

Phokwane Local Municipality



DRAFT Unauthorised, Irregular, Fruitless & Wasteful (UIFW)

Expenditure Reduction Strategy

2023-2024

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1 Purpose

The purpose is to introduce the generic unauthorised, irregular, fruitless and wasteful (UIF&W) expenditure reduction strategy for **Phokwane Local Municipality** which aims to support and introduce measures that will assist in reducing such expenditures.

The strategy also describes the key roles and responsibilities of public representatives and the administration. Timely decision-making is required for the successful implementation of this strategy; hence, emphasis is also placed on consequence management to ensure that officials are held accountable for their actions or non-actions.

2 Background

The strategy is based upon the National Treasury Circular 111, *“Unauthorised, Irregular, Fruitless and Wasteful expenditure reduction strategy, and plans”*, which was issued on **16 November 2021**. An overview of the basis of the Circular is contained below.

The 2019-24 Medium Term Strategic Framework (MTSF) has highlighted the need to implement stronger monitoring, supporting, reporting and enforcement measures to reduce incidents of UIF&W expenditure. The emphasis has been to ensure measures are introduced to reduce irregular expenditure by 75% and to eliminate fruitless and wasteful expenditure by 100% during this period. Municipalities must also simultaneously address the growing incidents of unauthorised expenditure.

The strategy document and supporting tools have been developed to support specifically municipalities and municipal entities to meet the MTSF targets as highlighted above. The strategy is premised on three elements, namely,

- supporting the municipal public account committees and municipal councils to fulfil their legislative responsibilities in terms of section 32(2)(b) of the MFMA to reduce incidences of UIF&W expenditures,
- the introduction of preventative controls to address further and future non-compliance with the legislative prescripts and
- the implementation of consequence management to ensure that strong ethical, accountable, and transparent financial governance and institutional arrangements are implemented in all municipalities and municipal entities.

The reduction strategy addresses a number of matters which includes role clarification of the different stakeholders in this process. These include the national and provincial treasuries, the municipal council, board of directors of municipal entities, accounting officers and other relevant stakeholders

within municipalities and municipal entities, as well as to strengthen the role played by internal audit and audit committees. The strategy is supported by a number of annexures, tools and templates which provide information that municipalities and municipal entities can adapt and adopt for use in reducing UIF&W expenditure.

As a result of an increase in incidences of UIF&W expenditures, it has become necessary for municipalities and municipal entities to develop and implement appropriate strategies/plans to reduce and prevent UIF&W expenditure to achieve the targets set in the 2019-24 Medium Term Strategic Framework (MTSF).

This must be supported by the submission of the municipalities and entity's own UIF&W expenditure reduction strategy and implementation plan, along with a resolution taken by Council confirming previous decisions and reinforcing these measures through adoption of a new Council Resolution reflecting the commitment of the new Council to attend to historical and recent UIF&W matters.

This plan and adopted resolutions taken by the newly elected council must be submitted to the National Treasury. Failure to address these matters timeously is likely to attract further attention by the Auditor-General, arising from the amendment to the Public Audit Act, and which can result in implementation of additional consequence and enforcement measures.

The UIF&W Reduction Plan template which is attached as Annexure 7 to the UIF&W Reduction Strategy, was used as a basis to craft the strategy accordingly.

3 Applicable Legislation

While the 2019-24 MTSF goals deal with reducing irregular expenditure and eliminating fruitless and wasteful expenditure, municipalities need to address the growing unauthorised expenditure. The MFMA defines these terms and is provided below:

Section 1 of the Municipal Finance Management Act (MFMA) defines irregular expenditure as:

- a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA.
- b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act.
- c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management (SCM) policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law; but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure.

Section 1 of the MFMA defines fruitless and wasteful expenditure as:

- expenditure that was made in vain and would have been avoided had reasonable care been exercised.

Section 1 of the MFMA defines unauthorised expenditure as:

unauthorised expenditure in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes:

- a) overspending of the total amount appropriated in the municipality's approved budget.
- b) overspending of the total amount appropriated for a vote in the approved budget.
- c) expenditure from a vote unrelated to the department or functional area covered by the vote.
- d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.

