



2023 PFMA

FREQUENTLY ASKED QUESTIONS

PFMA Compliance and Reporting Framework



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



1. DISCLOSURE OF CLOSING AND OPENING BALANCES IN THE ANNUAL REPORT

Question

Should the closing and opening balances be reflected in the reconciling notes of unauthorised (in a case of departments), irregular and fruitless and wasteful expenditure in the annual report.

Response

In terms of paragraph 8.1 of the PFMA Compliance and Reporting Framework “annexure A”, the reporting of unauthorised expenditure (in a case of departments) and irregular expenditure and fruitless and wasteful expenditure (in a case of all institutions reporting in terms of the Act) is included in Part E, paragraph 2.7 of the annual report guide for departments, constitutional institutions, and public entities. It is important for institutions to take note and ensure compliance with the disclosure requirements related to closing and opening balances of previous unauthorised, irregular and fruitless and wasteful expenditure that must be disclosed as part of the annual report as shown below¹ and in terms of the demonstration indicated in the tables below.

Annual report guide

Table 1- Reconciliation of irregular expenditure

Format of disclosure

Irregular expenditure

a) Reconciliation of irregular expenditure

Description	20YY/20ZZ	20XX/20YY
	R'000	R'000
Opening balance		
Add: Irregular expenditure confirmed		
Less: Irregular expenditure condoned		
Less: Irregular expenditure not condoned and removed		
Less: Irregular expenditure recoverable		
Less: Irregular expenditure not recovered and written off		
Closing balance		

Include additional rows to address prior period errors or show restated figures as a narrative.

Include discussion here where deemed relevant.

Reconciling notes

Description	20YY/20ZZ	20XX/20YY ¹
	R'000	R'000
Irregular expenditure that was under assessment in 20XX/YY		
Irregular expenditure that relates to 20XX/YY and identified in 20YY/ZZ		
Irregular expenditure for the current year		
Total		

¹ Extracts from the annual report guideline

Table 2- Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure

a) Reconciliation of fruitless and wasteful expenditure

Description	20YY/20ZZ R'000	20XX/20YY R'000
Opening balance		
Add: Fruitless and wasteful expenditure confirmed		
Less: Fruitless and wasteful expenditure written off		
Less: Fruitless and wasteful expenditure recoverable		
Closing balance		

Include additional rows to address prior period errors or show restated figures as a narrative.

Include discussion here where deemed relevant.

Reconciling notes

Description	20YY/20ZZ R'000	20XX/20YY ^a R'000
Fruitless and wasteful expenditure that was under assessment in 20XX/YY		
Fruitless and wasteful expenditure that relates to 20XX/YY and identified in 20YY/ZZ		
Fruitless and wasteful expenditure for the current year		
Total		

Table 3- Reconciliation of unauthorised expenditure

*The Annual Report Guide
National and Provincial Departments*

Unauthorised expenditure

a) Reconciliation of unauthorised expenditure

Description	20YY/20ZZ R'000	20XX/20YY R'000
Opening balance		
Add: unauthorised expenditure confirmed		
Less: unauthorised expenditure approved with funding		
Less: unauthorised expenditure approved without funding		
Less: unauthorised expenditure recoverable		
Less: unauthorised not recovered and written off ⁷		
Closing balance		

Include additional rows to address prior period errors or show restated figures as a narrative.

Include discussion here where deemed relevant.

Reconciling notes

Description	20YY/20ZZ R'000	20XX/20YY ⁸ R'000
Unauthorised expenditure that was under assessment in 20XX/YY		
Unauthorised expenditure that relates to 20XX/YY and identified in 20YY/ZZ		
Unauthorised expenditure for the current year		
Total		

Table 4: Disclosure demonstration on irregular expenditure in the annual report

Irregular expenditure

Reconciliation of irregular expenditure

Description	2022/2023	2021/2022	2020/2021
	R'000	R'000	R'000
Opening balance	9,506,400.00	331,600.00	144,000.00
Prior Period Errors			20,000.00
As Restated	9,506,400.00	331,600.00	164,000.00
Add: Irregular expenditure confirmed	10,086,000.00	12,059,000.00	3,600.00
Less: Irregular expenditure condoned	- 240,000.00	- 2,515,000.00	-
Less: Irregular expenditure not condoned and removed	- 112,000.00	- 700,000.00	-
Less: Irregular expenditure recoverable	-	- 500.00	-
Less: Irregular expenditure not recovered and written off	- 600.00	- 300.00	-
Closing balance	19,239,800.00	9,506,400.00	331,600.00

C8: This amount represent IE incurred in previous financial year (e.g. 2020/2021) and identified in the 2021/2022 financial year
The error must be corrected in the line item of prior period errors when it relates to irregular expenditure incurred in prior years

OR institutions can restate the amounts in the periods in which it relates and show the restatement as narrative to the disclosure

C10: The error must be corrected in the line item where the error occurred when it relates to the 2021/2022

Include discussion here where deemed relevant.

Reconciling notes to the annual financial statement disclosure

Description	2022/2023	2021/2022
	R'000	R'000
Irregular expenditure that was under assessment in 2021/2022		3,255,000.00
Irregular expenditure that relates to 2021/22 and identified in 2022/23 (##)		4,000.00
Irregular expenditure for the current year	10,086,000.00	8,800,000.00
Total	10,086,000.00	12,059,000.00

(##) During the year ended March 2023, an amount of R4000 was identified as irregular expenditure incurred in 2021/22 but was identified in the 2022/23 financial year by internal auditors during a review of irregular expenditure transactions

2. INTER-INSTITUTIONAL ARRANGEMENTS- 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) and annual report of two state institutions when one institution procured on behalf of another institution?

