FRUITLESS AND WASTEFUL & IRREGULAR EXPENDITURE POLICY

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KEY AMENDMENTS (IF POLICY IS REVIEWED)
Key changes are the document structure separating the irregular expenditure from fruitless and wasteful expenditure.

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1. PREFACE

Background

DBSA is a public entity listed in Schedule 2 to the PFMA. Thus, it is required of it to adhere to the requirement of the PFMA, related regulations and all instruction notes applicable to entities listed in Schedule 2 to the PFMA.

In terms of section 51(1)(b)(ii) of the PFMA, accounting authority are required to take effective and appropriate steps to, amongst others, prevent irregular expenditure and fruitless and wasteful expenditure. Section 57(c) of the PFMA also provide that an official of public entity must take effective and appropriate steps to prevent irregular expenditure and fruitless and wasteful expenditure within their areas of responsibility.

This policy provides guidelines and parameters for the business to identify possible irregular expenditure and fruitless and wasteful expenditure and to ensure compliance with the requirements of the PFMA. The Bank has a zero tolerance for any incidents of irregular expenditure and fruitless and wasteful expenditure.

2. GENERAL DEFINITIONS AND ABBREVIATIONS

2.1. **Accounting Authority:** refers to the Board of Directors, as set out in section 49 of the Public Finance Management Act 1 of 1999 (herein referred to as the "PFMA").

2.2. **Board:** Refers to Executive and Non-Executive Directors.

2.3. **Company / the DBSA or Employer:** refers to the Development Bank of Southern Africa (also referred to as the Bank), and Agencies administered by the Bank.

2.4. **Corrupt Activities:** means in terms of Section 34, any offence under: Part 1, 2, 3, 4, section 21 or 22 of Chapter 2 of the Prevention and Combatting of Corrupt Activities Act, 2004, ("PRECCA") or an offence of theft, fraud, extortion, forgery or uttering a forged document. Any corrupt activity involving an amount of R100 000.00 or more must be reported to the police.

2.5. **Delegated Authority**: means the relevant Group Executive or a person appropriately delegated with the responsibility of this in accordance with the DBSA's delegation of authority framework. The CEO, CFO or relevant Group Executive may delegate their duties within the approved delegation of authority framework, without derogating the accountability, to an appropriate level of staff within the management structure of the DBSA, in which case such delegated official shall be the delegated authority. (Refer to the financial delegation of authority as approved by the CEO).

2.6. **"Financial Misconduct"** means, in terms of section 83, an act of financial misconduct if the Board wilfully or negligently (a) fails to comply with a requirement of section 50, 51, 52, 54 or 55; or (b) makes or permits an irregular expenditure or a fruitless and wasteful expenditure (this applies to all employees of the DBSA).

2.7. In all instances reference made in this policy to **'Group Executives', 'Heads', 'Professional staff' or 'Support staff'** will mean those staff members whose function is defined as such and is reflected as such in individual employment contracts.

2.8. **Employee**: means any person employed directly by the DBSA on a permanent or fixed term contract basis.

2.9. **Temporary employees:** Persons employed through a 3rd party agency are not considered to be employees.

3. PURPOSE OF THE FRUITLESS & WASTEFUL AND IRREGULAR EXPENDITURE POLICY

3.1. To outline requirements of the PFMA, National Treasury regulations and National Treasury instruction notes in respect of irregular expenditure and fruitless and wasteful expenditure;

3.2. To ensure that the DBSA and its employees complies with the requirements of the PFMA, National Treasury Regulations and National Treasury instruction notes insofar as the reporting of irregular expenditure and fruitless and wasteful expenditure concerned;

3.3. To provide definitions of irregular expenditure and fruitless and wasteful expenditure;

3.4. To provide examples of irregular expenditure and fruitless and wasteful expenditure;

3.5. To document the process to report and manage such expenditures;

3.6. To provide standard reporting templates that need to be completed when reporting any irregular and fruitless and wasteful expenditure; and

3.7. To ensure that irregular and fruitless and wasteful expenditure is detected, processed, recorded, reported timeously and recovered.

4. SCOPE

This policy provides guidelines and parameters for the business to identify possible irregular expenditure and fruitless and wasteful expenditure and to ensure compliance with the requirements of the PFMA. This policy is applicable to all DBSA permanent and fixed term employees. The Bank has a zero tolerance for any incidents of irregular and fruitless and wasteful expenditure.

Expenses incurred in the normal course of business (including costs relating to innovation and project preparation) which have complied with all the required policies, processes and approvals of the Bank; and those that are market related and which are completely out of the control of the DBSA, are excluded from the scope of this policy.

This policy should be read in conjunction with the policies and legislation currently enforced within the Bank.

5. NORMATIVE, LEGISLATION AND OTHER REFERENCES THIS POLICY IS ALIGNED TO AND ABIDING BY

5.1. The Public Finance Management Act 1 of 1999 (PFMA);

5.2. National Treasury regulations;

5.3. National Treasury instruction issued in terms of section 76 of the PFMA e.g. cost containment measures, irregular expenditure framework and/or any as issued from time to time.

