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Department:
Environment & Nature Conservation
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

Private Bag X6102, Kimberley, 8300, Metlife Towers, T-Floor, Tel: 053 807 7300, Fax: 053 807 7328

DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

FRUITLESS AND WASTEFULL EXPENDITURE POLICY
03 MARCH 2014
FINANCIAL MANAGEMENT UNIT
VERSION 02

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

Table of Contents

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 wastefull 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 <u>meets the definition</u> 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;

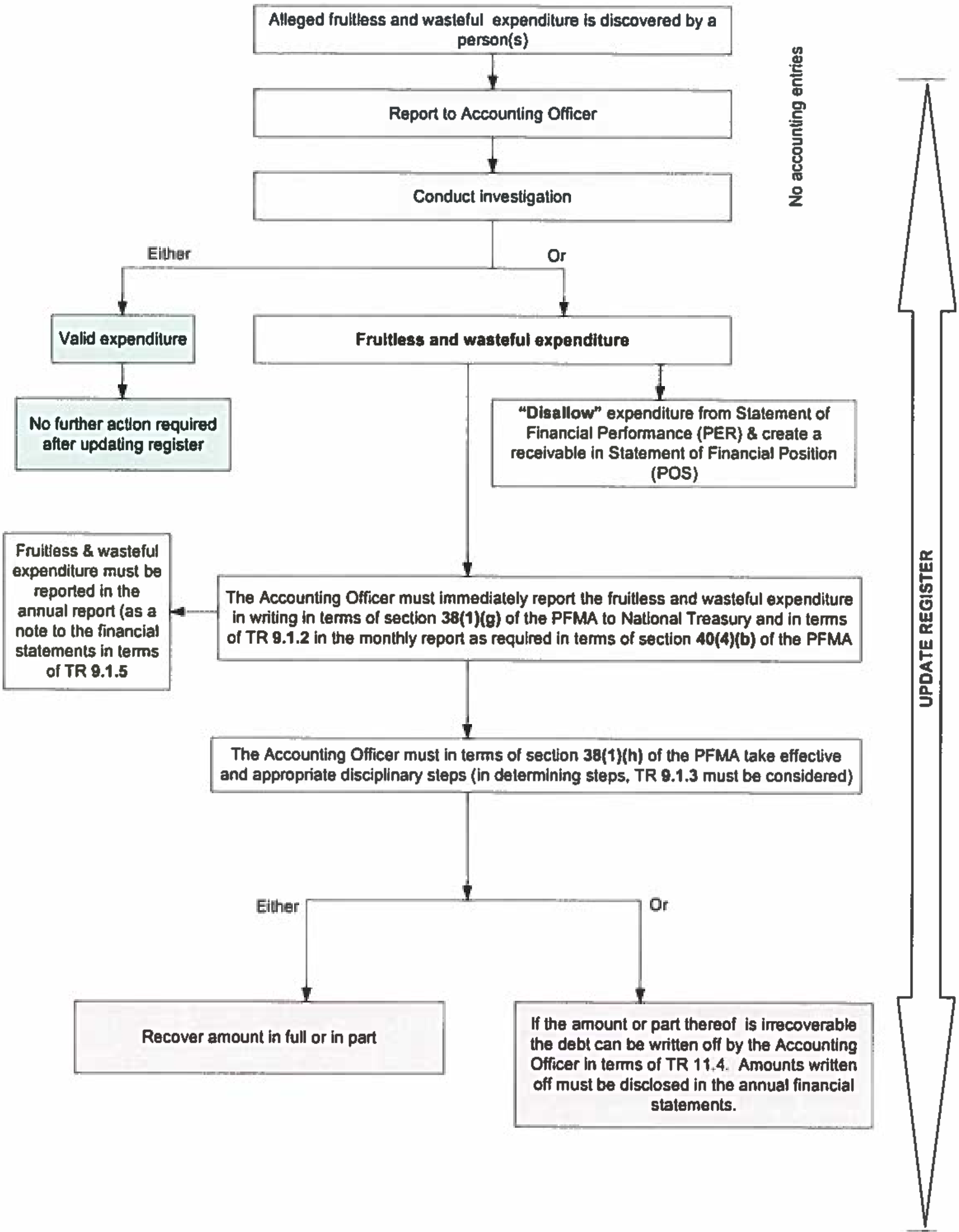
(g) in addition to (f) above the fruitless and wasteful expenditure should also be included in the entity's monthly report on revenue and expenditure as submitted by the Accounting Officer to Provincial Treasury. (The monthly report on revenue and expenditure is separate from the special report prepared 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;


Alleged fruitless and wasteful expenditure is discovered by a person(s)
Report to Accounting Officer
Conduct investigation
No accounting entries
Either
Or
Valid expenditure
Fruitless and wasteful expenditure
No further action required after updating register
"Disallow" expenditure from Statement of Financial Performance (PER) & create a receivable in Statement of Financial Position (POS)
Fruitless & wasteful expenditure must be reported in the annual report (as a note to the financial statements in terms of TR 9.1.5
The Accounting Officer must immediately report the fruitless and wasteful expenditure in writing in terms of section 38(1)(g) of the PFMA to National Treasury and in terms of TR 9.1.2 in the monthly report as required in terms of section 40(4)(b) of the PFMA
The Accounting Officer must in terms of section 38(1)(h) of the PFMA take effective and appropriate disciplinary steps (in determining steps, TR 9.1.3 must be considered)
Either
Or
Recover amount in full or in part
If the amount or part thereof is irrecoverable the debt can be written off by the Accounting Officer in terms of TR 11.4. Amounts written off must be disclosed in the annual financial statements.
UPDATE REGISTER

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 April 01, 2014.

