

ANNEXURE D

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

1 Overview

The purpose of this annexure is to assist municipalities and municipal entities (henceforth referred to collectively as municipalities) with the legislative disclosure and accounting treatment of unauthorised, irregular and fruitless & wasteful expenditure (henceforth referred to as UIF&W expenditure), in compliance with the Municipal Finance Management Act (MFMA) and Standards of Generally Recognised Accounting Practice (GRAP) respectively.

The disclosure of UIF&W expenditure is a legal requirement flowing from section 125 of the MFMA and not an accounting requirement as a result of the Standards of GRAP.

This annexure does not address detailed legislative compliance procedures with regards to the process that municipalities should follow when dealing with UIF&W expenditure, as defined in section 1 of the (MFMA). These aspects are addressed by MFMA Circular No 68 (the Circular) and any specific enquiries should be submitted to the MFMA helpdesk facility: MFMA@treasury.gov.za.

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. This guide focuses mainly on providing guidance on accounting treatment of financial transactions relating to UIF&W expenditure. Refer to section 4 of this document for accounting implications on fruitless and wasteful expenditure as well as unauthorised expenditure.

2 Legislated flow process for of unauthorised, irregular and fruitless and wasteful expenditure

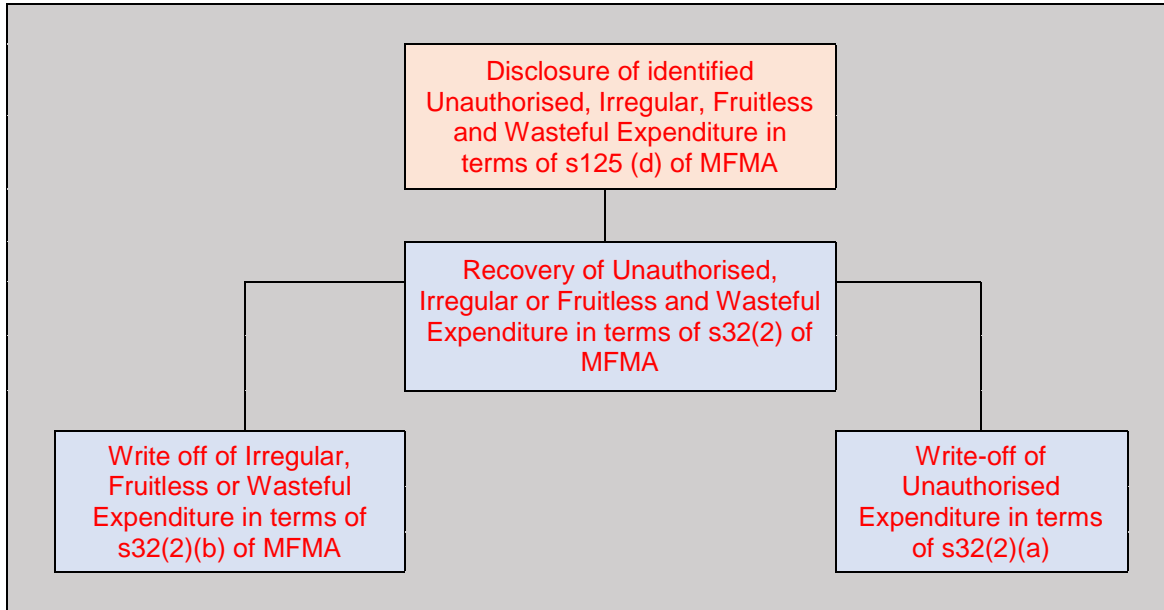


Figure 1 above depicts basic legislative process of addressing Unauthorised, Irregular, Fruitless & Wasteful Expenditure, refer to MFMA Circular 68 for more details. Please note that accounting principles for the recovered and/or write-off of UIF&W expenditure only become applicable at the point of adoption of a council resolution.

