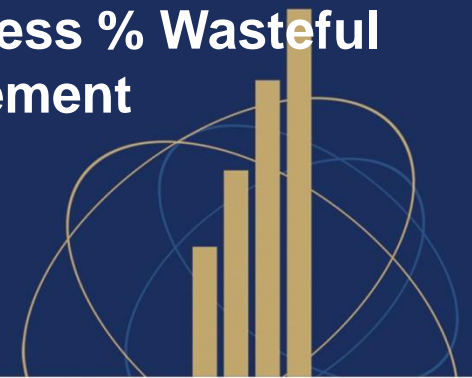




## **Topic: Unpacking Unauthorised, Irregular, Fruitless % Wasteful Expenditure (UIFWE) and Consequence Management**

**Author: Nhlamulo Mathye**

**Date: 7 March 2024**



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# STRUCTURE OF THE PRESENTATION



- UIF&W EXPENDITURE LEGAL FRAMEWORK
- DEFINING UIF&W EXPENDITURE
- 2019-24 MEDIUM-TERM STRATEGIC FRAMEWORK GOALS
- PROVINCIAL UIFW STATUS – JUNE 2023
- UIF&W PER DISRICT
- UIF&W– 3 YEAR TREND
- TOP 10 UIFW MUNICIPALITIES IN THE PROVINCE – CLOSING BALANCE
- MAIN CAUSES
- UIF&W EXPENDITURE REDUCTION STRATEGY
- ADDRESSING UIFW EXPENDITURE: ROLE OF:
  - INTERNAL AUDIT AND AUDIT COMMITTEE
  - DISCIPLINARY BOARD’S ROLE
  - MPAC
- CHALLENGES
- CONCLUSION AND RECOMMENDATIONS

# UIFW EXPENDITURE LEGAL FRAMEWORK



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## UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

- MFMA Section 62 - the Accounting Officer **MUST:**
  - Take all reasonable steps to ensure that the resources of the municipality are used **effectively, efficiently and economically**
  - Take all reasonable steps to ensure that **unauthorised, irregular or fruitless and wasteful expenditure** and other losses are prevented
- MFMA section 32(2)(b)
  - A municipality must **recover** UIFW expenditure from the person liable for that expenditure unless the expenditure is, **after investigation** by a council committee, **certified by the council as irrecoverable** and written off by the council
- In terms of section 4(2)(a) of the MSA, the **council has a duty to use the resources of the municipality in the best interest** of the local community

## FINANCIAL MISCONDUCT

- Chapter 15 of the MFMA provides the legal framework for financial misconduct and financial offences
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014
- Code of Conduct for Cllrs prohibits Cllrs from refraining from committing UIFWE.



# WHAT IS UNAUTHORISED EXPENDITURE?



## Unauthorised expenditure include:

- Overspending of the total amount appropriated in the municipality's approved budget;
- Overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- 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
- a grant by the municipality otherwise than in accordance with the MFMA.

# WHAT IS IRREGULAR EXPENDITURE?



- Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170; or
- 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; or
- Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers; or
- 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 dance with,** a requirement of the Public Office-Bearers.

Audited closing balance for 2022/23:

**The irregular expenditure disclosed in 2022-23 totaled R63.37 billion.**, which must still be processed. The causes for the repeated non-compliance over the last five years are:

- Legal services procurement not i.t.o. SCM regulations Restrictive/biased bids
- Expenditure incurred after contract expiry
- Non-compliance with SCM regulations and MFMA sections 33 and 116(3)

## Next steps where IE was incurred

- MFMA section 32(2)(b) must be followed for recover and/or write-off IE.
- There must be decisive action taken to implement consequence management.
- There must be regular monitoring of actions taken to deal with the IE and the implementation of consequence management.



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# WHAT IS FRUITLESS AND WASTEFUL

Fruitless and Wasteful Expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised

Causes of F&W expenditure include

- Interest paid on late payments
- Extension of time claims
- Other unspecified reasons

## Matters for considerations

- Was the matter also referred to the South African Police Services for criminal investigation as required in terms of section 32(6) of the MFMA read with the Regulations referred to above?
- What plans has the accounting officer put in place to ensure that the internal control within the municipality is improved to encourage in-year prevention and detection of fruitless and wasteful expenditure?
- Is there a funded budget to avoid late payments and other relevant controls to prevent F&W expenditure?

