

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (UIFWE) AFS DISCLOSURE

CIGFARO: KZN Branch (Audit & Finance Training – AFS
readiness)

PRESENTED BY:

Chief Directorate:
MFMA Implementation

Title:
*Office of the Accountant
General*

Date: 1 August 2025



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



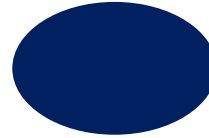
Agenda

- 1. UIFWE AFS disclosure issues identified**
- 2. Example UIFWE balance contributors**
- 3. UIFWE audit file considerations**
- 4. UIFWE AFS disclosure requirements and guidance.**
- 5. UIFWE recovery considerations**

UIFWE AFS disclosure issues identified

Municipalities do not consistently use the UIFWE disclosure note guidance in Annexure D of MFMA Circular 68.

1

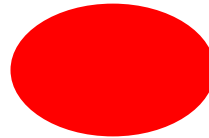


5

Summary of UIFWE incidents occurred during the financial year not properly classified or summarised per type of UIFWE incident as required in Annexure D.

Unauthorised expenditure disclosure note does not contain the cash and non-cash unauthorised expenditure item reconciliation and “vote” analysis – **See pgs. 17 and 18 of Annexure D.**

2

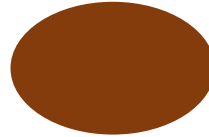


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In some cases, the draft AFS UIFWE amounts are materially upwardly adjusted in the final AFS – **AGSA identifies UIFWE not accounted in draft AFS.**

The UIFWE AFS disclosure note does not contain information of UIFWE cases under investigation.

3

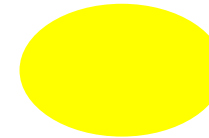


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Municipalities disclose UIFWE write-off as UIFWE “condoned” by Council - **Only NT can condone UIFWE.**

The UIFWE amount are decreased with UIFWE amounts not yet actually recovered – **Decrease UIFWE balance only when UIFWE has been recovered – See pg. 7 of Annexure D.**

4



8

Where prior period UIFWE amounts were not included in prior years AFS, municipalities apply GRAP 3: Prior period errors, **instead of using the prior period note guidance in Annexure D.**

Example UIFWE balance contributors

Fruitless & wasteful expenditure

- Interest incurred due to late supplier payments, inc. Eskom, AGSA, etc.
- SARS interests and penalties incurred due to late payment.
- Salaries paid to suspended employees.
- Legal fees.



Unauthorised expenditure

- Unauthorised expenditure due to overspending on the approved operational expenditure budget.
- Unauthorised expenditure due to overspending on the approved capital expenditure budget.

(The overspending relates to various votes.)