- e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation or
- f) a grant by the municipality otherwise than in accordance with the MFMA.

In terms of section 125 of the MFMA, municipalities must disclose, in the notes of the annual financial statements, any particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable.

Municipal Systems and Structures Act related:

DCoG or SALGA support or intervention will be needed if the decisions by councils are not made when such recommendations are provided, specific UIFW expenditure is stagnating due to governance-related failures in the municipality, in which case the Municipal Systems Act and Municipal Structures Act will be triggered. The legislative enforcement measures by DCOG, code of conduct for councillors and officials will be enforced.

4 Summary of Scope and Objectives

The following provides an overview of the deliverable, scope, & objective applicable to Phokwane Local Municipality:

No	Deliverable	Scope	Objectives
1.	Report(s) to the council on the UIFW expenditure and any other information that the council may require for the MFMA "section 32" process.	All UIFW expenditure, as per the latest (audited) financial statements and related information that have not gone through an MFMA "section 32" process.	To enable the council to recover UIFW expenditure, unless in the case of: <ul style="list-style-type: none"> ➤ unauthorised expenditure, such expenditure is authorised in an adjustments budget or certified as irrecoverable and written off ➤ irregular and fruitless and wasteful expenditure, such expenditure is certified as irrecoverable and written off
2.	Council resolution that refers the UIFW expenditure to a council committee for investigation, as contemplated by section 32(2) of the MFMA	UIFW expenditure, as determined by the council to be investigated by a council committee	To enable the council committee to investigate the UIFW expenditure and produce a report on its recommendations to the council for a final decision, as contemplated in section 32(2) of the MFMA
3.	Report by the council committee (normally the municipal public accounts committee)	UIFW expenditure investigated, as per the terms and referenced defined by the council committee	Enable the council committee to consider the: <ul style="list-style-type: none"> ➤ measures are already taken, and the cost thereof to recover such expenditure ➤ estimated cost and the likely benefit of further measures to recover such expenditure ➤ submit a motivation explaining its recommendations to the council for a final decision in terms of section 32(2) of the MFMA ➤

No	Deliverable	Scope	Objectives
4.	Council resolution following its consideration of the report of the council committee on the investigation of the UIFW expenditure	Report and recommendations covering the UIFW expenditure investigated by the council committee	<ul style="list-style-type: none"> ➤ Recovery of the UIFW expenditure, unless the council certifies such expenditure as irrecoverable and to be written off ➤ Institution of criminal and/or disciplinary proceedings against a person charged with the commission of an offence or a breach of the MFMA relating to such UIFW expenditure ➤
5.	Report(s) by the disciplinary board on its investigation of financial misconduct	<ul style="list-style-type: none"> ➤ Council resolution on the institution of criminal and/or disciplinary proceedings ➤ Allegations of financial misconduct ➤ Recommendation on the preliminary investigation of allegations of financial misconduct ➤ Terms of reference for the investigation and production of an investigation report 	To investigate allegations of financial misconduct and to monitor the institution of disciplinary proceedings, as contemplated in the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceeding
6.	Reporting of alleged financial offences to the South African Police Service	Alleged financial offences	Investigation of and reporting on alleged financial offences, as contemplated in Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

5 Roles & Responsibilities

5.1 The role of NT

In terms of section 5(2) of the MFMA, NT must monitor and assess compliance by municipalities and municipal entities with the MFMA and take appropriate steps to perform its functions effectively.

In assisting municipalities to address the historical UIF&W expenditure, NT:

- provides support, guidance, and advice to municipalities, including internal audit units, audit committees, risk committees, chief financial officers, supply chain management units.
- disciplinary boards and MPACs on compliance with the MFMA and its regulations
- provides training and capacity building to municipalities on the MFMA and its regulations
- issues MFMA circulars that further clarify the MFMA and its regulations for consistent application
- monitors progress made in addressing UIF&W expenditure, as per the MTSF goals.
- provides assistance to provincial treasuries (PTs) to support on delegated municipalities.

