

**INVESTIGATION REPORT UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTFUL EXPENDITURE  
2023/24 FINANCIAL YEAR**



**30 APRIL 2025**

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## **Abbreviations**

MFMA – Municipal Finance Management Act (No 56 of 2003)

MSA - Local Government Municipal Structures Act (No 117 of 1998)

MSA – Local Government Municipal Systems Act (No 32 of 2000)

MFPA – Public Finance Management Act (No 1 of 1999)

MDM- Mopani District Municipality

AO- Accounting Officer

IA – Internal Audit

AC – Audit Committee

UIF – Unauthorised, Irregular and Fruitless Expenditure

PMU – Project Management Unit

RMU – Risk Management Unit

FY – Financial Year

## DEFINITIONS

**Accounting Officer** means: Municipal Manager in a municipality and Chief Executive Officer in a municipal entity.

**Audit Committee** means: an independent committee constituted to review the control, governance and risk management within the institution established in terms of Section 166 of MFMA.

**Internal Audit** means: an official within the municipality responsible for internal audit activities.

**Executive Authority** means: The Municipal Council in a municipality and Municipal Council of its parent municipality

**Internal Auditing** means: an independent, objective assurance and consulting activity designed to add value and improve municipal's operations. It helps the municipality to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

**Management** means: all senior officials of the municipality.

**MFMA** means: Municipal Finance Management Act

**Risk Management Committee** means: a committee appointed by Accounting Officer to review the municipality's system of risk management.

**Risk Management Unit** means: a business unit responsible for coordinating and supporting the overall institutional risk management process, but which does not assume the responsibilities of management for identifying, assessing and managing risk.

**“Councillor”** means member of municipal council of Mopani District Municipality

**“Fruitless and wasteful expenditure”** means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**“Financial Misconduct”** means any misappropriation, mismanagement, waste or theft of the finances of a municipality, and also includes any form of financial misconduct specifically set out in sections 171 and 172 of the Act.

**“Financial Misconduct Disciplinary Board”** means a disciplinary board that is an independent advisory body that assists the council or the board of directors with the investigation of allegations of financial misconduct, and provide recommendations on further steps to be taken regarding disciplinary proceedings, or any other relevant steps to be taken as defined in terms of chapter 2, paragraph 4(2) of Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

**“Irregular expenditure”**, in relation to a municipality or municipal entity, means:

- a) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

**“Overspending”** means:

- a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be; in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

- b) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section.

**“Political Office Bearer”** means the speaker, executive mayor, mayor, deputy mayor, or a member of the executive committee as referred to in the Municipal Structures Act.

**“Prohibited expenditure”** means unauthorised, irregular, fruitless and wasteful expenditure;

**“Senior Manager”** has the meaning assigned to it in section 1 of the MFMA and in relation to Mopani District Municipality refers to Directors and CFO.

**“Unauthorised expenditure”** any expenditure incurred by a municipality other than in accordance with section 15 or 11(3), 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;
- e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” other than in accordance with any conditions of the allocation; or grant by Mopani District Municipality;
- f) Unforeseen and unavoidable expenditure not authorised within an adjustments budget within 60 days after the expenditure was incurred; and
- g) Any overspending on non-cash items, for example depreciation, impairments, provisions.

**“Vote”** means:

- a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different department or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

**“Official”** in relation to Mopani District Municipality, means:

- a) an employee of the municipality;
- b) a person contracted by the municipality to work as a member of the staff.

## 1. PURPOSE

This report aims to share with council on the findings, observations and recommendations made from the investigation conducted by MPAC on the Unauthorised, Irregular, Fruitless and Wasteful expenditures for the period 2021/22 financial year.

MPAC had during the current financial year made a submission on the findings of UIF&W expenditures which served in council with recommendations to write-off **R1 122 853 050.94** on the 31<sup>st</sup> October 2024 and **R 101 381 892.12** on the 30<sup>th</sup> January 2025 respectively. Furthermore **R 17 016 422.8** was referred for external investigation. The specific write-offs were explicitly on Irregular, Unauthorised and Fruitless and Wasteful expenditures.

This investigation report therefore aims to report on matters of irregular expenditures which were not concluded during the previous UIF&WE recommendations to council due to time constraints.

