

PROVINSIALE TESOURIE • PROVINCIAL TREASURY • UNONDYEBO WEPHONDO



Verwysing
Reference
Isalathiso

PT 7/1/1

Navrae
Enquiries
Imibuzo

SP Manuel

TREASURY CIRCULAR NO. 6/2008

THE PREMIER

THE MINISTER OF AGRICULTURE
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS, SPORT AND RECREATION
THE MINISTER OF EDUCATION
THE MINISTER OF ENVIRONMENT, PLANNING AND ECONOMIC DEVELOPMENT
THE MINISTER OF FINANCE AND TOURISM
THE MINISTER OF HEALTH
THE MINISTER OF LOCAL GOVERNMENT AND HOUSING
THE MINISTER OF SOCIAL SERVICES AND POVERTY ALLEVIATION
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

ALL OTHER MEMBERS OF PARLIAMENT

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (MS V PETERSEN) (ACTING)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR P WILLIAMS)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (DR GA LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR RB SWARTZ)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KG HOUSEHAM)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MS K LUBELWANA) (ACTING)
THE ACCOUNTING OFFICER: VOTE 8: LOCAL GOVERNMENT AND HOUSING (MS S MAJIET)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T TOLMAY)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR T MANYATHI)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS J JOHNSTON) (ACTING)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR MN LINDIE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR H ARENDSE)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS A SMIT)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M MACIKAMA)
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THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR A ASSIM)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: SUSTAINABLE RESOURCE MANAGEMENT (MR A PHILLIPS) (ACTING)
THE HEAD: ASSET MANAGEMENT (MR TD PILLAY)
THE HEAD: FINANCIAL GOVERNANCE (MR TC ARENDSE)
THE HEAD: PUBLIC FINANCE (MR H MALILA)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE SENIOR MANAGER: HUMAN RESOURCE MANAGEMENT (MS PG PIEDT)
THE SENIOR MANAGER: ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: NORMATIVE FINANCIAL MANAGEMENT (MR F JACOBS) (ACTING)
THE SENIOR MANAGER: ENTERPRISE RISK MANAGEMENT AND GOVERNANCE SYSTEMS (MR T ARENDSE) (PRO TEM)
THE CHIEF AUDIT EXECUTIVE (MS H ROBSON) (ACTING)
THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS W MAPIRA) (ACTING)
THE SENIOR MANAGER: FISCAL POLICY: PROVINCIAL GOVERNMENT (MS A PICK) (ACTING)
THE SENIOR MANAGER: FISCAL POLICY: LOCAL GOVERNMENT (MR G PAULSE) (PRO TEM)
THE SENIOR MANAGER: BUDGET MANAGEMENT (MR PP PIENAAR) (ACTING)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MS A PICK) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)
THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)
THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)
THE HEAD: OFFICE OF THE MINISTRY (MR G GESWINDT)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

For information

CONSOLIDATION OF EXISTING ADMINISTRATIVE AND ACCOUNTING REPORTING

GUIDELINES IN RESPECT OF STATE GUARANTEES

1. PURPOSE

The purpose of this Circular is to provide Accounting Officers and Chief Financial Officers of departments with the attached administrative and accounting guidelines on the management of and reporting on state guarantees (see Annexure A).

2. BACKGROUND

The guidelines were researched and developed in partnership with the Department of the Premier.

3. REQUIRED

This Circular must be applied for the 2007/08 Annual Financial Statements onwards.

4. ENQUIRIES

Any further enquiries in this regard may be directed to:

- Henri du Toit (PT: Accounting Services) (021) 483 3023
- Shaun Manuel (PT: Accounting Services) (021) 483 6600
- Eleanor Vermeulen (Department of the Premier) (021) 483 3935
- Wayne Mccomans (PT: Normative Financial Management) (021) 483 9935

Signed by:

TC ARENDSE

PROVINCIAL ACCOUNTANT – GENERAL

DATE: 18/02/2008



MANAGEMENT OF STATE GUARANTEE SCHEMES: ADMINISTRATIVE AND ACCOUNTING GUIDELINES

*Compiled by: Department of the Premier and
Provincial Treasury*

To provide an administrative and accounting guideline on the management of, and reporting on State Guarantees.

