Impact of UIFW in the Functioning of Municipalities in South Africa

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Contents

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1. Introduction

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- **Medium Term Development Plan 2024 – 2029:**

  Priority 3: Build a capable, ethical and developmental state

  ✓ The government has targeted **6 strategic interventions** within the local government sphere to improve the service delivery experience of citizens.

  - Bring **stability** to local government in order to restore the delivery of services.
  - **Standardise and professionalise** the appointment of senior officials in local government.
  - **Review the local government fiscal framework**, including the use of conditional grants.

1. Introduction *cont'd*

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- **UIFW definitions (summary):**

	Definition	Root Causes
Unauthorised	Spending not budgeted for.	*Incorrect budgeting, e.g. non-cash items not included, use of funds for non-intended purposes.*
Irregular	Expenditure not compliant with laws and regulations (MFMA, MSA, procurement regulations and policies).	*Tender processes not followed, lack of contract management, employee cost not in line with legislation, etc.*
Fruitless & Wasteful	Avoidable expenditure with no benefit (e.g. late penalties and interest).	*Late-payment of suppliers, payment services not rendered.*

2. National UIFW Trends (5-Year Snapshot)

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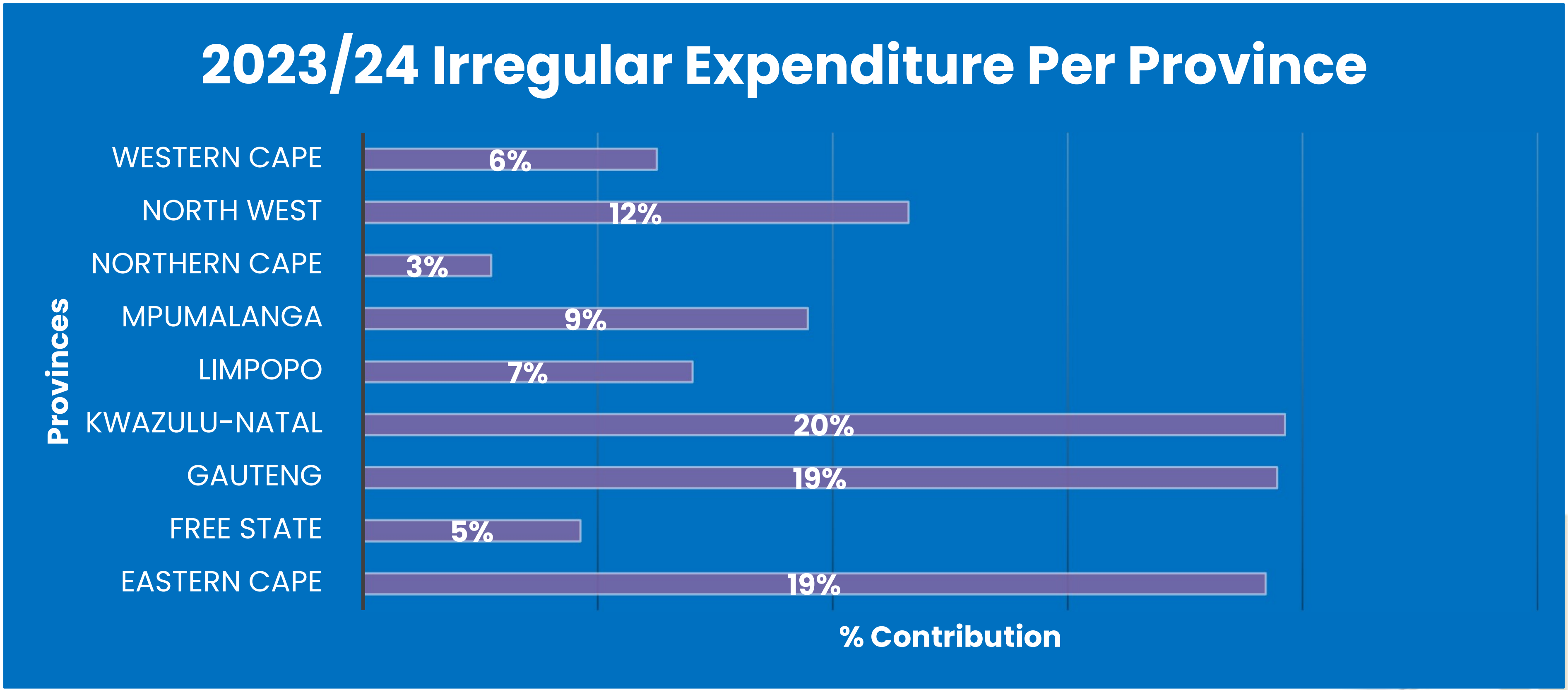
Item	Billions	Billions	Billions	Billions	Billions
	2019/20	2020/21	2021/22	2022/23	2023/24
Irregular expenditure - Incurred	R26,23	R22,40	R30,45	R27,59	R28,94
Irregular expenditure - accumulated	**R110,18**	**R119,10**	**R136,00**	**R136,98**	**R137,03**
Unauthorised expenditure - incurred	R22,00	R20,45	R25,40	R24,40	R31,79
Unauthorised expenditure - accumulated	**R71,76**	**R86,46**	**R107,38**	**R104,68**	**R136,47**
Fruitless and wasteful expenditure - incurred	R1,83	R1,96	R4,92	R7,46	R5,27
Fruitless and wasteful expenditure - accumulated	**R9,28**	**R11,04**	**R14,65**	**R19,74**	**R25,01**

