1. Objective

This procedure outlines the process to collate information for the purpose of fulfilling disclosure requirements for ‘Commitments’ in accordance with AIFRS, at an operating level i.e Faculties, Divisions & Schools.

2. Basis of disclosure

There are three types of Commitments undertaken at the University. ‘Capital Commitments’ as reflected by contracts of capital expenditure nature, ‘Lease Commitments’ as reflected by minimum lease payments in relation to non cancellable operating leases, and ‘Other Commitments’ that are primarily operational in nature. Commitments as reflected by open purchase orders where goods are not yet shipped but there is an understanding that this liability will manifest in future periods.

Capital commitment refers to capital expenditure relating to property, plant and equipment contracted for at balance sheet date but not recognised as liabilities. Capital commitments for the University will include building construction, leasehold improvements, and purchases of plant and equipment. Capital commitment is contract based, and is the total cost of the contract less any work done and invoiced to date.

A lease can be classified as either a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the asset. A lease other than a finance lease is classified as an operating lease. For finance leases at the commencement of the lease The University will recognise an asset and a liability in the balance sheet equal to the fair value of the leased property. For operating leases the University recognises lease payments as an expense on a straight line over the term of the lease.

Lease commitment refers to the minimum lease payments obligations under an operating lease. Minimum lease payments are payments over the lease term that the University is required to make, excluding contingent rent, costs for services and taxes to be paid to the lessor, together with any amounts guaranteed by the University.

The University must also disclose commitments for controlled entities at year end. For this purpose controlled entities must report commitments in line with this procedure and consolidated at year end for financial reporting purposes.

Year End Disclosure and Executory Contracts:

For year end disclosure of other commitments it is important to identify whether the contract at hand is an executory contract and whether disclosure of Commitment is required.
a) An executory contract is a contract which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. An example of this is a supply contract. Executory contracts are not deemed to give rise to a reportable commitment in the Notes to the Financial Report.

3. Procedure

Capital Asset Management Reporting, CFAS coordinates ‘Commitment’ disclosures at year end. Tracking financial commitments can be difficult because they are made in many different ways and are logged in a plethora of different systems, purchasing, accounts payable, general ledger, etc. Capital Lease registers, PeopleSoft and Tririga systems are used for tracking commitments through open orders, minimum lease payments of operating leases and capital commitment project tracking. The ability to run these reports at any time means that is also useful as a valuable management tool for cash management and budget projection tracking purposes.

Adding and maintaining operating and finance leases through People Soft are much the same way as purchased assets. Additional information is required such as lease terms, estimated useful life of the asset, minimum lease payments, depreciation schedule, payment schedules, etc. Using People Soft for data capture of lease arrangements has the added advantage that it is a one point data entry which will produce the accounting entries for leases as well as the supply of information for disclosure. PeopleSoft through its reporting capabilities will produce data with drill down capabilities useful in extracting information for year end financial reporting purposes.

Discipline is required across the Faculty/School/ divisions to automate ‘Commitment’ related reports such as:

- all procurements to have purchase orders
- material contracts should not be entered into without involvement of Facilities Management, Procurement, Legal and Research office (for research contracts).
- implementation of ongoing training program to up skill people in charge of preparing information on Commitments

To ensure compliance with IFRS, the University shall disclose the nature and amount of each individual class of Commitments (Capital, Lease and Other) contracted for as at the reporting date, other than Commitments for the supply of inventories, which have not been recognised as liabilities.

The disclosures shall be made in the following time bands based on the time that is expected to elapse from the reporting date to their expected date of settlement:

a) within twelve months;
b) twelve months or longer and not longer than five years; and
c) longer than five years.

4. Operational Aspects

Capital Asset Management Reporting, CFAS is responsible for preparation and disclosure of Commitment information in the the University annual financial report. It is also responsible for collating and verifying disclosure commitment information as supplied by the Faculty Finance Managers for their Faculty/ School/ Division.

Faculty Finance Managers are the keepers of information and must ensure that all relevant information to automate commitment reporting is loaded on to systems and registers in a timely and accurate manner.