2. Regulatory Framework

- State Guarantee Scheme for Housing Loans for Officials and Employees in the Public Sector (Feb 2000)
- In terms of PSCBC Resolution No. 3 of 1999: Remunerative Allowances and Benefits, Chapter 1, Part IV:
 - An employer shall provide a home-owner allowance only to help repay a bond, part of a bond, or an extension of a bond:
 - a) Obtained from a government agency, a legally registered financial institution or a financial institution established by a special statute;
 - b) That the employee uses to purchase his/her home, or to finance immovable improvements and/or alterations, including structural maintenance on his/her home, and
 - c) The employer shall help repay a bond only during its original term.
- In terms of PSCBC Resolution No.2 of 2004, Housing Allowance:
 - An employee who purchases a home on or after the date this agreement comes into effect, will qualify for a housing allowance equal to the maximum amount of the home-owner allowance, provided that the employee qualifies in terms of the applicable clauses and also submits proof of purchase and registration of bond and property.
- The following sections from the Public Finance Management Act (PFMA), pertaining to the Accounting Officer:
 - Maintain effective, efficient and transparent systems of financial and risk management as per section 38(1)(a)(i);
 - Be responsible for the management, including the safeguarding and maintenance of assets and for the management of liabilities of the department as per section 38(1)(d);

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- Settle all contractual obligations and pay all money owing as per section 38(1)(f); and

- Keep full and proper records of the financial affairs of the department as per section 40 (1)(a).
- In terms of the National Treasury Regulations, the Accounting Officer must:-
 - Ensure that all transactions of an institution are supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation as per paragraph 17.1.1 of the Treasury Regulations.

3. Background

- 3.1 The Auditor-General reported the following findings in the 2005/06 Audit report regarding state guarantees:
- 3.1.1 A significant number (approximately 696) of guarantees approved during the year under review were not captured on PERSAL.
 - 3.1.2 Cancelled or released guarantees as per bank confirmations were not released on PERSAL (still captured on PERSAL).
 - 3.1.3 Discrepancies between the PERSAL records of guarantees and bank confirmations could not be supported by relevant documentation.
 - 3.1.4 Various shortcomings and controls relating to the administration of the state guarantee scheme and phasing-out programme.
 - 3.1.5 Housing loan guarantees incorrectly disclosed the opening balance as it included staff no longer employed by the department.
 - 3.1.6 Lack of supporting documentation on the debtors file in respect of the state guarantee scheme.
 - 3.1.7 Debtors' file in respect of the phasing out programme was not provided for audit purposes.
 - 3.1.8 The procedural forms for individuals receiving subsidies were not completed.
 - 3.1.9 Loan documentation could not be produced for audit purposes.
- 3.2 The Directorate: Normative Financial Management at Provincial Treasury conducted an investigation on the procedures followed with the approval of

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guarantees by the Western Cape Provincial Departments with particular emphasis on the legal aspects of such approvals. The investigation also

endeavoured to clarify issues of compliance and contradiction between these prescripts and the PFMA. Provincial Treasury consulted with Departments of the Premier, Education and Social Development in lieu of the matter raised in their respective AG Reports of 2005/06. Out of this consultation it transpired on a transversal level that the departments are not meeting the legislative and policy administrative requirements due to a lack of capacity.

4. Scope

This administrative and accounting guideline is to be read in conjunction with any provincial/departmental policy documents, and is applicable to all departments that provide guarantees (vehicle or housing) in favour of approved financial institutions who have entered into an agreement with the Minister of Finance.

5. Procedures when Applying for Guarantees

5.1 Guarantees to Purchase Motor Vehicles

- Chapter 3, paragraph 4.3 (1) of the Senior Management Service Handbook 2003 provides the SMS members with guidelines on the procedure to be followed when purchasing a motor vehicle.
- The prescribed application forms are completed and submitted via the Human Resource component to the MEC for Finance for approval of the guarantee.
- The Human Resource component is responsible for maintaining records of all motor vehicle guarantee documents.

5.2 Guarantees for Housing Loans

- The State Guarantee Scheme is regulated in terms of the policy and procedure manual, *Guarantee Scheme for Housing Loans for Officials and Employees in the Public Sector* as issued (February 2000) and administered by the National Department of Public Works.

