

**9.2**

## **Fruitless and wasteful expenditure**

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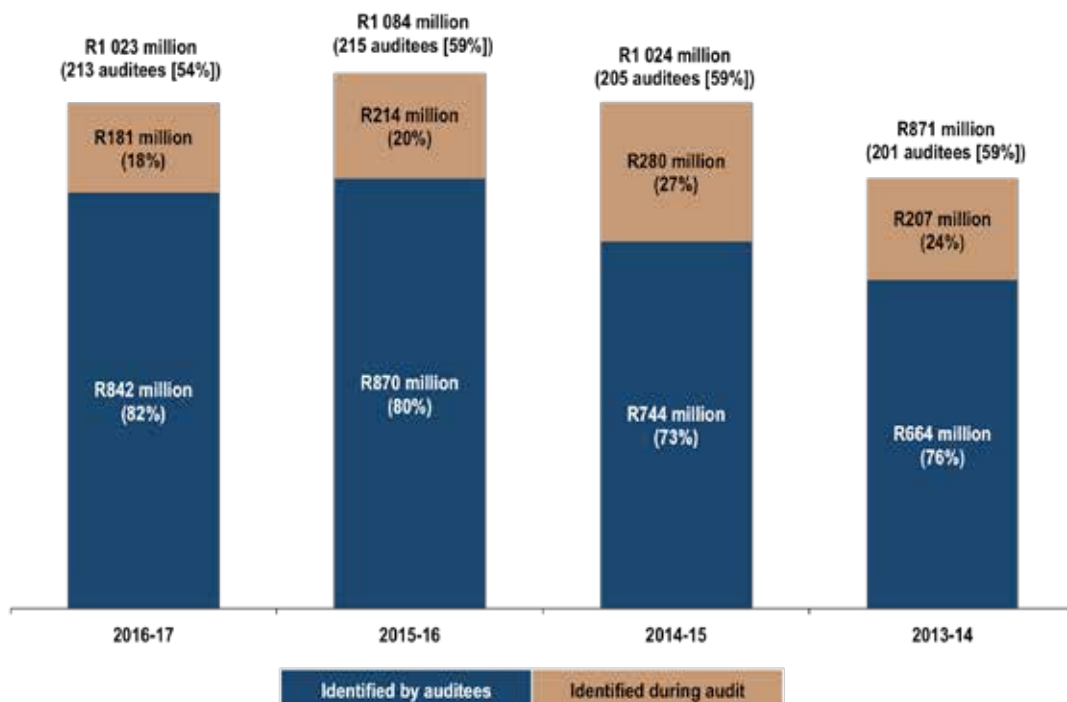
### What is fruitless and wasteful expenditure?

Fruitless and wasteful expenditure refers to expenditure that was made in vain and could have been avoided had reasonable care been taken.

Such expenditure includes interest, the payment of inflated prices, and the cost of litigation that could have been avoided.

Figure 1 depicts the extent of fruitless and wasteful expenditure over the past four years and the proportion thereof that was identified during the audit and not by the auditee.

Figure 1: Four-year trend in fruitless and wasteful expenditure



As shown in figure 1, the **amount of fruitless and wasteful expenditure** had increased by 17% since 2013-14 but decreased by 6% since the previous year. The number of auditees that incurred this type of expenditure had slightly decreased from 2015-16. Auditees in KwaZulu-Natal and Mpumalanga were the main contributors to the decrease in fruitless and wasteful expenditure from the previous year. The fruitless and wasteful expenditure in these provinces decreased by more than 80%.

A total of 176 auditees (83%) incurred fruitless and wasteful expenditure in both the current and the previous year, of which 129 had incurred such expenditure for the past four years.

The general **nature of the fruitless and wasteful expenditure** related to the following:

- Interest and penalties on overdue accounts and late payments – R369 million (36%) (2015-16: R149 million [14%])
- Litigation and claims – R141 million (14%) (2015-16: R588 million [54%])
- Other (e.g. cancellation fees for accommodation and unsuccessful implementation of software) – R513 million (50%) (2015-16: R347 million [32%])

Of the R1 023 million incurred in 2016-17, only R16 million (2%) was incurred by auditees to **avoid further fruitless and wasteful expenditure** or losses that often related to the cost of cancelling irregular contracts or the contracts of non-performers.

