

Reference number: RCS/C.6

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TREASURY CIRCULAR NO. 27/ 2020 (SUPPLEMENTARY 1 OF 2021)

THE PREMIER

THE MINISTER OF AGRICULTURE
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE AND ECONOMIC OPPORTUNITIES
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT

THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

THE EXECUTIVE AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MINISTER D MAYNIER)
THE EXECUTIVE AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (MINISTER A BREDELL)
THE EXECUTIVE AUTHORITY: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MINISTER D MAYNIER)
THE EXECUTIVE AUTHORITY: SALDANHA BAY IDZ LICENCING COMPANY (MINISTER D MAYNIER)
THE EXECUTIVE AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LANGUAGE COMMITTEE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: WESTERN CAPE HERITAGE (MINISTER A MARAIS)
THE EXECUTIVE AUTHORITY: CASIDRA (MINISTER IH MEYER)
THE EXECUTIVE AUTHORITY: WESTERN CAPE LIQUOR AUTHORITY (MINISTER A FRITZ)

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THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R ADAMS)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR D SAVAGE)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (ADV. Y PILLAY)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (DR K CLOETE)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (DR R MACDONALD)
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THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
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THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (DR M SEBOPETSA)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR G REDMAN) (ACTING)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (MR G PAULSE)

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THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)

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 THE DIRECTOR: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS N ISMAIL)
 THE DIRECTOR: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A MAZOMBA)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE DEPUTY DIRECTOR-GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

GUIDANCE WITH THE INTERPRETATION AND IMPLEMENTATION OF NATIONAL TREASURY INSTRUCTION 2 OF 2019/20

1. PURPOSE

1.1. The purpose of this circular is to:

- a) inform departments and public entities of the amendments made to National Treasury Instruction No. 2 of 2019/20 – Irregular Expenditure Framework; and
- b) to inform departments and public entities of the Updated Frequently Asked Questions - Irregular Expenditure 2021, issued by National Treasury.

2. **BACKGROUND**

- 2.1. On 16 May 2019, the Office of the Accountant General issued National Treasury Instruction No.2 of 2019/20 and concomitant Framework, to further regulate irregular expenditure for institutions subject to the Public Finance Management Act of 1999 (Act No. 1 of 1999), as set out in the Framework.
- 2.2. National Treasury amended the timeframes for the completion of the assessment and determination test conducted by the Internal Control unit or other responsible function as contained in National Treasury Instruction No.2 of 2019/20 (**refer to Annexure A attached**), effective from 31 May 2021.
- 2.3. The Office of the Accountant General also issued the Updated Frequently Asked Questions - Irregular Expenditure 2021 (**refer to Annexure B attached**), in order to provide further guidance with the implementation of the Irregular Expenditure Framework relating to the following issues:
 - a) Reporting of Irregular Expenditure;
 - b) Transactions involving Capital Assets;
 - c) Transactions involving two institutions where there is a procurer and a budget holder;
 - d) Fees paid to implementing agents;
 - e) Multi-year contracts;
 - f) Adjusting and non-adjusting events; and
 - g) Period of assessment and determination of irregular expenditure.

3. **POINTS TO NOTE:**

- 3.1. The Provincial Treasury's request to allow accounting officers and accounting authorities to be the condoning authority for all transactions less than R 10,000, was declined by the National Treasury.
- 3.2. As previously reported in Treasury Circular 27/2020, the Provincial Treasury is aware that the Framework is vague on the disclosure of irregular expenditure which resulted in partial losses and dealing with the condonation aspects of such irregular expenditure by departments or public entities. This matter has been referred to National Treasury for clarification and is still outstanding. In the interim, departments and public entities are advised as follows:
 - a) where a partial loss resulted from the irregular expenditure incurred, the department or public entity should disclose the full transaction as irregular expenditure;
 - b) the loss must be dealt with in accordance with paragraph 26 – 43 of the Framework; and
 - c) once the accounting officer or accounting authority is satisfied that the requirements in paragraph 4.7 (b) of this Circular and paragraph 56 of Framework have been complied with, submit a request to Provincial Treasury to condone the difference between the transaction value less the loss recovered.
- 3.3. The Provincial Treasury envisage communicating its comments/ concerns with regards to the practical implementation of the Updated Frequently Asked Questions - Irregular Expenditure 2021, as well as any unresolved matters previously taken up with the Office of the Accountant General by the Provincial Treasury.
- 3.4. Departments and public entities will be afforded an opportunity to raise any concerns/ comments with the practical implementation of the Irregular Expenditure Framework and additional guiding

documents which will be incorporated in the Western Cape Government's comments and proposed amendments to the Irregular Expenditure Framework.

