If so, please provide the names of the members of the committee and the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stakeholder(s) that they represent.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Has the department reviewed its employment policies and practices to</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ensure that these do not unfairly discriminate against employees on the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>basis of their HIV status? If so, list the employment policies/practices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>so reviewed.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Has the department introduced measures to protect HIV-positive</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees or those perceived to be HIV-positive from discrimination?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>If so, list the key elements of these measures.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Does the department encourage its employees to undergo Voluntary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counseling and Testing? If so, list the results that you have you</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>achieved.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Has the department developed measures/indicators to monitor &amp;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>evaluate the impact of its health promotion programme? If so, list these</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>measures/indicators.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

11 – Labour Relations
The following collective agreements were entered into with trade unions within the department.

**TABLE 11.1 – Collective agreements, 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Subject Matter</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If there were no agreements, then use the following table

<table>
<thead>
<tr>
<th>Total collective agreements</th>
<th>None</th>
</tr>
</thead>
</table>

The following table summarises the outcome of disciplinary hearings conducted within the department for the year under review.

**TABLE 11.2 – Misconduct and disciplinary hearings finalised, 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Outcomes of disciplinary hearings</th>
<th>Number</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correctional counselling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
If there were no disciplinary hearings, then use the following table:

**Table 11.3 – Types of misconduct addressed at disciplinary hearings**

<table>
<thead>
<tr>
<th>Type of misconduct</th>
<th>Number</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verbal warning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written warning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final written warning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suspended without pay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demotion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dismissal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not guilty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Case withdrawn</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 11.4 – Grievances lodged for the period 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Number</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of grievances resolved</td>
<td></td>
</tr>
<tr>
<td>Number of grievances not resolved</td>
<td></td>
</tr>
<tr>
<td>Total number of grievances lodged</td>
<td></td>
</tr>
</tbody>
</table>

**Table 11.5 – Disputes lodged with Councils for the period 1 April 2002 to 31 March 2003**

<table>
<thead>
<tr>
<th>Number</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of disputes upheld</td>
<td></td>
</tr>
<tr>
<td>Number of disputes dismissed</td>
<td></td>
</tr>
<tr>
<td>Total number of disputes lodged</td>
<td></td>
</tr>
</tbody>
</table>
TABLE 11.6 – Strike actions for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Total number of person working days lost</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost (R'000) of working days lost</td>
<td></td>
</tr>
<tr>
<td>Amount (R'000) recovered as a result of no work no pay</td>
<td></td>
</tr>
</tbody>
</table>

TABLE 11.7 – Precautionary suspensions for the period 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Number of people suspended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of people whose suspension exceeded 30 days</td>
<td></td>
</tr>
<tr>
<td>Average number of days suspended</td>
<td></td>
</tr>
<tr>
<td>Cost (R'000) of suspensions</td>
<td></td>
</tr>
</tbody>
</table>

12 - Skills development
This section highlights the efforts of the department with regard to skills development.

12.1 Training needs identified 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Categories</th>
<th>Gender</th>
<th>Number of employees as at 1 April 2002</th>
<th>Training needs identified at start of reporting period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Learnerships</td>
</tr>
<tr>
<td>Legislators, senior officials and managers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technicians and associate professionals</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerks</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service and sales workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled agriculture and fishery workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft and related trades workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and machine operators and assemblers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
12.2 Training provided 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Occupational Categories</th>
<th>Gender</th>
<th>Number of employees as at 1 April 2003</th>
<th>Training provided within the reporting period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Learnerships</td>
</tr>
<tr>
<td>Legislators, senior officials and managers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technicians and associate professionals</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerks</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service and sales workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Skilled agriculture and fishery workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Craft and related trades workers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and machine operators and assemblers</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13 – Injury on duty
The following tables provide basic information on injury on duty.