# 2019-24 Medium-term Strategic Framework Goals



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**MTSF  
2019-24**  
Government's five-year implementation plan and an integrated monitoring framework

- Includes seven priorities and mechanisms to monitor outcomes, indicators and targets towards the achievement of the priorities
- Priority 1: To build a capable, ethical and developmental state**

- Some key outcomes of priority 1**
- Improve governance and accountability
  - Improve financial management capability in the public sector
  - Eliminate fruitless and wasteful and reduce irregular expenditure in the public sector**
  - Reduction of qualified audits
  - Programme to prevent and fight corruption in government

| Outcome  | Outcome indicator   | Baseline      | Five-year target  |
|--|---|---------------|---|
| Sound financial controls and management of public Finances | Percentage elimination of <b>wasteful and fruitless expenditure</b> in public sector institutions | 2018 Baseline | <b>100% elimination</b> of fruitless and wasteful expenditure in the public sector institutions incrementally from baseline of 2019 by 2024 |
|  | Percentage reduction of <b>irregular expenditure</b> in public sector institutions                | 2018 Baseline | <b>75% reduction</b> of irregular expenditure in public sector institutions incrementally from baseline of 2019 by 2024                     |

**This forms part of the 6 game-changers to address the audit outcomes**



# PROVINCIAL UIFW STATUS – JUNE 2023

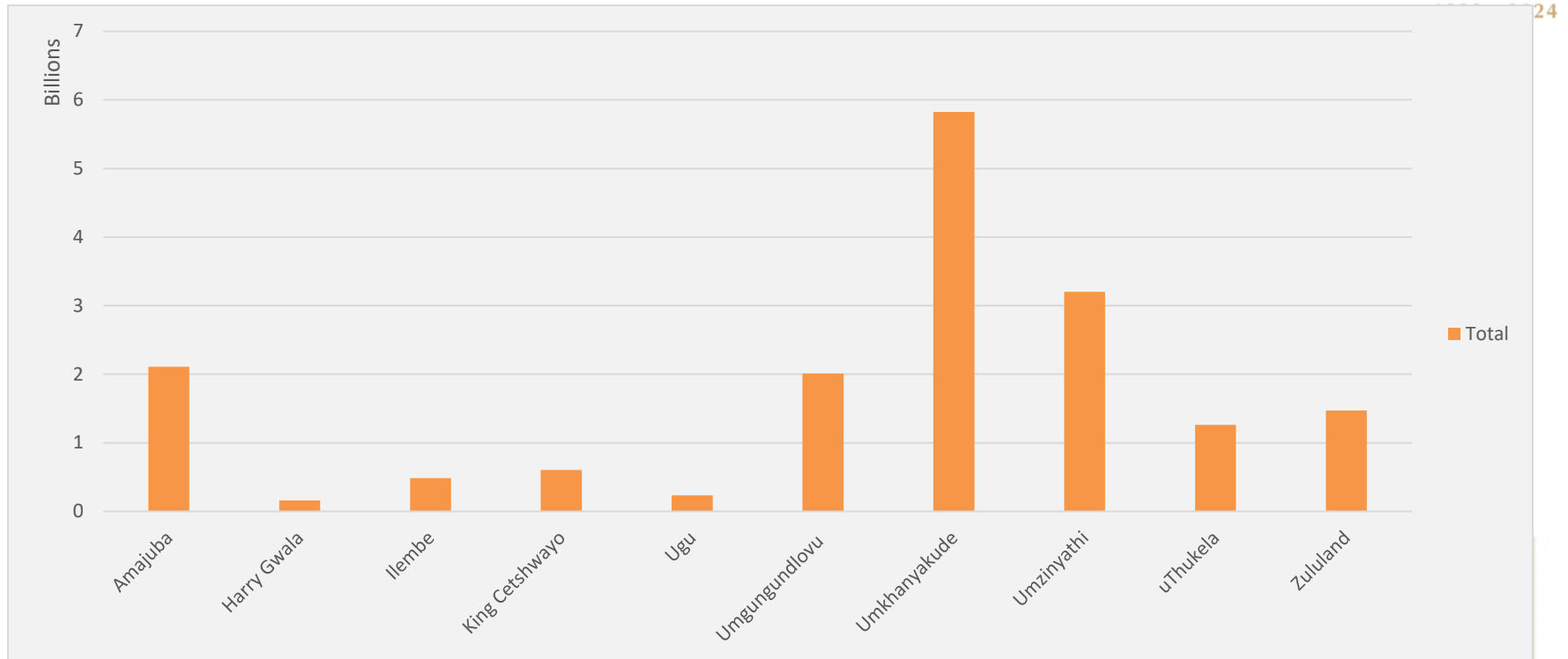
| EXPENDITURE          | OPENING BALANCE (2022/23) | INCURRED IN THE CURRENT YEAR (2022/23) | PRIOR PERIOD ERRORS | WRITTEN OFF          | RECOVERED     | CLOSING BALANCE (30 JUNE 2023) |
|----------------------|---------------------------|--|---------------------|----------------------|---------------|--------------------------------|
| Unauthorised         | 6 428 044 558             | 3 211 008 311                          | 94 181 445          | 3 783 116 370        | 0             | 5 950 117 944                  |
| Irregular            | 12 329 485 490            | 2 937 328 196                          | 396 148 718         | 4 819 189 427        | 0             | 10 843 772 977                 |
| Fruitless & Wasteful | 301 430 213               | 335 917 777                            | (3 464 282)         | 71 405 945           | 60 533        | 562 417 230                    |
| <b>Total</b>         | <b>19 058 960 261</b>     | <b>6 484 254 284</b>                   | <b>486 865 881</b>  | <b>8 673 711 742</b> | <b>60 533</b> | <b>17 356 308 151</b>          |