5.4. Any applicable legislation

6. GOVERNANCE AND MANAGEMENT

Roles and Responsibilities:	In terms of section 51(1)(b)(ii) of the PFMA, the Accounting Authority, (the Board), is responsible for taking effective and appropriate steps in preventing such irregular and fruitless and wasteful expenditure, taking appropriate consequence management action against the employee and ensuring the relevant disclosure in the Annual Financial Statements. Section 57(c), also provide that an official of public entity must take effective and appropriate steps to prevent irregular expenditure and fruitless and wasteful expenditure within their areas of responsibility. Thus, it is the responsibility of all employees to follow the policies and legislation currently applied in the Bank to prevent irregular expenditure and fruitless and wasteful expenditure within his/her area of responsibility. Employees should keep up to date and be familiar with the content of this policy. Any queries regarding these matters can be discussed with the respective Head or the Finance Division. Accounting authorities and officials of the Bank must report on cases of irregular expenditure and fruitless and wasteful expenditure in the format contained in this policy.
Policy Principles:	Where Heads have a discretionary decision to make, they will apply such discretion fairly and objectively by looking at the interests of both the DBSA and the employee in accordance with the parameters of the PFMA and Treasury Regulations.
Period of operation	This policy shall become and remain operational upon the effective date and shall replace all previous versions of irregular expenditure and fruitless and wasteful expenditure related policies. The policy will be reviewed the earlier of 3 years or if significant legislations (instruction notes) come into effect.
Compliance	This policy is intended to aid with the compliance of the requirements of the PFMA. Non-compliance with the policy may be subjected to appropriate consequence management action.
Preamble	Any reference to approval in this policy implies approval by the appropriate authority as indicated by the Bank's delegation of authority (DOA). If the appropriate delegation is not available, delegations that are otherwise in place at the time must be adhered to.
Non-compliance to the Bank's internal policies	Although the scope of this policy does not cover **non-compliance to the Bank's internal policies**, such non-compliance will be dealt with in accordance with the Bank's disciplinary processes.

Roles and responsibilities

6.1. The responsibilities of the Board include, amongst others, as per Section 51(1)(h) of the PFMA, to:

- Comply and ensure compliance with this Act and any other legislation applicable to the Bank. This responsibility encompasses identifying all the legislative requirements which the Bank must comply with, including implementation of internal policies which form an integral part of their internal control system that is designed to provide reasonable assurance that compliance is achieved;
- ultimately ensure that appropriate steps are taken to prevent irregular and fruitless and wasteful expenditure;
- take effective and appropriate disciplinary steps against any person who makes or permits an irregular and fruitless and wasteful expenditure.
- ensure that the annual report and Audited Financial Statements disclose all particulars of irregular and fruitless and wasteful expenditure that occurred during the financial year and the steps taken as a result of such irregular and fruitless and wasteful expenditure.

6.2. Every member of the Board is individually and severally liable for any financial misconduct, that is, if an irregular and fruitless and wasteful expenditure is made or permitted.

6.3. The CFO, to whom a power of duty is assigned in terms of section 56 of the PFMA, commits an act of financial misconduct if that individual wilfully or negligently fails to exercise that power or perform that duty. Notwithstanding the delegation, the Board remains ultimately responsible for the exercise and performance of the delegated power.

6.4. Likewise, all employees commit an act of financial misconduct if an item of irregular and fruitless and wasteful expenditure expenditure is knowingly or negligently permitted.

6.5. For the purposes of effecting this policy, the CFO shall take responsibility of the co-ordination and administration of the policy and process on behalf of the Board.

6.6. The CFO, must maintain irregular expenditure Checklist (Annexure C) and Lead Schedule (Annexure D) as well as fruitless and wasteful expenditure Lead Schedule (Annexure E) which must contain detailed information on such expenditure for each financial year. A complete and accurate register will ensure that irregular expenditure disclosed in the Annual Financial Statements are complete and accurate.

6.7. The reporting of the loss through irregular and fruitless and wasteful expenditure as envisaged by this process, shall further be the responsibility of the Group Executives of the relevant divisions on behalf of the CFO. It is the responsibility of the Group Executives with the help of the Division's Executive Coordinator and/or the Division's Risk Champion to review the division's accounts and highlight items believed to be irregular and fruitless and wasteful expenditure.

SECTION A: IRREGULAR EXPENDITURE

7. SPECIFIC DEFINITIONS AND ABBREVIATIONS

7.1. **Assessment:** means a test conducted by a Group Executive to identify possible irregularities in transactions processed and to confirm the allegations of irregular expenditure.

7.2. **Checklist**: means a list of transgressions and alleged cases of irregular expenditure that are in the process of being dealt with.

7.3. **Condonation:** refers to process whereby the National Treasury (or relevant authority) acknowledges the irregular expenditure and pardons the incurrence thereof. The relevant authority is the person or institution whose approval would have been required prior to entering into that transaction or incurring such expenditure.

7.4. **Determination**: means an informal assessment conducted by the Internal Audit to examine or analyse the particulars of non-compliance in order to establish the facts and to determine the loss(es) related to the transaction.

7.5. **Investigation:** means a formal probe conducted by an Internal Audit function or another relevant function to analyse the particulars of non-compliance in order to establish the facts about the transaction relating to any fraudulent, corrupt or criminal act.

7.6. **Irregular expenditure:** means expenditure, other than unauthorised expenditure, incurred in contravention of or that is not in accordance with requirements (or transgression) of any applicable legislation, including:

a) The Public Finance Management Act 1 of 1999 (PFMA);

b) National Treasury regulations;

c) National Treasury instruction issued in terms of section 76 of the PFMA e.g. cost containment measures, irregular expenditure framework and/or any as issued from time to time.

d) Any applicable legislation

Irregular expenditure is incurred when the resulting transaction is recognised as expenditure in the Statement of Financial Performance of the Bank in accordance with the International Financial Reporting Standards (IFRS). Thus, for a transaction to constitute irregular expenditure it must be:

i. Incurred in contravention of the legislation or policies referred above; and

ii. Incurred upon recognition of a financial transaction as a liability in accordance with the International Financial Reporting Standards (IFRS).

