

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

Circular No 9 of 2016

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21 October 2016

From: Financial Secretary

To: Supervising Officers-in-Charge of Ministries/Departments and Accounting Officers

FINANCIAL MANAGEMENT KIT (FM KIT)

Financial Instructions No 2 of 2016

Opening of Advance Account in the Treasury Accounting System (TAS)

The purpose of this circular is to inform you of the procedures that are being prescribed in the Financial Instructions No 2 of 2016 for the opening of Advance Accounts in the Treasury Accounting System (TAS).

2. The Financial Instructions provide for new and simplified operational procedures for the opening of advance accounts in respect of the following transactions:

- (a) advances issued by way of Warrants under the Finance and Audit Act; and
- (b) other advances which are opened in the TAS to create a debtor for reasons, such as:
 - (i) loss or shortage of cash;
 - (ii) dishonoured cheques;
 - (iii) loss of fixed fee receipt forms (e.g. parking coupons);
 - (iv) overpayments; and
 - (v) claims to suppliers (only where payment is already effected).

3. Please note that these Financial Instructions do not cover the opening of advance accounts in respect of 'loss of goods' as the procedures for such events are provided under Financial Instructions - *Losses, Deficiencies & Write Off of Goods* which was issued in July 2012.

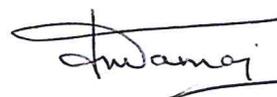
4. Advance Accounts in cases referred to at paragraph 2(b)(i) – (iii) above should be opened in TAS **at the moment the event occurs**, whilst Advance Accounts in cases referred to at paragraph 2(b)(iv) – (v) above should only be opened in TAS where the following criteria for the recognition of debtors are met:

- (a) the debtor can be identified;
- (b) the amount can reliably be measured; and
- (c) the amount is recoverable.

5. Departments are required to keep records of all advances even where the criteria referred to at paragraph 4 are not met.

6. The Financial Instructions No 2 of 2016 – *Opening of Advance Account in the Treasury Accounting System (TAS)* have been finalized after consultations with the Director of Audit and necessary clearances sought from the State Law Office. These instructions will replace the existing corresponding provisions contained in the Financial Management Manual 1990 and they will eventually be included in the Financial Management Kit Volume II – General Financial Procedures.

7. You are requested to ensure compliance with the enclosed Financial Instructions No 2 of 2016 – *Opening of Advance Account in the Treasury Accounting System (TAS)*.



D.D. Manraj, GOSK
Financial Secretary

Copy to:

- (i) Secretary to Cabinet and Head of the Civil Service
- (ii) Director of Audit
- (iii) Accountant-General
- (iv) Directors, Economic and Finance, MOFED
- (v) Director, Financial Operations
- (vi) Director, Procurement & Supply
- (vii) Director, Internal Control
- (viii) Officers-in-Charge of Financial Operations Unit, Procurement & Supply Unit and Internal Control Unit in Ministries/Departments
- (ix) Lead Analyst & SMSTs, MOFED

Financial Instructions No 2 of 2016

Opening of Advance Account in the Treasury Accounting System (TAS)

1. Advances are of the following two categories:-
 - (a) Advances issued by way of Warrant under the Finance and Audit Act; and
 - (b) Advances which are opened in TAS for reasons not falling under 1(a).

Advance under Finance and Audit Act

2. Section 6 of the Finance and Audit Act provides for the issue of advances from the Consolidated Fund and such advances are made by way of Warrant issued by the Minister. These advances involve a disbursement of money at the outset and are repayable in accordance with set terms and conditions. In respect of such advances, advance accounts should be opened in TAS once an Advance Warrant is issued by MOFED. Where the purpose of an Advance Warrant is to provide authority for additional advances under an existing advance account, a new advance account need not be opened. Advance accounts should be debited upon disbursements.
3. The accounting entries in respect of advances under the Finance and Audit Act are as follows:-

DR Advance Account

CR Cash Account

(Supporting document for opening of advance account: Other Charges Voucher)

