

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 956 [NW2110E]**  
**DATE OF PUBLICATION: 13 SEPTEMBER 2019**

**956. Mrs M O Clarke (DA) to ask the Minister of Finance:**

- (1) What has he found to be the reasons of the 10% decline in the 2017-18 unqualified audits without findings in comparison to the percentages of the past 10 years contained in the reports of the Auditor-General;
- (2) (a) what number of findings were linked to unauthorized, wasteful and fruitless expenditure, (b) what were the amounts in each case, (c)(i) what number of cases were referred to external bodies and (ii) what was the amount in each cases, (d) what number of the cases were referred as remedial cases and (e)(i) what number of these cases were issued with debt certificates and (ii) which government departments were responsible for the findings;
- (3) what reforms has the National Treasury put in place to mitigate the unauthorized, wasteful and fruitless expenditure?

NW2110E

**REPLY:**

**Municipality information**

- 1) This must be referred to the Office of the Auditor-General for a response.
- 2) This must be referred to the Office of the Auditor-General for a response.
- 3) With regards to municipalities, the National Treasury in conjunction with the Department of Cooperative Governance (DCoG) developed the Municipal Public Accounts (MPAC) Guideline and Toolkit to assist MPACs to perform their oversight and other related responsibilities, which include reviewing and recommending to Council actions or otherwise relating to the expediting and conclusion of unauthorised, irregular, fruitless and wasteful expenditure (UIF&W) processes. This guideline and toolkit was supported by Municipal Finance Management Act (MFMA) Circular 92 which further supports the effective functioning and decision-making of councillors serving on MPACs.

The National and provincial treasuries provided training to councillors serving on the MPAC in consultation with DCoG and South African Local Government Association (SALGA). As at

the end of March 2019, the MPAC Guideline and Toolkit have been rolled out and a total of 875 MPAC Councillors and 205 municipal officials have been trained countrywide. Further training was provided to Municipal Disciplinary Board members to enable consequence management processes to be expedited in line with Chapter 15 of the MFMA read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. These are being monitored by national and provincial treasuries for actions and resolutions taken. It should be noted that progress in this area has been slow, as it depends on finalisation of the investigation process.

One of the biggest causes of irregular expenditure relates to non-compliance with Supply Chain Management (SCM) processes and procedures, particularly the awarding of awards to persons in the service of the state which is prohibited in terms of the Municipal Supply Chain Management Regulations. The National Treasury issued MFMA Circular 81, which introduced the Central Suppliers Database that requires all suppliers to be registered on the database. The database interfaces with South African Revenue Services, the Companies and Intellectual Property Commission and government's payroll system and assists municipalities with some of the necessary verification. The system verifies supplier's tax and BEE status, and enable public sector officials doing business with the state to be identified. Thus, if used correctly it will assist in reducing incidences where municipalities award contracts to persons in the service of the state, in non-compliance with the SCM Regulations.

Municipalities have also been incorrectly applying SCM Regulation 32, which enables municipalities to procure goods and services under a contract secured by another organ of state, which has also contributed to the irregular expenditure. In July 2019, the National Treasury issued MFMA Circular 96 which provides further elaboration to municipalities on the principles captured in Regulation 32 of the SCM Regulations when procuring goods or services from contracts secured by other organs of state. The correct application will assist in the number of incidences of non-compliance and further reduce the irregular expenditure.

During 2018/19 support was prioritised to the 10 municipalities with the highest UIF&W, making up over R24 billion. The National and provincial treasuries have engaged these municipalities to assist with the processes to address the UIF&W, to identify the root causes and to put measures in place to address the recurrence of the incidences that resulted in the UIF&W.

