Issue Date: **November 2017**	Effective Date: **Immediate**	Responsible Agency: **Office of the Comptroller General**	Directive No: **700**
Chapter: **ACCOUNTING FOR EXPENDITURES**			
Directive Title: **CHAPTER INDEX**			

Issue Date: **August 1988**	Effective Date: **Immediate**	Responsible Agency: **Directorate, FMBS**	Directive No: **703**
Chapter: **Accounting for Expenditures**			
Directive Title: **RECORDING TRANSACTIONS**			

1. INTRODUCTION

Both cash and commitment accounting form the basis of the traditional system of governmental accounting. Commitment accounting is required to ensure that departments anticipate their expenditures so as not to exceed appropriation ceilings. Cash accounting is required to meet legislative needs for complete, accurate, and informative data on the cash transactions of the Government. Accrual accounting is the principal method of accounting in the Government.

The Financial Information System readily provides accrual accounting information. It also provides for the continuous recording and reporting of commitment information.

2. DEFINITIONS

2.1 Accrual Accounting

Accrual Accounting means the accounting entries are made and the appropriation is charged when goods or services are received. The entries record the receipt of the asset or service and record the liability of the Government to pay for these goods and services.

2.2 Cash Accounting

Cash accounting means the accounting entries are made and the appropriation is charged when funds are paid or received or when internal transactions are recorded.

2.3 Commitment Accounting

Commitment accounting means the accounting entries are made and the appropriation is charged when a contract is entered into or when an order is placed for goods or services. The entries record the amount to be reserved out of the unencumbered balance remaining in an appropriation in order to honour the commitment.

2.4 Cost-based Accounting

Cost-based accounting means the accounting entries are made and the appropriation is charged when goods or services are consumed. The entries record the cost of resources consumed in the accounting period in which the benefits are received.

3. DIRECTIVE

3.1 In order to provide meaningful financial statements, payment requisitions must be forwarded directly and expeditiously to the appropriate finance office to ensure that all expenditures approved by program managers are included in the accounting period to which they apply.

3.2 Departments and regions shall ensure that their accounting records are correct and up-to-date.

4. PROVISION

4.1 Cash transactions must be processed promptly.

4.2 Commitment Accounting

4.2.1 All commitments must be done in accordance with directive 709, Appropriation and Commitment Control.
4.2.2 Decommitments are registered automatically as disbursements are made and the transactions are then recorded in the accounting system.
4.2.3 Commitment information must be readily available to program managers who are expenditure officers and who take actions that will subsequently result in expenditures.
4.2.4 Program managers may request appropriation information if there is any reason to believe that there may be a possibility of reaching full commitment for any appropriation.

4.3 Departments may use accrual and cost-based accounting for subsidiary accounting systems to provide reports for management.

5. GUIDELINES

5.1 Data on commitments for financial reports should be input on an on-going basis into the Financial Information System.

Issue Date: **September 2009**	Effective Date: **Immediate**	Responsible Agency: **Comptroller General**	Directive No: **703-1**
Chapter: **Accounting for Expenditures**			
Directive Title: **EXPENDITURES – CLASSIFICATION AND APPROPRIATION CONTROL**			

1. POLICY

Government expenditures are recorded under two classifications: operations and maintenance expenditures, and capital expenditures. The authorization for these expenditures is provided through expenditure budgets approved by the Legislative Assembly. Appropriation control with respect to these approved expenditures is set out in the *Financial Administration Act (FAA) S.27* to *37*.

2. DIRECTIVE

Each expenditure shall be:

- classified as an Operations and Maintenance expenditure or a Capital expenditure;
- pursuant to an appropriation;
- recorded according to generally accepted accounting principles and government accounting policies; and
- in accordance with the following Provisions.

3. PROVISIONS

3.1. Operations and Maintenance

Operations and maintenance expenditures are normally of a recurring or continuing nature, which are required for the delivery of Government programs or services and which do not increase the number, value, original specifications, or life expectancy of assets owned or operated by the Government.