7.7. **Lead schedule:** means a summary of irregular expenditure to be disclosed in notes to the annual financial statements and the progress related thereto.

7.8. **Removal:** means the process of eliminating the irregular expenditure from notes to the annual financial statements if it was not condoned by the National Treasury (or relevant authority).

8. POLICY STATEMENTS

8.1. The following questions should be asked, as a guideline, when evaluating transaction for irregular expenditure.

- Was the expenditure incurred in contravention of the PFMA or any other relevant legislation?
- If expenditure was over budget, was the expenditure appropriately authorised or ratified?
- Were the necessary approvals subsequently obtained?
- The Bank applying International Financial Reporting Standards (IFRS) to incur irregular expenditure, the non-compliance must be linked to a financial transaction. Although a transaction may trigger irregular expenditure, the Bank will only record irregular expenditure when a transaction is recognised as expenditure in the Statement of Financial Performance in accordance with IFRS.

Examples

- Paying VAT for goods/services obtained from a non-vendor;
- Exceeding the contracted amount without a variation of order pre-approval; and
- Expenditure incurred but not in compliance with a particular Act e.g. PFMA, PPPFA, Treasury Regulations, National Treasury Instruction notes.

The circumstances prevailing at the time when the loss or expenditure was incurred should be taken into account in determining whether the above guidelines/tests are met.

Assessment

8.2. Upon detection of alleged irregular expenditure Group Executive must report the matter to the CFO, who will conduct an assessment to identify possible irregularities in transactions that have been processed and to confirm whether irregular expenditure has been incurred or whether the incident was the result of non-compliance with laws and regulations that did not relate to the incurrence of a financial transaction.

8.3. The Group Executive must confirm allegations into irregular expenditure within 30 days after the alleged irregular expenditure has been reported to him/her. If there are disputes regarding whether the alleged irregular expenditure meets the definition of irregular expenditure, the assessment process must be conducted and completed within three (3) months from the date the alleged irregular expenditure was reported to the Group Executive.

Confirmation of irregular expenditure

8.4. If a transaction has been processed in contravention of the legislation and the same transaction has a financial implication (payment was made or a liability was recognized in the books), it must be recorded as irregular expenditure

- The Group Executive must record the details of all alleged irregular expenditure in the Checklist, as contained in **Annexure C** to this Policy.
- The details and amounts of confirmed irregular expenditure and losses determined must be recorded in the irregular expenditure Lead Schedule, as contained in **Annexure D** to this Policy.

Confirmation of Non-compliance

8.5. Where it has been confirmed that the identified non-compliance does not constitute irregular expenditure, as defined in section 1 of the PFMA, the Group Executive must:

a) Strengthen the internal control environment where the non-compliance was identified and confirmed; and

b) Refer the non-compliance matter to the human resource management process to institute disciplinary processes or appropriate action.

The Group Executive must record the details of the confirmed non-compliance in the Checklist, as contained in Annexure C to this Policy.

Determination

8.6. The Internal Audit must conduct a determination test or analyse the particulars of non-compliance in order to establish the facts and losses, if any, related to the transaction.

8.7. The determination test must be conducted by Internal Audit to confirm the facts and losses associated with the transaction and to collect information related to the identification of:

a) root causes that led to the transgression;

b) employee(s) responsible for the irregular expenditure;

c) if the Bank suffered a loss; and

d) any breakdown in the designed internal controls.

8.8. The determination test must commence and be finalised within 30 days after assessment of irregular expenditure. If there are any disputes, the determination process must be completed within four (4) months after the assessment of irregular expenditure.

Investigation

8.9. The Group Executives must conduct an investigation if he/she suspects any possibilities of fraudulent, corrupt or criminal acts emanating from the incurrence of irregular expenditure.

8.10. The Group Executives must, upon suspicion of a fraudulent, corrupt or criminal act, refer the irregular expenditure matter to Internal Audit to investigate in order to establish the facts about the transaction and to obtain recommendations on the next step(s) to be taken.

8.11. The investigation must provide the Group Executives with at least the following facts about the transaction as well as information related to:

a) root causes that led to the transgression;

b) impact of the transgression;

c) information on fraudulent, corrupt or criminal related act(s);

d) employee(s) responsible for the irregular expenditure;

e) if the Bank suffered a loss;

f) if the matter must be referred to the law enforcement agencies; and

g) any breakdowns in the designed internal controls and the impact thereof.

8.12. The investigation referred to above must be instituted within 30 days after it has been confirmed that irregular expenditure has been incurred.

8.13. The Group Executives must conclude the investigations and resolve all matters related to such irregular expenditure within 30 days from the date on which the alleged irregular expenditure was discovered. If such investigations are not concluded by the date on which the Annual Financial Statements are published, a narrative to this effect must be included. The Group Executives must ensure that the validity of irregular expenditure is confirmed before the Annual Financial Statements are submitted for audit purposes. If the irregular expenditure occurred during the year under review and is only discovered during the audit, the validity thereof must be confirmed before the audit is finalised.

8.14. Due to their familiarity and closeness with the expenses incurred for their cost centre, approvers have the primary responsibility for ensuring compliance with this policy and safeguard the assets of the DBSA. The approver must verify validity and necessity of expenses and highlight expenses that meet the definition of irregular expenditure. The approver must ensure that the system of financial management and internal control is carried out and that financial and other resources are used effectively, efficiently, economically and transparently.

