

NORTHERN
CAPE
EDUCATION
DEPARTMENT

2008

[This policy outlines the identification, recording, disclosure and treatment of unauthorized expenditure of the department according to the requirements of the PFMA]

UNAUTHORISED EXPENDITURE POLICY

1. GENERAL

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 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.

UNAUTHORISED EXPENDITURE

DEFINITION

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.

2. PURPOSE

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

3. 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 unauthorised 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 unauthorised expenditure is detected, processed and recorded timeously.

4. RECOGNITION

ACCOUNTING POLICY

When discovered unauthorised expenditure is recognised as an asset in the Statement of Financial Position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

Unauthorised expenditure approved with funding is recognised in the Statement of Financial Performance when the unauthorised expenditure is approved and the related funds are received.

Where the amount is approved without funding it is recognised as expenditure, subject to availability of savings, in the Statement of Financial Performance on the date of approval

5. PROCEDURES

The procedures for the treatment of unauthorised expenditure are described below:

When unauthorised expenditure occurs the rand value of the unauthorised expenditure must be surrendered to Provincial treasury (i.e. the expenditure of the department is reduced with the unauthorised expenditure and paid back to Treasury, refer to step (f) below). The remainder of the vote may be utilised for authorised expenditure (except for where it is utilised to clear prior year unauthorised expenditure approved without funding).

5.1 Discovery, investigation and reporting of unauthorised expenditure

- (a) any employee who becomes aware of or suspects the occurrence of unauthorised expenditure should immediately report, in writing, such expenditure to the Accounting Officer or his/her delegate;
- (b) on discovery of alleged unauthorised 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 unauthorised expenditure register
- (c) the Accounting Officer or his/her delegate should investigate the alleged unauthorised expenditure to determine whether the expenditure meets the definition of unauthorised 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 unauthorised 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 unauthorised expenditure, the Accounting Officer must immediately

report, in writing, the particulars of the unauthorised expenditure to Provincial Treasury;

- (f) valid unauthorised 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 unauthorised expenditure. The register should be updated to reflect the outcome of the investigation;
- (g) in addition to (f) above the unauthorised 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 unauthorised expenditure);

