

UPDATED
2021

**IRREGULAR
EXPENDITURE**

**FREQUENTLY
ASKED
QUESTIONS**



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA





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1. REPORTING OF IRREGULAR EXPENDITURE

Question

Should the opening balance of the disclosure of irregular expenditure be limited to irregular expenditure (a) incurred in the reporting period and/or (b) incurred in prior years?

Response

In terms of paragraph 3 of the May 2019 Irregular Expenditure Framework, accounting officers and accounting authorities must address previous cases of irregular expenditure in terms of the said framework.

Therefore, 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. This process is articulated in paragraphs 44 to 67 of the Irregular Expenditure Framework.

The disclosure of irregular expenditure is a statutory requirement and not an accounting requirement, therefore, the use of the term impractical needs to be applied in a consistent manner across all PFMA institutions in dealing with the disclosure of irregular expenditure and opening balances of the irregular expenditure should be restated for the earliest period for which retrospective restatement is practical.

2. TRANSACTIONS INVOLVING CAPITAL ASSETS

Question

Does the purchase of capital assets incurred in contravention of applicable legislation by public entities listed in the PFMA and those applying the standards of GRAP/IFRS not result in irregular expenditure as the capital expenditure is not recorded in the Statement of Financial Performance (Income Statement)?

Response

Transactions involving the purchase of capital assets (e.g. purchase of property, plant, and equipment) are not recorded in the Statement of Financial Performance (Income Statement) as they are capitalised and will only appear in the Statement of

Financial Position (Balance Sheet). Irregular expenditure from such transactions will be recorded in the disclosure notes upon payment authorisation. This applies to PFMA institutions applying GRAP/IFRS as an accounting framework.

3. TRANSACTIONS INVOLVING TWO INSTITUTIONS WHERE THERE IS A PROCURER AND A BUDGET HOLDER

Question

How should irregular expenditure be treated in the annual financial statements (AFS) of two institutions when one institution procured on behalf of another institution?

Response

For the institution to be accountable for irregular expenditure, the budget holder should have:

1. transgressed legislation; and
2. 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 holder should not disclose irregular expenditure in its AFS.

The procuring institution must disclose the irregular expenditure as illustrated below:

Procuring Institution (organ of state) <i>Disclose</i>	Budget Holder
Irregular-Expenditure in the irregular expenditure note	No- disclosure
Narrative to the irregular expenditure undernote 31.9 ¹	No- disclosure

If the procuring institution is not an organ of state, the disclosure should be as follows:

Budget Holder	Procuring Institution (NOT an organ of state)
Irregular-Expenditure	No- disclosure

¹ For a full narrative, a list of all departments, constitutional institutions or public entities involved in the inter-institutional arrangement that are regarded as the budget holders shall be regarded as sufficient

4. FEES PAID TO IMPLEMENTING AGENTS

Question

Will management fees paid to the implementing agents by PFMA institutions result in irregular expenditure?

Response

Part 1

If the implementing agent is not an organ of state

If the implementing agent is paid a fee (e.g. management fee) for implementing the project on behalf of a principle institution, then the relationship of the principal institution and the implementing agent is that of a purchaser and a service provider, in that the implementing agent is providing project management services.

In procuring these services, the relevant supply chain management prescripts are that the process of appointing the implementing agent must be fair, competitive, equitable, transparent and cost effective.

If the appointment of the implementing agent is not conducted in accordance with the requirements and processes described above, management fees paid to the implementing agent will be regarded as irregular expenditure to be disclosed in the AFS of the institution requiring those goods or services.

Part 2

If the implementing agent is an organ of state (this excludes institutions mandated by legislation to provide specific goods and services)

The relevant supply chain management prescripts must be followed in obtaining services of the implementing agent (organ of state) and if the SCM process is not followed in acquiring these services and a deviation process was not sought prior to entering into an agreement with the implementing agent (organ of state), irregular expenditure will be disclosed in the AFS of the institution requiring those goods or services.

5. MULTI-YEAR CONTRACTS

Question

If the current year irregular expenditure is condoned, how do we treat future expenditure emanating from the same contract²?

² The treatment of irregular expenditure from multi-year contracts excludes contracts that have been extended without prior approval as required by the relevant procurement prescripts.

Response

“**condonation**” means a process whereby the relevant authority acknowledges the irregular expenditure and pardons the action that has resulted in the incurrence of irregular expenditure.

When the relevant authority considers condonation of irregular expenditure, the relevant authority is pardoning the non-compliance or action that caused the irregular expenditure. This means that from the date of condonation, the non-compliance no longer exists and any future expenditure flowing from the contract will no longer be regarded as irregular expenditure. If an act of non-compliance is condoned there is no need for future condonement/ write-off of any expenditure incurred from the same act of non-compliance.

Any expenditure incurred before condonation of irregular expenditure must be disclosed as irregular expenditure incurred in the main note of irregular expenditure and also as condoned, but future expenditure need not be disclosed as irregular expenditure. In the period when the irregular expenditure is condoned, the entire contract amount must be included as a narrative to the irregular expenditure disclosure note.

6. ADJUSTING AND NON-ADJUSTING EVENTS

Adjusting and non-adjusting events

Question

Should the disclosure of irregular expenditure be adjusted for condonations that were approved after year end?

