UGU DISTRICT MUNICIPALITY

Policy Custodian	**Budget and Treasury Office**
Policy Name	**Unauthorised Irregular Fruitless and Wasteful Expenditure Policy**
Policy Number	**5/25/P/1**
Status **Date**	**Adopted** **2024/25FY**
Approved by	**Council**
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Contents

PREAMBLE

The poor economic conditions prevailing in South Africa has had serious financial pressure on government service delivery mandates. This financial challenge has influenced government to re-assess its current financial position and activities, shifting focus and resources towards key service delivery activities and allocating resources more efficiently on essential services.

Therefore, the need is for the Ugu District Municipality to curb unnecessary expenditure and ensure that resources are allocated and used effectively, efficiently, and economically.

The UIFWE Policy is meant to give effect to the provisions of Section 62 of the Municipal Finance Management Act No. 56 of 2003, in line with Section 62(1)(a), 62(1)(d), and 62(1)(e) of the MFMA, 2003, the object of which is to ensure that resources of a municipality are used effectively, efficiently, and economically by UIFWE measures.

1. INTRODUCTION

1.1 In terms of Section 62 of the Municipal Finance Management Act No. 56 of 2003, the accounting officer is responsible for managing the financial affairs of Ugu District Municipality and he/she must, for this purpose, inter alia.

- a) Take all reasonable steps to ensure that unauthorize, irregular, fruitless and wasteful expenditure and other losses are prevented; and
- b) Ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official or councilor of Ugu District Municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA

1.2 This is to ensure the effective, efficient and transparent systems of financial, risk management and internal control.

2 DEFINITIONS

TERMS	DEFINATION
MFMA	Municipal Finance Management Act, no. 56 of 2003
Municipality	UGU District Municipality
ACCOUNTING OFFICER	The Municipal Manager or Acting Municipal Manager of the municipality
CFO	The Chief Financial Officer or Acting Chief Financial Officer of the municipality
Capital expenditure	Expenditure on items or projects with a life span of more than 12 months (i.e. other than consumables) which affect financial position of the municipality
Operating expenditure	Expenditure on items or projects written off against accumulated surplus or deficit of the municipality during the year which affect statement of financial performance of the municipality

Fruitless and wasteful expenditure in terms of MFMA	Expenditure incurred in vain and would have been avoided had a reasonable care been exercised. This expenditure does not add any value to the municipality instead it creates waste or is fruitless
Unauthorized expenditure in terms of MFMA	Expenditure incurred which was not appropriated in an approved budget which include over expenditure within any vote or account. This includes utilization of funds for other purposes other than an intended purpose.
Irregular expenditure in terms of MFMA	It means: • Expenditure incurred in contravention of MFMA, SCM processes, municipal bylaws, practice notes, directive, any prescripts or regulations issued by Treasury or Minister of Finance
Emergency	Incidence whereby the following of SCM processes can cause threat to the human lives. This should not be a justification for poor planning.
VOTE	(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments functional areas of the municipality; and (b) which specifies, the total amount that is appropriated for the purposes of the department or functional area concerned

3 POLICY OBJECTIVES

This document sets out the Municipality's policy and procedures with regards to unauthorized, irregular, fruitless and wasteful expenditure.

This policy aims to ensure that, amongst other things:

3.2 Unauthorized, irregular, fruitless and wasteful expenditure is detected, processed, recorded and reported in a timely manner.
3.3 Officials and councilors of the Ugu District Municipality have a clear and comprehensive understanding of the procedures they must follow when addressing unauthorized, irregular, fruitless and wasteful expenditure.
3.4 All officials and councilors are aware of their responsibilities in respect of unauthorized, irregular, fruitless and wasteful expenditure.

4 PRESCRIPTIVE/LEGAL FRAMEWORK

Ugu District Municipality's Unauthorized, irregular, fruitless and wasteful expenditure Policy has been developed with recognition of the following prescriptive context – within which it needs to comply:

a) The Local Government Municipal Finance Management Act, Act No 56 of 2003
b) Remuneration of Public Office Bearers Act;
c) Municipal Systems Act, 2000, Act No. 32 of 2000

d) MFMA Circular 68;
e) Virement Policy

5 POLICY APPLICATION

This Policy is applicable to all officials and political office bearers, both future and present, of the Ugu District Municipality

6 UNAUTHORIZED EXPENDITURE

Ugu District Municipality may incur expenditure on in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

Expenditure incurred within the ambit of the Municipality's virement policy is not regarded as unauthorized expenditure.