Generic Irregular Expenditure process flow stages

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

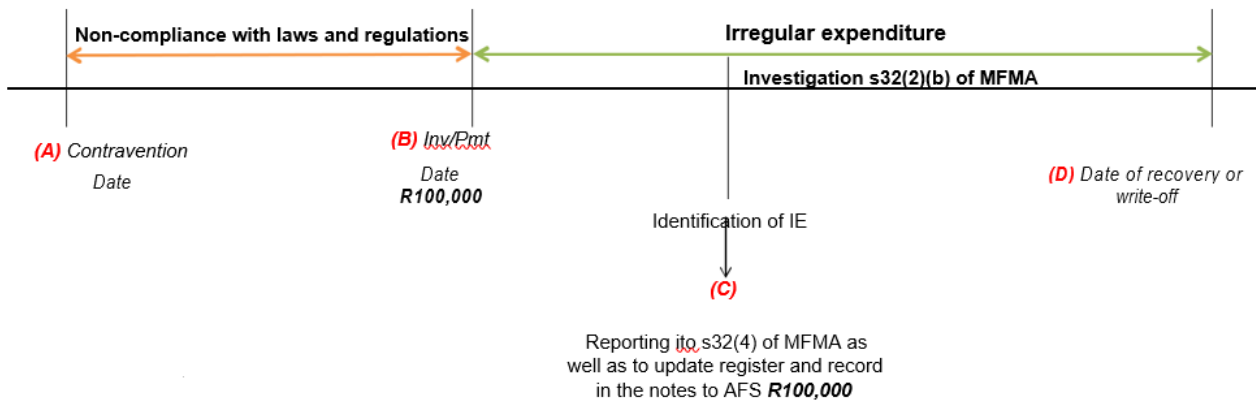


Figure 2: Generic process flow

Stage A: indicates the date of contravention as per the definition of irregular expenditure in section 1 of the MFMA.

Stage B: indicates the date when invoice was received and/or payment made (expenditure incurred) i.e. the date on which the effects of transactions and other events are recognised and disclosed in accordance with their substance in the financial records (financial statements).

Stage C: indicates the identification date of the irregular expenditure and which should be disclosed in the notes to the financial statements at the financial year-end.

Stage D: shows the date of council adopting the council committee recommendations, where irregular expenditure is either recovered or written-off.

Identification of irregular expenditure will be the date when the municipality's systems of internal controls and/or regularity audits first identify the occurrence and existence of irregular expenditure. It is at this date that the municipality should record and disclose the identified irregular expenditure in the register and in the notes to the financial statements. Once the irregular expenditure has been identified, a municipality should simultaneously commence with the legislated process of investigating the irregular expenditure.

3 Key principles underlying the accounting treatment of UIF&W expenditure are as follows.

1. The identification of UIF&W expenditure refers to expenditure that has been incurred during the current or prior reporting period/s and identified during, at or after the reporting period, but before those financial statements are authorised for issue. Please note that UIF&W expenditure incurred and identified in a subsequent reporting period is disclosed and accounted for in that subsequent reporting period.
2. Due to time sensitive nature of dates when a council resolution is adopted in respect to UIF&W expenditure, municipalities must consider the period when such a resolution was adopted in assessing its impact on the financial statements. For example, where a council resolution to recover the irregular expenditure is adopted after the financial statements are authorised for issue, such an event shall not be adjusted for in the financial statements for the period under review.
3. In relation to municipalities (i.e. reporting entities that apply an accrual basis of accounting), 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.
4. UIF&W expenditure is disclosed inclusive of VAT. All other VAT- related transactions shall be accounted for in accordance with the VAT Act.
5. At the adoption of a council resolution to recover UIF&W expenditure, a municipal council may consider whether the definition and recognition criteria of an asset and/or revenue in accordance with the applicable Standards of GRAP have been met and satisfied, respectively, i.e. the definition has been met and it is probability that future economic benefits will flow to the municipalities and that economic benefits can be measured reliably. Where this assessment was not performed at the adoption of council resolution to recover IE, it must be performed immediately prior to and subsequent to the initial recognition of such asset/income in the financial statements. In undertaking this assessment, the municipality must also consider principles of Standard of GRAP on Provisions, Contingent liabilities and Contingent assets (GRAP 19).

Disclosure notes 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	xxx xxx	xxx xxx
Add: Irregular expenditure - current	xxx xxx	xxx xxx
Add: Irregular expenditure - prior period	xxx xxx	xxx xxx
Less: Amount recovered - current	xxx xxx	xxx xxx
Less: Amount recovered - prior period	xxx xxx	xxx xxx
Less: Amount written off - current	xxx xxx	xxx xxx
Less: Amount written off - prior period	xxx xxx	xxx 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>		
Municipal Finance Management Act	xx	xx
Municipal Systems Act	xx	xx
Public Office-Bearers Act	xx	xx
Municipal Supply Chain Management Policies or By-laws	xx	xx

In accordance with section 87(8) of MFMA, a municipal entity may incur expenditure only in accordance with its approved budget or an adjustment budget. Therefore, where a municipal entity overspends its budget, such expenditure will be irregular expenditure as the municipal entity incurred an expenditure in contravention of a provision of the MFMA.

Below is an example of how irregular expenditure incurred by municipal entities resulting from an unauthorised expenditure may be disclosed.