5.2 Obtaining approval for unauthorised expenditure

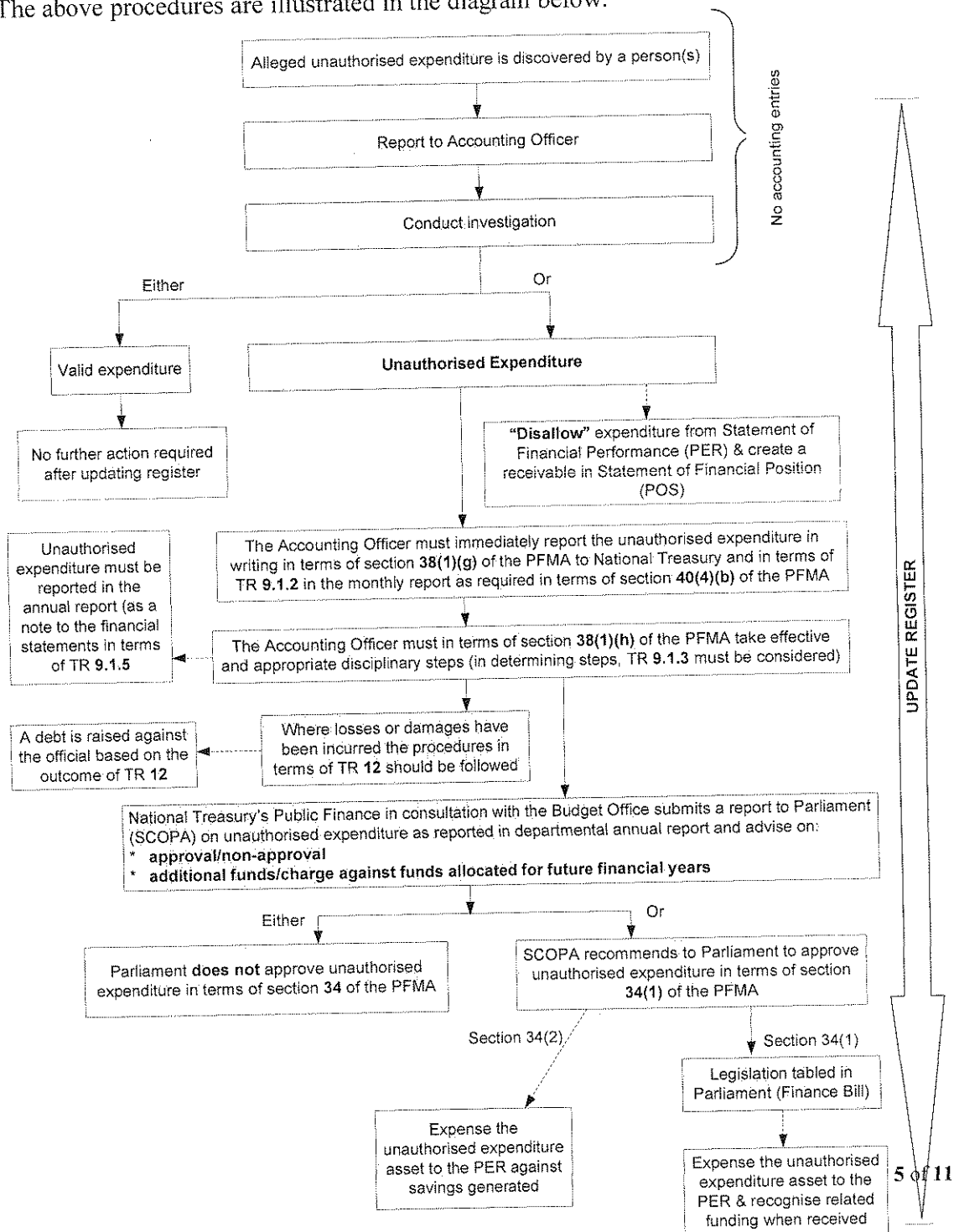
- (h) based on the reports submitted by the Accounting Officer, the relevant Auditor-General's audit reports and other sources of information, National Treasury prepares a report detailing the various instances of unauthorised expenditure relating to all entities. The report on unauthorised expenditure is submitted to the Standing Committee on Public Accounts (SCOPA) and advises on:
 - i. Approval/non-approval of the unauthorised expenditure; and
 - ii. How the unauthorised expenditure should be funded.
- (i) based on the report submitted to it in terms of (h), SCOPA will make a recommendation to Parliament whether or not to approve the unauthorised expenditure. If SCOPA recommends the approval of the unauthorised expenditure it must also recommend whether the unauthorised expenditure should be treated as a direct charge against a Revenue Fund or a charge against the funds allocated for the next or future years under a relevant vote;
- (j) SCOPA then presents the report to Parliament for consideration. If Parliament approves the unauthorised expenditure the report is sent to the Minister of Finance for inclusion in the Finance Bill. The Minister of Finance tables the Finance Bill in Parliament. Only once the Finance Bill has been passed by Parliament is the unauthorised expenditure formally approved;

Take Note: The necessary transaction to be passed in the accounting records of the department is only required once the cash has been received (refer to accounting policy and (l) below). If the funds have not been received before year-end the department should disclose this fact in the notes.

- (k) if Parliament approves the amount of unauthorised expenditure but does not approve an additional amount for the overspending, that amount becomes a charge against the funds allocated for the next or future financial years under the relevant vote. In other words the overspending must be funded by a department's future savings achieved against its vote or funds available due to reprioritisation of expenditure;

- (l) if the unauthorised expenditure was approved with funding prior to or at the end of the financial year but the funds were only received after 31 March, the department must disclose this fact in the unauthorised expenditure note. The accounting entries can only be passed once the funds have been received.
- (m) The approval for the unauthorised expenditure of the department of Education vests with the Provincial Legislature.

The above procedures are illustrated in the diagram below.



The BAS accounting entries used to record the transactions relating to unauthorised expenditure are illustrated below.

