

ANNEXURE D

Accounting Treatment and Disclosure for Unauthorised, Irregular, Fruitless & Wasteful Expenditure

1 Overview

The purpose of this Illustrative Annexure is to assist municipalities and municipal entities (henceforth referred to collectively as municipalities) with the accounting treatment and completion of the disclosures required on unauthorised, irregular and fruitless and wasteful expenditure, in order to comply with the Municipal Finance Management Act (MFMA) and Standards of Generally Recognised Accounting Practice (GRAP).

This annexure does not address legislative compliance procedures with regards to the process that municipalities should follow when dealing with unauthorised, irregular and fruitless and wasteful expenditure, as defined in section 1 of the (MFMA). These aspects are addressed by the MFMA Circular No 68 (the Circular).

It is possible that an irregularity may be identified before a financial transaction can be made, however, this annexure will not cover such instances as these are matters which amount to non-compliance with laws and regulations. The guide is specifically focused on matters where accounting guidance is required for financial transactions relating to irregular expenditure. Refer to section 5 of this document for accounting implications on fruitless and wasteful expenditure as well as unauthorised expenditure.

2 Accounting for Irregular Expenditure (IE)

According to section 125(2)(d) of the MFMA, municipalities are required to disclose all irregular expenditure identified. This entails disclosure in the notes to the financial statements once identified. Once irregular expenditure is identified, processes of Recovery/Write-off by Council in terms of section 32(2)(b) of the MFMA must occur.

This annexure focuses on the accounting implications of the Recovery/Write-off process by Council in terms of section 32(2)(b) of the MFMA.

3 Accounting disclosure and flow process for Irregular Expenditure

Figure 1 below shows the framework under which accounting disclosure for irregular expenditure has been considered in terms of legislation.

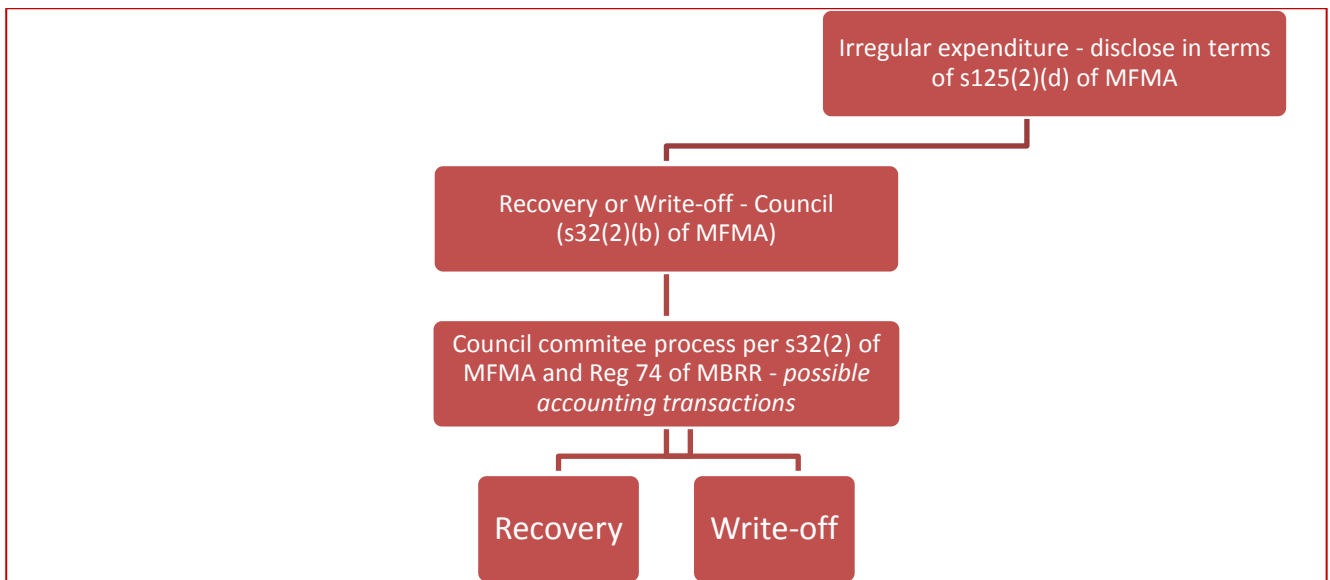


Figure 1: Accounting disclosure process flow according to legislation

Generic IE process flow stages

Figure 2 below shows the Irregular Expenditure process flow unfolding in the various outlined stages:

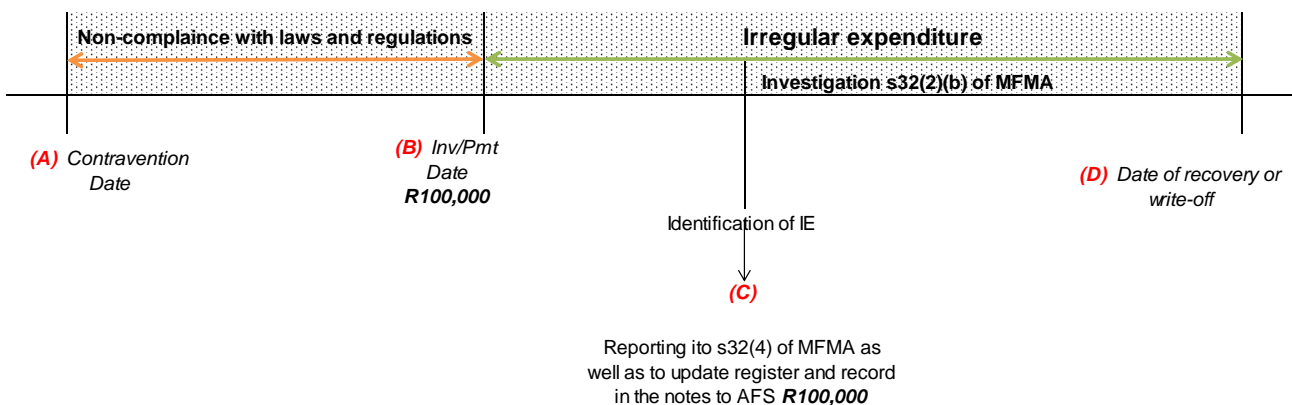


Figure 2: Generic process flow

- **Stage A:** indicates the date of contravention as per the definition of irregular expenditure in section 1 of the MFMA;
- **Stage B:** indicates the applicable GRAP standards will be followed in recognising and disclosing the transaction in accordance to its substance;
- **Stage C:** indicates the identification date of the irregular expenditure, which is disclosed in the notes to the financial statements;
- **Stage D:** shows the date of council adopting the council committee recommendations, where irregular expenditure is either recovered or written-off.

Irregular expenditure identified at stage C will relate to expenditure incurred in the current or prior period(s). In the instance of expenditure incurred in the prior period(s), cognisance will need to be taken of the Standard of GRAP on *Accounting Policies, Change in Accounting Estimates and Errors* (GRAP 3). GRAP 3 defines prior period errors as omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of,

reliable information that was available when financial statements for those periods were authorised for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Therefore in the context of irregular expenditure, to an extent that the municipality (equally applicable to a municipal entity) was aware of an identified financial transaction constituting an irregular expenditure which existed at financial year end, before those financial statements were authorised for issue (date of audit report), not adequately accounted for & disclosed in the financial statements, this irregular expenditure will constitute a prior period error in accordance with *GRAP 3 Accounting Policies, Change in Estimates and Errors*.

However, to an extent that there existed a financial transaction which is an irregular expenditure which existed when financial statements for those periods were authorised for issue but which was only identified in the current year, such a financial transaction will not constitute a prior period error but will be an irregular expenditure identified in the current year but which relates to prior reporting period, therefore the notes to the financial statements should take this instance into consideration and the register should be adjusted accordingly.

4 Assumptions

Underlying the illustrative examples below are the following assumptions:

1. Identification of irregular expenditure in current year refers to irregular expenditure incurred during the current financial period, identified before the financial statements are authorised for issue.
2. In instances where the irregular expenditure is identified after the financial statements are authorised for issue, such financial statements will not reflect this identified irregular expenditure as per GRAP 14.24. Principles of Standard of GRAP on Events after reporting date (GRAP 14) must be complied with.
3. For purposes of GRAP 14, a condition would exist on the date when expenditure is incurred pursuant to the contravened law, regulation, council policy or by-law, etc.

If for example the contravention of law, regulation, council policy or by-law took place on the 1st of June 2017 (i.e. 2016/17 financial year) and the payment date is the 1st of January 2018 (i.e. 2017/18 financial year), the condition would be in existence as at the 1st of January 2018.

4. In an instance where a municipality in the preparation of one or more prior period financial statements failed to use, or misused reliable information that was available at the period those financial statements were authorised for issue and could reasonably have been expected to have obtained and taken into account in the preparation and presentation of those financial statements, such omission and misstatements will constitute prior period errors according to GRAP 3.

If for example, subsequent to the awarding of a contract and payment having been made a municipality discovers that preference points were incorrectly calculated in awarding the contract, this will not necessarily constitute a prior period error provided the municipality did not fail to use or did not misuse reliable information that would have identified the non-compliance before the prior year financial statements are authorised for issue. The subsequent identification of an expense that was incurred as irregular expenditure would indicate that such identification occurred in the current period, relating to a contraventions or non-compliance which occurred in the prior period. Principles of Standard of GRAP on accounting policies, change in accounting estimates and errors (GRAP 3) must be complied with.

5. The word “Incurred” means the recognition of the effects of transactions and other events when they occur, rather than when cash or its equivalent is received or paid.

Disclosure note for irregular expenditure

Below is an example of how an irregular expenditure disclosure note may be presented.


	Note	20x1	20x0
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure		R'000	R'000
42.1 Irregular Expenditure			
Opening balance as previously reported		xx xxx	xx xxx
Correction of prior period error	1	xx xxx	xx xxx
Opening balance as restated		xx xxx	xx xxx
Add: Irregular Expenditure - current		xx xxx	xx xxx
Add: Irregular Expenditure - prior period		xx xxx	xx xxx
Less: Amount recoverable - current		(xx xxx)	(xx xxx)
Less: Amount recoverable - prior period		(xx xxx)	(xx xxx)
Less: Amount written off - current		(xx xxx)	(xx xxx)
Less: Amount written off - prior period		(xx xxx)	(xx xxx)
Closing balance		xxx xxx	xxx xxx
Cases under investigations			
<i>xx (prior period: xx) cases related to non-compliance with procurement process requirements</i>			
<i>xx (prior period: xx) cases related to other non-compliance with laws, regulations, council policies and/or by-laws.</i>			
Public Bearers Act		xx	xx
Municipal Systems Act		xx	xx