Response

Adjusting events after the reporting date

Condonation for irregular expenditure that was granted after the reporting date but before the annual financial statements (AFS) are authorised for issue shall be regarded as an adjusting event if there were conditions that triggered the process of condonation of irregular expenditure as at year-end. These conditions include the conclusion of all the necessary processes in addressing the irregular expenditure in the form of:

- (a) assessment; and
- (b) determination (where it can be demonstrated that there was no loss and any allegations of fraud, corruption or criminal act and that consequence management has been addressed);
- (c) investigation (where such has been completed)

Non-adjusting events after the reporting date

Condonation for irregular expenditure that was granted after the reporting date but before the annual financial statements (AFS) are authorised for issue shall not be regarded as an adjusting event if the conditions that triggered the process of

condonation of irregular expenditure as at year-end were not present. These conditions include the conclusion of all the necessary processes in addressing the irregular expenditure in the form of

- (a) assessment; and,
- (b) determination (where it can be demonstrated that there was no loss and any allegations of fraud, corruption or criminal act and that consequence management has been addressed); and
- (c) investigation (where such has been completed)

7. PERIOD OF ASSESSMENT AND DETERMINATION OF IRREGULAR EXPENDITURE

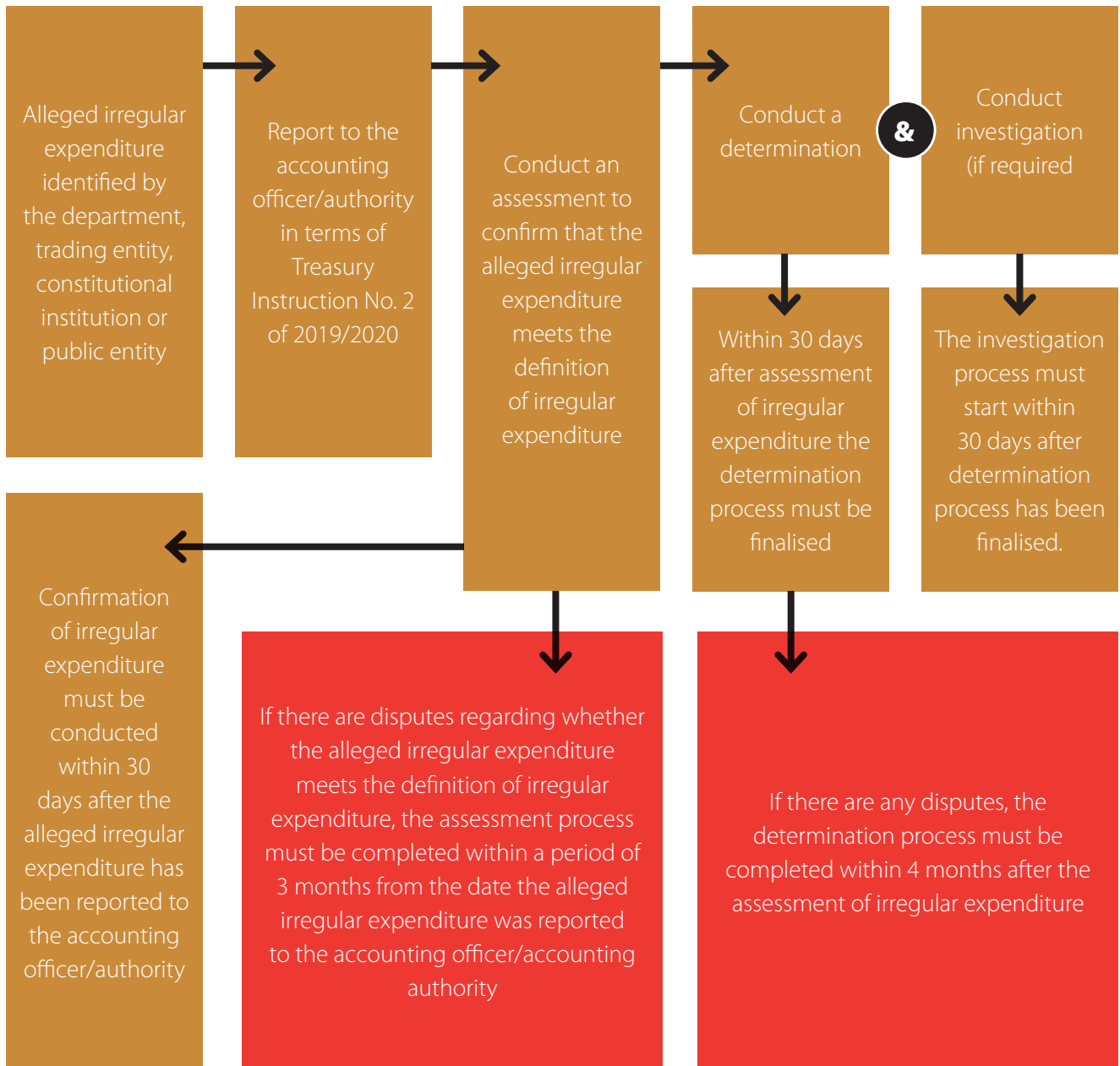
Refer to Amended National Treasury Instruction No. 2 of 2019/2020 amending paragraph 18 and 21 of the Irregular Expenditure Framework

Question

If an alleged irregular expenditure has been identified, how long must it take the accounting officer or accounting authority to confirm that the alleged non-compliance with the related expenditure meets the definition of irregular expenditure?

Response

The process below provides steps and timeframes from the date the alleged irregular expenditure has been identified to its conclusion.



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Private Bag X115, Pretoria, 0001
40 Church Square, Pretoria, 0002
Tel: +27 12 315 5757 | Fax: +27 12 315 5126
Web: www.treasury.gov.za



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