

PROVINSIALE TESOURIE • PROVINCIAL TREASURY •  
UNONDYEBO WEPHONDO



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Reference PT19/3/1  
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**TREASURY CIRCULAR, 8/2006**

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 DEVELOPMENT  
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

ALL OTHER MEMBERS OF PARLIAMENT

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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 (MR M DELIWE)  
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 (DR H FAST) (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) (ACTING)  
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)  
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M MACIKAMA) (ACTING)  
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)  
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THE SENIOR MANAGER: ECONOMIC ANALYSIS (MS B BOQWANA)  
THE SENIOR MANAGER: FISCAL POLICY (MR D CORNELISSEN) (ACTING)  
THE SENIOR MANAGER: BUDGET MANAGEMENT (MS AJ HICKEY)  
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MR DG BASSON)  
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (MR G PAULSE)  
THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)  
THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT  
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

**MANAGEMENT OF SUSPENSE ACCOUNTS**

} For information

## PURPOSE

The purpose of this Circular is to provide Accounting Officers (AOs) and Chief Financial Officers (CFOs) with guidelines on raising uncleared Suspense accounts transactions as debtors for monitoring purposes, and additional guidelines for the management of Asset and Liability transactions.

## LEGISLATIVE REQUIREMENTS

1. **In terms of Treasury Regulation 17.1.2**, Departments may in **exceptional** cases, account for revenue and expenditure transactions in suspense accounts prior to finalizing its allocation. As such, AOs should ensure that these amounts (balances) are cleared and correctly allocated as follows:

1.1 *All the transactions of an institution must be supported by authentic and verifiable source documents, clearly indicating the approved accounting allocation.*

1.2 *Should it be necessary, in exceptional cases, to account for revenue and expenditure transactions in a clearing or suspense account because the classification has not been resolved, the AO must ensure that: –*

- a) *the sources of the transactions are readily identifiable;*
- b) *amounts included in clearing or suspense accounts are cleared and correctly allocated to the relevant cost centers on a **monthly** basis;*
- c) ***monthly** reconciliation are performed to confirm the balance of each account; and*
- d) *reports on uncleared items are perused on a **monthly** basis.*

2. **In terms of Treasury Regulation 17.1.3**, AOs should in each month's section (40)(4) report, certify that the forecast/projection for the remainder of the financial year adequately makes provision for all amounts not yet cleared from clearing and suspense accounts.

3. **Chapter 11 of National Treasury Regulations** (Management of Debtors)

3.1 *According to section 38 (1)(c)(i) and (d) of the Public Finance Management Act (PFMA), AOs of institutions must take effective and appropriate steps to timeously collect all money due to the institution including as necessary –*

- a) *maintenance of proper accounts and records for all debtors, including amounts received in part payment; and*
- b) *referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.*

3.2 *Unless otherwise determined by law or agreement, debts owing to the Departments may, at the discretion of the AO, be recovered in installments.*

3.3 *According to Sections 76 (1)(e) and 76 (4)(a) of the PFMA, AOs may only write off debts owed to the State if he or she is satisfied that-*

- a) *all reasonable steps have been taken to recover the debt and the debt is*

- irrecoverable, or,*
- b) *he or she is convinced that-*
- (i) recovery of the debt would be uneconomical*
  - (ii) recovery would cause undue hardship to the debtor or his or her dependants; or*
  - (iii) it would be to the advantage of the state to effect a settlement of its claim or to waive the claim.*
- 3.4 *Departments must ensure that all debts written off are done in accordance with an approved debt policy.*
- 3.5 *All debts written off must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off.*
- 3.6 *Interest must be charged on debts to the state at the interest rate determined by the Minister of Finance in terms of Sections 80 (1)(b) and 80 (2) of the PFMA. Reference should be made to Treasury Circular 2 of 1995 (as amended per the latest supplementary).*
4. **Chapter 8.3.6 of Provincial Treasury Instructions** (Advances and Claims in respect of subsistence and other relevant incidental expenses),  
*A claim in respect of subsistence and other relevant expenses must be submitted immediately after the person's return to his/her office and monthly by someone absent on extended duty. Advances, which are not standing advances, must be offset against claims for subsistence and other expenses and in the event of a claim being less than the advance, the difference must immediately be repaid by the person concerned.*

## **BACKGROUND**

5. BAS notice 3 of 2006 requires all departments to, at year-end, comply with National Treasury Regulation 17.1 regarding the timeous/monthly clearance of Asset & Liability accounts as well as any related exceptions. BAS notice 3 also defines the various Asset and Liability accounts with regards to how they should be treated at month and year end (see Annexure A). Descriptions of and the functionality of the various Suspense accounts is also included (see Annexure B).

## **UNACCEPTABLE ACCOUNTING PRACTICES:**

6. The following are examples of unacceptable accounting practices that constitute poor financial management and should be refrained from:
- 6.1 Bank adjustment account  
 Amounts are transferred from the bank exception account to the bank adjustment account to avoid forced closure of BAS.
- 6.2 Supporting documentation  
 Uncleared balances remain in the books of account, and in certain cases a lack of supporting documentation has been experienced.

### 6.3 Disallowance/debt accounts

A lack of interrogation and/or regular monitoring of the follow-up of transactions result in balances becoming dormant and sometimes irrecoverable or prescribed.