## SUMMARY

- UIFW closing balance has **decreased from R 19,0 billion** of the previous year to **R 17,3 billion** for the period ending 30 June 2023. More than **R 6,4 billion** was incurred during the 2022/2023 financial year. Prior period errors reported in the audited annual financial statements amount to R 486,8 million.
- Total of R 8,6 billion ( 34%) has been written off in compliance with section 32(2) of the MFMA. Msunduzi recorded the highest write off of **R 1,6 billion** ,followed by **Ugu R 1.0 billion** and Harry Gwala at **R 838,8 million** respectively. No movement reported for 8 municipalities in the Province.
- An amount of R 60,5 thousand has been recovered from officials.
- Irregular expenditure represents 62% (R 10,8 billion) of the total UIFW, followed by Unauthorised expenditure 34% (R 5,9 billion) and Fruitless and wasteful expenditure at 4% (R 562.4 million) respectively.



# UIFW PER DISTRICT

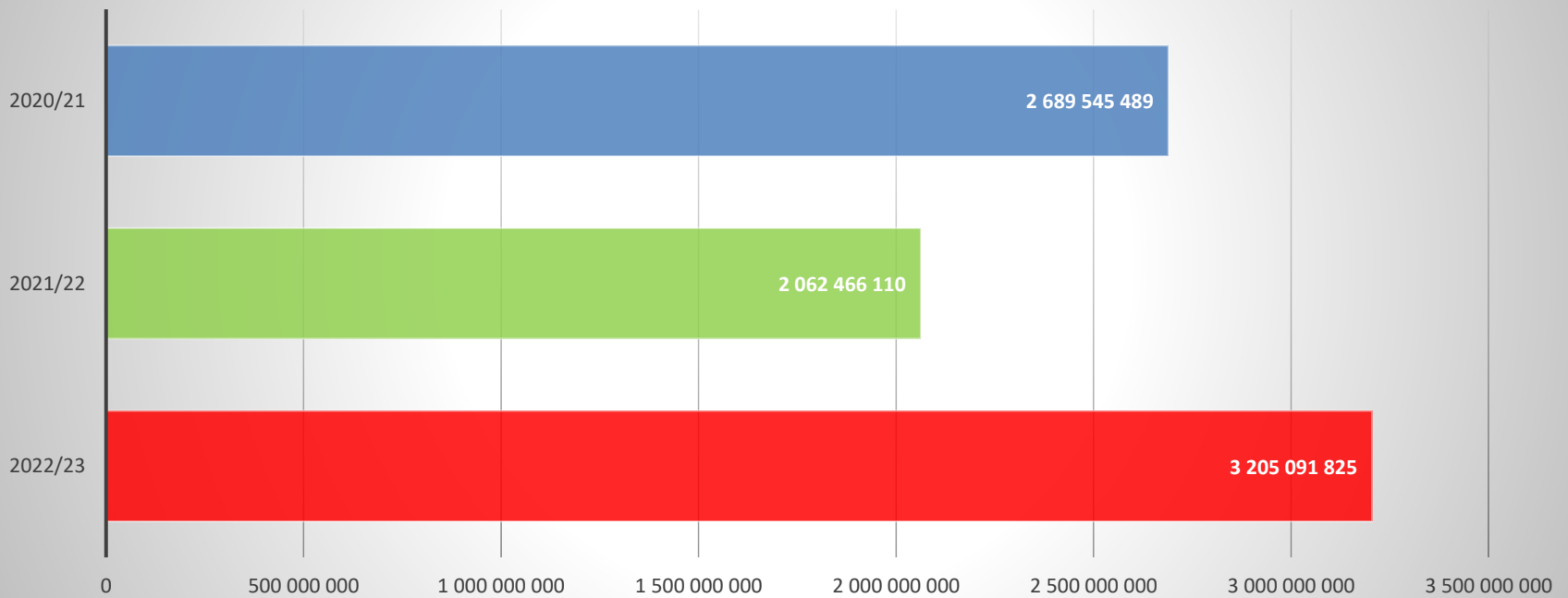


- Umkhanyakude District contributes the highest of R 5.8 billion ( 34% ) in the Province which is mainly due to historic figures.
- Umzinyathi District follows at R 3,1 billion(18%) and Umgungundlovu District at R 2,0 billion (12%)and Amajuba District at R 2.1 (12%) as well.
- Harry Gwala District has managed to implement UIFW reduction strategy as its contributes the least of R 157,8 million (1%) in the Province.

# UNAUTHORISED EXPENDITURE – 3 YEAR TREND



## Unauthorised Expenditure Incurred

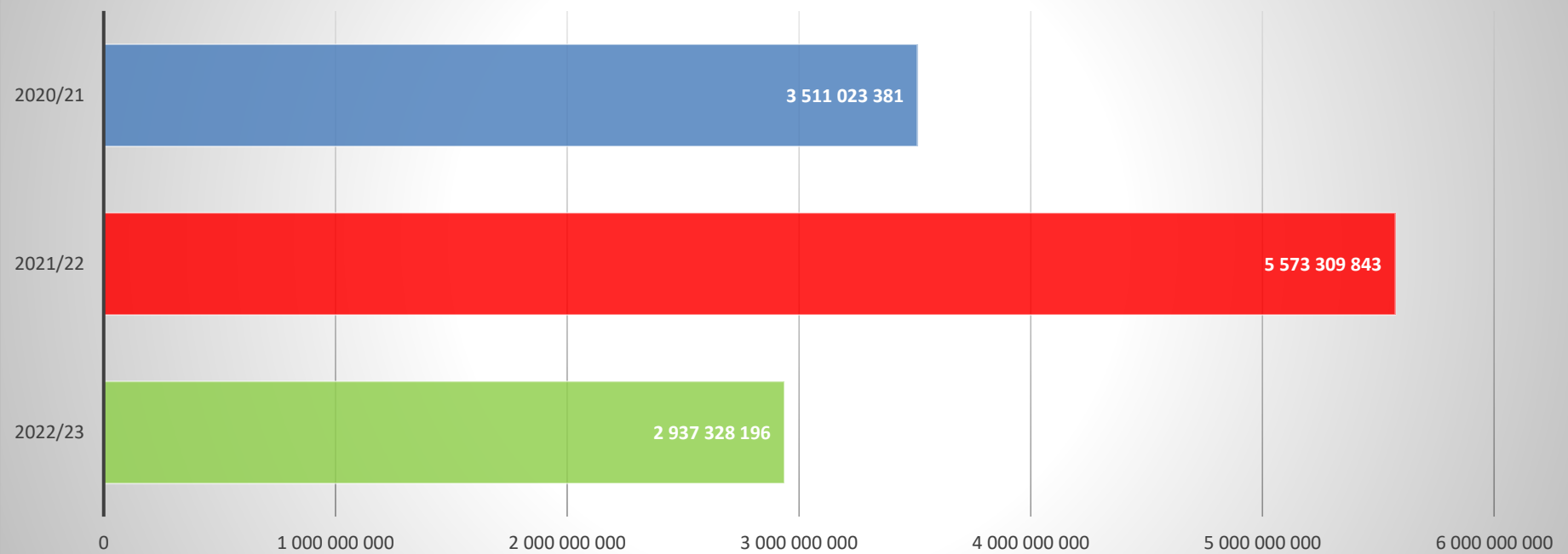


- Unauthorised expenditure amounts to R 3,2 billion for the period ending 30 June 2023
- This expenditure has increased by an alarming 55% ( R 1,1 billion) when compared to the previous financial year.



