



**DEPARTMENT TRANSPORT SAFETY AND
LIAISON**

**POLICY, PROCEDURES AND ACCOUNTING
FOR:
IRREGULAR, UNAUTHORISED AND
FRUITLESS & WASTEFUL EXPENDITURE.**

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1. DEFINITIONS

In this policy, unless the context otherwise indicates:

“Accounting Officer” means the Head of Department of the Department Transport Safety and Liaison.

“Department” means Department Transport Safety and Liaison

“PFMA” means the Public Finance Management Act, 1999 (Act no 1 of 1999) including Treasury Regulations.

2. APPLICATION

This policy applies to all officials in the Department.

3. PURPOSE

The purpose of the policy is among others to make sure that irregular, fruitless, wasteful, and unauthorized expenditure are identified and dealt with in an appropriate manner, that such cases are minimized and to provide a clear guideline as to how to deal with such cases and prevent recurrence thereof.

4. LEGAL FRAMEWORK

The Legal Framework from which the policy is derived is among others The Public Finance Management Act, 1999 (Act no 1 of 1999), Treasury Regulations and other applicable law or regulations.

5. POLICY OBJECTIVE(S)

The main objective of the policy is to identify report and deal with irregular, fruitless-wasteful and unauthorized expenditure and prevent them.

6. INTRODUCTION

It is imperative that all employees of the Department should comply with the requirements of the PFMA and that in cases of non-compliance with regard to irregular, fruitless – wasteful and unauthorized expenditure a process be developed and action taken against the individuals in order to minimize and comply with the requirements.

It is upon this context that this policy is developed and must be implemented. In terms of 9.1 of Treasury Regulations, the Head of Department must exercise all reasonable care to prevent and detect unauthorized, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of Finance and Risk management.

When an official of the Department discovers unauthorized, irregular or fruitless and wasteful expenditure, that official must immediately report such expenditure to the Head of Department/ Delegate.

When the Head of Department determines the appropriateness of disciplinary steps against an official in terms of Section 38(1) (g) of the Act, the Head of Department/Delegate must take into account:

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

The recovery of losses or damages resulting from unauthorized, irregular or fruitless and wasteful expenditure must be dealt with in accordance with Regulation 12 of Treasury Regulations.

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

“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, including the PFMA, Board Act, or any regulation in terms of that Act and instructions issued in terms of section 69,76,85 or 91.

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

“Unauthorised expenditure” means

- (a) overspending of a vote or a main division within a vote;
- (b) expenditure not 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;

“vote” means one of the main segments into which an Appropriation Act is divided and which-

