

UNAUTHORISED IRREGULAR, FRUITLESS AND WASTEFUL (UIF&W) REDUCTION STRATEGY

ORIGINAL COUNCIL APPROVAL	
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1. TERMS AND DEFINITIONS

MFMA	Municipal Finance Management Act
MTSF	Medium Term Strategic Framework
UIF&W expenditure	<p>UNAUTHORISED EXPENDITURE Any expenditure incurred without provision being made in the budget approved by Council. Overspending of approved budget. Overspending of the total amount appropriated for a vote in the approved budget. Expenditure incurred without the appropriate approval. A grant by the Municipality otherwise than in accordance with the MFMA.</p> <p>IRREGULAR EXPENDITURE Expenditure incurred by a Municipality or municipal entity in contravention of, or that is not in accordance with MFMA, which National Treasury has not condoned in terms of section 170.</p> <p>FRUITLESS & WASTEFUL EXPENDITURE Expenditure that was made in vain and would have been avoided had reasonable care been exercised.</p>
BTO	Budget and Treasury” means the office within the Municipality responsible for its financial management, as referred to in Chapter 9 of the MFMA
AO MM	<p>Accounting Officer Municipal Manager Means the municipal official referred to in section 60 of the MFMA (2003)</p>
CFO	<p>Chief Financial Officer Is a senior manager directly accountable to the accounting officer, His duties relate to effective financial management, sound budgeting and budgetary control practices and timely produce financial report as prescribed in MFMA and the annual Division of Revenue</p>
MPAC	Municipal Public Accounts Committee
AG	Auditor General

2. BACKGROUND

The municipality has historic and current UIF&W expenditure, the reasons are not limited to inability to prevent non-compliance due to unpreventable circumstances, weakness in internal controls, cash flow challenges resulting incurring interest due to late payment of creditors and inadequate consequence management.

- a) supporting the municipal public account committees and municipal councils to fulfil their legislative responsibilities in line with section 32 of the MFMA to reduce incidences of UIF&W expenditures.
- b) the introduction of preventative controls to address further and future non-compliance with the legislative prescripts and
- c) the implementation of consequence management to ensure that strong ethical, accountable and transparent financial governance and institutional arrangements are implemented in all municipalities and municipal entities and address the growing incidents of unauthorised expenditure.

3. PURPOSE

To introduce historic and current UIF&W expenditure reduction strategy which aims to support and introduce measures that will assist in reducing such expenditures in line with Section 32(2) of the Municipal Finance Management Act (MFMA), 56 of 2003, (Act 56 of 2003).

4. OBJECTIVES

- a) To provide for measures to identify UIF&W expenditure.
- b) To introduce a UIF&W expenditure reporting template.
 - o processes expenditure identified, classify correctly, record it and reported timeously.
- c) To provide mechanisms to avoid and prevent UIF&W expenditure.
- d) To provide recovery plan of UIF&W expenditure incurred.
- e) To enforce accountability and consequence management.

