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Environment & Nature Conservation
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

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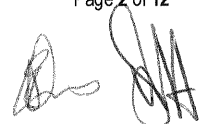
DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

FRUITLESS AND WASTEFULL EXPENDITURE POLICY 27 SEPTEMBER 2011 FINANCIAL MANAGEMENT UNIT POLICY

A PROSPEROUS AND EQUITABLE SOCIETY LIVING IN HARMONY WITH OUR NATURAL RESOURCES

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1. CONCEPTUAL BACKGROUND

1.1 INTRODUCTION

This policy outlines the identification, recording, disclosure and treatment of fruitless and wasteful expenditure of the department according to the requirements of the Public Finance Management Act (PFMA).

Section 38(1)(a)(i) of the PFMA stipulates the following:

The accounting officer for a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Section 9.1.1 of the Treasury Regulations (TR) stipulates the following:

The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

DEFINITION

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

1.2 LEGISLATIVE REQUIREMENTS

s38(1)(g) (PFMA)

On discovery of any unauthorised, irregular or fruitless and wasteful expenditure, must immediately report, in writing, particulars of the expenditure to the relevant treasury and in the case of irregular expenditure involving the procurement of goods or services, also to the relevant tender board;

s40(4)(b) (PFMA)

The accounting officer of a department must-

- (b) each month submit information in the prescribed format on actual revenue and expenditure for the preceding month and the amounts anticipated for the month.

The accounting officer of an institution must exercise all reasonable care to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

When an official of an institution discovers unauthorised, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the accounting officer. In the case of a department, such expenditure must also be reported in the monthly report, as required by section 40(4)(b) of the Act. Irregular expenditure incurred by a department in contravention of tender procedures must also be brought to the notice of the relevant tender board or procurement authority, whichever applicable.

TR 9.1.3

When an accounting officer determines the appropriateness of disciplinary steps against an official in terms of section 38(1)(g) of the Act, the accounting officer must take into account –



- (a) the circumstances of the transgression;
- (b) the extent of the expenditure involved; and
- (c) the nature and seriousness of the transgression.

TR 9.1.4 The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with regulation 12.

TR 9.1.5 The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial statements of the institution.

An accounting officer may only write off debts owed to the State if he or she is satisfied that –

- (a) all reasonable steps have been taken to recover the debt and the debt is irrecoverable, or,
- (b) he or she is convinced that –
 - (i) recovery of the debt would be uneconomical;
 - (ii) recovery would cause undue hardship to the debtor or his or her dependants; or
 - (iii) it would be to the advantage of the state to effect a settlement of its claim or to waive the claim.

TR 11.4.2 An accounting officer must ensure that all debts written off are done in accordance with a write off policy determined by the accounting officer.

TR 11.4.3 All debts written off must be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off.

TR 12.7.1 Losses or damages suffered by an institution because of an act committed or omitted by an official, must be recovered from such an official if that official is liable in law.

TR 12.7.2 The accounting officer must determine the amount of the loss or damage and, in writing, request that official to pay the amount within 30 days or in reasonable instalments. If the official fails to comply with the request, the matter must be handed to the State Attorney for the recovery of the loss or damage.

TR 12.7.3 A claim against an official must be waived if the conditions in paragraph 12.2.1(a) to (g) are not applicable.

TR 12.7.4 If in doubt, the accounting officer of the institution must consult the State Attorney on questions of law in the implementation of paragraphs 12.7.1 and 12.7.3.

2. POLICY STATEMENT AND APPLICATION SCOPE

2.1 POLICY STATEMENT

To outline policy and procedures for officials to have an understanding of fruitless and wasteful expenditure and the accounting treatment thereof.

OBJECTIVE

The objectives of the policy include -

- emphasising the accountability of employees for the Departmental resources;
- ensuring that employees have a clear and comprehensive understanding of the procedures they must follow for fruitless and wasteful expenditure transactions;
- ensuring that resources made available to employees are utilised efficiently, effectively, economically and for authorised official purposes; and ensuring that the Department's resources are managed in compliance with the Public Finance Management Act, the Treasury Regulations and other relevant legislation
- ensure that fruitless and wasteful expenditure is detected, processed and recorded timeously.