TABLE 13.1 – Injury on duty, 1 April 2002 to 31 March 2003

<table>
<thead>
<tr>
<th>Nature of injury on duty</th>
<th>Number</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required basic medical attention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Title</td>
<td>Total number of consultants that worked on the project</td>
<td>Duration: Work days</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total number of projects</th>
<th>Total individual consultants</th>
<th>Total duration: Work days</th>
<th>Total contract value in Rand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**14. Utilisation of Consultants**

**Table 14.1: Report on consultant appointments using appropriated funds**

**Table 14.2: Analysis of consultant appointments using appropriated funds, in terms of Historically Disadvantaged Individuals (HDIs)**

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Percentage ownership by HDI groups</th>
<th>Percentage management by HDI groups</th>
<th>Number of Consultants from HDI groups that work on the project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 14.3: Report on consultant appointments using Donor funds**

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Total Number of consultants that worked on the project</th>
<th>Duration: Work days</th>
<th>Donor and Contract value in Rand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total number of projects</th>
<th>Total individual consultants</th>
<th>Total duration: Work days</th>
<th>Total contract value in Rand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 14.4: Analysis of consultant appointments using Donor funds, in terms of Historically Disadvantaged Individuals (HDIs)**

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Percentage ownership by HDI groups</th>
<th>Percentage management by HDI groups</th>
<th>Number of Consultants from HDI groups that work on the project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

123
<table>
<thead>
<tr>
<th>Project Title</th>
<th>Percentage ownership by HDI groups</th>
<th>Percentage management by HDI groups</th>
<th>Number of Consultants from HDI groups that work on the project</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
1. **UNAUTHORISED EXPENDITURE**

**Principle of dealing with unauthorised expenditure**

Unauthorised Expenditure is the overspending of a vote or a main division within a vote; or Expenditure that was not made in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

The rand value of unauthorised expenditure must be disallowed and surrendered to the relevant treasury (i.e. unauthorised expenditure is subtracted from the amount appropriated by Parliament/Legislature and paid back to the relevant Treasury). The remainder of the vote may be utilised for authorised expenditure. To illustrate this principle of accounting for unauthorised expenditure the following figures will be used:

- **Vote – Amount Appropriated**: R 1000.00
- **Unauthorised expenditure (in accordance with definition)**: R 200.00
- **Authorised expenditure**: R 700.00
- **Savings**: R 100.00

The total amount payable to the Relevant Treasury is:

- **Unauthorised expenditure (to be paid when discovered)**: R 200.00
- **Vote surplus**: R 100.00

**Total payable to Relevant Treasury**: R 300.00

(Note: The unauthorised expenditure of R200.00 is financed by a Bank / PMG overdraft.)

**Accounting for Unauthorised Expenditure**

**Assuming that the Books are not finally closed for the respective financial year and “arising from other than an overspending on a main division of a vote”**.

1. The opening journals with respect to the Vote would be:

   - **Dt** Exchequer Account (B/S)  
     **Cr** General Account of the Vote (B/S)  
     R 1000.00

2. Assume the total vote has been requested:

   - **Dt** Bank/PMG (B/S)  
     **Cr** Exchequer Account (B/S)  
     R 1000.00

3. Expenditure is dealt with as follows (including unauthorised expenditure):

   - **Dt** Expenditure (relevant programme & item) (I/S)  
     **Cr** Bank/PMG (B/S)  
     R 900.00
4. The unauthorised expenditure once discovered is dealt with as follows:

Dt Unauthorised Expenditure (B/S)  R 200.00  
Cr Relevant expenditure allocations (I/S)  R 200.00

*Note: Whilst this would reduce the total expenditure on the Income Statement, for disclosure purposes in the Income Statement the Expenditure is shown as gross and the Disallowed portion shown as a reduction of expenditure.

5. At year-end the following journals are transacted:

Dt General account of the Vote (B/S)  R 700.00  
Cr Expenditure accounts (I/S)  R 700.00

Dt General account of the Vote (B/S)  R 300.00  
Cr Exchequer Account (B/S)  R 300.00

Pay Relevant Treasury the Vote surplus and unauthorised expenditure:

Dt Exchequer Account (B/S)  R 300.00  
Cr Bank (B/S) R 300.00

**Disclosure of unauthorised expenditure**

**To illustrate the effect on the Income Statement and Balance Sheet:**

**Income statement**

Vote  R 1 000.00

Expenditure (R700 auth exp plus R200 unauthorised exp)  R 900.00

Surplus  R 100.00

Add back Unauthorised expenditure  R 200.00

Amount to be surrendered to Relevant Treasury  R 300.00

**Balance Sheet**

Current assets

Unauthorised expenditure  R 200.00

Current liabilities

Bank overdraft  R 200.00
Notes to the financial statements

Unauthorised expenditure R 200.00

Reconciliation of movement in account balance

Opening balance R 0.00
Unauthorised expenditure current year R 200.00
Closing balance R 200.00

Ensure that the closing balance of the reconciliation is equal to the note above and the balance sheet.

