
MANTSOPA LOCAL MUNICIPALITY



Prepared in terms of the Local Government: Section 129 AND 132 of Municipal Finance Management Act (56/2003) by the Municipal Public Accounts Committee (MPAC)

REPORT OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE (2023/2024 OVERSIGHT REPORT) INCLUDING THE INVESTIGATIONS INTO THE UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE



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1. PURPOSE

1.1 To consider the Municipality's Annual Report for 2023/2024 and to adopt the Oversight Report containing the Council's comments on the Annual Report in terms of the Local Government: Section 129(1) of the Municipal Finance Management Act, 56 of 2003 including the recommendations regarding MPAC's investigations on Unauthorised, Irregular, Fruitless and Wasteful expenditure as disclosed and audited in 2023/2024 Annual report containing the Audited Annual Financial Statements and findings of the Auditor-General South Africa.

1.2 MEMBERS OF MPAC

NAMES	DESIGNATION	REPRESENTATION
Cllr A.J Lemphane	Chairperson	African National Congress (ANC)
Cllr D. Hattlingh	Member	Democratic Alliance (DA)
Cllr K. Tsimatsima	Member	African National Congress (ANC)
Cllr M. Lethoko	Member	African National Congress (ANC)
Cllr S. Nkiane	Member	Economic Freedom Fighters (EFF)
Cllr B. Sani	Member	Congress of the People (COPE)

2. PRE-DETERMINED OBJECTIVES

2.1 Striving towards a secure and sustainable management of fiscal and financial affairs of the municipality with the limited resources.

3. PART A: 2023/2024 OVERSIGHT REPORT ON THE DRAFT ANNUAL REPORT

3.1 BACKGROUND AND CONTEXT

The 2023/2024 Annual Report of Mantsopa Local Municipality was prepared in terms of Local Government: Section 121 of the Municipal Finance Management Act No.56 of 2003 and Section 46 of the Municipal Systems Act, 32 of 2000, it was subsequently submitted by the Accounting Officer to the Auditor-General for audit as prescribed in terms of the Local Government: Section 126 of the Municipal Finance Management Act 56 of 2003 on 31st August 2024, thereafter withdrawn and resubmitted on 30th September 2024.

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The 2023/2024 Annual Report, the Auditor-General's report and the audited Annual Financial Statements were tabled at a Special Council meeting held on 31 January 2025, the municipality received a qualified audit opinion with eighteen paragraphs in **2023/2024 financial year**, a regression in that in 2022/2023 the qualification paragraphs were eleven, immediately after tabling, members of the public were given 21 days to submit written inputs, The 2023/2024 Annual Report inclusive of the audited Annual Financial Statements and Report of the Auditor General was published at our website: www.mantsopa.fs.gov.za and at the following Offices:

- (a) Ladybrand Library, and Manyatseng Library.
- (b) Excelsior Library and Mahlatswetsa Library.
- (c) Dipelaneng Library.
- (d) Thaba Patchoa Municipal Office, and
- (e) Tweespruit Library.

Furthermore, all Councillors were given seven days to make written representations as per the council resolution dated 31 January 2025 when the Mayor tabled the Annual Report, it is important to note that the MPAC in tracking or tracing the submission of representations from the public and other stakeholders, it found that there were no representations submitted or received.

On 26th and 27th March 2025, The Municipal Public Accounts Committee thoroughly interrogated the 2023/2024 Annual Report, Annual Financial Statements and Report of the Auditor-General, during that extensive and rigorous review process, it became necessary to investigate the Unauthorised, Irregular, Fruitless & Wasteful expenditure incurred during 2023/2024 to prevent recurrence.


