



MATATIELE LOCAL MUNICIPALITY UIFW REPORT: FINANCIAL YEAR – 2023/24



MATATIELE

LOCAL MUNICIPALITY



UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE
(UIFW) INVESTIGATION REPORT: 2023/24FY

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ABBREVIATIONS

MFMA	: Municipal Finance Management Act (Act No 56 of 2003)
STRUCTURES ACT	: Local Government: Municipal Structures Act, (Act No 117 of 1998)
SYSTEMS ACT	: Local Government: Municipal Systems Act, (Act No 32 of 2000)
	"Constitution" means the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996)
PFMA	: Public Finance Municipal Act (Act No.1 of 1999 as amended by Act 29 of 1999)
AO	: Accounting Officer
UIFW	: Unauthorised, Irregular or Fruitless and Wasteful Expenditure

DEFINITIONS

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

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. "

Councillor means member of municipal council of Matatiele Local 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;
- b) expenditure incurred by a 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 the Act.



c) expenditure incurred by a 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 a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity 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 a municipality which falls within the definition of "unauthorised 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), 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 any conditions of the allocation; or
- f) a grant by the municipality otherwise than in accordance with this Act;

Official, in relation to a municipality or municipal entity, means—

- a) an employee of a municipality or municipal entity;
- b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;



INTRODUCTION

The Auditor-General has highlighted an escalating trend in unauthorised, irregular, fruitless and wasteful expenditure (UIFW) in municipalities over recent years which is evident in the audit reports and annual reports.

This report relates to the investigation of unauthorized expenditure of R85 274,89 and fruitless and wasteful expenditure of R217 842 which occurred in the 2023/24. In terms of section 62 of the Municipal Finance Management Act No. 56 of 2003 (herein referred to as "MFMA"), the accounting officer is responsible for managing the financial affairs of Matatiele Local Municipality and he must, for this purpose, inter alia:

- a) Take all reasonable steps to ensure that unauthorised, 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 councillor of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

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

Section 32 (2) of the Local Government Municipal Finance Management Act 56 of 2003 "unauthorised, Irregular, fruitless and wasteful expenditure" states that: "a Municipality must recover unauthorised, irregular, fruitless and wasteful expenditure from the person liable for such expenditure unless the expenditure-

- a) In case of unauthorized expenditure. is
 - (i) authorised in an adjustment budget; or
 - (ii) Certified by the municipal Council, after investigation by the council committee as irrecoverable and written off by Council; and
- b) In case of Irregular or fruitless and wasteful expenditure, is, after investigation by a Council Committee, certified by the council as irrecoverable and written off by the Council.



LEGISLATIVE MANDATE

Irregular Expenditure

Local Government Municipal Finance Management Act of 2003 Circular No 68 on Unauthorised, Irregular, Fruitless and Wasteful expenditure states that: in terms of section 32(2)(b) irregular expenditure may only be written-off by Council if, after an investigation by a Council committee, that 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, based on the findings of an investigation.

Unauthorised Expenditure

MFMA Circular No 68 Municipal Finance Management Act No. 56 of 2003 on Unauthorised, Irregular, Fruitless and Wasteful expenditure states that;

"In considering authorisation of unauthorised expenditure, Council must consider the following factors:

- i. Has the matter been referred to Council for a determination and decision?
- ii. Has the nature, extent, grounds and value of the unauthorised expenditure been submitted to Council?
- iii. Has the incident been referred to a council committee for investigation and recommendations?
- iv. Has it been established whether the Accounting Officer or official or public office bearer that made, permitted or authorised the unauthorised expenditure acted deliberately or in a negligent or grossly negligent manner?
- v. Has the Accounting Officer informed Council, the Mayor or the Executive Committee that a particular decision would result in an unauthorised expenditure as per section 32(3) of the MFMA?
- vi. Are there good grounds shown as to why an unauthorised expenditure should be authorised? For example:
 - the Mayor, Accounting Officer or official was acting in the best interests of the municipality and the local community by making and permitting unauthorised expenditure;
 - the Mayor, Accounting Officer or official was acting in good faith when making and permitting unauthorised expenditure; and
 - the municipality has not suffered any material loss as a result of the action.

In these instances, the council may authorise the unauthorised expenditure. If unauthorised expenditure is approved by Council, there would be no further consequences for the political office-bearers or officials involved in the decision to incur the expenditure.