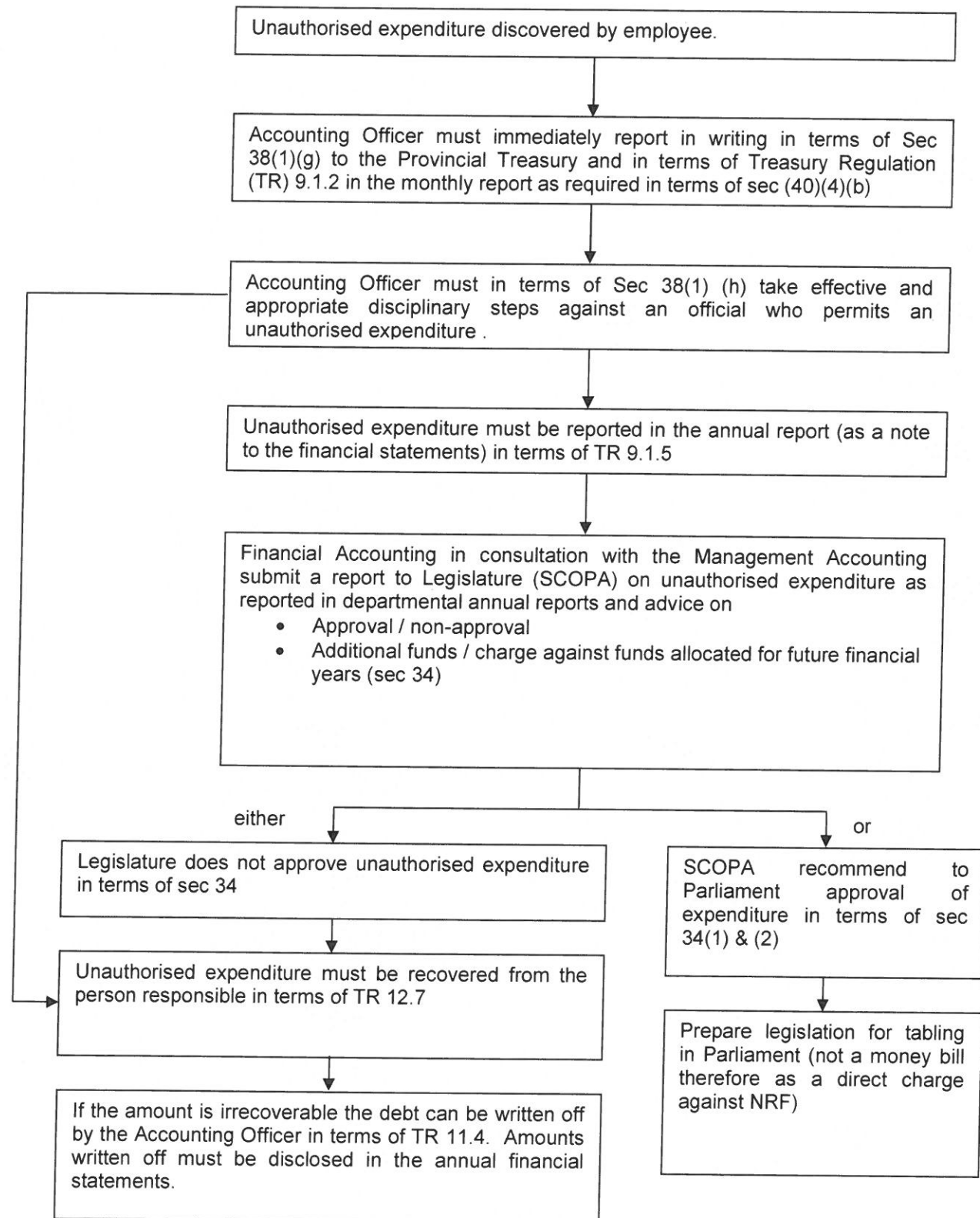
- (a) specifies the total amount which is usually appropriated per department in an Appropriation Act; and
- (b) is separately approved by Parliament or a provincial legislature, as may be appropriate, before it approves the relevant draft Appropriation Act as such.

“Suspense Accounts” means temporary posting of financial transactions to relevant suspense accounts where the correct allocation is still to be established.

The following information from the sections of the PFMA, the Division of Revenue Act and the paragraphs of the Treasury Regulations that refer to unauthorised, fruitless and wasteful as well as irregular expenditure must be reported upon and accounted for as directed.

7. Unauthorized expenditure

7.1 Procedure for the treatment of unauthorised expenditure



7.2 Internal process for dealing with unauthorized expenditure

Upon discovering of unauthorized expenditure, the Accounting Officer shall report to the Provincial Treasury in writing.

The Accounting Officer shall initiate disciplinary steps against the Official that made or permitted an unauthorized expenditure to take place and to ensure that effective and appropriate disciplinary steps are taken.

The unauthorized expenditure shall be reported upon in the annual financial statements.