Response

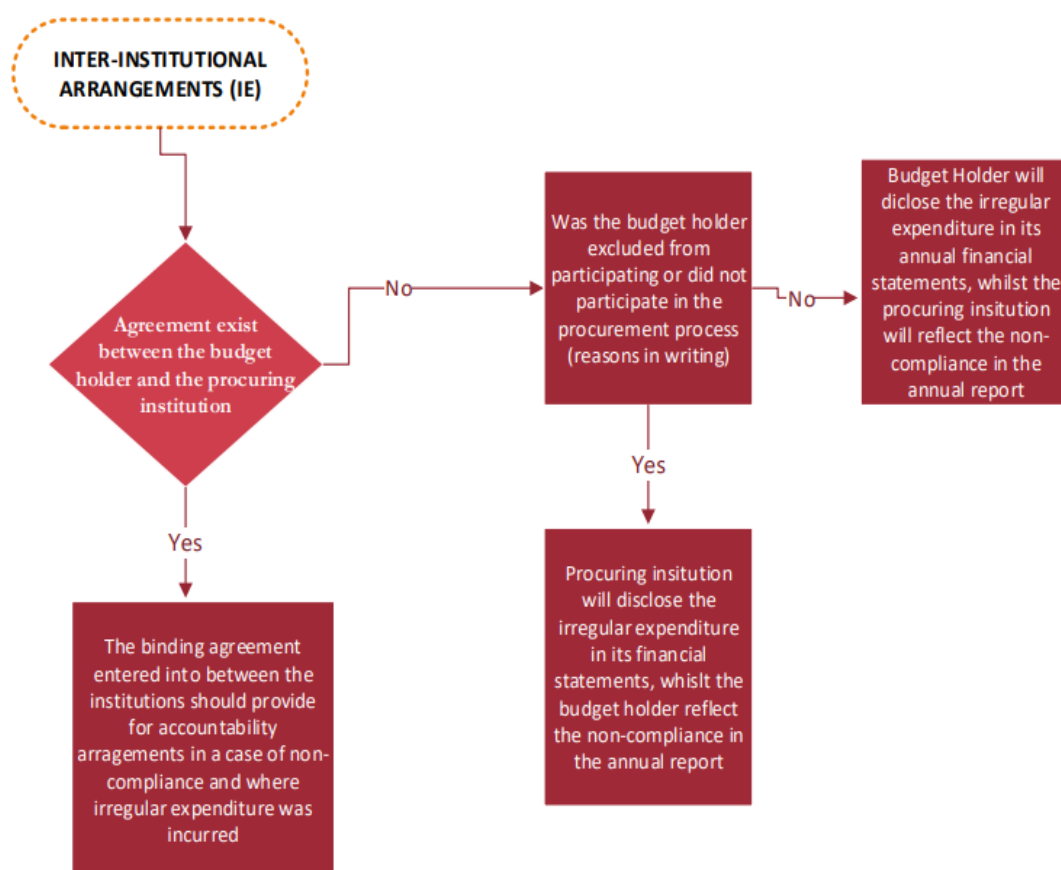
Paragraph 3.15 of the PFMA compliance and reporting framework “annexure A” states that, where no binding arrangement exist between the budget holder and the mandated institution or other organ of state procuring on behalf of the budget holder, it is assumed that the budget holder is acting for itself and will incur irregular expenditure emanating from non-compliance with legislation. It is important to take note that any binding arrangements entered between state institutions should at least cover instances of non-compliance with legislation indicating accountability arrangements for those non-compliances.

In the absence of any binding arrangement or where the binding arrangement does not cover instances of non-compliance with legislation indicating accountability arrangements for those non-compliances –

- (a) the budget holder must at least ensure that they are aware of the SCM processes followed and have participated in the bid committees of the procuring institution.
- (b) If the budget holder **WAS** excluded from participating or could not participate for any justifiable reasons (such reasons to be in writing) in the procurement process of the procuring institution, then the budget holder will not record irregular expenditure in the annual financial statement but reflect instances on non-compliance in the annual report. The said irregular expenditure incurred will be disclosed in the annual financial statement and annual report of the procuring institution.
- (c) If the budget holder **WAS NOT** excluded from participating or did not participate in the procurement processes of the procuring institution, then the budget holder will record irregular expenditure in the annual financial statement, with non-compliance reflected in the annual report of the procuring institution.

Demonstration is shown in figure 1 below.

Figure 1: Interinstitutional accountability demonstration



3. IRREGULAR EXPENDITURE ON MULTI-YEAR CONTRACTS

Question

What are the future disclosure requirements on expenditure incurred because of a multi-year contract where the irregular expenditure is condoned in the current year.

Response

In the case where expenditure relating to a multi-year contract was confirmed to be irregular expenditure in the current year, and condoned in the current year, such irregular expenditure should be disclosed in the current year's irregular expenditure incurred in the annual financial statements and reduced in the annual report by the amount condoned.

All future expenditure incurred relating to this multi-year contract should not be disclosed as irregular expenditure.

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