3.2. Capital Expenditures

3.2.1. Capital expenditures include: the expenditure to acquire, construct, develop, or prepare for use tangible capital assets, the cost of betterments made to existing capital assets, capital leases and the cost of intangible capital assets.

3.2.2
Except for items directly attributable to a capital project, any item having an estimated cost less than its capitalization threshold value must be budgeted as operations and maintenance.

Refer to directive 601, Accounting for Tangible Capital Assets for additional information.

3.3. Accountable Assets

The classification of the purchase of an asset as either a capital purchase or an operations and maintenance purchase does not affect whether or not the asset is controllable.
Refer to directive 605-1, Internal Control – Accountable Assets to assess the controllability of any asset and the recording requirements for the asset.

3.4 Appropriation Controls

Adherence to the following appropriation controls enacted under *Part III – Appropriations* of the *FAA* is required in respect of all government expenditures:

- every expenditure must be charged against an approved appropriation, and to a vote, an item and an activity..
- no disbursement may be made from the consolidated revenue fund for an expenditure unless the expenditure is charged to an approved appropriation.
- no expenditure may be made that causes an approved appropriation to be exceeded.
- a Deputy Minister must take all reasonable measures to ensure no expenditure is made in the department that causes an activity budget to be exceeded.

- where an expenditure is made that causes an activity budget to be exceeded, the responsible Minister must submit a written report with details to the Minister of Finance, who must then submit the report to the FMB by July 31 following the end of the fiscal year; and a report must be presented to the Legislative Assembly, at the same time as the interim financial report, for each instance where an expenditure exceeded the activity budget by $250,000.

Issue Date: **August 2008**	Effective Date: **July 10, 2008**	Responsible Agency: **Comptroller General**	Directive No: **704**
Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING FOR INVENTORIES - GENERAL**			

1. POLICY

Inventories must be accounted for in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

2. DIRECTIVE

Departments are responsible for maintaining accounting records and controls so as to ensure that inventory can be accurately reflected in the Public Accounts and that the inventory is protected from misuse, loss or theft.

3. PROVISIONS

3.1. Types of Inventories

3.1.1. Financial asset – Inventory that is held for resale, is in a condition to be sold, has an active market available, has a plan in place for its sale and is expected to be sold within the next fiscal year.

3.1.2. Non-financial asset – Inventory that is held for consumption or use by the Government in the course of its operations.

3.2. Controls over Inventories

3.2.1. Departments are to institute controls over inventories within their departments to meet the following objectives:

- to minimize the investment in inventories while maintaining sufficient inventory to support operations;
- to minimize losses from damage, obsolescence, perishability, theft or misuse;
- to ensure efficient and effective control over inventory issue, receipt and storage;

- to ensure that the most economical purchasing practices are followed;
- to supply accurate and timely data for accounting and management purposes and to facilitate the forecasting of inventory requirements.

3.3. Valuing Inventory

3.3.1. Inventories shall be measured at the lower of cost or net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.3.2. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

3.3.3. The costs of inventories comprise the purchase price, plus import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

3.3.4. Write-offs and deletions of inventories must be in accordance with Regulation 9918 (Delegation of Authority Regulations) and Directive 704-4 (Accounting for Inventories – Deletion or Write-off).

3.4. Managing Inventory

3.4.1. Departments are responsible to ensure the following:

- Optimum inventory levels are maintained.
- Appropriate inventory records are maintained to meet reporting and internal control requirements.
- Adequate control and physical security measures are taken to prevent material loss of inventory due to theft, damage or obsolescence.
- Periodic comparison of physical quantities to inventory records to ensure early detection of material differences or irregularities and immediate corrective action taken.