8. Irregular expenditure

There are different categories of irregular expenditure,

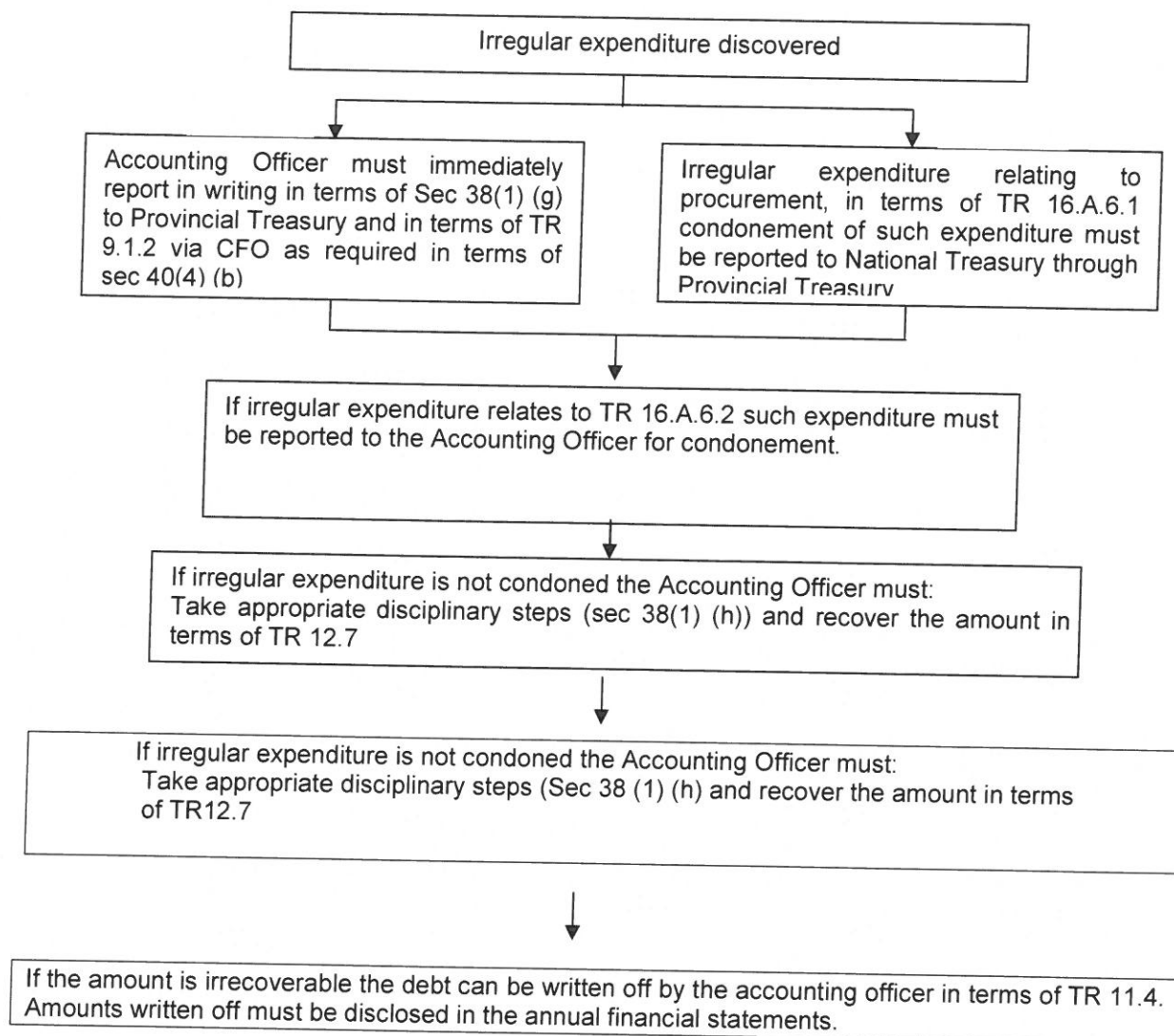
- Non-Compliance with the PFMA and Treasury Regulation must be referred to the National Treasury through Provincial Treasury, with a detailed motivation for condonement as well as the steps to prevent a recurrence. If the request is not considered by National Treasury, the irregular expenditure must be recovered from the responsible Official if he/ she is liable in law. For example, goods and services are procured using price quotations where the threshold value as determined by National Treasury has been exceeded. (TR 16.A.6.1)
- Procurement of goods and services by means other than through competitive bids and where reasons for deviating from inviting competitive bids have not been recorded and approved by the Accounting Officer. (TR 16A6.4). Such cases must be referred to the Accounting Officer for condoning.
- The Accounting Officer is empowered to condone irregular expenditure that arises due to non-compliance with DTSL's delegation of authority. Such cases must be referred to the Accounting Officer via the Chief Financial Officer for condoning.
- Non-compliance in terms of the provisions of applicable legislation. Such cases must be referred to the relevant Institution. For, example, the Department grants performance rewards to personnel without maintaining and implementing a Performance Management and Development System as required by Part VIII B of the Public Service Regulations.