3.2 MPAC LEGISLATIVE PROCESSES

The MPAC satisfied itself that the 2023/2024 Annual Report was prepared in terms of the **Local Government: Section 121 of the Municipal Finance Management Act, 56 of 2003**, such was demonstrated in the six prescribed chapters as prescribed in the MFMA Circular 63, namely; **Chapter 1: Foreword & Executive Summary; Chapter 2: Governance; Chapter 3: Service Delivery Performance; Chapter 4: Organisational Development Performance; Chapter 5: Financial Performance (Annual Financial Statements); and Chapter 6. Report of the Auditor-General South Africa.**

However, the MPAC is particularly concerned about the increase of qualifications paragraphs from eleven (11) in 2022/2023 to eighteen (18) in 2023/2024 financial year, this regression, if not adequately addressed, will most certainly make the municipality to gravitate towards an adverse or disclaimer audit opinion in 2024/2024 financial year, the 18 qualifications paragraphs are summarised as follows:

- (a) Property, plant and equipment
- (b) Payables from exchange transactions
- (c) Receivables from exchange transactions

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- (d) Receivables from non-exchange transactions
- (e) VAT receivables
- (f) Inventories
- (g) Investment property
- (h) Unspent conditional grants
- (i) Employee benefit obligation
- (j) Service charges
- (k) Bulk purchases
- (l) Property rates
- (m) Employee related cost
- (n) Repairs and maintenance
- (o) General expenditure
- (p) Commitments
- (q) Prior-year adjustments
- (r) Budget differences


Furthermore, the MPAC observed that during its review of the Annual Report for the period ending 30 June 2024, there was no Audit Action Plan to address all issues raised by the Auditor-General as contemplated in the Local Government: Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003.

In terms of the **Local Government: Section 129(1) of the Municipal Finance Management Act, 56 of 2003** - The Council of a municipality must consider the Annual Report of the Municipality and of any Municipal Entity under the municipality's sole or shared control, and by no later than two months for the date on which the Annual Report was tabled in the Council in terms of Section 127, adopt an Oversight Report containing the Council's comments on the Annual Report, which must include a statement whether the Council-

- (a) Has approved the Annual Report with or without reservations;
- (b) Has rejected the Annual Report; or
- (c) Has referred the Annual Report back for revision of those components that can be revised.

In the circumstances, also backed by the findings of the Auditor-General, it is inescapable that 2023/2024 Annual Report is within the ambit of Section 129 (1)(a) of the Municipal Finance Management Act, 56 of 2003.

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3.3 MPAC RECOMMENDATIONS REGARDING THE 2023/2024 ANNUAL REPORT

Having considered the 2023/2024 Annual Report including the representations by Management, the **MPAC hereby recommend** as follows:

- (a) That the 2023/2024 Annual Report be approved with reservations as contemplated in **section 129(1)(a) of the Municipal Finance Management Act, 56 of 2003**, in that Management did not adequately address prior year findings raised by the AGSA due to slow responses, absence of four months information from the old financial system (SEBATA INZALO) and the internal control deficiencies, as result, there are still some repeat findings that were raised in the current year under review.
- (b) That the Management must within seven days from today, prepare the Audit Action Plan as as contemplated in the Local Government: Section 121(3)(g) of the Municipal Finance Management Act, 56 of 2003.
- (c) That the progress report on the implementation of the Audit Action Plan be tabled at the MPAC meetings quarterly to enable the MPAC to detect early signs of internal control deficiencies and effect the necessary remedies to prevent recurrence.
- (d) That the Fortnightly Clean Audit Steering Committee be resuscitated to monitor audit activities pre and during the audit cycle by the Auditor-General South Africa, the Chairperson of the MPAC be invited as an EX Officio member.
- (e) That the 2023/2024 Oversight Report be submitted to the Free State Legislature, the MEC responsible for Local Government and MEC for Provincial Treasury as prescribed in terms of Section 132(2) of the Municipal Finance Management Act, 56 2003.
- (f) That the 2023/2024 Oversight Report be submitted to Thabo Mofutsanyana District Municipality and be published immediately for public consumption.

