




# SAFETY AND SECURITY SECTOR EDUCATION AND TRAINING AUTHORITY

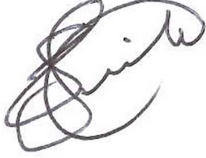
<b>STANDARD OPERATING PROCEDURE ON ACCRUALS &amp; PROVISIONS</b>	
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<b>SOP OWNER:</b>	Finance Department
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<b>SOP ISSUE NUMBER:</b>	1
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<b>SOP EFFECTIVE DATE:</b>	2022/23 and beyond
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VERSION CONTROL					
SECTION	VERSION	REVISION	DATE	PAGE	REASON FOR CHANGE

<b>SIGNATURES</b>	<b>RECOMMENDED BY:</b>
<b>NAME/JOB TITLE</b>	Ikalafeng Diale – Chief Financial Officer
<b>SIGNATURE</b>	
<b>DATE</b>	01 March 2023

<b>SIGNATURES</b>	<b>APPROVED/AUTHORISED TO ISSUE BY:</b>
<b>NAME/JOB TITLE</b>	Thamsanqa Mdontswa – Chief Executive Officer
<b>SIGNATURE</b>	
<b>DATE</b>	01 March 2023

INDEX		
NUMBER	CONTENT	PAGE
1	PURPOSE	3
2	LEGISLATION	3
3	BASIS OF ACCOUNTING	3
4	RECOGNITION CRITERIA	3
5	MEASUREMENT	4
6	PRESENTATION AND DISCLOSURE	5
7	INITIATION, COMPILATION AND RECORDING	6
8	RESPONSIBILITY	7

## 1. PURPOSE

- The purpose of the Standard Operating Procedure (SOP) is to highlight the important and practical aspects regarding the recognition, measurement, presentation and disclosure of accruals and provisions at year-end.
- This SOP also brings into effect the provisions of paragraph 2.20.3 of the Finance Policy as well as the Generally Recognized Accounting Practices.

## 2. LEGISLATION

- Section 51(1)(a)(i) of the Public Finance Management Act requires that the Accounting Authority or delegate establish and maintains effective, efficient, and transparent systems of financial and risk management and internal control.
- Section 51(1)(e)(ii) of the Public Finance Management Act requires that the Accounting Authority or delegate take effective and appropriate disciplinary against an employee who commits an act which undermines the financial management and internal control system of the SETA.

## 3. BASIS OF ACCOUNTING

- SASSETA prepares its general-purpose financial statements using the accrual basis of accounting.
- Under the accrual basis of accounting, SASSETA must depict the effects of transactions in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period.

## 4. RECOGNITION CRITERIA

- For a transaction to be recognised as an accrual or a provision, it must first satisfy the definition of a liability.
- A liability is a present obligation of the entity for an outflow of resources that results from a past event.
- Liabilities will be recognised only when all the following conditions exist:
  - i. Present obligation – a binding obligation which an entity has little or no realistic alternative to avoid.
  - ii. Outflow of economic resources from an entity – a liability must involve an outflow of resources from the entity for it to be settled.
  - iii. Past event – the present obligation must arise as a result of a past transaction or other event and requires an outflow of resources from the entity; and

### 4.1 Accruals

- Accruals are the adjustments to expenses and income, for expenses or income that has been incurred or earned but are not yet recorded in the accounts because the relevant invoice is not due yet.
- Accruals are recognised only when the transaction:
  - meets the definition of a liability, and

- can be measured reliably.

## 4.2 Provision

- A Provision *is a liability with uncertain timing or amount.*
- For a liability to be classified as a provision, it must have an element of uncertainty regarding either its timing or the amount.
- Additional to meeting the definition of a liability, a provision can only be recognised when:
  - a reliable estimate of the amount of the obligation can be made, and
  - it can be measured reliably.

## 5. MEASUREMENT

### 5.1 Accruals

- SASSETA shall measure the carrying amount of accruals using the cost of fulfilment measurement basis.
- The cost of fulfilment of a liability is the resulting effect (i.e., often measured using rand value basis) that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
- The amount of the accrual shall be recognised to the extent of services rendered or goods delivered at year-end.
- Accruals are accounted for based on best available form of audit evidence at reporting date (i.e., 31 March).
- Ordinarily Accruals are accounted for using invoices (this is especially the case with administration expenditure) received after year end but for services or goods received during the financial year.
- Specifically relating to the Discretionary Grant Expenditure, Accruals will be recognised using multi-faceted approach:
  - i. **Approach 1** – invoices received after reporting date but relates to services rendered by the Training Providers during the year under review.
  - ii. **Approach 2** – attendance register confirming the initiation and other execution phases excluding the closer phase. The rand value will be obtained from the Disbursement Milestone annexure to the contract. In the case of a closure phase completion certification will suffice as supporting documentation.