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- Approval of housing loan guarantees has been delegated to an officer with the rank of at least an Assistant Director or equivalent rank.
- The Human Resource component is responsible for the following:

- Maintaining records of all housing guarantee documents;
- Approval of applications;
- All related Persal transactions and information;
- Liaison with employees, financial institutions and other relevant participants and
- Reporting on the status of guarantees to the Chief Financial Officer and in the annual financial statements.

5.3 Requirements for Housing Guarantees

- A housing loan guarantee is issued to an employee who meets all the qualifying criteria, but has insufficient funds to pay a deposit and thus need to acquire a 100% home loan.
- A housing loan guarantee may be issued to secure up to 20% of the loan, based on a maximum qualifying amount; provided that the employee and financial institution qualify to participate in the scheme.
- A housing loan guarantee will only be issued twice whilst the recipient is stationed at the same department or institution.
- A housing loan guarantee may not be granted for a second dwelling if an employee has an obligation in respect of a previous existing housing guarantee, or without the written permission of the curator of an insolvent estate.
- An employee who remains eligible to participate in the scheme must re-apply for a housing loan guarantee if transferring to or from another department without a change in residence.
- An employee must ascertain, prior to signing an agreement to purchase a property, whether:
 - He/she is entitled to a housing loan guarantee;
 - What the approved housing loan guarantee limit is; and
 - The conditions of the housing loan guarantee scheme.

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- An employee must receive written notification to advise of:
 - Qualification to participate in the scheme and
 - Maximum of housing subsidy payable.

5.4 Application for a Housing Guarantee

- An employee must complete section A; B; C and D of the prescribed Application for state guarantee (Z572) form.
- A letter of intent to issue a state guarantee shall be issued to the employee stating the maximum 100% housing loan amount, maximum guarantee amount and the monthly home owner's allowance.
- A letter of approval will be issued by the financial institution, stating the loan amount to be registered, and that the granting of the loan is subject to obtaining a housing loan guarantee from the employer.
- The Government Guarantee for Home Loan (Z573) form which is valid for three months from the date of signature of the employer must be forwarded to the financial institution (by the employee) for completion of the necessary sections, including the property details, guarantee amount and repayment details. If a housing loan is not granted within three months from the date hereof, the guarantee shall terminate and the applicant have to apply again for another guarantee.
- A housing loan guarantee file/register must be maintained by the employer.

5.5 Issue of a Housing Loan Guarantee

- On receipt of the Z573 from the financial institution, it must be verified that the guaranteed amount does not exceed 20% of the amount of the registered home loan.
- The Human Resource component must sign the Z573 form, which becomes the surety document for a maximum of 20% against the home loan granted by the financial institution.
- A copy of the Z573 must be placed in the applicable employee's file. The original completed Z573 must be returned to the financial institution via certified mail.
- The following details must be updated in the housing loan guarantee register:
 - The date the guarantee was issued;

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- The name and PERSAL number of the employee;
- The full details of the financial institution by which the guarantee was issued; and

- The amount of the housing loan guarantee.
- All the relevant details must be updated on PERSAL using function #4.5.18.
- Once the financial institution has acknowledged receipt of the original Z573 and completed their internal processes, the employee must complete the stop order form, for the housing loan deduction to be instated on PERSAL.

6. Procedure for Redemption or Release of Guarantees

6.1 A guarantee may be redeemed or released under the following circumstances:

- The property is re-evaluated and the difference between the re-evaluation and the balance of the loan is equal to or exceeds the guarantee.
- The property is sold and sufficient funds are realized to settle the home loan and guarantee amount in full.
- Payments by the employee reduce the loan by an amount equal to or exceeding the guarantee amount.
- The employee is deceased and the home loan is redeemed through an insurance payment and/or funds from the estate.
- A guarantee payment is made by the department.
- A replacement guarantee is issued by another department.
- Termination of service

6.2 Once the guarantee is redeemed the original guarantee must be cancelled by the financial institution involved and the financial institution must confirm in writing that the Western Cape Provincial Government has been released from its obligation.

