



Reduction strategy on Unauthorised, Irregular and Fruitless & Wasteful (UIFW) Expenditure

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PURPOSE

The purpose of this project is to develop and implement a reduction strategy designed to address current and historical UIFW expenditures figures and to improve internal control environment and thereby improving the audit outcomes on occurrence and completeness of UIFW expenditures.

The project main goal is to reduce the current and historical audited UIFW expenditure figures by 50% to 100 % over the 3-year medium term strategic framework period.

1. PROBLEM STATEMENT

The Auditor-General 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. Thulamela local municipality has incurred unauthorised, irregular as well as fruitless and wasteful expenditure and a brief view suggests that amounts in this regard are decreasing year on year.

The municipality has incurred unwanted expenditures in contravention of provision of the Act i.e. in the case of unauthorised 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 & wasteful expenditure failure to pay various suppliers on time after receipt of invoices thus resulting in interests payments.

2. RELEVANT LEGISLATION

As per the requirements of the Municipal Finance Management, 2003 (Act No. 56 of 2003) (MFMA) Section 32(2) states that a municipality must recover unauthorised, irregular, fruitless & 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 or fruitless and 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 utilised and that unauthorised, irregular, fruitless and 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 consequence management, the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings were promulgated on 31 May 2014 to complement the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) ("MSA") as 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.

3. PROJECT GOALS

The main goal of the municipality is to reduce and to prevent UIF&W expenditures and to attain an unqualified audit opinion, without findings, in the 2021/2022 financial year. In order to achieve such the municipality has to implement interventions designed to prevent irregular expenditures and improvement of SCM internal controls to address weaknesses that eventually lead to non-compliance. In line with the government 5 year medium term strategic framework, the reduction plan is as follow:

Reduction plan	Baseline (2019/20 audited)	Year 1	Year 2	Year 3
Percentage reduction		N/A	N/A	N/A
Unauthorised expenditure	0	0	0	0
Percentage reduction		80%	90%	100%
Irregular expenditure	18 285 750	3 657 150	1 828 575	1 828 575
Percentage reduction		10%	20%	50%
Fruitless & Wasteful expenditure	3 769 788	3 392 809	3 015 830	1 884 894

4. SITUATIONL ANALYSIS

Thulamela Local Municipality has reported a decreasing trend in unauthorised, irregular, fruitless and wasteful expenditures (UIF) over the past three (3) years. The municipality identified, through internal processes UIF and others were identified by AGSA. The unauthorised, irregular, fruitless and wasteful expenditures (UIF) has already been investigated by MPAC and recommended for recoveries and write-off by council

The municipal council has established all Section 79 portfolio committees such as Finance, Community, Technical, Planning and development services and Corporate Services committees as per Municipal Structure Act including MPAC which performs an oversight role. MPAC is also effective in terms of conducting investigations for all unauthorised, irregular, fruitless and wasteful expenditures (UIF) incurred by the municipality in line with MFMA sec 32.

5. PROCESS FLOW STRATEGIES ON THE IMPLEMENT REDUCTION PL

- Provision of continuous trainings to bid committee members.
- Implementation of MPAC recommendations complied after investigations and approved by council.

- Effective adherence to Demand Management Plans (Procurement Plans) and SCM policy approved by council.
- Early advertisements of contracts that are approaching expiring dates.
- Enhance contract management (End-user, Legal and SCM)
- Payments be accompanied with proof of evidence that service has been rendered or goods were delivered.
- Payments of completed projects be inspected despite the payment certificate issued by the Consulting Engineers to avoid Consulting Engineers to collude with Contractors and Municipality employees.
- Legal proceedings be initiated on Contractors that did not complete the projects and process of recovering the lost money on these projects.
- Performance and monitoring of bidders and effective reporting of all non-performance by bidders

6. 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 summarised below.

MEMBER	ROLE	PROJECT TEAM	ROLE/RESPONSIBILITY
Head of Administration	Owner	AO	Project leader
Management	Project Champion	CFO	Project leader and coordinator
Internal Audit	Team member		Project Support
Supply Chain	Team member		Operational
HOD	Team members		Operational
Project Managers	Team members		Operational
Legal	Team Member		Operational
Risk management	Team Member		Operational

7. PROJECT DELIVERABLES

DELIVERABLES	TARGET DATES
1. Adoption of UIFW reduction strategy	May 2021

DELIVERABLES	TARGET DATES
2. Implementation of Adopted UIFW reduction strategy, recording and reporting of UIFW expenditure.	On-going
3. Conducts monthly meetings to identify instances of UIFW expenditure.	On-going
4. Conduct training on the identification, recording and reporting of UIFW expenditure.	On-going
5. Assign officials to populate and manage the UIFW expenditure register on a monthly basis. (Consolidation)	On-going
6. Register of UIFW expenditure be submitted to PT, Council and Audit Committee and when detected on a monthly basis	On-going
7. Implementation of recommendations by the MPAC to prevent further recurrence	On-going

8. BUDGET IMPLICATIONS

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

9. ASSUMPTIONS

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

10. RISKS

The following are the identified risks:

RISK DESCRIPTION	PROBABILITY	IMPACT
Lack of proper contract management unit		
Awards made to government employees		

A 3-point scale where 1 is the lowest and 3 the highest is used.

11. 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 and Provincial Treasury. Regular evaluation of the plan will be done.

12. UIFW REDUCTION STRATEGY APPROVAL

This Project Plan has been reviewed and approved by Council.

