



Fezile Dabi

District Municipality

Unauthorised, Irregular, Fruitless & Wasteful Expenditure Policy

DEFINITIONS

Fruitless and wasteful expenditure: means expenditure that was made in vain and would have been Avoided had reasonable care been exercised.

Irregular expenditure: means expenditure incurred by the municipality in contravention of Municipal Finance Management Act, Municipal Systems Act, Public Office-Bearers Act, 1998 and which has not been dealt with in terms of section 170 of this Act

Unauthorized expenditure: means any expenditure incurred by the municipality otherwise than in accordance the approved budget and includes overspending of the total amount appropriated in the municipality's approved budget; and overspending of the total amount appropriated for a vote in the approved budget.

SECTION 1: OBJECTIVES

- To provide for measures to identify any unauthorised, irregular expenditure or any fruitless and wasteful expenditure;
- To provide for frameworks to avoid any unauthorised, irregular expenditure or any fruitless and wasteful expenditure from being incurred;
- To provide for recovery of irregular expenditure or any fruitless and wasteful expenditure; and
- To provide for reporting on any unauthorised, irregular expenditure or any fruitless and wasteful expenditure.

SECTION 2: LEGISLATIVE CONTEXT

Section 78(1)(c) of Municipal Finance Management Act, No 56 of 2003 (MFMA) provides that each senior manager of a municipality and each official of a municipal municipality exercising financial management responsibilities must take all reasonable steps within that official's area of responsibility to ensure that any irregular expenditure, fruitless and wasteful expenditure and other losses are prevented.

Section 167(2) further states that any remuneration paid or given in cash or in kind to a person as a political office-bearer or as a member of political structure of a municipality otherwise than in accordance with section (1), including any bonus, bursary, loan, advance or other benefit, is and irregular expenditure and the municipality must, and has the right to recover that remuneration from that political office bearer or member and may not write-off any expenditure incurred by the municipality in paying or giving that remuneration.

With regard to disclosure in term of financial management reporting, section 125(2) (d) states that the notes to the annual financial statements of a municipality or municipal municipality must disclose particulars of:

- i. any material losses and any material irregular or fruitless and wasteful expenditures, including, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;
- ii. any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures; and
- iii. Any material losses recovered or written off.

SECTION 3: POLICY PRINCIPLES

- a) The Accounting Officer shall investigate allegations of unauthorized, irregular or fruitless and wasteful expenditure against any official of the municipality.
- b) If the outcome of the investigation so warrants, disciplinary proceedings shall be instituted against the official(s) concerned in accordance with the provisions of Municipal Finance Management Act 56 of 2003 (MFMA) and the municipality's disciplinary code and procedures.
- c) Where appropriate, recovery of irregular, fruitless and wasteful expenditure shall be instituted by the municipality in accordance with MFMA.

SECTION 4: IDENTIFICATION OF UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

4.1 Unauthorized Expenditure

Any expenditure incurred by the municipality, for which no appropriation was made in terms of the approved budget, and / or in excess of the limits of the amount appropriated for in the municipality's approved budget or different votes in an approved budget.

The council may in emergency or other exceptional circumstances authorize unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

Such expenditure shall not exceed 1% percentage of the approved annual budget; and must be appropriated in an adjustments budget which must be passed within 60 days after the expenditure was incurred.

If the adjustment budget in which the unforeseeable and unavoidable expenditure was appropriated is not passed within 60 days after the expenditure was incurred, such expenditure shall be regarded as unauthorized.

4.2 Fruitless and Wasteful Expenditure

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

4.3 Irregular Expenditure

Irregular expenditure is an expenditure incurred by the municipality in contravention of, or that is not in accordance with the requirements of MFMA, and which has not been condoned in terms of section 170;

Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by the municipality which falls within the definition of "unauthorized expenditure"

SECTION 5: TREATMENT OF IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE
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1. Where irregular or fruitless and wasteful expenditure is identified and discovered, it must be recorded in the appropriate internal register and the Accounting Officer must report it in writing to council in the next available meeting after the occurrence of the expenditure.
2. The Accounting Officer must then promptly inform the Executive Mayor, the MEC for local government in the Province and the Auditor-General, in writing, of the particulars of the unauthorised, irregular, fruitless and wasteful expenditure; and any steps that have been taken to recover such expenditure; and to prevent a recurrence of the expenditure.
3. The Accounting Officer must report to the South African Police Service all cases of alleged irregular expenditure that constitutes criminal offence and theft and fraud that occurred in the municipality.
4. Where appropriate, the Accounting Officer must take appropriate steps to recover the amount from the persons concerned.
5. If the amount is irrecoverable, the Council may write-off in compliance with MFMA and treasury guidelines.

6. The amounts written off must be disclosed in the Annual Financial Statements of the municipality.
7. The Unauthorized, Irregular, Fruitless and Wasteful expenditure register must be updated accordingly according to the various outcomes of the above processes.

SECTION 6: CONSEQUENCES FOR IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE
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If the Accounting Officer becomes aware that the Council, Executive Mayor, Executive Committee of the municipality has taken a decision which, if implemented, is likely to result in unauthorized, irregular or fruitless and wasteful expenditure, the Accounting Officer is not liable for any ensuing unauthorized, irregular or fruitless and wasteful expenditure provided that the Accounting Officer has informed the Council, Executive Mayor, Executive Committee, in writing, that the expenditure is likely to be unauthorized, irregular or fruitless and wasteful expenditure.

The Accounting Officer is liable for unauthorized expenditure deliberately or negligently incurred by the Accounting Officer.

If a political-office bearer knowingly or after having been advised by the Accounting Officer that the expenditure is likely to result in unauthorized expenditure, instructed an official of the municipality to incur the expenditure; that political office-bearer is liable for the expenditure.

Any political-office bearer or official of the municipality, who deliberately or negligently committed, made or authorised an irregular or fruitless and wasteful expenditure, is liable for that expenditure.

SECTION 7: ACCOUNTING ALLOCATION OF UNATHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

If the unauthorized, irregular and fruitless and wasteful expenditure is found to be recoverable from the responsible official in full or in part, a debt must be recorded in the accounting records of the municipality.

In cases where the debt or part thereof become irrecoverable after the initial recognitions, such irrecoverable amount shall be written off, and appropriate recordings be made in the accounting records of the municipality.

Revenue from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures including those set out in the MFMA and is recognised when the recovery thereof from the responsible persons or officials is virtually certain.”

SECTION 8: IMPLICATIONS FOR THE ACCOUNTING OFFICER

The Accounting Officer commits an act of financial misconduct if he / she deliberately or negligently makes or permits, or instructs another official of the municipality to make, an unauthorized, irregular or fruitless and wasteful expenditure.

SECTION 9: REPORTING

Management information concerning the status of the disciplinary steps and or criminal proceedings instituted with respect to all unauthorized, irregular, fruitless and wasteful expenditure incurred by the municipality shall be provided to the Chief Financial Officer on a monthly basis. The information should preferably include the date of the incident, a description of the incident and the subsequent steps taken.

Any council approval granted to write off debt owed to the municipality, such approval shall be provided to the Chief Financial Officer on a monthly basis. The approval referred will be in the form of a resolution taken by the Council of Fezile Dabi District Municipality.

10. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.