5.2 The role of the PTs

In terms of section 5(3) of the MFMA, a PT must comply with a prescribed framework and monitor compliance with the MFMA by municipalities and municipal entities in the province. In terms of section 6 of the MFMA, the Minister of Finance has delegated certain municipalities to the members of the executive council for finance of the respective provinces and duties of the PTs in this regard include the following:

- providing support, guidance, and advice to municipalities (officials and MPAC) on compliance with the MFMA and its regulations
- providing training and capacity building to municipalities on the MFMA and its regulations
- monitoring progress made in addressing UIF&W expenditure, as per the MTSF goals,

5.3 The role of the Accounting Officer

In terms of section 61 of the MFMA, the accounting officer of a municipality must—act with fidelity, honesty, integrity and in the best interests of the municipality in managing its financial affairs.

In terms of section 62(1)(d) of the MFMA, the accounting officer must take all reasonable steps to ensure that unauthorised, irregular, or fruitless and wasteful expenditure and other losses are prevented.

In terms of section 79 of the MFMA, the accounting officer must delegate certain functions to the chief financial officer, senior managers, or other financial officials to ensure the proper application of the MFMA in the municipality's administration

In terms of section 32(4) of the MFMA, the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular, or fruitless and wasteful expenditure incurred by the municipality. Given the transition of this function, such reports must also be provided to the MEC for Finance in the province as a practice to align with the strategic focus in addressing UIFW.

The accounting officer must ensure that the council processes and procedures to address UIF&W expenditure is dealt with effectively, efficiently and on a timely basis.

The accounting officer must ensure that any disciplinary actions that are required as a consequence of the incurrence of UIF&W expenditure are instituted within the time limits as contemplated in the Labour Relations Act and other relevant legal frameworks. In addition, the disciplinary process should be conducted following any applicable collective agreement dealing with disciplinary processes applicable to the municipality.

Where there is no disciplinary collective agreement applicable, the disciplinary process should be conducted following the disciplinary policy of the municipality. For senior managers of municipalities, their disciplinary procedures must be conducted following the Local Government: Disciplinary Regulations for Senior Managers.

In terms of section 32(6) of the MFMA, the accounting officer must report to the South African Police Service all cases of alleged irregular expenditure that constitute a criminal offence or fraud and corruption.

In terms of section 62(1)(e) of the MFMA, the accounting officer must take all reasonable steps 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 Chapter 15 of the MFMA.

5.4 The role of other officials at the municipality

In terms of section 78(1) of the MFMA, each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that any unauthorised, irregular, fruitless and wasteful expenditure and any other losses are prevented.

To give effect to the MFMA, the requirements mentioned above, as per sections 78(1) and 105(1) of the MFMA, should be included in the performance agreements of at least the accounting officers, the chief financial officers, and senior managers to ensure that they can be held accountable if their respective directorates are responsible for the UIF&W expenditure incurred.

5.5 The role of municipal council including (MPAC)

In terms of section 52 of the MFMA, the mayor must provide general political guidance over the fiscal and financial affairs of the municipality. Section 32(4) of the MFMA requires the accounting officer to promptly inform, amongst others, the mayor, of incidences of UIF&W expenditure. The mayor is expected to oversee the performance of officials in implementing measures to prevent the incurrence of UIF&W expenditure, as well as monitoring the implementation of consequence management against the officials responsible for the incurrence of UIF&W expenditure.

In terms of section 32(2)(b) of the MFMA, a municipality must recover UIF&W expenditure from the person liable for that expenditure unless the expenditure, in the case of UIF&W expenditure, is, after an investigation by a council committee, certified by the council as irrecoverable and written off by the council. In this instance, the designated council committee referred to in section 32 of the MFMA is often the municipal public accounts committee (MPAC), and it is not expected of the council committee to actually undertake the investigation but to receive support from the administration to do so.

In terms of section 32(7) of the MFMA, the council of a municipality must take all reasonable steps to ensure that all cases referred to in section 32(6) of the MFMA are reported to the South African Police Service if the charge is against the accounting officer; or the accounting officer fails to comply with section 32(6) of the MFMA.