Unauthorised expenditure recovery

Unauthorised expenditure must in all cases be authorised by Parliament (before it can become a charge against a Revenue Fund) either by:

- providing additional funds’ or
- as a charge against funds allocated for the subsequent financial years.

If not approved by Parliament it must be recovered from a responsible person

If the Unauthorised expenditure is Approved by Parliament/Legislature with funding (subsequent Financial Year), then the entry would be:

Dt Relevant expenditure allocations (I/S) R 200.00
Cr Unauthorised Expenditure (B/S) R 200.00

The appropriate disclosure would be in the AFS.

If the appropriate legislation is promulgated and the available budget increased for the current financial year then:

Dt Exchequer account (B/S) R 200.00
Cr General Account of the vote (B/S) R 200.00

Funds must be requested from the Relevant Treasury and allocated as follows:

Dt Funds Requisition account (B/S) R 200.00
Cr Exchequer account (B/S) R 200.00

The appropriate disclosure would be in the AFS.
If the Unauthorised expenditure is Approved by Parliament/Legislature without funding (subsequent Financial Year), then the entry would be:

- Dt Relevant expenditure allocations (I/S) R 200.00
- Cr Unauthorised Expenditure (B/S) R 200.00

Funded from savings.

The appropriate disclosure would be in the AFS.

If the Unauthorised expenditure is Not Approved by Parliament/Legislature it must be recovered from a responsible official - the transactions are:

- Dt Debtors (B/S) R 200.00
- Cr Unauthorised expenditure (B/S) R 200.00

The appropriate disclosure would be in the AFS.

When recovered from responsible official

- Dt Bank/PMG (B/S) R 200.00
- Cr Debtors (B/S) R 200.00

The Unauthorised expenditure note would reflect the movement.

If the Amount is irrecoverable then the amount may be written of by the Accounting Officer against savings/surplus:

- Dt Thefts and Losses (I/S) R 200.00
- Cr Debtors (B/S) R 200.00

The appropriate disclosure would be in the AFS.
Accounting for unauthorised expenditure

Assuming that the Books are finally closed for the respective financial year

If you discover prior year unauthorised expenditure in the current year or if the books have already been closed then the following entries made:

Dt Unauthorised expenditure (B/S) R 200.00
Cr Exchequer account (B/S) R 200.00

An amount equal to the Unauthorised Expenditure should be surrendered to the relevant Treasury.

Dt Exchequer account (B/S) R 200.00
Cr Bank/PMG (B/S) R 200.00

If the Unauthorised expenditure is Approved by Parliament/Legislature with Funds – the funds surrendered as unauthorised in the prior period, must be requested from the Relevant Treasury and dealt with as follows:-

Dt Fund requisition (B/S) R 200.00
Cr Unauthorised expenditure (B/S) R 200.00

Dt Bank/PMG (B/S) R 200.00
Cr Fund requisition (B/S) R 200.00

The appropriate disclosure would be in the AFS.

If the Unauthorised expenditure is Approved by Parliament/Legislature without Funds - the funds surrendered as unauthorised in the prior period, must be requested from the Relevant Treasury and dealt with as follows:-

Dt Fund requisition (B/S) R 200.00
Cr Unauthorised expenditure (B/S) R 200.00

Dt Bank/PMG (B/S) R 200.00
Cr Fund requisition (B/S) R 200.00

The appropriate disclosure would be in the AFS.

If the appropriate legislation is promulgated and the available budget for the current financial year is reduced, the unauthorised expenditure must be dealt with as follows:

Dt General Account of the Vote (B/S) R 200.00
Cr Exchequer Account (B/S) R 200.00
Accounting for Unauthorised Expenditure

Assuming that the Books are not finally closed for the respective financial year and “arising from an overspending on a main division of a vote”.

