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LOCAL MUNICIPALITY



UNAUTHORISED, IRREGULAR,
FRUITLESS AND WASTEFUL
EXPENDITURE REDUCTION
STRATEGY
2025-2026

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1. PURPOSE

The purpose of this strategy is to implement a reduction strategy designed to address current and historical UIFW expenditures figures and to improve internal controls and thereby improving the audit outcomes of the municipality on occurrence and completeness of UIFW expenditures.

2. DEFINITION

Unauthorised expenditure is defined in section 1 of the MFMA as follows:

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality’s approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

Unforeseen and unavoidable expenditure is discussed in section 29 of the MFMA and reads as follows:

- (1) The mayor of a municipality may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.
- (2) Any such expenditure—

- (a) must be in accordance with any framework that may be prescribed;
- (b) may not exceed a prescribed percentage of the approved annual budget;
- (c) must be reported by the mayor to the municipal council at its next meeting; and
- (d) must be appropriated in an adjustments budget.

If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and section 32 applies

Irregular expenditure is defined in section 1 of the MFMA as follows:

“irregular expenditure”, in relation to a municipality or municipal entity, means—

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

- Municipal Finance Management Act, Act 56 of 2003, and its regulations.
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality's supply chain management policy, and any by-laws giving effect to that policy

Fruitless and wasteful expenditure is defined in section 1 of the MFMA as follows:

- "fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised.
- The concept of *fruitless and wasteful expenditure* is founded on public administration and accountability principles, to promote "efficient, economic and effective use of resources and the attainment of value for money". The idea is also founded on the fact that the council, the mayor and the accounting officer have a fiduciary responsibility to ensure that municipal resources are used in the best interests of the municipality and the local community.

3. OBJECTIVES

The primary objectives of the **UIF&W STRATEGY** are to:

- a) To reduce unauthorized, irregular, fruitless and wasteful expenditure over short to medium term period.
- b) Prevent unauthorized, irregular, fruitless, and wasteful expenditure.
- c) Identify and investigate unauthorized, irregular, fruitless, and wasteful expenditure.
- d) Respond appropriately in accordance with the law; and
- e) To address instances of unauthorized, irregular, fruitless, and wasteful expenditure conclusively.

4. PROBLEM STATEMENT

The Auditor-General findings for the 2018/19 financial year highlighted a number of issues in the Consolidated Report on Local Government that include, amongst others, persistent non-adherence to financial management policies and prescripts, as well as the need to improve governance arrangements. A significant number of municipalities have also incurred unauthorised, irregular as well as fruitless and wasteful expenditure and a brief view suggests that amounts in this regard are increasing year on year.

The municipality has incurred unwanted expenditures in contravention of provision of the Act i.e. in the case of unauthorised expenditure resulting from over expenditure on votes; in the case of irregular expenditure flouting of the Supply Chain Management (SCM) legislative requirements; and in the case of fruitless & wasteful expenditure failure to pay various suppliers on time after receipt of invoices thus resulting in interests payments.

5. LEGISLATIVE BACKGROUND

In terms of section 4(2)(a) of the Municipal Systems Act (MSA) the council has a duty to use the resources of the municipality in the best interest of the local community. This duty is extended to individual councillors through the Code of Conduct for Councillors which states that a councillor must:

- “perform the functions of office in good faith, honestly and in a transparent manner, and
- at all times act in the best interests of the community and in such a way that the credibility and integrity of the municipality are not compromised.”

The MFMA through section 62 sets out the general financial management responsibilities of the accounting officer. The accounting officer is required to take all reasonable steps to ensure that

- a) the resources of the municipality are used effectively, efficiently and economically;
- b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- c) that the municipality has and maintains effective, efficient and transparent systems— of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards;

- d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;
- e) that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15; and

MFMA section 32. (1) provides that without limiting liability in terms of the common law or other legislation—

- (a) a political office-bearer of a municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure;
- (b) the accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3);
- (c) any political office-bearer or official of a municipality who deliberately or negligently committed, made or unauthorised an irregular expenditure, is liable
for that expenditure; or

(2) A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—

- (a) in the case of unauthorised expenditure, is—
 - (i) authorised in an adjustments budget; or
 - (ii) certified by the municipal council, after investigation by a council committee, as
irrecoverable and written off by the council; and
- in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as
irrecoverable and written off by the council.

(3) If the accounting officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision

which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorized, irregular or fruitless and wasteful expenditure.