5.6 The role of Internal Audit, Audit Committee & Risk Management

Internal Audit:

In terms of section 165 of the MFMA, internal audit units must assist municipal managers and chief executive officers of municipalities in executing their duties by providing independent assurance on internal controls, financial information, risk management, performance management and compliance with legislation. The establishment of internal audit units is a requirement of the legislation. The role of internal audit units has been questioned and its functions need to be examined with a view to clearly introducing a value-add element into the operations of the unit.

Audit Committee:

In terms of section 166 of the MFMA, audit committees must advise the accounting officer, senior management and the council on internal controls, risk management, performance management and compliance with legislation. The committee is further required to assure the adequacy, reliability, and accuracy of financial and performance information.

The value addition and role of audit committees are to be reviewed. As part of the role to advise the council, the audit committee can also assist the municipal public accounts committee, council, and the administration to perform its duties through its reports and advice.

Risk Management:

The risk management function must identify all the critical risks that may result in the incurrence of UIF&W expenditure and ensure that a risk strategy to address the related risks is developed and monitored by both council and the accounting officer.

6 Risk Identification & Mitigation

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
1.	Inappropriate billing and slow collection of revenue.	<ul style="list-style-type: none"> - Invalid and outdated customer information, - Inaccurate/outdated Indigent Register, - Culture of non-payments, - Inaccurate billing accounts, - Reduction and cancellation of fines by magistrate, - Inaccurate Traffic Fines issued by Traffic Officers and Poor Collection of pound monies (not invoicing the state) 	<ul style="list-style-type: none"> - Loss of Revenue, - Poor Service Delivery, - Disgruntled customers and - Tarnished image of the Municipality. 	Major	<ul style="list-style-type: none"> - Adoption of and review Revenue Enhancement Strategy 	<u>Risk Owner:</u> MM <u>Action Owner:</u> CFO and Manager Expenditure
2.	Ineffective budgeting processes	<ul style="list-style-type: none"> - Non-payment by customers (government departments and the community), - Over Budgeting, 	<ul style="list-style-type: none"> - Poor Service Delivery, - Virements, - Improper Planning, - Unspent grant/withdrawal of funds and 	Major	<ul style="list-style-type: none"> - Approved Budget Plan (<u>Annual</u>) - Monitor Implementation of Budget Funding Plan (<u>Each Quarter</u>) 	<u>Risk Owner:</u> MM <u>Action Owner:</u> CFO and Manager Expenditure

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
		<ul style="list-style-type: none"> - Unfunded Mandate arising from emergencies and - Minimal participation by user departments. 	<ul style="list-style-type: none"> - Unauthorised Expenditure. 		<ul style="list-style-type: none"> - Implementation of Cost Containment Policy Report. <u>(Each Quarter)</u> - Management to monitor existing controls to ensure continued effectiveness <u>(Ongoing)</u> 	
3.	Failure to Pay Creditors within 30 Days.	<ul style="list-style-type: none"> - Delays in the authorization of invoices by heads of department, - Incomplete and inaccurate invoices submitted by suppliers (banking details), - Non-VAT vendors claiming VAT and - Non or late receipt of invoices by Finance. 	<ul style="list-style-type: none"> - Audit queries, - Affects planning and budgeting, - Disgruntled service providers, - Cashflow problems and - Non-compliance. 	Insignificant	<ul style="list-style-type: none"> - Stipulate on the Order Form that all invoices should be submitted to Finance <u>(Ongoing)</u>. 	<u>Risk Owner:</u> MM <u>Action Owner:</u> CFO and Manager Expenditure
4.	Ineffective Management of Grants	<ul style="list-style-type: none"> - Poor Performance of Service Providers, 	<ul style="list-style-type: none"> - Withdrawal of funding, - Poor Service Delivery, 	Critical	<ul style="list-style-type: none"> - Management to consider additional controls to 	<u>Risk Owner:</u> AMM Action