Irregular expenditure is treated as expenditure until it is condoned by relevant authority, at which point it is treated as a disclosure note until it is recovered from a third party or condoned.

Failure to comply with the Department's policies is irregular. For example, if a delegation is exceeded, it is non-compliance and internal disciplinary processes should be followed. It cannot be authorised by National Treasury.

The Accounting Officer is encouraged to conclude all investigations and resolve all matters related to irregular expenditure within 90 days from the date on which the alleged irregular expenditure was discovered or as soon as practically possible.



8.1 Procedure for the treatment of irregular expenditure

Upon discovery of Irregular Expenditure the following shall take place.

8.1.2 SCM will report to the Accounting Officer via the Chief Financial Officer for condonement or otherwise.

8.1.3. The transaction must be processed and paid to ensure that the supplier is paid on time and not delayed due to internal processes.

8.1.4. A submission shall be prepared by the Supply Chain Management via Chief Financial Officer as the case may be for condonation by the Accounting Officer in terms of TR.16. A.6.4.

8.1.5 The Accounting Officer must report to Provincial Treasury for condonement in terms of TR 16A6.1

- 8.1.6 If condoned, the expenditure becomes normal expenditure and is treated as such.
- 8.1.7 If not condoned the accounting of the expenditure is as per Par 8.4 below and must initiate a penalty taking into account TR 12.2.1.(a-g) into consideration.
- 8.1.8 The disciplinary hearing will determine if the responsible officer must repay the expenditure and be further sanctioned according to the Code or not.

8.2 REGISTER OF IRREGULAR EXPENDITURE

An irregular expenditure register must be maintained detailing the expenditure reflecting all irregular expenditure incurred during the financial year.

The register must be kept up to date in order to track all alleged and confirmed irregular expenditure and for the purpose of maintaining an audit trail.

8.3. DISCLOSURE OF IRREGULAR EXPENDITURE

All irregular expenditure must be disclosed in the Annual Financial Statement.

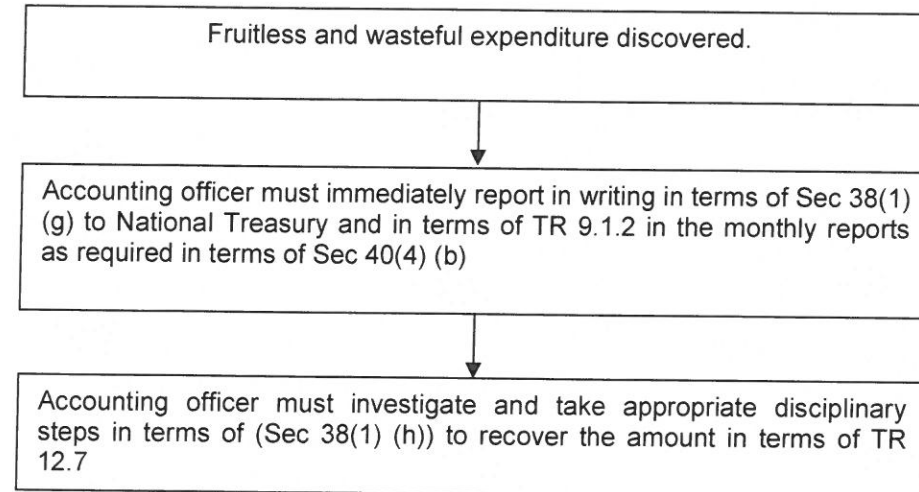
8.4. ACCOUNTING FOR IRREGULAR EXPENDITURE