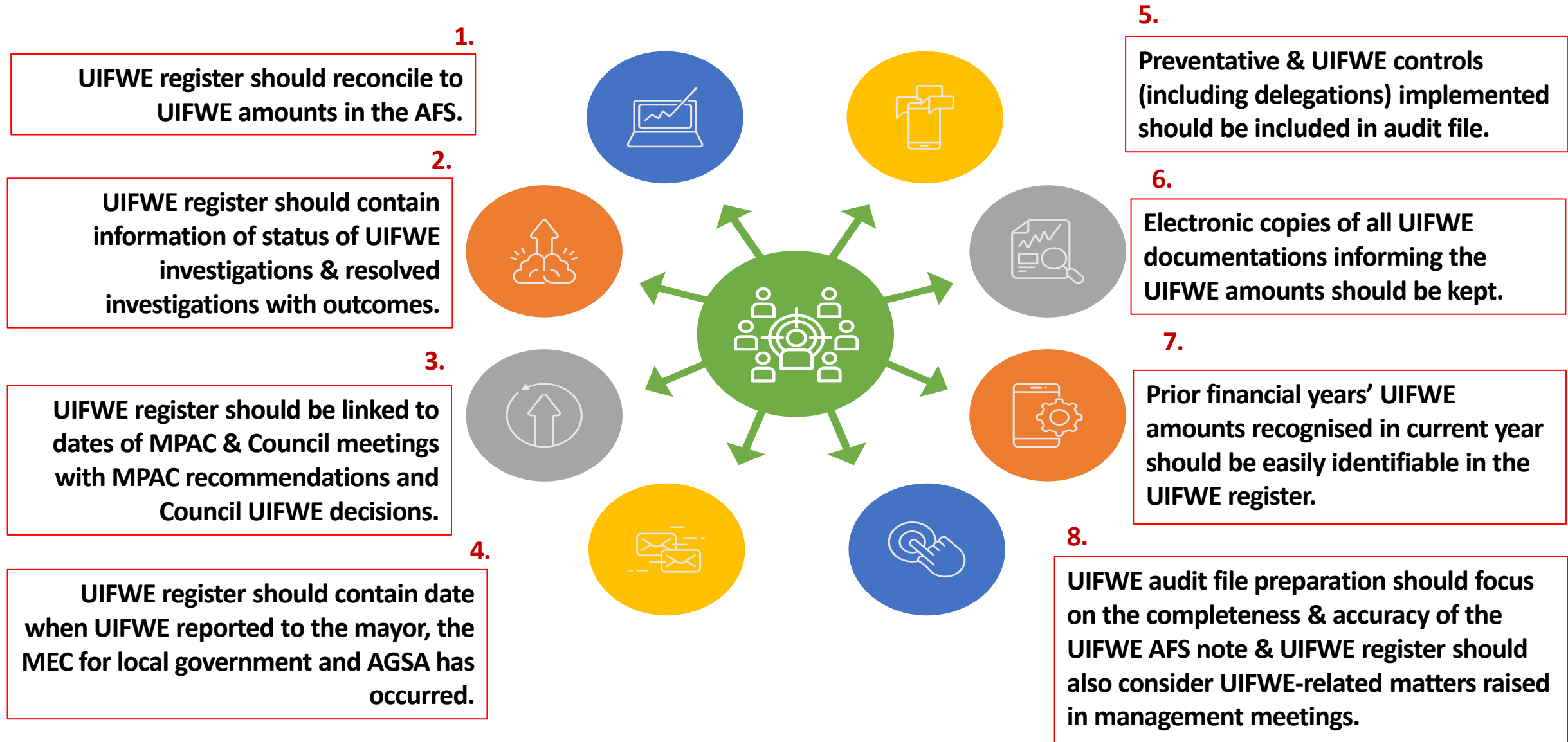


Irregular expenditure

- Deviations not impractical or due to exceptional circumstances.
- Applying s67 of the MFMA instead of the SCM process - e.g., Tourism.
- Open-ended contract awarded without following a competitive bidding process – e.g., Low-cost housing contract.
- Incorrect interpretation and application of SCM Reg 32 – e.g., **VAT recovery services**.
- No SCM process followed & other SCM non-compliance in procuring goods and services.



UIFWE audit file considerations



UIFWE AFS disclosure requirements and guidance



- ☐ UIFWE AFS disclosure is a **MFMA disclosure requirement.**
- ☐ See s 125(2)(d) of the MFMA.
- ☐ UIFWE AFS disclosure should be based on the “accrual” basis and not “cash basis” – i.e., recognise UIFWE when they occur, and not only when cash is paid.



- ☐ UIFWE AFS disclosure requirement **IS NOT** a GRAP requirement.
- ☐ **The recovery of the UIFWE is however subject to GRAP requirements** – i.e., does the UIFWE debtor satisfy the definition and recognition criteria of an asset and/or revenue **OR** should a contingent asset be disclosed under certain conditions in terms of GRAP 19: Provisions, Contingent Liabilities and Contingent Assets?



- ☐ For guidance on the MFMA UIFWE-related AFS disclosure and UIFWE-related GRAP accounting entries refer to Annexure D of MFMA Circular 68.

Key UIFWE disclosure principles



1

Recognition of UIFWE

- The identification of UIFWE refers to expenditure that has been incurred during the current or prior reporting period/s and identified during, at or after the reporting period, **but before those financial statements are authorised for issue, i.e. between 1 July to 30 November.**
- UIFWE incurred and identified in a subsequent reporting period is disclosed and accounted for in that subsequent reporting period.



2

Council UIFWE decisions

- UIFWE incurred during the current or prior reporting period/s and identified during, at or after the reporting period, and where a Council resolution on the UIFWE is made before the current financial statements are authorised for issue, i.e. between 1 July to 30 November – UIFWE council decision effects should lead to adjustment of UIFWE note in current reporting period.
- UIFWE council decisions in a subsequent reporting period is disclosed and accounted for in that subsequent reporting period.



3

UIFWE disclosure

- Disclosure of UIFWE must be aligned to the illustrative examples contained in Annexure D of Circular 68.
- UIFWE disclosure must be supported by a complete and up to date UIFWE register.
- Annexure A of Circular 68 provide an illustrative example of the UIFWE register.

UIFWE AFS amount disclosure – Annexure D of MFMA Circular 68

UIFWE AFS amount disclosure item:	Fruitless and wasteful	Irregular	Unauthorised
Opening balance as previously reported	YES	YES	YES
<u>Add</u> : UIFWE incurred - current	YES	YES	YES
<u>Add</u> : UIFWE incurred - prior period (UIFWE identified in the current year, incurred in prior years.)	YES	YES	YES
<u>Less</u> : Amount <u>recovered</u> - current	YES	YES	YES
<u>Less</u> : Amount <u>recovered</u> - prior period	YES	YES	YES
<u>Less</u> : Amount written off - current	YES	YES	YES
<u>Less</u> : Amount written off - prior period	YES	YES	YES
<u>Less</u> : Amount authorised - current (in adjustment budget)	N/A	N/A	YES
<u>Less</u> : Amount authorised - prior period (in adjustment budget)	N/A	N/A	YES
Closing balance	XXX	XXX	XXX

1. The above UIFWE disclosure requirements has also been updated in the NT AFS Speciment
2. Amount recovered refers to UIFWE amount actually recovered & NOT amount recoverable!!!

UIFWE recovery considerations

Recover UIFWE from officials & councillors
(including former officials & councillors)

GENERALLY: No VAT adjustment required = NO input tax or output tax adjustment.
(Also consider income tax implications).

There is NO ACTUAL taxable supply by municipality to official or councilor.

There is NO DEEMED taxable supply by municipality to official or councilor.

Amount represents “damages” & is not in course of taxable supply to official / councilor.

Recover UIFWE from supplier

VAT treatment highly dependable on facts of the matter.

Scenarios to consider:

1. Payment of damages;
2. Payment of amount overcharged;
3. Refund due to defects; and
4. Court awards & settlements.

Also consider guidance provided in Annexure D in pages 6 to 8 concerning the UIFWE recovery accounting.

Closing remarks

The quantum of material prior-period accounting errors in the AFS indicates that municipalities' controls concerning AFS inputs do not always consider material information relevant to the AFS.

01.

02.

Audit action plans should include the areas where material prior period errors have been presented and disclosed in the AFS.

Municipalities must ensure that they strictly comply with the UIFWE accounting requirements contained in Annexure D of MFMA Circular 68.

03.

04.

Municipalities should decrease reliance on asset, VAT and AFS consultants in line with the Municipal Cost Containment Regulations.

Contact

- **All enquiries to be submitted to MFMA helpdesk**
 - **Email: mfma@treasury.gov.za**