5. LEGISLATIVE CONTEXT

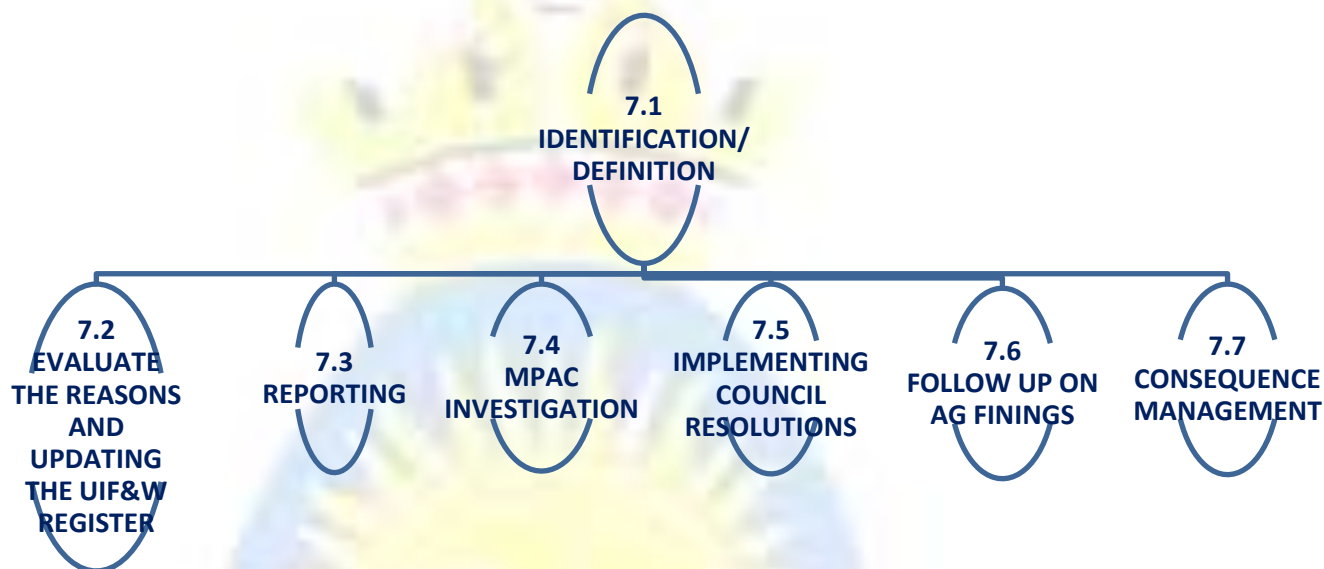
- a) Section 32 MFMA regulates unauthorised, irregular or fruitless and wasteful expenditure.
- b) Section 125 (2d) MFMA regulates the notes to the annual financial statements.
- c) Section 170 MFMA regulates departures from treasury regulations or conditions.
- d) MFMA Circular 68 - Unauthorised, irregular or fruitless and wasteful expenditure.
- e) MFMA circular 111- Reduction strategy and annexure

6. ROLES AND RESPONSIBILITIES

SENIOR MANAGERS	ACCOUNTING OFFICER
<ul style="list-style-type: none"> ▪ Identify person liable for deviating from the procurement plan. ▪ Identify the root cause of and solicit reasons for deviating. ▪ Introduce a UIF&W expenditure-report to be completed responsible culprits. ▪ Continuously update departmental UIF&W register with emerging expenditure. 	<ul style="list-style-type: none"> ▪ Exercise all reasonable care to prevent and detect UIF&W expenditure. ▪ Implement effective, efficient and transparent processes of financial and risk management. ▪ Inform, in writing the Mayor, executive committee and Council, if a decision is taken, if implemented, is likely to result in UIF&W expenditure. ▪ Must on discovery of UIF&W immediately report, in writing, particulars of the expenditure to Treasury ▪ Submit the UIF&W register to Council.
COUNCIL	MPAC
<ul style="list-style-type: none"> ▪ Deciding how to recover to UIF&W expenditure from the person liable for that expenditure in line with Section 32 of the MFMA. ▪ Refer other cases to MPAC for further investigation. ▪ Determining the amount of UIF&W expenditure <ul style="list-style-type: none"> ○ to be recovered, ○ to be written off ○ which once to referrer to Treasury for condiment. 	<ul style="list-style-type: none"> ▪ Independently investigate the UIF&W expenditure and advise council accordingly.

7. UIF&W CYCLE

THE FOLLOWING DIAGRAM DEPICTS THE UIF&W CYCLE



7.1 IDENTIFICATION/DEFINITION

a) UNAUTHORISED EXPENDITURE

The following constitute unauthorised expenditure.

1. overspending on budget.
2. earmarked funds used for other purpose.
3. funds used outside the mandate.

b) IRREGULAR EXPENDITURE

The irregular expenditure incurred, the non-compliance linked to a financial transaction.

c) FRUITLESS & WASTEFUL EXPENDITURE

The following constitute fruitless & wasteful expenditure.

1. expenditure due to negligence.
2. inadequate planning
3. interest on overdue account.
4. penalties incurred.

