



REDUCTION STRATEGY ON UNAUTHORIZED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

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MPOFANA LOCAL MUNICIPALITY

DATE APPROVED BY COUNCIL	
RESOLUTION NUMBER	
DEPARTMENT	BUDGET AND TREASURY OFFICE
UNIT	SUPPLY CHAIN MANAGEMENT
DATE REVIEWED	

PURPOSE

The purpose of this project is to develop and implement a Reduction Strategy designed to address current and historical Unauthorized, Irregular, Fruitless and/or Wasteful Expenditures figures and to improve internal controls and thereby improving the Audit outcomes of the Municipality on occurrence and completeness of Unauthorized, Irregular, Fruitless and/or Wasteful Expenditures.

The project main goal is to reduce the current and historical audited UIFW Expenditure figures by 50% over the 5 year Medium Term Strategic Framework period. However, Mpofana Local Municipality proposes to reduce 10% annually thus 50% within 5 years.

PROBLEM STATEMENT

The Auditor-General South Africa findings for the 2018/19 financial year highlighted a number of issues in the Consolidated Report on Local Government that include amongst others, persistent non-adherence to Financial Management Policies and Prescripts as well as the need to improve Governance arrangements. A significant number of Municipalities have also incurred the Unauthorized, Irregular as well as Fruitless and/or Wasteful Expenditure and a brief view suggests that amounts in this regard are increasing year on year.

The Municipality has incurred unwanted expenditures in contravention of Provision of the Act i.e. in the case of Unauthorized Expenditure resulting from over expenditure on votes; in the case of Irregular Expenditure flouting of the Supply Chain Management (SCM) Legislative requirements; and in the case of Fruitless and/or Wasteful Expenditure failure to pay various suppliers on time after receipt of invoices thus resulting in interest payments.

RELEVANT LEGISLATION

As per the requirements of the Municipal Finance Management (Act. No. 56 of 2003) Section 32(2) states that a Municipality must recover Unauthorized, Irregular, Fruitless and/or Wasteful Expenditure from a person liable for that expenditure unless the expenditure in case of Unauthorized Expenditure is authorized in an adjustment budget or certified to be irrecoverable and written off by Council after investigations by Council Committee.

In addition, the Act states that in case of Irregular, Fruitless and/or Wasteful Expenditure, the expenditure must be recovered unless it is certified to be irrecoverable and written-off by Council after investigation by Council Committee.

In addition MFMA Section 32(4) indicates that the Accounting Officer must promptly inform the Mayor, the MEC for Local Government in the Province and the Auditor-General in writing of any UIFW Expenditure incurred by the Municipality, whether any person is responsible or under investigation for such unwanted Expenditure and steps that have been taken to recover or rectify such Expenditure and to prevent a reoccurrence of such expenditure.

The MFMA through Section 62 sets out the general financial management responsibilities of the Accounting Officer. The Accounting Officer is required to take all reasonable steps to ensure that the resources of the Municipality are effectively, efficiently and economically utilized and that Unauthorized, Irregular, Fruitless and/or Wasteful Expenditure are prevented. In addition, Section 62 also obliges the Accounting Officer to ensure that disciplinary or when appropriate, criminal proceedings are instituted against any official of the Municipality who has allegedly committed an Act of Financial Misconduct or an offence in terms of the Act (Chapter 15 of MFMA). The same responsibilities have also been placed upon other Municipal Officials.

Section 62(1)(b) of MFMA states; “The Accounting Officer of a Municipality ensure that full and proper records of the financial affairs of the Municipality are kept in accordance with any prescribed norms and standards.

Moreover, to give effect to the priorities outlined above in Government outcomes, and to deal effectively with matters of Financial Misconduct and to give effect to the concept of consequences management, the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014 to complement amended and the regulations issued in terms thereof. These Regulations must be read together when implemented.

The Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings will support measures to expeditiously address Financial Misconduct and Mismanagement.

