

# PREVENTION OF UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (UIFWE)

CIGFARO

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# Introduction

## Unauthorised Expenditure

Occurs when municipalities spend more than their projected revenue, resulting in financial instability.

## Irregular Expenditure

Results from non-compliance with procurement laws, SCM policies, poor contract management, non-compliance with the Municipal Systems Act and Public Office-Bearers Act.

## Fruitless & Wasteful Expenditure

Caused by poor payment practices and ineffective use of municipal financial resources.

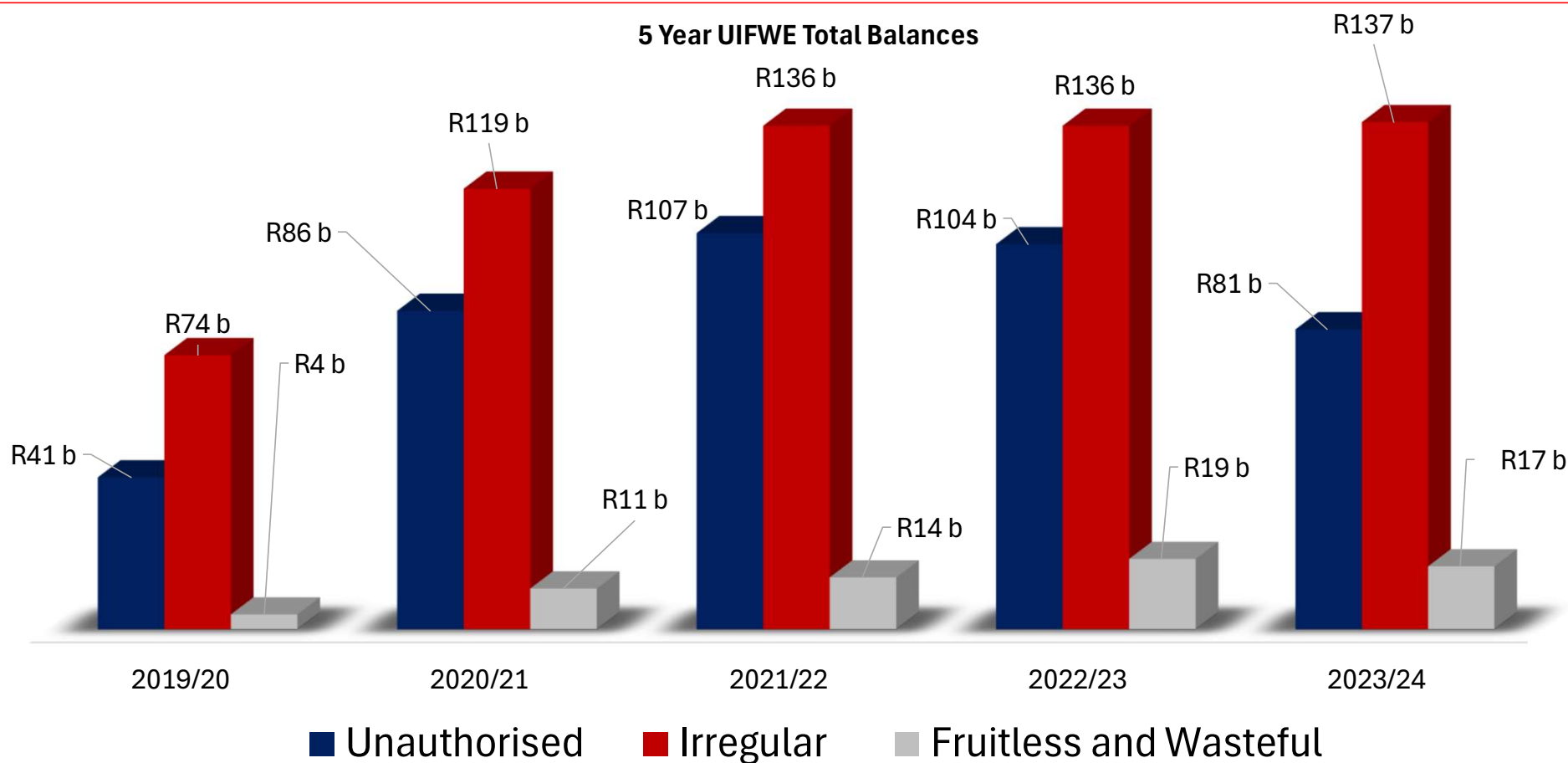
## Preventative Measures Importance

Implementing UIFWE preventative controls is crucial for mitigating risks and enhancing financial governance.