Fruitless and Wasteful Expenditure

Council should follow section 32(2)(b) of the MFMA when dealing with instances of fruitless and wasteful expenditure. Section 32 (2) MFMA No 56 of 2003 "Unauthorised, Irregular, fruitless and wasteful expenditure". States that:

"a Municipality must recover unauthorised, irregular, fruitless and wasteful expenditure from the person liable for such expenditure unless the expenditure-

- a) In case of unauthorised expenditure is
 - i. authorised in an adjustment budget; or
 - ii. Certified by the municipal Council, after investigation by the council committee as irrecoverable and written off by Council; and
- b) In case of Irregular or fruitless and wasteful expenditure, is, after investigation by a Council Committee, certified by the council as irrecoverable and written off by the Council."

MUNICIPAL REGULATIONS ON FINANCIAL MISCONDUCT PROCEDURES AND CRIMINAL PROCEEDINGS

Chapter 2, paragraph 4(1) states that "A municipal council or board of directors of a municipal entity must establish a disciplinary board to investigate allegations of financial misconduct in the municipality or municipal entity, and to monitor the institution of disciplinary proceedings against an alleged transgressor'.

Financial misconduct will mean (theft, waste, misuse, misappropriation of Municipal finances and resources)



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PURPOSE OF THE REPORT

The purpose of this submission is to report to Council on the results of the investigations conducted on the 2023/24 unauthorised, irregular, fruitless and wasteful expenditure (UIFW).

BACKGROUND

The Matatiele Local Municipality Council resolved that the 2023/24 register of unauthorised, irregular, fruitless and wasteful expenditure (UIFW) be noted and referred for investigation by MPAC as per Council Resolution.

SCOPE OF THE INVESTIGATION

The scope of the investigation will cover 2023/24UIFW expenditure incurred by the municipality which are accumulated figures of unauthorized expenditure of R85 274,89 fruitless and wasteful expenditure R217 842. The scope of the UIFW investigation was established by the Council Resolution. All relevant information from the opening balances was scrutinized which is covered by the investigation.

It should be noted that despite a diligent effort on our part to obtain all information and documentation relevant to conduct the investigation, we cannot guarantee that such is accurate. Therefore, our conclusions may change should further documentation or information be obtained or made available to us that materially impacts on this investigation.

The scope of our investigation was limited to an analysis of documentation, interview questions, information and data made obtained. It should further be noted that this report does not limit the overall scope of this investigation, and that Matatiele Local Municipality may extend the scope of this investigation in the event of further areas of concern and/or irregularities being identified.



SCOPE LIMITATION:

There were no limitations experienced when conducting this investigation either in terms of access to information or municipal officials.

METHODOLOGY

The procedures performed are based on the information and documentation made available to us during the investigation. The conclusions and recommendations are based on the information obtained through interviews with officials deemed relevant for the investigation and scrutiny of documents obtained. Should further documentation and/or information, previously not divulged to us for whatever reason be made available to ourselves, our conclusions and inferences may change, and if considered necessary, a supplementary report will be issued:

- ✓ Review the relevant documents.
- ✓ Established the nature of non-compliance as per MFMA/SCM Regulations.
- ✓ Determine the nature and reason for Irregular, Fruitless and Wasteful expenditure.
- ✓ We document the comments per transaction for Irregular, Fruitless and Wasteful expenditure indicating the conclusion of the investigator.
- ✓ For unauthorised we used Budget Comparison Statement to determine the unauthorised amount as well as the note from the AFS.
- ✓ Transactions supporting each line item in budget comparison statement were not forming part of our investigation.
- ✓ Determine whether Unauthorised, Irregular, Fruitless and Wasteful expenditure was as a results of an instruction given, and if so, by whom. In addition, whether the accounting officer or official involved advised that such a decision would result in Unauthorised, Irregular, Fruitless and Wasteful expenditure.
- ✓ Determine whether financial loss suffered material or immaterial.
- ✓ Determine whether an official acted deliberately or negligently.
- ✓ Grounds shown as to why the unauthorised expenditure should be authorised (such as interest of the municipality).
- ✓ Based on the evidence presented for consideration, determine whether it is necessary to pursue the application of Section 32(6) of the MFMA.
- ✓ Based on the findings should actions be taken in terms of:
 - Introducing an adjustment budget to authorise the unauthorised expenditure.
 - Recommendation to recover funds.
 - If any Disciplinary/ Criminal action to be instituted.



