



MUNICIPAL FINANCIAL MANAGEMENT ACT

**UNAUTHORISED, IRREGULAR, FRUITLESS AND
WASTEFUL EXPENDITURE
REDUCTION STRATEGY**

**NATIONAL AND PROVINCIAL GOVERNMENT
OVERSIGHT MEASURES
MUNICIPALITIES AND MUNICIPAL ENTITIES**

September 2021

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Table of Contents

1. INTRODUCTION.....	3
2. BACKGROUND	5
3. LEGISLATIVE FRAMEWORK	9
What is irregular expenditure?	9
What is fruitless and wasteful expenditure?	9
What is unauthorised expenditure?	10
4. THE ROLE OF NT	11
5. THE ROLE OF THE PTs.....	13
6. THE ROLE OF THE ACCOUNTING OFFICER – MUNICIPALITY AND MUNICIPAL ENTITIES.....	14
7. THE ROLE OF OTHER OFFICIALS OF A MUNICIPALITY OR MUNICIPAL ENTITY	17
8. THE ROLE OF THE MUNICIPAL COUNCIL, INCLUDING THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE AND THE BOARD OF DIRECTORS OF MUNICIPAL ENTITIES.....	18
9. THE ROLE OF INTERNAL AUDIT, AUDIT COMMITTEE AND RISK MANAGEMENT	20
Internal audit.....	20
Audit committee	20
Risk management.....	21
10. SUPPORT ACTIVITIES BY VARIOUS ROLE-PLAYERS	21
National Treasury	21
Provincial Treasury	22
Municipality	22
11. TARGET.....	24
12. REPORTING	24
ANNEXURE 1:	25
GUIDANCE ON REDUCING IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE IN ACCORDANCE WITH THE TARGETS SET OUT IN THE MEDIUM-TERM STRATEGIC FRAMEWORK.....	25
Background	25
Need for guidance	25
Internal control.....	26
Types of controls	26
Limitations of internal control	27
Control guidance	29
ANNEXURE 2:	30
CONTROL ENVIRONMENT – SUGGESTED PREVENTATIVE CONTROLS	30
ANNEXURE 3:	38
PROCUREMENT AND CONTRACT MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS	38
ANNEXURE 4:	48
CONSEQUENCE MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS.....	48
ANNEXURE 5:	50
MANAGEMENT OF CREDITORS' PAYMENTS AND OTHER SUGGESTED CONTROL MEASURES TO PREVENT FRUITLESS AND WASTEFUL EXPENDITURE.....	50
ANNEXURE 6:	53
SUGGESTED INCREMENTAL TARGETS IN RESPECT OF THE IFW OUTCOME INDICATORS OVER THE 2019-2024 MTSF PERIOD	53
ANNEXURE 7:	54
SUGGESTED TEMPLATE / GUIDANCE FOR THE UIFW EXPENDITURE REDUCTION STRATEGY / PLAN	54
Purpose	54
Background	54
Applicable legislation	54
Summary of scope and objectives	55
Roles and responsibilities in respect of the unauthorised, irregular and fruitless and wasteful expenditure	57
Risk identification and mitigation.....	57
UIFW Expenditure action plans.....	58
Suggested incremental targets in respect of the UIF&W expenditure outcome indicators over the 2019-2024 MTSF period.....	59
Details of reducing historical irregular and wasteful expenditure to achieve the medium-term strategic framework goals.....	60
Implementation of controls to prevent unauthorised, irregular and fruitless and wasteful expenditure	63
Monitoring and evaluation.....	64
Communication and reporting.....	64
REFERENCES:.....	65

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REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

1. INTRODUCTION

This strategy document aims to map out the processes and actions that should be followed to contribute towards achieving the goals under priority 1 of the 2019-24 MTSF. The focus is on reducing unauthorised, irregular, fruitless and wasteful UIF&W expenditure in municipalities and municipal entities. In this regard, 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.

It should be noted that the roles and responsibilities of the key role-players in national and provincial spheres is addressed in the memorandum of understanding (MoU) between NT and the Department of Cooperative Governance (DCoG) has been finalised. The MoU clarifies the legislative powers and functions between NT and DCoG to oversee, monitor, support, report and strengthen the capacity of municipalities to exercise their powers, and perform their functions. The key principles underpinning the operationalisation of the MoU, provides for NT to lead on Financial Management and related matters, DCoG to lead on Governance and Service Delivery. The specific function relating to improvement of audit outcomes and reduction of UIF&W expenditure form part of the NT responsibilities which will also be cascaded to the Provincial Treasuries. Similarly, will be provided by DCoG on the responsibilities to be cascaded to the Provincial DCoG departments. This role clarification will assist in eliminating duplication of effort, streamline support, and ensure a coherent and consistency application of the prescripts across all municipalities and municipal entities.