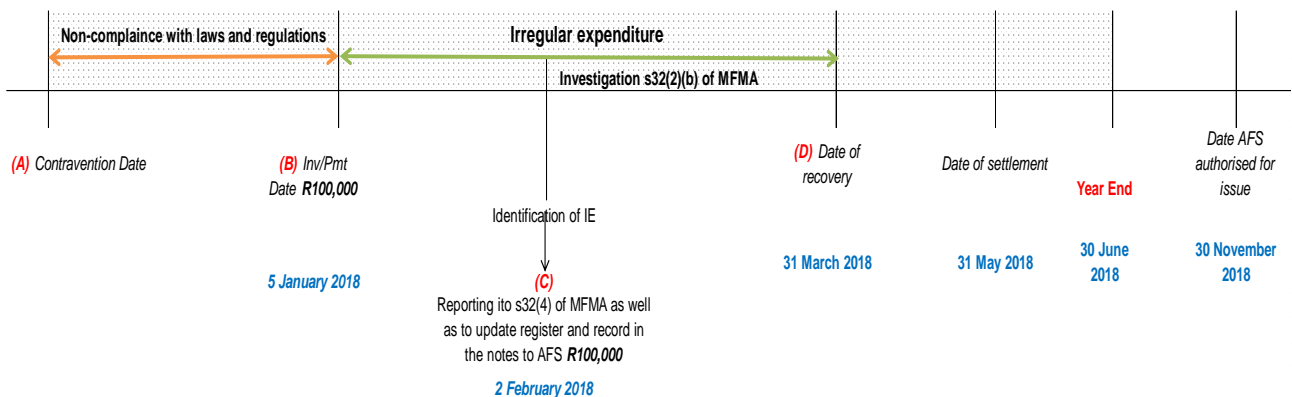
In the above hypothetical disclosure note, a brief narrative about the facts and circumstances relating to the amounts recoverable and amounts written off and any other information that the municipality views to be of importance to the AFS users should also be included.

Illustrative examples

The section below examines possible scenarios with regards to timing of the recognition and disclosure of transactions related to the irregular expenditure in the financial statements.

SCENARIO 1: Irregular expenditure incurred in current financial period (2017/18), identified in current financial year (2017/18) and recovered or written-off in current financial period (2017/18).

	<p>A payment made to ABC Engineers on 5 January 2018 of R100 000 for the purchase cost of road construction equipment (Property, Plant and Equipment) was identified on the 2 February 2018 as irregular expenditure as the 3 quotations were not invited. The accounting officer complied with the requirements of s32(4) of MFMA and an investigation was launched by the council committee. Council adopted council committee recommendations on 31 March 2018 for the full amount of R100, 000 to be recovered from the responsible official as the equipment was never delivered to the municipality, while it was recorded as received in the municipal records; this official subsequently paid this amount on the 31 May 2018. Subsequent to the initial recognition of this equipment, provision had been made for a depreciation of R5 000.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account.</p>
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This scenario addresses instances where irregular expenditure is incurred, identified; council adopts a resolution to recover financial loss and the subsequently settled within the current financial period. Thus the following accounting journal entries will need to be made in the **context of the recovery** in the current period:

31 March 2018

Dr Receivable – Staff Debt	R 100 000	
Cr Property Plant and Equipment (asset)		R 100 000

Recognition of receivable in relation to irregular expenditure recovery and the reversal of PPE incorrectly recognised.

Dr Accumulated Depreciation	R 5 000	
Cr Depreciation		R 5 000

Reversal of depreciation previously recognised at for the asset relating to irregular expenditure recovery.

31 May 2018

Dr Bank	R 100 000	
Cr Receivable – Staff Debt		R 100 000

Settlement of receivable in relation to irregular expenditure

In the event of the transaction being for an expense item rather than for an asset item, (using the background information as per scenario 1 above) upon date of recovery, the related journal entry that will be processed will for example be as follows:

31 March 2018

Dr Receivable – Staff Debt	R100, 000	
Cr Other income		R100, 000


Recognition of receivable in relation to irregular expenditure

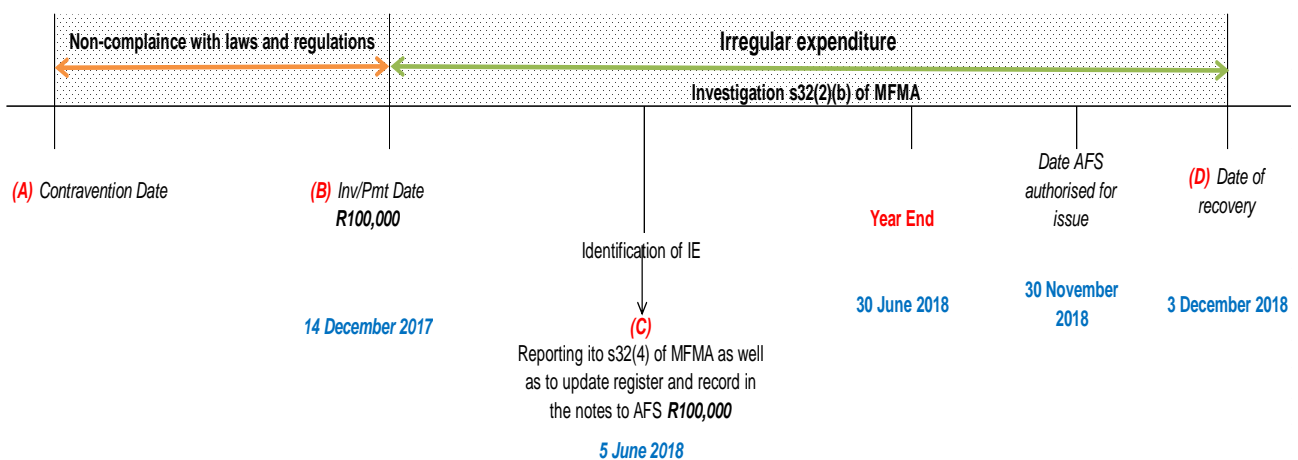
Illustrated disclosure in the Annual Financial Statements (AFS):