KEY TAKEAWAY

*UIFW is **systemic**, **widespread**, and **growing**.*

2. National UIFW Trends (5-Year Snapshot) cont'd



- KwaZulu-Natal, Gauteng and Eastern Cape being the highest contributors.
- Highest contributors being the Metros.

3. Impact on Sound Governance

- Diverts resources from **assurance and risk-based audits** to UIFW **determination tests, investigations, and condonement tracking**.

- **Increasing threat to objectivity** when accounting officers/councils are implicated.

- **Weak accountability culture:**

  - ✓ 46% of municipalities didn't investigate prior-year irregular expenditure.

  - ✓ 20% of UIFW was dealt with or recovered in 2023/24.

4. Qualitative and Quantitative Impact

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- **Cost of capital**
  - ✓ Metropolitans have listed debts and significant debts - seen as "high risk". **3 Metros were downgraded by 30 June 2024**.
  - ✓ Example: several municipalities owe Eskom billions, increase in penalties fees and interest costs.
- **Retention & recruitment**
  - ✓ Qualified finance/audit professionals avoid unstable municipalities.
  - ✓ Reliance on consultants: e.g., municipalities spent nearly **R1,5 bn nationally on consultants for financial reporting (2023/24)**.

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4. Qualitative and Quantitative Impact *cont'd*

- **Workplace environment**
  - ✓ Intimidation, fear, even killings of whistleblowers/auditors (e.g. recent cases in KwaZulu-Natal, North West, Gauteng).
- **Service delivery collapse**
  - ✓ UIFW translates into **fewer resources to maintain and develop infrastructure** (water, electricity, roads, sanitation).
  - ✓ Example: only **5% of municipalities nationally** are financially sustainable.

4. Qualitative and Quantitative Impact *cont'd*

- **Residents suffer most**: Sewage spills, potholes, water shortages, load shedding worsened by poor municipal management.
- **Social trust eroded**: Residents disengage, stop paying municipal bills → worsening cash flow.
- **National economy**: Weaker municipalities = weaker local economic growth.

5. What Works: Lessons & Best Practices

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- **Western Cape municipalities**: consistently contribute a higher proportion of the total amount of clean audits → emphasis on internal controls and strong audit committees.

- **Replicable interventions:**

  - ✓ Zero tolerance for non-compliance by Accounting Officers and councils.
  - ✓ Strong preventative and detective control environment.
  - ✓ Set clear in year reduction targets.
  - ✓ Strengthened internal audit independence.
  - ✓ SCM training and e-procurement platforms.
  - ✓ Strengthen consequent management process.

6. Conclusion

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- UIFW is not an isolated accounting issue - it's a **national crisis** undermining municipalities' ability to deliver services.
- Internal auditors are caught between **oversight and politics**, draining their ability to add real value which weakens good governance.
- The financial, institutional, and human costs are immense.
- Yet, **success stories exist**: reform and accountability are possible if commitment, capacity, and protection are prioritised.

Thank You!

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