

We further assess the **financial interests of employees of the auditee and their close family members** in suppliers to the auditee. Although there is no legislation that prohibits making awards to suppliers in which state officials have an interest, the **amended Public Service Regulations prohibit employees of departments from doing business with the state** from 1 August 2016. The regulations allowed employees that were doing business with the state on 1 August 2016 time until February 2017 to stop the business or resign as an employee.

What is irregular expenditure?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation (which, for example, require that procurement should be fair, equitable, transparent, competitive and cost-effective).

Such **investigation** also determines who is responsible and what the impact of the non-compliance is. Based on the investigation, the next steps are determined. If the non-compliance had no impact and negligence was not proven, one of the steps can be condonement. Alternatively, if negligence was proven, the steps can be disciplinary steps, the recovery of any losses from the implicated officials, or even cancelling a contract or reporting it to the police or an investigating authority.

The Public Finance Management Act is clear that **accounting officers and authorities are responsible** for preventing irregular expenditure as well as for which process to follow if it has been incurred.

In order to promote transparency and accountability, auditees **should disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements, along with detail on how it was resolved; in other words, how much had been investigated, recovered or condoned.

What is fruitless and wasteful expenditure?

Fruitless and wasteful expenditure is expenditure that was made in vain and that could have been

avoided had reasonable care been taken.

This includes penalties and interest on the late payment of creditors or statutory obligations, as well as payments made for services not used or goods not received.

The Public Finance Management Act requires accounting officers and accounting authorities to take all **reasonable steps to prevent fruitless and wasteful expenditure**. Auditees should have processes to detect fruitless and wasteful expenditure and disclose the amounts in the financial statements. Fruitless and wasteful expenditure is reported when it is identified – even if the expenditure was incurred in a previous year.

The act also sets out the steps that accounting officers and oversight bodies should take to investigate fruitless and wasteful expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What is unauthorised expenditure?

Unauthorised expenditure means that the departments:

- used more funds than had been allocated, usually resulting in a bank overdraft (in other words, overspending)
- used allocated funds for purposes other than those intended.

The Public Finance Management Act requires accounting officers to take all **reasonable steps to prevent unauthorised expenditure**. Auditees should have processes to identify any unauthorised expenditure and disclose the amounts in the financial statements. The act also includes the steps that accounting officers and oversight bodies should take to investigate unauthorised expenditure to determine whether any officials are liable for the expenditure and to recover the money if liability is proven.

What is the purpose and nature of the annual audit of the performance reports?

Auditees are required to measure their actual service delivery against the performance indicators and targets set for each of their predetermined performance objectives as defined in their annual performance plan, strategic plan or corporate plan, and to report on this in their performance reports.

On an annual basis, we audit **selected material programmes** of departments **and objectives** of public entities to determine whether the information