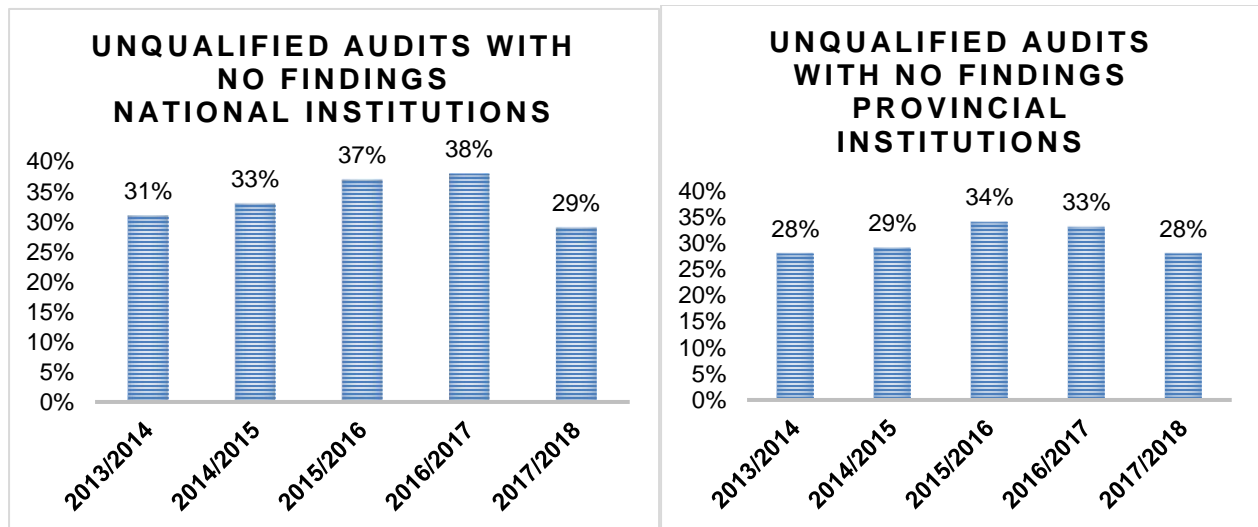
It should be emphasised that it is the responsibility of municipalities to hold officials and councillors to account for any compliance with the MFMA in keeping with the underlying principles in the legal framework. It is also the responsibility of the municipalities to put measures in place to avoid any non-compliance with the MFMA.

Further detailed actions taken should be addressed to the respective municipal executive and administration.

### **Departments and public entity information**

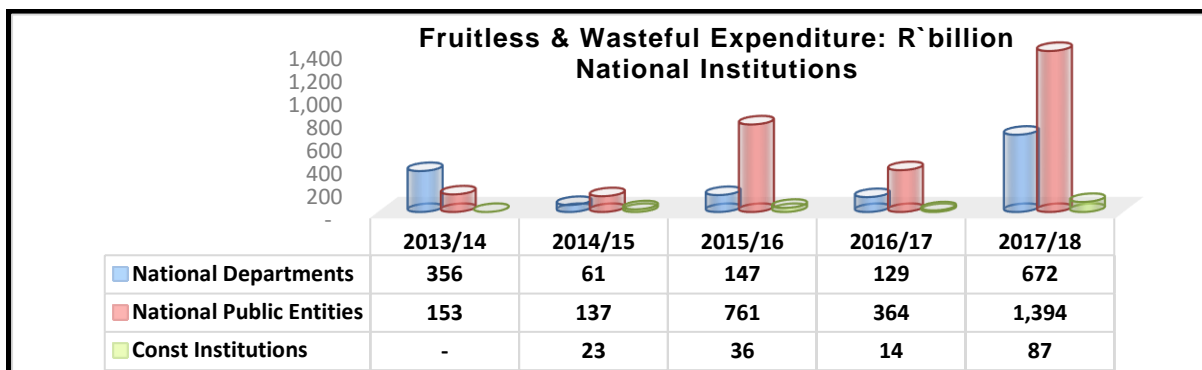
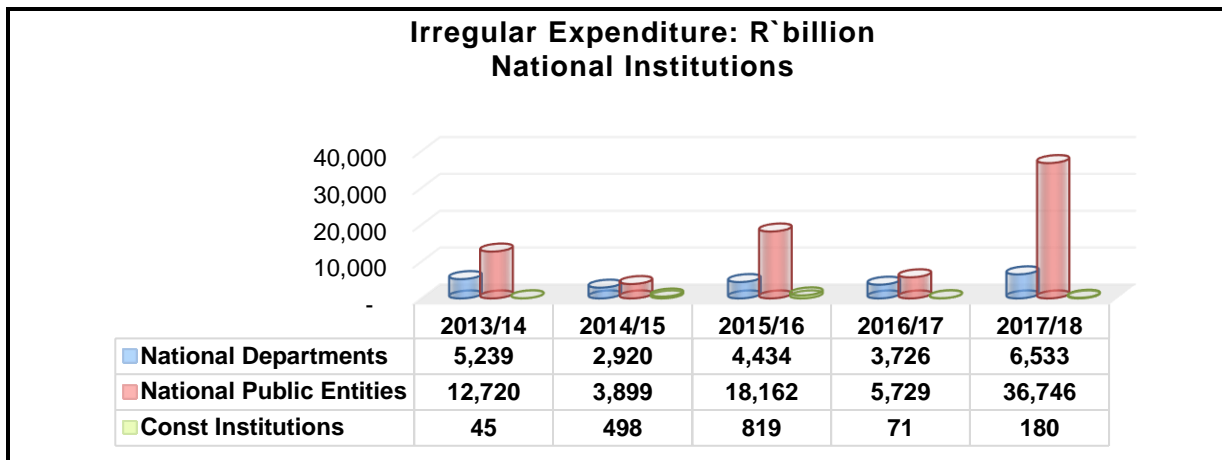
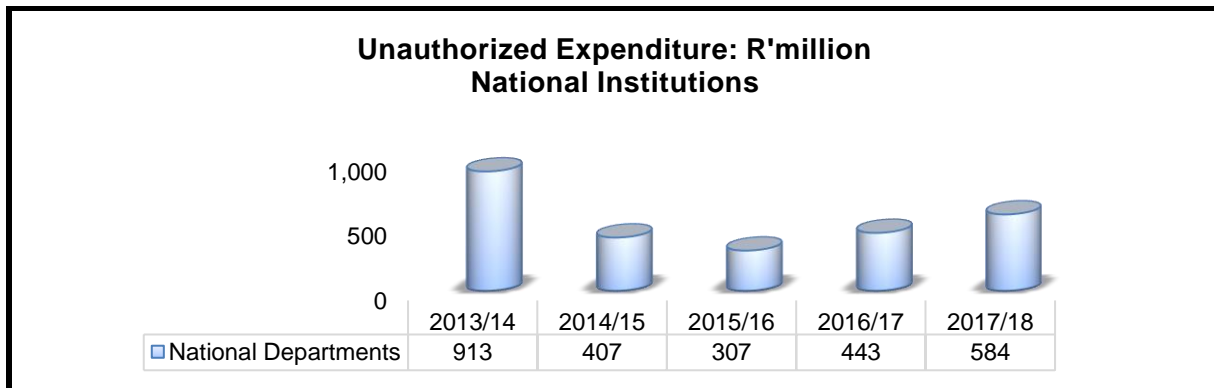
The graphs below shows a comparative analysis of unqualified audits with no findings of all national and provincial PFMA compliant institutions over a period of five (5) financial years from 2013/2014 to 2017/2018. Information on unqualified audits with no findings for the previous five (5) years from 2013/2014 can be obtained from the Auditor-General for a response.