4. PART 2: INVESTIGATIONS REGARDING THE UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

4.1 INTRODUCTION

The Auditor-General's findings regarding the Unauthorised, Irregular, Fruitless and Wasteful expenditure during the 2023/2024 financial year including prior years can be summarised as follows:

(a) IRREGULAR EXPENDITURE

The municipality incurred irregular expenditure of **R6 453 648** (2023: R5 021 275) as disclosed in note 45 to the financial statements due to contravention of the Supply Chain Management requirements.

(b) UNAUTHORISED EXPENDITURE

The municipality incurred unauthorised expenditure of **R8 187 061** (2023: R35 206 962) as disclosed in note 43 to financial statements the due to the overspending of the Budget.

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(c) FRUITLESS AND WASTEFUL EXPENDITURE

The municipality incurred fruitless and wasteful expenditure of R28 193 397 (2023: R17 082 738) as disclosed in note 44 due to interest charged on late payments to suppliers.

4.2 MPAC INVESTIGATIONS ON UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE FOR 2023/2024.

The MPAC sought the expertise of the Municipal Internal Audit (Mr KJ Chauke) and the Free State Provincial Treasury to assist on procedural aspects of the investigations, OPMS Division (Mr D.E Nana) also provided general operational support in the work of the MPAC in this regard.

5. PROCESS TO BE FOLLOWED WHEN DEALING WITH IRREGULAR EXPENDITURE

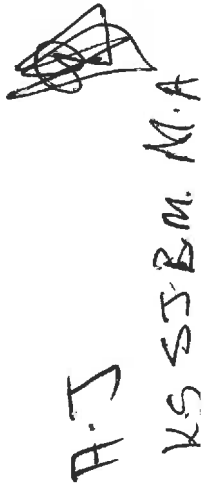
In terms of the National Treasury Guidelines regarding the process to be followed when dealing with Irregular Expenditure, the following should be strictly adhered to:

- (a) All cases of irregular expenditure must be referred to MPAC for investigation. MPAC must, after investigation, make a recommendation to Council for the *recovery* or *write off* of the irregular expenditure in terms of the Local Government: Section 32 (2) (b) of the Municipal Finance Management Act, 56 of 2003.
- (b) In terms of Section 170 of the MFMA, only the National Treasury may condone non-compliance with the MFMA or its regulations, therefore, Mantsopa Local Municipality has no power to *condone* any act of non-compliance with the MFMA or any of its regulations.
- (c) The Council may, after investigation and recommendation by MPAC, only resolve to "write off" the expenditure as irrecoverable or resolve to recover the expenditure" in terms of Section 32(2)(b) of the MFMA.
- (d) Council may only condone a contravention of its own SCM policy or a by-law giving effect to that policy, provided that the contravention is not also a contravention of the MFMA or the SCM regulation.
- (e) Irregular expenditure resulting from a contravention of the Public Office Bearers Act cannot be written off and must be recovered from the Political Office Bearer concerned, in terms of Section 167(2) of the MFMA.

6. RECOGNITION OF IRREGULAR EXPENDITURE

- (a) The recognition of irregular expenditure must be linked to a financial transaction.
- (b) Although a transaction or an event may trigger irregular expenditure, the Council will only identify irregular expenditure when a payment is made or when the invoice is received in terms of GRAP 1.
- (c) If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

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7. RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

1. The processes to respond appropriately to prohibited expenditure are as follows:
 - a. Disciplinary charges against Officials and Political Office Bearers;
 - b. Criminal charges against Officials and Political Office Bearers;
 - c. Recovery of the Fruitless and Wasteful expenditure from liable persons.
2. The **writing-off** of prohibited expenditure is not a **primary response**, it is **subordinate** to the recovery processes, and may only take place if the expenditure is certified by Council as irrecoverable.

If the actions were in the best interest of the municipality and the local community, or the official(s) and or political office bearer acted in good faith and finally if the municipality did not suffer material loss as a result of the action, Council may write off such irregular expenditure following a substantive recommendation from the MPAC.