In recent years, there has been an increase in incidences of UIF&W expenditures. This is due to several factors, which include but are not limited to the repeated failures by municipalities to prevent non-compliance and to introduce timely and decisive corrective measures to ensure effective implementation of relevant laws and regulations. The lack of decisiveness of councils and municipal officials in dealing with the UIF&W expenditure has resulted in a negative public perception and narrative. Failing to develop and implement a UIF&W reduction strategy complemented by appropriate consequences for transgression of the law will attract enforcement measures, that could include withholding of grants.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

The lack of progress also highlights the shortcomings in the municipal policies, procedures, practices and accountability arrangements from the municipal administration, municipal council and its leadership. This has been highlighted in several reports, including management and performance reports, MFMA compliance reports, internal audit and audit committee reports, municipal public accounts committees report, that point to gaps and inadequacy in monitoring, reporting and implementing corrective actions.

In most instances this can be attributed to unqualified or inexperienced officials appointed to key positions, lack of performance ethos or ethical leadership and a lack of transparency in dealing with public funds. Often recommendations to address the gaps are not followed through by municipal officials, council delay in taking decisions resulting in continuation of instances of UIF&W expenditure. The identified shortcomings are also due to delays in establishing and effective functioning of internal audit units, audit committees, disciplinary boards to conclude investigations where allegations of financial misconduct are reported. Such failures in both the administration and councils must be addressed urgently to ensure successful outcomes.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

2. BACKGROUND

The document distinguishes between unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, drawing from the definition in the MFMA as the criteria for each category differ and the mechanism to address them may be different. This will depend on the control matrix that each municipality develops, however the strategy and the process to implement them should be consistent, as legislated in the MFMA and its regulations.

The majority of unauthorised expenditure result from overspending on the approved budget or incorrect projections and provisions at the time of adopting the budget. Ongoing non-compliance with supply chain management laws and regulations was the leading cause of irregular expenditure. At the same time, interest and penalties on the late and/or non-payment of creditors contributed to fruitless and wasteful expenditure incurred by municipalities.

The previous Medium-term Strategic Framework (MTSF) contained key outcomes underpinned by specific indicators, activities and targets, which served as priority actions for the government. One of the action areas related to improving audit outcomes. Several initiatives, such as clarifying the role and responsibilities at national and provincial departments, technical support programmes and training of officials and councillors, were introduced to address different aspects of the challenges during this period.

The process has commenced monitoring UIF&W expenditure incurred by the ten (10) highest contributing municipalities to each expenditure category, as reflected in municipal disclosures and reported by the Auditor-General of South Africa (AGSA). National Treasury (NT) with the support of provincial treasuries (PTs) extended the focus to the top 10 contributors to UIF&W expenditure per province for delegated (those municipalities that fall under provincial treasuries oversight) and non-delegated municipalities (those that fall under National Treasury oversight). The aim over the medium-term is to ensure that 100 municipalities countrywide receive support in reducing UIF&W expenditure and improving audit outcomes.

The challenges remain, and a concerted effort, primarily and specifically by municipal councils, councillors, board of directors of municipal entities, municipal manager as the accounting officer

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

and officials in the municipality and municipal entities, is required to reduce the incidence of UIF&W expenditure.

NT undertook several engagements with non-delegated municipalities (NDMs) and delegated municipalities through the respective provinces. The engagements encompassed both municipal public accounts committees (MPAC) and municipal officials. Despite these engagements, there has been stagnation in the processing of historical UIF&W expenditure, which continued to increase year on year. The functionality of MPACs and the processing of recommendations to Council was inadequate. In addition, support from the municipal administration and uncertainty about their roles and responsibilities in relation to governance and administrative structure in municipalities, such as role of senior managers, finance committees, disciplinary boards and audit committees were identified. This has been addressed in recent amendments to the Municipal Structures Act and tools issued under the MFMA.