Decrease in a percentage of unqualified audits with no findings is attributable to areas of non-compliance findings mainly on, material misstatements, unauthorised, irregular, fruitless and wasteful expenditure, expenditure management, procurement management and consequence management.



(2)(a) This information can be obtained from the Auditor-General for a response.

(b) The graphs below show a comparative analysis related to amount of unauthorised, irregular and fruitless and wasteful and expenditure incurred by PFMA compliant institutions at national level from 2013/2014 to 2017/2018. Information related to unauthorised, irregular and fruitless and wasteful and expenditure incurred by PFMA compliant institutions at provincial level can be obtained from the Auditor-General for a response.



- (c) (i) & (ii) This information can be obtained from the Auditor-General for a response.
- (d) (i) & (ii) This information can be obtained from the Auditor-General for a response.

(3) Section 38(1)(h)(iii) and section 51(1)(e) of the PFMA require accounting officers for departments, trading entities and constitutional institutions and accounting authorities of public entities to take effective and appropriate disciplinary steps against any official who makes or permits fruitless and wasteful expenditure. In terms of section 81(1)(b) and section 83(1)(b) of the PFMA, accounting officers for departments or constitutional institutions and accounting authorities of public entities commit an act of financial misconduct if that accounting officer or accounting authority wilfully or negligently makes or permits a fruitless and wasteful expenditure. Therefore it is the responsibility of accounting officers or accounting authorities to address consequence management and ensure maintenance of proper governance systems in their respective institutions.

In May 2014 and 2015, National Treasury issued the first guidelines on Irregular, Fruitless and Wasteful and Unauthorised Expenditure which were aimed at providing accounting officers and accounting authorities with clarity on treatment of those expenditures.

New Frameworks dealing with irregular, fruitless and wasteful expenditure were further introduced by National Treasury 2019 as Treasury Instructions to give legal effect to the process that must be followed by accounting officers and accounting authorities. These frameworks are aimed at enhancing the understanding, interpretation and application of legislative provisions dealing with these expenditures. Thus far 64 PFMA compliant institutions have been trained on these frameworks. Accounting officers and accounting authorities of national institutions are also required to report to National Treasury and accounting officers and accounting authorities of provincial institutions are required to their respective provincial treasuries on any irregular, unauthorized and fruitless and wasteful expenditure incurred, regular assessments, and determination of losses, criminal conduct and investigations of persons responsible for incurring such expenditures. This report also requires information on the process followed by accounting officers and accounting authorities in dealing with the recovery of any losses incurred, referral of criminal cases and approval process of expenditure free losses or criminal conduct.