The objective of the Regulations is to set out processes and procedures that a Municipality and Municipal Entities must follow when dealing with allegations of Financial Misconduct. The Regulations will apply to all Officials and Political Office Bearers within Municipalities and Municipal Entities.

SITUATIONAL ANALYSIS

The Mporofana Local Municipality have for a number of years struggled with an ever increasing amount of Unauthorized, Irregular, Fruitless and/or Wasteful Expenditure. This is mainly due to the following factors:

- No effective preventative Mechanisms to eliminate reoccurrence;
- No effective Internal Controls measures;
- No detailed reasons for incurring of UIFWe as captured in the registers according to National Treasury Circular 68 Annexure A;
- Lack of investigation on identified UIFWe;
- Ineffective processes to be followed when dealing with UIFWe; and
- Ineffective of Consequence Management (Financial Misconduct).

In order to mitigate the above-mentioned challenges, the Accounting Officer and/or the Chief Financial Officer should ensure that Municipality’s expenditure transaction records incorporate all but not limited to the following SCM Legislative requirements per transaction (where applicable in terms of pricing) with a view to curb Irregular Expenditure:

- Three Quotations;
- Purchase Order;
- Delivery Note & Invoice;
- Goods/Services delivery Register (Awards Register);
- Payment Report;
- Evaluation report by SCM (i.e. Bid Evaluation Committee);
- Approved Deviation report by the Accounting Officer (signed) and tabled to Council;
- Proof of Bid Advertisements & results published on the Municipality’s website;
- Proof of projects registered in the register of Construction Contracts with the CIDB
- Preference Point System to be utilized should be included in the Advert;
- Central Supplier Database (CSD) Printout reflecting declarations and Tax Status of Supplier or Service Provider;
- Municipal Bidding Documents (MBDs) applicable to ranges of procurement; and
- Service Level Agreements, Appointment Letter and Contracts to be attached on the first Purchase Order Batch.

The main contributor to Irregular Expenditure in terms of monetary value is the awarding of contracts/tenders without following proper SCM Legislative Guidelines.

The Auditor-General South Africa has identified that the effective and appropriate disciplinary steps were not taken against Officials who made or permitted Unauthorized, Irregular, Fruitless and/or Wasteful Expenditure as required by Section 32(4) of the MFMA.

PROJECT RESOURCES AND TEAM MEMBERS

The resources that will be implementing the project are the currently employed officials who are also responsible for their day-to-day activities. The project has an appointed champion. The roles and responsibilities for the identified project team members are summarized below:

MEMBERS	ROLE	PROJECT TEAM	RESPONSIBILITY
Head of Administration (Municipal Manager)	Owner	Dr. E.H. Dladla	Project Leader
Ministerial Representative	Oversee	Ms. N. Khanyile	CO-Project Leader
Head of BTO (Chief Financial Officer)	Project Champion	Mr. P. Molefe	Coordinator
Supply Chain Management (Manager)	Team Member	Mr. S.S. Sithole	Operational
Budget Accountant	Team Member	Mrs. T. Cele	Operational
Asset Management (Asset Officer)	Team Member		
Technical Services (PMU Manager)	Team Member	Mr. N. Sithole	Operational
Internal Audit	Team Member	Ms. N. Mbatha & Inkazimulo Advisory Consultancy	Operational

PROJECT DELIVERIES

DELIVERABLES	TARGET DATES
Develop UIFW Reduction Strategy	30 November 2022
Develop and Implement Standard Operating Procedures on the Identification, Recording and Reporting of UIFWe.	November – December 2022
Conduct monthly meetings to identify instances of UIFWe for current expenses.	Each Month
Conduct training on the identification, recording and reporting of UIFWe	Ongoing
Assign Officials to populate and manage the UIFWe register on a monthly basis.	30 November 2022
Register of UIFWe be submitted to Provincial Treasury on a monthly basis.	Monthly – after 10 working days
Detailed supporting documentation be prepared and tabled in Council for investigations on a Bi-Annually Basis.	End of November and End of May

Quantitative percentage targets of reduction VS. The total historical UIFW Audited figures.	Annually
Implementation of recommendations by the MPAC.	Bi-Annually – Middle December & Middle June

PROJECT GOALS

The main goal of the Municipality is to reduce increasing levels of historical UIFWe and to attain an Unqualified Audit Opinion by year 2023/24 Financial Year. In order to achieve such the Municipality has to implement interventions designed to reduce unwanted Expenditures and improvement of Internal Control to address weaknesses related thereto.

