KAROO HOOGLAND MUNICIPALITY
NC066

2023/2024

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

PROJECT/POLICY DETAILS

POLICY NAME	REDUCTION STRATEGY ON UNAUTHORISED, IRREGULAR AND FRUITLESS & WASTEFUL (UIFW) EXPENDITURE
Project reference name	PROJECT 1: UIFW EXPENDITURE – REDUCTION
Prepared by	SJ MYBURGH
Version number	V1
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Date Revised	
Tabled to Council	August 2021
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1. 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 controls and thereby improving the audit outcomes of the municipality on occurrence and completeness of UIFW 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 Karoo Hoogland Municipality proposes to reduce 20% annually thus 100% within 5 years.

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 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.

3. 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 **<u>must recover</u>** unauthorised, irregular, fruitless & wasteful expenditure from a person liable for that expenditure
<u>unless</u>
the expenditure, in case of unauthorized expenditure, is authorized in an adjustment budget or certified to be irrecoverable and written off by council **<u>after investigations</u>** 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.**

4. PROJECT GOALS

The main goal of the municipality is to reduce increasing levels of historical UIF&W expenditures and to attain an unqualified audit opinion in the 2024/2025 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 (2020/2021 Un-audited)	Year 1 2021/2022	Year 2 2022/2023	Year 3 2023/2024	Year 4 2024/2025	Year 5 2025/2026
Percentage reduction		-20%	-20%	-20%	-20%	-20% (-100% in total)
Unauthorised expenditure	R 139 843 032	Reduced to R 111 874 425,60	Reduced to R 83 905 819,20	Reduced to R55 937 212,80	Reduced to R 27 968 606,40	Reduced to R 0
Percentage reduction		-20%	-20%	-20%	-20%	-20% (-100% in total)
Irregular expenditure	R 41 055 541	R 32 844 432,80	R 24 633 324,60	R 16 422 216, 40	R 8 211 108,20	Reduced to R 0
Percentage reduction		-20%	-20%	-20%	-20%	-20% (-100% in total)
Fruitless & Wasteful expenditure	R2 391 146	R 1 912 916 ,80	R 1 434 687,60	R 956 458,40	R 478 229,20	Reduced to R 0
New UIFW -	Address it immediately as it occur					

5. SITUATIONL ANALYSIS

Municipalities have for a number of years, struggled with an ever increasing amount of UIFW expenditure. This is mainly due to the following:

- No preventative mechanisms to eliminate reoccurrence
- No effective internal controls measures
- No detailed reasons for incurring of UIFW expenditures as captured in the registers according to National Treasury Circular 68 Annexure A
- **Lack of investigation on identified UIFW**
- Lack of knowledge of processes to be followed when dealing with UIFW
- **Lack of consequence management (Financial Misconduct)**

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 pricing) with a view to curb irregular expenditure:

- Three quotations
- Purchase Order
- Invoice
- Payment report
- Goods or service delivery register (Awards Register)
- Evaluation report by SCM i.e. Bid Evaluation Committee (BEC)
- 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 procurements.
- Service Level Agreement/contract to be attached on payment batches

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 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.

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 (Municipal Manager)	Owner	AO	Project leader
Management	Project Champion	CFO	Project leader and coordinator
Internal Audit	Team member	Internal Auditor	Operational
Accountant Supply Chain and Expenditure	Team member	Accountant SCM	Operational
BTO		Accountant BTO	Operational
Accountant Assets & ICt		Accountant Assets	Operational

7. PROJECT DELIVERABLES

DELIVERABLES	TARGET DATES
1. Develop UIFW reduction strategy	Jul – Aug 2021
2. Develop and implement standard operating procedure on the identification, recording and reporting of UIFW expenditure.	Nov – Dec 2021
3. Conducts monthly meetings to identify instances of UIFW expenditure for current expenses	Each Month
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.	30 Nov 2021
6. Register of UIFW expenditure be submitted to PT on a monthly basis as per NCPT Instruction Note 1.	Monthly - after 10 working days
7. Detailed supporting documentation be prepared and tabled in council/DC board for investigations on a bi-annual basis	End of November End of May
8. Quantitative percentage targets of reduction vs. the total historical UIFW audited figures.	once a year
9. Implementation of recommendations by the MPAC or DC board.	Bi-annually Middle of Dec Middle of June