Recovery

8.15. Irregular expenditure emanating from fraudulent, corrupt or criminal acts may deprived the Bank from achieving value for money and may also result in the Bank incurring a loss. This must prompt the Internal Audit to inform the Group Executive and CFO in writing to institute a civil claim for the recovery of the loss.

8.16. If the results of the determination and investigation conducted confirms that the Bank suffered a loss from the incurrence of irregular expenditure, the Group Executive must take steps to recover the losses suffered.

Quantifying a debt recoverable/loss

8.17. The amount of debt recoverable from the responsible employee(s) may equate to:

a) the value of the debt incurred as a consequence of his or her action(s) that led to incurrence of the irregular expenditure; or

b) a lesser amount, determined by the Group Executive and CFO in accordance with the debt management policy.

8.18. Where the irregular expenditure is identified at a management level, the “one up” principle will apply. I.e. the incident should be addressed one level above the level where the incident was identified (in terms of the DOA).

Raising a debt and informing the responsible employee of the debt

8.19. A debt must be identified, reported and recorded in the books of the Bank where such a debt arose from losses incurred as a result of irregular expenditure.

8.20. As soon as the Group Executive becomes aware of the debt, he/she must, in writing, request that an employee responsible for the debt pay the amount involved within thirty (30) days or within reasonable instalments in line with the Banks debt management policy. The “request in writing” essentially means that the debtor is placed “in mora”. If the employee responsible for the debt disputes the debt, the matter must be referred to the Legal Unit, to confirm the debtor’s liability in law.

8.21. All debts incurred from losses emanating from the incurrence of irregular expenditure shall be interest bearing at the uniform interest rate prescribed in terms of section 80(1)(b) of the PFMA and shall be calculated using the simple interest method.

8.22. In cases where the employee has left the service of the Bank, the Group Executive must hand over the matter to Legal Unit to follow processes to recover the debt

8.23. If the amount of a debt is irrecoverable from a responsible employee, the CFO may write off the debt in accordance with the debt write off policy.

8.24. If Board is responsible for the debt and is unable to re-pay the debt, the Board must report the inability to the National Treasury in-order for the National Treasury to consider approving the write off, if such a debt is considered to be irrecoverable

Where a fraudulent, corrupt or criminal act was identified

8.25. If the investigation conducted confirms that the irregular expenditure is related to a fraudulent, corrupt or other criminal conduct for any amount of R100 000 or more, the CFO must, within seven (7) days, ensure that a criminal charge is laid with the South African Police Service against the responsible employee(s).

The CFO must also inform the relevant executive authority, the National Treasury and the Auditor-General within seven (7) days after laying the above criminal charge.

Referral of irregular expenditure where no losses were reported

8.26. The CFO must refer the matter related to irregular expenditure to the following authorities, if recommendations of the Internal Audit confirms that no loss was incurred during the contravention of the legislation or policies and that value for money was achieved:

a) **Referral to Human Resource** function to assist the CFO with any disciplinary process. In terms of sections 51(1)(e)(iii) of the PFMA, the CFO must take effective and appropriate disciplinary steps against any official in the service of the Bank who makes or permits irregular expenditure.

If the allegation of financial misconduct is confirmed, the CFO must ensure that disciplinary processes are initiated against the employee concerned in accordance with the relevant prescripts and agreements regulating the employment of the applicable category of employees.

If the Board is alleged to have committed financial misconduct, the relevant executive authority must initiate an investigation into the matter within thirty (30) days from the date of discovery of the alleged financial misconduct and if the allegations are confirmed, ensure that appropriate disciplinary processes are initiated immediately;

b) **Referral to National Treasury (or Relevant Authority)** for condonation of the irregular expenditure if no losses were reported and where the transaction is not related to fraudulent, corrupt or criminal acts.

The CFO may, with the approval of Board and EXCO, forward submissions to the National Treasury for attention of the Accountant General or other relevant authority to request condonation for non-compliance with the PFMA or other legislation respectively, more specifically, in the event that irregular expenditure is incurred, which has not resulted in a loss and where value for money was achieved from the use of the goods procured or services rendered. If National Treasury or other relevant authority does not condone irregular expenditure that resulted in losses or damages to the Bank and it is confirmed that there is no person liable in law for the expenditure, the relevant authority may record the expenditure as irrecoverable.

Requests for condonation of irregular expenditure submitted to the relevant authority must at least contain the following information:

i. confirmation that a determination test was conducted;

ii. findings and recommendations of the Internal Audit;

iii. confirmation that no losses were incurred;

iv. confirmation that disciplinary action was taken against the responsible employee(s);

v. confirmation that investigations were conducted in cases of identified fraudulent, corrupt or criminal acts; and

vi. remedial actions taken by the Group Executive to prevent the recurrence of such irregular expenditure in similar circumstances.

c) **Referral to Board for removal** of the irregular expenditure if such irregular expenditure was not condoned by the relevant authority.

The CFO may proceed removing irregular expenditure that was not condoned by the relevant authority from the notes to the annual financial statements, if the Board is satisfied that the recommendations of the Internal Audit (in a case of an investigation) or another relevant function confirms that:

i. the matter is free from fraudulent, corrupt or criminal acts;

ii. disciplinary action was taken against the responsible employee(s);

iii. the Bank, did not suffer any losses;

iv. the non-compliance that led to the irregular expenditure has been addressed to ensure that such expenditure does not recur under similar circumstances; and

v. transactions of a similar nature are regularly reviewed to ensure compliance with the relevant prescripts

SECTION B: FRUITLESS AND WASTEFUL EXPENDITURE

9. SPECIFIC DEFINITIONS AND ABBREVIATIONS

9.1. **Assessment:** means a test conducted by the Group Executive to assess whether the expenditure meets the definition of fruitless and wasteful expenditure.

