



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

TO ALL: ACCOUNTING OFFICERS OF DEPARTMENTS, TRADING ENTITIES AND CONSTITUTIONAL INSTITUTIONS

ACCOUNTING AUTHORITIES OF PUBLIC ENTITIES LISTED IN SCHEDULES 2 AND 3 TO THE PFMA

HEADS OF PROVINCIAL TREASURIES

PROVINCIAL ACCOUNTANTS-GENERAL

CIRCULAR- 2021

IMPLEMENTATION OF THE IRREGULAR EXPENDITURE FREQUENTLY ASKED QUESTIONS

1. PURPOSE

The purpose of this circular is to provide accounting officers of departments, trading entities, constitutional institutions and accounting authorities of public entities listed in Schedules 2 and 3 to the Public Finance Management Act (PFMA), Act No. 1 of 1999 with interpretation of the irregular expenditure Frequently Asked Questions (FAQ) issued in May 2021.

2. BACKGROUND

- 2.1 In May 2019, the National Treasury issued National Treasury Instruction No. 2 of 2019/2020 that prescribes the Irregular Expenditure Framework aimed at providing a systematic process for the identification, assessment, determination and investigation of irregular expenditure. The framework also provides a process for recording and reporting of irregular expenditure.
- 2.2 In September 2020, the National Treasury issued the first set of FAQ's to address concerns raised by PFMA institutions on implementation of the irregular expenditure framework. Due to those concerns, it was considered prudent to further develop guidance to assist PFMA institutions with technical matters that pertains to the disclosure of irregular expenditure for the period under review.

IMPLEMENTATION OF THE IRREGULAR EXPENDITURE FREQUENTLY ASKED QUESTIONS (FAQ)

3. INTERPRETATION OF THE IRREGULAR EXPENDITURE FAQ

This circular addresses interpretation of the following FAQ's published in May 2021.

3.1 REPORTING OF IRREGULAR EXPENDITURE WHERE IMPRACTICAL- (FAQ1)

- 3.1.1. Question 1 of the frequently asked questions provides that, *“accounting officers and accounting authorities should quantify the total amount of irregular expenditure (not condoned, recovered, written off or removed) incurred in prior years unless it is impracticable to do so. When an accounting officer, accounting authority or a duly authorised official can demonstrate that it is impracticable to quantify the full amount, that fact should be disclosed along with the reasons why and further steps how this will be addressed in a form of (a) condonation, (b) recovery, (c) write off (d) removal and (e) consequence management as the full and correct disclosure of irregular expenditure is depended on actions to be taken by the accounting officer or accounting authority”*.
- 3.1.2 The following is the recommended process to follow when dealing with the above FAQ1:
- (a) Irregular expenditure once identified, is assessed to confirm if it meets the definition of irregular expenditure;
 - (b) After the assessment it is recorded in the irregular expenditure main note;
 - (c) A determination process is then conducted to amongst others, identify and confirm whether any losses were incurred, allegations of fraudulent, corrupt or other criminal acts and persons responsible;
 - (d) After confirmation of the determination test, a receivable will be raised where losses have been confirmed, report the matter to the South African Police Services (SAPS) on allegations of fraudulent, corrupt or other criminal acts and start with a process of disciplinary action; or
 - (e) An investigation may be conducted only if there are allegations of fraudulent, corrupt or other criminal acts.
- 3.1.3 The process indicated in paragraph 3.1.2 above will assist the accounting officer or accounting authority in addressing the irregular expenditure. The amount to be recorded in the main note must be equal to the value of the irregular expenditure incurred unless it is impractical to determine the value thereof.
- 3.1.4 Impractical means, *“applying a requirement which is impracticable when a department, government component, trading entity, constitutional institution or a public entity cannot apply after making every reasonable effort to do so.”*
- 3.1.5 Where such impracticality exists, the reasons should be recorded as a narrative to the irregular expenditure note especially if it may be impractical to re-produce the information.
- 3.1.6 The reasons to the narrative should be recorded taking into account the omission or misstatement that could influence decisions of the users and should also involve consideration of those users. It is therefore important that, the narrative providing reasons to the impracticability takes into account how users could reasonably be expected to be influenced in making and evaluating their decisions.