Any expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, economic entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the MFMA is regarded as unauthorized expenditure.

"**Unauthorised expenditure**", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) MFMA. and includes-

(a) overspending of the total amount appropriated in the municipality's approved budget;
(b) overspending of the total amount appropriated for a vote in the approved budget;
(c) expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) expenditure of money appropriated for a specific purpose. otherwise, than for that specific purpose:
(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with an! condi1ions of the allocation; or
(f), a grant by the municipality otherwise than in accordance with MFMA:

7 IRREGULAR EXPENDITURE

Irregular expenditure is an expenditure incurred by a municipality or municipal entity in contravention of Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998) or is in contravention of the entity's supply chain management policy.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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Irregular expenditure includes the following:

a) Irregular expenditure incurred as a result of institutions procuring goods or services by means other than through competitive bids and where reasons for deviating from inviting competitive bids to have not been recorded and approved by the accounting officer.
b) Irregular expenditure incurred as a result of non-compliance with a requirement of the Municipality's delegations of authority.
c) Irregular expenditure incurred due to it being in contravention of the municipality's supply chain management policy.
d) Expenditure paid out to service providers who are in the service of state.
e) Irregular expenditure incurred because of non-compliance with a provision contained in any applicable legislation.

8 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and Wasteful Expenditure is any expenditure that is incurred for which no benefit is received by the municipality and would have been avoided had reasonable care been exercised.

Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Fruitless and wasteful expenditure includes the following:

a) Procuring of goods and services that are not beneficial to the municipality
b) Costs of goods and services are more than what would have been the case have proper procedures been followed
c) Renting of property when sufficient and appropriate unoccupied property is owned by the entity
d) Exuberant costs on parties, entertainment etc.
e) Incurring penalty and interest costs on late payment of accounts
f) Mismanagement of funds

9 TREATMENT OF IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

a) Where irregular or fruitless and wasteful expenditure is identified and discovered, it must be recorded in the appropriate internal registers and must be reported to relevant municipal committees in the next available meeting after the occurrence of the expenditure.

b) The same must be reported to the Mayor, Provincial Cogta and the Auditor-General the particulars of the expenditure; and any steps that have been taken to recover the expenditure; and to prevent a recurrence of the expenditure.

c) Where appropriate, the Accounting Officer must take appropriate steps to recover the amount from the persons concerned.

d) If the amount is irrecoverable, the Council of Ugu District Municipality may write-off debt in terms of Treasury Regulations,

e) The amounts written off in terms of treasury regulations must be disclosed in the Annual Financial Statements of the municipality.

f) The Unauthorized, Irregular, Fruitless and Wasteful expenditure register must be updated accordingly according to the various outcomes of the above processes.

10 RECOVERY OF UNATHORISED, IRREGULAR, FRUITLESS OR WASTEFUL EXPENDITURE

All instance of unauthorized, irregular, fruitless or wasteful expenditure must be recovered from liable official or political officer-bearer, unless the expenditure is certified by the municipal council, after investigation by a council committee, as irrecoverable and is written off by the council or unauthorized expenditure has been authorized by council in an adjustment budget. In other word the expenditure that is written off is therefore condoned.

Unauthorized, irregular, fruitless and wasteful expenditure resulting from breach of public Offer-bearers act is an exception in that the unauthorized, irregular, fruitless and wasteful expenditure must be recovered from the political Officer- bearer to who it was paid, who might not have been responsible for making, permitting, or authorizing the unauthorized, irregular, fruitless and wasteful expenditure

Once it has been established who is liable for the irregular expenditure, the accounting officer must in writing request that the official or political Office- bearer pay the amount within 30 days or in reasonable instalments. If the person fails to comply with the request, the matter must be recovered through the normal debt collection process of the entity.

11 PROCESS TO BE FOLLOWED IN CASES OF UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

(a) Any unauthorized, irregular, or fruitless and wasteful expenditure as defined above, must be promptly reported to the Chief Financial Officer who will initiate the process of dealing with the unauthorized, irregular, or fruitless and wasteful expenditure

(b) A register will be maintained in Budget and Treasury Office to record all instances of unauthorized, irregular, fruitless and wasteful expenditure. The format of the register will be consistent with Annexure A of MFMA Circular 68 issued on 10 May 2013.

(c) The Register of unauthorized, irregular, or fruitless and wasteful expenditure will form part of the Municipal Manager's management meeting agenda to ensure the reported items are dealt with in a prompt manner.