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

Approved/~~Not Approved~~
Comments:

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D VAN HEERDEN 20140303
HEAD OF DEPARTMENT **DATE**

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REPUBLIC OF SOUTH AFRICA

Private Bag X6102, Kimberley, 8300, Metlife Towers, T-Floor, Tel: 053 807 7300, Fax: 053 807 7328

DEPARTMENT OF ENVIRONMENT AND NATURE CONSERVATION

COMMITMENT POLICY
03 MARCH 2014
FINANCIAL MANAGEMNT UNIT
VERSION 02

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

Table of Contents

1. CONCEPTUAL BACKGROUND

1.1 INTRODUCTION

This policy outlines the identification, treatment, recognition and reporting of commitments in the department according to the requirements of the PFMA

The accounting officer of an institution must ensure that internal procedures and internal control measures are in place for payment approval and processing. These internal controls should provide reasonable assurance that all expenditure is necessary, appropriate, paid promptly and is adequately recorded and reported.

DEFINITIONS

Commitments: Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Approved and Contracted Commitments: Where the expenditure has been approved and the contract has been awarded at the reporting date.

Approved but not yet contracted commitments: Where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

1.2 LEGISLATIVE REQUIREMENTS

Responsibility of the accounting officer [Section 38(1) (a) (i) of the PFMA] and Treasury regulation section 8.1

2. POLICY STATEMENT AND APPLICATION SCOPE

2.1 POLICY STATEMENT

The purpose of this policy is to:

- Ensure that Commitments are recorded accurately and completely in the financial statements;
- ensuring that employees have a clear and comprehensive understanding of the procedures they must follow to record these;
- ensuring that only valid commitments are recorded in the correct financial period

RECOGNITION
Accounting policy

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

PROCEDURES

Since procurement of goods and services starts in the Supply Chain Management, this is where the audit train of commitments should also begin. Commitments start with a requisition from the units and end with the placement of an order. The following procedures should be adhered to in order to ensure the accuracy and completeness of these commitments.

DEMAND AND REQUISITION MANAGEMENT

Commitments represent goods/services that have been ordered, but no delivery has taken place at the reporting date. These amounts are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are however disclosed as part of the disclosure notes.

Items are classified as commitments where the department commits itself to future transactions that will normally result in the outflow of resources.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements. Material contracts entered into after the reporting date but prior to the approval of the financial statements must be disclosed under subsequent events in the report of the accounting officer.

Other commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note if both the following criteria are met:

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the department – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.
- Periodic reconciliations must be performed between the department and Public Works to ensure that the department's capital commitments are complete and accurate.
- A program must be implemented for the co-ordination between the department and public works to ensure that all capital commitments are accurately and completely reflected in the department's Annual Financial Statements.
- The list of projects maintained by the department must be reconciled with Public Works capital projects executed.
- The details of the department's list and Public works must be compared to each other for any discrepancies.
- All orders that do not have goods received signatures must be accounted for as commitments.

In the note to the financial statements:

The commitments disclosed in disclosure note are the aggregate amount of capital and current expenditure approved and contracted for at the reporting date, to the extent the amount has not been recorded in the financial statements.

A distinction must be made between capital and current commitments. Ensure that there is no duplication of information e.g. operating lease commitments. Where departments have made a commitment for a period longer than 1 year, it should be stated in the note. For example, if a department committed to rent a pool of cars for a period of 2 years, this should be stated in this note.

In calculating commitments the following should be taken into account pertaining to tenders awarded:

- the period of the tender awarded;
- amounts already paid pertaining to that tender/contract;
- amounts for which invoices have been received and which are therefore included in accruals should be deducted;

- Commitments loaded on the procurement systems (such as LOGIS)
- Commitments not loaded on the procurement systems
- The commitment register should be signed by the compiler and reviewed by the chief financial officer for its completeness and accuracy thereof

COMMITMENT'S REGISTER

Supplier name	Economic Classification	Program	Order Number	Order Date	Amount

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 12, 2011. This policy was further modified by incorporating the Departmental letterhead on September 22, 2011.

3.3 IMPLEMENTATION STRATEGY

- Dedicated personnel should be appointed
- quotations should be sourced and captured in the LOGIS system
- A commitment register should be compiled
- The Chief financial officer should review commitment registers

The implementation date for this policy is 01 April 2014

3.4 FINANCIAL IMPLICATIONS

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

3.5 COMMUNICATION

- Provincial Treasury
- Department of Public Works

3.6 COMPLIANCE, MONITORING AND EVALUATION (M&E)

- There should be a dedicated official to receive the requisitions that come from the different units in the department;
- The official receiving the requisition should check that the requisition is completed correctly to ensure correct allocation of expenditure;
- The requisition should be recorded in a register;
- The requisition is then sent to the acquisition management unit for processing;

- In the acquisition unit officials source quotations and capture the requisition in the LOGIS system;
- The official then generates an order from LOGIS system;
- The order is then placed with the supplier;
- All outstanding orders at year end are generated from the system.
- Contracts in process at year end should be accounted for the remaining of the period in the financial statements
- The commitment register should be signed by the compiler and reviewed by the chief financial officer for its completeness and accuracy thereof

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

The desire of this policy is to ensure that Commitments are recorded accurately and completely in the financial statements; ensuring that employees have a clear and comprehensive understanding of the procedures they must follow to record them; ensuring that only valid commitments are recorded in the correct financial period

3.9 INTERIM MEASURES

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

4. ADOPTION OF POLICY

Approved/~~Not Approved~~
Comments:

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20140303.

D VAN HEERDEN
HEAD OF DEPARTMENT

DATE