- (4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—
- (a) any unauthorized, irregular or fruitless and wasteful expenditure incurred by the municipality;
 - (b) whether any person is responsible or under investigation for such unauthorized, irregular or fruitless and wasteful expenditure; and
 - (c) the steps that have been taken—
 - (i) to recover or rectify such expenditure; and
 - (ii) to prevent a recurrence of such expenditure.
- (5) The writing off in terms of subsection (2) of any unauthorized, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.
- (6) The accounting officer must report to the South African Police Service all cases of alleged—
- (a) irregular expenditure that constitute a criminal offence; and
 - (b) theft and fraud that occurred in the municipality.
- (7) The council of a municipality must take all reasonable steps to ensure that all cases referred to in subsection (6) are reported to the South African Police Service if—
- (a) the charge is against the accounting officer; or
 - (b) the accounting officer fails to comply with that subsection.

(8) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may regulate the application of this section by regulation in terms of section 168.

Moreover, to give effect to the priorities outlined above in government outcomes, and to deal effectively with matters of financial misconduct and to give effect to the concept of consequence management, the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014 to complement the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) (“MSA”) as amended and the regulations issued in terms thereof. These Regulations must be read together when implemented.

The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings will support measures to expeditiously address financial misconduct and mismanagement.

The objective of the Regulations is to set out processes and procedures that a municipality and municipal entities must follow when dealing with allegations of financial misconduct. The regulations will apply to all officials and political office bearers within municipalities and municipal entities.

6. STRATEGIC OUTCOMES

The strategic outcome of the municipality is to reduce increasing levels of historical unauthorised, irregular, fruitless, and wasteful expenditure over a period in line with the government 5 year medium term strategy framework. In order to achieve such the municipality has to implement interventions designed to reduce unwanted expenditures and improvement of internal control to address weaknesses related thereto.

7. SITUATION ANALYSIS

Municipalities have for a number of years, struggled with an ever-increasing amount of UIFW expenditure.

Table 1: The high-level diagnosis of the reasons for UIFW are as follows:

	Fruitless and Wasteful	Irregular
Causes	Interest charged on overdue accounts	Lack of following processes

Other contributing factors:

- No preventative mechanisms to eliminate reoccurrence
- No effective internal controls measures
- No detailed reasons for incurring of UIFW expenditures as captured in the registers according to National Treasury Circular 68 Annexure A
- Lack of investigation on identified UIFW
- Lack of knowledge of processes to be followed when dealing with UIFW
- Lack of consequence management (Financial Misconduct)

8. PROPOSED ACTIONS

In order to mitigate the above-mentioned challenges the UIFW strategy seek to address and bring to correcting expenditure that were incurred previously and not investigated. Furthermore, preventative measures seek to detect and curb the expenditure before it can occur.

Table 2 : **Strategic Preventative Measures of UIFW**

EXPENDITURE	FRUITLESS AND WASTEFUL	IRREGULAR
ACTIONS	<ul style="list-style-type: none"> ▪ Addressing historical debt ▪ Expenditure that could have been avoided ▪ MPAC to investigate UIF&W expenditures and provide recommendations to council quarterly ▪ Development and implementation of revenue enhancement strategies ▪ Approval and adherence to credible and realistic debt repayment plan 	<ul style="list-style-type: none"> ▪ To develop and implement Supply chain checklist for compliance ▪ The develop and Implement the Standard Operating Procedures ▪ Adopt MFMA circular 68 for implementation by Council ▪ MPAC to investigate UIF&W expenditures and provide recommendations to council quarterly ▪ Implement consequence management ▪ Disciplinary board to

		<p>investigate all allegations of financial misconduct and make recommendations</p> <ul style="list-style-type: none"> ▪ Bid committees should be properly constituted ▪ Establishment of the contract management committee
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should ensure that municipality's expenditure transaction records incorporate all but not limited to the following SCM legislative requirements per transaction (Where applicable in terms of pricing) with a view to curb irregular expenditure:

- Three quotations
- Purchase Order
- Invoice
- Payment report
- Goods or service delivery register
- Evaluation report by SCM i.e. Bid Evaluation Committee (BEC)
- Approved deviation report by the Accounting Officer (signed)
- Proof of bid advertisements & results published on the municipality's website.
- Proof of projects registered in the register of construction contracts with the CIDB
- Preference point system to be utilized should be included in the advert.
- Central Supplier Database (CSD) Printout reflecting declarations and tax status of supplier or service provider.
- Municipal Bidding Documents (MBDs) applicable to ranges of procurements.

- Service Level Agreement/contract to be attached on payment batches

The main contributor to irregular expenditure in terms of monetary value is the awarding of contracts/tenders without following proper SCM legislative guidelines.

The Auditor-General has identified that the effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised, irregular and fruitless & wasteful expenditure, as required by section 32(4) of the MFMA.