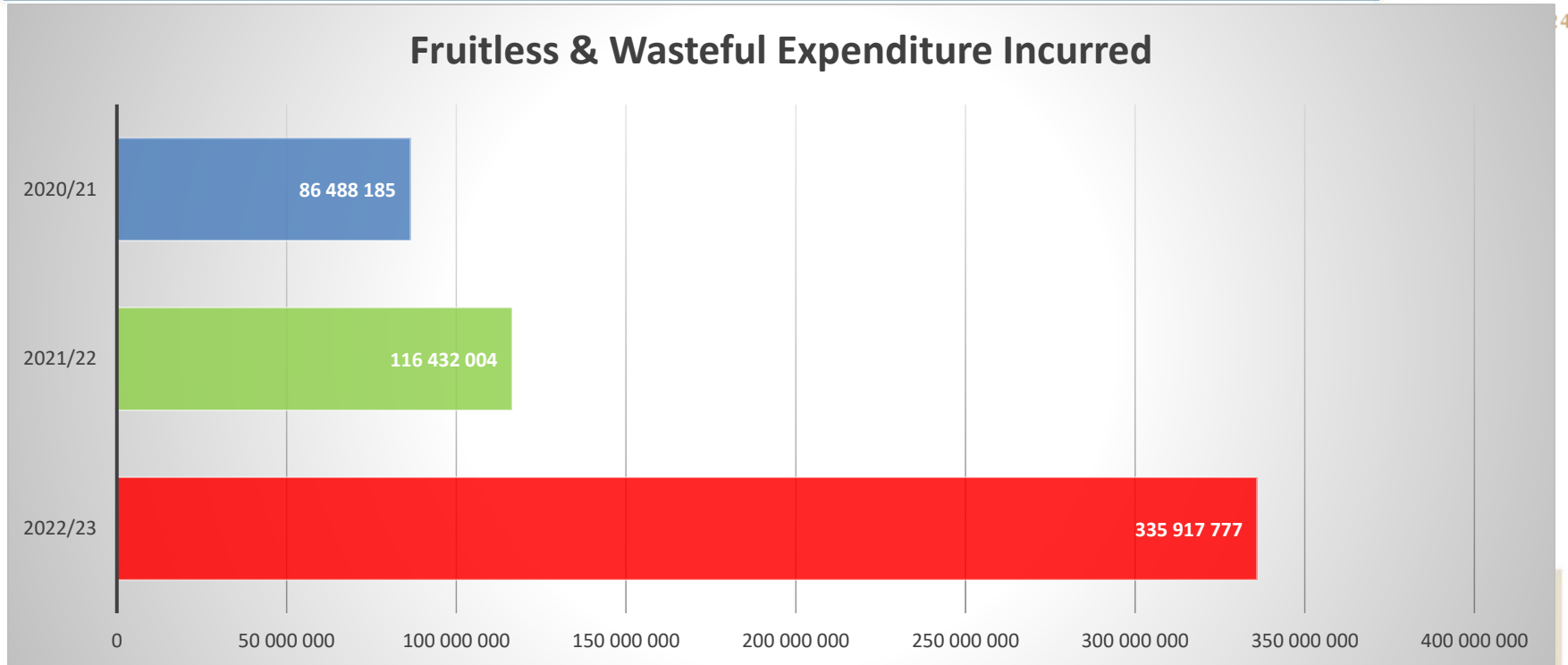
# IRREGULAR EXPENDITURE – 3YEAR TREND

## Irregular Expenditure Incurred



- Irregular expenditure amounts to R 2,9 billion for the period ending June 2023.
- This expenditure has decreased by 47% (R 2,6 billion) when compared to the previous financial year.

# FRUITLESS AND WASTEFUL EXPENDITURE – 3 TREND



- Fruitless & wasteful expenditure amounts to R 335,9 million for the period ending 30 June 2023.
- This expenditure has increased by an alarming 189% ( R 219,4 million) when compared to the previous financial year.