IMPLEMENTATION OF THE IRREGULAR EXPENDITURE FREQUENTLY ASKED QUESTIONS (FAQ)

3.2 TRANSACTIONS INVOLVING TWO INSTITUTIONS WHERE THERE IS A PROCURER AND A BUDGET HOLDER (FAQ3)

3.2.1 Question 3 of the frequently asked questions provides that, *for the institution to be accountable for irregular expenditure, the budget holder should have, (a) transgressed legislation and (b) incurred expenditure.*

If the budget holder was not involved in the transgression of legislation due to the fact that:

- a. *it was required by law to make use of a mandated institution, without being involved in the actual supply chain management (SCM) process, or*
- b. *it was mandated to be part of a bid committee but was excluded from participating in the bid committee of the other institution, or*
- c. *it was mandated to be part of the bid committee of the other institution, but could for justifiable reasons (such reasons must be in writing) not be represented in the bid committees;*

Then the budget holder¹ should not disclose irregular expenditure in its AFS.”

3.2.2 Irrespective of bullet 3.2.1 above, where irregular expenditure pertaining to this matter was previously disclosed in the irregular expenditure main note of the budget holder, it should remain in the main note of budget holder up to and including the 2020-2021 cycle and the budget holder will address those cases going forward.

3.2.3 Where irregular expenditure was previously not disclosed by the budget holder as per paragraph 3.2.2 above and the budget holder is not responsible for the irregular expenditure as provided for in paragraph 3.2.1 above, the procuring institution will disclose irregular expenditure under assessment related to inter-institutional arrangements for 2020/2021 financial year to allow the procuring institution to gather information related to the identified irregular expenditure for proper disclosure in the main note for the 2021/2022 financial year.

Procuring Institution (organ of state) <i>Disclose</i>	Budget Holder
Irregular expenditure- <u>under assessment</u> for the 2020/2021 financial year Irregular expenditure in the <u>main note</u> for the 2021/2022	No – disclosure, <i>Unless the irregular expenditure was previously disclosed in the main note of the budget holder, then such irregular expenditure should be addressed by the budget holder</i>
Narrative to the irregular expenditure under note 31.9	No – disclosure

¹ If the budget holder was not part of the bid committee for any other reason not mentioned in paragraph 3.2.1, then such inability should be reported to the relevant treasury (where possible).

