



social development

Department:
Social Development
PROVINCE OF KWAZULU-NATAL

POLICY ON MANAGEMENT OF IRREGULAR, FRUITLESS, WASTEFUL AND UNAUTHORISED EXPENDITURE

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1. INTRODUCTION

The policy provides a framework for the identification, recording and disclosure of irregular, fruitless, wasteful and unauthorised expenditure in terms of section 38(1)(c)(ii) and (g) of the Public Finance Management Act, 1999 (Act No. 1 of 1999).

2. PURPOSE

The purpose of this policy is to guide the department:

- (a) in the identification of activities and transactions that can be construed as fruitless, wasteful and irregular expenditure within their operations; and
- (b) implementation of systems and processes that monitor and take appropriate action against irregular, fruitless, wasteful and unauthorised expenditure.

3. OBJECTIVE

3.1 The objectives of this policy are to: -

- (a) ensure that employees have a clear understanding of the procedures and relevant legislation applicable to irregular, fruitless, wasteful and unauthorised expenditure;
- (b) ensure that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes only;
- (c) enhance ability of employees of the department to prevent, detect and record irregular, fruitless and wasteful and unauthorised expenditure;
- (d) strengthen the internal control environment with regard to management of Irregular, fruitless, wasteful and unauthorised expenditure;
- (e) re-enforce the need for authorisation and accountability of all expenditure in terms of the delegation of authority framework and the significance and materiality of the framework.

4. SCOPE OF APPLICABILITY

This policy applies to all employees of the Department.

5. LEGISLATIVE FRAMEWORK AND OTHER MANDATES

5.1 The Constitution of the Republic of South Africa, 1996

5.2 The Public Finance Management Act 1 of 1999

5.3 The Public Service Act, 1999 (proclamation 103 of 1999)

5.4 The Treasury Regulation (2005); and

5.5 Updated Guideline on Irregular Expenditure dated April 2015 issued by National Treasury

6. DEFINITION OF TERMS AND ACRONYMS

6.1 **“CFO”** means Chief Financial Officer;

6.2 **“Condonation”** means obtaining retrospective approval by the relevant authority for expenditure that was incurred through non-compliance with policies and or legislation;

6.3 **“Department”** means the KwaZulu-Natal Department of Social Development;

6.4 **“Fruitless and wasteful expenditure”** means expenditure which was made in vain with no advantage to the Department and that may have been avoided had reasonable care been exercised;

6.5 **“Irregular expenditure”** means expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with, a requirement of any applicable legislation;

6.6 **“Investigating Officer”** means an Officer who is appointed by the Accounting Officer to investigate the alleged irregular, fruitless, wasteful and unauthorised expenditure;

6.7 **“PFMA”** means the Public Finance Management Act, 1999 (Act 1 of 1999);

6.8 **“Relevant Authority”** means the person or institution whose approval would have been required prior to entering into that transaction;

6.9 **“SCM”** means supply chain management;

6.10 **“Treasury Regulation”** means the Regulations promulgated in terms of the PFMA on 15 March 2005;

- 6.11 **“Unauthorised expenditure”** means the overspending of a vote or a main division within a vote, or expenditure that was not made in accordance with the purpose of a vote, or in the case of a main division not in accordance with the purpose of the main division; and
- 6.12 **“Virement”** means an approved transfer of funds from one section of budget to another essentially as a means of utilising funds set aside for one purpose within a budget for expenditure of a different purpose.

7. KEY ROLES AND RESPONSIBILITIES

7.1 Although all employees play role in preventing irregular, fruitless, wasteful and unauthorised expenditure the following officials play a key role in the implementation of this policy.

7.2 The Accounting Officer or his/her delegate is responsible for:

- (a) taking effective and appropriate steps to prevent unauthorised, irregular, fruitless, wasteful and unauthorised expenditure and losses resulting from criminal conduct;
- (b) taking effective and appropriate disciplinary steps against any employee in the service of the department who:
 - (i) commits an act which undermines the financial management and internal control system of the department; or
 - (ii) makes or permits an irregular, fruitless, wasteful and unauthorised expenditure;
- (c) collecting all money due to the department, hence every effort must be taken to recover the irregular, fruitless, wasteful and unauthorised expenditure if the state has suffered a loss or a damage;
- (d) appointing the investigating officer to investigate the alleged irregular, fruitless, wasteful and unauthorised expenditure;
- (e) granting approval for the irregular expenditure to be condone and

- (f) reporting in writing, particulars of the irregular expenditure to the relevant treasury.

7.3 The CFO is responsible for:-

- (a) the disclosure of irregular, fruitless, wasteful and unauthorised expenditure in the Financial statements of the Department,
- (b) reporting of irregular, fruitless, wasteful and unauthorised expenditure to the Accounting officer

7.4 The Responsibility Manager is responsible for:-

- (a) ensuring full implementation of this policy within their business units
- (b) ensuring that all relevant systems are not only used to rubber stamp decisions but to interrogate them in preventing irregular, fruitless, wasteful and unauthorised expenditure and promote efficiency;
- (c) identifying potential sources of irregular, fruitless, wasteful and unauthorised expenditure and ensuring that preventive action is taken;
- (d) ensuring that all expenditure approvals are strictly in terms of delegated authority;
- (e) reporting to the CFO regarding the actual or potential incidents of unauthorised expenditure (overspending) within his or her area of responsibility;
- (f) educating employees within their business units to prevent irregular, fruitless, wasteful and unauthorised expenditure; and
- (g) instituting disciplinary action where necessary.