In line with the Government 5 year Medium Term Strategic Framework, the reduction plan is as follow:

REDUCTION PLAN	BASELINE (2022/23)	YEAR 1 (2023/24)	YEAR 2 (2024/25)	YEAR 3 (2025/26)	YEAR 4 (2026/27)	YEAR 5 (2027/28)
% REDUCTION		20%	20%	20%	20%	20%
	R	R	R	R	R	R
UNAUTHORIZED EXPENDITURE						
IRREGULAR EXPENDITURE	36 289 317.17	29 031 453.74	23 225 162.99	18 580 130.39	14 864 104.31	11 891 283.45
FRUITLESS &/OR WASTEFUL EXPENDITURE	14 511 953.31	11 609 562.65	9 287 650.12	7 430 120.09	5 944 096.08	4 755 276.86
NEW UIFWe	Address it immediately as it occurs					

PROJECT ACTIVITIES

TASK	ACTIVITY	DESIRED OUTCOME	COMPLETION DATE	RESPONSIBLE OFFICIAL
Start-Up Date	Initiate a meeting with the Project Team Members to agree on the approach thus developing and adopting the UIFW Reduction Strategy	Approve Project Strategy Document	30 November 2022	Chief Financial Officer
Policy and Standard Operating Procedures	Develop and implement Standard Operating Procedure on the identification, recording and reporting the UIFW Expenditure.	Approve SOPs		Manager ; Supply Chain Management

Conducts monthly meetings	Conduct monthly meetings to identify instances of UIFW Expenditure.	Compliance to Procurement Checklist	Monthly	Municipal Manager
Conduct Training	Conduct training on the identification, recording and reporting of UIFW Expenditure	Training		Internal Audit
Assign Officials responsible for UIFW Register	Assign Officials to populate, manage and monitor the UIFW Expenditure Register on a monthly basis.	Job Assignment	Completed	Chief Financial Officer & Manager: Supply Chain Management
	Register of UIFW Expenditure be submitted to Provincial Treasury on a monthly basis.	Updated Register	Completed and Ongoing	
Investigations	Detailed supporting documentation be prepared and tabled in Council for investigations on a Bi-Annual Basis.	Bi-Annual Reports on UIFW Expenditure.	Bi-Annually	
	Breakdown of reduction percentage targets VS. The total historical UIFW Audited Figures.	Annual Investigation report on UIFW Expenditure.	Annually	
	Implementation of recommendations by the MPAC.	Bi-Annual Investigation report on UIFW Expenditure.	Bi-Annually	

BUDGET IMPLICATIONS

The project will be implemented by the existing employees within the available working hours.

ASSUMPTIONS

It is assumed that all role-players are committed to the time schedule.

RISKS

The following are the identified possible risks:

RISK DESCRIPTION	PROBABILITY	IMPACT
Lack of MPAC investigation capacity	High	Major
Non-adherence to procurement processes	High	Major
Limited data to deal with Historical UIFW Expenditure	Medium	

MONITORING AND EVALUATION

Progress on the implementation of the Project on Reduction of UIFW Expenditures will be monitored by the Municipality as well as by the Audit Committee and other stakeholders such as the Auditor-General South Africa and Provincial Treasury. Regular evaluation of the plan will be done. This will be done on a monthly basis.

UIFW REDUCTION STRATEGY APPROVAL

This Project Plan has been reviewed and approved by the Accounting Officer who has been satisfied with its content and deliverables on _