9.2. **Checklist:** means a list of alleged cases of fruitless and wasteful expenditure that are in the process of being dealt with.

9.3. **Determination:** means an informal assessment conducted by the Internal Audit to examine or analyse particulars of the expenditure and quantify amount(s) of fruitless and wasteful expenditure.

9.4. **Fruitless and wasteful expenditure:** means expenditure which was made in vain and would have been avoided had reasonable care been exercised. The words in vain as contained in the definition of fruitless and wasteful refers to a transaction, event or condition which was undertaken without value or substance and which did not yield any desired results or outcome. Reasonable care means applying due diligence (careful application, attentiveness, caution) to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed to an acceptable level.

9.5. **Investigation:** means a formal probe conducted by an Internal Audit function or another relevant function to analyse the particulars of non-compliance in order to establish the facts about the transaction relating to any fraudulent, corrupt or criminal act.

9.6. **Lead schedule:** means a summary of fruitless and wasteful expenditure to be disclosed in the notes to the annual financial statements and the progress related thereto.

9.7. **Reasonable care:** means applying due diligence and exercising control (careful application, attentiveness, caution) to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed; and

9.8. **Vain:** means an expenditure which was undertaken without value or substance and which did not yield any desired results or objectives.

10. POLICY STATEMENTS

Discovery

10.1. An employee who becomes aware or suspects the occurrence of fruitless and wasteful expenditure must immediately, in writing, report such expenditure to the Head, Group Executive or the CFO in terms of this policy.

Evaluation

10.2. Evaluation of incidents into circumstances that could lead to fruitless and wasteful expenditure:

i. **Evaluation of an incident(s):** An evaluation of an incident that may lead to the unintended occurrence of fruitless and wasteful expenditure

ii. **Exercising reasonable care:** Action, procedure or operation undertaken by the employee(s) or another relevant function in responding to the possibility of incurring fruitless and wasteful.

iii. **Examination of negligence:** Confirmation of whether the action, procedure or operation of exercising reasonable care was disregarded by employee(s) or another relevant function to prevent fruitless and wasteful expenditure

10.3. The following questions should be considered, as a guideline to identify fruitless and wasteful expenditure when assessing the expenditure to determine whether or not the expenditure was in vain by considering:

- Expenditure with no objective
- Objective not in the best interest of the Bank
- Outcome in contradiction to the approved objective
- Objective not in terms of an approved programme
- No value or benefit received, i.e. expenditure was futile
- Expenditure did not yield the intended/planned output or benefit and the reason thereof
- Could the expenditure have been avoided had reasonable care been taken?
- Was all the available information at the time considered?
- Were appropriate considerations made in respect of financial planning and budgeting?
- Were there adequate and effective internal controls in place to identify possible fruitless and wasteful expenditure?
- Was the decision taken within appropriate time frames and at appropriate levels of consideration?

Examples

- Unnecessary or excessive travel locally or abroad
- Expenditure incurred on scrapped /postponed projects where these projects were not initially justified
- Avoidable penalties on late submissions

The circumstances prevailing at the time of the loss or expenditure was incurred should be taken into account in determining whether the above guidelines/tests are met. The minimum standard of care that employees must exercise is that which a reasonable person would exercise in the same circumstances. The employee is expected to have reasonable knowledge and skill which will enable him/her to appreciate the implications of the decision that was made.

Assessment

10.4. Section 51(1)(b)(ii) of the PFMA require the Board to, amongst others, take effective and appropriate steps to prevent fruitless and wasteful expenditure.

10.5. Upon detection of alleged fruitless and wasteful expenditure, the Group Executive report the matter to the CFO, who must conduct an assessment to confirm whether expenditure incurred meets the definition of fruitless and wasteful expenditure.

Confirmation of fruitless and wasteful expenditure

10.6. The Group Executive must record the details of all alleged fruitless and wasteful expenditure in the Checklist, as contained in Annexure C to this policy.

10.7. Upon confirmation of fruitless and wasteful expenditure, the CFO must record the details of fruitless and wasteful expenditure in the Lead Schedule, as contained in Annexure E to this policy.

Determination

10.8. The Internal Audit must conduct a determination test to examine or analyse particulars of the expenditure and quantify the amount(s) of the fruitless and wasteful expenditure.

10.9. The Internal Audit must at least collect information on:

a. the root causes that led to the fruitless and wasteful expenditure;

b. the employee(s) responsible;

c. confirmed amounts of fruitless and wasteful expenditure to be recovered;

d. confirmed amounts of fruitless and wasteful expenditure that are assessed as irrecoverable; and

e. any breakdown in the designed internal controls.

10.10. The determination test must commence within 30 days after the fruitless and wasteful expenditure was reported to the accounting officer or accounting authority.

Investigation

10.11. The Group Executive must conduct an investigation if it is suspected that there is a possibility of fraudulent, corrupt or other criminal conduct emanating from the incurrence of fruitless and wasteful expenditure

10.12. The Group Executive must, upon suspicion of a fraudulent, corrupt or other criminal conduct, refer the fruitless and wasteful expenditure matter to Internal Audit to investigation in order to establish the facts about the transaction and to obtain recommendations on the next step(s) to be taken.

10.13. The investigation must provide the Group Executive with at least the following information:

(a) root causes that led to the fruitless and wasteful expenditure;

(b) employee(s) responsible for incurring the fruitless and wasteful expenditure;

(c) fraudulent, corrupt or other criminal conduct;

(d) whether the matter was referred to the South African Police Service; and

(e) any breakdown in the designed internal controls and the impact thereof.