3.4.2. Departments should determine the optimum inventory levels by considering the following:

- calculation of economic order quantity;

- calculation of inventory usage rates or turnover, with comparison to historical data, to identify trends and comparison to inventory turnover for other comparable operations to determine if excessive inventory is maintained;
- When inventories are required for emergency use or the usage rate is unpredictable, departments may maintain suitable safety stocks of inventory;
- the cost to the Government of funds invested to acquire the inventory;
- storage costs, including warehousing costs;
- inventory shrinkage costs, including the cost of spoilage of perishable goods and loss of value due to obsolescence;
- the time required to replace stock because of sea-lift schedules;
- any fixed cost associated with placing an order to acquire inventory; and
- other relevant costs.

3.4.3. Departments should implement physical security measures to safeguard inventory from risks of theft, damage, misuse and spoilage. Measures selected should take into account the nature, quantity and value of inventory and the costs to implement them.

3.4.4. The procedures for controlling inventories and taking annual stock for the purpose of Public Accounts are found in the Year End Instructions Manual issued by the Comptroller General.

3.5. Inventory Records

3.5.1. Departments and revolving funds must maintain proper records to safeguard inventory. Goods that would be treated as inventory but are excluded because their value is not significant enough to warrant such treatment, must still be controlled and have sufficient records to meet reporting needs and to mitigate risks of theft or other loss.

3.5.2. Departments are to establish and maintain records that, at a minimum, record:

- a description of goods and the storage location;
- information pertinent to all purchases or acquisitions and sales or other removals from inventory including;
    - transaction date;
    - cost and quantity of goods added or removed from inventory; and
    - the purpose of the transaction.

3.5.3. If it is not cost effective to maintain inventory records as required above, departments may request an exemption from the Comptroller

General in writing. In such cases, Departments are to submit to the Comptroller General alternate policies to safeguard, control and account for the inventories.

Issue Date: **August 2008**	Effective Date: **July 10, 2008**	Responsible Agency: **Comptroller General**	Directive No: **704-3**
Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING FOR ASSETS - DISPOSAL OF PUBLIC PROPERTY**			

1. POLICY

Disposals of public property that has been declared surplus to the government must be in accordance with *S.65* of the *Financial Administration Act* (*FAA*) and other applicable legislation.

2. DIRECTIVE

S.65 of the *FAA* authorizes the Financial Management Board (FMB) to determine that public property is surplus to the requirements of the Government and to dispose of such property. Regulation 9918 authorizes the FMB to delegate this authority.

The FMB hereby delegates the authority to declare public property surplus and to dispose of such property to the public officers and entities listed in the provisions of this directive.

This directive does not apply to public property that may be disposed of under the authority of another enactment, such as the *Archives Act*, the *Commissioners Land Act*, the *Petroleum Products Tax Act* and the *Tobacco Tax Act.*

3. PROVISIONS

3.1. Inventory that has been declared surplus shall be disposed of in accordance with this directive. The write-off and deletion of inventory shall be dealt with in accordance with Directive 704-4..

3.2. Public property is defined in *S.1* of the *FAA* as all personal and real property that belongs to the Government.

3.3. The Deputy Head of each department may declare public property surplus to the needs of their department.

3.4. All property that has been declared surplus must be transferred to the Department of Community and Government Services (CGS) for disposal. CGS, in consultation with the Department who declared the property surplus, may decide, for reasons of economy, that alternate disposal procedures are more appropriate.

3.5. The Deputy Head of CGS may declare public property surplus to the Government.

3.6. The Deputy Head of CGS may dispose of public property that has been declared surplus.

3.7. For public property disposed of by destruction, the destruction must be witnessed by a representative of the department or agency responsible for the property, in addition to the public officer carrying out the destruction. The officer of the responsible department or agency must file an affidavit with the Comptroller General and the Deputy Head of the responsible department, certifying the act of destruction.

3.8. The declaration of public property as surplus to the Government and its subsequent disposal must be done in accordance with the policies established by CGS and approved by Executive Council.

