



CONFIDENTIAL

**MUNICIPAL PUBLIC ACCOUNTS COMMITTEE REPORT ON
INVESTIGATION OF FRUITLESS AND WASTEFUL EXPENDITURE**

This report contains 8 pages

JUNE 2017

The Speaker
Matjhabeng Local Municipality
319 Stateway
Welkom
9460

31 May 2017

Dear Cllr B. Stofile

**RE: REPORT ON INVESTIGATION OF FRUITLESS AND WASTEFUL EXPENDITURE
FOR PERIOD ENDED 30 JUNE 2016**

In accordance with the requirements of Sec 32 of the MFMA, we are herein submitting our report on the investigation of Fruitless and Wasteful Expenditure for Matjhabeng Local Municipality (hereinafter referred to as the "MLM").

The attached report outlines the results of our investigation. The attached report has been set out in as follows:

Annexure A- the detailed Fruitless and Wasteful expenditure registers.

Annexure B- Minutes of our meetings

We would like to express our appreciation to the Acting Municipal Manager and Members of staff who have assisted us in carrying out our investigations.

Our report has been prepared for your information, and members of Council in order to make a decision in terms of Sec 32 of Municipal Finance Management Act. This report should not be placed at the disposal of third parties without our written approval.

Yours faithfully,



CLLR. MD Masienyane
Chairperson Municipal Accounts Public Committee
Matjhabeng Local Municipality

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This report is distributed to the following;

Name Designation	For Action	Secure Action
Council: Matjhabeng Local Municipality	X	
Executive Mayor: Matjhabeng Local Municipality		X
Acting Municipal Manager: Matjhabeng Local Municipality		X
Acting Chief Financial Officer: Matjhabeng Local Municipality		x

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1. Introduction and Legislative requirement

In terms of section 4(2)(a) of the Municipal Systems Act (MSA) the council has a duty to use the resources of the municipality in the best interest of the local community. This duty is extended to individual Councilors through the Code of Conduct for Councilors which states that a Councilor must:

- i. "perform the functions of office in good faith, honestly and in a transparent manner, and
- ii. at all times act in the best interests of the community and in such a way that the credibility and integrity of the municipality are not compromised."

Municipalities need to do all they can to prevent prohibited expenditures. The Accounting Officer also needs to ensure that the municipality has proper processes in place to record and manage prohibited expenditures, should they occur. Therefore, as part of complying with section 62(1)(d) of the MFMA, the Accounting Officer has through his delegates compiled and maintained a Register of Fruitless and Wasteful Expenditures in terms of MFMA and Circular 68 of MFMA.

2. Purpose

All instances of unauthorised, irregular, fruitless and wasteful expenditures must be reported to the Mayor, the MEC for local government in the province, the Auditor-General, disclosed in the annual report, and to council as required by section 32(4) and 74 of the MFMA.

Council should follow section 32(2)(b) of the MFMA when dealing with instances of fruitless and wasteful expenditure. The processes to respond appropriately to fruitless and wasteful expenditure are similar to the following three processes outlined for irregular expenditure:

- (i) *disciplinary charges* against officials and political office bearers;
- (ii) *criminal charges* against officials and political office-bearers; and
- (iii) *recovery* of the fruitless and wasteful expenditure from the liable persons

The purpose of this report in conjunction with the Fruitless and Wasteful Register compiled is to inform council of issues and results identified during the course of the investigation and recommendations there-of.

3. Objectives

To report to council, the findings and recommendations of Municipal Public Accounts Committee regarding the Investigation of Fruitless and Wasteful expenditures.

4. Scope of the Investigation

In performing the investigations, the Municipal Public Accounts Committee considered *ALL* expenditures that are identified to be Fruitless and Wasteful and included on the Registers compiled by management.

5. Definition of Fruitless and Wasteful Expenditure

The *Municipal Finance Management Act No.56 of 2003* under paragraph 1 defines;

fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

(1) The following are examples of fruitless and wasteful expenditure:

- Expenditure due to negligence, e.g. cancellation fees incurred for missing a flight or claims for damages to vehicles of road-users due to potholes.
- Interest on overdue accounts, e.g. Eskom
- Penalties Paid e.g. Incorrect PAYE or VAT calculations resulting in penalties payable from SARS
- Procuring of goods and services that are not beneficial to the municipality
- Costs of goods and services are in excess of what would have been the case have proper procedures been followed (quotes etc.)
- Renting of property when sufficient and appropriate unoccupied property is owned by the entity
- Exuberant costs on parties, entertainment, subsistence and travel etc.
- Back Pay as a result of unfair dismissal or suspensions.

Fruitless and Wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. This type of expenditure is incurred where no value for money is received for expenditure or the use of resources.

6. Municipal Public Accounts Committee composition

The following members were involved in the investigation process:

- Cllr MD Masienyane - Chairperson
- Cllr PF Botha
- Cllr J Marais
- Cllr TJ Mosia
- Cllr Molefi
- Cllr M Tsupa
- Cllr E Ngeobo
- Cllr Sinxezi
- Cllr D Mafa
- Cllr I Poo

7. Executive Summary and Breakdown – Fruitless and Wasteful Expenditure

The debt incurred in the form of interest/penalties, occurred as a result of the municipality's financial position, cash flow constraints and not as a result of negligence or any unlawful act on the part of any individual(s). After investigation the Committee came to the conclusion that both fruitless and wasteful expenditures below resulted due to cash flow challenges and not any form of negligence by the Administration.

Financial Year	2016/2017	TOTAL	MPAC Remarks
Total Reported Balance of W&F Expenditure			
Interest and penalties on overdue accounts	130 916 929.76	130 916 929.76	<ul style="list-style-type: none"> The municipality has incurred significant interest on overdue supplier accounts mainly due to cash and budgetary constraints; Although fruitless, the interest incurred is unavoidable and no official has been identified as liable for recovery of such expenditure
Balance investigated by Municipal Public Accounts Committee	130 916 929.76	130 916 929.76	

8. Overall Conclusion

8.1 Section 32 Committee recommendations

- (a) That Council takes note of the section Municipal Public Accounts Committee report;
- (b) That Council certifies an amount of **R130 916 929.76 for the period 1 July 2016-30 July 2017** detailed below as irrecoverable and be write-off;
- (c) That the appropriate disclosure note be made to the financial statements for the year ending 30 June 2017;
- (d) That the Accounting Officer must establish controls to detect and prevent these types of expenditures and on a quarterly basis submit a report for consideration to Council;
- (e) That the Accounting Officer must in writing communicate the Council resolutions to the office of the Auditor General, COGTA and Provincial Treasury in terms of section 32, subsection 4 of the Municipal Finance Management Act

Fruitless and wasteful expenditure:

Financial Year	2016/2017	TOTAL
Interest and penalties on overdue accounts	130 916 929.76	130 916 929.77
Total	130 916 929.76	130 916 929.76