9. UIFW REDUCTION PLAN (based on 2020-2021 Baseline)

Fruitless and wasteful Expenditure - Reduce over 5 years period

Description	Baseline (2023-24 audited)	1 st Year	2 nd Year	Yar 3	Year 4	Year 5
Percentage reduction		- 20%	-40%	60%	-80%	100%
Fruitless and Wasteful	R2 349 219	R469 844	R939 688	R1 409 531	R1 879 375	R2 349 219
Fruitless and Wasteful	R2 177 049	R435 410	R870 820	R1 306 230	R1 741 640	R2 177 049

A Irregular Expenditure - Reduce of 12 months

Description	Baseline (2023-24 audited)	1 st Year	2 nd Year	Year 3
Percentage reduction		- 20%	-60%	100%
Irregular	R48 340 629	R9 668 129	R29 004 377	R48 340 629
Irregular	R75 356 237	R15 071 247	R45 213 742	R75 356 237

10. RISKS

The following are the identified risks:-

RISK DESCRIPTION	PROBABILITY	IMPACT
Lack of MPAC/DC board investigative capacity	LOW	LOW
Non-adherence to procurement processes	LOW	LOW
Limited data to deal with historical UIFW expenditures	LOW	LOW

A 3-point scale where 1 is the lowest and 3 the highest is used.

11. ROLES AND RESPONSIBILITIES

a) Council

Each Council therefore has a duty to introduce and adopt policies and processes to:

1. Prevent unauthorised, irregular, fruitless and wasteful expenditure;
2. Identify and investigate unauthorised, irregular, fruitless and wasteful expenditure through council committee.
3. Respond appropriately in accordance with the law; and
4. To address instances of unauthorised, irregular, fruitless and wasteful expenditure conclusively.
5. Promptly instruct MPAC to investigate and report on UIF&W expenditures
6. Council must ensure that all functions and powers are duly delegated
7. Council to write off such expenditures should they be found to be irrecoverable or recover such expenditures should they found to be recoverable.
8. Must report to SOUTH AFRICAN POLICE service all cases of Irregular, fruitless and wasteful expenditures that constitute a criminal offence, theft

and fraud against the ACCOUNTING OFFICER or the accounting officer fails to take actions against the alleged offenders.

b) **MPAC**

Municipal Public Accounts Committee (MPAC) has a duty to:

- Promptly Investigate instances of unauthorised, irregular, fruitless, and wasteful expenditure
- Record and report outcome of their investigation to Council with clear recommendations
- Summon officials to appear before MPAC to respond to questions
- Refer matters to FINANCIAL MISCONDUCT DISCIPLINARY BOARD for further investigations should the committee believe that matter has financial misconduct elements.

c) **Accounting officer**

The accounting officer has a duty to implement policies adopted by Council to

- Prevent unauthorised, irregular, fruitless, and wasteful expenditure.
- Identify and detect instances of unauthorised, irregular, fruitless, and wasteful expenditure, record, disclose and report them accordingly
- Advise COUNCIL, the MAYOR or the EXECUTIVE COMMITTEE, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.
- Implement the recommendations of Council and MPAC on UIF&W expenditures
- Must report to the SOUTH AFRICAN POLICE services all cases of alleged irregular and fruitless and wasteful expenditure that constitute a criminal offence, theft and fraud that occurred in the municipality

11. MONITORING AND EVALUATION

Progress on the implementation of the project on reduction of UIFW expenditures will be monitored by the municipality as well as by the Audit Committee and other stakeholders such as the Provincial Treasury. Regular evaluation of the plan will be done, as per the deliverables below:

DELIVERABLES	Frequency
a) Submit monthly reports to Executive Mayor	Monthly
b) Conduct training on the identification, recording and reporting of UIFW expenditure.	Quarterly
c) Assign officials to populate and manage the UIFW expenditure register on a monthly basis.	Monthly
d) Prepare report to council on all UIFW identified quarterly	Quarterly
e) Inform the MEC and Provincial Auditor General in line with MFMA section 32	Quarterly
f) Register of UIFW expenditure be submitted to PT and AG on a monthly basis as per Instruction Note 1.	Monthly
g) Detailed supporting documentation be prepared and tabled in council/DC board for investigations on a monthly basis	Quarterly
h) Quantitative percentage targets of reduction vs. the total historical UIFW audited figures.	Quarterly
i) Implementation of recommendations by the MPAC or DC board.	Continuously

12.STRATEGY REVIEW AND APPROVAL

Unauthorised, Irregular, fruitless and wasteful expenditure minimization strategy can be reviewed bi-annually or as and when the accounting officer deemed it necessary.

M A NGCOBO
MUNICIPAL MANAGER

DATE