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
		<ul style="list-style-type: none"> - Poor planning and delays in the starting projects, - Transversal contracts and - Late receipt of grant funding/payments. 	<ul style="list-style-type: none"> - Audit Queries, - Delays in the appointment of interns using Financial Management Grant. 		<ul style="list-style-type: none"> - reduce the residual risk (<u>Each Quarter</u>). - Implementation of recommendations through action plan with strict deadlines and Monitoring and Evaluation of the transactions that in term grant conditions (<u>Each Quarter</u>) 	<u>Owner:</u> CFO, Director Technical
5.	Failure to Account for Municipal Assets.	<ul style="list-style-type: none"> - Damaging of Assets, - Non-compliance with the Asset Management Policy by officials, - Breakdown in communication between the asset unit, supply Chain Management and - In Infrastructure Planning and Development and Inadequate Human Capacity 	<ul style="list-style-type: none"> - Financial Loss, - Inability to Deliver services to the community, - Tarnished Image of the Municipality and - Community Unrest. 	Major	<ul style="list-style-type: none"> - Review a Procedure Manual for Asset checks at entry/exit points (<u>Annual</u>). - Review Asset Policy (<u>Annual</u>) 	<u>Risk Owner:</u> AMM Action <u>Owner:</u> CFO and Manager Expenditure

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
		(Insufficient officials).				
6.	Late/double/over payment of suppliers.	<ul style="list-style-type: none"> - Non-compliance with policies and procedures, - Lack of cooperation by line function departments, - Non-existence of guidelines with regards to submission of invoices, - Lack of reconciliation of invoices. 	<ul style="list-style-type: none"> - Fruitless and wasteful expenditure, - Litigation, - Tarnished image of the Municipality, - Auditor General queries, - Non-Compliance with Municipal Finance Management Act. 	Major	<ul style="list-style-type: none"> - Review Fruitless and Wasteful Expenditure Policy (Annual) , - Develop Fruitless Wasteful Expenditure Standard Operating Procedure and Monitor Existing Controls 	<u>Risk Owner:</u> MM <u>Action Owner:</u> CFO and Manager Expenditure
7.	Inaccurate Payroll	<ul style="list-style-type: none"> - Incorrect capturing of information, - Late capturing of leave days, - Late submission of payroll inputs, - Delays in the termination and appointment loading by Human resources, - Breakdown in communication between the human 	<ul style="list-style-type: none"> - Over/Under payment of officials, - low staff morale, - Poor Performance and - Distortion of Financial Information. 	Moderate	<ul style="list-style-type: none"> - Management to monitor existing controls to ensure Ongoing effectiveness. (Each Quarter), - Training and Development of payroll personnel and Continue monitoring and evaluation of activities within salary section 	<u>Risk Owner:</u> MM Action <u>Owner:</u> CFO and Manager Expenditure

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
		resources and finance, - Constant changing of banking details by officials and - Delays in submitting tax numbers.				
8.	Inability to procure goods and services timeously in compliance with Supply Chain Management Regulation.	- Poor Planning by user departments, - Unbudgeted requests, - Deviation from the Procurement Plan, - lack of Stores and - Insufficient human Resource Capacity (Insufficient Officials)	- Delays in Service Delivery, - Delays in productivity, - Deviations, Fruitless and Wasteful Expenditure and - Irregular Expenditure, - Non-Compliance and - Lack of segregation duties.	Major	- Management to monitor existing controls to ensure ongoing effectiveness (<u>Each Quarter</u>), - Develop Standard templates for end user specs - Continuous training and development in SCM and regulations and Monitoring and evaluation of SCM personnel	<u>Risk Owner:</u> MM Action <u>Owner:</u> CFO and Manager Supply Chain Management
9.	UIFW	- Expired Contracts, - Consequence Management, - Legal Costs, - Supply Overpayment, - Cover Quoting,	Financial Loss, Negative Audit Opinion	Major	- Continuous Trainings on Policies (<u>Annual</u>) - Implement Tender Compliance checklist and	<u>Risk Owner:</u> AMM Action <u>Owner:</u> CFO and Manager Supply Chain Management