3.9. The proceeds from the disposal of public property, or the gain on the disposal of tangible capital assets, shall be charged to a revenue account. Losses on the disposal of tangible capital assets are to be charged to an expense account. Neither is to be charged against an appropriation.

3.10. All disposals of tangible capital assets must be reported to the Comptroller General so that proper reporting and accounting procedures may be followed.

3.11. Departments responsible for public property that is disposed of must report annually to FMB on the disposal of all tangible capital assets having an initial cost in excess of $100,000.

Issue Date: **September 2009**	Effective Date: **Immediate**	Responsible Agency: **Comptroller General**	Directive No: **704-4**
Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING FOR INVENTORIES – WRITE-OFF, WRITE-DOWN OR DELETION**			

1. POLICY

All write-off or deletion of inventory must be in accordance with *S.24* or *S.64* of the *Financial Administration Act (FAA)* and this directive. All write-downs must be in accordance with the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

2. DEFINITIONS

2.1. Write-off of inventory

A write-off of inventory occurs when the inventory can no longer provide any economic benefit to the Government. This may be because it has been damaged, lost, stolen, become obsolete or for some reason no longer has any economic value. The inventory may or may not physically exist. The value of this material that had been carried in the financial records must be written-off. Write-offs of inventory tend to be caused by involuntary acts and usually do not involve any judgment on the part of the public official. Examples of situations that require a write-off are when a property has been damaged beyond repair, is destroyed by fire or has been stolen. Write-offs can be required for inventory within a revolving fund and for inventories carried outside a revolving fund. Deletions, mentioned below, can only occur when the inventory is held within a revolving fund.

2.2. Deletions from a revolving fund

Deletions from inventory in a revolving fund occur when the physical inventory is still on hand but its economic benefit has been reduced to an insignificant amount. For a deletion to occur the inventory must physically exist.

Examples of deletions of inventory are obsolete forms in the government warehouse; liquor stock that has been damaged and is no longer in a condition for sale; petroleum products that have been contaminated. Deletions usually require a decision to determine that the asset value is insignificant. Deletion of inventory may only occur when the inventory is held in a revolving fund. Directive 806 deals with revolving funds.

2.3. Write-down of inventory

Generally accepted accounting principals require that inventory be carried at the lower of its cost or net realizable value. Each year inventory is examined and an estimate made of its net realizable value. In this instance, the inventory is on hand but, in the judgment of management, it can no longer be sold for the value that it is being carried at. An example would be computers on hand that are usable but have been devalued because a newer version is available; particular brands of liquor carried that have been slow moving. The carrying value is written down to its estimated realizable value. Assets eligible for write-down must still have some economic benefit to the Government.

Notwithstanding the definitions of write-down and write-off above, there may be situations when the adjustment to the value of the inventory may involve both a write-down and a write-off. Some fluctuation in the quantity of inventory is normally expected due to the nature or physical properties of the inventory. Examples are breakage, spillage, the effects in the variations in temperature, etc. In valuing the inventory and comparing the physical count to the amount recorded in the accounting records, professional judgment is required and the use of relevant recognized industry standards and the experience of other jurisdictions must be considered. Adjustments that fall within the norm to be expected for the type of inventory involved are considered a write-down. Should the physical count of inventory vary by more that the norm to be expected a write off is required and further investigation is called for. The provisions of Directive 913 and 913-1 dealing with loss of assets and *S.105* of the *FAA* must be followed in conducting the investigation, if they are applicable.

3. DIRECTIVE

Departments that have responsibility for inventory shall review their inventory at least annually and submit for write-off, deletion, or write-down, all that inventory whose future economic benefit to the Government has declined below the value at which it is carried in the accounting records of the Government, in accordance with this Directive.

4. PROVISIONS

4.1. *S.24* of the *FAA* provides that the Financial Management Board (FMB) must approve all write-offs that do not exceed $20,000. All write-offs that exceed $20,000 must be approved by the legislature. The FMB has delegated its write-off authority, under *FAA* Regulation 9918 as follows:

- Ministers – not exceeding $20,000
- Deputy Head – not exceeding $10,000.