Other Advances

4. Advances may also be opened in TAS where it is necessary to create a debtor in the accounts of Government even in the absence of a Warrant. These advances (hereinafter referred to as 'other advances') relate to accounts opened in the case of:-
 - (a) Loss or shortage of Cash;
 - (b) Dishonoured cheques;
 - (c) Loss of fixed fee receipt forms;
 - (d) Overpayments;
 - (e) Claim to suppliers (only where payment is already effected); and
 - (f) Loss of Goods

5. Advance Accounts in respect of cases referred to at subparagraph 4(a), 4(b) and 4(c) above should be opened in TAS at the moment the event occurs. The principles to be followed for the opening of such advance accounts are provided below at paragraphs 12 to 30.
6. Advance Accounts in respect of cases referred to at subparagraphs 4(d), 4(e) and 4(f) above should only be opened in TAS where the criteria for the recognition of debtors (see paragraph 8 below) are met. This is in accordance with the principle laid down in the International Accounting Standards Board (IASB) *Conceptual Framework for Financial Reporting* and which reads as follows:

‘An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably’

7. The procedures and accounting entries relating to the opening of advance accounts in respect of loss of goods are dealt with in Financial Instructions-*Losses, Deficiencies & Write Off of Goods*. In terms of the Financial Instructions, “loss of goods” means physical loss, or loss in value which may arise as a result of deterioration or damage, suspected tampering leading to damages or sabotage. Where an advance account in respect of ‘Loss of Goods’ is opened in the manner stated in the Financial Instructions- *Losses, Deficiencies & Write Off of Goods*, the writing off of such advance account shall only be effected by reversal of the accounting entries, rather than against the item of expenditure prescribed in Financial Instructions No 2 of 2015 – *Write off of Advances*.
8. The criteria for recognition of debtors are:-
 - (a) the debtor can be identified;
 - (b) the amount can reliably be measured; and
 - (c) the amount is recoverable.
9. For the purposes of paragraph 8(a) above, a debtor would be deemed to be:-
 - (a) the officer held responsible for an overpayment;
 - (b) the person to whom an overpayment is made;
 - (c) the officer held responsible for a loss of goods; or
 - (d) a supplier of goods, works or services, as the case may be, in respect of claims on suppliers.

10. For the purposes of paragraph 8(b) above –
- (a) the value to be attributed to a loss of goods should be determined as prescribed in Financial Instructions of 2012 – *Losses, Deficiencies and Write-Off of Goods*; and
 - (b) in the case of an overpayment or claim to suppliers, advance account should be opened with the amount of the overpayment or claim, as the case may be.
11. For the purposes of paragraph 8(c) above, an amount is deemed to be recoverable where:-
- (a) the ‘debtor’ agrees to make good any overpayment, defect/deficiency/shortcoming (in respect of the supply of goods/works/services), or loss of goods, as the case may be;
 - (b) there are reasonable prospects that the amount can be recovered through legal action or otherwise; or
 - (c) the ‘debtor’ is a public officer and the amount can be recovered from the salary or any other benefits accruing to such public officer.

Loss and shortage of Cash

12. For the purposes of these instructions-
- (a) loss of cash refers to loss of public money kept under the custody of a public officer, either in a till or in a safe, or during transit; and
 - (b) shortage of cash refers to a deficiency of cash identified in the course of a cash survey.
13. Loss of cash –
- (a) may occur as a result of theft (including misappropriation), burglary or robbery; and
 - (b) may represent any of the following :
 - (i) loss of revenue collected whilst under the custody of a Receiving Cashier or any other public officer prior to remittance to the Accountant-General ;
 - (ii) loss of money by an Imprest Holder; or
 - (iii) loss of money by a Paying Cashier.

Cash survey

14. Subject to the provisions below, where a shortage is identified in the course a cash survey, an advance account (Advance Account Personal) should generally be opened in the name of the cashier or public officer having responsibility for keeping of the cash.

Theft, robbery, burglary

15. In respect of a loss of money arising from a theft or burglary or which is reported to have resulted from robbery, an advance account (for the amount of the loss) should in the first instance be opened in TAS in the name of the Accounting Officer (i.e. designation of the Accounting Officer followed by the name of the Department concerned).
16. Where it is subsequently determined, through police or departmental investigation, that the loss has occurred due to the negligence, recklessness, collusion or other fault of a public officer, the advance account should be transferred in the name of such public officer.
17. The accounting entries required for the opening of advance accounts in TAS in respect of loss of money will depend on :-
 - (a) whether the money lost represents revenue collected, cash held by an Imprest Holder or the cash float of a paying cashier; and
 - (b) for revenue collection, whether or not the revenue collected is accounted for in TAS instantly upon receipt.