6.3 The Human Resource Component must:

- Ensure that the guarantee is cancelled;
- File the cancelled guarantee in the applicable file;
- Update the guarantee register;
- Update the cancellation of guarantee on PERSAL using function #4.5.18; and

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- Inform the employee in writing that the guarantee has been cancelled as well as the reason for cancellation.

7. Accounting Entries

7.1 Guarantees issued to financial institutions by departments become payable when an official resigns, dies or is declared insolvent and the guarantee is claimed by the financial institution involved.

Payments

A payment made to redeem the guarantee must be charged against a suspense account and recovered from the pension benefits of the employee.

The following accounting entries are required:

- **Debit** a suspense (receivable) account
- **Credit** the bank account

7.2 If the full amount is recovered from the official involved, then the following entries should be processed:

- **Debit** the bank account
- **Credit** (clear) the relevant suspense account

Creating a debt

- If the guarantee amount payable to a financial institution cannot be recovered in full from the official involved, a debt must be raised.
- The debt take-on should be according to national and provincial prescripts and departmental policies.
- The accounting entries should be:
 - **Debit** the debt account
 - **Credit** (clear) the relevant suspense account

7.3 Writing-off of debts and budgeting for expenditure

- Should it later prove that the outstanding debt could not be recovered in full; steps must be taken for the write-off thereof in

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terms of the relevant Treasury Regulations/Instructions and departmental delegations.

- Departments should make provision in its budget for such write-offs.
- The required accounting entries would be:
 - **Debit** the expense item “Thefts and Losses”
 - **Credit** (reduce) the debt account

7.4 Revenue recovered for debts that have already been written off, should be allocated to revenue.

- The accounting entries should be:
 - **Debit** the bank account
 - **Credit** the appropriate revenue item

8. ANNUAL VERIFICATION OF GUARANTEES

8.1 Housing loan guarantees

The verification process must be conducted during the last six months of the financial year.

8.2 The Provincial Banker, currently Nedbank, will, as part of their contract to provide banking services, assist with the verification of housing loan guarantees. The Provincial Treasury: Support and Interlinked Financial Systems will provide PERSAL reports to Nedbank and verified information will be provided to the departments concerned to update Personnel files and PERSAL with the information.

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9. REPORTING AND DISCLOSURE REQUIREMENTS ACCORDING TO THE GUIDE FOR THE PREPARATION OF THE ANNUAL REPORT FOR PROVINCIAL DEPARTMENTS

9.1 Reporting on Contingent liabilities

The following is an extract from the National Treasury's Guideline for the compiling of the annual reports for the 2006/07 financial year:

Contingent liabilities

A contingent liability is defined as:

"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 or service potential 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.

9.2 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.

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.

9.3 Housing Loan Guarantees

The amount that must be disclosed in the annual financial statements of the

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Department is the rand value of the amount guaranteed as verified (during the last six months of the financial year) by the financial institution. Housing guarantees should be disclosed as part of contingent liabilities in the appropriate disclosure note and annexure to the annual financial statements.

9.4 Annexure to the Annual Financial Statements

Appended to the annual financial statements is an annexure for the disclosure of annual movements of guarantees covering the following:

- **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 for motor vehicles, housing and other guarantees.

- **Original guarantee capital amount**

Capital amount for which the guarantee was issued and which appears on the guarantee documents.

- **Opening balance of guarantee**

The capital amount outstanding at 1 April in respect of the guarantee amount is shown here (face value of bond loans). This amount must not include guaranteed interest.

- **Guarantees drawn down during the year**

The total amount in respect of draw downs on a guaranteed loan during the financial year.

- **Guarantees repayments / cancelled / reduced / released during the year**

The amount in respect of a guarantee repaid or released during the financial year is shown here.

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- **Closing balance of guarantees**

The capital outstanding at 31 March in respect of the guarantee amount is shown here (face value of bond loans).

- **Guaranteed interest outstanding for the year ended 31 March**

Where interest is also guaranteed, interest on the guaranteed amount as from the last date of interest paid until 31 March, is shown here. The amount must be disclosed separately and not be included in the closing balance.

- **Realised losses in respect of claims paid out**

Losses realised in respect of 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 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.

Note: Where interest is guaranteed, the guaranteed exposure is the sum of the capital closing balance and guaranteed interest outstanding, and should be disclosed under Contingent liabilities in the disclosure notes of the annual financial statements.