

# NATIONAL TREASURY PRESENTATION TO SCOPA ON THE DEPARTMENT OF HOME AFFAIRS', UNAUTHORISED EXPENDITURE

*NT:SCOPA PRESENTATION*

Presenter: Gillian Wilson | Chief Director, National Treasury | 19 November 2014



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# TABLE OF CONTENTS

1. Purpose
2. PFMA and unauthorised expenditure and steps taken by the department
3. Steps undertaken by the department and Treasury
4. Reconciliation of unauthorised expenditure
5. Recommendations
6. Closure

# Purpose

- The purpose of this briefing is to inform honourable members [(of the Standing Committee on Public Accounts (SCOPA)] about the unauthorised expenditure incurred by Home Affairs as disclosed in the 2010/11 and 2012/13 annual reports respectively, and
- To request the honourable members to consider whether to approve/not approve the expenditures based on the National Treasury's recommendations.

# PFMA and unauthorised expenditure and steps taken by the department

- In terms of section 1 of the Public Finance Management Act (PFMA) unauthorised expenditure is defined as:

1. overspending of a vote or main division within a vote;
2. expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division;

- Overspending as referred to in (a) above is defined as:
  - a. in relation to a vote, means when expenditure under the vote exceeds the amount appropriated for that vote; or
  - b. in relation to a main division within a vote, means when expenditure under the main division exceeds the amount appropriated for that main division, subject to section 43 of the PFMA

# PFMA and unauthorised expenditure and steps taken by the department - continue

- In terms of section 34 of the PFMA, unauthorised expenditure - (1) unauthorised expenditure does not become a charge against a Revenue Fund except when -
  - a. the expenditure is an overspending of a vote and Parliament or provincial legislature, as may be appropriate approves, as a direct charge against the relevant Revenue Fund, an additional amount for that vote which covers the overspending; or
  - b. the expenditure is unauthorised for another reason and Parliament or provincial legislature, as may be appropriate, authorises the expenditure as a direct charge against the relevant Revenue Fund.

# PFMA and unauthorised expenditure and steps taken by the department - continue

- (2) If Parliament or provincial legislature does not approve in terms of subsection (1) an additional amount for the amount of any overspending, that amount becomes a charge against the funds allocated for the next or future financial years under the relevant vote.

# Home Affairs; Steps undertaken by the department with respect to the 2010/11 unauthorized exp.

- In August 2010, the department informed Treasury about outstanding debts incurred in previous years amounting to R534 million which were not catered for in the 2010/11 baseline budget.
- Treasury advised the department to immediately take the expenditure on budget even if it means over spending on its budget at the end of the financial year.
- The department was also requested to inform both the Office of the Accountant-General and the Auditor-General on the matter.
- The final over spending disclosed in the 2011 Annual Financial Statements amounted to R687.304 million.
- In a letter dated 06 May 2014, Treasury informed the Committee that it has since assessed the report submitted by the department with respect to the unauthorized expenditure and its assessment is in line with the opinion of the Auditor-General which states that ” contrary to the

# Home Affairs; Steps undertaken by the department with respect to the 2010/11 unauthorized exp. Cont.

requirements of section 38 (1)(g) of the PFMA, the accounting officer did not immediately report in writing particulars of the unauthorized, irregular and wasteful expenditure to the relevant treasury”

Detailed breakdown of the 2010/11 unauthorized expenditure  
R thousands

	Treasury assessment	Amount
1. FeverTree/AT Keaney Consulting	Treasury agreed on contract extension on the understanding that the project was fully funded on the baseline and any shortfall will be catered for through virements. [ Baseline amounts: R249.1 million in 2009/10; R287.7 million in 2010/11 and R48.7 million in 2011/12]	79,745
2. Legal services for litigation fees	Treasury established that the department entered into contracts without first securing funds from Treasury	12,024
3. Security services	Treasury could establish why the could not have been catered for within the baseline as the expenditure is re-current and fully funded.	7,456
4. IT related contractual commitments	The department expanded the scope of the Marpless project by including deliverables which were not part of the original project scope. This was done without securing additional funding. This resulted in the project being underfunded.	31,430

