



**MALUTI-A-PHOFUNG LOCAL MUNICIPALITY**

**STRATEGY TO REDUCE UNAUTHORISED, IRREGULAR, FRUITLESS AND  
WASTEFULL EXPENDITURE (UIFW)**

**July 2024 - June 2025**

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## 1. DEFINITIONS

**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.

## **2. OBJECTIVES**

The primary objectives of the UIF&W minimization strategy are to:

- a) Prevent unauthorized, irregular, fruitless, and wasteful expenditure.
- b) Identify and investigate unauthorized, irregular, fruitless, and wasteful expenditure.
- c) Respond appropriately in accordance with the laws and regulations.
- d) To address instances of unauthorized, irregular, fruitless, and wasteful expenditure conclusively.
- e) To reduce unauthorized, irregular, fruitless, and wasteful expenditure over short to medium term period.
- f) To ensure that SCM policies and procedures are followed in the Municipality.
- g) To address root causes of Issues raised by the Auditor General.

## **3. 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 councilors through the Code of Conduct for Councilors which states that a councilor 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.”

MFMA sec 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 unauthorized 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 unauthorized an irregular expenditure, is liable for that expenditure; or
- (2) A municipality must recover unauthorized, irregular, or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—
- (a) in the case of unauthorized expenditure, is—
    - (I) authorized 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
  - (b) 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 has taken a decision which, if implemented, is likely to result in unauthorized, irregular, or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorized, 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 unauthorized, 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.

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.

#### **4. STRATEGIC INTENT**

The strategy seeks to reduce unauthorised, irregular, fruitless, and wasteful expenditure over a period not exceeding three years. It should be noted that the strategy is should be read jointly with other strategic interventions being implemented by the municipality, amongst others the cost reduction strategy, revenue management strategy, financial recovery strategy, MFIP support strategy primarily because the strategic intent is similar in that it seeks to ensure financial sustainability and accountability.

The Municipality strategy including analysis of the movement in previous UIFW, causes of increases and decreases.



## 5. HISTORIC DATA

The historic Data is based on the audited Annual Financial Statements for the previous 3 years and is as per the table below.

**The 2022/2023 UIF was audited already, MPAC still has to investigate the registers and submit recommendations to Council**

### Cumulative Balances

<b>Expenditure Description</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>2022/2023 AUDITED BASELINE YEAR</b>
Unauthorised Expenditure	R 3 319 678 052	R 3 488 476 702	R 3 858 155 304	R3 863 483 514
Irregular Expenditure	R 809 174 353	R 839 082 736	R 950 602 108	R1 081 899 506
Fruitless and Wasteful expenditure	R 1 868 697 341	R 1 997 237 432	R 2 230 429 350	R2 438 507 662
<b>TOTAL</b>	<b>R5 997 549 746</b>	<b>R 6 324 796 870</b>	<b>R7 039 186 762</b>	<b>R7 383 890 682</b>

### Year on Year Expenditure

<b>Expenditure Description</b>	<b>2019/2020</b>	<b>2020/2021</b>	<b>2021/2022</b>	<b>2022/2023 AUDITED BASELINE YEAR</b>
Unauthorised Expenditure	R 0	R 168 798 650	R 369 678 602	R5 327 210
Irregular Expenditure	R 27 928 650	R 29 908 383	R 111 519 372	R94 576 486
Fruitless and Wasteful expenditure	R 555 651 324	R 128 540 091	R 233 191 918	R384 625 452
<b>TOTAL</b>	<b>R 583 579 974</b>	<b>R 327 247 124</b>	<b>R714 389 892</b>	<b>R484 529 148</b>

## 6. PROPOSED PLAN

**Unauthorised expenditure** – Reduce over 3 years' period to Zero Rand

Description	2022/2023 AUDITED BASELINE YEAR	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
Percentage reduction	Amount	20%	30%	50%
Unauthorised expenditure	R3 863 483	R772 696 703	R1 159 045 054	R1 931 741
reduction amount	514			757

**Irregular Expenditure** - Reduce of three years to zero Rand

Description	2022/2023 AUDITED BASELINE YEAR	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
Percentage reduction	Amount	20%	30%	50%
Irregular expenditure	R1 081 899	R216 379	R324 569 852	R540 949 753
	506	901		