4.2. *S.64* of the *FAA* allows a Board of Survey for a revolving fund or a public officer to recommend that the Deputy Head of the department responsible for the inventory delete inventory from a revolving fund provided that the deletion does not exceed $20,000. For deletions that exceed $20,000 the approval of the FMB is required.

4.3. The write-down required in order to value inventory at the lower of cost or net realizable value involves professional judgment and is not considered either a write-off or a deletion of inventory.

4.4. Complete documentation is required to support any write-off, deletion or write-down of inventory. The Executive Finance Officer of the Department responsible for the inventory is responsible for preparing this documentation. This documentation must contain, at a minimum:

- a complete description of the inventory or class of inventory involved;
- reason that a write-off, deletion or write-down is requested;
- complete documentation of all calculations made;
- copies of appraisals, quotes, standards used or other material to support the calculations;
- total amount of the request;
- appropriation or revolving fund account to which the write-off, deletion or write-down is to be charged.

4.5. The Comptroller General has responsibility for the Public Accounts under *S.12* of the *FAA* and must review all requests for write-off or deletion that exceed $20,000 and provide his recommendation prior to submitting the request to the FMB.

4.6. The Comptroller General must approve all write-downs that exceed $20,000 before the entries are made in the accounting records.

4.7. The Comptroller General has free access to all of the information contained in the records mentioned in 4.4 above. Departments are to provide the Comptroller General with all information requested relating to the subject of this directive. The Comptroller General may engage the services of experts in the types of inventory involved or any other professionals that are considered necessary to make a professional judgment on the valuation of the inventory.

4.8. The determination as to whether an adjustment falls within the definition of a write-down, deletion or a write-off can be difficult to arrive at. The Comptroller General shall make the final decision in situations where there are doubts concerning the proper treatment.

The provisions of Directive 913 and 913-1 dealing with loss of assets must be followed when the conditions covered by those Directives exist.

4.9. Notwithstanding that write-downs of inventory do not require the approval of the FMB or the Legislature, any write-down of an asset or a class of asset that exceeds $20,000 must be reported to the FMB. Write-downs or deletions of inventory that exceed $100,000 must be reported to the Legislature.

4.10. The approval thresholds contained in this directive ($10,000 and $20,000) refer to each line item of inventory on a consolidated basis within each department and not to each location or individual inventory item. For example, if ten identical items costing $3,000 each, whether stored in one location or in different locations, are to be written-off, deleted or written-down, the amount, for the threshold purposes, is $30,000. The Comptroller General shall be consulted on questions of the applicability of the thresholds and will make the final determination.

4.11. When an asset is determined to meet the criteria for write-off or deletion, as defined by this Directive, it must be considered for write-off or deletion at that time. It cannot first be written down to circumvent the thresholds contained in this Directive.

4.12. Inventories must be valued at the lower of cost and net realizable value and all write-offs, deletions, and write-downs must be considered to arrive at the proper inventory value. Write-offs, deletions, and write-downs must not be staged so as to circumvent the thresholds contained in this Directive. Write-offs, deletions, and write-downs may take place over a period of time if the circumstances surrounding the asset justify that action.

4.13. A write-down of inventory cannot be reversed.

4.14. All write-offs, deletions, and write-downs must be charged to an appropriation of the department controlling the asset.

4.15. A Board of Survey consisting of, as a minimum, a representative from the Comptroller Generals office and from the responsible department who is familiar with the inventory shall be established by the Minister of Finance or delegate for each revolving stock, in accordance with *S.62* of the *FAA*. A Board of Survey will review the inventory and operations of each revolving fund at least every four years and make recommendations concerning the operations of the fund and deletions of inventory to the Department responsible for the Revolving Fund.