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# TOP 10 UIFW MUNICIPALITIES IN THE PROVINCE – CURRENT

| No           | Municipality     | Total Incurred – June 2023 |
|--------------|------------------|----------------------------|
| 1.           | Ugu DM           | R 662 448 395              |
| 2.           | Impendle         | R 571 267 871              |
| 3.           | uThukela DM      | R 541 329 053              |
| 4.           | Umzinyathi DM    | R 534 928 881              |
| 5.           | Umkhanyakude DM  | R 394 248 992              |
| 6.           | Abaqulusi        | R 386 741 505              |
| 7.           | Umgungundlovu DM | R 384 431 134              |
| 8.           | Zululand DM      | R 328 512 725              |
| 9.           | Harry Gwala DM   | R 298 746 347              |
| 10.          | Newcastle        | R 285 999 067              |
| <b>Total</b> |                  | <b>R 4 388 653 970</b>     |



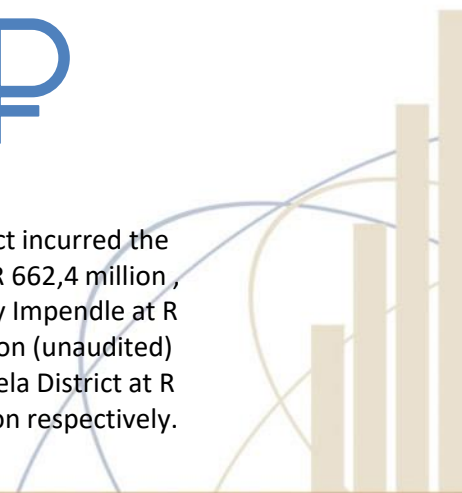
Fifty-one(51) out of fifty-four(54) municipalities **failed to prevent UIFW in the Province.**



Top 10 municipalities that failed to prevent UIFW contributes **R4,3 billion (68%)** to the total incurred for the period ending 30 June 2023.



Ugu District incurred the highest of R 662,4 million, followed by Impendle at R 571,2 million (unaudited) and uThukela District at R 541,3 million respectively.





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## TOP 10 UIFW MUNICIPALITIES IN THE PROVINCE – CLOSING BALANCE

| No           | Municipality    | Closing Balance – June 2023 |
|--------------|-----------------|-----------------------------|
| 1.           | Umkhanyakude DM | R 5 082 089 854             |
| 2.           | Umzinyathi DM   | R 2 870 349 113             |
| 3.           | uThukela DM     | R 1 128 511 652             |
| 4.           | Newcastle       | R 924 676 755               |
| 5.           | Amajuba DM      | R 910 637 293               |
| 6.           | Msunduzi        | R 821 518 060               |
| 7.           | Abaqulusi       | R 496 743 522               |
| 8.           | Mpofana         | R 447 441 046               |
| 9.           | Zululand DM     | R 324 259 958               |
| 10.          | Umfolozzi       | R 303 280 686               |
| <b>Total</b> |                 | <b>R 13 309 507 939</b>     |

- Fifty one(51) out of fifty four(54) municipalities failed to address UIFW in the Province as per section 32(2) of the MFMA
- Top 10 UIFW contributors amount to R 13,3 billion which translate to 44% of the Provincial total.
- Three (3) District Municipality's leads the top 10, namely; Umkhanyakude at R 5,0 billion ,followed by Umzinyathi at R 2,8 billion and uThukela at R 1.1 billion.
- Eight (8) municipalities remain in the top 10 whilst Harry Gwala and Jozini have been replaced by Zululand District and Umfolozzi respectively.



# MAIN CAUSES

| Expenditure                      | Root Cause   |
|----------------------------------|--|
| <b>1. Unauthorised</b>           | <ul style="list-style-type: none"><li>• Poor budgeting practices</li><li>• Failure to appropriately budget for cash and non-cash items</li><li>• Non-cash items e.g.: reducing the value at which assets are reflected in the financial statements (asset impairments)</li><li>• Spending on unfunded mandates</li></ul>   |
| <b>2. Irregular</b>              | <ul style="list-style-type: none"><li>• Inappropriate use of Regulation 36;</li><li>• Public Tender Process not being adhered to;</li><li>• 3 quotations not being obtained and adverts not being adequately advertised;</li><li>• Non-compliance with MFMA - Section 116;</li><li>• Non-compliance with MFMA - Section 32;</li><li>• Awards made to entities whose directors / members/ principal shareholders / stakeholders were in the service of other State institutions;</li><li>• Inadequate contract management</li></ul> |
| <b>3. Fruitless and Wasteful</b> | <ul style="list-style-type: none"><li>• Late payment on creditors results to interest and penalties</li><li>• Lack of internal control</li></ul>   |