10.14. The investigation must commence within 30 days after the determination test.

Recovery

10.15. If it has been confirmed that expenditure is fruitless and wasteful, the Group Executive must recover such amounts of fruitless and wasteful expenditure from the responsible employee(s).

Quantifying a debt (loss)

10.16. The amount of debt recoverable from the responsible employee(s) may equate to:

a) the value of the debt incurred as a consequence of his or her action(s) that led to incurrence of the fruitless and wasteful expenditure; or

b) a lesser amount, determined by the Internal Audit in accordance with the debt management policy.

10.17. Where the fruitless and wasteful expenditure is identified at a management level, the “one up” principle will apply. I.e. the incident should be addressed one level above the level where the incident was identified (in terms of the DOA).

Raising a debt and informing the responsible employee of the debt

10.18. A debt must be identified, reported and recorded in the books of the Bank where such a debt arose from losses incurred as a result of fruitless and wasteful expenditure.

10.19. As soon as the Group Executive becomes aware of the debt, he/she must, in writing, request that an employee responsible for the debt pay the amount involved within thirty (30) days or within reasonable instalments in line with the Banks debt management policy. The “request in writing” essentially means that the debtor is placed “in mora”. If the employee responsible for the debt disputes the debt, the matter must be referred to the Legal Unit, to confirm the debtor’s liability in law.

10.20. All debts incurred from losses emanating from the incurrence of fruitless and wasteful expenditure shall be interest bearing at the uniform interest rate prescribed in terms of section 80(1)(b) of the PFMA and shall be calculated using the simple interest method.

10.21. In cases where the employee has left the service of the Bank, the Group Executive must hand over the matter to Legal Unit to follow processes to recover the debt

10.22. If the amount of a debt is irrecoverable from a responsible employee, the CFO may write off the debt in accordance with the debt write off policy.

10.23. If Board is responsible for the debt and is unable to re-pay the debt, the Board must report the inability to the relevant treasury in-order for the relevant treasury to consider approving the write off, if such a debt is considered to be irrecoverable

Referral of fruitless and wasteful expenditure

10.24. The CFO must refer fruitless and wasteful expenditure matters to the following authorities to address issues of consequence management:

a) **Referral to Human Resource** function to assist the CFO with any disciplinary process. If the determination or investigation into fruitless and wasteful expenditure confirms that an employee(s) who is/are responsible for the fruitless and wasteful expenditure, the CFO refer the matter to the Human Resource to institute disciplinary processes (where applicable) in line with the relevant human resource prescripts.

b) **Referral to the South Africa Police Service laying a criminal charge.** If the investigation conducted confirms that the fruitless and wasteful expenditure is related to a fraudulent, corrupt or other criminal conduct for any amount of R100 000 or more, the CFO must, within seven (7) days, ensure that a criminal charge is laid with the South African Police Service against the responsible employee(s). The CFO must also inform the relevant executive authority, the National Treasury and the Auditor-General within seven (7) days after laying the above criminal charge.

SECTION C: REPORTING & DISCLOSURE AND PROCESS

11. REPORTING & DISCLOSURE

Reporting

11.1. If confirmation by the CFO indicates that the transaction constitutes irregular expenditure and fruitless and wasteful expenditure the CFO must report particulars of the irregular expenditure and fruitless and wasteful expenditure to the relevant authority, as indicated below. In terms of section 55(2)(b) of the PFMA, the Bank Annual Report and Annual Financial Statements will include particulars of:

i. any irregular expenditure and fruitless and wasteful expenditure for that year;

ii. any criminal or disciplinary steps taken as a consequence of incurring irregular expenditure and fruitless and wasteful expenditure; and

iii. any losses recovered or written off.

11.2. In order to fulfil the reporting requirements as noted above, the Group Executive of each division must submit a report to the CFO listing all irregular expenditure and fruitless and wasteful expenditure identified, on a quarterly basis. Such report shall be compiled and submitted by the Group Executive, based on any reports received and concluded during the quarter. Such report must include the following information:

- An indication of why it is considered an irregular expenditure and fruitless and wasteful expenditure;
- The value of the payment and the payee;
- Who the payment was made by and when;
- What attempts were made to recover the expenditure;
- What consequence management action was taken, if any.

11.3. The expenditure must remain as an expense item during the investigation, for accounting purposes. Once determined that it is irregular expenditure and fruitless and wasteful expenditure, a debt account must be created until such time the expenditure is recovered from the responsible person or written off as irrecoverable as determined by the process of recommended action signed off by the Group Executive.

11.4. All cases of irregular expenditure and fruitless and wasteful expenditure must be reported internally to the respective Group Executive, irrespective of the transaction amount and will be investigated for the purposes of reporting to National Treasury and disclosure in the annual report and Annual Financial Statements.

11.5. All instances which falls within the definition of corrupt activities in terms of the PRECCA, must be reported to the DBSA Forensic Services. If the value of the transaction is above R100 000, the DBSA Forensic Services will submit the relevant report to South African Police Services. The PRECCA reporting process sets out the relevant process.

11.6. If the case constitutes a suspicious and unusual transaction, as defined in the Financial Intelligence Centre Act of 2001 ("FICA"), then the case must be reported to the Group Compliance Officer within 5 business days. No monetary threshold is applicable in this instance. Guidance on what constitutes a suspicious and unusual transaction is set out in the DBSA Internal Rules.