TRANSACTIONS THAT FALL WITHIN THE SCOPE OF INVESTIGATION:

Unauthorised Expenditure

“Unauthorised Expenditure” means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the 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 any conditions of the allocation or
- f) a grant by the municipality otherwise than in accordance with the MFMA.

Section 15 of the MFMA deals with appropriation of funds for expenditure and provides that a municipality may, except where otherwise provided in the MFMA, incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget. With reference to MFMA section 1(a) in the definition above, a municipality’s budget is divided into an operational budget and a capital budget. Overspending must be determined in relation to both the operational budget and the capital budget votes on both the operational budget and the capital budget. Where Council has approved a virement policy that allows the accounting officer to make limited shifts of funds between votes, this must also be considered.

With reference to MFMA section 1(c) – funds appropriated in a vote for a department may not be used for purposes unrelated to the functions of that department. In other words, an accounting officer or other official may not use funds allocated to one department for purposes of another department or for purposes that are not provided for in the budget. Where a Council has approved a virement policy, shifts made in accordance with that policy may be allowed, and must be considered when reviewing such expenditure.

With reference to MFMA section 1(d) – in addition to appropriating funds for a department’s vote, the Council may also appropriate funds for a specific purpose within a department’s vote, for example, for specific training initiatives or a capital project. Funds that have been designated for a specific purpose or project may not be used for any other purpose.

With reference to MFMA section 1(e) – the items referred to in the definition of ‘allocation’ are national and provincial conditional grants to a municipality and other ‘conditional’ allocations to the municipality from another municipality or another organ of state. Any use of conditional grant funds for a purpose other than that specified in the relevant conditional grant framework is classified as unauthorised expenditure.



Unauthorised expenditure on “non-cash” items Municipalities have raised concerns over non- cash items being classified as unauthorised expenditure owing to the total amount of the budget being exceeded. Such expenditure relates to debt impairment, depreciation, asset impairment, transfers and grants. Although these expenditures are considered non-cash items as there is no transaction with any service provider or supplier, an under provision during the budget compilation process is a material misstatement of the surplus or deficit position of the municipality.

This could be the result of poor planning, budgeting or financial management, or unknown events that gave rise to the asset and debt impairment after adoption of the budget with reference to MFMA section 1(f) – section 67 of the MFMA regulates the transfer of municipal funds to organization’s and bodies outside government. In terms of this section, a municipality may only provide grants to organization’s and NOT individuals.

- If any Disciplinary/ Criminal action to be instituted.



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1) FRUITLESS AND WASTEFULL EXPENDITURE

NO:	DESCRIPTION	AMOUNT	YEAR	DEPARTMENT /OFFICIAL RESPONSIBLE	COMMENTS/CONCLUSION
1	SARS PENALTY	R 217 842	2024	Budget and Treasury (CFO) Municipal Manager (Accounting Officer)	<p>The fruitless expenditure identified pertains to an administrative penalty imposed by SARS for late submission of the EMP501 reconciliation. The total penalty amount has been recorded accordingly.:</p> <p>The penalty was a result of two factors firstly system migration of the payroll system led to temporary disruptions and delays in generating the required payroll reports for EMP501 submission within the prescribed SARS deadline. Secondly key payroll personnel responsible for SARS submissions and reconciliations were subject to administrative suspensions, which impacted the continuity of operations</p> <p>Conclusion: That the management must improve their internal controls to ensure the expenditure is not continuous incurred by the municipality.</p>



DETAILED FINDING

Reason for Late Submission of EMP501 Reconciliation

The fruitless expenditure identified relates to an administrative penalty imposed by SARS due to the late submission of the EMP501 reconciliation. After internal investigation, the following factors were identified as contributing to the delay:

1. System Migration Delays

During the reporting period, the municipality undertook a migration of its payroll and financial systems, which spanned from 1 July 2023 . This migration process involved:

- Data cleansing and validation of historical payroll records;
- Configuration and testing of the new system environment;
- Parallel runs to ensure data integrity prior to full cut-over.

These activities, while necessary for improving long-term efficiency, led to temporary disruptions and delays in generating the required payroll reports for EMP501 submission within the prescribed SARS deadline.