## Repeat findings

- Municipalities persistently incur the same UIFWE incidents with no consequences for employees, including senior management.
- The persistent occurrence of the same UIFWE confirms that UIFWE preventative controls are ineffective.

# 5-Year Total Balances



# Insights from the AGSA 2023/24 Local Government General Report

## Unauthorised Expenditure (UE)

- Total incurred: R31.79 billion in 2023–24 by 174 municipalities (68%).
- **58% of UE was non-cash** (e.g., impairments, depreciations).

### Fruitless and Wasteful Expenditure

- 2023–24 alone: R5.27 billion.

#### Main Causes:

- Interest and penalties due to late payments: R14.58 billion since 2021–22.
- Payments for goods/services not received or of poor quality.
- Ineffective use of consultants (R1.47 billion spent in 2023–24).
- Payment Delays: 117 municipalities (47%) failed to pay suppliers within 30 days; the average payment period was 286 days.

## UIFWE Write-Offs Without Due Process:

- R4.75 billion UIFWE written off without proper council approval or investigation.



## Consequence Management

- **Disciplinary Boards:** Absent or ineffective in many municipalities.
- No disciplinary actions against employees and councillors for incurrence of UIFWE.

## Irregular Expenditure (IE)

- 2023–24 alone: R30.47 billion.

#### Main Causes:

- Procurement without competitive bidding: R18.48 billion.
- Non-compliance with procurement processes: R55.35 billion.
- Contractual non-compliance: R12.61 billion.
- 40% of municipalities were either qualified on the completeness of IE or were still investigating IE.

**Municipal Public Accounts Committees (MPACs): Not functioning effectively in 36% of municipalities.**

# UNAUTHORISED EXPENDITURE



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## Root Causes of Unauthorised Expenditure

### Unfunded Budgets

Municipalities often adopt budgets without sufficient revenue, leading to overspending and financial shortfalls.

### Poor Financial Monitoring

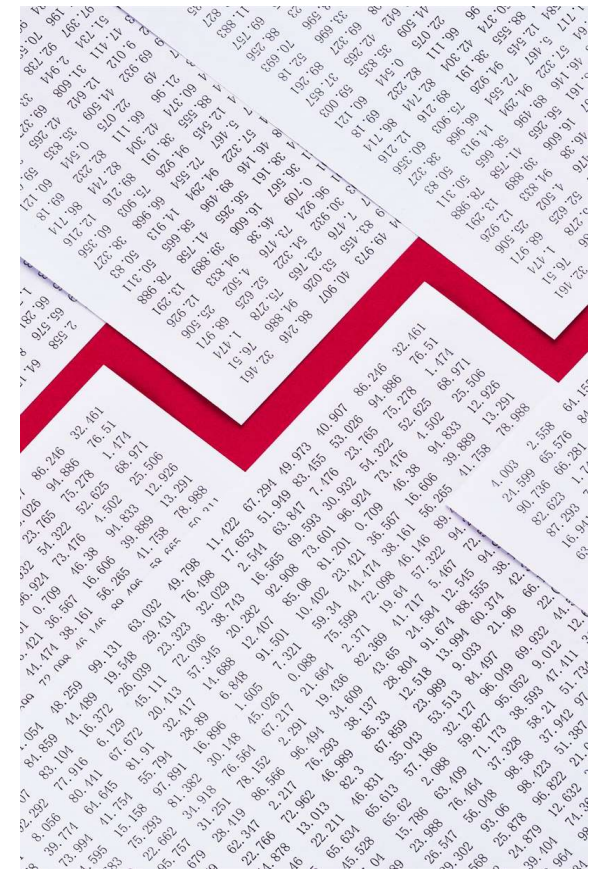
Inadequate monitoring and failure to adjust budgets during the year cause financial mismanagement issues.

### Weak Revenue Management

Overestimating revenue and ineffective billing and debt recovery harm municipal financial stability.

### Lack of Accountability

Officials are not held accountable for overspending, including disciplinary actions, resulting in ongoing financial mismanagement.



## Preventative Measures for Unauthorised Expenditure



### **Enforce Realistic Budget Funding**

Municipalities must comply with section 18 of the MFMA to ensure budgets are realistic based on actual revenue projections.

### **Strengthen Planning Processes**

Improving budget planning and mid-year adjustments helps adapt to changing financial circumstances effectively.