4.16. All write-offs or deletions of inventory that exceed $500 must be reported to the Comptroller General so they may be reported in the Public Accounts, as is required by *S.26* of the *FAA*.

Issue Date: **September 2009**	Effective Date: **Immediate**	Responsible Agency: **Office of the Comptroller General**	Directive No: **706 - 1**
Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING CONTROLS - GENERAL PRINCIPLES**			

1. POLICY

Accounting controls must be in place to exercise accountability over public monies or assets. The controls in the accounting systems (manual or automated) are used to record, verify, report, generate and/or execute financial transactions, and for the management and control of assets, liabilities and assets held in trust.

2. DIRECTIVE

The accounting systems of the Government of Nunavut shall have adequate accounting controls to ensure the accuracy and authority of all information provided.

Departments must ensure the financial systems have sufficient and comprehensive controls to prevent and reduce the risk of loss, error, misuse or fraud to an acceptable level.

A risk and controls review must be performed and documented for a new financial system, and whenever there are significant modifications to an existing financial system. Qualified, independent and objective parties must carry out the review.

The scope of a risk and controls review depends on the nature and complexity of the financial system. A comprehensive review includes project management, systems development, general environmental controls and application-based controls.

A financial system must receive the approval of the Comptroller General prior to being placed into production. The Comptroller General on the recommendation of the Director of Corporate Services will approve implementation of a new financial system and enhancements to an existing financial system.

The department's Director of Corporate Services has overall responsibility for the ongoing operation of financial systems.

Departments that require a financial system to interface with other systems must establish proper and integrated processes to secure financial information.

Where the financial system interfaces with the Corporate Financial Information System (FIS), agreement must be established between the department and FIS that interface requirements have been tested and are working correctly before the system is moved into production.

For a financial system that interfaces with FIS, a copy of the financial system's risk and controls report must be made available to the Office of the Comptroller General (OCG) on request.

Departments must ensure financial system documentation is sufficient in detail to enable effective system maintenance. This documentation must be completed prior to system implementation.

Departments must establish and maintain an inventory of their financial systems. The inventory must be updated annually to capture any additions or changes, and be made available to OCG upon request.

Accounting Control Techniques

Design and Documentation of the System

The responsibilities of a position or section should be segregated so that one position or section may verify the output of another, where necessary. Forms should be designed to minimize clerical errors or omissions and to show evidence of work done and to facilitate data entry.

System manual must provide clear instructions on procedures and controls, roles and responsibilities, should establish the basis for accounting control.

Sequence Controls

Numerical sequence control is one of the controls to ensure completeness at any stage of processing. This technique may be accomplished by pre-numbered forms or assigning a sequential number to each transaction.

Control Totals Maintained during Processing

Control totals established at one stage and independently verified later are a necessary method of controlling accuracy. This technique is most frequently applied to the dollar value of transactions in the system.

Batch Control: The Financial Information System requires that similar input documents be grouped together and submitted into the system with an accompanying control total. The system independently accumulates a total value of transactions and compares this to the total of the details submitted.

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Chapter: **Accounting for Expenditures**			
Directive Title: **ACCOUNTING CONTROLS - COMPUTER APPLICATIONS**			

1. POLICY

Accounting controls in computer systems must be designed to produce accurate information on a timely basis and to maintain the efficiency of that system.

2. DIRECTIVE

2.1 Segregation of Duties

Departments are to ensure that the functions of initiation, authorization and recording of transactions and custody of assets are separated to ensure no employee or group of employees has exclusive control over a financial transaction or group of transactions. Techniques to provide for this include the following:

- Separate source data generation from other functions such as data entry or custody of associated assets.
- Segregate data processing from users of the data.
- Segregate systems design and programming from operations and data control.
- Restrict access to critical forms (e.g., blank cheque stock) to individuals responsible for initiation of transactions.
- Ensure there are adequate computer audit trails and controls to verify the operator's adherence to prescribed operating procedures through observation and examination of computer operation logs.
- Ensure there is a supervisory review of key summary reports on a regular basis.