RECOGNITION

Accounting policy

Fruitless and wasteful expenditure is recognised as an asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

PROCEDURES

The procedures for the treatment of fruitless and wasteful expenditure are described below:

Fruitless and wasteful expenditure should not be a charge against the vote of a department. Therefore, when fruitless and wasteful expenditure occurs the rand value is subtracted (paid back to provincial treasury) from the amount to the department by provincial legislature. The remainder of the vote may be utilised for authorised expenditure. The procedures for the treatment of fruitless and wasteful expenditure are described below:

2.1.1 Discovery, investigation and reporting of fruitless and wasteful expenditure

- (a) any employee who becomes aware of or suspects the occurrence of fruitless and wasteful expenditure should immediately report, in writing, such expenditure to the Accounting Officer or his/her delegate;
- (b) on discovery of alleged fruitless and wasteful expenditure, such expenditure should be left in the expense account and the Accounting Officer or his/her

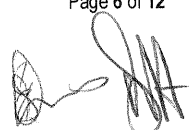


delegate should record the details of the expenditure in an fruitless and wasteful expenditure register;

- (c) the Accounting Officer or his/her delegate should investigate the alleged fruitless and wasteful expenditure to determine whether the expenditure meets the definition of fruitless and wasteful expenditure. During the period of the investigation the expenditure must remain in the expense account. The results of the investigation will determine the appropriate action to be taken regarding this expenditure;
- (d) should the investigation reveal that the expenditure is in fact valid expenditure and therefore does not constitute fruitless and wasteful expenditure the details of the expenditure should be retained in the register for the purposes of completion (and to provide an appropriate audit trail). The register should therefore be updated to reflect the outcome of the investigation;
- (e) once an investigation has been concluded and the results verify that the expenditure constitutes fruitless and wasteful expenditure, the Accounting Officer must immediately report, in writing, the particulars of the fruitless and wasteful expenditure to the Provincial Treasury;
- (f) valid fruitless and wasteful expenditure must be disallowed by reducing the total expenditure in the statement of financial performance and creating a corresponding receivable/debt account in the statement of financial position. This entry must be recorded as soon as the investigation reveals that the expenditure meets the definition of fruitless and wasteful expenditure. The register should be updated to reflect the outcome of the investigation;
- (g) in addition to (f) above the fruitless and wasteful expenditure should also be included in the entity's monthly report on revenue and expenditure as submitted by the Accounting Officer to Provincial Treasury. (The monthly report on revenue and expenditure is separate from the special report prepared by the Accounting Officer dealing with the specific occurrence of fruitless and wasteful expenditure);

2.1.2 Recovery of fruitless and wasteful expenditure

- (h) the Accounting Officer (or his/her delegate) must determine who the responsible part is from whom the amount should be recovered. This information would normally become evident while performing the investigation;
- (i) the Accounting Officer (or his/her delegate) must in writing request that the official pay the amount within 30 days or in reasonable installments. If the official fails to comply with the request, the matter may be handed to the state Attorney for the recovery of the debt;
- (j) If the amount is not recoverable the Accounting Officer may write the debt off in terms of TR section 11.4;



The BAS accounting entries used to record the transactions relating to fruitless & wasteful expenditure are illustrated below.

If the fruitless and wasteful expenditure relates to the current financial year:

If any expenditure meets the definition of fruitless and wasteful expenditure (after an investigation):

DR	Fruitless and Wasteful expenditure (POS)*	XXX	
	or		
	Debt account (staff debt) (POS)		
CR	Fruitless and Wasteful account (PER)*		XXX
	or		
	the relevant expenditure account		

* POS = Statement of Financial Position & PER = Statement of Financial Performance

A current asset is created on the statement of financial position, and the expenditure is "reversed" and presented on the statement of financial performance as 'Add back fruitless and wasteful expenditure'.

If the fruitless and wasteful expenditure relates to a previous financial year

If any expenditure meets the definition of fruitless and wasteful expenditure (after an investigation):

DR	Fruitless and Wasteful expenditure (POS)*	XXX	
	or		
	Debt account (staff debt) (POS)		
CR	Recoverable revenue		XXX

A current asset is created on the statement of financial position, and the available voted funds are reduced. The fruitless and wasteful expenditure is presented on the face of the statement of position and performance using the 'Add back fruitless and wasteful expenditure'.