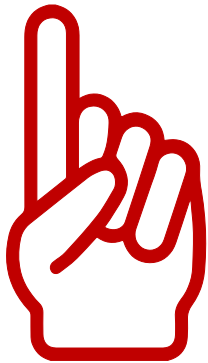
### **Improve Revenue Management**

Robust revenue collection systems and realistic forecasting reduce the risks of overspending and improve financial stability.

### **Accountability Enforcement**

Establishing consequence management policies holds officials accountable, promoting responsibility and a compliance culture.

# Unauthorised expenditure – What we seeing



## 1. Municipalities are not taking non-cash unauthorised expenditure budgeting seriously

- Negligent and deliberate incorrect and misleading information provided to Council constitutes financial misconduct – includes budget information.

## 2. Non-cash unauthorised expenditure has cash implications

- Example: Bad debt written off means that in the past, the municipality has incurred actual cash expenditure in providing services for which consumers did not pay – past cash expenditure.
- Example: Chronic under-budgeting for depreciation leads to when infrastructure replacements or new infrastructure are required, the municipality does not have the cash to pay for capital goods and services (due to incorrect tariff calculations, etc.) – future cash expenditure (Municipalities are not able to procure vehicles, like bakkies, for service delivery).

## 3. Municipalities providing benefits and allowance not covered by collective agreements, or excessive allowances, which contribute to employee cost unauthorised expenditure

- Municipalities continue to provide post-retirement medical aid subsidies for employees who left the employment of the municipality, even with no policy in place – (**Municipalities should stop providing post-retirement medical aid subsidies to new employees, including senior managers**, which may affect the change with a Council decision or review of policy, subject to following the proper procedure).
- Municipalities should not provide benefits to senior managers that are not covered by the annual upper limit gazette and Regulations: Appointment and conditions of employment of senior managers – e.g. post-retirement medical aid subsidy (**It will be irregular expenditure.**).

# IRREGULAR EXPENDITURE



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## Main Root Causes of Irregular Expenditure – SCM related

### **Procurement Non-Compliance**

Non-compliance with procurement laws resulting in uncompetitive bidding and missing documentation.

### **Poor Contract Management**

Contracts often lack proper monitoring and necessary amendments, worsening irregular expenditure issues.

### **Conflicts of Interest**

Awards are given to suppliers who are linked to officials.

### **Weak Internal Controls**

Ineffective audit and oversight functions allow irregular expenditures to go unnoticed and persist over time.

## Preventative Measures for Irregular Expenditure

### Staff Training on Procurement laws

Training supply chain staff on procurement laws ensures compliance and reduces the risk of irregular expenditure.

### Automated Procurement Systems

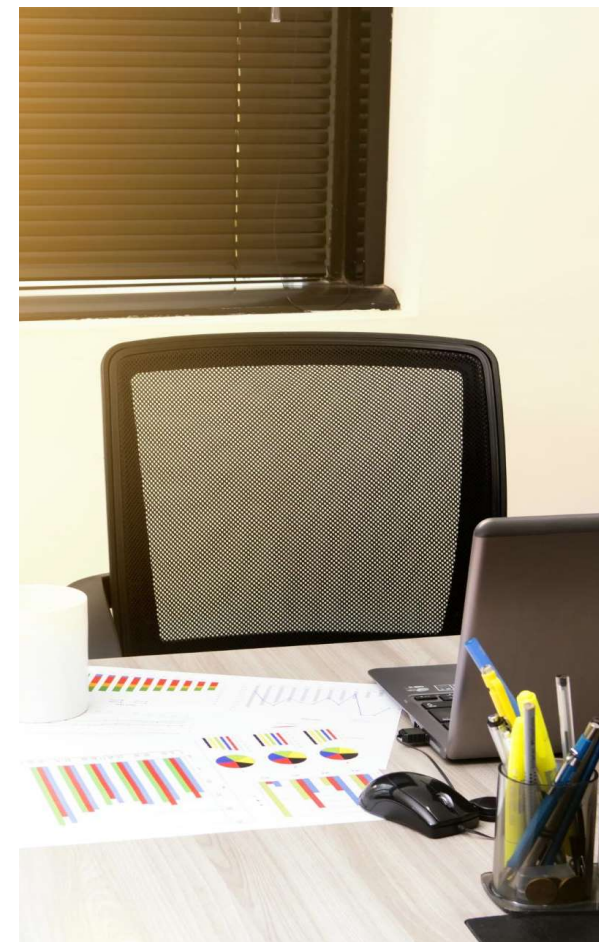
Automated systems with audit trails increase transparency and accountability in procurement processes, reduce errors and fraud, and enhance financial management.