## 2. EXECUTIVE SUMMARY

This report is based on the fact that the Auditor General (AG) has highlighted an ever-increasing trend in unauthorised, irregular, fruitless and wasteful expenditure in Mopani District Municipality (MDM) over the past years. This is evident in the audit reports and the annual financial reports which were referred to the Municipal Public Accounts Committee (MPAC) for investigation.

The basis of this investigation was centered on the outstanding irregular expenditures of projects performed under Greater Tzaneen municipality that could not be finalised due to time constraint while concluding the other investigations. The irregular amounts being investigated for the period is **R 48 000 672.32**.

### **3. SCOPE OF THE INVESTIGATION**

The current scope of the investigation report focuses on the 2021/22 financial year on the UIFW/E as per the AG findings and further referred to MPAC on the 31<sup>st</sup> July 2024. The revised scope is based on the outstanding irregular expenditures amounting to **R 48 000 672.32** which were not finalised due to time limit.

#### **Limitation of Scope:**

The Directorates provided the requested information late whenever it was requested, and thus creating more delays in the conclusion of cases as expected.

### **4. LEGISLATIVE MANDATE**

The oversight work by MPAC is mandated by the following applicable Legislative Framework:

1. *The Constitution of the Republic of South Africa Act 108 of 1996*
2. *The Municipal Systems Act 32 of 2000*
3. *The Municipal Structures Act 117 of 1998*
4. *The Municipal Finance Management Act 56 of 2003*

### **5. METHODOLOGY**

The procedures performed are based on the information and documentation made available to MPAC during the investigation. The conclusion and recommendations are based on the information obtained through the following measures:

1. Interviews with directorates, Units and Officials deemed relevant for the investigation

2. Scrutiny of documents obtained in conjunction with legislative requirements and
3. Information discovered during the probing and engagements.
4. Verification of the status of flagged projects identified on the irregular expenditures.

The committee wrote to management on the 13/08/2024, and 10/09/2024 requesting information and engagements. The Committee probed the UIFWe registers and developed questions for the attention of the Accounting Officer on the 16<sup>th</sup> – 18<sup>th</sup> August 2024 which was followed by probing engagements with relevant directorates on the 10<sup>th</sup> -11<sup>th</sup> September 2024 and 1<sup>st</sup> October 2024. During physical engagements on the 1<sup>st</sup> October 2024, further additional requested supporting information were indexed and handed to the Committee for further perusal and reference during investigations. Some expenditures were not entertained by the Committee since directorates did not have answers nor supporting documents since they fell under historical period, and some being those already referred to external investigations. A further engagement with BTO was scheduled for the 15<sup>th</sup> October 2024 where other significant details to the investigations were provided. Furthermore, engagements with relevant directorates were held during 27<sup>th</sup> November 2024 and 17<sup>th</sup> December 2024 to investigate the outstanding UIF&WE after the previous reporting in Council. The project site visits were held during the 24<sup>th</sup> – 26<sup>th</sup> March 2025 to verify the status of the flagged projects while in the course of drawing the final report.

## **6. MPAC FINDINGS**

The Unauthorised, Irregular, Fruitless and Wasteful expenditure report was tabled in Council and referred to MPAC for further probing in an ordinary Council sitting dated 31 July 2024.

Following the previous recommendations by MPAC on the 31<sup>st</sup> October 2024, It can be confirmed that a UIF&WE expenditure of **R1 122 853 050.94** and **R 101 381 892.12** On the 30<sup>th</sup> January 2025 have been recommended for written off in the current financial year.

The main contributing factors in the current UIF& WE include but are not limited to the following:

1. Section 32 of MFMA incorrectly applied.
2. Tender invitation sent out to contractors after the closing date.
3. No formal process followed to allocate projects to engineering consultants within a panel.
4. Limitation of Scope.
5. Bidders disqualified on wrong evaluation criteria.