- 8.4.1 Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register.
In such an instance, no further action is also required with the exception of updating the note to the financial statements (no journal is passed).
- 8.4.2 Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register.
No further action is required with the exception of updating the note to the financial statements (no journal is passed)
- 8.4.3 Where irregular expenditure was incurred in the previous financial year and is only condoned in the following year, the register and the disclosure note to the financial statements must be updated with the amount condoned (no journal is passed)
- 8.4.4 Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the Provincial Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register.
If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law.
Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer may write off the amount as a bad debt and disclose such in the relevant note to the financial statement.

The irregular expenditure register must also be updated accordingly. 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 or expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register (no journal is passed).

9. Fruitless Wasteful expenditure

9.1 Procedure by the Accounting Officer for the treatment of fruitless and wasteful expenditure.



- ❖ There must be investigations to determine whether the expenditure indeed meets the definition of fruitless and wasteful expenditure.
- ❖ Once the investigation has been concluded and the results confirm that the expenditure constitute fruitless and wasteful expenditure and there is a person liable,
- ❖ The determination of liability must be done in conjunction with the Legal Unit to determine such liability taking into account chapter 12.2.2.1 (a-g) of Treasury Regulations into consideration.

9.2. Internal process for dealing with fruitless and wasteful expenditure

The accounting officer will upon discovery of the fruitless and wasteful expenditure, report to the Provincial Treasury in writing, the particulars of the expenditure.

The Accounting Officer must maintain a register which must contain detailed information on such expenditure.

The Accounting Officer/delegate will set up investigations to determine the situation that led to the fruitless and wasteful expenditure and whether it meets the definition of fruitless and wasteful expenditure.

During the period of investigation, the expenditure must remain in the expense account.

Once the investigation has been concluded and the results confirm that the expenditure constitute fruitless and wasteful expenditure and there is a person liable,

The investigations report will make a recommendation for disciplinary proceedings against the official responsible.

The determination of liability must be done in conjunction with the Legal Unit to determine such liability and repayment.

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Should the Accounting Officer be accountable for the fruitless and wasteful expenditure, the Executive Authority shall initiate steps to deal with the matter.

10. Accounting Entries

10.1 Principle of dealing with unauthorised expenditure.

Unauthorised Expenditure is 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.

The unauthorised expenditure is no longer disallowed by reducing the total expenditure in the statement of financial performance. The unauthorised expenditure "receivable" is however created by crediting the exchequer grant account of the department (i.e. reducing the available vote) and debiting a corresponding receivable/debt account in the statement of financial position.

To illustrate this principle of accounting for unauthorised expenditure the following figures will be used:

The following is assumed in the examples that follow:

Vote – Amount Appropriated	R 1 000.00
Unauthorised expenditure (in accordance with definition)	R 200.00
Authorised expenditure	<u>R 700.00</u>
Savings	R 100.00

10.2 Surrender to Treasury

The total amount payable to the Relevant Treasury is:

Unauthorised expenditure (to be paid when discovered)	R 200.00
Vote surplus	<u>R 100.00</u>
Total payable to Relevant Treasury	R 300.00

(Note: The unauthorised expenditure of R200.00 is financed by a Bank / PMG overdraft.)

10.3 Accounting for Unauthorised Expenditure

Assuming that the Books are not finally closed for the respective financial year and "arising from other than an overspending on a main division of a vote".

1. The opening journals with respect to the Vote would be:

Dt Exchequer Account (POS)	R 1 000.00
Cr General Account of the Vote (POS)	R 1 000.00

2. Assume the total vote has been received from Treasury:

Dt Bank/PMG (POS)	R 1 000.00
Cr Exchequer Account (POS)	R 1000.00



3. Expenditure is dealt with as follows (including unauthorised expenditure):

Dt	Expenditure (relevant programme & item) (PER)	R 900.00
Cr	Bank/PMG	R 900.00

4. The unauthorised expenditure once discovered is dealt with as follows:

Dt	Unauthorised Expenditure (POS)	R 200.00
Cr	Exchequer Account	R 200.00

*Note: The unauthorised expenditure is no longer disallowed by reducing the total expenditure in the statement of financial performance. The unauthorised expenditure "receivable" is however created by crediting the exchequer grant account of the department (i.e. reducing the available vote) and debiting a corresponding receivable/debt account in the statement of financial position.