8. PROJECT ACTIVITIES

Task	Activity	Desired Outcome	Completion date	Responsible Official
1. Start-up phase	Initiate a meeting with the Project team members to agree on the approach thus developing and adopting the UIFW reduction strategy	Approved project plan/strategy document	30 Nov 2021	CFO
2. Policy and Standard Operating Procedures	Develop and implement standard operating procedure on the identification, recording and reporting of UIFW expenditure.	Approved SOPs	Completed and documented	G Vermeulen
3. Conducts monthly meetings	Conducts monthly meetings to identify instances of UIFW expenditure.	Compliance to procurement checklist	Monthly	SJ van Schalkwyk
4. Conduct training	Conduct training on the identification, recording and reporting of UIFW expenditure.	Training	Ongoing	D Smit
5. Assign officials responsible for UIFW register	Assign officials to populate, manage and monitor the UIFW expenditure register on a monthly basis.	Job assignment	Completed	G Vermeulen
	Register of UIFW expenditure be submitted to PT on a monthly basis as per NCPT Instruction Note 1.	Updated register	Completed and ongoing	
6. Investigations	Detailed supporting documentation be prepared and tabled in council/DC board for investigations on a bi-annual basis	Bi-annual reports on UIFW expenditure	Bi-annually	SJ Van Schalkwyk
	Breakdown of reduction percentage targets vs. the total historical UIFW audited figures.	Annual investigation report on UIFW expenditure	Once a year	SJ Van Schalkwyk
	Implementation of recommendations by the MPAC or DC board.	Bi-annual investigation report on UIFW expenditure	Bi-annually	SJ Van Schalkwyk

9. BUDGET IMPLICATIONS

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

10. ASSUMPTIONS

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

11. RISKS

The following are the identified risks:-

RISK DESCRIPTION	*PROBABILITY*	*IMPACT*
Lack of MPAC/DC board investigative capacity	High (1)	Likely (2)
Non-adherence to procurement processes	Meduim (2)	Likely (2)
Limited data to deal with historical UIFW expenditures	Meduim (2)	Likely (2)

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

12. 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.

This will be done on a monthly basis.

13. 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.

NAME	
DESIGNATION	***Accounting Officer***
SIGNATURE	
DATE	

14. REVISION HISTORY

Identify document changes on the project.

VERSION	DATE	NAME	DESCRIPTION
Version 1 - Generic	**06 Nov 2020**	**CFO**	**Reduction Strategy**
Version 2 – Draft Personlised	**July 2021**	**CFO**	**Reduction Strategy**
Version 3 – Amounts added	**Aug 2021**	**CFO**	**Reduction Strategy**
Version 4 – Final	**October 2021**	**CFO**	**Reduction Strategy**

15. ANNEXURES, GUIDELINES & COUNCIL DECISIONS

Identify and attach documents, guidelines and Council decisions(Minutes) that inform or affect this plan/policy

DOCUMENT	DATE	
Email from Jan Hattingh	**Nov 2020**	

- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings
- Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) ("MSA")
- MFMA

2023/24

RISK MANAGEMENT IMPLEMENTATION PLAN

Contents

1 Purpose of this document

2 Objective

3 Approach

4 Detailed risk management implementation plan

1 Purpose of this document

This document sets out the annual risk management implementation plan.

2 Objective

The primary objective of risk management implementation plan is to facilitate the execution of risk management. The risk management implementation plan for the Institution was prepared to give effect to the implementation of the risk management policy and strategy and sets out all risk management and related activities planned for the 2023/2024 financial year.