The amount of the Unauthorised Expenditure due to overspending on a main division of a vote should always be disallowed from the relevant expenditure allocation before the books are finally closed.

The unauthorised expenditure once discovered is dealt with as follows:

Dt Unauthorised Expenditure (B/S) R 200.00
Cr Relevant expenditure allocations (I/S) R 200.00

If the Unauthorised expenditure is Approved by Parliament/Legislature with funding.

The following should happen during the subsequent Financial Year:-

Dt Relevant expenditure allocations (I/S) R 200.00
Cr Unauthorised Expenditure (B/S) R 200.00

The appropriate disclosure would be in the AFS.

If the funds are made available via an increased budget for the current financial year i.e. appropriate legislation has been promulgated then the following entries must be passed:

Dt Exchequer account (B/S) R 200.00
Cr General Account of the vote (B/S) R 200.00

The funds are then requested from the Relevant Treasury and allocated as follows:

Dt Funds Requisition Account (B/S) R 200.00
Cr Exchequer Account (B/S) R 200.00

The appropriate disclosure would be in the AFS.

If the Unauthorised expenditure is Approved by Parliament/Legislature without funding.

This should happen during the subsequent Financial Year

Dt Relevant expenditure allocations (I/S) R 200.00
Cr Unauthorised Expenditure (B/S) R 200.00

The appropriate disclosure would be in the AFS.
If the Unauthorised expenditure is Not Approved by Parliament/Legislature

The amount must be recovered from a responsible official - the transactions are:

This can happen in the same or subsequent financial years.

Dt Debtors (B/S) R 200.00
Cr Unauthorised expenditure (B/S) R 200.00

The appropriate disclosure would be in the AFS.

When recoverd from responsible official

Dt Bank/PMG (B/S) R 200.00
Cr Debtors (B/S) R 200.00

The Unauthorised expenditure note would reflect the movement.

If the Amount is irrecoverable then the amount may be written of by the Accounting Officer against savings/surplus:

Dt Thefts and Losses(I/S) R 200.00
Cr Debtors (B/S) R 200.00
2. IRREGULAR EXPENDITURE

To illustrate this principle of accounting for irregular expenditure the following will be used: Irregular expenditure R 400.00

Accounting for irregular expenditure

When irregular expenditure is incurred the following transaction is made:

Dt  Expenditure (relevant programme and item)  R 1 200.00
Cr  Bank  R 1 200.00

Upon discovery of irregular expenditure, it should be recorded as such but only disallowed if the relevant Treasury and / or Relevant Tender Board (if the expenditure relates to procurement) does not condone the non-compliance to prescripts.

A detailed schedule by year of all irregular expenditure should be made and kept up to date for tracking and Internal / External audit purposes.

If Irregular expenditure is condoned then no further action required, other than ensuring the register is updated.

If Irregular expenditure is not condoned then it is Disallowed and the appropriate steps must be taken to recover the amount of irregular expenditure. If recovery is not possible, then the amount may be written off by the Accounting Officer and appropriately disclosed

Disclosure of irregular expenditure in the notes to the annual financial statements

Irregular expenditure not condoned:

<table>
<thead>
<tr>
<th>Incident</th>
<th>Disciplinary steps taken / Criminal proceedings</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The department's personnel expenditure was increased without obtaining</td>
<td>Written reprimand and recovered</td>
<td>R 50.00</td>
</tr>
<tr>
<td>the necessary Treasury approval, as required by Treasury Regulation 6.3.1(a).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The accounting officer incurred expenditure related to a public private</td>
<td>Written reprimand and recovered</td>
<td>R 200.00</td>
</tr>
<tr>
<td>partnership without obtaining prior written approval of the Treasury,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>as required by Treasury Regulation 16.3.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred by the department in contravention of tender</td>
<td>Written reprimand no recovery possible</td>
<td>R 150.00</td>
</tr>
<tr>
<td>regulations.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Irregular expenditure condoned by the Relevant Treasury:

<table>
<thead>
<tr>
<th>Incident</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The department's personnel expenditure was increased without obtaining</td>
<td>R 100.00</td>
</tr>
<tr>
<td>the necessary Treasury approval, as required by Treasury Regulation 6.3.1(a).</td>
<td></td>
</tr>
<tr>
<td>The accounting officer incurred expenditure related to a public private</td>
<td>R 200.00</td>
</tr>
<tr>
<td>partnership without obtaining prior written approval of the Treasury,</td>
<td></td>
</tr>
<tr>
<td>as required by Treasury Regulation 16.3.1</td>
<td></td>
</tr>
<tr>
<td>Expenditure incurred by the department in contravention of tender</td>
<td>R 100.00</td>
</tr>
<tr>
<td>regulations.</td>
<td></td>
</tr>
</tbody>
</table>
If Not Condoned and books open

Dt  Debtors (B/S)  R 400.00
Cr  Relevant Expenditure (I/S)  R 400.00

When recovered from responsible official and assuming only R 250 recovered and not R 400

Dt  Bank/PMG (B/S)  R 250.00
Cr  Debtors (B/S)  R 250.00

The appropriate disclosure would be in the AFS.

If the Amount is irrecoverable then the amount may be written of by the Accounting Officer against savings/surplus:

Dt  Thefts and Losses (I/S)  R 150.00
Cr  Debtors (B/S)  R 150.00

If Not Condoned and books closed

Dt  Debtors (B/S)  R 400.00
Cr  Recoverable Revenue Account (B/S)  R 400.00

When recovered from responsible official

Dt  Bank/PMG (B/S)  R 250.00
Cr  Debtors (B/S)  R 250.00

Dt  Recoverable Revenue Account (B/S)  R 250.00
Cr  Income (I/S)  R 250.00

The appropriate disclosure would be in the AFS.

If the Total or remaining Amount is irrecoverable then the amount may be written of by the Accounting Officer:

Dt  Thefts and Losses (I/S)  R 150.00
Cr  Debtors (B/S)  R 150.00

Dt  Recoverable Revenue Account (B/S)  R 150.00
Cr  Income (I/S)  R 150.00
3. FRUITLESS AND WASTEFUL EXPENDITURE

Principle of dealing with fruitless and wasteful expenditure

One should understand the principle of dealing with fruitless and wasteful expenditure. The rand value of fruitless and wasteful is subtracted (paid back to Treasury) from the amount voted by parliament. The remainder of the vote may be utilised for authorised expenditure. To illustrate this principle of accounting for fruitless and wasteful expenditure the following figures will be used:

Vote R 2 500.00
Fruitless and wasteful expenditure R 125.00
Authorised expenditure R 2 275.00

The vote surplus payable to Relevant Treasury is calculated as follows:

Voted funds R 2 500.00
Fruitless and wasteful expenditure (R 125.00)
Balance of vote R 2 375.00
Authorised expenditure (R 2 275.00)
Net surplus R 100.00
Fruitless and wasteful expenditure R 125.00
Total payable to Relevant Treasury R 225.00

(Note: The fruitless and wasteful expenditure of R 125.00 is financed by a Bank/PMG overdraft.)

Accounting for fruitless and wasteful expenditure – during open relevant financial year

Dt Debtors (B/S) R 125.00
Cr Relevant expenditure Allocation (I/S) R 125.00

*Note: For disclosure the expenditure is shown Gross and the Fruitless and Wasteful Expenditure is added back

If Fruitless & Wasteful Expenditure is Recovered

Dt Bank/PMG (B/S) R 125.00
Cr Debtors (B/S) R 125.00

If the amount is not recoverable then, it must be written off against the relevant programme and expenditure item Thefts & Losses.

Dt Thefts & Losses (I/S) R 125.00
Cr Debtors (B/S) R 125.00
To illustrate the effect on the Income Statement and Balance Sheet (before actual recovery):

**Income statement**

Voted funds \( R \ 2\,500.00 \)

Expenditure (\( R \ 2\,275.00 \) auth exp plus \( R \ 125.00 \) fruitless and wasteful exp) \( (R \ 2\,400.00) \)

**Net surplus** \( R\ 100.00 \)

Add back Fruitless and wasteful expenditure \( R \ 125.00 \)

Net surplus for the year \( R \ 225.00 \)

**Balance Sheet**

Current assets

Unauthorised expenditure and fruitless and wasteful \( R \ 125.00 \)