No	Risks	Root Causes	Consequences	Inherent Risk	Risk Mitigation	Task Owner
		<ul style="list-style-type: none"> - Procurement of goods without valid contracts, - Non-Compliance on Grants Funding, - Suppliers tax not in order, - Non-competitive bidding process followed. 			ensure signing by SCM Manager (Ongoing)	
10.	Inability to commence projects on time	<ul style="list-style-type: none"> - No alignment between procurement plan and projects implemented. - Delays by SCM committees 	<ul style="list-style-type: none"> - Compromised Service Delivery, - Financial Loss, - Loss of grant funding, - Tarnished image of the Municipality and - Community unrest. 	Critical	<ul style="list-style-type: none"> - Seek procedure to Improve the vetting process of suppliers 	<p><u>Risk Owner:</u> MM Action</p> <p><u>Owner:</u> CFO and Manager Supply Chain Management</p>

7 UIFW Expenditure Action Plans

No	Actions	Timeframe	Responsible person/committee
1.	The MPAC committee will have monthly UIFW expenditure meetings to process UIFW expenditure.	Monthly	MPAC Chairperson
2.	The accounting officer must monthly table the UIFW registers at the MPAC committee meeting.	Monthly	Accounting Officer
3.	The accounting officer must process unauthorised expenditure authorised by the council in the next available adjustment budget.	January/February every year	Accounting Officer
4.	Progress Report, using the UIFW template submitted to Mayor, Provincial Treasury and National Treasury	Monthly	Accounting Officer

8 Recommended Incremental Targets

Outcome	Outcome indicators	Baseline	Suggested incremental targets			Target
			2020 – 21	2021 -22	2022 -23	2023 -24
Sound financial controls and management of public finances	Percentage reduction of irregular expenditure	2019-20 baseline	<u>20%</u> reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024	<u>40%</u> reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024	<u>60%</u> reduction of irregular expenditure incrementally from baseline of 2019-20 by 202	<u>75%</u> reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024
	Percentage elimination of wasteful and fruitless expenditure	2019-20 baseline	<u>20%</u> elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	<u>50%</u> elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	<u>75%</u> elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	<u>100%</u> elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024

9 Details of reducing historical UIFW expenditure

The following provides an overview of the Unauthorised, Irregular, Fruitless & Wasteful expenditure values as per the audited financial statements for 2019/20:

Extract of Unauthorised expenditure:

As illustrated the closing balance for **2020** is **R906 838 584.**

48. Unauthorised expenditure

Opening balance as previously reported

895 460 234 748 098 784

Opening balance as restated

895 460 234 748 098 784

Add: Expenditure identified - current

11 378 350 147 361 450

Closing balance

906 838 584 895 460 234

Extract of Irregular expenditure:

As illustrated the closing balance for **2020** is **R 301 765 525.**

50. Irregular expenditure

Opening balance as previously reported	297 871 603	235 434 926
Opening balance as restated	297 871 603	235 434 926
Add: Irregular Expenditure - current	3 893 922	62 436 677
Closing balance	301 765 525	297 871 603

Extract of Fruitless & Wasteful expenditure:

As illustrated the closing balance for **2020** is **R37 053 909.**

49. Fruitless and wasteful expenditure

Opening balance as previously reported	25 565 281	13 852 464
Opening balance as restated	25 565 281	13 852 464
Add: Expenditure identified - current	11 488 628	11 712 817
Closing balance	37 053 909	25 565 281

Details of reducing historical irregular and wasteful expenditure to achieve the medium-term strategic framework goals, is outlined below:

List	Finding (identified from audited 2020/21 Audit Report & Management Letter)	Nature of expenditure (identified from audited 2020/21 Audit Report & Management Letter)	Value (identified from audited 2020/21 Audit Report & Management Letter)	Management comment	Time frame

10 Implementation of controls to prevent UIFW expenditure

10.1 Preventive controls in control environment

Preventive controls - CONTROL ENVIRONMENT

Effective Leadership (culture of honesty, ethical business practices & good governance)

Implements effective Human Resource Management

Establishes & communicates policies & procedures (for execution of internal control objectives)