4. REQUIRED

- 4.1 Accounting officers and accounting authorities must ensure that the content of this Circular together with Annexures A, B and C is brought to the attention of all relevant officials within their institution.
- 4.2 Departments and public entities are requested to document any additional comments, concerns and/ or proposed amendments to the Irregular Expenditure Framework and additional guiding documents to Franklin.Links@westerncape.gov.za, by latest 6 July 2021.
- 4.3 Departments and public entities must update their Standard Operating Procedure on Irregular Expenditure in line with the National Treasury's amendments to the timeframes for the completion of the assessment and determination test conducted by the Internal Control unit or other responsible function.
- 4.4 Accounting officers and accounting authorities must continue to address all requests for the condonation of irregular expenditure to the Head Official: Provincial Treasury and send to the PAG's Office at PT.helpme@westerncape.gov.za.
- 4.5 Should you require any further information, clarity or assistance on the content of the Circular, please contact Franklin Links at Franklin.Links@westerncape.gov.za.

MS A ABOO

DIRECTOR: PROVINCIAL GOVERNMENT ACCOUNTING AND COMPLIANCE

DATE: 29 June 2021



**TO ALL: ACCOUNTING OFFICERS OF DEPARTMENTS AND
CONSTITUTIONAL INSTITUTIONS**

**ACCOUNTING AUTHORITIES OF PUBLIC ENTITIES LISTED IN SCHEDULES
2 AND 3 TO THE PFMA**

HEAD OFFICIALS OF PROVINCIAL TREASURIES

**AMENDMENTS TO NATIONAL TREASURY INSTRUCTION NO. 2 OF 2019/2020
IRREGULAR EXPENDITURE FRAMEWORK**

1. PURPOSE

- 1.1 The purpose of this amended National Treasury Instruction is to revise the timelines relating to assessment and the determination period of irregular expenditure as contained in the Irregular Expenditure Framework (herein referred to as “the Framework”).

2. AMENDED PARAGRAHS OF THE FRAMEWORK

- 2.1 Paragraph 18 of the Framework is hereby amended as follows:

2.2 Amended paragraph 18 of the Framework:

The accounting officer or accounting authority must confirm allegations into irregular expenditure within 30 days after the alleged irregular expenditure has been reported to the accounting officer or accounting authority. If there are disputes regarding whether the alleged irregular expenditure meets the definition of irregular expenditure, the assessment process must be conducted and completed within three (3) months from the date the alleged irregular expenditure was reported to the accounting officer or accounting authority. Confirmed noncompliance must be recorded in the Checklist, as contained in Appendix A to the Framework.

- 2.3 Paragraph 21 of the Framework is hereby amended as follows:

2.4 Amended paragraph 21 of the Framework:

The determination test referred to in paragraph 19 of the Framework must commence and be finalised within 30 days after assessment of irregular expenditure. If there are any disputes, the determination process must be completed within four (4) months after the assessment of irregular expenditure.

3. APPLICABILITY

This National Treasury Instruction applies to all departments, trading entities, constitutional institutions and public entities listed in Schedules 2 and 3 to the PFMA.

4. AUTHORITY

This National Treasury Instruction is issued in terms of section 76(2)(e) and 76(4)(a) of the PFMA.

5. EFFECTIVE DATE

This Treasury Instruction takes effect from date of signature.

6. AMENDMENT OF PARAGRAPH 18 AND 21 OF THE IRREGULAR EXPENDITURE FRAMEWORK

This Treasury Instruction amends paragraph 18 and 21 of the Framework issued as Annexure A to National Treasury Instruction No. 2 of 2019/2020 dealing with irregular expenditure incurred by departments, trading entities, constitutional institutions and public entities listed in Schedules 2 and 3 to the PFMA.

7. DISSEMINATION OF INFORMATION CONTAINED IN THIS TREASURY INSTRUCTION

7.1 Accounting officers of national departments are requested to bring the contents of this Treasury Instruction to the attention of all -

- (a) accounting officers of government components and constitutional institutions that receive transfers and subsidies from its vote; and
- (b) accounting authorities of public entities reporting to their executive authorities.

7.2 Head Officials of Provincial Treasuries are requested to bring the contents of this Treasury Instruction to the attention of all accounting officers of departments and accounting authorities of public entities in their respective provinces.

8. REFERENCE TO TREASURY INSTRUCTION

This Treasury Instruction is available on the National Treasury Website at:
<http://www.treasury.gov.za/legislation/pfma/TreasuryInstruction/AccountGeneral.aspx>

9. CONTACT INFORMATION

Enquiries related to this Treasury Instruction may be directed to:

Ms. Moipone Ramoipone

Director: PFMA Support

Office of the Accountant-General

Phone: 012 315 5284

E-Mail: oagqueries@treasury.gov.za; or

PFM queries portal: <http://pfmportal.treasury.gov.za/>



**KAREN MAREE
ACTING ACCOUNTANT-GENERAL**

DATE: 31 May 2021

IRREGULAR EXPENDITURE

FREQUENTLY ASKED QUESTIONS



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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.

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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.

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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)	Budget Holder
<i>Disclose</i>	
Irregular-Expenditure in the irregular expenditure note	No- disclosure
Narrative to the irregular expenditure under note 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 (<i>NOT</i> 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

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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.

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

5. Multi-year contracts

Question

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

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.

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.

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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)

UPDATED FREQUENTLY ASKED QUESTIONS – IRREGULAR EXPENDITURE 2021

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.

