

Policy

Policy Directive: compliance is mandatory

Financial Commitments Policy Directive

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Financial Commitments Policy Directive

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SA Health

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Document owner	Group Manager, Financial Accounting, Finance and Corporate Services Division
Contributors	<p>Director, Financial Accounting, Finance and Corporate Services Division</p> <p>Director, Finance Business Advisory Service (FBAS), Finance and Corporate Services Division</p> <p>Director, Hospital Revenue Services, Finance and Corporate Services Division</p> <p>General Manager, Policies and Procedures, Account Management & Compliance, Finance and Corporate Services Division</p> <p>Manager, Financial Accounting WCHN, SAAS & Fixed Assets</p> <p>Manager, Financial Controls</p> <p>A/Manager, Financial Accounting - CALHN</p> <p>Financial Principal Accountant - SALHN</p> <p>Principal Financial Accountant – NALHN</p> <p>FBAS Managers Focus Group</p>
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Financial Commitments Policy Directive

1. Objective

The objective of this policy directive is to ensure the correct reporting of financial commitments in the Annual Financial Statements, and to ensure compliance with all relevant Treasurer's Instructions, Accounting Standards and other regulatory requirements.

2. Scope

This policy directive is applicable to the entire SA Health Portfolio.

3. Principles

The following principles must be followed:

- > Commitments represent an intention to sacrifice a future resource, and must be authorised in accordance with the delegation instrument.
- > Material financial commitments must be disclosed in the Annual Financial Statements in the explanatory notes.

4. Detail

The identification, quantification and disclosure of a commitment is required for year-end Annual Financial Statements (AFS).

4.1. Commitment Identification

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources. They are different from liabilities, in that they lack the element of a present obligation, and therefore arise at separate points on the time-line in the process of incurring a liability.

The point at which a commitment becomes a liability is generally when the intention to sacrifice future resources becomes a present obligation. This would normally occur when:

- > there is firm agreement;
- > it is probable that either party to the agreement would suffer a loss from cancellation by the other party; and
- > it is probable that the other party would succeed in any action to secure performance or significant compensation.

Refer to Appendix B for further guidance as to when a commitment arises with a third party.

4.2. Commitment Authorisation

Authorisation of commitments will be in accordance with the delegation of authority found on the *Governance and Delegations System (GADS)*. Managers will not exceed their individual procurement and/or financial delegations, which are attached to their position.

4.3. Types of Contractual Commitments

Types of financial commitments include:

- > capital commitments;
- > remuneration commitments;
- > other (non-capital expenditure) commitments; and
- > finance and operating lease commitments.

These are outlined below and detailed in the Definitions section.

4.3.1. Capital Commitments

Capital expenditure commitments have an unperformed portion, pending the future receipt of goods and services by the public authority. Capital expenditure can relate to new or existing assets (e.g. contracts, agreements or order acceptance), but does not include expenditure that does not meet SA Health's capitalisation criteria. Contractual details, as supporting documentation, are required for each project where contracted work has yet to be completed or delivered.

A liability should be recognised for work completed, but not paid; these instances should not be reported as commitments.

4.3.2. Other (Non-Capital Expenditure) Commitments

Non-capital commitment have an unperformed component of the business arrangement (e.g. contract, agreement or order acceptance), pending the future receipt of goods and services by the public authority. That is, where goods and / or services have been ordered, but not yet received.

Some examples include the following, but not limited to:

- > Maintenance Services contracts;
- > Cleaning contracts; and
- > Medical Services related contracts; i.e. Fee for Service, or Radiology.

4.3.3. Remuneration Commitments

SA Health does not offer fixed-term remuneration contracts greater than five years.

4.3.4. Finance and Operating Leases Commitments

These are current lease arrangements where there is a future intention to maintain the lease agreement, but are not yet recognised as a liability unless prescribed otherwise by AASB117 *Leases*. The calculation incorporates all minimum future lease payments.

For further information, refer to the *Finance and Operating Leases Policy* and the *Model Financial Statements*.

4.4. Annual Financial Statements Disclosure

Where material, details of commitments must be disclosed in the explanatory notes to and forming part of the AFS, and must be categorised in accordance with the *Model Financial Statements* provided by the Department of Treasury and Finance.

Unrecognised contractual commitment must be measured at their nominal value, and disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO). If GST is not payable to, or recoverable from the ATO, the commitments are disclosed on a gross basis.

5. Roles and Responsibilities

5.1. Financial Accounting

Financial Accounting is responsible for:

- > updating the AFS Information Pack (Year End) ready for distribution to the business units;
- > distributing the Year End pack to the appropriate officers;
- > collating the returns; and
- > sourcing remuneration information relating to commitments for fixed-term employment contracts from Workforce.

5.2. Interface Reconciliation Team, Financial Accounting

The Interface Reconciliation Team is responsible for:

- > obtaining the actual employee details report from Shared Services SA Payroll for the remuneration commitment calculations; and
- > providing the information for input into the explanatory notes to the Annual Financial Statements.

5.3. Financial Business Advisory Service (FBAS)

FBAS are responsible for ensuring:

- > the Year End pack is received from financial accounting;
- > information requested in the Year End pack is reviewed, details are added and / or deleted, and certified;
- > supporting documentation is attached to the Return;
- > the CEO, or delegate, has certified the financial commitments details are true and correct;
- > supporting documentation has to be attached to the return; and
- > the return is then emailed to the relevant Manager, Financial Accounting, as per the dates in the timetable, with a hard copy returned via mail. Refer to Appendix A for further details.