2.2 Input Control

Departments are to ensure that all inputs to the system are complete and accurate and all transactions are valid and properly authorized. Techniques to provide for this include the following:

- Provide instructions in documented procedures for the preparation of documents to initiate transactions.
- Train and supervise employees responsible for the preparation and input of documents which initiate transactions.
- Use specifically designed forms (e.g., pre-numbered forms) for input where appropriate and ensure all input forms are processed.
- Restrict access to accounting source documents and sensitive data input forms.
- Review and approval of transactions by an authorized person to ensure each transaction is valid and adequately supported.
- Incorporate system edit checks (e.g., alphabetical data incorrectly entered into numeric fields) and validity checks of data entered in systems (e.g., comparison of code or account number to a master file of valid or authorized ones).
- Use warning messages or inhibit processing until error is corrected.
- When batch processing is used:
    - compare system calculated batch control totals to manually calculated totals;
    - incorporate system checks to detect alphabetical data incorrectly entered into numeric fields on an input document;
    - design software to inhibit processing of data where batch control totals indicate an out-of-balance condition;
    - limit the number of transactions in a batch to simplify correction of errors;
    - number batches sequentially to control entry of batches and to detect cases where a batch is not fully processed;
    - ensure the system checks for missing document numbers where sequential control numbers on source documents are entered; and
    - authorize each batch of transactions.

2.3 System Computations

Departments are to ensure that accuracy of data is maintained during processing and computations are carried out accurately. Techniques to provide for this include the following:

- Incorporate system edits to determine if data falls outside a range of reasonably expected values, and have the system report these to the operator.

- Incorporate system validity checks into the software to compare a code or account number to a master file of valid or authorized ones.
- Incorporate cross-footing (cross-balancing) as an arithmetic accuracy check.
- Incorporate field computability checks, such as a comparison check of different fields within a record, to ensure a valid combination of data or to detect missing data.
- Incorporate file control checks, such as a balancing check of the previous master file and changes to the updated master file.
- Incorporate file completion checks to determine that the application files have been completely processed for both the transaction file and the master file.
- Reconcile input to output.

2.4 Error Correction

Departments are to establish procedures to ensure errors are detected, corrected and corrections re-entered into the system. Techniques to ensure appropriate error detection and correction include the following:

For transaction entry errors

- Errors are detected by balancing, editing and validation routines.
- Error listings identify transactions not accepted, the reasons for the rejection, the specific records in error and the specific data element in error.
- Errors or warnings that are detected are displayed along with the entire transaction.
- Error messages are given for each transaction that contains critical data that does not meet edit routine requirements and causes the transaction to be rejected from further processing by the system.
- Warning messages are displayed for non-critical data that does not meet edit routine requirements but the data is accepted by the system for further processing.
- Corrected data is subjected to the same balancing, edit and valuation routines as the original data.

For processing errors

- Error reports indicate all data fields in the error.
- Error reports contain messages that describe the error condition.

- An error suspense file and report are maintained.
- The entire rejected transaction appears on a report.

2.5 Management Trail

Departments are to ensure the system facilitates tracing of input documents and transactions through to output reports and vice versa. Techniques to provide for this are as follows:

- Uniquely identify each document or transaction.
- Reconstruct totals or trace item(s) to the total.
- Maintain consistency of the manual filing sequence and computer file referencing.

2.6 Output Standards

Departments are to ensure the system output provides the information needed to ensure:

- all authorized transactions are processed promptly and accurately; and
- adequate consideration is given to the Comptroller General's requirements respecting accounting records and financial statements.

The following guidelines and techniques to ensure this may include:

- identification of financial and management requirements during the design phase of a system;
- review of proposed reports with all users including management before finalization;
- reconciliation of output control totals back to input control totals; and
- implementation of a post-audit of a statistically valid sample of transactions to confirm that they have been processed accurately.