Loss of cash in respect of revenue collected

18. Where revenue collected is accounted for in TAS instantly upon receipt and cash is subsequently lost, the accounting entries for the opening of an advance account in respect of such a loss are as follows :

DR Advance Account (with amount of loss)

CR Cash Account

(Supporting document for opening of advance account: Debit Note)

19. In some cases revenue collected is not accounted for in TAS instantly upon receipt, but is rather recorded in a subsidiary record in the first instance. Recording of the revenue in TAS is effected after banking of collections and production of necessary documents to the Chief Cashier of the Treasury. In such cases the accounting entries for the opening of an advance account in respect of a loss are as follows :

DR Advance Account (by amount of loss)

DR Cash Account (amount credited to Bank / remitted to Accountant-General)

CR Revenue Item (total revenue collected)

(Supporting document for opening of advance account: Debit Note)

Loss of Cash by Imprest Holder

20. The accounting entries for the opening of an advance account in respect of a loss of cash by an Imprest Holder are as follows :

DR Advance Account (by amount of loss)

CR Imprest Account *

(Supporting document for opening of advance account: Adjustment Voucher)

*The imprest account is deemed to have been retired by the amount of the loss. When fresh money is given to the Imprest Holder, the following accounting entries should be effected:

DR Imprest Account

CR Cash Account

Loss of Cash by Paying Cashier

21. The following accounting entries should normally be effected when a cash float is remitted to a Paying Cashier for payment purposes:-

DR Remittance Account (in the name of the Paying Cashier)

CR Cash Account

22. In the case of a loss of cash under the custody of the paying cashier, an advance account is opened as follows:-

DR Advance Account (by amount of loss)

CR Remittance Account

(Supporting document for opening of advance account: Adjustment Voucher)

23. When fresh money is remitted to the Paying Cashier for effecting the required payments, the following accounting entries should be made :-

CR Cash Account

DR Remittance Account

Dishonoured cheques

24. Where any cheque received is dishonoured, an advance account should be opened in the name of the Department concerned with the amount involved. The advance account should be labelled “Advance Account Dishonoured Cheques-Cashier-Name of Department”.
25. However, the advance account should be opened in the personal name of the cashier where a cheque is returned dishonoured by the bank for any reason which indicates that the cashier has not exercised due care and diligence before accepting the cheque, including the following:-

- (a) where signature is missing;
- (b) where amounts in words and figures differ;
- (c) where alterations do not bear the full signatures of the drawers; or
- (d) where the cheque has become stale or is post-dated.

26. When a cheque is received and deposited to bank, the following accounting entries are effected:

DR Cash Account

CR Revenue or any other relevant item

27. The following accounting entries should be made in TAS in the case the cheque is returned dishonoured:-

DR Advance Account

CR Cash Account

(Supporting document for opening of advance account: Debit Note)

Loss of fixed fee receipt forms

28. Where a loss of Fixed Fee Receipt Forms (e.g. Parking Coupons) is revealed during a survey or is otherwise discovered, an Advance Account Personal should be opened (for the monetary value of the loss) in the name of the officer responsible for keeping the stock of those Fixed Fee Receipt Forms. The required accounting entries are as follows:-

DR Advance Account

CR Recovery of Asset Account *

*will be classified under “Other Credit Balances” in the Chart of Accounts and under “Deposits and Other Credit Balances” in Government’s Balance Sheet.