## 7. IRREGULAR EXPENDITURE

### IRREGULAR EXPENDITURE FOR 2021/2022 FINANCIAL YEAR

#### 7.1. Tender invitation sent out to contractors after the closing date

No.	Contractor	Project Name	F/Y	Contract Amount	Irregular Incurred in Current Year 2021/22	Results of Investigation	Recommendations
1.	DITLOU SUPPLIERS AND SERVICES	Tours Water Scheme bulk water refurbishment and reticulation	20/21	R46 428 297,95	R5 122 888,90	MPAC identified that the tenders were sent out after closing	a) That the Municipality allocate a designated official to communicate and

	<p>date. The bidders were invited within the panel of contractors to submit bids for these specific projects. An expressed audit flaws and failure to coordinate was evident on the site of management.</p> <p>The Committee further noted that when AGSA required formal documentary proof and process it could not be provided due to its unavailability.</p>	<p>clarify AGSA on audit related findings.</p> <p>b) That internal Control be strengthened and management of audit flaws and coordination be improved.</p> <p>c) That the Accounting Officer ensure that all SCM decisions and applications are backed by documentary proof.</p> <p>a) That the matter be referred to Financial Misconduct Board to assess whether or not acts of financial misconduct were committed.</p> <p><b>Recommendations:</b></p> <p>That the expenditures be written-off since there has been value for money in the implementation of the projects in question which was confirmed during physical verification.</p>
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**7.2. No formal process followed to allocate projects to engineering consultants within a panel.**

No.	Contractor	Project Name	F/Y	Contract Amount	Irregular Incurred in Current Year 2021/22	Results of Investigation	Recommendations
1.	TANGOS CONSULTANTS CC	Tours Water Reticulation-Bulk lines refurbishment and reticulation	2021/22	R 8 124 952,14		<p>MPAC has observed during investigation that no formal process was followed to allocate projects to engineering consultants within the panel.</p> <p>Instead BTO's view is that where there has been works completed on risk basis (feasibility reports and technical reports) and the municipality utilized same to secure funding on various grants. The municipality may prioritize allocation to the consulting</p>	<p>a) That the Municipality allocate a designated official to communicate and clarify AGSA on audit related findings.</p> <p>b) That internal Control be strengthened and management of audit flaws and coordination be improved.</p> <p>c) That the Accounting Officer ensure that all SCM decisions and applications are backed by documental proof.</p> <p>d) That the matter be referred to Financial Misconduct Board to assess whether or not acts of financial misconduct were committed.</p>

						<p>engineering company which completed the planning to manage risks.</p> <p>The Committee further noted that the explanation could not be supported by documental proof, hence AGSA could not recommend differently.</p>	<p><b>Recommendations:</b></p> <p>That the expenditures be written-off since there has been value for money in the implementation of the projects in question.</p>
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### 7.3. Limitation of Scope

No.	Contractor	Project Name	F/Y	Contract Amount	Irregular Incurred in Current Year 2021/22	Results of Investigation	Recommendations

1.	KMSD ENGINEERING CONSULTANTS	Tours water reticulation to 25 villages – Phase 1 (MDM 2021/22- 020)	2021/22	7 833 219,34	R3 283 601,72	<p>The Committee detected that management failed to comply with AGSA in the submission of the required documentation for audit purposes.</p> <p>BTO in response purports and state that the municipality did submit this information to AG, however the information was not audited by AG as it was deemed to have been submitted late. They further highlighted that the projects were reselected for audit on the subsequent year of audit.</p> <p>MPAC is of the opinion that late submission is equal to no submission since timelines were not adhered to.</p>	<p>a) That BTO ensure internal Control is strengthened and management of audit flaws and coordination be improved to curb delays and failure to meet time-lines.</p> <p>b) That consequence management must apply to those who fail to comply to AGSA time-lines resulting in audit findings.</p> <p><b>Recommendations:</b></p> <p>That the expenditures be written-off since there has been value for money in the implementation of the projects in question.</p>

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#### 7.4. Bidders disqualified on wrong evaluation criteria

No.	Contractor	Project Name	F/Y	Contract Amount	Irregular Incurred in Current Year 2021/22	Results of Investigation	Recommendations