5. At year-end the following journals are transacted:

Dt	Receivable/Debt Acc (POS)	R 200.00
Cr	Exchequer Account	R 200.00

6. Pay to the Relevant Treasury the Vote surplus and unauthorised expenditure:

Dt	Exchequer Account (B/S)	R 300.00
Cr	Bank (B/S)	R 300.00

10.4 Disclosure of unauthorised expenditure

To illustrate the effect on the Income Statement and Balance Sheet:

Statement of Financial Position

Vote	R 1 000.00
Expenditure (R700 auth. Exp. plus R200 unauthorised exp.)	<u>R 900.00</u>
Surplus	R 100.00
Add back Unauthorised expenditure	<u>R 200.00</u>
Amount to be surrendered to Relevant Treasury	<u>R 300.00</u>

10.5 Statement of Financial Performance

Current assets	
Dt. Unauthorised expenditure	R 200.00
Current liabilities	
Cr Bank overdraft	R 200.00

10.6 Notes to the financial statements

Unauthorised expenditure	R 200.00
Reconciliation of movement in account balance	
Opening balance	R 0.00
Unauthorised expenditure current year	<u>R 200.00</u>
Closing balance	<u>R 200.00</u>

Ensure that the closing balance of the reconciliation is equal to the note above and the balance sheet.

10.7 Recovery of unauthorised expenditure

Unauthorised expenditure must in all cases be authorised by the Legislature (before it can become a charge against a Revenue Fund) either by:

- providing additional funds' or
- as a charge against funds allocated for the subsequent financial years.

10.8 If not approved by the Legislature it must be recovered from a responsible person

- i.) If the unauthorised expenditure is approved by the Legislature with funding (Subsequent financial year), then the entry would be:

Dt Exchequer account	R 200.00	
Cr Unauthorised Expenditure		R200.00

The appropriate disclosure would be in the annual financial statements.

If the appropriate legislation is promulgated and the available budget increased for the current financial year then:

Dt Exchequer account	R 200.00
Cr General Account of the vote	R 200.00

Funds must be requested from the Relevant Treasury and allocated as follows:

Dt Funds Requisition account	R 200.00
Cr Exchequer account	R 200.00

The appropriate disclosure would be in the annual financial statements.

- ii) If the unauthorised expenditure is approved by the Legislature without funding (Subsequent financial year), then the entry would be:

Dt Exchequer account	R 200.00	
Cr Unauthorised Expenditure		R 200.00

The expenditure is funded from savings and the appropriate disclosure would be in the annual financial statements.

- iii) If the unauthorised expenditure is not approved by the Legislature it must be recovered from a responsible official - the transactions are:

Dt Debtors (responsible official)	R 200.00
Cr Unauthorised expenditure	R 200.00

The appropriate disclosure would be in the annual financial statements.

When recovered from the responsible official

Dt Bank/PMG	R 200.00
Cr Debtors	R 200.00

The note in the annual financial statements on unauthorised expenditure would reflect the movement.

iv.) If the Amount is irrecoverable then the amount may be written off by the Accounting Officer against savings/surplus:

Dt Thefts and Losses	R 200.00
Cr Debtors	R 200.00

The appropriate disclosure would be in the annual financial statements.

10.9 Books are finally closed for the financial year

If prior year unauthorised expenditure is discovered in the current year or if the books have already been closed for the year under review, then the following entries must be made:

Dt Unauthorised expenditure (POS)	R 200.00
Cr Exchequer account (POS)	R 200.00

An amount equal to the unauthorised expenditure should be surrendered to the relevant Treasury.