8. INVESTIGATION PROCESS: 2023/2024 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

8.1 TERMS OF REFERENCE AND MANDATE

On 31st January 2025, Mantsopa Municipal Council resolved to refer the Unauthorised, Irregular, Fruitless & Wasteful Expenditure disclosed in the 2023/2024 audited financial statements and the Report of the Auditor-General to the MPAC for investigations, furthermore, the Municipal Council resolved that the Municipal Public Accounts Committee must compile an Oversight Report within 60 days of tabling this report in terms of Section 129 (a), (b) & (c) of the Municipal Finance Management Act, 56 of 2003 for approval by Council.

8.2 METHODOLOGY

On Wednesday, 26th March 2025 at 10H00, Manyatseng Council Chambers, the MPAC held a closed session to thoroughly discuss the 2023/2024 Annual Report, Audited Financial Statements and Report of the Auditor General South Africa.

After a fruitful meeting, the MPAC resolved that a thorough investigation on Irregular Expenditure had to be conducted, this included submission of UIF&W registers and supporting documents before the hearing/interview with affected and implicated officials to prevent recurrence.

On Thursday, 27th March 2025 a hearing was conducted with implicated officials for incurring Unauthorised, Irregular, Fruitless & Wasteful Expenditure during 2023/2024, such officials included the Chief Financial Officer, Mr Takalani Tshikundu and Manager: Supply Chain Management Mr Khotso Pharoee.

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The above-mentioned officials were probed on their role in incurring the Unauthorised, Irregular, Fruitless & Wasteful Expenditure, explanation was given including documentary evidence in support of their representations.

8.3 2023/2024 IRREGULAR EXPENDITURE, The MPAC investigations in this regard found as follows:

Municipal Public Account committee would also like to bring to the attention of the municipal council that there were however many control weaknesses identified as a result expenditure items.

No	Date reported to Accounting Officer	Transaction details			Reason for Irregular Expenditure	MPAC FINDING	
		Date of Transaction	Payment Number	Amount			Creditor/Supplier and Description of Incident
1		18 Jul 23		R152, 030.00	Supply and Delivery of 100 prepaid electricity meters for Mantsopa Local Municipality - ARB Electrical Wholesalers (Pty) Ltd	The contract should have been awarded to Keamohetsoe General Trading as they have the highest points and lowest quoted amount of R140 500. Reasons provided by management that "ARB Electrical Wholesalers (Pty) Ltd Has reput of selling quality electrical component." does not justify how management reached this assessment and conclusion as no special requirements were stated in the advert.	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee could not be reconciled and or explained properly by Management, furthermore, Management did not provide the AGSA with evidence of their history with the disqualified service provider including the fact that it is not an accredited electricity company compared to the one appointed, however, in view of the service rendered, the amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA,
2		05 Jul 23		R103 845.00	Rental Lease of Water Tanker 18000L for period of 21 days in Excelsior for Mantsopa Local Municipality- Fetalerona Projects	Evaluation not in accordance with the advertisement - None of the suppliers submitted the specific requirement of "Water tanker registration document (Natis Document)"	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee could not be reconciled and or explained properly by Management, eNatis was included in the advertisement as a functionality criteria but was not used during bid evaluation process, discouraging other bidders in the process, however, in view of the fact that the service was rendered, the expenditure can be written off on condition that there will be no