11.7. All cases of irregular or fruitless and wasteful expenditure should be reported internally following the process as noted in Annexure A.

Disclosure

11.8. If investigations, where applicable, are not concluded by the date on which the Annual Financial Statements are published, a narrative to this effect must be included.

The National Treasury further requires the above mentioned information as part of the annual submission of the National Treasury template at the end of May (draft) and July (final). Any such losses need to be included in the National Treasury quarterly submissions.

11.9. The CFO must maintain these quarterly individual divisional reports in a consolidated register for the Bank. Internal Audit, Supply Chain, ERM, Compliance and Human Capital, will also submit any relevant information for completeness of the register. A quarterly report based on the information contained on the consolidated register, must be prepared and submitted to the Board. The quarterly report will be forwarded to Corporate Secretariat/Strategy Division for inclusion in the National Treasury quarterly submissions.

11.10. Incidents relating to Third party funds under management (Programmes/Agencies) will follow the same reporting process as for the DBSA, however, these will not be disclosed in the Banks financial statements. These items should be reported to the related Funder and disclosed in the Programme's Financial Statements.

12. PROCESSES

12.1. When an alleged irregular or fruitless and wasteful expenditure has been identified, it must immediately be reported to the Head and Division's Executive Coordinator and/or the Division's Risk Champion.

12.2. The person reporting the alleged irregular or fruitless and wasteful expenditure must document the facts of the incident on the standard template available on the DBSA intranet.

12.3. The person reporting the expenditure should sign the template as declaration that the facts noted are true and correct to his/her knowledge. Any supporting documents available should be attached as further evidence.

12.4. The Head and the Division's Executive Coordinator/or the Division's Risk Champion should:

- review the facts and consider if the alleged expenditure is irregular or fruitless and wasteful;
- severity of the incident (i.e. financial impact to the DBSA) and

- recommend action to be taken prior to submission of the template to the Group Executive.

12.5. Examples of questions to consider when determining if the expenditure is irregular or fruitless and wasteful:

- Will the expenditure further the interest of the Bank?
- Is it necessary to incur the expenditure?
- Is there any other option available to reduce or avoid the expenditure?
- Will the expenditure be done in accordance with good financial practices, ethical norms and transparency and in accordance with the policies and procedures of the DBSA?

12.6. The Head should recommend an appropriate course of action and include:

- Detail of the action to be taken;
- amount to be recovered from employee/s involved where an investigation reveals that the employee is liable in law, then accountability for such expenditure and any losses relating thereto, shall be vested with that individual. ;
- recommendation of additional controls to be put in place to prevent the action from occurring again.

12.7. The Head should sign the document as evidence of review of the report and recommended action.

12.8. The Head should review the submission and approve or amend the recommended action to be taken, before obtaining final approval from the Group Executive.

12.9. The Group Executive will then report the matter to FNCC.

12.10. Within 30 days from the day the matter was report, the Group Executive and the FNCC must conduct an assessment to confirm whether expenditure incurred meets the definition of irregular or fruitless and wasteful expenditure and should come up with the final report on the matter.

12.11. The report and recommendation should also be reviewed and approved by the Board, depending on the level of financial impact.

12.12. Where the irregular or fruitless and wasteful expenditure is identified at a management level, the “one up” principle will apply. I.e. the incident should be reported to one level above the level where the incident was identified (in terms of the DOA).

12.13. All incidents of irregular expenditure or fruitless and wasteful expenditure should be reported to the Board regardless of financial impact.

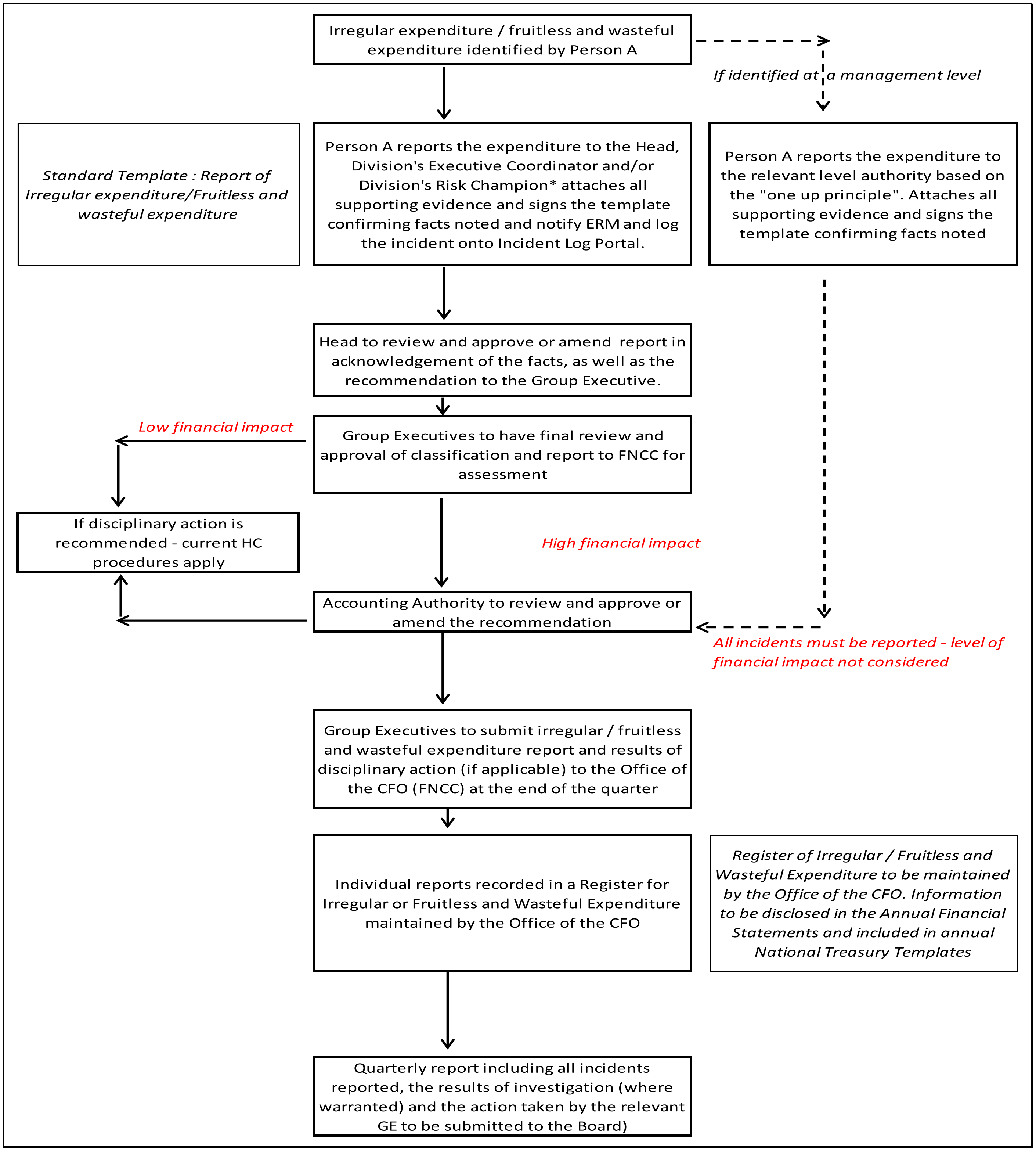
12.14. All reported incidents should be recorded in the Irregular or Fruitless and Wasteful Expenditure Register, which should be maintained by the CFO.