Dt Exchequer account (POS)	R 200.00
Cr Bank/PMG (POS)	R 200.00

If the unauthorised expenditure is approved by the Legislature with Funds – the funds surrendered as unauthorised in the prior period, must be requested from the relevant Treasury and dealt with as follows:-

Dt Fund requisition (POS)	R 200.00
Cr Unauthorised expenditure (POS)	R 200.00

Dt Bank/PMG (POS)	R 200.00
Cr Fund requisition (POS)	R 200.00

The appropriate disclosure would be in the annual financial statements.

If the unauthorised expenditure is approved by the Legislature without Funds - the funds surrendered as unauthorised in the prior period, must be requested from the relevant Treasury and dealt with as follows:-

Dt Fund requisition (POS)	R 200.00
Cr Unauthorised expenditure (POS)	R 200.00

Dt Bank/PMG (POS)	R 200.00
Cr Fund requisition (POS)	R 200.00

The appropriate disclosure would be in the annual financial statements.

If the appropriate legislation is promulgated and the available budget for the current financial year is reduced, the unauthorised expenditure must be dealt with as follows:

Dt General Account of the Vote (POS)	R 200.00
Cr Exchequer Account (POS)	R 200.00

11. Irregular expenditure

To illustrate this principle of accounting for irregular expenditure the amount used for irregular expenditure will be R 400.00.

11.1 Accounting for irregular expenditure

When normal expenditure is incurred and it includes irregular expenditure the following transaction is made:

Dt	Expenditure (relevant programme and item)	R 400.00
Cr	Bank	R 400.00

Upon discovery of irregular expenditure, it should be recorded as such but only disallowed if the relevant Treasury and / or Relevant Tender Board (if the expenditure relates to procurement) **do not condone** the non-compliance to prescripts.

The register should be updated to reflect the fact that the irregular expenditure was not condoned and to provide an appropriate audit trail;

If the irregular expenditure is subsequently condoned by the appropriate authority no further action is required by the department as the amount has already been expensed in the statement of financial performance.

The register should be updated to reflect the fact that the irregular expenditure was condoned;

If the irregular expenditure is not condoned the appropriate steps must be taken to recover the amount of irregular expenditure from the official concerned.

If recovery is not possible, then the amount may be written off by the Accounting Officer and appropriately disclosed.

Irregular expenditure to be disclosed in the disclosure notes to the annual financial statements.

a) Irregular expenditure not condoned:

- ☐ The Accounting Officer must determine who the responsible official is, from whom the amount should be recovered. This information would normally become evident while performing the investigation;
- ☐ The Accounting Officer must in writing request that the responsible person pay the amount within 30 days or in reasonable instalments. If the official fails to comply with the request, the matter may be handed to the State Attorney for the recovery of the debt;
- ☐ if the amount is not recoverable the Accounting Officer may write the debt off in terms of TR 11.4 or Department Debt Policy;

b) If not condoned and the books are still open.

A current asset is created on the statement of financial position, and the expenditure is "reversed" against the relevant objective and item.

Dt	Debtors/Receivables (POS)	R 400.00
Cr	Relevant Expenditure (PER)	R 400.00

When recovered from the responsible official/s and assuming only R 250.00 of the total is recovered and not the full amount of R 400.00.

Dt	Bank/PMG (POS)	R 250.00	
Cr	Debtors /Receivable (POS)		R 250.00

The appropriate disclosure would be in the annual financial statements.

If the amount or any part of the amount is irrecoverable then it may be written off by the Accounting Officer against savings/surplus:

Dt	Transactions in financial assets and liabilities (PER)	R 150.00	
Cr	Debtors/Receivables (POS)	R 150.00	

c) If not condoned and books are closed

Dt	Debtors/Receivable (POS)	R 400.00	
Cr	Recoverable Revenue Account (POS)	R 400.00	

When only part of the irregular amount is recovered from responsible official:

Dt	Bank/PMG (POS)	R 250.00	
Cr	Debtors /Receivables (POS)		R 250.00

Dt	Recoverable Revenue Account (POS)	R 250.00	
Cr	Transactions in financial assets and liabilities (PER)	R 250.00	

The appropriate disclosure would be in the annual financial statements.