(Supporting document for opening of advance account: Adjustment Voucher)

29. When the Advance Account is cleared by reimbursement from the officer concerned, the following sets of accounting entries are made in TAS :-

(a) DR Cash Account

CR Miscellaneous Revenue

(b) DR Recovery of Asset Account

CR Advance Account

30. In the event that the advance account is written off , the accounting entries should be as follows:

DR Recovery of Asset Account

CR Advance Account

***Note:** Where an Advance Account in respect of ‘Loss of Fixed Fee Receipt Forms’ is opened in the manner stated above, the writing off of such Advance Account shall only be effected by reversal of the accounting entries, rather than against the item of expenditure prescribed in Financial Instructions No 2 of 2015 – Write off of Advances.*

Overpayments

31. In the case of an overpayment, for example overpayment of salaries and allowances, or pensions, or overpayment to a supplier of goods, works or services, an Advance Account should, subject to paragraph 32, be opened in the name of the officer authorising the payment.

32. Where it is established that another officer has caused the payment to be authorised, the Advance Account should be opened in the name of such officer.
33. Where an amount overpaid to any person is recoverable from that person, the latter shall be deemed to be the debtor. The Accounting Officer may consider opening an Advance Account in the name of such debtor.
34. The accounting entries in respect of an overpayment depends on when the overpayment is detected and are as follows:
- (a) Where overpayment is detected in year of payment
- DR Advance Account
- CR relevant Expenditure Item
- (Supporting document for opening of advance account: Adjustment Voucher)
- (b) Where overpayment is detected in a subsequent year
- DR Advance Account
- CR Overpayment Made in Previous Years
- (Supporting document for opening of advance account: Adjustment Voucher)

Claims to Suppliers

35. The Accounting Officer should prefer a claim, in writing, on a supplier of goods, works or services as soon as a defect, deficiency or shortcoming is detected in respect thereto.
36. Where a claim is issued, the Accounting Officer should proceed as follows regarding the opening of an Advance Account Claims :-
- (a) where the supplier agrees to immediately make good the defect, deficiency or shortcoming, an advance account need not be opened; or, else
- (b) consider opening an advance account in the name of the supplier for the full value to be recovered.
37. The accounting entries for the opening of an advance account in respect of a claim to a supplier depends on whether the claim was issued in the year in which payment was effected to the supplier or in a subsequent year.
- (a) Where claim is issued in year of payment
- DR Advance Account Claims
- CR relevant Expenditure Item
- (Supporting document for opening of advance account: Adjustment Voucher)

(b) Where claim is issued in a subsequent year

DR Advance Account Claims

CR Overpayment Made in Previous Years

(Supporting document for opening of advance account: Adjustment Voucher)

38. Where an amount is recovered in cash from a supplier, the following accounting entries are made:

DR Cash

CR Advance Account Claims

39. Where a supplier makes good any defect, deficiency or shortcoming by performance or in kind (e.g. replacement of defective goods), the accounting entries are as follows:

DR relevant Expenditure Item

CR Advance Account Claims

Note: The same accounting entries will apply regardless of whether the performance or replacement of goods is effected in the year in which payment was effected or in a subsequent year.

40. The Accounting Officer should, where necessary, proceed with legal recovery of claims in case of non-settlement. Where, after consultation with the State Law Office (SLO), it is established that a claim is to be abandoned, the Accounting Officer may proceed with the writing off of the Advance Account Claim in accordance with the procedures set out in Financial Instructions No 2 of 2015 – *Write-Off of Advances*.

Overpayment Made in Previous Years

41. Crediting the revenue item “Overpayment Made in Previous Years” for the opening of an advance account has the ultimate effect of eliminating the impact of the overpayment on the balance of the Consolidated Fund. It is assumed that the aggregate of all overpayments in any financial year would not be so material as to justify a direct credit to the Consolidated Fund (for the opening of advance accounts) instead of a credit to the revenue item “Overpayment Made in Previous Years”.

Recovery from debtor/insurance company

42. The Accounting Officer should ensure that any advance account is cleared as soon as possible. The advance account should be credited with any amount recovered in cash or with the value of any recovery made in kind.

43. Wherever applicable, an advance account should be adjusted (credited) with money recovered from any insurance company.
44. Similarly, an advance account opened in the name of a public officer should be adjusted (credited) with any amount recovered in respect of that account.

Register of Advances

45. Where an advance account is not opened in TAS as the criteria set out at paragraph 8 are not satisfied, appropriate records should be maintained for proper follow-up.

20.10.2016