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Department of Finance

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PROVINCIAL TREASURY CIRCULAR 11 OF 2012

TO :

- THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (Mr J.M. RABODILA)
- THE ACCOUNTING OFFICER: (ACTING): VOTE 3: FINANCE (Mr J.B. MBATHA)
- THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE & TRADITIONAL AFFAIRS (Mr D. MAHLOBO)
- THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT & LAND ADMINISTRATION (Ms N.L. SITHOLE)
- THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT & TOURISM (Dr D.V. DLAMINI)
- THE ACCOUNTING OFFICER: VOTE 7: EDUCATION: (Mrs M.O.C. MHLABANE)
- THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (Mr K.M. MOHLASEDI)
- THE ACCOUNTING OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (Mr S.T. SIBUYI)
- THE ACCOUNTING OFFICER: VOTE 10: HEALTH (Mr. RM MNISI)
- THE ACCOUNTING OFFICER: VOTE 11: CULTURE, SPORTS & RECREATION (Ms S.P. MJWARA)
- THE ACCOUNTING OFFICER: VOTE 12: SOCIAL DEVELOPMENT (Ms N.L. MLANGENI)
- THE ACCOUNTING OFFICER: VOTE 13: HUMAN SETTLEMENT (Mr D. DUBE)

- THE CHIEF FINANCIAL OFFICER: VOTE 1: OFFICE OF THE PREMIER (Mr T. NKOJOANA)
- THE CHIEF FINANCIAL OFFICER: VOTE 3: FINANCE (Ms P. SEMENYA)
- THE CHIEF FINANCIAL OFFICER: VOTE 4: COOPERATIVE GOVERNANCE & TRADITIONAL AFFAIRS (Mr M.D. SHIPALANA)
- THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 5: AGRICULTURE, RURAL DEVELOPMENT & LAND ADMINISTRATION (Mr CT DLAMINI)
- THE CHIEF FINANCIAL OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (Ms J.P. HLATSHWAYO)
- THE CHIEF FINANCIAL OFFICER: VOTE 7: EDUCATION (Mr C.B. MNISI)
- THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (Mr S. SHONGWE)
- THE CHIEF FINANCIAL OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (Mr B.H. NGOMA)
- THE CHIEF FINANCIAL OFFICER: VOTE 10: HEALTH (Ms G. MILAZI)
- THE CHIEF FINANCIAL OFFICER: VOTE 11: CULTURE, SPORTS & RECREATION (Mr M. KHOZA)
- THE CHIEF FINANCIAL OFFICER: VOTE 12: SOCIAL DEVELOPMENT (Ms P. MORGAN)
- THE CHIEF FINANCIAL OFFICER: VOTE 13: 13 HUMAN SETTLEMENT (Ms B. MOJAPELO)

GUIDE TO DEPARTMENTS ON LIABILITY INFORMATION TO BE DISCLOSED IN ANNUAL FINANCIAL STATEMENTS

The objective of this circular is to communicate to officials responsible for the different types of liabilities; requirements with regard to information submitted for the preparation of Annual Financial Statements in departments; in order to ensure completeness, accuracy and validity of liability information disclosed in Annual Financial Statements.

1. Lease Liability

Lease registers should be updated as at end of the financial period. The lease register will serve as a source document to support the amount of lease liability disclosed in the Annual Financial Statements. Minimum information that should be contained in a lease register should be:

- List of **all** lease contracts entered into by the department,
- Lease expenditure incurred during a financial period,
- Lease liability to be incurred within the next financial period (Current portion of lease liability),
- Lease liability to be incurred beyond the next financial period (Non-current portion of lease liability). Escalation of lease instalments should be taken into account when calculating current lease liability. Lease expiry dates should also be taken into account to ensure lease liability is not overstated,
- The lease type (finance or operating) per lease contract. It should be born in mind that; except for agreements concluded in terms of Treasury Regulations 16 [Public Private Partnerships], the accounting officer may under no circumstances enter into finance leases.

It has come to our attention that there are departments who have entered into lease contracts with mobile telecommunications companies for officials. These contracts entail issuing of cellular phones and laptops to departmental officials. The form of these contracts is operating leases, while the substance is a finance lease.

Departments are therefore discouraged to enter into such contracts as they are prohibited in terms Treasury Regulations 16.

2. Contingent Liabilities

As a rule of thumb, contingent liabilities are included in the disclosure notes to Annual Financial Statements when it is possible that economic future benefits will flow from the department, or when an outflow of economic benefits is probable but cannot be measured reliably.

In our provincial government sphere, contingent liabilities include but not limited to; housing loan guarantees and claims against the institution which have not yet been settled. The following considerations should be taken into account when reporting on contingent liabilities:

In order to ensure the completeness of claims against the institution, it is imperative that all claims are registered in the register of claims against the institution. This register should be updated on a monthly basis. The amount for each claim should normally be overstated thus representing the amount that the court is most likely to settle on.

Housing loan guarantees are recorded and maintained on the Persal system. The State Guarantee liability report on Persal should be reconciled to source files at least bi-annually. Employees whose guarantees have been released, service terminated and duplicated entries should be eliminated from the report.

2. Provisions

It is crucial that provisions for all liabilities whose timing or amount is uncertain are disclosed in the notes to annual Financial Statements. This is necessitated by the fact that this liability will affect the institution's budget when settled. Provisions are made for, but not limited to the following:

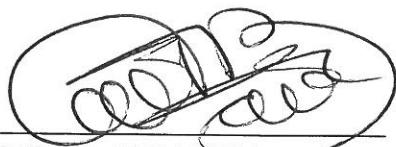
- Provision for leave payment,
- Provision for service bonuses,
- Provision for retention withheld on infrastructure projects.

Persal reports for leave and service bonus liability should be reviewed to ensure accuracy of information captured on the system. It is only after the review that these provisions can be reported on the disclosure notes.

A register of all retention amounts withheld on infrastructure projects should be maintained and used as a basis in reporting on the provision for retention. This provision will serve as a basis for requesting rolling over of the amount of retention due in the proceeding financial period.

Your cooperation in this regard will be highly appreciated.

Kind regards,



MR JB. MBATHA
ACTING HEAD OF DEPARTMENT

DATE: 23 / 4 / 2012