12.15. Should disciplinary action be recommended and approved; the current procedures as applied by Human Capital will be followed. Please refer to the Disciplinary Code of Conduct.

Division’s Executive Coordinators and/or Division’s Risk Champions will monitor and ensure this process has been followed and completed

APPENDICES

13.1. ANNEXURE A: PROCESS FLOW CHART



* *Division's Executive Coordinator and/or Division's Risk Champion will monitor and ensure this process has been followed and completed*

13.2. ANNEXURE B: REPORT TEMPLATE

Irregular Expenditure / Fruitless and Wasteful Expenditure Report Template

Irregular Expenditure	
Fruitless and Wasteful Expenditure	

Background facts
- Who was the payment made to? - What was the value of payment? - What was the purpose of the payment? - Who was the payment made by? - Why is expenditure considered irregular / fruitless and wasteful? - What attempts were made to recover the expenditure?

Recommended action to be taken
- disciplinary action to be taken - possible additional controls to be put into place

	Name	Employee No.	Designation	Signature	Date
Reported by:					
Approver 1: *					
Approver 2: *					
Recorded in register by (Office of the CFO:					

** in terms of the delegation of authority*

13.3. ANNEXURE C: IRREGULAR EXPENDITURE CHECKLIST

Development Bank of South Africa																
			Transaction details						Status of Irregular Expenditure							
N°	Date of discovery	Date reported to GE or CFO	Date of payment	Payment number	Unconfirmed Amount of IE	Is the transgression non-compliance or Irregular Expenditure	Description of incident	Person responsible (committed irregular or F&W expenditure)	Irregular Expenditure referred to IA[2] for Determination and for investigation	Disciplinary Process referred to HR[3]	Recovery Process referred to IA	Criminal Charges referred to LEA[4]	Condonation referred to RA[5]	Removal referred to Board	General Comments	

Abbreviations:

[1] GE/CFO- Agroup Executive or Chief Financial Officer

[2] IAF- Internal Audit function or another relevant function (for investigation)

[3] HR- Human Resource

[4] LEA- Law Enforcement Agency

[5] RA- Relevant Authority

13.4. ANNEXURE D: IRREGULAR EXPENDITURE LEAD SCHEDULE

Development Bank of South Africa																
			Transaction details						Status of Irregular Expenditure (IE)							
Nº	Date of discovery	Date reported to GE or CFO	Date of payment	Payment number	Confirmed Amount of IE	Confirmed Amount Losses	Description of incident	Person responsible (committed irregular or F&W expenditure)	UD/I[1] Y/N/NA	LR[2] Y/N/NA	DP[3] Y/N/NA	CC[4] Y/N/NA	Cn[5] Y/N/NA	R[6] Y/N/NA	General Comments	

Abbreviations:

[1] UD/I- under determination or investigation

[2] LR- Loss Recovery

[3] DP- Disciplinary Process

[4] CC- Criminal Charges

[5] Cn- Condoned

[6] R – Removed

DBSA

13.5. ANNEXURE E: FRUITLESS AND WASTEFUL EXPENDITURE LEAD SCHEDULE TEMPLATE

Development Bank of South Africa

Nº	Date of discovery	Date reported to GE or CFO	Transaction details				Person responsible (committed F&W expenditure)	Status						
			Date of payment	Payment number	Amount	Description of incident		UI	C	CM	TR	P	WO	General Comments

Abbreviations:

UI: Fruitless and wasteful currently **under investigation**;

C: Fruitless and wasteful **confirmed**;

CM: **Concequence Management process** initiated against responsible person;

TR: **Trasferred to receivables** for recovery

P: **Paid** in or in the process of paying in installments; or

WO: **Written-off** by relevant authority as irrecoverable.