# Home Affairs; Steps undertaken by the department with respect to the 2010/11 unauthorized exp. Cont.

5. Leases office accommodation	The RAMP project is fully budgeted for and Treasury could not establish why the expenditure could not have been accommodated within the baseline.	45,495
6. Shortfall on the costs for printing of passports	The department approached Treasury during the 2009 AENE for additional funding for the passports. The department was advised that the expenditure is not unforeseen and unavoidable and therefore could not be allocated funds during the AENE therefore should submit a request for fund during the MTEF. Furthermore, in the meantime they should consider reprioritization of the baseline until such time that additional funding has been approved. The department could not identify sufficient savings and hence the expenditure remained unfunded.	160,716
7. HANIS ID Infrastructure - IT related contractual commitments	The department expanded the scope of the Marples project by including deliverables which were not part of the original project scope. This was done without securing additional funding. This resulted in the project being underfunded.	97,640
8. Cost of living allowance (COLA) foreign offices - DIRCO Total	The department could not process claims from DIRCO without valid vouchers or invoices. The validation process of vouchers took longer (approximately four months) and as a result the department was able to pay between 6 and 8 months expenditure instead of the full 12 months. The expenditure is fully budgeted for in each year and unspent funds in compensation of in each year were directed to other areas without accommodating the shortfall in the coming year. Poor budgeting of the compensation budget was the main reason for the unauthorized expenditure. No over spending was projected during the year in question.	252,798 687,304

# Home Affairs; Steps undertaken by the department with respect to the 2010/11 unauthorized exp. Cont.

- Furthermore, the department in its submission to the Committee will provide details surrounding the unauthorized expenditure.
- Treasury was unable on the basis of the department's submission to favourably recommend to the this Committee to condone the expenditure in part or as a whole with additional funding.
- Treasury is aware that such a recommendation will put pressure on the department's future baseline budget which is already over stretched with no room to generate sufficient savings to fund the unauthorized expenditure.

# Home Affairs; Summary of the 2012/13 unauthorized expenditure

- Total unauthorized expenditure for the year: R301.036 million of which;
  - (1) R160.394 million relates to over spending on the vote; and
  - (2) R140.642 million relates to unspent funds from payments of capital assets for the Information Systems Modernization Project for which the department did **not** receive Treasury approval as required by the 2013 Appropriation Bill for its use.

# Home Affairs; Steps undertaken by the department and Treasury with respect to the 2012/13 unauthorized exp.

- During 2010 discussions were held between Treasury and the department on options for retaining revenue collected by the department, in order to defray expenditure related to the modernisation of information and systems' equipment and supply of official enabling documents.
- In letters dated 25 November 2010 and 3 March 2011 respectively, both the department and Treasury agreed that a trading account or entity might be established for this purpose.
- The department on the strength of our advice, sought to establish a trading account on 1 April 2013, in which revenue derived from issuing official documents would be retained and expenses incurred in generating this revenue would be defrayed from the account.
- However, the Auditor-General, in reviewing the audit plan for the operations of the department and the trading account, identified various concerns.

# Home Affairs; Steps undertaken by the department and Treasury with respect to the 2012/13 unauthorized exp.

- In broad terms, it appeared that there **was** insufficient clarity at that stage about specific activities and associated costs to be accounted for within the trading account.
- There was also uncertainty about the legal status of these arrangements, as no specific legislative authority exists for a dedicated trading revenue account as envisaged in our discussions and correspondences of 2010 and 2011.
- The department approached the Office of the Auditor-General (AG) for advice on how to proceed and on how to address the issues. After careful analysis and assessment of the issues raised by the AG by the Office of the Accountant-General (OAG), the OAG advised that a full resolution of these issues will take some time, and before formally establishing a trading entity further preparatory work would need to be undertaken, which might include legislative amendments.

# Home Affairs; Steps undertaken by the department and Treasury with respect to the 2012/13 unauthorized exp.

- In light of the above, it was agreed by all parties involved that the envisaged trading account should not be implemented in 2012/13. In practice, this meant that;
  - (1) all expenses incurred with respect to the issuing of all enabling documents should be expensed against the vote as in the past;
  - (2) all revenue generated through supply of official documents be paid to the National Revenue Fund;
  - (3) final accounts should be prepared only for the vote and not for a separate trading account; and
  - (4) the resulting over spending on the vote should be disclosed as unauthorized expenditure in the annual report as required by the PFMA.

# Home Affairs; Steps undertaken by the department and Treasury with respect to the 2012/13 unauthorized exp.

- Treasury recognized that the revenue collected was intended to cover the over expenditure, and substantially exceeded the over spending against the vote. On that understanding, Treasury condoned the over spending and recommends to this Committee that the unauthorized expenditure should be approved with additional funding of R160.394 million.

# Home Affairs; Treasury Recommendations

- It is recommended that the 2010/11 unauthorized expenditure should not be authorized and be recovered from the department's future baseline budgets in over a number of years, for example, 5 years etcetera.
- The department, in its submission failed to provide detailed information as to what happened and what steps were taken with respect to the unauthorized expenditure as required by the PFMA.
- It is recommended that the 2012/13 unauthorized expenditure of R160.394 million with respect to over spending on the vote be authorized with additional funds and the unauthorized expenditure of R140.642 million with respect to the utilization of payments of capital assets without Treasury approval be authorized as Treasury as has already provided approval for its utilization on current payments.

# Conclusion

THANK YOU