	Note	20x1	20x0
42. Unauthorised, irregular, fruitless and wasteful expenditure		R'000	R'000
42.1 Irregular expenditure			
Opening balance as previously reported		xxx xxx	xxx xxx
Add: Irregular expenditure - (Non-compliance with laws and regulations) – current		xxx xxx	xxx xxx
Add: Irregular expenditure - (Non-compliance with laws and regulations) - prior period		xxx xxx	xxx xxx
Add: Irregular expenditure - (Overspending of approved budget) - current		xxx xxx	xxx xxx
Add: Irregular expenditure - (Overspending of approved budget) - prior period		xxx xxx	xxx xxx
Less: Amount recovered - current		xxx xxx	xxx xxx
Less: Amount recovered - prior period		xxx xxx	xxx xxx
Less: Amount written off - current		xxx xxx	xxx xxx
Less: Amount written off - prior period		xxx xxx	xxx xxx
Closing balance		xxx xxx	xxx xxx
Overspending of approved budget: non-cash items include the following:			
Depreciation		xxx xxx	xxx xxx
Impairment of assets and receivables		xxx xxx	xxx xxx
Actuarial losses		xxx xxx	xxx xxx
		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>			
Municipal Finance Management Act		xx	xx
Municipal Systems Act		xx	xx
Public Office-Bearers Act		xx	xx
Municipal Supply Chain Management Policies or By-laws		xx	xx

Illustrative examples

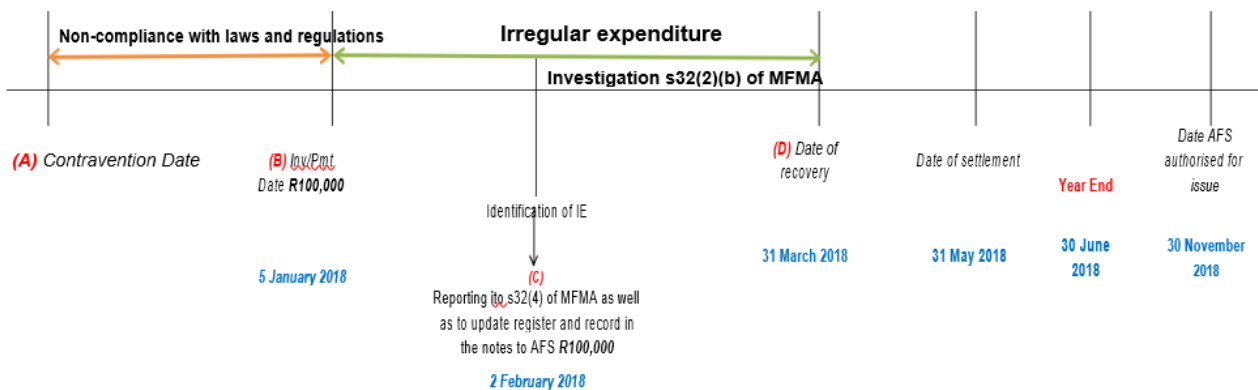
The section below examines possible scenarios with regards to timing of the recognition and disclosure of transactions related to the irregular expenditure in the financial statements. These scenarios are not intended to be exhaustive.

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



After the purchased plant (property, plant and equipment) failed to perform the required technical tasks, a payment of R100 000 made on the 5th of January 2018 to ABC Engineers for this plant was also identified on the 2nd of February 2018 as irregular expenditure, as the service provider did not meet the bid mandatory requirements. The accounting officer complied with the requirements of s32(4) of MFMA and an investigation was launched by the council committee. The municipal council, acting on the recommendation of the council committee, adopted a resolution on the 31st of March 2018 that the asset be returned to service provider and that the full amount of R100 000 be recovered from the service provider. The full amount was subsequently recovered on the 31st of May 2018. Subsequent to the initial recognition of this plant, a provision had been made for the depreciation of R5 000.

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



This scenario addresses instances where irregular expenditure is incurred, identified; council adopts a resolution to recover financial loss and settlement thereof within the reporting 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	R100 000	
Cr Property, plant and equipment (asset)		R100 000

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

Dr Accumulated depreciation	R5 000	
Cr Depreciation		R5 000

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

31 May 2018

Dr Bank	R100 000	
Cr Receivable		R100 000

Settlement of receivable in relation to irregular expenditure

In the event of the transaction being an operational 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	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