Notes to the annual financial statements for the year ended 30 June 2018

	Note	2018	2017
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure		R'000	R'000
42.1 Irregular Expenditure			
Opening balance as previously reported		4 000	3 500
Add: Irregular Expenditure - current (2000+100)		2 100	500
Less: Amount recoverable - current		-100	-
Closing balance		6 000	4 000
Incidents/cases identified in the current year include those listed below:			
Competitive bidding not invited		1 500	250
Three written quotations not invited		100	250
Declaration of interest not submitted		500	-
		2 100	500
Cases under investigations			
Investigations are still in progress regarding 8 (2017:5) which are all related to non-compliance with procurement process requirements.			
Amount recoverable			
After the council committee investigations, council adopted the council committee recommendations to recover an amount of R100 000 from the municipal official as it was proven without reasonable doubt that the official was liable for the identified non-compliance to the SCM processes			

SCENARIO 2: Irregular expenditure incurred in current financial year (2017/18), identified in current financial period (2017/18) and not yet recovered or written-off at year end (30 June 2018).

	<p>A payment made to ABC Engineers on 14 December 2017 of R100 000 for routine repairs (expense) on equipment was on 5 June 2018 identified as irregular expenditure as the tax clearance was not obtained. The accounting officer complied with the requirements of s32(4) of MFMA and the council committee investigation process was launched. On 3 December 2018 council adopted council committee recommendations to recover the full amount of R100 000 from the responsible official. Financial statements were authorised for issue on 30 November 2018.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account</p>
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As investigation by the council committee is concluded and recommendation for recovery adopted by council after the 2017/18 financial statements (i.e. 3 December 2018) have been authorised for issue, the recovery of the irregular expenditure is recognised in the subsequent financial period, i.e. 2018/19 financial year.

Thus accounting journal entries below are to be made in the context of the recovery in the subsequent period:

3 December 2018 (Year 2)

Dr Receivable – Staff Debt	R 100,000	
Cr Other income		R 100,000

Recognition of receivable in relation to irregular expenditure recovery

As in the example above (Scenario 1), a journal entry will be processed on date of settlement of the receivable.

Illustrated disclosure in the annual financial statements:


Notes to the annual financial statements for the year ended 30 June 2018 (Yr. 1)

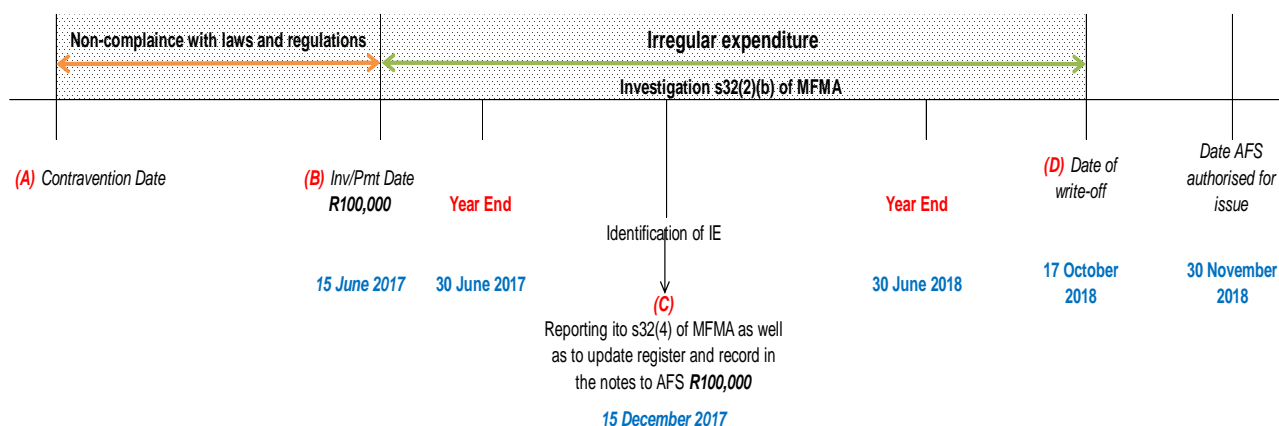
Note	2018	2017
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure	R'000	R'000
42.1 Irregular Expenditure		
Opening balance as previously reported	4 000	3 500
Add: Irregular Expenditure - current (2000+100)	2 100	500
Closing balance	6 100	4 000
Incidents/cases reported in the current year include those listed below:		
Tax clearances not obtained	100	250
Competitive bidding not invited	1 500	250
Declaration of interest not submitted	500	-
	2 100	500
Cases under investigations		
Investigations are still in progress regarding 12 (2017:8) which are all related to non-compliance with procurement process requirements.		

Notes to the annual financial statements for the year ended 30 June 2019 (Yr. 2)

Note	2019	2018
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure	R'000	R'000
42.1 Irregular Expenditure		
Opening balance as previously reported	6 100	4 000
Add: Irregular Expenditure - current	-	2 100
Less: Amount recoverable - prior period	-100	-
Closing balance	6 000	6 100
Incidents/cases identified in the current year include those listed below:		
Tax clearances not obtained	-	100
Competitive bidding not invited	1 500	1 500
Declaration of interest not submitted	500	500
	2 000	2 100
Cases under investigations		
Investigations are still in progress regarding 11 (2018:12) which are all related to non-compliance with procurement process requirements.		
Amount recoverable		
After the council committee investigations, council adopted the council committee recommendations to recover an amount of R100 000 from the municipal official as it was proven without reasonable doubt that the official was liable for the identified non-compliance to the SCM processes.		

