



**NQUTHU MUNICIPALITY
UMASIPALA WASE NQUTHU**

2024/2025

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

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1. PURPOSE

The purpose of this project is to develop and implement a reduction strategy designed to address Nquthu municipality 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 100% over the 3 year medium term strategic framework period. However Nquthu Municipality proposes to reduce 20% annually thus 100% within 3 years.

2. PROBLEM STATEMENT

The Auditor-General findings for the 2021/22 financial year highlighted a number of issues in the Consolidated Report on Local Government that include, amongst others, persistent nonadherence to financial management policies and prescripts in particular SCM Regulation 29 (2) composition of Bid Adjudication Committee, extension of existing contract without following proper SCM procurement process, splitting of orders to avoid competitive bidding and DTI local content compliance. Nquthu municipality has also incurred unauthorized, 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 unauthorized 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** unauthorized, 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 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 Nquthu municipality is to reduce increasing levels of historical UIF&W expenditures and to attain an unqualified audit opinion in the 2022/23 financial year. In order to achieve such Nquthu municipality has to implement interventions designed to reduce unwanted expenditures and improvement of internal control to address weaknesses related thereto.

5. SITUATION ANALYSIS

Nquthu Municipality has for a number of years, struggled with an ever-increasing amount of UIFW expenditure. This is mainly due to the following:

- Inadequate preventative mechanisms to eliminate reoccurrence
- Lack of implementing effective internal controls measures
- Number of reasons for incurring of UIFW expenditures as captured in register such as
 - Composition of BAC (SCM 29 -SCM REGULATIONS)
 - Bidders local content non-compliant
 - Contravenes (S36 -SCM regulations)
 - Contract Extension
 - Validity Period exceeding 90 days
 - SCM processes not followed-completion of projects.
 - Splitting of orders to avoid competitive bidding.
 - Non-compliance of local content reporting
- 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 control irregular expenditure:

- At least three quotations are received for procurement process.
- Purchase Order is to be issued before service is rendered or goods are delivered.
- Invoice is received from service provider after service or goods are delivered. Ensure that payment of the invoice is within 30 days.
- Payment report as per S71 reporting.
- Intent to award within the prescribed period by the regulations.
- Competitive bidding process are appropriately followed as per SCM regulation.
- Bid committees are properly composed as per SCM regulations.
- 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 and true declaration.
- 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 consequence management were not made to transactions of unauthorised, irregular and fruitless & wasteful expenditure, as required by section 32 of the MFMA.

5. 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.

<i>MEMBER</i>	<i>ROLE</i>	<i>PROJECT TEAM</i>	<i>ROLE/RESPONSIBILITY</i>
Head of Administration (Municipal Manager)	Assessing the adequacy and effectiveness of the strategy and recommending for approval by Council	MB Jiyane Accounting Officer	
Management	Monitoring the implementation of strategy. Providing inputs on the improvement of strategy	BH Bhengu – CFO M Nkala – Dir Tech Services KC Shabalala – Dir Corp & Com Dir Planning	
Internal Audit	Assessment of strategy and impact on uifw reduction	Mthoko Mvelase	

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Supply Chain and Expenditure	PREPARING IRREGULAR EXPENDITURE REGISTER	S Zulu – SCM Manager L. Khanyi – SCM Accountant	
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6. PROJECT DELIVERABLES

DELIVERABLES	TARGET DATES
1. Develop UIFW reduction strategy. action plan- Internal and external audit report.	Nov – Jan 2023
2. Develop and implement standard operating procedure and audit action plan on the identification, recording and reporting of UIFW expenditure.	Nov – Mar 2023
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.	Ongoing
6. Register of UIFW expenditure be submitted to PT on a monthly basis	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

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9. Implementation of recommendations by the MPAC or DC board.	Middle of Dec Middle of June
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7. 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	31/01/2024	CFO and DCFO
2. Policy and Standard Operating Procedures	Develop and implement standard operating procedure on the identification, recording and reporting of UIFW expenditure. Reference to the action plan from audit report queries	Approved SOPs and Audit action plan	31/03/2024	CFO, DCFO, SCM Manager and Treasury
3. Conducts monthly meetings	Conducts monthly meetings to identify instances of UIFW expenditure.	Compliance procurement checklist	Ongoing	CFO, DCFO and SCM Manager
4. Conduct training	Conduct training on the identification, recording and reporting of UIFW expenditure.	Training	31/10/2023	Treasury
5. Assign officials responsible for UIFW register	Assign officials to populate, manage and monitor the UIFW expenditure register monthly.	Job assignment	Ongoing	SCM Manager
	Register of UIFW expenditure be submitted to PT monthly.	Updated register		
6. Investigations	Detailed supporting documentation be prepared and tabled in council/DC board for investigations on an annual basis	annual reports on UIFW expenditure	Ongoing	CFO, DCFO and SCM Manager
	Breakdown of reduction percentage targets vs. the total historical UIFW audited figures.	Annual investigation report on UIFW expenditure	15/12/2023	CFO, DCFO and SCM Manager

	Implementation of recommendations by the MPAC or DC board.	Bi-annual investigation report on UIFW expenditure	31/03/2024	Municipal Manager
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8. BUDGET IMPLICATIONS

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

9. ASSUMPTIONS

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

10. RISKS

The following are the identified risks:-

<i>RISK DESCRIPTION</i>	<i>PROBABILITY</i>	<i>IMPACT</i>
Lack of MPAC/DC board investigative capacity	High (3)	Likely (2)
Non-adherence to procurement processes	Medium (2)	Likely (2)
Limited data to deal with historical UIFW expenditures	Medium (2)	Likely (2)
Image of the municipality being tarnished because of the value of irregular expenditure register	High (3)	Likely(2)

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

11. MONITORING AND EVALUATION

Progress on the implementation of the project on reduction of UIFW expenditures will be monitored by the municipality as well as by the Audit Committee and other stakeholders such as the Auditor-General and Provincial Treasury.

12. 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.

<i>NAME</i>	Mr M B Jiyane
<i>DESIGNATION</i>	<i>Acting Accounting Officer</i>
<i>SIGNATURE</i>	
<i>DATE</i>	