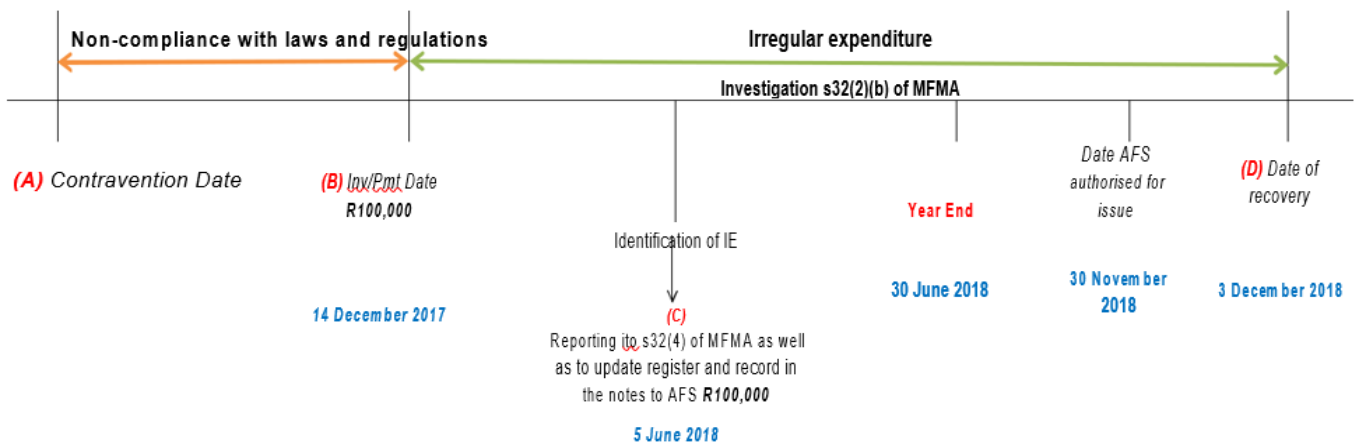
	Note	2018	2017
		R'000	R'000
42. Unauthorised, irregular, fruitless and wasteful expenditure			
42.1 Irregular expenditure			
Opening balance as previously reported		4 000	3 500
Add: Irregular expenditure - current (2 000+100)		2 100	500
Less: Recovered - current		-100	-
Closing balance		6 000	4 000
Incidents/cases identified in the current year include those listed below:			
Three written quotations not invited		1 500	250
Mandatory bid requirements not met		100	250
Declaration of interest not submitted		500	-
		2 100	500
Cases under investigations			
Cases under investigation still in progress 8 (2017:5) which are all related to non-compliance with procurement process requirements			

Amount recovered

After the council committee investigations, council adopted a council committee recommendation to recover an amount of R100 000 from the service provider as it was proven that the winning bidder had not meet mandatory requirements of the bid specifications.

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

	<p>Payment made to ABC Engineers on the 14th of December 2017 of R100 000 for routine repairs (expense) on equipment was identified on the 5th of June 2018 as irregular expenditure, as tax clearance certificates were not received prior to the awarding of the tender.</p> <p>The accounting officer complied with the requirements of s32(4) of MFMA and the council committee investigation process was launched. On the 3rd of December 2018 council adopted a council committee recommendation to recover the full amount of R100 000 from the responsible municipal official - on that date all relevant requirements of GRAP were met for all related financial statements line items for recognition purposes. The financial statements were authorised for issue on the 30th of November 2018.</p> <p>The total amount identified as irregular expenditure incurred during the 2018 financial period was R2 000 000 before taking the above irregular expenditure into account</p>
---	--



This scenario addresses instances where irregular expenditure is incurred and identified in the current financial period, but the recommendation for recovery is adopted by council after the 2017/18 financial statements (i.e. 3rd of December 2018) have been authorised for issue.

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	R100 000
Cr Other income	R100 000

Recognition of receivable in relation to irregular expenditure recovered

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 clearance certificate 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 (2017:18) cases which all relate 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: Recovered - prior period	-100	-
Closing balance	6 000	6 100
Incidents/cases identified in the current year include those listed below:		
Three written quotations not invited	-	100
Competitive bidding not invited	-	1 500
Declaration of interest not submitted	-	500
	-	2 100
Cases under investigations		
Investigations are still in progress regarding 11 (2018:12) which all related to non-compliance with procurement process requirements		

Amount recovered

After council committee investigations, council adopted the council committee recommendations to recover an amount of R100 000 from the responsible municipal official as it was proven without reasonable doubt that the official was liable for the identified non-compliance with SCM processes