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3				R118 000.00	Supply and Delivery of Two Concrete Mixers for Mantsopa Local Municipality- Mashoabate Trading	Evaluation not in accordance with the advertisement - None of the suppliers submitted the specific requirement as per advert: "Please attach Specifications and photos of the machinery when submitting the quote"	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee could not be reconciled and or explained properly by Management, in this case, none of the suppliers attached photos of the machinery as prescribed in the advertisement, however, the lowest bidder was appointed regardless, in view of the fact that the service was rendered, the expenditure can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
4			15 Apr 2024	R177 600.00	Supply and Delivery of Three (03) Reversible Plate Compactor for Mantsopa Local Municipality. - Lebeta Trading CC	Evaluation not in accordance with the advertisement - None of the suppliers submitted the specific requirement as per advert: "Please attach Specifications and photos of the machinery when submitting the quote"	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee could not be reconciled and or explained properly by Management, in this case, none of the suppliers attached photos of the machinery as prescribed in the advertisement, however, the lowest bidder was appointed regardless, in view of the fact that the service was rendered, the expenditure can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
4			15 Apr 2024	R277 725.00	Rental Lease of Excavator for Period of 10 days in Ladybrand for Mantsopa Local Municipality. - Sediba Se Maphodi Construction	Evaluation not in accordance with the advertisement - None of the suppliers submitted the specific requirement as per advert: "All bidders must attach the Excavator Registration Document, failure to attach the document will be disqualified"	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee could not be reconciled and or explained properly by Management, in this case, none of the suppliers attached Excavator Registration Document, the lowest bidder was appointed regardless, in view of the fact that Management could not provide evidence that service was rendered, consequently, the expenditure cannot at this stage be written off, the MPAC shall go back and investigate the evidence that the work was indeed rendered and provide a report with recommendations to Council within 30 days from today.
6			15 Apr 2024	R177 100.00	Rental Lease of Bulldozer for Period of 16 days for Mantsopa Local Municipality- Sediba Se	Evaluation not in accordance with the advertisement - None of the suppliers submitted the	The MPAC expresses dissatisfaction and concern that the discrepancies between the advertisement and the Bid Evaluation/ Adjudication Committee

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7		04 Apr 24		708 574.80	Repairs: Motors and Pumps - Pedigree Energy Solutions	Maphodi Construction	specific requirement as per advert: "All bidders must attach the Bulldozer Registration Document, failure to attach the document will be disqualified"	could not be reconciled and or explained properly by Management, in this case, none of the suppliers attached Bulldozer Registration Document, the lowest bidder was appointed regardless, in view of the fact that Management could not provide evidence that service was rendered, consequently, the expenditure cannot at this stage be written off, the MPAC shall go back and investigate the evidence that the work was indeed rendered and provide a report with recommendations to Council within 30 days from today.
8		25 Mar 24		R373 916.75	Hobhouse Pump and Motor – Phiri Management	Emergency: The Hobhouse pump and motor replacement to be done urgently for hobhouse to have water.	The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.	
9		15 Nov 23		R314 525.00	Repairs-Genoa WTW Pump- Q&H Sewage	Emergency: Repairing Genoa pump motor - Strip and quote	The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should	

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10	06 Jul 23			R286 700.00	Refurbishment KSB Pump for Genoa Pump- One Way Engineering	Emergency	<p>be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.</p> <p>The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.</p>
11	31 Jan 24			R240 000.00	Maintenance of Vehicles - Katuhelo Trading	Emergency: Repair: Municipality does not have refuse trucks and community members are angry leading to possible riot	<p>The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.</p>
12	21 Feb 24			R155 767.50	Electrical Repairs - MV Specialised Services	Emergency: Refill of F6 gas on the ABB RMU, Emergency as it is very dangerous to switch on the RMU which can result in RMU failure which can be fatal.	<p>The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.</p>

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13	01 Feb 24	R142 361.26	Repairs HSJ972FS - Power Gear CC	Emergency: Fleet repairs and maintenance - DJX973FS. Repair gearbox of refuse compactor truck.	the AGSA. The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
14	31 Aug 23	R 105 800.00	Renting of Sewer Jet - Lele and Tshidi Construction	Emergency: To rent industrial sewer jet - 5 days urgently	The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
15	10 May 24	R99 094.83	Bulk Water Fittings - Cancor Trading 7 CC	Emergency: Bulk water fittings and pipes for Genoa Mainline - emergency	The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
16	21 Feb 24	R279 766.00	Maintenance of Vehicles- Katuhelo Trading	Emergency: Repair: Municipality does not have refuse trucks and community members are angry leading to possible riot	The MPAC expresses dissatisfaction and concern that no effort is made by management to focus on maintenance of municipal infrastructure to prevent