2. Payroll Employee Suspensions

In addition, during the same period, key payroll personnel responsible for SARS submissions and reconciliations were subject to administrative suspensions, which impacted the continuity of operations. These suspensions occurred around the critical period for EMP501 preparation and submission, further constraining the municipality's ability to compile and verify the required information in time. Despite efforts to reallocate duties and expedite the process, the convergence of these operational challenges contributed to the missed SARS deadline.

CRITICAL ISSUES IDENTIFIED DURING INVESTIGATIONS ON FRUITLESS AND WASTEFUL EXPENDITURE:

- Skills transfer
- Lack of Internal Controls
- Absence of a Compliance Checklist or Review Mechanism
- Insufficient Staff Capacity or System Constraints
- Lack of Training
- Inadequate Delegation of Compliance Responsibilities

RECOMMENDATIONS TO IMPROVE MANAGEMENT CONTROLS:

- Establish a Statutory Compliance Calendar
 - Implement and maintain a centralized compliance calendar that flags all critical SARS deadlines, including EMP501 bi-annual submissions.
 - Send automated alerts or internal reminders ahead of deadlines.
- Assign Clear Roles and Responsibilities
 - Clearly delegate EMP501 submission responsibility to a designated payroll or compliance officer.
 - Include this accountability in job descriptions and performance evaluations.
- Improve Interdepartmental Coordination
 - Establish a standard operating procedure (SOP) for information sharing between HR, payroll, and finance to streamline EMP501 data preparation.
 - Hold joint reconciliation planning meetings during submission periods.
- Implement Internal Review and Approval Workflow
 - Introduce a mandatory review and approval process before final EMP501 submission.
 - Include checklist verification to ensure data accuracy and readiness.
- Develop and Use a Compliance Checklist
 - Create a formal EMP501 compliance checklist, covering all steps from payroll reconciliation to SARS portal submission and confirmation of receipt.
 - Require sign-off by the responsible officer and supervisor.
- Ensure Timely Monitoring of SARS Communications
 - Designate a SARS communications liaison who regularly monitors eFiling/e@syFile for alerts, reminders, and notices.
 - Set up email forwarding and escalation procedures for urgent communication.
- Provide Regular Training and System Refresher Courses
 - Conduct annual or bi-annual training sessions for staff involved in EMP501 submissions to ensure up-to-date knowledge of SARS requirements and systems (e.g., eFiling, e@syFile).
- Strengthen Capacity and System Reliability

- o Assess whether current staff capacity and system infrastructure are sufficient for timely EMP501 processing.
- o Consider system upgrades or temporary support during peak compliance periods if necessary.

2) UNAUTHORISED EXPENDITURE

A) Overspending per vote item

DEPARTMENT	Nature	ORIGINAL BUDGET (R-Value)	ACTUAL JULY TO JUNE'24 (R-Value)	DIFFERENCE (R-Value)	% VARIANCE
Finance and Administration:	Employee related costs	R33 047 177,00	R33 899 919,89	-R852 742,89	2.58%
		R33 047 177,00	R33 899 919,89	-R852 742,89	2.58%

Segments overspent:

- Post-retirement Benefit
- Salaries; Wages and Allowances
- Housing Benefits and Incidental: Housing Benefits
- Allowances: Travel or Motor Vehicle
- Bonuses

B) Incorrect disclosure:

Description	AFS 2024	Recalculated amount	Difference
Unauthorised expenditure	R85 274	R852 742,89	-R 767 468,89.

During the preparation of the 2024 Annual Financial Statements (AFS), unauthorised expenditure was disclosed as R85 274, based on the initial calculations available at the time. However, upon review and recalculation, the correct amount of unauthorised expenditure for the period was determined to be R852 742.89.

The variance of R767 468.89 represents an understatement of the total unauthorised expenditure disclosed in both the AFS and the Unauthorised, Irregular, Fruitless and Wasteful (UIFW) expenditure register for the 2024 financial year.

This understatement arose due to an error in the conclusion and reconciliation process, where a portion of the unauthorised expenditure was inadvertently excluded from the final disclosure figures.

To correct this, an adjustment of R767 468.89 must be processed and reflected in the revised UIFW register and AFS disclosure notes, thereby bringing the total unauthorised expenditure to R852 742.89, in line with the recalculated and verified amount.