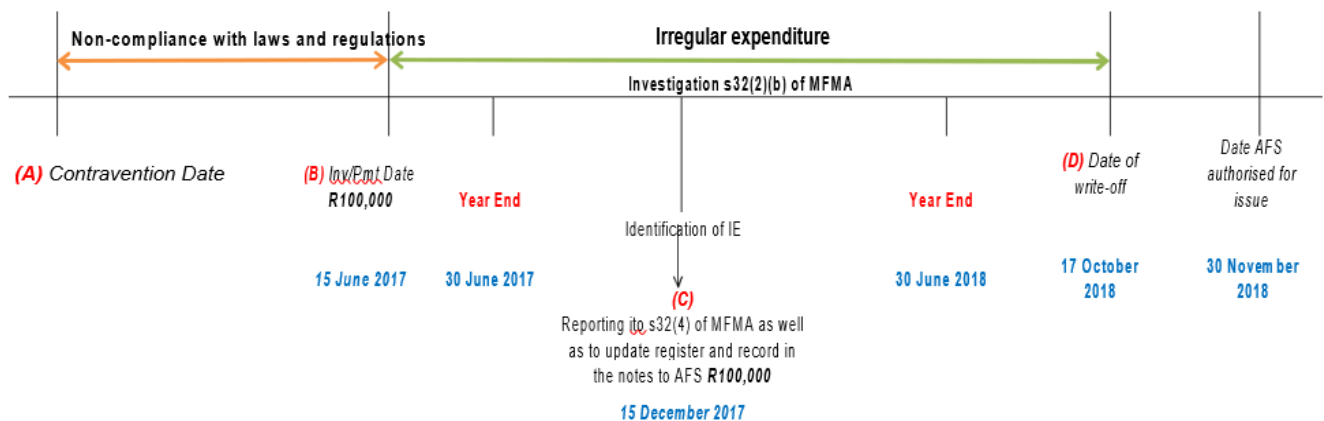
SCENARIO 3: Irregular expenditure incurred in the prior financial period (2016/17), identified in current financial period (2017/18) and written-off in current financial period (2017/18).



Payment made to ABC Engineers on the 15th of June 2017 of R100 000 for routine repairs (expense) done on the equipment was identified on the 15th of December 2017 as irregular expenditure as it was later discovered that preference points were incorrectly calculated when awarding the contract.

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

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



This scenario addresses instances where council adopts a council committee recommendation to write-off irregular expenditure related to an expense (routine repairs on equipment) after the financial year-end (30th of June 2018), but before financial statements are authorised for issue (the 30th of 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.

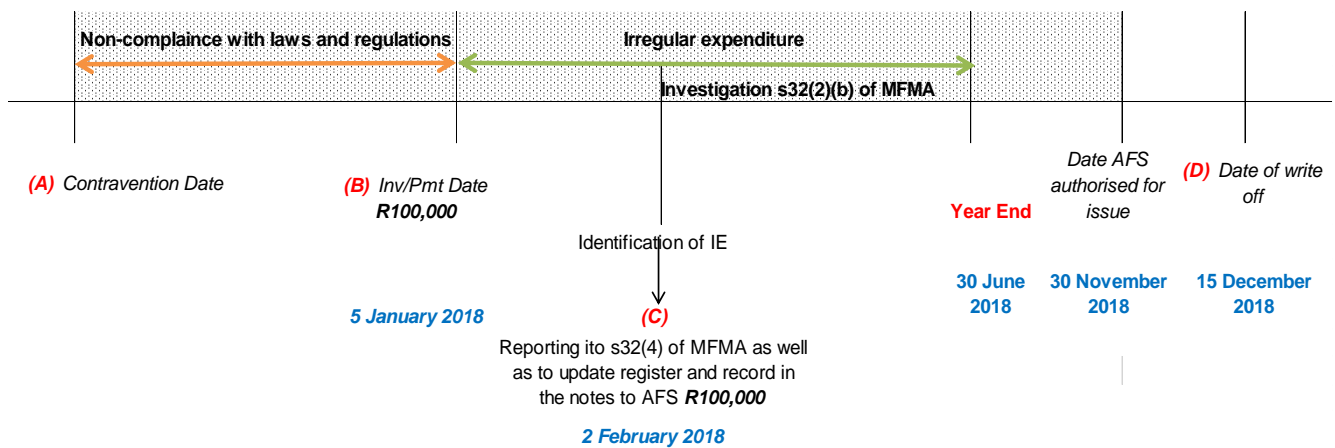
Illustrated disclosure in the annual financial statements:

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

Note	2018	2017
42. Unauthorised, irregular and 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
Miscalculation of preferential points	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 current financial period (2017/18), identified in current financial period (2017/18) and written-off in current financial period (2018/19).

	<p>Payment of R100 000 made on the 5th of January 2018 to ABC Engineers for an item of property, plant and equipment was identified on the 2nd of February 2018 as irregular expenditure, as the advert for the tender was not advertised for the prescribed period. The accounting officer complied with the requirements of s32(4) of MFMA and an investigation was launched by the council committee.</p> <p>On the 15st of December 2018 the municipal council adopted a council committee recommendation of writing off the irregular expenditure.</p> <p>The total identified irregular expenditure incurred during the 2018 financial period was R2 000 000 before taking the above stated irregular expenditure into account.</p>
---	---



This scenario addresses instances where council adopts council committee recommendation to write-off (15 December 2018) of an irregular expenditure after financial year end (30 June 2018) and after financial statements are authorised for issue (30 November 2018) in related to item of purchase of property, plant and equipment.