# UIF&W EXPENDITURE REDUCTION STRATEGY

All municipalities are required to develop and **implement appropriate strategies to reduce and prevent UIFW expenditure** to achieve the 2019-24 MTSF targets

Strategy must address **historical figures**, including figures subsequent to the 2018/19 financial year and **identify root causes and provide clear actions, responsibilities and realistic timelines** for conclusion

Implementation of **effective consequence management** for deliberate and negligent transgression that caused UIFW expenditure

Develop and implement **preventative internal controls to stop ongoing non-compliance** and **intensify oversight and monitoring** to ensure **prompt implementation** of the UIFW reduction strategy

## Accounting officers & municipal councils

- Set a zero tolerance for non-compliance
- Implement strong, sustainable preventative controls
- Establish outstanding DC boards and capacitate them, including MPACs to act strongly
- Set clear medium-term goals to achieve the targets
- Update UIFWE register to monitor progress
- Identify risks and implement mitigating measures

## MPACs and audit committee

- MPACs to investigate UIFWE in an objective and diligent manner
- Assist municipal councils to hold administration accountable for the implementation of the UIFW reduction strategy

- The Minister of Finance has approved the UIF&W expenditure reduction strategy (MFMA Circular 111)
- Support has been provided to several provincial treasuries and municipalities to enable them to develop and implement their own reduction strategies to achieve the MTSF goals.

# ADDRESSING UIFW EXPENDITURE: ROLE OF MUNICIPALITIES



Municipal managers to **address conditions that result in slow investigation** of UIFW expenditure

Establish **robust preventative internal controls** to enable compliance with SCM legislation that will prevent UIFW expenditure

Set a **tone of zero tolerance** for non-compliance

**Develop and implement a clear strategy to reduce UIFW expenditure** to achieve the MTSF goals

Establish **functional disciplinary boards**, as soon as practically possible (applicable to non-compliant municipalities) with **council-approved terms of reference**

**Undertake probity audits** in relations to contracts exceeding R10m – internal audit to be utilised to provide assurance

# ADDRESSING UIFW EXPENDITURE: ROLE OF INTERNAL AUDIT AND AUDIT COMMITTEE



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## Internal audit

- Established i.t.o section 165 of the MFMA
- **Proactive approach to assurance**
  - Provides independent, objective assurance and consulting to add value to and improve an organisation's operations
  - It evaluates and improve the effectiveness of risk management, control and governance processes
  - Must be alert to fraud risks and design audit procedures and indicators that would reasonably assist in preventing and detecting potential or actual fraud and corruption.
- **Internal audit can advise and provide assurance on the development and implementation of the IF&W reduction strategy**

## Audit committee

- Established i.t.o section 166 of the MFMA
- **Proactive approach to assurance**
  - Advises the municipal manager and council on governance, risk management and control frameworks, compliance and performance management
  - Assist in following up on implementation of financial misconduct regulations and make recommendations to council.
  - May investigate municipal financial affairs, but not similar in nature to the disciplinary board investigation, which relates to the conduct of individuals.
- **Can advise municipal manager on the implementation of the IF&W reduction strategy and provides assurance on the adequacy, reliability and accuracy of the strategy.**

# ADDRESSING UIFW EXPENDITURE: FINANCIAL MISCONDUCT: DISCIPLINARY BOARD'S ROLE



- Assists the council or the board of directors to investigate allegations of financial misconduct and provide recommendations on further steps to be taken regarding disciplinary proceedings, or any other relevant steps to be taken.
- Investigate all instances of UIF&W for financial misconduct.
- Monitor the institution of disciplinary proceedings against an alleged transgressor.