Develop & monitor the implementation of action plans

Implement proper record keeping

Implement controls for daily processing and reconciliations

Prepare regular, accurate & complete financial & performance reports

Review & monitor compliance with applicable laws & regulations

Implement appropriate risk management activities

An adequately resourced and functioning Internal Audit unit

Audit Committee promotes accountability

10.2 Preventive controls in procurement & contract management



10.3 Preventive controls in consequence management

List	Control	Applicable Laws & Regulations
1	There should be consequences for transgressions, a lack of action and poor performance. Consequences should be instituted against officials who fail to comply with applicable legislation, continuously underperform or are negligent, and against those whose actions and decisions cause financial losses.	<ul style="list-style-type: none"> ➤ MFMA sec. 32. ➤ Financial Misconduct Regulations, ➤ Local Government: Disciplinary Regulations for Senior Managers, ➤ Municipal Systems Act concerning the applicability of disciplinary collective agreements.
2	Historical irregular expenditure is dealt with expeditiously by the municipal public accounts committee.	<ul style="list-style-type: none"> ➤ MFMA sec. 32

10.4 Preventive controls in management of creditors payments

List	Control	Applicable Laws & Regulations
1	Implementing robust financial management, including effective revenue and budget management, to ensure sufficient cash flow is available to pay creditors on time	<ul style="list-style-type: none"> ➤ MFMA 65(2)(e). ➤ MFMA 99(2)(b)
2	Implementing standardised processes and exercising financial discipline that enables the payment of short-term debts as they fall due, as well as prioritising the payment of statutory obligations, including major creditors like Eskom and water boards	<ul style="list-style-type: none"> ➤ MFMA 65(2)(e). ➤ MFMA 99(2)(b)
3	Procurement is economical (the goods/ services are obtained at a reasonable price), and related expenditure was not made in vain and could have been avoided is reasonable care had been taken	<ul style="list-style-type: none"> ➤ MFMA sec 62(1)(a). ➤ MFMA sec 95(a)
4	There should be consequences for transgressions, a lack of action and poor performance. Consequences should be instituted against officials who fail to comply with applicable legislation, continuously underperform or are negligent, and against those whose actions and decisions cause financial losses.	<ul style="list-style-type: none"> ➤ MFMA sec. 32; MFMA 32(4). ➤ Financial Misconduct Regulations, Local Government: Disciplinary Regulations for Senior Managers, ➤ Municipal Systems Act concerning the applicability of disciplinary collective agreements.
5	Historical fruitless and wasteful expenditure is dealt with expeditiously by the municipal public accounts committee	<ul style="list-style-type: none"> ➤ MFMA sec. 32. ➤ MFMA 32(4)
6	All fruitless and wasteful expenditure identified (whether by the municipality or through the audit process) are disclosed in the municipality's financial statements, together with the relevant details of the non-compliance	<ul style="list-style-type: none"> ➤ MFMA section 125(2)(d) & (e)

11 Monitoring & Evaluation

11.1 Conduct a baseline assessment of UIFW controls

Perform a baseline assessment, using questions developed in MFMA Circular 111, Annexure 2 – 5 to obtain status quo, and identify gaps accordingly, for:

- Annexure 2 – Control Environment
- Annexure 3 – Procurement & Contract Management
- Annexure 4 – Consequence Management
- Annexure 5 – Management of Creditors Payments

An example of the baseline assurance assessment for Control Environment is illustrated below:

Municipal Name					
Richmond Local Municipality					
UIFW Reduction Strategy					
Annexure A - Baseline Assurance Assessment					
Control Environment		To complete this column		To complete this column	
No	Control	Question for assessment	Status	Scoring	Comments mandatory if scoring is less than 3
1	Effective leadership is provided based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity	Are measures in place to ensure that appropriate action is taken against any official or role player who commits a breach of the code of ethical conduct standards.		0	
		How does management promote compliance with ethical standards and related transgressions?		0	
		conduct for SCM officials, and all SCM officials have formally signed the code?		0	

By assessing each control area, with specific questions, a status and a scoring shall be populated, allowing focus on key areas that need to be addressed. The baseline assessment can be used to identify gaps in internal controls and thereafter an action plan can be developed to monitor improvement initiatives.

(Kindly find ANNEXURE A to this report for the complete baseline assurance assessment questionnaire).