SCENARIO 3: Irregular expenditure incurred in the prior financial period (2016/17), identified in current financial period (2017/18) and recovered or written-off in current financial period (2017/18).

	<p>Payment made to ABC Engineers on 15 June 2017 of R100 000 for routine repairs (expense) done on the equipment was on the 15 December 2017 was subsequently identified as irregular expenditure as it was later discovered that preference points were incorrectly calculated when awarding the contract.</p> <p>The accounting officer complied with the requirements of s32 (4) of MFMA and an investigation was launched by the council committee. Council adopted council committee recommendations on 17 October 2018 for the full amount of R100 000 to be written-off. Financial statements were authorised for issue on 30 November 2018.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account</p>
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This scenario addresses instances where council adopts council committee recommendation to write-off of an irregular expenditure related to an expense (routine repairs on equipment) which was done after financial year end (30 June 2018) but before financial statements are authorised for issue (30 November 2018).

Therefore, the irregular expenditure disclosure note will be adjusted to reflect the write-off by reducing the irregular expenditure amount by R100 000.

Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018

Note	2018	2017
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure	R'000	R'000
42.1 Irregular Expenditure		
Opening balance as previously reported	4 000	3 500
Add: Irregular Expenditure - current	2 000	500
Add: Irregular Expenditure - prior period	100	-
Less: Written off - prior period	-100	-
Closing balance	6 000	4 000

Incidents/cases reported in the current year include those listed below:

Three written quotations not invited	1 500	250
Competitive bidding not invited	500	250
Declaration of interest not submitted	100	-
	2 100	500


Cases under investigations

Investigations are still in progress regarding 9 (2017:7) which are all related to non-compliance with procurement process requirements.

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R100 000 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

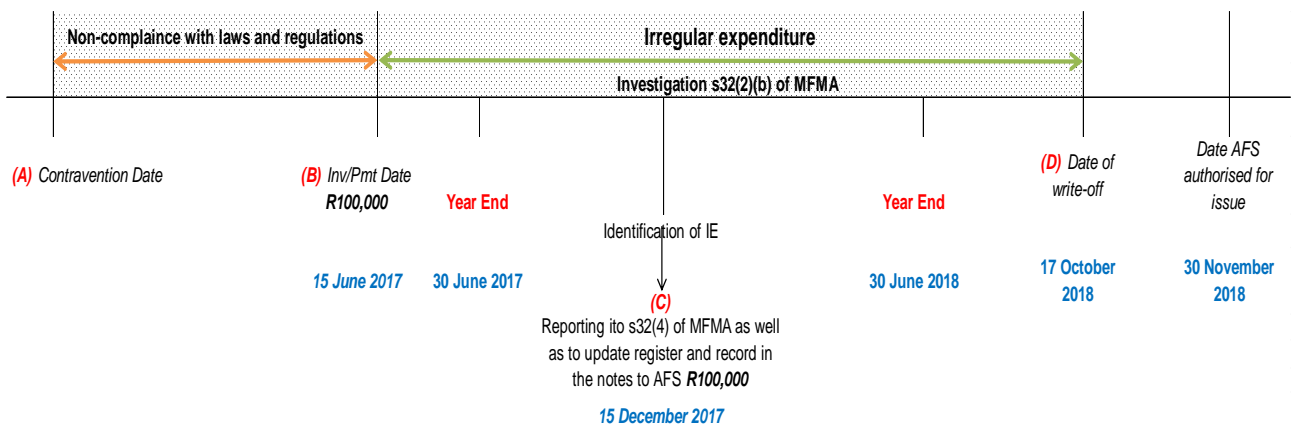
SCENARIO 4: Irregular expenditure incurred in the prior financial period (2016/17), identified in current financial period (2017/18) and recovered or written-off in current financial period (2017/18).



After all the prescribed supply chain processes were complied with and the necessary verification checks undertaken. Payment made to ABC Engineers on 15 June 2017 of R100 000 for routine repairs (expense) on the equipment was on the 15 December 2017 was subsequently identified as irregular expenditure as it was later discovered that the supplier had misrepresented some facts on its supplier’s declaration of interest form.

During the investigation it was discovered that these repairs were in fact not even done though the accounting entry recording them was already processed in the accounting system. The accounting officer complied with the requirements of s32 (4) of MFMA and an investigation was launched by the council committee. Council adopted council committee recommendations on 17 October 2018 for the full amount of R100 000 to be written-off. Financial statements were authorised for issue on 30 November 2018.

The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account



This scenario addresses instances where council adopts council committee recommendation to write-off of an irregular expenditure after financial year end (30 June 2018) but before financial statements are authorised for issue (30 November 2018) in related to an expense (routine repairs on equipment) which was not done.

Thus accounting journal entries below are to be made in the context of the write off of an expense for which corresponding goods or services were not received.

17 October 2018

Dr Loss due to expenditure written-off	R100 000	
Cr Repairs and maintenance		R100 000

Recognition of write-off of irregular expenditure where goods or services were not received

Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018

Note	2018	2017
	R'000	R'000
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure		
42.1 Irregular Expenditure		
Opening balance as previously reported	4 000	3 500
Add: Irregular Expenditure - current	2 000	500
Add: Irregular Expenditure - prior period	100	-
Less: Written off - prior period	-100	-
Closing balance	6 000	4 000
Incidents/cases reported in the current year include those listed below:		
Three written quotations not invited	1 500	250
Competitive bidding not invited	500	250
Declaration of interest not submitted	100	-
	2 100	500
Cases under investigations		
Investigations are still in progress regarding 9 (2017:7) which are all related to non-compliance with procurement process requirements.		
Amount written-off		
After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R100 000 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.		