Current liabilities

Bank overdraft \( R \ 125.00 \)

**Notes to the financial statements**

Fruitless and wasteful expenditure \( R \ 125.00 \)

Reconciliation of movement in account balance

Opening balance \( R \ 0.00 \)

Fruitless and wasteful expenditure current year \( R \ 125.00 \)

Closing balance \( R \ 125.00 \)

Ensure that the closing balance of the reconciliation is equal to the note above and the balance sheet

**If Fruitless & Wasteful Expenditure is discovered after the Books in respective of any previous year have been closed then it is dealt with in the open financial year as follows:**

\[
\begin{align*}
\text{Dt} & \quad \text{Debtors (B/S)} & R \ 125.00 \\
\text{Cr} & \quad \text{Recoverable Revenue (B/S)} & R \ 125.00
\end{align*}
\]

If Recovered then:

\[
\begin{align*}
\text{Dt} & \quad \text{Bank/PMG (B/S)} & R \ 125.00 \\
\text{Cr} & \quad \text{Debtors (B/S)} & R \ 125.00
\end{align*}
\]
If the amount is not recoverable then, it must be written off against the relevant programme and expenditure item Thefts & Losses.

Dt Thefts & Losses (I/S) R 125.00  
Cr Debtors (B/S)        R 125.00

Dt Recoverable Revenue (B/S)  R 125.00  
Cr Revenue (I/S)        R 125.00

Note: This write-off must be properly authorised and disclosed.

For further guidance on the Accounting for Unauthorised, Irregular and Fruitless & Wasteful Expenditure please contact Mr Jan Gilliland at 012 672 2821 or 083 635 6709, or e-mail jan.Gilliland@treasury.gov.za
4. CONFIRMATION OF BALANCES, RECEIPTS AND PAYMENT WITH DEPARTMENTS

Payment on behalf of other department: Interdepartmental service

Payment
Dt Ledger control account R10000.00
Cr Bank R10000.00

Open debtor account
A debtor account must be opened for every department for example:

Dt Debtor account R10000.00
Cr Ledger control account R10000.00

When the money is received:
Dt Bank R10000.00
Cr Debtors account R10000.00

Payment on behalf of other department: Departmental transfers & secondments

Payment
Dt Expenditure R10000.00
Cr Bank R10000.00

Open debtor account
A debtor account must be opened for every department for example:

Dt Debtor account R10000.00
Cr Expenditure R10000.00

When the money is received:
Dt Bank R10000.00
Cr Debtors account R10000.00

Amounts owing to other departments
A creditors account must be opened for every department when the invoice is received, as follows:

Dt Expenditure R2500.00
Cr Creditors control account R2500.00

When the money is paid:
Dt Creditors control account R2500.00
Cr Bank R2500.00

These accounts must be reconciled between departments every month to ensure that the debtor amounts at one department reconcile to the creditors amounts, registered at the other department.
Journal entries where interdepartmental balances do not agree

Where there is a dispute between departments about the balance owing/due that cannot be resolved before the completion of the financial statement for submission to the auditors, the balance according to the records of the department that is owed is used for financial statement preparation purposes. The department that owes the money must record the difference as a receivable or payable under the description “funds in transit”

Department A is owed money by department B. The following amounts are recorded in the relevant department’s ledger:

Department A: Debtor 100.00
Department B: Creditor 70.00

Entries to be made by Department A at year end if the difference cannot be resolved:

No entry is made, because they are owed the money by department B.

Entries to be made by Department B at year end if the difference cannot be resolved:

Dt Funds in transit 30.00
Cr Department A – Creditors account 30.00

Therefore department B will show two amounts in respect of the amount that it owes to department A in their financial statements:

Interdepartmental (Creditor) 100.00
Funds in transit (Debtor) 30.00
G: GLOSSARY OF TERMS

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements (Source – IPSAS 1)

Appropriation
An authorisation by the legislature to expend or commit funds. (IFAC)

Assets
Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (IPSAS 2)

Current
An asset should be classified as a current asset when it:
Is expected to be realised in, or is held for sale or consumption in, the normal course of the entities operating cycle; or
Is held primarily for trading purposes or for the short-term and expected to be realised within twelve months of the reporting date; or
Is cash or a cash equivalent asset. (Source – IPSAS 1)