### 5.2 Provisions

- SASSETA shall measure the carrying amount of accruals using the cost of fulfilment measurement basis.
- The cost of fulfilment of a liability is the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.
- SASSETA has various forms of Provisions relating to core and supplementary functions/business. These can range from Provision for R500k Employers to Provision for Office Space Rehabilitation.
- The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

- Where the effect of the time value of money is material, the amount of provision shall be the present value of the expenditures expected to be required to settle the obligation.
- The discount rate shall be a pre-tax rate that reflect current market assessments of the time value of money and risks specific to the liability.
- The calculations of various Provisions in the Annual Financial Statements is performed purely by the Finance team, with reliance on data provided by 3<sup>rd</sup> parties, i.e., DHET Levy Data File or Cost of Rehabilitation from a contractor.
- Where expenditure has been recognised either accrued or provided for, a credit will be recognised in the relevant accrual or provision contra-account to raise a liability.
- Accruals and Provisions are disclosed separately in the Annual Financial Statement due to different characteristics (i.e., the uncertainty element).

## 6. PRESENTATION AND DISCLOSURE

### 6.1 Accruals

- All accruals shall be batched up and processed in the Financial Systems using reporting date (i.e., 31 March).
- When accruing for expenses, SASSETA shall:
  - Debit the relevant expense account in the Financial System.
  - Credit the relevant liability account in the Financial System.
- The expense element of the accruals shall be presented in the statement of financial performance, under the expenses section.
- The liability element of the accruals shall be presented in the statement of financial position, under the liabilities section. The liability element of the accrual shall further be divided as follows:
  - Current liabilities, or
  - Non-current liabilities.
- Furthermore, liability elements of accruals shall be split between:
  - Exchange transactions, and
  - Non-exchange transactions.
- In the case of Discretionary Grant Expenditure, each project's balance in the Commitment Register shall be reduced with the accrued amount.
- All accruals shall be automatically reversed at the beginning of the financial year, and a Payable is subsequently recognised. This will result in a NIL effect in the expenditure item in the year in which the Accrual was reversed.

### 6.2 Provisions

- When a provision is recognised, SASSETA shall:
  - Debit the relevant expense account in the Financial System.
  - Credit the relevant liability account in the Financial System.
- The expense element of a provision shall be presented in the statement of financial performance, under the expenses section.
- The liability element of a provision shall be presented in the statement of financial position, under the liabilities section. The liability element of the accrual shall further be divided as follows:

- Current liabilities, or
- Non-current liabilities.
- In the notes to the financial statements, each provision shall be disclosed separately if it is material. All other provisions shall be aggregated under 'Other Provisions'.

## 7. INITIATION, COMPILATION AND RECORDING

### 7.1 Accruals

- Accruals and provisions are a critical component in achieving the qualitative characteristic of faithful representation on the Annual Financial Statements. Faithful representation is attained when the depiction of the information is complete, neutral, and free from material error.
- Accruals are initiated by the Finance Administrators by collecting all the necessary and relevant documents.
- Finance Administrators shall ensure that a file for accruals is compiled and stored safely, for record and audit purposes.
- Assistant Accountants shall supervise Finance Administrators and ensure that the principles contained in this document are adhered to.
- Assistant Accountants shall compile and provide first-level review the final accruals listing and capture the accrual journal.
- Financial or Management Accountant shall provide second-level review of the accrual journal by tying the journal captured to all the relevant supporting documentation.
- The Finance Manager is the final authority on the principle of definition, initiation, recording, quantification, and the reporting of Accruals/Provisions.
- There is no cut-off protocol for Accruals.
- The entire population is addressed to comply with the accurate and completeness assertion.

### 7.2 Provision

- Assistant Accountants shall compile all supporting documents relating to provision transactions.
- Assistant Accountants shall capture that provision onto the Accounting System.
- Assistant Accountants shall remeasure each provision at each reporting date.
- Assistant Accountants shall reconcile the opening balance and closing balance of each provision monthly. Supporting documents for each movement of each provision shall be filed in the Balance Sheet Reconciliation files.
- Financial or Management Accountant shall review each journal compiled and captured by Assistant Accountants.
- Financial or Management Accountant shall review each reconciliation performed by Assistant Accountants.
- The Finance Manager is the final authority of the:
  - Principles informing the recognition, measurement, presentation and disclosure of accruals and provisions.
  - Accrual and provision journals captured in the Accounting System.
  - Reconciliations of each provision.

## 8. RESPONSIBILITY

- At every reporting date (i.e., 31 March), Departmental Managers should ensure that all valid and accurate invoices received are reported to Finance.
- The above should apply even when other compliance documents are still outstanding (e.g., Tax Clearance Certificate).
- The cut-off assertion requires that we assess all invoices received between 1 April and 31 May of the subsequent year for validity. If these relates to services/goods received during the financial year, then the Accrual concept will kick in.