2.7 Documentation

Departments are to ensure that all aspects of the financial system are adequately documented. Document should cover the following areas:

Overall System Description

- Describe the entire system, including both the automated and manual segments.
- Describe the existing and proposed functions or processes.
- Update the documentation as required.

User Procedures

- Describe user procedures regarding preparation of source documents, data entry, production scheduling and control.
- Prepare procedures regarding the allocation of duties and responsibilities.
- Prepare procedures for the correction of errors.
- Describe procedures for the distribution of output.
- Prepare information on interpretation of reports and preparation of reconciliations.
- Update the documentation as required.

Computer Operations

- Describe the system components and their purposes.
- Prepare an explanation of the nature of each run.
- Identify all input and output forms and media.
- Prepare detailed operator instructions for the setup and end of run.
- Provide information on programmed machine halts before the end of the job and restart instructions for each, and describe the authorization required for system override.
- Update the documentation as required.

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Chapter: **Accounting for Expenditures**			
Directive Title: **COMMITMENT ACCOUNTING AND CONTROL**			

1. POLICY

Commitment accounting identifies and reserves funds for future payment obligations, leaving the uncommitted balance of budgeted funds available for other expenditures. Commitment accounting is an integral part of sound financial management and must be used by all departments of Government.

2. DEFINITION

2.1. Commitment authority
Delegated authority to commit appropriated funds or revolving funds to an expenditure. Both expenditure officers and accounting officers have a responsibility to verify sufficient uncommitted funds are available before incurring an expenditure, in accordance with s.*44(1)* of the *Financial Administration Act* (*FAA*).

2.2. Blanket commitment
A general allocation that separates funds from the available balance of a budget and reserves the funds for one or more anticipated future expenditures for a particular purpose.

3. DIRECTIVE

Deputy Ministers shall ensure effective commitment control in their departments in accordance with the following provisions, so that funding is available to meet known expenses and annual appropriations are not exceeded.

4. PROVISIONS

4.1. Deputy Ministers shall ensure that their departments' appropriations and revolving funds are protected from over-expenditure through departmental policies, systems, and procedures that provide for effective commitment accounting. A department shall show its commitment records and procedures to the Office of the Comptroller General upon request.

4.2. A commitment or commitment adjustment must be approved by both an expenditure officer and an accounting officer in accordance with S*.44(1)* of the *FAA*. The delegated signing authority levels required by both officers must be at or above:

a) the monetary value of a new commitment
b) the monetary value of an adjusted commitment before any decrease;and
c) the monetary value of an adjusted commitment after any increase.

4.3. The expenditure officer and the accounting officer approving a commitment shall ensure that funds are available within the applicable appropriation or the authorized limit of a revolving fund, and that such commitment precedes any associated expenditure. They shall not over-commit an appropriation or revolving fund.

4.4. A commitment to a future year expenditure must not be recorded as an encumbrance against a current year appropriation. The commitment for a future year expenditure must take precedence when entering commitments against the future year's appropriation and must adhere to S*. 44(2)* of the *FAA*.

4.5. A proposed expenditure is to be committed if:

a) it is expected to exceed $10,000; or,
b) it forms part of a series of related or similar expenditures totaling $10,000 in a thirty-day period.

4.6. A department must record a commitment at the earliest of the times below:

a) when a need to reserve funds is identified for a specific estimated future obligation, e.g., a future grant, contribution or requisition;
b) when expenditure action leads to a contractual obligation, e.g., goods or services are requisitioned in anticipation of a contract or purchase order through CGS purchasing; or,
c) when a contract, agreement or arrangement is formally executed.

4.7. A blanket commitment must not be made unless the anticipated expenditures are non-controllable or cannot be estimated accurately, e.g., expenditures responding to epidemic disease or natural disaster.

4.8. Executive Finance Officers are expected to review commitments monthly to protect departmental appropriations from over-expenditure.