No accounting journal entries will be passed for this scenario as the council resolution (write-off) only affects the irregular expenditure disclosure note.

Please note that in the event that the transaction was an operation expense instead of being a capital expenditure (using the background information as per scenario 4 above), upon date of write off, no journal entries will be processed, except for the disclosure of the effects of such a write off in the irregular expenditure disclosure note.

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
		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	-
Closing balance		6 100	4 000
Incidents/cases reported in the current year include those listed below: Please refer to Annexure for more details on these			
Three written quotations not invited		1 500	250
Competitive bidding not invited		500	250
Tender not advertised for the prescribed period		100	-
		2 100	500
Cases under investigations			
Investigations are in still in progress regarding 6 cases (2017:4), which are all related to non-compliance with the procurement process requirements.			

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

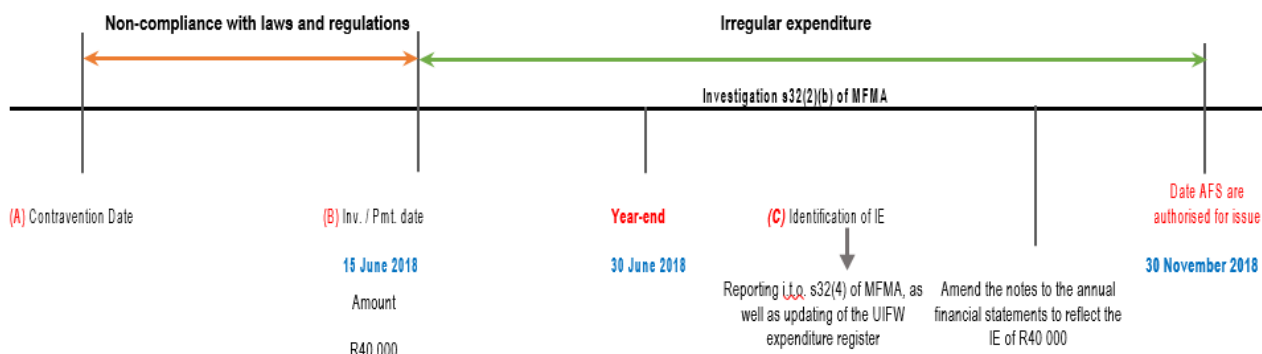
Note	2019	2018
42. Unauthorised, irregular, fruitless and wasteful expenditure	R'000	R'000
42.1 Irregular expenditure		
Opening balance as previously reported	6 100	4 000
Add: Irregular expenditure - current	-	2 000
Add: Irregular expenditure - prior period	-	100
Less: Written off - prior period	-100	-
Closing balance	6 000	6 100
Incidents/cases reported in the current year include those listed below:		
Three written quotations not invited	-	1 500
Competitive bidding not invited	-	500
Tender not advertised for the prescribed period	-	100
	-	2 100
Cases under investigations		
Investigations are in still in progress regarding 5 (2018:6), which are all related to non-compliance with the procurement process requirements.		
Amount written off		
After council committee investigation, council adopted the council committee recommendation to write-off an amount of R100 000 from the total irregular expenditure as value for money was received.		

SCENARIO 5: Irregular expenditure incurred in the current financial period (2017/18), identified in current financial period (2017/18) on a multi-year contract

	<p>During the 2017/18 financial period, ABC Municipality entered into a three-year contract with a XYZ Contractors for repairs and maintenance services for a total cost of R100 000 over the contract period.</p> <p>During the audit, the auditors found that the preference points were calculated incorrectly in awarding the contract, which resulted in material non-compliance with the relevant regulations.</p> <p>The identified non-compliance in relation to the multi-year contract renders all expenditure incurred in terms of that contract as irregular, which must be accounted for in the financial period in which that irregular expenditure has been incurred. The irregular expenditure that is incurred would be required to be investigated by a council committee as required by section 32(2)(b) of the MFMA.</p>
---	--

Scenario 5.1

The municipality incurred an amount of R40 000 against the multi-year contract of R100 000 in the 2017/18 financial period. The auditors identified non-compliance in 2017/18 and accordingly the municipality must account for irregular expenditure in the amount of R40 000. If the council resolved to write-off the irregular expenditure, based on the council committee recommendation before the 2017/18 financial statements are authorised for issues, the municipality can immediately write-off the irregular expenditure in the 2017/18 financial year. The total identified irregular expenditure incurred was R500 000 before taking the above stated irregular expenditure into account.



Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2018 (Year 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 (500 + 40)		540	500
Add: Irregular expenditure - prior period		-	-
Less: Written off - current period		(40)	-
Closing balance		4 500	4 000
Incidents/cases reported in the current year include those listed below:			
Three written quotations not invited		300	250
Competitive bidding not invited		200	250
Incorrect calculation of preference points		40	-
		540	500
Cases under investigations			
Investigations are in still in progress regarding 4 cases (2017:7) which are all related to non-compliance with the procurement process requirements.			
Amount written off			
After the council committee investigations, council committee recommendation to write-off an amount of R40 000 from the total irregular expenditure amount as it was found that the municipality received value and the services were delivered in accordance with the contract stipulation.			

Note: All expenditure incurred on the multi-year contract in subsequent years will be regarded as irregular expenditure and must be recorded as such in the financial period in which the expenditure was incurred.

For example, in year 2 (2018/19) the municipality incurred R30 000 and year 3 (2019/20) it incurred R30 000. The municipality must recognise irregular expenditure in the amount of R30 000 in 2018/19 and R30 000 in 2019/20. The irregular expenditure may then be recovered or written off, based on the date of the relevant council resolution following the MFMA section 32 investigation, as in scenario 6.1 above.

For the reporting period of 2017/18 no accounting journal entries will be passed for this period as the council resolution (write-off) only affects the irregular expenditure disclosure note. For the subsequent irregular expenditure incurred and identified (i.e., 2018/19 and 2019/20) journal entries passed will be dependent on the type of resolution (i.e., to recover or write-off) adopted by the municipal council.

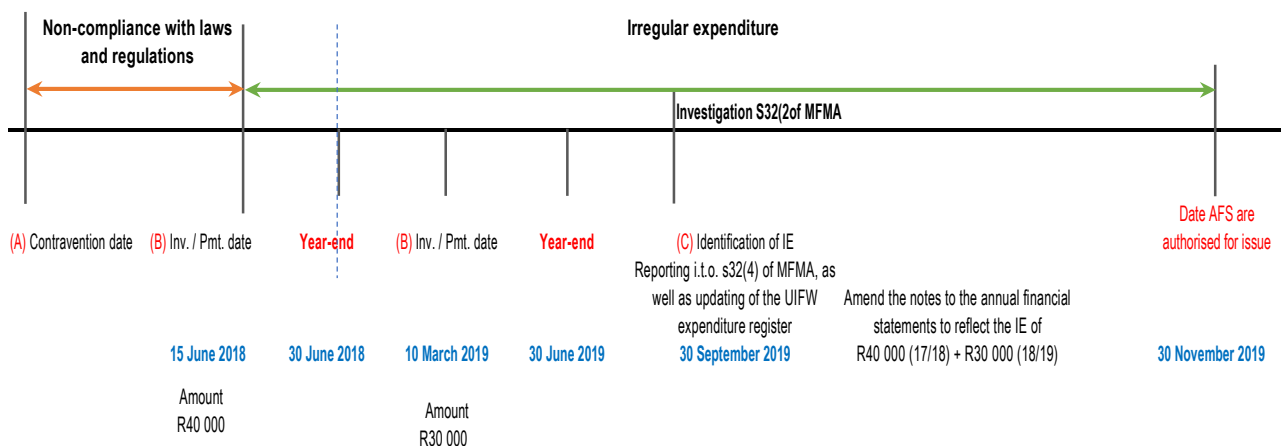
Scenario 5.2

The facts remain the same, except that the non-compliance was only detected during the audit in year 2 (2018/19). The municipality incurred an amount of R40 000 against the multi-year contract in the first year (2017/18), but the irregular expenditure was not identified then.

In year 2 (2018/19) of the multi-year contract, the municipality incurred expenditure of R30 000 for repairs and maintenance. During the testing of compliance with supply chain management in year 2 (2018/19), the auditors identified the non-compliance in the awarding of the contract on 30 September 2019.

As mentioned above, the identified non-compliance in relation to the multi-year contract renders all expenditure incurred in terms of that contract as irregular when incurred. The municipality will be required to account for the irregular expenditure from the inception of the contract to date, i.e., for 2017/18 (R40 000) up to an including 2018/19 (R30 000).


The council committee investigated the irregular expenditure for 2017/18 and 2018/19 and recommended to the municipal council to write-off the irregular expenditure before the authorisation of the 2018/19 annual financial statements for issue. The total identified irregular expenditure incurred was R830 000 before taking the above stated irregular expenditure into account.



Illustrated disclosure in the annual financial statements:

Notes to the annual financial statements for the year ended 30 June 2019

	Note	2019	2018
42. Unauthorised, irregular, fruitless and wasteful expenditure		R'000	R'000
42.1 Irregular expenditure			
Opening balance as previously reported		4 500	4 000
Add: Irregular expenditure - current (830 + 30)		860	500
Add: Irregular expenditure - prior period		40	-
Less: Written off - current period (30 + 40)		-70	-
Closing balance		5 330	4 500
Incidents/cases reported in the current year include those listed below:			
Three written quotations not invited		330	250
Competitive bidding not invited		500	250
Incorrect calculation of preference points (30+40)		70	-
		900	500
Cases under investigations			
Investigation are in still in progress regarding 4 (2018:7) which are all related to non-compliance with the procurement process requirements.			
Amount written off			
After the council committee investigations, council committee recommendation to write-off an amount of R70 000 from the total irregular expenditure amount as it was found that the municipality received value and the services were delivered in accordance with the contract stipulation.			