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									random emergency that could have been avoided had necessary maintenance done regularly, all service providers who are part of the panel should be considered for emergency work to prevent unnecessary irregular expenditure, however, in view of the fact that the service was rendered, this amount can be written off on condition that there will be no recurrence in 2024/2025 audit cycle by the AGSA.
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In view of the above-mentioned legislative obligation to the Accounting Officer and Management, **the MPAC recommends as follows:**

- (a) *That an amount of **R3 257 981,14** be written off by council.*
- (b) *That the Accounting Officer must furnish the MPAC with all registers and documents for R2,5 million rand irregular expenditure disclosed internally within seven days from today.*
- (c) *That Accounting officer should ensure adherence to regulations to avoid recurrences of these cases in future.*
- (d) *That the Document management and internal control instruments to be put in place in the Municipality.*
- (e) *That Management must revisit the registers for completeness as there are discrepancies between the registers and Audited AFS.*

9. ON 2023/2024 UNAUTHORISED EXPENDITURE

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

- (a) "Has it been established whether the Accounting Officer or Official or Public Office Bearer that made, permitted or authorised the unauthorised expenditure as per section 32(3) of the MFMA"
- (b) Are there good grounds shown as to why an unauthorised expenditure should be authorised including whether the actions were in the best interest of the Municipality?
- (c) Actions were in good faith when making or permitting unauthorised expenditure?
- (d) The municipality has not suffered any material loss as a result of the action.


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The MPAC investigations in this regard found as follows:

The results of our review indicate that in many areas Unauthorised expenditure during 2023/2024 financial year was because of unspent conditional grants (not cash backed). Furthermore, this unauthorised expenditure was repaid to National Revenue Fund (NRF) through equitable share tranches and rollover was subsequently approved by the National Treasury.

Having considered the Management representations, **the MPAC recommends as follows:**

- (a) As a result of the above, the total amount of R 12 131 398.00 can be written off.
- (b) Management should ensure that unauthorised expenditure is done through budget adjustments.
- (c) Internal controls including improvement in the revenue collection be put in place to prevent this unauthorised expenditure due to unspent conditional grants.

10. FRUITLESS AND WASTEFUL EXPENDITURE

10.1 PROCESS TO BE FOLLOWED WHEN DEALING WITH FRUITLESS AND WASTEFUL EXPENDITURE

In determining whether expenditure is fruitless and wasteful, Officials and Councillors must apply the requirement of reasonable care as an objective measurement, that is-

- (a) Would the reasonable person (in this case the experienced Official of Councillor) have incurred the particular expenditure under exactly the same conditions or circumstances? And
- (b) Is the expenditure being incurred at the right price, right quality, right time and right quantity?

10.2 The MPAC investigations in this regard found as follows during 2023/2024 financial year:

The results of our investigation indicate that in many areas fruitless & wasteful expenditure that was incurred by municipality was a result of the cash flow problems. Through inspection of the supporting documentation and bank statements, it was found that the municipality was indeed suffering from cash flow problems due to the fact that a large number of consumers are not paying for the services that were provided to them by the municipality.

The fruitless & wasteful expenditure that was incurred by the municipality was due to late payments to suppliers as a result of the cash flow problems. Therefore, the municipality has to prioritize which suppliers must be paid first. E.g. the payments that will hamper service delivery will be released first by the municipality.

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Interest and penalty charges by SARS were not as a result of reckless behaviour by the Chief Financial Officer and other officials. However, interest and penalty charges were as a result of the late payments to SARS not as a result of late submission of the VAT returns to SARS.

SARS Statement of Account defines the "Interest and late payment penalty" as follows:

Interest – Interest has been calculated on the rate determined by the Minister of Finance in terms of the Public Finance Management Act, 1999. All VAT and Diesel amount that remain unpaid will accrue interest at the prescribed rate for each month or part of a month from the first day of a month following the month during which the period, allowed for payment of tax, ended.