3 Approach

The development of the risk management implementation plan has taken into consideration:

- the risk management policy;
- the risk management strategy;
- available resources;
- Urgency, quick wins, and sustainability.

4 Detailed risk management implementation plan

The detailed risk management implementation plan is included below.

Planned Action	Detailed Actions	Outputs	Due date and responsible person	Progress to date
Risk Orientation				
Appoint a Risk Management Committee (RMC)		Appointed Risk Management Committee (by Council)	Risk Coordinator/ HOD Corporate services / Designated person by **MM** May 2023	
Develop a risk management policy	Risk Management Committee (RMC) to review the policy and recommend to the Accounting Officer / Authority for approval.	Approved risk management policy	Risk Coordinator/ HOD Corporate services / Designated person by MM June 2023	
Develop/ review risk management strategy	Develop ERM Implementation Framework Develop guidelines on roles and responsibilities for risk management Review Fraud Prevention Plan (2021-2024) RMC to review the strategy and recommend to the Accounting Officer / Authority for approval	Approved risk management strategy	Risk Coordinator/ HOD Corporate services June 2023	

Planned Action	Detailed Actions	Outputs	Due date and responsible person	Progress to date
Risk Orientation				
Structures and responsibilities	The RMC to appoint the risk champions	Appointment into approved positions and structure Formal delegation of responsibilities to existing personnel (via appointment letters and performance agreements) and structures (via charters)	Risk Management Committee Annually	
Publication of Risk Management Policy	Publicize the policy on the internet	Communicated risk management policy to all officials in the Institution	Risk Coordinator June 2023	
Raising awareness and risk management training	Develop and formalise detailed training programme/ plan for all officials and any cost implications.	Completed orientation for all officials, RMC, and Audit Committee members. All new employees orientated on risk management.	Risk Management Committee, Head of Corporate services, and Local Economic Development dd/mm/yy	
Terms of reference for the Risk Management Committee	Review existing RMC's Terms of Reference and align to the RM strategy.	Approved risk management committee charter	Head of Corporate services and Local Economic Development /Risk Coordinator June 2023	

Planned Action	Detailed Actions	Outputs	Due date and responsible person	Progress to date
Risk Orientation				
RISK ASSESSMENT				
Develop/ review risk management methodologies and processes	Development of a risk assessment protocol which includes risk quantification and risk ranking. Conduct research and benchmark with latest developments in RM (best practice).	Approved risk assessment methodologies and processes	Risk Management Committee /HOD Corporate Services June 2023	
Facilitate enterprise-wide risk assessments.	Information gathering Facilitate risk identification and assessment sessions Analyse information and develop risk assessment reports.	Approved strategic risk register Approved operational risk registers Approved and updated functional risk registers (as per the agreed cycle)	Risk Management Committee /HOD Corporate Services June 2023	
RISK RESPONSE				
Development of risk response strategies	Drafting action plans for all gaps identified in addressing the top risks.	Action plans implemented per agreed milestone Risk Based Action Plans developed and approved	Risk Owner June 2023	

Planned Action	Detailed Actions	Outputs	Due date and responsible person	Progress to date
Risk Orientation				
Drafting of individual key risk indicators for the top risks		Analysis report of key risk indicators per agreed frequency	Risk Owner June 2023	
RISK MONITORING				
Assess risks controls effectiveness	Assign assurance providers to assess the controls of medium and low risks identified (monitored risks).	Combined assurance plan Report on risks controls assessed	Internal Audit June 2023	
Ensure risk management processes and methodologies are reviewed independently.	Audit of risk management effectiveness	Performance audit report Status reports on risk management implementation.	Internal / External Audits dd/mm/yy	
Facilitate the execution of ERM processes and infrastructure.	Implement appropriate risk reporting to the Accounting Officer, Executive Authority, Audit Committee, RMC, and Senior Management.	Approved progress reports: present progress reports to various stakeholders at various intervals.	Risk Coordinator Quarterly	Executive Authority report/ Audit Committee report/ RMC report