6. Reporting

Disclose the commitments in the Annual Financial Statements in accordance with Department of Treasury and Finance's *Model Financial Statements*.

7. EPAS

N/A

8. Exemption

N/A

9. National Safety and Quality Health Services Standards

N/A

10. Risk Management

Non-compliance with this policy directive may lead to a misstatement of liabilities in the AFS and may, in turn, result in adverse commentary from Audit.

11. Evaluation

Compliance of this policy directive will result in all material information being captured and provided to Financial Accounting for AFS purposes.

12. Definitions

In the context of this document:

- > **Annual Financial Statements (AFS)** refers to the general purpose financial statements, and includes a Statement of Financial Position, a Statement of Comprehensive Income, a Statement of Changes in Equity, a Statement of Cash Flows, and Explanatory Notes. These notes comprise a summary of significant accounting policies and other explanatory information, financial schedules, and explanatory notes for administered items.
- > **business unit** is a term used to describe the operational units located within the Local Health Networks, SA Ambulance Service, and the Department for Health and Ageing. Business units may be used to describe an individual hospital within a LHN (e.g. RAH), as well as a Division within the department (e.g. eHealth Systems), or a clinical area within a LHN (e.g. Cardiology).
- > **capital expenditure commitment** includes a contract, agreement, or order acceptance that has an outstanding future unperformed portion, which is pending a future receipt by the public authority of goods or services.
- > **commitments** represent an intention to sacrifice future economic benefits. They are obligations or undertakings to make future payments, e.g. orders for goods or contracted services, with reasonable expectation that the goods will be delivered or services provided. They are different from liabilities in that they lack the element of a present obligation.
- > **finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.
- > **liability** is a present obligation of the entity from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- > **non-capital expenditure commitment** is operational in nature, and includes a contract, agreement, order acceptance etc. that has an outstanding future unperformed portion, that is pending the future receipt by the public authority of goods or services.
- > **operating lease** is a lease under which the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased property.
- > **remuneration commitments** are for the payment of salaries and other remuneration under fixed-term employment contracts in existence at the reporting date, but not recognised as liabilities.
- > the **Year End pack** is a document which Financial Accounting uses to collect and collate financial information for the disclosure of Unrecognised Commitments. The Year End pack includes a brief, the Return, and certifications.

13. Associated Policy Directive/Policy Guidelines

- > [Finance and Operating Lease Policy](#)

14. References, Resources and Related Documents

- > [Australian Accounting Standard Board \(AASB 101\) Presentation of Financial Statements](#)
- > [Australian Accounting Standard Board \(AASB 117\) Leases](#)
- > [Accounting Policy Framework IV Financial Asset and Liability Framework](#)
- > [Treasurer's Instructions 2 Financial Management](#)
- > [Treasurer's Instructions 28 Financial Management Compliance Program](#)
- > [Governance And Delegations Systems \(GADS\)](#)
- > Department of Treasury and Finance [Model Financial Statements](#)
- > SA Health – Annual Financial Statements (Year End) Information Pack

APPENDIX

A Procedure

A.1 Financial Accounting

Leases, Capital and Other (Non-Capital) Commitments

To obtain information for the end of year process Financial Accounting will perform the following:

1. Financial Accounting pre-populate as much of the Year End pack as possible, based on previous year's figures and information received throughout the year.
2. The Year End pack is sent out, via email to following:
 - > Deputy Chief Executive, Finance and Business Services;
 - > Deputy Chief Executive, System Performance;
 - > Executive Director, Public Health and Clinical Systems;
 - > Executive Director, Policy and Commissioning;
 - > Executive Director, E-Health Systems;
 - > Executive Director, Mental Health and Substance Abuse;
 - > Group Director, Infrastructure;
 - > Group Director, Risk & Assurance Services;
 - > The CEOs of the LHNs and SAAS;
 - > FBAS Regional Finance Directors; and
 - > The Divisional Accounting Manager.
3. Once the Year End pack information is received, the working papers will be updated for input into the notes within the financial statements.

A.2 Business Units

The officers outlined in A.1 will receive the Year End pack. To ensure the financial commitments are included in the explanatory notes within the Annual Financial Statements, the next steps should be followed:

1. Review the Return, contained within the Year End pack, sent from Financial Accounting and update, add and / or delete the financial commitments section on the Return, where necessary.
2. Attached supporting documentation to the Return.
3. Certify the details on the Return as correct.
4. The Return (and the supporting documentation) will be sent to Financial Accounting by the due date specified in the Return, via email. In addition, a hard copy of the Return is also required by Financial Accounting.

B Identification of a Commitment: Consideration Points

Commitments represent an intention to sacrifice future economic benefits. They are different from liabilities in that they lack the element of a present obligation.

This table provides some guidance as to when a commitment arises with a third party, noting any portion of a contract that has been performed but remains unpaid, must be recognised as a liability.

Project	Feasible	Commitment *	Liability
Has a project concept brief been developed?	Yes		
Has a feasibility study been developed to support the business case?	Yes		
Has Portfolio Executive approved the business case?	Yes		
Has the "Investing Expenditure Authority" been received for the project?	Yes		
Has a decision / offer been made, or negotiations undertaken, with the third party?		Yes	
Enforceable contract? Has the contract been signed?		Yes	Yes
Is it probable that either party to the agreement would suffer substantial loss from cancellation by the other party?		Yes	Yes
Is it probable that the other party would succeed in any action to secure performance or significant compensation		Yes	Yes
Has goods been delivered / service provided?		No	Yes

* Relates only to the unperformed portion of a contract. Any portion of a contract that has been performed but remains unpaid must be recognised as a liability.