Late payment penalty – A late payment penalty will be levied on all late payments and/or underpayments at a rate of ten percent of the amount underpaid.

Breakdown of Amounts to be written off

No	Description	Total Fruitless & Wasteful Expenditure	Total Amount Investigated	Total Amount to be written off
1	Interest paid to Eskom - Electricity purchase	R24 459 806,34	R24 459 806,34	R24 459 806,34
2	SARS PENALTIES	R1 219 126,57	R1 219 126,57	R1 219 126,57
4	Leeuwrivier-Water purchases	R26 289,17	R26 289,17	R26 289,17
5	Interest paid to Free State Utilities	R515,50	R515,50	R515,50
6	OVK-Petrol, tools & equipment	R9 467,18	R9 467,18	R9 467,18
7	DBSA Loan	R561 483,16	R561 483,16	R561 483,16
8	Interest paid to Auditor General	R1 380 288,15	R1 380 288,15	R1 380 288,15
9	Interest paid to Bloem Water	R536 140,90	R536 140,90	R536 140,90
10	Reochem	R279,78	R279,78	R279,78
		R28 193 397	R28 193 397	R28 192 602



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H. RECOMMENDATIONS

The following is recommended:

- (a) The amount of R28,192 602 be written off by Council.
- (b) Municipality must make payment arrangements with creditors, and these must be submitted to committee as proof.
- (c) R279,78 through inspection of bank statements this could have been avoided as amount owed was very small and as MPAC we do not understand why the municipality failed to pay service provider, therefore this amount is recoverable from the Chief Financial Officer and all staff members within the Expenditure Division.
- (a) R515,50 through inspection of bank statements this could have been avoided as amount owed was very small and as MPAC we do not understand why the municipality failed to pay service provider, therefore this amount is recoverable from the Chief Financial Officer and all staff members within the Expenditure Division.

11. STAKEHOLDERS CONSULTED

Free State Department of Provincial Treasury

12. LEGAL IMPLICATIONS

Honourable Speaker and Councillors, it must be noted that in terms of the **Local Government: Section 32(5) of the Municipal Finance Management Act, 56 of 2003** prescribes that: - *"The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure"*.

In the circumstances, the writing off is intended to clear accounting deficiencies or compliance with applicable accounting standards, it and does not absolve any wrongdoing or hinder disciplinary or criminal charges against where such may be necessary.

It is for this reason that **Section 32(6) of the Municipal Finance Management Act, 56 of 2003** prescribes that "The accounting officer must report to the South African Police Service all cases of alleged —

- (a) *irregular expenditure that constitute a criminal offence; and*
- (b) *theft and fraud that occurred in the municipality.*



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13. ANNEXURES

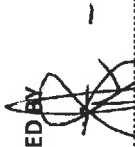
8.1 Registers of the Unauthorised, Irregular, Fruitless & Wasteful Expenditure for 2023/2024 financial year.

14. SUBMISSION BY THE MPAC CHAIRPERSON

Honourable Speaker, the Mayor and all Councillors, let me take this opportunity to thank all members of the MPAC for having invested their time and resources in engaging this report, it is possible that all incidents of Unauthorised, Irregular, Fruitless and Wasteful expenditure can be prevented if all of us are serious about ensuring that this municipality is financially sustainable and is managed in a responsible manner.

I hereby present the report for your consideration and approval.

PREPARED BY



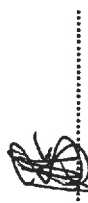
CLLR ARABANG JUSTICE LEMPHANE
CHAIRPERSON: MUNICIPAL PUBLIC ACCOUNTS COMMITTEE

CONSENTED BY MEMBERS.

CLLR K. TSIMATSIMA



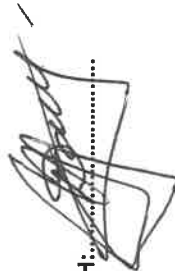
CLLR M.B SANI



CLLR M. A LETHOKO



CLLR DJ HATTINGH



CLLR S.J NKIANE