### Declaration of Interest Policies

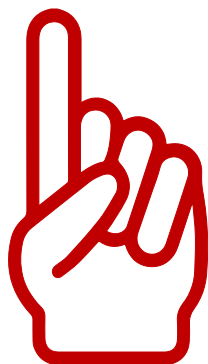
Enforcing declaration policies and regular checks helps identify conflicts of interest early.

### Strengthening Internal Audits

Robust internal audits and acting on recommendations improve oversight and prevent irregularities.

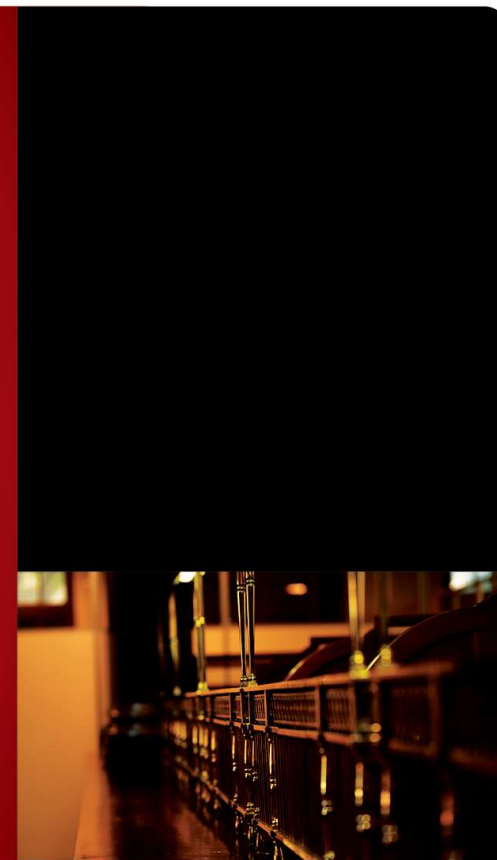


## Irregular expenditure – What we seeing



- 1. Municipalities are facing a surge in court judgments due to irregular supplier appointments**
  - Municipalities should learn from these negative court judgments and amend their SCM SOPs where relevant – see the <http://www.saflii.org/> website for copies of court judgments.
- 2. When municipalities procure goods and services that will have budgetary implications of more than 3 financial years, they don't apply section 33 of MFMA**
  - Examples include procurement of banking services and valuation services, etc.
- 3. Increase use of section 116 of MFMA to extend contracts, instead of new tender processes**
  - Section 116 of the MFMA contract amendments should not be used as “deviations”, as suppliers can take section 116 contract amendments on review to the High Court.
- 4. Municipalities failing to review their staff establishment in line with the budget constraints, and appointing staff whose position is not in the staff establishment**
  - Appointment of staff in positions that are not in the municipality's staff establishment is irregular expenditure in terms of sections 66(3) to 66 (5) of the Municipal Systems Act, which should be recovered from the responsible person, and the person's contract, who has been appointed, is null and void.
- 5. Overpayments to councillors are not being recovered**
  - Overpayments to councillors must be recovered from councillors in terms of section 167 of the MFMA.

# FRUITLESS AND WASTEFUL EXPENDITURE



# Root Causes of Fruitless and Wasteful Expenditure

## Operational Inefficiencies

Inefficient operations cause delays and increased costs, leading to fruitless and wasteful expenditure.



## Poor Payment Practices

Late payments result in penalties and interest charges, unnecessarily increasing expenditure.



## Ineffective Consultant Use

Hiring consultants without clear deliverables or oversight causes resource wastage.



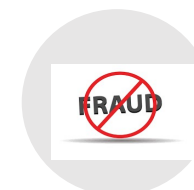
## Project Mismanagement

Delays, poor quality, and scope changes in projects increase unnecessary spending.



## Fraud and Misrepresentation

Payments for goods or services not received or substandard contribute to financial misconduct.



# Preventative Measures for Fruitless and Wasteful Expenditure

## **Payment Compliance Enforcement**

Enforce the 30-day payment rule with monthly compliance monitoring to avoid penalties and reduce wasteful spending.

## **Consultant Engagement Oversight**

Develop clear terms of reference and monitor consultant performance to ensure purposeful, results-driven engagements.

