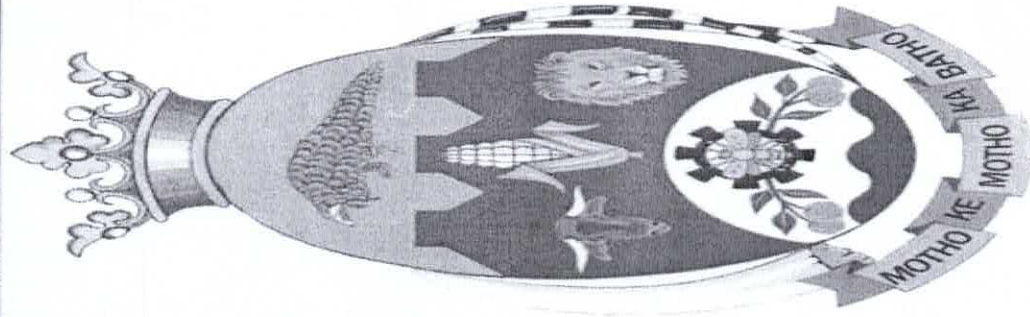


REVIEWED UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL
EXPENDITURE REDUCTION STRATEGY FOR 2024/2025 FINANCIAL YEAR



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ABBREVIATIONS

UIFWE	Unauthorised, Irregular, Fruitless and Wasteful Expenditure
BTO	Budget and Treasury Office
MPAC	Municipal Public Accounts Committee
NT	National Treasury
SOP	Standard Operating Procedure
SCM	Supply Chain Management
CSD	Central Suppliers Database
CAE	Chief Audit Executive
AO	Accounting Officer
PT	Provincial Treasury
MM	Municipal Manager

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1. PURPOSE

To develop and implement a UIFWE reduction strategy designed to address current and historical UIFW expenditures figures and improve internal control environment and thereby improving the audit outcomes of the municipality on occurrence and completeness of UIFW expenditures.

The main goal is to reduce the current and historical audited UIFW expenditure figures over the 5 year medium term strategic framework period.

2. 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. A significant number of municipalities have also incurred unauthorised, irregular as well as fruitless and 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 unauthorised expenditure resulting from over expenditure on votes; in the case of irregular expenditure non-compliance 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.

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3. RELEVANT LEGISLATIONS

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 unauthorised expenditure, is authorised 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."

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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.

4. PROJECT GOALS

The main goal of the municipality is to reduce increasing levels of historical UIF&W expenditures and to maintain unqualified audit opinion in the 2020/21, 2021/22, 2022/23 and 2023/24 financial year, with an improvement and achievement of clean audit in the 2024/25 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 five (05) year medium term strategic framework, the reduction plan is as follow:

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OUTCOME INDICATOR	Baseline (2019/2020)	Year 1 (2020/21)	Year 2 (2021/22)	Year 3 (2022/23)	Year 4 (2023/24)	Year 5 (2024/25)
Percentage reduction of unauthorised expenditure	0%	30%	50%	75%	100%	100%
Percentage reduction of irregular expenditure	0%	20%	40%	60%	75%	75%
Percentage reduction of fruitless and	0%	30%	50%	75%	100%	100%

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wasteful expenditure							
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5. SITUATION ANALYSIS

- 5.1. Lepelle-Nkumpi Local Municipality has reported an escalating trend in unauthorised, irregular, fruitless and wasteful expenditure in municipalities over the past six (6) years, evident in audit opinions and in the annual reports. During the 2018/19 audit, the Auditor General of South Africa, (AGSA) findings identified the Unauthorised, Irregular, Wasteful and Fruitless Expenditure (UIF), as one of the findings that needs intervention. Unauthorised (R517 643), Irregular (R46 429 300) and Fruitless and Wasteful expenditure reported in the 2018/19 AFS is being investigated by MPAC.
- 5.2. For the 2019/20 audit, the Auditor General of South Africa, (AGSA) findings identified the Unauthorised, Irregular, Wasteful and Fruitless Expenditure (UIF), as one of the findings that needs intervention. Unauthorised (R14 110 791), Irregular (R18 929 514) and Fruitless and Wasteful (R16 946 882) expenditure reported in the 2019/20 AFS is being investigated by MPAC.
- 5.3. Municipalities have for a number of years struggled with an ever increasing amount of UIFW expenditure. This is mainly due to the following:
 - 5.3.1. No preventative mechanisms to eliminate reoccurrence
 - 5.3.2. No effective internal controls measures
 - 5.3.3. No detailed reasons for incurring of UIFW expenditures as captured in the registers according to National Treasury Circular 68
 - 5.3.4. Lack of investigation on identified UIFW
 - 5.3.5. Lack of consequence management (Financial Misconduct)
 - 5.3.6. No adequate investigation by MPAC to determine recoverability

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- 5.3.7. No financial misconduct board where boards are established these boards are not functional
- 5.3.8. No implementation of the NT SOP for SCM
- 5.3.9. Inadequate contract management
- 5.3.10. Bid Committees not applying the law
- 5.3.11. SCM units are not fully staffed to implement segregation of duties
- 5.3.12. None compliance with SCM regulations

6. In order to mitigate the above-mentioned challenges, the Accounting Officer (AO) and/or the Chief Financial Officer (CFO) 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 the range of procurement) with a view to curb irregular expenditure:

- 6.1. Purchase Order
- 6.2. Invoice
- 6.3. Payment report
- 6.4. Goods or service delivery register
- 6.5. Evaluation report by SCM i.e. Bid Evaluation Committee (BEC)
- 6.6. Approved deviation report by the Accounting Officer (signed)
- 6.7. Proof of bid advertisements & results published on the municipality's website.
- 6.8. Proof of projects registered in the register of construction contracts with the CIDB
- 6.9. Preference point system to be utilized should be included in the advert.
- 6.10. Central Supplier Database (CSD) Printout reflecting declarations and tax status of supplier or service provider.
- 6.11. Municipal Bidding Documents (MBDs) applicable to ranges of procurements.
- 6.12. Service Level Agreement/contract to be attached on payment batches
- 6.13. Segregation of duties

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- 6.14. Unambiguous specifications with clear bidding criteria
- 6.15. Bid document record management system
- 6.16. Declaration of interest by municipal officials and municipal council
- 6.17. Standard Operating Procedures (SOPs)
- 6.18. Contract management register
- 6.19. Scheduled bid committee sittings as part of the municipal corporate calendar (ensure that all members are in attendance)

6.2. The main contributor to irregular expenditure in terms of monetary value is the awarding of contracts/tenders without following proper SCM legislative guidelines and checklists are developed for the bid specification, bid evaluation and bid adjudication committees to complete and sign prior finalisation of the bids and orders

6.3. The Auditor-General has identified that the effective and appropriate disciplinary steps were not taken against officials who made or permitted unauthorised, irregular and fruitless & wasteful expenditure, as required by section 32(4) of the MFMA.

7. IDENTIFIED CAUSES OF AN INCREASE IN UIF&W

- 7.1. There is a culture of non-adherence to SCM policies and procedures.
- 7.2. The Municipality does not have an effective contract management process in place. Weaknesses in contract management also contributed to the current financial challenges as misuse of Section 36 regulations due to lack of planning leading to deviations.
- 7.3. Overpricing of goods and services by suppliers due to non-performance of market analysis.
- 7.4. Bid processes not finalised within the stipulated period.
- 7.5. Inadequate capacity in terms of human resources

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- 7.6. Payment of suppliers for incomplete projects.
- 7.7. Payment of suppliers who were irregularly appointed.
- 7.8. Lack of adequately budgeting leading to appointment with shortage in budget.
- 7.9. Contracts amendments not approved by properly delegated officials,
- 7.10. Inadequate budget controls,
- 7.11. Appointments of services provider and issuing of job cards without orders captured on the financial system.

8. PROCESS FLOW STRATEGIES ON THE IMPLEMENT REDUCTION PLAN

- 8.1. Establish effective internal controls
- 8.2. Procurement and contract management
- 8.3. Consequence management
- 8.4. Management of creditors' payments
- 8.5. Risk management

9. 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 roles and responsibilities for the identified project team members are summarised below.

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MEMBER	ROLE	PROJECT TEAM	ROLE/RESPONSIBILITY
Municipal Manager	Owner	AO	Project leader
Management	Project Champion	CFO	Project leader and coordinator
Internal Audit	Team member	CAE	Project Support
Supply Chain	Team member	SCM Manager	Operational
Executive Manager: Technical Services	Team member	Senior Manager	Operational , Departmental UIFW monitor
Executive Manager: Community Services	Team member	Senior Manager	Operational , Departmental UIFW monitor
Executive Manager: Corporate Services	Team member	Senior Manager	Operational , Departmental UIFW monitor
Executive Manager: Planning and Local Economic Development	Team member	Senior Manager	Operational , Departmental UIFW monitor

NO

10. DELIVERABLES

DELIVERABLES	TARGET DATES
1. Develop UIFW reduction strategy	31 August 2021
2. Develop and implement standard operating procedure on the identification, recording and reporting of UIFW expenditure.	1 October 2021
3. Conducts monthly meetings to identify instances of UIFW expenditure.	Monthly
4. Conduct training on the identification, recording and reporting of UIFW expenditure.	Ongoing
5. Assign officials to populate and manage the UIFW expenditure register on a monthly basis.	Ongoing
6. Register of UIFW expenditure be submitted to PT on a monthly basis as per NCPT Instruction Note 1.	Ongoing
7. Detailed supporting documentation be prepared and tabled in council/DC board for investigations on a monthly basis	Monthly
8. Quantitative percentage targets of reduction vs. the total historical UIFW audited figures.	Every December (after audit opinion)
9. Implementation of recommendations by the MPAC or DC board.	Ongoing

11. BUDGET IMPLICATIONS

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

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12. ASSUMPTIONS

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

13. RISKS

The following are the identified risks:-

RISK DESCRIPTION	PROBABILITY	IMPACT
Lack of MPAC/DC board investigative capacity	3	2
Non-adherence to procurement processes	2	2
Limited data to deal with historical UIFW expenditures	2	1

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

14. MONITORING AND EVALUATION

Progress on the implementation of the UIFWE reduction strategy shall be reported to the accounting officer, council, audit committee and Limpopo Provincial Treasury on a quarterly basis.

15. UIFW REDUCTION STRATEGY APPROVAL

The UIFWE reduction strategy shall be approved by council and reviewed annually

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Council Approval

Date	17 MAY 2024
Resolution Number	6-1-05/2023/2024
Signature	