Fruitless and wasteful recovered

When the department receives the funds from the responsible official:

DR	Bank account	XXX	
CR	Fruitless and Wasteful expenditure (POS)*		XXX
	or		
	Debt account (staff debt) (POS)		
DR	Recoverable revenue	XXX	
CR	Financial transactions in assets & liabilities (recovery of previous year's expenditure)		XXX



REGISTER OF FRUITLESS AND WASTEFUL (F&W)

Date of discovery	Reported to Accounting Officer (date)	Transaction details				Responsible person (committed the F&W)	Status (refer to key)			General comments
		Payment date	Payment number	Amount	Incident description		UI	DP	TR	

Key:

- UI - Fruitless and wasteful expenditure Under Investigation
- DP - Disciplinary process initiated against responsible person
- TR - Transferred to receivables for recovery

ADDITIONAL

- All expenditure identified as fruitless and wasteful expenditure should be recorded in the departmental fruitless and wasteful expenditure register by the Supply chain management and Finance units.
- The Financial accounting unit should complete the pre-audit and post audit checklist to ensure that all payments comply with the relevant laws and regulations.
- Interest payments made on supplier accounts should be disclosed in the fruitless and wasteful expenditure register of the department.
- The precise amount as stated on the invoice/payment batch should be recorded in the fruitless and wasteful register.
- The fruitless and wasteful expenditure register should be reviewed by the Chief Financial Officer of the department. This review will ensure that fruitless and wasteful expenditure is adequately disclosed and dealt with, ensuring that no mathematical errors exists etc
- Fruitless and wasteful expenditure identified during one financial period, but not paid in the specific period should be recorded in the following financial year.
- The accumulative fruitless and wasteful expenditure incurred at financial year end should be adequately and appropriately disclosed in the financial statements of the department.

2.2 APPLICATION SCOPE

This policy will apply to all officials of the Department of Environment and Nature Conservation.



3. POLICY FRAMEWORK

3.1 IDENTIFICATION AND CONSULTATION OF STAKEHOLDERS

This policy does not warrant the inputs of employees because it is regulated by Financial prescripts (requirements of the PFMA) and the Provincial Treasury.

3.2 TIMEFRAMES

This policy was analysed and aligned by the Policy Development, Research and Coordination unit on May 19, 2011. This policy was further modified by incorporating the Departmental letterhead on September 27, 2011.

3.3 IMPLEMENTATION STRATEGY

The implementation date for this policy is _____

3.4 FINANCIAL IMPLICATIONS

The operational implications for this policy will be carried by the Supply Chain Management unit.

3.5 COMMUNICATION

- Provincial Treasury

3.6 COMPLIANCE, MONITORING AND EVALUATION (M&E)

3.7 POLICY REVIEW

This policy will be reviewed when the need arises or in case of the occurrence of extenuating circumstances (political mitigation, or pronouncement by legislation and/or regulations). The contact person for this policy will be required to submit all relevant information pertaining to this policy in conjunction with a signed memo with all amendments (addition or omission) during the third quarter annually.

The exception, the Policy development unit will be conducting all extenuating reviews throughout the year, therefore it is paramount that any new information received be submitted to this unit, in order to coordinate the review process of this policy.

3.8 POLICY IMPACT



This policy wishes to outline the identification, recording, disclosure and treatment of fruitless and wasteful expenditure of the department according to the requirements of the Public Finance Management Act (PFMA).

3.9 INTERIM MEASURES

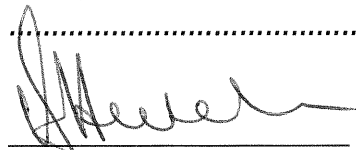
The department has been using the notes issued in terms of the PFMA.

4. ADOPTION OF POLICY

Recommended / Not Recommended

Comments:

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.....



D VAN HEERDEN
HEAD OF DEPARTMENT

20/11/07

DATE

Approved / Not Approved

Comments:

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.....
.....



MEC: S LUCAS
MEMBER OF THE EXECUTIVE COUNCIL
DEPARTMENT OF ENVIRONMENT AND
NATURE CONSERVATION.

7/4/2011

DATE