

## KAROO HOOGLAND MUNICIPALITY NC066



2023/2024

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

### PROJECT/POLICY DETAILS

|                                     |                                                                                                      |
|-------------------------------------|------------------------------------------------------------------------------------------------------|
| <b>POLICY NAME</b>                  | <b>REDUCTION STRATEGY ON UNAUTHORISED, IRREGULAR AND FRUITLESS &amp; WASTEFUL (UIFW) EXPENDITURE</b> |
| <b>Project reference name</b>       | <b>PROJECT 1: UIFW EXPENDITURE – REDUCTION</b>                                                       |
| <b>Prepared by</b>                  | <b>AC Haas</b>                                                                                       |
| <b>Version number</b>               | <b>V5</b>                                                                                            |
| <b>Date completed</b>               | <b>May 2024</b>                                                                                      |
| <b>Date Revised</b>                 | <b>May 2024</b>                                                                                      |
| <b>Tabled to Council</b>            | <b>August 2021</b>                                                                                   |
| <b>Tabled to Council</b>            | <b>October 2021</b>                                                                                  |
| <b>Approved date</b>                | <b>6 June 2023</b>                                                                                   |
| <b>Adjustment tabled to council</b> | <b>23 May 2024</b>                                                                                   |
|                                     |                                                                                                      |
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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 2022/2023 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 **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.**

#### 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<br>(2020/2021<br>Un-audited) | Year 1<br>2021/2022            | Year 2<br>2022/2023           | Year 3<br>2023/2024           | Year 4<br>2024/2025           | Year 5<br>2025/2026      |
|----------------------------------|---------------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------|
| Percentage reduction             |                                       | -20%                           | -20%                          | -20%                          | -20%                          | -20%<br>(-100% in total) |
| Unauthorised expenditure         | R 139 843 032                         | Reduced to<br>R 111 874 425,60 | Reduced to<br>R 83 905 819,20 | Reduced to<br>R 55 937 212,80 | Reduced to<br>R 27 968 606,40 | Reduced to<br>R 0        |
| Percentage reduction             |                                       | -20%                           | -20%                          | -20%                          | -20%                          | -20%<br>(-100% in total) |
| Irregular expenditure            | R 41 055 541                          | Reduced to<br>R 32 844 432,80  | Reduced to<br>R 24 633 324,60 | Reduced to<br>R 16 422 216,40 | Reduced to<br>R 8 211 108,20  | Reduced to<br>R 0        |
| Percentage reduction             |                                       | -20%                           | -20%                          | -20%                          | -20%                          | -20%<br>(-100% in total) |
| Fruitless & Wasteful expenditure | R 2 391 146                           | Reduced to<br>R 1 912 916,80   | Reduced to<br>R 1 434 687,60  | Reduced to<br>R 956 458,40    | Reduced to<br>R 478 229,20    | Reduced to<br>R 0        |
| New UIFW -                       | Address it immediately as it occur    |                                |                               |                               |                               |                          |



**Goals achieved**

| Reduction plan                      | Baseline<br>(2020/2021<br>Un-audited) | Year 1<br>2021/2022                  | Year 2<br>2022/2023                    | Year 3<br>2023/2024 | Year 4<br>2024/2025 | Year 5<br>2025/2026 |
|-------------------------------------|---------------------------------------|--------------------------------------|----------------------------------------|---------------------|---------------------|---------------------|
| Percentage reduction                |                                       | None                                 | None                                   |                     |                     |                     |
| Unauthorised expenditure            | R 139 843 032                         | Added<br>R9 618 807 &<br>R 4 113 603 | Added<br>R 29 510 403<br>R 3 518 267   |                     |                     |                     |
| Percentage reduction                |                                       | None                                 | None                                   |                     |                     |                     |
| Irregular expenditure               | R 41 055 541                          | Added<br>R 1 004 067<br>R 90 000     | Added<br>R 18 515<br>R 41 664          |                     |                     |                     |
| Percentage reduction                |                                       | None                                 | None                                   |                     |                     |                     |
| Fruitless &<br>Wasteful expenditure | R2 391 146                            | Added<br>R 92 640                    | Added<br>R 78 224<br>R 36 388<br>R 710 |                     |                     |                     |
| 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.

| <b>MEMBER</b>                                 | <b>ROLE</b>      | <b>PROJECT TEAM</b>         | <b>ROLE/RESPONSIBILITY</b>         |
|-----------------------------------------------|------------------|-----------------------------|------------------------------------|
| Head of Administration<br>(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                        |
| Municipal Public Accounts Committee members   | Investigator     | Appointed Council members   | Investigate the UIFW               |
| Internal resource                             | Assist MPAC      | Appointed by Council & MPAC | Assist with investigation for MPAC |



**7. PROJECT DELIVERABLES**

| <b>DELIVERABLES</b>                                                                                                       | <b>TARGET DATES</b>                            |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| 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<br>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<br>Middle of Dec<br>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 | Accountant SCM       |
| 3. Conducts monthly meetings                      | Conducts monthly meetings to identify instances of UIFW expenditure.                                                               | Compliance to procurement checklist                | Monthly                  | Accountant BTO       |
| 4. Conduct training                               | Conduct training on the identification, recording and reporting of UIFW expenditure.                                               | Training                                           | Ongoing                  | Internal Auditor     |
| 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                | Accountant SCM       |
|                                                   | 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 handed to MPAC for investigations on a bi-annual basis                           | Bi-annual reports on UIFW expenditure              | Bi-annually              | Accountant SCM       |
|                                                   | Breakdown of reduction percentage targets vs. the total historical UIFW audited figures.                                           | Annual investigation report on UIFW expenditure    | Once a year              | Accountant BTO       |
|                                                   | Implementation of recommendations by the MPAC or DC board.                                                                         | Bi-annual investigation report on UIFW expenditure | Bi-annually              | CFO                  |

## 9. BUDGET IMPLICATIONS

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

Travel and training expenditure to be allocated to project.

Internal resource will be paid to assist MPAC with investigations.

## 10. ASSUMPTIONS

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

## 11. RISKS

The following are the identified risks:-

| <b>RISK DESCRIPTION</b>                                | <b>PROBABILITY</b> | <b>IMPACT</b> |
|--------------------------------------------------------|--------------------|---------------|
|                                                        |                    |               |
| Lack of MPAC/DC board investigative capacity           | Low (3)            | 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.

|                    |                           |
|--------------------|---------------------------|
| <b>NAME</b>        | <b>Johannes Jonkers</b>   |
| <b>DESIGNATION</b> | <b>Accounting Officer</b> |
| <b>SIGNATURE</b>   |                           |
| <b>DATE</b>        | <b>2024/05/01</b>         |

## 14. REVISION HISTORY

Identify document changes on the project.

| VERSION                           | DATE         | NAME       | DESCRIPTION        |
|-----------------------------------|--------------|------------|--------------------|
| Version 1 -<br>Generic            | 06 Nov 2020  | CFO        | Reduction Strategy |
| Version 2 – Draft<br>Personalised | July 2021    | CFO        | Reduction Strategy |
| Version 3 –<br>Amounts added      | Aug 2021     | CFO        | Reduction Strategy |
| Version 4 –                       | October 2021 | CFO        | Reduction Strategy |
| Version 5                         | May 2024     | Acting 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 |  |
| Council decision        | May 2024 |  |
|                         |          |  |
|                         |          |  |
|                         |          |  |
|                         |          |  |
|                         |          |  |
|                         |          |  |

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