(d) Upon receiving a report of unauthorized, irregular, or fruitless and wasteful expenditure, the CFO will advise, in writing, the Municipal Manager and the Head of Internal Audit.

(e) The Internal Audit will institute an investigation as contemplated in section 32 of the MFMA, and, determine the following:

(i) Nature and reason for the unauthorized expenditure, irregular or fruitless and wasteful expenditure;
(ii) Whether the irregular expenditure result from a minor breach in the procurement policy.
(iii) Whether the municipality suffered a financial loss.
(iv) Whether the accounting officer / official / public officer bearer acted deliberately, negligently, or grossly negligently.
(v) Whether the accounting officer can condone the non-compliance with the SCM policy as a minor breach.

(f) The findings of the Internal Audit will be submitted to the Municipal Manager for consideration of the following:

(i) Introduction of an adjustments budget to authorize the un-authorized expenditure (if unforeseen and unavoidable and the process outlined in paragraph 3 of this policy could not be followed)

(ii) Recommendation to recover funds

(iii) Recommendation to write the funds of as irrecoverable

(iv) Disciplinary / Criminal action to be instituted.

(g) If the unauthorized expenditure is not authorized by Council, the funds must be recovered from the liable official or political officer bearer (within 30 days or in reasonable instalments).

(h) All instances of unauthorized, irregular, fruitless and wasteful expenditure must be disclosed in the annual report.

12 REPORTING

12.1 The Accounting Officer must comply with the following reporting requirements:

12.1.1 Immediately upon discovery of unauthorized, irregular, or fruitless, and wasteful expenditure, the Accounting Officer must report the details of the unauthorized, irregular or fruitless, and wasteful expenditure to the mayor.

The report must include the following details:

(a) VAT exclusive amount of the Unauthorized, irregular, or fruitless and wasteful expenditure.

(b) name of the vote from which the expenditure was made; (c) reason why the unauthorized, irregular, or fruitless and wasteful expenditure could not be avoided.

(d) name and title of the responsible official.

(e) details of any recovery steps taken or to be taken by the municipality.

(f) details of any disciplinary steps taken or to be taken by the municipality,

12.1.2 The Accounting Officer must also include the expenditure in the department's monthly revenue and expenditure report submitted to the Council in terms of the MFMA.

12.1.3 All unauthorized, irregular, or fruitless and wasteful expenditure must be reported as a note to the annual financial statements.

13. MONITORING AND EVALUATION

13.1 This Policy shall be monitored and evaluated by the CFO and regular monitoring reports submitted to the Management Committee Meeting, Finance Portfolio Committee, Executive Committee and Full Council Meetings.

14. COMMENCEMENT OF THE POLICY

14.1 This Policy shall come into effect on the date of the adoption by the Ugu District Municipality Council.

15. AMENDMENT AND/OR ABOLITION

15.1 This policy may be amended or repealed by the Municipality through a Council Resolution.

16. COMPLIANCE AND ENFORCEMENT

16.1 Violation or non-compliance with this policy will give a just cause for disciplinary steps to be taken.

17. POLICY REVIEW

17.1 This Policy will be reviewed annually to ensure applicability and relevance.

Records of Approval

Review 2021/2022		
Policy Review Committee	20 January 2022	Recommended to MANCO
MANCO	24 January 2022	Recommended to Portfolio Committee on Finance
Portfolio Committee on Finance	03 February 2022	Recommended to EXCO
EXCO	06 March 2022	Recommended to council
Council	26 May 2022	Approved

Review 2022/2023		
Policy Review Committee	10 February 2023	Recommended to MANCO
MANCO	24 April 2023	Recommended to Portfolio Committee on Finance
Portfolio Committee on Finance	16 MAY 2023	Recommended to EXCO
EXCO	17 May 2023	Recommended to council
Council	25 May 2023	Approved

Review 2023/2024		
Policy Review Committee	14 February 2024	Recommended to MANCO
MANCO	11 March 2024	Recommended to Portfolio Committee on Finance
Portfolio Committee on Finance	20 March 2024	Recommended to EXCO
EXCO	20 March 2024	Recommended to council
Council	23 May 2024	Approved

Review 2024/2025		
Policy Review Committee	18 February 2025	Recommended to MANCO
MANCO	10 March 2025	Recommended to Portfolio Committee on Finance
Portfolio Committee on Finance	13 March 2025	Recommended to EXCO
EXCO	19 March 2025	Recommended to Council
Council	29 May 2025	Approved