	<p>Any expenditure incurred during the last year of the said multi-year contract will also be regarded as irregular expenditure and accounted for in the period in which it is incurred. Such irregular expenditure will be required to be dealt with in accordance with section 32 of the MFMA and disclosed accordingly depending on the timing and outcome of the investigation of the council committee and the related council resolution whether to recover or write-off the irregular expenditure.</p> <p>Similarly, journal entries passed to process council resolutions (recovered or write-off) for 2019/20 irregular expenditure incurred and identified, will be dependent on the type of resolution (i.e., to recover or write-off) adopted by the municipal council.</p>
---	---

4 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		xxx xxx	xxx xxx
Add: Unauthorised expenditure - current		xxx xxx	xxx xxx
Add: Unauthorised expenditure - prior period		xxx xxx	xxx xxx
Less: Amount recovered - current		(xxx xxx)	(xxx xxx)
Less: Amount recovered - prior period		(xxx xxx)	(xxx xxx)
Less: Amount authorised - current		(xxx xxx)	(xxx xxx)
Less: Amount authorised - prior period		(xxx xxx)	(xxx xxx)
Closing balance		xxx xxx	xxx xxx
The over expenditure incurred by the municipal departments during the year is attributable to the following categories			
Non-cash items		xxx xxx	xxx xxx
Cash items		xxx xxx	xxx xxx
		xxx xxx	xxx xxx
Analysed as follows: non-cash items			
Employee-related cost (e.g. actuarial valuations)		xxx xxx	xxx xxx
Depreciation and amortisation		xxx xxx	xxx xxx
Finance charges (e.g. interest charge on the provision for the rehabilitation)		xxx xxx	xxx xxx
Loss on disposal of property, plant and equipment		xxx xxx	xxx xxx
Provision for impairment		xxx xxx	xxx xxx
Other (disaggregate or list these)		xxx xxx	xxx xxx
		xxx xxx	xxx xxx
Analysed as follows: non-cash items			
Bulk purchases		xxx xxx	xxx xxx
Contracted services		xxx xxx	xxx xxx
General expenditure		xxx xxx	xxx xxx
Employee-related costs		xxx xxx	xxx xxx
Other (disaggregate or list these)		xxx xxx	xxx xxx

Unauthorised expenditure: Budget overspending - per municipal department		
Transport	xxx xxx	xxx xxx
Safety and security	xxx xxx	xxx xxx
Electricity	xxx xxx	xxx xxx
Water	xxx xxx	xxx xxx
Environment and agriculture management	xxx xxx	xxx xxx
Community and social development	xxx xxx	xxx xxx
Infrastructure	xxx xxx	xxx xxx
Finance	xxx xxx	xxx xxx
Property management	xxx xxx	xxx xxx
Other (disaggregate or list these)	xxx xxx	xxx xxx
Total	xxx xxx	xxx xxx

Disclosure note for fruitless and wasteful expenditure

	Note	20x1	20x0
42. Unauthorised, irregular and fruitless and wasteful expenditure		R'000	R'000
42.3 Fruitless and wasteful expenditure		R'000	R'000
Opening balance as previously reported		xxx xxx	xxx xxx
Add: Fruitless and wasteful expenditure identified - current		xxx xxx	xxx xxx
Add: Fruitless and wasteful expenditure identified - prior period		xxx xxx	xxx xxx
Less: Amount recovered - current		xxx xxx	xxx xxx
Less: Amount recovered - prior period		xxx xxx	xxx xxx
Less: Amount written off - current		xxx xxx	xxx xxx
Less: Amounts written off - prior period		xxx xxx	xxx xxx
Closing balance		xxx	xxx
		xxx	xxx
Details of fruitless and wasteful expenditure			
Interest and penalties		xx xxx	xx xxx
Expenditure on software licenses not utilised, etc.		xx xxx	xx xxx

All rights reserved. No part of this publication may be reproduced, stored in retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the National Treasury of South Africa, unless utilised by a municipality or municipal entity for its sole use.

Permission to reproduce limited extracts from the publication will not usually be withheld.

Though National Treasury (NT) believes reasonable efforts have been made to ensure the accuracy of the information contained in the annexure, it may include inaccuracies or typographical errors and may be changed or updated without notice. NT may amend this annexure at any time by posting such on NT's website.

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.