7.2 EVALUATE THE REASONS AND UPDATING THE UIF&W REGISTER

- i. On daily basis supply chain management practitioner analysis each transaction being processed and monthly basis the practitioner generates a payment history report against payment voucher and analyse it for any UIF&W expenditure.
- ii. Once the practitioner becomes aware of UIF&W expenditure, update the UIF&W register accordingly.
- iii. Immediately inform the CFO, who will inform user departments through an approval of the Municipal Manager.
- iv. The Municipal Manager follows up on the alleged UIF&W expenditure to determine whether the expenditure indeed meets the definition of fruitless and wasteful expenditure before approving the expenditure.

7.3 REPORTING

a) UNAUTHORISED EXPENDITURE

After identification and confirmation, expenditure must be recognized in the statement of financial positions, until such time the expenditure is either -

- a) approved by relevant authorities
- b) or written off as irrecoverable in the statement of financial position

b) IRREGULAR EXPENDITURE AND FRUITLESS & WASTEFUL EXPENDITURE

The irregular expenditure incurred, the non-compliance must be linked to a financial transaction.

c) RISK MANAGEMENT

The risk officer must-

- a) analysis risk
- b) assist in identifying the root cause
- c) the possibility of reoccurrence
- d) come up with controls to mitigate the existing and emerging risks
- e) and reinforce the fraud prevention plan.

d) AUDIT COMMITTEE

UIF&W register must be submitted to the audit committee on quarterly basis to advice management on-

- o adequacy, reliability and accuracy of financial information prior to management submitting the financial reports to council.

e) ACCOUNTING OFFICER REPORTING

The Accounting Officer must report UIF&W expenditure to the Mayor, Executive Committee, Council Treasury and Auditor General.

7.4 MPAC INVESTIGATION

The MPAC's roles and responsibilities with relevant capacity must investigate UIF&W expenditure-

1. The register must be updated to reflect the outcome of the investigation.
2. Should the investigation reveal that the expenditure does not constitute UIF&W expenditure
 - the details of the expenditure must remain in the register until appropriate evidence is availed for audit trail.
3. Once the investigation has been concluded, a report must be submitted to Council for noting, approval and implementation.

7.5 IMPLEMENTING COUNCIL RESOLUTIONS

1. The Council Committee Secretariat must compile the Council resolution register, to be implemented by management.
 - a) the register will encourage and create a culture following up and implementation the resolution taken, which will bring awareness and alert all officials of UIF&W expenditure.
 - b) officials must take effective and appropriate steps to prevent UIF&W expenditure within their area of responsibility by improving in proper planning and adhering to the procurement plan.
 - c) reinforce that the UIF&W register is not the sole responsibility of the CFO but all senior management, and they all must work together in improving on coordination and cooperation in reducing UIF&W register.

7.6 FOLLOW UP ON AG FININGS

Follow up must be in line with MFMA section 125 of the MFMA-

- a) notes to the financial statements.
- b) the total amount contributed
- c) any material losses and any material irregular or fruitless and wasteful expenditure, including in the case of a municipality any material unauthorized expenditure, that occurred during the financial year, and whether these are recoverable.
- d) Any criminal or disciplinary steps taken as a result of such losses or such authorised, irregular and wasteful expenditure and
- e) Any material losses recovered or written off.

7.7 CONSEQUENCE MANAGEMENT

1. Information kept in the UIF&W register must be used as a tracking tool-
 - a) following such expenditures until resolved and consequences is implemented.
 - b) financial misconduct must be dialed with in line MFMA sections 171
 - c) in instances where, council authorises unauthorised expenditure, councils must advise and include the element of consequence and part of the expenditure recovery.

7.8 THE UIF&W REDUCTION PLAN

1. The reduction plan must cover amongst others all KPAs-
 - a) KPA 1- Basic Service Delivery and Infrastructure Development
 - b) KPA 2- Municipal Financial Viability
 - c) KPA 3- Municipal Transformation and Organizational Development
 - d) KPA 4- Local Economic Development
 - e) KPA 5- Good Governance and Public Participation
 - f) KPA 6- Spatial Rationale

OUTCOME	INDICATOR	BASELINE	TARGET	INTERVENTION	CONTRIBUTING DEPARTMENT
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