7.5 Supply Chain Management Unit is responsible for:-

- (a) identifying and recording the potential and actual irregular, fruitless and wasteful expenditure.
- (b) compiling and maintaining of the irregular, fruitless and wasteful expenditure registers
- (c) reporting on fruitless, wasteful and irregular expenditure to the CFO

(d) ensuring that Supply Chain Management and Financial delegations are complied with;

7.6 Accounting Services Unit is responsible for:-

- (a) ensuring that financial delegations in respect of payment authorisation on BAS are complied with;
- (b) ensuring that all employees are aware of requirements of the PFMA act ,1999(Act 1 of 1999) with regard to irregular, fruitless and wasteful expenditure.

7.7 Investigating Officer is responsible for:-

- (a) Investigating the alleged irregular, fruitless, wasteful and unauthorised expenditure and to report to the Accounting officer/ his or her delegate.

7.8 Budget and Revenue Control Unit is responsible for:-

- (a) identifying of unauthorised expenditure
- (b) compiling an unauthorised expenditure register
- (c) reporting on unauthorised expenditure

8. IRREGULAR EXPENDITURE

8.1 The following constitutes irregular expenditure: -

- (a) the transgression must be linked to a financial transaction;
- (b) when a payment pertaining to non- compliance is actually made;
- (c) expenditure resulting from non-adherence to the department's delegations of authority

8.2 The Departments irregular expenditure register must be updated regularly. See Annexure "A"

9. CONDONATION OF IRREGULAR EXPENDITURE

- 9.1 A detailed report must be submitted to the relevant authority requesting condonation for non-compliance with the PFMA or any other applicable legislation. Refer to paragraph 35 of the updated Guideline on Irregular Expenditure dated April 2015, issued by National Treasury for examples of irregular expenditure and the relevant authority that is empowered to condone such expenditure.
- 9.2 A submission for condonation must contain-
- (a) a detailed motivation as to why the irregular expenditure in question must be considered for condonation; and
 - (b) a description of remedial steps taken to avoid the reoccurrence of this type of Irregular expenditure.
- 9.3 If the Irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme and expenditure item. Such Irregular expenditure must be disclosed as such in the note to the financial statements, provided that no journal may be passed.

10. FRUITLESS AND WASTEFUL EXPENDITURE

- 10.1 The following constitutes fruitless and wasteful expenditure:
- (a) expenditure due to negligence;
 - (b) interest on overdue accounts; and
 - (c) penalties paid.
- 10.2 The Department's fruitless and wasteful expenditure register must be updated regularly. See Annexure "B".

11. UNAUTHORISED EXPENDITURE

- 11.1 The following constitutes Unauthorised expenditure: -
- (a) over-spending on budget;
 - (b) earmarked funds used for other purposes, and;
 - (c) funds used outside the mandate of the Department.

- 11.2 The Department must spend approved funds for the purpose for which they were provided, and funds not utilised for the purpose of the vote, must be identified immediately.
- 11.3 Over-spending on the budget must be identified before final closure of the Departmental books and after final virement.
- 11.4 Unauthorised expenditure approved with funding is recognised in the statement of financial position when the unauthorised expenditure is approved and the related funds are received.
- 11.5 In the statement of financial performance, unauthorised expenditure approved without funding is recognised as expenditure on the date of approval.
- 11.6 A transaction must not be accounted for as both unauthorised and irregular expenditure. If this occurs unauthorised expenditure takes precedence over irregular expenditure.
- 11.7 Unauthorised expenditure must be reported in the annual report as note to the financial statements in terms of Treasury Regulation 9.1.5.

12. OPERATIONAL SYSTEMS AND PROCESSES TO DETER AND PREVENT RECURRENCE

- 12.1 Systems and processes aimed at preventing irregular fruitless and wasteful expenditure must be in place and regularly audited or evaluated by management to assess their effectiveness, and include the following:
 - (a) Annual performance and procurement planning process;
 - (b) Supply Chain delegation of authority framework;
 - (c) Financial delegations of authority
 - (d) Fraud prevention plan;
 - (e) Legal and regulatory compliance programme;
 - (f) Supply Chain Management policy;
 - (g) Supply Chain Management checklists;
 - (j) Inventory policy.

13. RECOVERY OF LOSSES AND DAMAGES FROM EMPLOYEES LIABLE IN LAW

- 13.1 Losses and damages suffered as result of irregular, fruitless, Wasteful unauthorised and expenditure must be recovered from the employee if he or she is liable in law. The provisions of Treasury Regulations 12.7 are applicable.

14. NON-COMPLIANCE

An employee who fails to comply with this policy shall be guilty of an act of Misconduct.

15. MONITORING, EVALUATION AND REVIEW

The Policy will be monitored, evaluated and reviewed after three (3) years or as when the need arises.

16. EFFECTIVE DATE

This policy is effective on the date of approval

17. TITLE OF THE POLICY

The policy shall be called Policy on Management of Irregular, Fruitless, Wasteful and Unauthorised, expenditure.

18. POLICY APPROVAL

This policy is approved with effect from the ⁰⁵.....day of September.....in the year 2017.....

APPROVED/ ~~NOT~~ APPROVED



Ms. NG KHANYILE

HEAD OF DEPARTMENT: SOCIAL DEVELOPMENT

ANNEXURES



ANNEXURE "A"

REGISTER ON IRREGULAR EXPENDITURE

[illegible]

TOTAL
TOTAL ROUNDED OFF TO THE NEAREST THOUSAND

Prepared by:.....

Date:.....

Reviewed by Date:

Reviewed by Cluster GM: Date:.....



ANNEXURE "B"

TOTAL
TOTAL ROUNDED OFF TO THE NEAREST THOUSAND

Date:.....

Date:.....

Date:.....