11.2 Addressing historical and current UIFW expenditure

The following shall be the monitoring and evaluation activities:

List	Activities to perform
1	Identify the official/department responsible for the irregular expenditure.
2	Official/department to write a report setting out the expenditure, the non-compliance, and the relevant analysis of the value-for-money, including a measure to prevent future incidents of non-compliance that might result in UIF&W expenditure
3	Maintain an up-to-date register on UIF&W expenditure and locate the report with the CFO and internal audit.
4	Report UIF&W expenditure to the council.
5	Refer the non-compliance matters to the disciplinary board for further investigation in terms of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (Financial Misconduct Regulations).
6	The accounting officer or his delegated official must refer UIFW expenditure matters for disciplinary processing where appropriate and if so required.
7	Council to refer UIF&W expenditure to MPAC to investigate recoverability in terms of section 32(2)(b) of the MFMA read with Regulation 74 of the Municipal Budget and Reporting Regulations (MBRR).
8	MPAC to complete the investigation and make recommendations on whether to write-off and recover.
9	Council reviews reports and resolves on the recoverability of irregular expenditure
10	Where council resolves to recover UIF&W expenditure, institute recovery process and update UIF&W expenditure register
11	Where council resolves to write-off UIF&W expenditure, update UIF&W expenditure register.
12	Council resolution on write off informs the disclosure note in terms of section 125 of the MFMA and annual financial statements.
13	Identify root causes of the expenditure
14	Develop a plan and implement measures to address root causes and prevent a recurrence
15	Report to oversight structures, such as the audit committee and the MPAC, to monitor the UIF&W expenditure reduction plan implementation.

11.3 Additional monitoring measures to ensure compliance to MFMA and regulations

- MFMA Calendar:
Monitor the MFMA key deliverables for Mayor, MM and other roleplayers, including the reporting framework. (This has been converted into an electronic calendar to improve accountability, effectiveness, and efficiency for Richmond Local Municipality)
- MFMA Circulars & Guidelines:
Monitor implementation of MFMA Circulars & Guidelines to ensure better interpretation of provisions of the MFMA or its regulations. This will lead to full compliance with the legal framework.
- MPAC Guide & Toolkit:
These are to assist MPACs to perform their oversight and related responsibilities, which include reviewing and recommending to municipal councils' actions or otherwise relating to the outcome of investigations and conclusion of UIF&W expenditure
- Central Supplier Database:
Use the database to verify suppliers' tax and BEE status and which may enable public sector officials doing business with the state to be identified. It will reduce non-compliance with the SCM Regulations, thereby preventing UIF&W expenditure.
- Standard Operating Procedures (SOPs):
Develop & implement SOPs for revenue management, asset management, expenditure management; supply chain management; and liability management, which can assist in preventing the incurrence of UIF&W expenditure.
- Financial Management Capability Maturity Model (FMCMM):
Utilise the FMCMM assessment tool in identifying gaps in financial management and instituting measures to address those gaps.
- Financial ratios and indicators:
Utilise to understand the financial performance, financial position, financial status, as it links key financial disciplines with actual outcomes that can be benchmarked against the national norms. These reports must be used by the municipal council when preparing and adopting its MTREF budget. If used correctly it will avoid provincial or national interventions
- Audit Action Plans:
These can address the gaps identified through the audit process, assist municipal officials and councillors to identify the root causes that give rise to UIF&W expenditure, to assign

responsibilities to municipal officials to address them and close all audit findings. This will contribute towards improved audit outcomes.

➤ Consequence management:

Ensure the establishment of Disciplinary Boards and training of its members. The regulations on financial misconduct and criminal procedures shall be embedded into municipal policies and processes.

12 Communication & Reporting

The Draft generic UIFW Reduction Strategy must be tabled to the necessary oversight committees & Council for review comments. Any amendments must be considered for inclusion.

Once the UIFW strategy has been approved by Council, it must be workshopped to the applicable staff, and the Accounting Officer must monitor and comment on the implementation of the UIF&W expenditure reduction strategy on a quarterly basis, after receiving monthly reports on a developed reporting template from management. The UIFW Reduction Strategy must serve as a basis for developing the monthly report template, which must cover all initiatives to reduce current and historic UIFW expenditure.