If the Total or remaining Amount is irrecoverable then the amount may be written off by the Accounting Officer:

Dt	Transactions in financial assets and liabilities		
	Thefts and Losses (PER)	R 150.00	
Cr	Debtors /Receivable (POS)		R 150.00

Dt	Recoverable Revenue Account (POS)	R 150.00	
Cr	Transactions in financial assets and liabilities (PER) – recovery of prior year expenditure		R 150.00

The appropriate disclosure would be in the annual financial statements

12. Fruitless and wasteful expenditure

a) Principle of dealing with fruitless and wasteful expenditure

Fruitless and wasteful expenditure must no longer be disallowed but rather left as expenditure in the statement of financial performance (this treatment is the same as that established for irregular expenditure). The register should be updated to reflect the outcome of the investigation; the following figures will be used:

Vote	R 2 500.00
Fruitless and wasteful expenditure	<u>R 125.00</u>
Authorised expenditure	<u>R 2 275.00</u>

b) Books not yet closed

Accounting for fruitless and wasteful expenditure – during open relevant financial year.

Dt	Debt Acc-staff debt (POS)	R 125.00
Cr	Relevant expenditure Account	R 125.00

Note: A current asset is created on the statement of financial position, and posted to the relevant expenditure account unlike the previous financial years when the expenditure was “reversed” and presented on the statement of financial performance as ‘Add back fruitless and wasteful expenditure’. When the department receives the funds from the responsible official (fruitless and wasteful expenditure is recovered):

c) If fruitless & wasteful expenditure is not recovered

Dt	Bank/PMG (B/S)	R 125.00
Cr	Debt Acc-staff debt (POS)	R 125.00

If the amount is not recoverable then, it must be written off against the relevant programme and expenditure item Thefts & Losses, upon approval of the Accounting Officer.

Dt	Transactions in financial assets and liabilities (PER) – thefts and losses	R 125.00
Cr	Debt Acc-staff debt (POS)	R 125.00

d) Books have been closed

If fruitless & wasteful expenditure is discovered after the Books in respect of any previous year have been closed then it is dealt with in the open financial year as follows:

Dt	Debtors (B/S)	R 125.00
Cr	Recoverable Revenue (B/S)	R 125.00

A current asset (staff debt) is created on the statement of financial position, and the available voted funds are reduced. When the department receives the funds from the responsible official (fruitless and wasteful expenditure is recovered):

Dt	Bank/PMG	R 125.00
Cr	Debt Acc-Staff debt (POS)	R 125.00

Dt	Recoverable Revenue	R 125.00
Cr	Financial transactions in assets & liabilities Revenue	R 125.00

If the amount is not recoverable then, it must be written off against the relevant programme and expenditure item Thefts & Losses.

Dt	Transactions in financial assets and liabilities (PER) – thefts and losses	R 125.00
Cr	Debt Acc-Staff Debt (POS)	R 125.00

Dt	Recoverable Revenue (POS)	R 125.00
Cr	Financial transactions in assets & liabilities Revenue	R 125.00

Note: This write-off must be properly authorised by the Accounting Officer and disclosed in the annual financial statements.

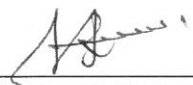
13 Conflict with other Prescripts

If any conflict arises between this procedure and policy statement and the provisions of any act or regulation, the provisions of such act or regulation shall apply. This document augments the relevant act and or regulations and must be read in conjunction with it.

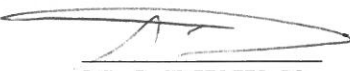
14 REVIEW OF THE POLICY

This policy shall be reviewed on an annual basis.

15 RECOMMENDED BY


 Thabo R. Holele
 Chief Financial Officer
 Date: 2015/08/12

ADOPTED BY


 Mr L.E.W Wolfe
 Head of Department
 Date: 14.08.2015