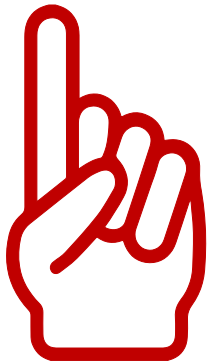
## **Project Management Improvement**

Implement frameworks and train project managers to enhance execution, minimise delays, and effectively control costs.

## **Fraud Detection and Protection**

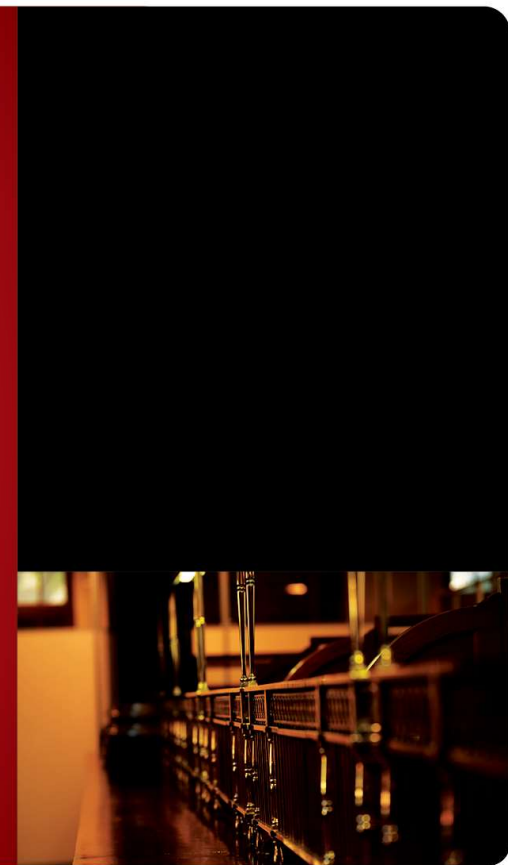
Establish fraud detection mechanisms and provide whistleblower protection to safeguard public resources.

# Fruitless and wasteful expenditure – What we seeing



- 1. Municipalities are instituting and defending court, tribunal cases on labour, SCM and revenue matters that have been confirmed by the courts to be irrational**
  - Municipalities should recover legal costs from the responsible persons who contributed to the incurrance of the legal fees and the persons making the decisions to institute or defend irrational court cases, including councillors approving the institution/ defending futile court, tribunal cases.
- 2. Where payments have been made for no goods and services supplied**
  - This scenario represents the simplest scenario where the funds so paid should be recovered from the responsible person(s), including instituting disciplinary actions.
- 3. Impairment of infrastructure assets, while still in the process of construction**
  - Municipalities should not use impairment accounting to hide fruitless and wasteful expenditure, due to no goods/services procured or faulty construction services rendered by suppliers that were paid for.
- 4. Use of consultants to perform the work of municipal staff**
  - We have noticed that VAT consultant tenders are being advertised to perform basic functions, like VAT return completions, etc. – **this is fruitless and wasteful expenditure.**
  - We have noticed that AFS consultant tenders are being advertised to perform accounting reconciliation, like payroll, creditors, etc., that must be performed by municipal staff – **this is fruitless and wasteful expenditure.**

# CROSS-CUTTING MEASURES



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## Cross-cutting matters

### **Ethical Leadership and Accountability**

Ethical leadership and accountability are essential for effective financial governance.

### **Capacity Building and Skills Development**

Filling vacancies and investing in skills development equips municipalities with human resources to manage finances properly.

### **Performance Monitoring and KPIs**

Using dashboards and KPIs helps monitor compliance and improve service delivery effectively.

### **Financial Governance Improvement**

Addressing the root causes of UIFWE will improve municipal financial governance and accountability.

### **Preventative UIFWE Measures and Controls**

Implement targeted preventive UIFWE measures and cross-cutting controls to reduce financial risks and improve service delivery, which should be tested annually by the Internal Audit Unit.

### **Consequence Management Policies**

Municipalities should implement consequence management policies, including reviewing these policies, considering the latest labour legislation, and taking into account collective agreements.



# THANK YOU

**ngiyathokoza!**

**ro livhuwa!**

**dankie!**

**ke a leboga!**

**enkosi!**

**thank you!**

**udo livhuwa!**

**inkomu!**

**ke a leboga!**

**ngiyabonga!**

**siyabonga!**