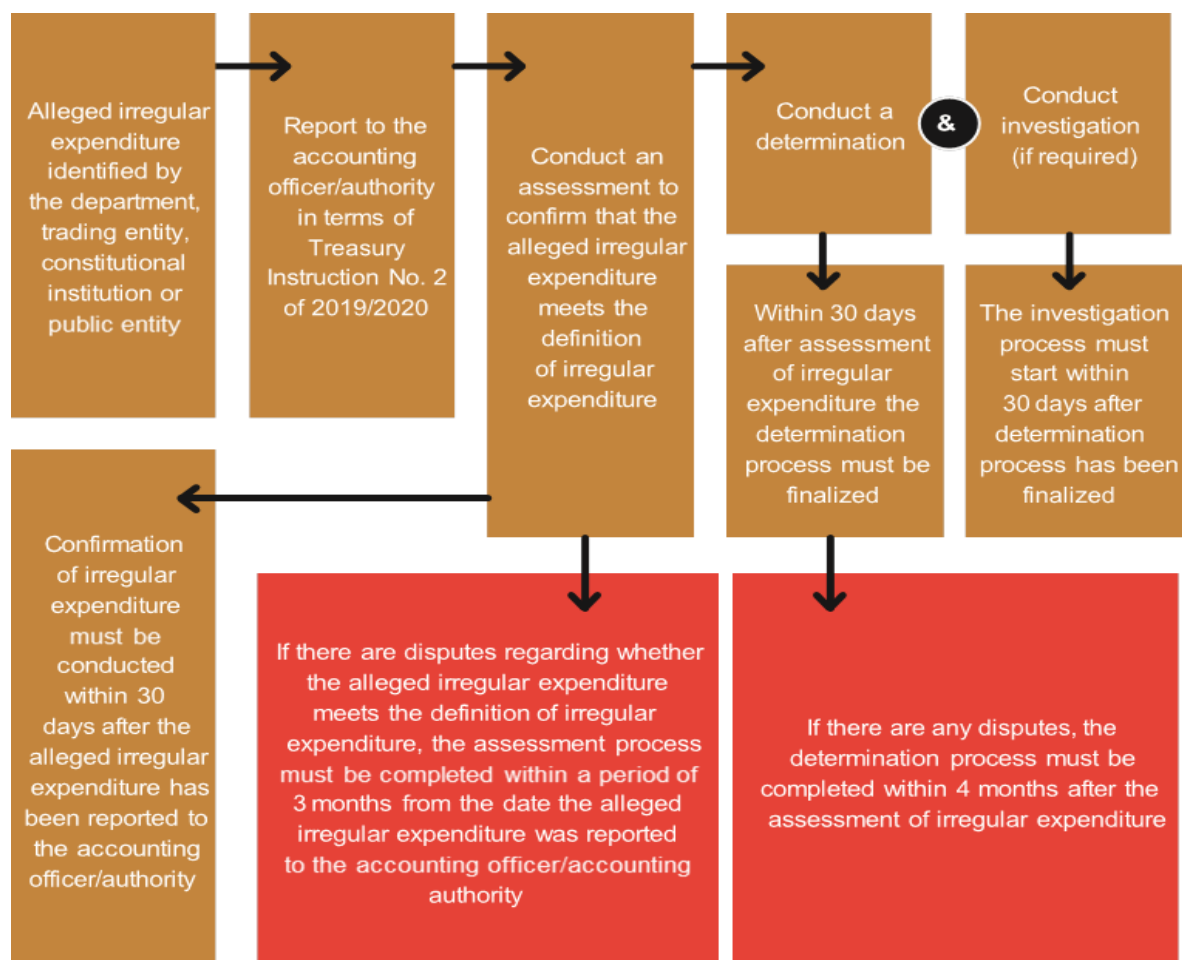
IMPLEMENTATION OF THE IRREGULAR EXPENDITURE FREQUENTLY ASKED QUESTIONS (FAQ)

3.3 PERIOD OF ASSESSMENT AND DETERMINATION OF IRREGULAR EXPENDITURE (FAQ7)

Assessment and determination process

- 3.3.1 Irregular expenditure that was previously disclosed in the main note will remain in the notes and should be addressed in line with the irregular expenditure framework.
- 3.3.2 It worthy of note that if there are any allegations of fraudulent, corrupt or criminal acts emanating from previously disclosed irregular expenditure, such must be taken for further investigation and referred to the South African Police Services (SAPS).
- 3.3.3 The frequently asked questions dealing with the **period of assessment and determination** process are meant to allow PFMA institutions to have sufficient time to confirm and conduct a determination test when a dispute arises for the period under review (2020/2021) and the next years to follow. It was not the intention of the FAQ to allow PFMA institutions to remove previously recorded cases of irregular expenditure from the main note and record it as irregular expenditure under assessment as such would have already been confirmed in the 2019/2020 financial year.

Figure 1: Timeframes from the date the alleged irregular expenditure has been identified to its conclusion.



**IMPLEMENTATION OF THE IRREGULAR EXPENDITURE FREQUENTLY ASKED
QUESTIONS (FAQ)**

A handwritten signature in black ink that reads "Maree". The signature is written in a cursive style with a large initial 'M'.

KAREN MAREE
ACTING ACCOUNTANT-GENERAL
DATE: 12 July 2021