Non-current
All assets that are not current assets should be classified as non-current assets. (Source – IPSAS 1)

Financial
Cash (cash on hand and demand deposits); a contractual right to receive cash or another financial asset from another entity; a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or an equity instrument of another entity (Source – IPSAS 1)

Dwellings
Buildings that are used entirely or primarily as residences, including garages and other associated structures. It includes mobile homes, caravans and housing for military personnel. (Source – GFS Manual)

Non-residential buildings
All buildings other than dwellings

Other structures
Also known as infrastructure, it includes highways, streets, roads, airfields, sewers, harbours and dams, and other waterworks, shafts, tunnels and other structures associated with mining, communication lines, power lines and pipelines, and outdoor sport and recreation facilities. (Source – GFS Manual)

Transport equipment
Equipment for moving people and objects, including motor vehicles, trailers and semi-trailers, ships, railway locomotives and rolling stock, aircraft, motorcycles, and bicycles. (Source – GFS Manual)

Other machinery and equipment
All other equipment that is not included under computer equipment, furniture and office equipment,
transport equipment and specialist military assets. (Source – GFS Manual)

**Computer equipment**  
Any electronic equipment including personal computers, mainframes, servers, etc. and any equipment used in a hospital that is connected to a personal computer, mainframe or server. (Source – GFS Manual)

**Furniture and office equipment**  
Examples include desks, chairs, pictures, switchboards, etc. (Source – GFS Manual)

**Specialist military assets**  
Those items that only have a military use and have no use under peacetime. (Source – GFS Manual)

**Basis of accounting**  
The body of accounting principles that determine when the effects of transactions or events should be recognised for financial reporting purposes. It relates to the timing of the measurements made, regardless of the nature of the measurement. Common bases of accounting are the cash basis of accounting and the accrual basis of accounting. There are variations of both bases. (IFAC)

**Accrual accounting**  
A basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses (Source – IPSAS 1)

**Modified accrual accounting**  
A basis of accounting that recognises transactions when they occur rather when cash is paid or paid. With the modified accrual basis physical assets are expensed at the time of purchase. (Source – IPSAS 1)

**Cash accounting**  
A basis of accounting that recognises transactions and other events when cash is received or paid. It measures financial results for a period as the difference between cash received and cash paid. The primary financial statement is the cash flow statement. (Source – IPSAS 1)

**Modified cash accounting**  
A basis of accounting that recognises transactions and other events when cash is received or paid. With the modified cash basis the books are held open for a specified period after year-end. (Source – IPSAS 1)

**Borrowing**  
Acquire money temporarily with the undertaking (promise) or intention of returning it. (Source – Oxford)
<table>
<thead>
<tr>
<th><strong>Capital items (assets)</strong></th>
<th>Property of any kind, including assets that are movable or immovable, tangible or intangible, fixed or circulating, but excluding trading stock held for the purpose of business activities. (Source – National Treasury)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>Cash on hand and demand deposits (Source – IPSAS 1)</td>
</tr>
<tr>
<td><strong>Cash equivalents</strong></td>
<td>Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (Source – IPSAS 1)</td>
</tr>
<tr>
<td><strong>Cash flows</strong></td>
<td>Inflows and outflows of cash and cash equivalents. (IPSAS 2)</td>
</tr>
<tr>
<td><strong>Consolidated financial statements</strong></td>
<td>The financial statements of an economic entity presented as those of a single entity. (Source – IPSAS )</td>
</tr>
<tr>
<td><strong>Contingent liabilities</strong></td>
<td>See “Liabilities”.</td>
</tr>
<tr>
<td><strong>Elements of financial statements</strong></td>
<td>The types or classes of items that are reported in the financial statements, including notes thereto and related schedules. (IFAC)</td>
</tr>
<tr>
<td><strong>Employee benefits</strong></td>
<td>All forms of considerations given by an entity in exchange for services rendered by employees. (AC 116)</td>
</tr>
<tr>
<td><strong>Equity/net assets</strong></td>
<td>The residual interest in the assets of the entity after deducting all its liabilities. (IPSAS 2)</td>
</tr>
<tr>
<td><strong>Events after balance sheet date</strong></td>
<td>Those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. (AC 107)</td>
</tr>
<tr>
<td><strong>Expenditure (expenses)</strong></td>
<td>Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrence of liabilities that result on decreases in net assets/equity, other that those relating to distribution to owners. (IPSAS)</td>
</tr>
<tr>
<td>- Capital</td>
<td>Capital expenditure includes expenditure on an asset with a useful life of more than one year, whilst specifically excluding expenditure on small loose tools, consumables, etc. which is considered to be normal current expenditure. See also page ix of the Estimate of Expenditure for the Financial Year ending 31 March 2002. (Source – National Treasury)</td>
</tr>
<tr>
<td>- Current (as opposed to capital)</td>
<td>Recurrent expenditure on goods and services not classified as transfer payments and not intended for the establishment or acquisition of capital assets. See also page ix of the Estimate of Expenditure for the Financial Year ending 31 March 2002. (Source – National Treasury)</td>
</tr>
</tbody>
</table>
Financial asset  
Any asset that is:
- cash;
- a contractual right to receive cash or another financial asset from another entity;
- a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable; or
- an equity instrument of another entity. (IPSAS)