SCENARIO 5: Irregular expenditure incurred in the prior financial period (2016/17), identified in current financial period (2017/18) and recovered or written-off in current financial period (2017/18).

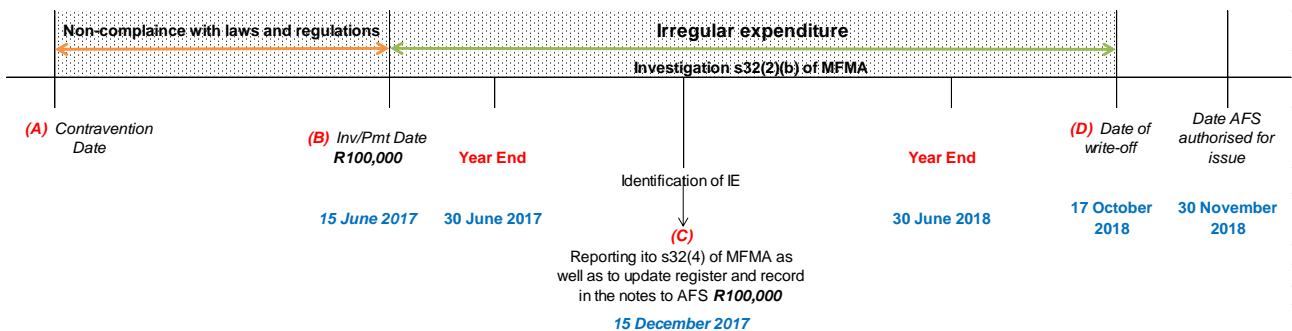


After all the prescribed supply chain processes were complied with and the necessary verification checks undertaken. Payment made to ABC Engineers on 15 June 2017 of R100 000 for the purchase of road construction equipment (Property, Plant and Equipment) was on the 15 December 2017 subsequently identified as irregular expenditure as it was discovered that preference points were incorrectly calculated when awarding the contract.

During the investigation it was discovered that this asset was in fact never even delivered even though a number of accounting entries had been recorded in the accounting system i.e. subsequent to the asset having been recognised in the financial statements a total provision for depreciation of R5 000 and an impaired loss of R15 000 (due to a newly promulgated legislation which imposes emissions tax on use of construction equipment which emits excessive carbon emissions) had been recognised in the accounting records.

The accounting officer complied with the requirements of s32 (4) of MFMA and an investigation was launched by the council committee. Council adopted council committee recommendations on 17 October 2018 for the full amount of R100 000 to be written-off. Financial statements were authorised for issue on 30 November 2018.

The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account



This scenario addresses instances where council adopts council committee recommendation to write-off of an irregular expenditure after financial year end (30 June 2018) but before financial statements are authorised for issue (30 November 2018) in related to the purchase of property, plant and equipment (road construction equipment) which was never delivered.

Thus the following accounting journal entries will be processed to reflect the write-off of an item of property, plant and equipment that was not received

17 October 2018

Dr Accumulated depreciation and impairment loss

R5 000

Cr Depreciation

R5 000

Reversal of previously recognised provision for depreciation

Dr Accumulated depreciation and impairment loss	R15 000	
Cr Impairment loss		R15 000

Reversal of impairment loss previously recognised

Dr Loss due to irregular expenditure	R100 000	
Cr Property, plant and equipment (asset)		R100 000

Recording loss and de-recognition of asset which was incorrectly recognised

NB: The above write off might lead to an unauthorised expenditure situation. Council will need to adjust its budget for purposes of writing off irregular expenditure without being in net deficit position.

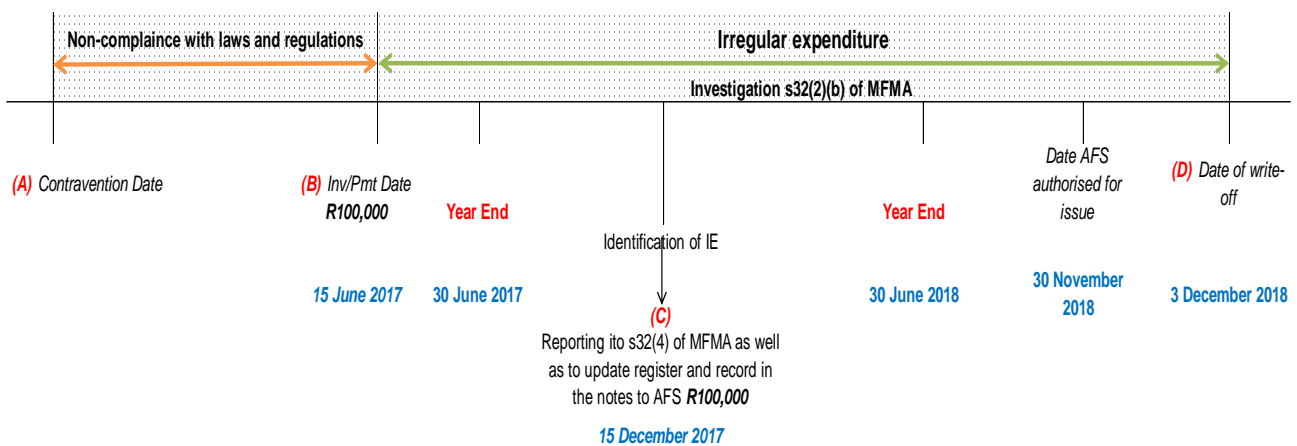
Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018

	Note	2018	2017
		R'000	R'000
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure			
42.1 Irregular Expenditure			
Opening balance as previously reported		4 000	3 500
Add: Irregular Expenditure - current		2 000	500
Add: Irregular Expenditure - prior period		100	-
Less: Written off - prior period		-100	-
Closing balance		6 000	4 000
Incidents/cases reported in the current year include those listed below:			
Three written quotations not invited		1 500	250
Competitive bidding not invited		500	250
Declaration of interest not submitted		100	-
		2 100	500
Cases under investigations			
Investigations are still in progress regarding 6 (2017:9) which are all related to non-compliance with procurement process requirements.			
Amount written-off			
After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R100 000 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.			