1.	REMBU CONSTRUCTIO N	Ritavi water scheme (Phase 3) - (MDM 2021/22 - 001)	2021/22	42 254 340,00	R7 908 477,00	MPAC observed that The municipality utilized the CIDB best practice guideline #A3 Evaluating tender offers based on 5 <sup>th</sup> Edition in accordance with the MFMA Circular 53: Amended Guidelines in Respect of Bids that include functionality as a criterion for evaluation.	a) That internal Control be strengthened and management of audit flaws and coordination be improved. b) That the Accounting Officer ensure that all SCM decisions and applications are backed by documental proof. c) That the Municipality allocate a designated official to communicate and clarify AGSA on audit related findings. d) That the Newly appointed sub-contractor be fully supported to complete the outstanding work left by Rembu Construction.
2.	DITLOU SUPPLIERS AMD SERVICES	Thabina regional water scheme from Thabina to Lenyenye phase 5 (MDM 2021/22 - 002)	2021/22	35 250 619,00	R9 304 638,00	BTO further highlighted that the criteria are legitimate under CIDB but there was differing interpretation with AG which led to the finding. The municipality adopted the application of the criteria by AG to conduct	
3.	GUMELA PROJECTS	Refurbishment rehabilitation and upgrading of water reticulation network and	2021/22	3 857 581,00	R2 047 770,00		

		boreholes in Mariveni				assessment for rates on tender offers deemed unreasonable.	
4.	SELBY CONSTRUCTION	Tours water reticulation to 25 villages - Phase 1 (MDM 2021/22-020)	2021/22	44 761 253,00	R17 610 342,00	MPAC is of the opinion that the same views which were not previously acceptable have been considered lately per their	

						<p>reports. This solidify the lack of designated personnel for appropriate audit responses.</p> <p>The Mariveni project faces challenges of illegal connections from the source, and thus making it impossible for the community to fully benefit in the supply of water.</p>	<p><b>Recommendations:</b></p> <p>That the expenditures be written-off since there has been value for money in the implementation of the projects in question.</p>
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The MFMA Circular 76 states that the Auditor-General has consistently highlighted several issues in reports on local government audit outcomes that include persistent non-adherence to relevant laws and regulations and financial management policies, as well as the need to improve governance arrangements. A significant number of municipalities continue to incur unauthorised, irregular as well as fruitless and wasteful expenditure (UIFWe), which in itself may constitute financial misconduct. The non-compliance with the MFMA and its supporting regulations continue to persist largely due to lack of proper consequence management for accountability failures and transgressions.

In terms of section 32(2)(b), irregular expenditure may only be written-off by Council if, after an investigation by a council committee, the irregular expenditure is certified as irrecoverable. In other words, writing-off is not a primary response, it is subordinate to the recovery processes and may only take place if the irregular expenditure is certified by Council as irrecoverable.

## 9. GENERAL OBSERVATIONS

1. The challenges that the MPAC encountered during the course of sourcing the information and documents to enable them to conclude the matter earlier were irrational;
2. The escalating UIF&WE resulted from Unauthorized, Fruitless and Wasteful Expenditures emanating from delayed submission of UIF&WE registers to Council for further referral to MPAC;

## 10. RECOMMENDATIONS ON FINDINGS

1. That Management to ensure implementation of the MPAC and Council resolutions;
2. That Council writes-off the irregular expenditure amounting to **R 48 000 672.32**;
3. It is recommended that the Financial Misconduct Disciplinary Board investigate any financial misconduct on any element of financial misconduct and against any alleged transgressor;
4. Consequence management be implemented on non-compliance by officials;

## 11. RECOMMENDATIONS TO COUNCIL

Upon consideration of the Draft 2023/24 UIF&W Expenditure Report and all its processes MPAC therefore recommends the following:

1. That Council takes note of the Unauthorized, Irregular, Fruitless and Wasteful Expenditure Report;
2. That Council consider the write-off of **R 48 000 672.32** on Irregular expenditures;
3. That Council deliberates on the report;
4. That Council adopts the report;

5. That Council upon all considerations approve the report with its recommendations;
6. That the report be submitted to CoGHSTA, SALGA, AGSA and the Provincial Treasury;
7. That the recommendations of the report be monitored and implemented by Management, Mayoral Committee, Legal Services, Audit Committee and all relevant Portfolio Committees.

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**Cllr PS MOTHOMOGOLO**

**MPAC CHAIRPERSON**

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**DATE**