Financial instrument  
Any contract that gives rise to both a financial asset of one entity and a financial liability or equity of another entity. (IPSAS)

Financial statements  
The accounting statements prepared by a reporting entity to communicate information about its financial performance and position. They include those notes and schedules that are needed to clarify or further explain items in the statements. In the public sector statements similar to the balance sheet and the income statement are commonly referred to as statement of financial position and statement of financial performance. (IFAC)

Financing activities  
Activities that result in changes in the size and composition of the contributed capital and borrowing of the entity (Source – IFAC)

Investing activities  
The acquisition and disposal of long-term assets and other investments not included in cash equivalents. (Source – IFAC)

Lease  
An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time (IPSAS)

Finance lease  
A lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

Operating lease  
A lease other than a finance lease

Liabilities  
Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential. (IPSAS 2)

Current  
A liability should be classified as a current liability when it:
- is expected to be settled in the normal course of the entity’s operating cycle; or
- is due to be settled within twelve months of the reporting date. (Source – IPSAS 1)

Non-current  
All liabilities that are not current liabilities should be classified as non-current liabilities. (Source – IPSAS)
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material/materiality</td>
<td>Information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement. (Source – IPSAS)</td>
</tr>
<tr>
<td>Operating activities</td>
<td>The activities of the entity that are not investing or financing activities. (Source – IFAC)</td>
</tr>
<tr>
<td>Payables (liabilities)</td>
<td>Probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities (or persons) in the future as a result of past transactions or events. (Larson)</td>
</tr>
<tr>
<td>Prepayments (prepaid expenditure)</td>
<td>When payments are made for economic benefits that do not expire until some later time, the payments create assets called prepaid expenses. (Larson)</td>
</tr>
<tr>
<td>Professional and special services</td>
<td>These are amounts paid to:</td>
</tr>
<tr>
<td></td>
<td>- Contractors</td>
</tr>
<tr>
<td></td>
<td>- Consultants</td>
</tr>
<tr>
<td></td>
<td>- Commissions and committees</td>
</tr>
<tr>
<td></td>
<td>- Other</td>
</tr>
<tr>
<td></td>
<td>for professional and special services</td>
</tr>
<tr>
<td>Provisions</td>
<td>Estimates of liabilities created when the occurrence of the liabilities is certain but the exact amounts or timing of payment are not. (IPSAS)</td>
</tr>
<tr>
<td>Receivables (Accounts receivable)</td>
<td>All accounts due to and collectable by an entity (including debtors claims and sundry loans)</td>
</tr>
<tr>
<td>Reporting date</td>
<td>The date of the last day of the reporting period to which the financial statements relate. (IPSAS 2)</td>
</tr>
<tr>
<td>Revenue</td>
<td>The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners. (IPSAS 2)</td>
</tr>
<tr>
<td>Superannuation</td>
<td>A pension paid to a retired person. (Source – Oxford)</td>
</tr>
</tbody>
</table>