If the unauthorised expenditure relates to the current financial year:

If any expenditure meets the definition of unauthorised expenditure (after an investigation):

DR	Unauthorised expenditure (POS)*	XXX	
CR	Unauthorised expenditure (PER)*		XXX

* 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 unauthorised expenditure’.

If the unauthorised expenditure relates to a previous financial year

If any expenditure meets the definition of unauthorised expenditure (after an investigation):

DR	Unauthorised expenditure (POS)	XXX	
CR	Exchequer grant account		XXX

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

Unauthorised expenditure is approved by Parliament – with funding

When the department receives the funds from the relevant treasury:

DR	Unauthorised expenditure (PER)^	XXX	
CR	Unauthorised expenditure (POS)		XXX

^ This amount is disclosed as ‘Unauthorised Expenditure Approved’ on the statement of financial performance and classified as either as current, capital or transfers & subsidies.

Because the expenditure was approved, it is removed (credited) from the current asset that was created and included under unauthorised expenditure approved.

The increase in the vote is recorded as follows:

DR	Exchequer grant account	XXX	
CR	General account of the vote [#]		XXX

[#] The additional funds received is presented on the statement of financial performance as ‘Appropriation for unauthorised expenditure approved’.

Unauthorised expenditure to be written off against savings

DR	Unauthorised expenditure (PER) ^	XXX	
CR	Unauthorised expenditure (POS)		XXX

^ This amount is disclosed as 'Unauthorised Expenditure Approved' on the statement of financial performance and classified as either as current, capital or transfers & subsidies.

The amount written-off is limited to any savings utilised.

6. APPLICABLE LEGISLATION

s34(1)2 (PFMA)	<p>(1) Unauthorised expenditure does not become a charge against a Revenue Fund except when-</p> <p>(a) the expenditure is an overspending of a vote and Parliament or a provincial legislature, as may be appropriate, approves, as a direct charge against the Relevant Fund, an additional amount for that vote which covers the overspending; or</p> <p>(b) the expenditure is unauthorised for another reason and Parliament or a provincial legislature, as may be appropriate, authorises the expenditure as a direct charge against the relevant Revenue Fund.</p> <p>(2) If parliament or a provincial legislature does not approve in terms of subsection (1)(a) an additional amount for the amount of any overspending, that amount becomes a charge against the funds allocated for the next or future financial years under the relevant vote.</p>
TR 9.1.1	<p>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.</p>
TR 9.1.2	<p>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.</p>
TR 9.1.3	<p>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 –</p> <p>(a) the circumstances of the transgression;</p> <p>(b) the extent of the expenditure involved; and</p> <p>(c) the nature and seriousness of the transgression.</p>
TR 9.1.4	<p>The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with regulation 12.</p>
TR 9.1.5	<p>The amount of the unauthorised, irregular, fruitless and wasteful expenditure must be disclosed as a note to the annual financial</p>

statements of the institution.

TR

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 installments. 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.

7. ADDITIONAL

- All expenditure identified as unauthorised expenditure in terms of the definition should be recorded in the departmental unauthorised expenditure register by the Supply chain management and Finance units.
- The Financial accounting unit should complete the pre-audit and post audit checklists to ensure that all payments complies with the relevant laws and regulations and investigate any payments that are not in accordance with the purpose of the main divisions or vote of the department.
- Payments incurred which are not in accordance with the purpose of the main divisions or vote of the department should be disclosed in the register of the department.
- The precise amount as stated on the invoice/payment batch should be recorded in the unauthorised expenditure register.
- The unauthorised expenditure register should be reviewed by the Chief Financial Officer of the department. This review will ensure that unauthorised expenditure is adequately disclosed and dealt with, ensuring that no mathematical errors exists etc
- Unauthorised expenditure identified during one financial period, but not paid in that specific period should be recorded and accounted for in the following financial year.
- The opening balance of unauthorised expenditure in the financial statements should at all times agree to the closing balance of the prior year's financial statements.
- The unauthorised expenditure approved during the current financial year should be correctly allocated between current, capital, transfers and subsidies etc
- The accumulative unauthorised expenditure incurred at financial year end should be adequately and appropriately disclosed in the financial statements of the department. The figures should at all times agree to the general ledger on BAS.

Approved

 09/06/08

Head of Department