### 6.4 Travel & Subsistence (T&S) Advance accounts:

Balances are outstanding for longer than thirty days and in instances more than one claim is allocated to a specific individual.

7. Failure to comply with the PFMA in the above regard must be dealt with in accordance with Chapter 10, sec 81(1) and (2) of the PFMA.

## RAISING OF DEBTORS FOR UNRESOLVED TRANSACTIONS

8. In order for Departments to provide a true reflection of their financial affairs, procedures and controls must be instituted to ensure that balances are followed-up and cleared timeously.

8.1 Amounts owing to the state should be brought under the debtor's attention in writing within a reasonable timeframe and be ordered to repay the full amount within 30 days. Failure to comply with the latter will result in the balance being transferred to a debt account and the recovery by other/prescribed legal means.

8.2 Before interest may start to accrue, the debtor must be placed in *mora* (debtor must have been informed about the debt and given the opportunity to settle the debt). This *mora* period is 30 days, after which in the instance of non-recovery, interest starts accruing.

8.3 Amounts older than 30 days or identified as unresolved should be transferred to the debt account on BAS by creating a debt **via the online debt maintenance function**.

8.4 The following accounting transactions to be effected;

#### 8.4.1

Debit transaction: Debit debt account – *incurred as per automatic rule*

#### 8.4.2

Credit transactions: Credit the account where the debit is currently being transferred from - either current or recoverable revenue will have to be selected on BAS depending on the date the transaction was raised.

The debt must be raised as “active”, with or without interest (depending on the category of debt as explained in Circular No 2 of 1995 as amended per latest supplementary from time to time). Each debt raised will automatically be allocated a unique debt and debtor number.

The online debt maintenance functionality makes provision for the classification of a debt into, e.g. doubtful (whilst uncertainty exist around the possible recovery of actual amounts) or bad (approved to be written-off).

After receiving a final opinion from e.g. the State Attorney, Legal Services, and final

approval from the AO or delegated official, and depending on the proportion of the liability, the following transactions should be effected ;

8.4.3 **In the case of the official/supplier/department NOT being liable for repayment of state funds and the debt written of by the AO**, the status on the debt account must be modified from active to doubtful **and** finally bad, where after this debt is automatically transferred to the "theft and losses" account. Such an amount on the theft and losses account must be registered and administered on the transversal loss control system (ORACLE). At year-end, BAS automatically clears the 'theft and losses' account against surplus funds.

8.4.4 **In the case of the official/supplier/department being liable for the repayment of state funds:**

**In service employees**

As for the amount owing by an in-service employee, the amount to be instated on PERSAL using the allocated unique BAS debt number (with 10 digits) as reference. The PERSAL deduction will then interface as a credit and reduce the debt raised on the BAS debt account. Debt instalments deducted and paid over by National or Provincial departments or institutions and received via the bank account for the settlement or paying of off debts will be credited to the department's Debt Suspense account. This amount must then be allocated against the corresponding debt account via the online debt maintenance functionality.

**Out of service employees**

As for the amount owing by an ex-employee, supplier or department, – the active status of the debt as initially raised, will reflect on the BAS Debt Account for further control purposes.

**Payment allocations**

Manual repayments (credits) to be accounted for as follow:

- Cashier receives cash (credit) and performs a manual or online transaction, i.e. Debit Bank Adjustment and credit Debt Receipt Control account,
- The debt clerk must, via the debt maintenance function, perform the following transaction online, i.e. debit Debt Receipt Control account and credit Debt Suspense account, using the appropriate debt and debtor number received when the debt was initially created on BAS. An online transfer of those credits from the Debt Suspense account to the Debt account now needs to be performed.

**ADDITIONAL GENERAL GUIDELINES TO MANAGE SUSPENSE ACCOUNTS**

9. Amounts that may form a charge against expenditure needs to be allocated promptly in order to reflect accurate expenditure levels.
10. PMG and PERSAL exceptions should be cleared prior to month-end to avoid forced closure of books.
11. Regular and transparent reporting should transpire in terms of Treasury Circular 18/2006 (supplementary 1 of 2006).
12. Financial and administrative procedures must be issued, monitored, revised if required

- and re-issued at regular intervals.
13. In terms of NTR 11.2.1 (a), it is the responsibility of the AO, supported by the CFO, to manage transactions in the Asset and Liability accounts. The AO must designate officials who will handle, recover and manage all debtors.
  14. It is the responsibility of each employee of Departments to ensure that any debt that arises within his/her sphere of work is accounted for.
  15. All Travel and subsistence advances must be treated as debts if they are not cleared within the stipulated 30 days. Beneficiaries of such advance payments must be properly notified of the conditions of the payment at the time of issuing such advances.
  16. Within a reasonable timeframe (e.g. 3 months), tangible progress must have been made regarding the recovery or disposal of any debt that remains outstanding in the records.

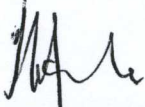
#### **REQUIRED**

17. To raise debtors for unresolved transactions.
18. Apply strict control over the management of Suspense accounts.

#### **ENQUIRIES**

Any further enquiries in this regard may be directed to Nadia Karra at ext 5900 or Henry Du Toit at ext. 3023.

Your urgent attention and co-operation in the above matter will be highly appreciated.



**PROVINCIAL ACCOUNTANT - GENERAL**

Date: 18/12/2006