SCENARIO 6: Irregular expenditure incurred in the prior financial period (2016/17), identified in current financial period (2017/18) and not yet recovered or written-off at year-end (30 June 2018).

	<p>After all the prescribed supply chain processes were complied with and the necessary verification checks undertaken. Payment made to ABC Engineers on 15 June 2017 of R100 000 for routine repairs (expense) done on the equipment was on the 15 December 2017 was subsequently identified as irregular expenditure as it was later discovered that the supplier was a close family member of a councillor although they do not share the same surname and the councillor failed to disclose the relationship.</p> <p>The accounting officer complied with the requirements of s32 (4) of MFMA and the council committee investigation process was launched. Council adopted council committee recommendations on 3 December 2018 for the full amount of R100 000 to be written-off. Financial statements were authorised for issue on 30 November 2018.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account</p>
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As investigation by the council committee is concluded and recommendation for write-off adopted by council (3 December 2018) after the 2017/18 financial statements have been authorised for issue (30 November 2018), the write off of the irregular expenditure is recognised in the subsequent financial period, i.e. 2018/19 financial period, as the write off is a non-adjusting event in terms of GRAP 14.

Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018 (Yr. 1)

Note	2018	2017
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure	R'000	R'000
42.1 Irregular Expenditure		
Opening balance as previously reported	4 000	3 500
Add: Irregular Expenditure - current	2 000	500
Add: Irregular Expenditure - prior period	100	-
Closing balance	6 100	4 000
Incidents/cases reported in the current year include those listed below:		
Three written quotations not invited	1 500	250
Competitive bidding not invited	500	250
Awards to close family member of	100	-
	2 100	500
Cases under investigations		
Investigations are still in progress regarding 12 (2017: 8) cases which are all related to non-compliance with procurement process requirements.		


Notes to the annual financial statements for the year ended 30 June 2019 (Yr. 2)

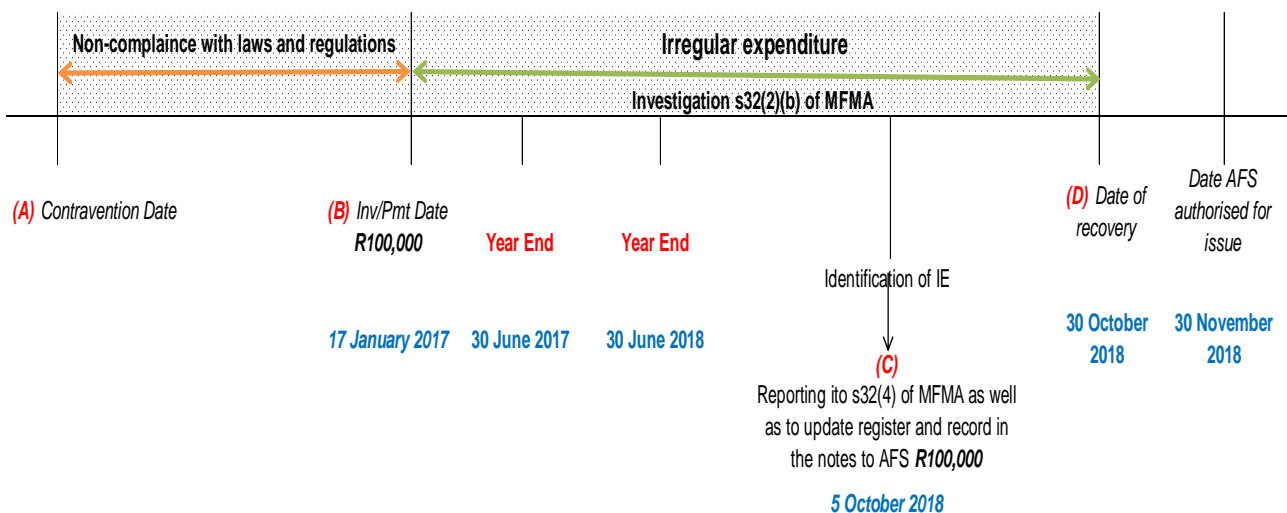
Note	2019	2018
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure	R'000	R'000
42.1 Irregular Expenditure		
Opening balance as previously reported	6 100	4 000
Add: Irregular Expenditure - current	-	2 000
Add: Irregular Expenditure - prior period	-	100
Less: Amount written off - prior period	-100	-
Closing balance	6 000	6 100
Incidents/cases reported in the current year include those listed below:		
Three written quotations not invited	1 500	1 500
Competitive bidding not invited	500	500
Awards to other state officials	-	100
	2 000	2 100
Cases under investigations		
Investigations are still on going on 11 (2018: 12) cases which are all related to non-compliance with procurement process requirements		

Amount written off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R100 000 which relates to the prior year period, from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

SCENARIO 7: Irregular expenditure incurred in the prior financial period (2016/17), known to be in existence in the prior financial period, identified in the current financial period (2017/18).