CRITICAL ISSUES IDENTIFIED DURING INVESTIGATIONS

- Misalignment of line segments, where budgeted amounts not align with actual expenditure, resulting in actual expenditure on a segment with nil budget.
- Non-compliance with relevant legislation mSCOA budget circulars.
- Inadequate budgeting principals and budget forecasting.
- Inadequate performance of monthly reconciliations
- Ineffective Review and Internal Controls

RECOMMENDATIONS TO IMPROVE MANAGEMENT CONTROLS

- All Unauthorised, Irregular, Fruitless, Wasteful expenditure be condoned by council as per (MFMA Sec 32 (2)(a)). (Anything to do with Council let remove it to overall conclusion)
- Unauthorized, irregular or fruitless and wasteful expenditure policy or procedure manual be developed;(SOP).
- Budget practices be strengthened, that is, availability of budget be monitored to avoid unauthorized expenditure.
- Conduct a comprehensive mSCOA alignment review before each budget cycle to ensure all line items are properly structured and mapped.
- Provide training to all finance, HR and SCM officials on segment coding structures and linkage to budget.
- Adopt a compliance checklist aligned to all current National Treasury mSCOA circulars for use during the budgeting and reporting cycle
- Regularly update the chart of accounts in line with new mSCOA version releases. (Collaboration between HR and Budget Unit).
- Management must prepare proper budgeting informed by historical trends and prior-year spending patterns.
- Reinforce a monthly reconciliation calendar, signed off by senior officials for the following, including Section 71, 72 and 52d.
- Provide capacity-building workshops on GRAP, mSCOA, and MFMA for all relevant staff.
- Ensure that the internal audit unit reviews budget performance and compliance quarterly.
- Unauthorized, irregular or fruitless and wasteful expenditure be reported to Council on quarterly basis.
- Adjust the 2024 UIFW Register Update the Unauthorised, Irregular, Fruitless and Wasteful Expenditure Register to reflect the full unauthorised expenditure amount of R852 742.89.
- Restate the 2024 AFS Disclosure Note Amend the relevant disclosure note in the Annual Financial Statements to align with the corrected figure. Include a note explaining the prior understatement and the adjustment made to ensure transparency and audit trail integrity.
- Strengthen Financial Statement Review Controls
 - Implement a secondary review layer for all AFS disclosures, particularly for UIFW-related items, before submission to the Auditor-General.
- Conduct Staff Training and Reconciliation Workshops
 - Provide targeted training for finance personnel on GRAP compliance, VUIFW disclosure requirements, and reconciliation practices.
- The development of the policies such as unauthorised, irregular, fruitless and wasteful policy will be of the utmost importance and MFMA Circular No. 111 on 16 November 2021, which provides guidance on the Unauthorised, Irregular, Fruitless and Wasteful (UIFW) Expenditure Reduction Strategy.

CONCLUSION

In terms of Section 32(2) (b) of the MFMA the UIFW may only be written off by Council, if after an investigation by Council committee, the UIFW is certified as irrecoverable.

The municipality can avoid unauthorised, irregular or fruitless and wasteful expenditure if due processes and procedures are being followed. The development of the policies such as unauthorised, irregular, fruitless and wasteful policy will be of the utmost importance and MFMA Circular No. 111 on 16 November 2021, which provides guidance on the Unauthorised, Irregular, Fruitless and Wasteful (UIFW) Expenditure Reduction Strategy for municipalities. Those charged with responsibilities should adhere to the policies, procedures and processes. Therefore, the following recommendations to Council to be noted and for approval:

- Council to approve the write-off of Fruitless and Wasteful Expenditure amounting to R217 842.00
- Council to consider the unauthorised expenditure disclosed in the Annual Financial Statements (AFS) for the 2024 financial year, which currently reflects a total of R85 274. Upon further review and reconciliation, the correct unauthorised expenditure amount has been determined to be R852 742.89. The difference of R767 468.89 was inadvertently omitted from the original disclosure due to a system and administrative error during the reporting process.
- Council is therefore requested to:
 - Amend the UIFW Register to include the additional amount of R767 468.89;
 - Update the AFS disclosure note to reflect the full and correct amount of R852 742.89; and
 - Approve the write-off of the total unauthorised expenditure of R852 742.89 in accordance with Section 32 of the MFMA.
- For the Council to note and approve the Unauthorised, irregular, fruitless and wasteful expenditure investigation report.



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