**Fruitless and wasteful Expenditure** - Reduce over 3 years' period to Zero Rand

Description	2022/2023 AUDITED BASELINE YEAR	1 <sup>st</sup> Year	2 <sup>nd</sup> Year	3 <sup>rd</sup> Year
Percentage reduction	Amount	20%	30%	50%
Fruitless & Wasteful expenditure	R2 438 507	R487 701 532	R731 552 299	R1 219 253
	662			831

## 7. KEY CONTRIBUTORS OF UIF&W EXPENDITURES

Maluti-a-Phofung Local municipality has incurred unauthorised, irregular as well as fruitless and wasteful expenditures over number of years as a result of, amongst others, persistent non-adherence to supply chain management policies/regulations, interest

charged on late/non-payment of bulk purchases and over expenditure on certain votes and this worrying trend has been increasing over the years and is likely to persist in the current year and beyond. The main causes in detail being the following.

#### **Unauthorised Expenditure**

- Non monitoring of spending versus budget.
- Not following proper approval of adjustment budget.
- The Municipality having unfunded budget
- Continuous over expenditure on monthly bulk purchases (Electricity, Water, and Debt impairment and Depreciation)
- The Municipality not fully budgeting and operating in MSCOA.

#### **Irregular Expenditure**

- Inadequate implementation of approved supply chain management policy and procedures such as the following.
  - Advertising on tenders
  - Not obtaining three quotations
  - Suppliers not tax compliant
  - Lack of planning on Capital projects
- Incurrence of SCM deviations that do not meet required conditions
- Continuous extension of lapsed contracts which led to irregular expenditures
- Lack of investigation on identified UIF&W by MPAC
- Lack of contract management policy
- Lack contract management capacity
- Inadequate implementation on municipal regulations on financial misconduct procedures and criminal proceedings
- Lack of consequence management

#### **Fruitless and Wasteful Expenditure**

- Interest charged by ESKOM and Water board on outstanding debt which is unavoidable in the short to medium term period.

## **8. PROPOSED ACTIONS TO CURB UIF&W EXPENDITURES**

- a. Training of SCM officials, Management and Council on SCM policies and regulations.
- b. Adopt MFMA circular 68 for implementation
- c. Approved and adopt UIF&W policy and strategy
- d. MPAC to investigate UIF&W expenditures and provide recommendations to council quarterly
- e. Disciplinary board to investigate all allegations of financial misconduct and make recommendations
- f. Approval and implementation of cost containment policies
- g. Bid committees should be properly constituted
- h. Approval and implementation of contract management policies
- i. Conduct training on contract management framework
- j. Cash flow and revenue management committee to discharge its responsibilities with diligence to curb overspending
- k. Expedite appointment of panel of contractors to avoid month to month extension of contracts
- l. Utilisation of suppliers with lapsed Service Level Agreements be stopped without delay.
- m. Use of SCM regulation 32 on contracts is highly discouraged to avoid irregular expenditures
- n. Approval and adherence to credible and realistic debt repayment plan
- o. UIF&W register to be monitored through monthly management meeting
- p. Deviation register to monitored through monthly management meeting
- q. Part of revenue generated through electricity sales rein-fenced to fund energy related projects
- r. UIF&W to be reported to relevant authorities and properly disclosed in the annual financial statements
- s. Continuous monitoring and reporting on compliance to approved SCM Policy though SCM monthly and quarterly reviews
- t. Enforcement of credit control and debt management policy
- u. Monthly monitoring of UIF&W minimization plan through management Meeting

## **9. ROLES AND RESPONSIBILITIES ON UIF&W EXPENDITURES**

### **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

### **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.

### **Council**

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

- Prevent unauthorised, irregular, fruitless, and wasteful expenditure.

- Identify and investigate unauthorised, irregular, fruitless, and wasteful expenditure through council committee.
- Respond appropriately in accordance with the law; and
- To address instances of unauthorised, irregular, fruitless, and wasteful expenditure conclusively.
- Promptly instruct MPAC to investigate and report on UIF&W expenditures
- Council must ensure that all functions and powers are duly delegated
- Council to write off such expenditures should they be found to be irrecoverable or recover such expenditures should they found to be recoverable.
- 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.

## **10. 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.

## 11. ANNEXURE A: DETAILED IMPLEMENTATION PLAN

A detailed implementation plan with milestones will be developed by the Municipality once the plan has been accepted by National Treasury. Progress on the implementation plan will be reported to MPAC, Council and Treasury offices.

Key Activity	Implementation Plan	Department	Responsible Person	Start Date	End Date	Achieved Outcome.