	<p>Payment made to ABC Engineers on 17 January 2017 of R100 000 for routine repairs (expense) on equipment was identified on 30 June 2017 by a junior Supply Chain Management official as irregular expenditure as the 3 quotations were not invited. The accounting officer was made aware of this by the 30 of June 2017, however the requirements of s32(4) of MFMA were not complied with and therefore no investigation was undertaken.</p> <p>The irregular expenditure was again identified by external auditors on the 5 October 2018, at which point the accounting officer complied with requirements of s32(4) of MFMA. The council committee investigation process was launched and council adopted council committee recommendations on 30 October 2018 for the full amount of R100 000 to be recovered from the responsible official. Financial statements were authorised for issue on 30 November 2018.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 this is before taking the above stated irregular expenditure into account and the opening balance was R4 000 000 (2017: R3 500 000).</p>
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The scenario above depicts a scenario whereby the municipality was aware of existence of the irregular expenditure that existed at the end of reporting year but no further work was done (investigation) to confirm its existence or non-existence. Therefore, because this information came to the attention of management at the time of preparation of financial statements (for years ending 30 June 2017) which suggested that the expenditure incurred was a possibly an irregular expenditure but which management choose to omit in the preparation of its financial statements, such an omission i.e. R100,000 for years ending 30 June 2017 will result in prior period error in accordance with GRAP 3 Accounting Policies, Change in estimates and errors.

30 October 2018

Dr Receivable – Staff Debt

R 100 000

Cr Other income

R 100 000

Recognition of receivable in relation to irregular expenditure recovery

Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018

	Note	2018	2017
		R'000	R'000
42. Unauthorised, Irregular, Fruitless and wasteful Expenditure			
42.1 Irregular Expenditure			
Opening balance		4 000	3 500
Correction of prior period error	45.1	100	-
Opening balance as restated		4 100	3 500
Add: Irregular Expenditure - current		2 000	500
Less: Amount recoverable - prior period		-100	-
Closing balance		6 000	4 000
Incidents/cases reported in the current year include those listed below:			
Preference point system incorrectly applied		1 500	250
Competitive bidding not invited		500	250
Three written quotations not invited		100	-
		2 100	500
Cases under investigations			
Investigations are still on going for 3 (2017: 4) cases which are all related to non-compliance with procurement process requirements.			
Amount recoverable			
After investigations, the council decided to adopt the council committee recommendations to recover an amount of R100 000 from the municipal official after it was proven without reasonable doubt that the official was liable to the non-compliance to SCM processes.			
45. Prior period adjustments			
45.1 Adjustment of irregular expenditure			
Opening balance		4 000	3 500
Adjustment due to error		100	-
Restated opening balance		4 100	3 500
Adjustment made to opening balance of irregular expenditure is due to an omission of irregular expenditure R100 000 made to ABC Engineers in the 30 June 2017 financial statements as it was subsequently noted that the suppliers tax affairs were not in order.			

5 Accounting for fruitless and wasteful expenditure as well as unauthorised expenditure

The process for fruitless and wasteful expenditure, as outlined in section 32(2)(b) of the MFMA, is procedurally dealt with in the same manner as irregular expenditure as outlined in the Circular. Therefore, from an accounting perspective, the accounting treatment for fruitless and wasteful expenditure will be exactly the same as in the case of irregular expenditure as outlined in this document.

With regards to unauthorised expenditure, whilst the authorisation of the expenditure will be done via an adjustment budget process as outlined in section 28 of the MFMA, read with the Municipal Budget and Reporting Regulations, the accounting treatment thereof will be exactly the same as in the case of irregular, fruitless and wasteful expenditure as outlined above.

Disclosure note for unauthorised expenditure

	Note	20x1	20x0
42. Unauthorised, Irregular, Fruitless and Wasteful Expenditure		R'000	R'000
42.2 Unauthorised Expenditure			
Opening balance as previously reported		xx xxx	xx xxx
Add: Expenditure identified - current		xx xxx	xx xxx
Add: Expenditure identified - prior period		xx xxx	xx xxx
Less: Approved by Council		(xx xxx)	(xx xxx)
Closing balance		xx xxx	xx xxx
The over expenditure incurred by municipal departments during the year is attributable to the following categories			
Non-cash		xx xxx	xx xxx
Cash		xx xxx	xx xxx
		xx xxx	xx xxx
Analysed as follows: non-cash			
Employee related cost (e.g. actuarial valuations)		xx xxx	xx xxx
Depreciation and amortisation		xx xxx	xx xxx
Finance charges (e.g. interest charge on the provision for the rehabilitation)		xx xxx	xx xxx
Loss on disposal of property, plant and equipment		xx xxx	xx xxx
Provision of impairment		xx xxx	xx xxx
Other (disaggregate or list these)		xx xxx	xx xxx
		xx xxx	xx xxx
Analysed as follows: cash			
Bulk purchases		xx xxx	xx xxx
Contracted services		xx xxx	xx xxx
General expenditure		xx xxx	xx xxx
Employee related costs		xx xxx	xx xxx
Other (disaggregate or list these)		xx xxx	xx xxx
		xx xxx	xx xxx

Unauthorised expenditure: Budget overspending – per municipal department

Transport	XX XXX	XX XXX
Safety and security	XX XXX	XX XXX
Electricity	XX XXX	XX XXX
Water	XX XXX	XX XXX
Environment and agriculture Management	XX XXX	XX XXX
Community and social development	XX XXX	XX XXX
Infrastructure	XX XXX	XX XXX
Finance	XX XXX	XX XXX
Property Management	XX XXX	XX XXX
Other (disaggregate or list these)	XX XXX	XX XXX
Total	XX XXX	XX XXX

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Note that this document is not part of the GRAP standard. The GRAP takes precedence while this annexure is used mainly to provide further explanations on the concepts already in the GRAP.