**The disciplinary board must be functional and effective.**

**When report on UIF&W is tabled in council all acts of non-compliance must be referred to the disciplinary board for investigation.**



## ADDRESSING UIFW EXPENDITURE: ROLE OF MPAC



- ❑ Oversight structures serve as an assurance provider and assess the implementation of action plans, as part of their oversight and monitoring function. Furthermore, the audit action plan can be used as a performance management tool to hold management accountable.
- ❑ In considering comments made by management in addressing issues raised by the AGSA in the Audit report, MPAC may establish:
  - Whether regular audit steering committee meetings are convened to monitor the implementation of the audit action plans.
  - Whether Internal audit has provided assurance on the adequacy of the action plans and progress made.
  - Whether the progress on the implementation of the audit action plan is reported and serves in the audit committee meetings.
  - Whether recommendations from the internal and external assurance providers are being implemented.
  - Reasons for non/slow implementation of the remedial measures and whether contingency plans are instituted.
  - Relevant officials are held accountable for poor implementation of audit action plans.
  - Steps are taken to address identified material irregularities and timelines are met.
  - Determine the stability at administration level to ensure effective implementation of the audit action plans i.e. filling of key positions including CFO and MM (In terms of 2021/22 AGSA's report, Vacancies at disclaimed / adverse = 70%).
  - MPAC may have engagements with the AGSA and/or sectoral departments to discuss issues of common interest and to promote good governance.

# CHALLENGES



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- The UIFW expenditure reduction plans/strategies developed are not institutionalised into municipal business processes.
- Inadequate monitoring of the implementation of the strategies to ensure that the set targets are achieved, and/or to identify shortfalls in the current plans that prevent progress.
- Lack of consequence management
- Poorly designed preventative and detective controls to address root causes identified during the development of the strategy
- Where adequate controls are designed, these controls/actions not fully implemented.
- Non-compliance with Submission of UIFW in year monitoring reports to relevant stakeholders
- Audit findings raised by AGSA on UIFW are not addressed.
- Delays in concluding investigations by MPAC
- Ineffectiveness of the Financial Misconduct Boards to institute disciplinary processes where required;

# CONCLUSION AND RECOMMENDATIONS

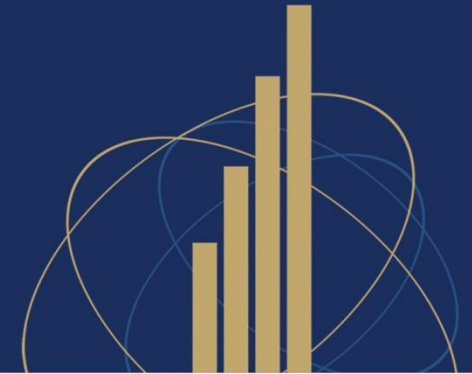


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- The 2019-24 MTSF highlighted the need to implement stronger monitoring, supporting, re enforcement measures to reduce incidents of UIFW expenditure.
- All municipalities are required to develop and implement appropriate strategies to reduce and prevent UIFW expenditure to achieve the 2019-24 MTSF targets.
- The emphasis to ensure measures are introduced to reduce irregular expenditure by 75% and to eliminate fruitless and wasteful expenditure by 100% during this period.
- Strategy must address historical figures, including figures subsequent to the 2018/19 financial year and identify root causes and provide clear actions, responsibilities and realistic timelines for conclusion
- MPACs to investigate UIFW in an objective and diligent manner
- Implementation of effective consequence management for deliberate and negligent transgression that caused UIFW expenditure is of high importance.
- The MPAC committee must have monthly UIFW expenditure meetings to process UIFW expenditure, more than 1 sitting a month preferred given the UIFW balance.
- The accounting officer must address unauthorised expenditure, that has been authorised by the Council in the next available adjustment budget. January/February every year
- Amend the MPAC TOR to include the receipt of UIFW reports directly from administration, instead of via the various committees & Council.
- The accounting officer must also report to the South African Police Service all cases of alleged irregular expenditure that constitute a criminal offence and theft and fraud that occurred in the municipality, as per section 32(5) of the MFMA.
- The Council to address UIFW expenditure conclusively based on MPAC's recommendations and take resolutions to write off or recover the expenditure.



# Q & A



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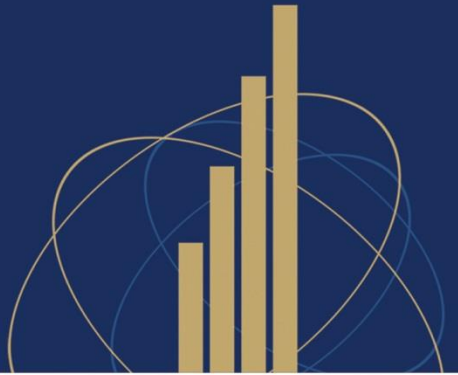


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# Thank You!



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