The following auditees were the **main contributors** (72%) to fruitless and wasteful expenditure in 2016-17. The corresponding figures for 2015-16 are shown in *italics*.

**Table 1: Highest contributors to fruitless and wasteful expenditure**

Auditee	Amount (million)	Nature
Sapo	R194 <i>(2015-16: R7)</i>	The expenditure was the result of the payment of interest and penalties on overdue accounts and late payments. Included in this amount was R26,976 million that related to fines, penalties and legal fees due to creditors not being paid as a result of Sapo's financial constraints during the previous financial year.
Cooperative Governance, Human Settlements and Traditional Affairs (LP)	R109 <i>(2015-16: R2)</i>	The expenditure was caused by overpayments of R109 million for the acquisition of land.
Education (EC)	R88 <i>(2015-16: R74)</i>	The expenditure was due to the use of incorrect learner numbers in allocating transfers to school. The payments in excess of the true numbers of learners were considered to be fruitless and wasteful expenditure.
Health (NW)	R77 <i>(2015-16: R15)</i>	A total of 92% of this expenditure related the following: <ul style="list-style-type: none"> <li>• Supply and maintenance of equipment at Moses Kotane Hospital</li> <li>• Equipment, software, warranty and maintenance at Vryburg Hospital</li> </ul>
SABC	R75 <i>(2015-16: R35)</i>	A total of 96% of this expenditure related to litigation and claims.
National Treasury	R70 <i>(2015-16: R0)</i>	An amount of R67 million was for technical support for the Oracle system not yet implemented and R2,5 million related to the leasing of office space for the Brics bank.
Coega Development Corporation	R41 <i>(2015-16: R14)</i>	The expenditure was the result of the payment of interest and penalties on overdue accounts and late payments. Penalties and interest included income tax penalties and interest charged on the incorrect application of income tax requirements.
Human Settlements (GP)	R31 <i>(2015-16: R15)</i>	The expenditure was caused by the payment of interest and penalties on overdue accounts and late payments. Penalties and interest included payments for houses that needed to be repaired because they had been vandalised.
Acsa	R31 <i>(2015-16: R19)</i>	This amount related to a fine by the South African Revenue Service.

Auditee	Amount (million)	Nature
Financial and Accounting Services Sector Education and Training Authority	R22 (2015-16: R0)	This was as a result of a duplicate payment made in 2005-06 to a training service provider for services that had already been paid. This was identified as a result of an investigation commissioned by the accounting authority into irregular expenditure to the said service provider. The entity initially made a payment to the service provider for the training services provided. Subsequently, the entity received grants from a stakeholder that were also paid to the same service provider for the same training services already paid for.

These auditees are among those that had incurred fruitless and wasteful expenditure for the past three years, except for the National Treasury, Coega Development Corporation and Financial and Accounting Services Sector Education and Training Authority. Cooperative Governance, Human Settlements and Traditional Affairs in Limpopo, Education in Limpopo, Health in North West and the SABC had also incurred this type of expenditure for the past four years.

As detailed earlier on in this section, **inadequate action taken** by accounting officers and authorities to prevent fruitless and wasteful expenditure was one of the most common material findings on compliance. We reported the findings on compliance as material at 56 auditees (14%) (2015-16: 69 [19%]) based on the fact that they incurred fruitless and wasteful expenditure in the year under review as well as in previous years, a recurrence of the action that had caused the expenditure, and our assessment that adequate controls and processes would have prevented it.

Figure 1 further illustrates that we had identified only 18% of the fruitless and wasteful expenditure amount during the audit process, which means that most auditees had adequate processes to detect and quantify all such expenditure as required by legislation. This was a slight improvement from the previous year.



Annexure 1 available on our website shows the auditees that had incurred fruitless and wasteful expenditure.