Over and above the ongoing engagements with provinces and municipalities, during the transition of some of this oversight responsibilities from DCoG to NT, NT have developed a number of supporting measures and continue to improve on the tools, to assist provinces and municipalities to ensure compliance with the MFMA and its regulations. These include but are not limited to the following:

- MFMA calendar: It sets out the MFMA key deliverables for Mayor, MM and other role-players, including the reporting framework. This is being converted into an electronic calendar to improve accountability, effectiveness and efficiency in municipalities.
- MFMA circulars and guidelines: To further explain and inform municipalities and municipal entities on how certain provisions of the MFMA or its regulations are to be interpreted and implemented to ensure full compliance with the legal framework. This takes the form of information-sharing and requests, policy guidance, interpretation of the MFMA, monitoring, reporting and enforcement.
- MPAC Guide and Toolkit: NT, in conjunction with the DCoG, developed the MPAC Guideline and Toolkit 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: The system verifies suppliers' tax and BEE status and enables public sector officials doing business with the state to be identified. Thus, if used

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

correctly, it will reduce non-compliance with the SCM Regulations, thereby preventing UIF&W expenditure.

- Standard operating procedures (SOPs): These SOPs cover disciplines such as revenue management, asset management, expenditure management; supply chain management; and liability management. If implemented, these SOPs can assist municipalities in preventing the incurrence of UIF&W expenditure.
- Financial Management Capability Maturity Model (FMCMM): The FMCMM is an assessment tool aimed at assisting municipalities in identifying gaps in financial management and instituting measures to address those gaps. NT is currently developing a web-enabled assessment tool which will automatically generate reports for use by provinces, municipal management and councils.
- Financial ratios and indicators: These provide uniform norms and key indicators to be used 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: Undertaking reviews and provide feedback on audit action plans, attending municipal audit steering committee meetings at municipalities upon invitation. The web-enabled audit action plan that NT is finalising will 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: The focus has been on establishment of Disciplinary Boards and training of members in all municipalities. Support will continue over the medium term as the regulations on financial misconduct and criminal procedures are being embedded into municipal policies and processes.

The 2019-24 MTSF has highlighted the need to implement stronger monitoring, supporting, reporting and to introduce enforcement measures to reduce incidences of irregular, fruitless and wasteful expenditure (IF&W), emphasising its reduction across government. The targets to reduce irregular expenditure by 75% and fruitless and wasteful expenditure by 100% were

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

announced during this medium term. The 2018/19 audit findings are used as the baseline¹. However, the information will be updated from time to time to reflect progress and changes.

Irregular expenditure	Fruitless and wasteful expenditure
R21,5 billion*	R2,1 billion**

* Excludes irregular expenditure of R10,60 billion for outstanding audits at 31 January 2020 or audits subsequently finalised.

** Excludes fruitless and wasteful expenditure of R1,05 billion of outstanding audits based on unaudited financial statements, as well as audits subsequently finalised.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

3. LEGISLATIVE FRAMEWORK

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; it is important to note that there are similar principles in the PFMA and MFMA; however, there are differences in the application, processes and procedures in the MFMA and hence the nuances regarding the actions, monitoring, support and reporting described below.

What is irregular expenditure?

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."

What is fruitless and wasteful 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.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Therefore, municipalities must develop strategies and implement them to reduce and/or eliminate these expenditures by 2024.

What is unauthorised expenditure?

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.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

4. 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.

Whilst NT supports municipalities to ensure compliance with the MFMA and its regulations, in terms of section 38 of the MFMA, NT is also expected to enforce compliance with the measures established in terms of section 216 (1) of the Constitution, including those established in terms of the MFMA. This may include stopping the transfer of a municipality share of the local government's equitable share referred to in section 214(1)(a) of the Constitution, if the municipality commits a serious or persistent breach of the measures established in terms of section 216(1) of the Constitution.

National Treasury initiatives to support municipal public accounts committees

National Treasury has been active in supporting municipal public accounts committees (MPACs) in its establishment and to strengthen their functionality to enable the committees to carry out their legislative mandate with respect to processing recommendations on unauthorised, irregular and fruitless and wasteful (UIF&W) expenditure, and performing oversight over the Annual Report and related activities.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

National Treasury will intensify support efforts in collaboration with provincial treasuries, together with the national and provincial local government departments and SALGA to promote capacity-building for MPACs through initiatives such as the following:

- Where required, update existing guidelines to continue to clarify the legislative and regulatory framework that impact the functioning of MPACs
- Conduct intensive practical training sessions for MPACs identified as requiring higher levels of support to enhance their skills and competence to effectively utilise the MPAC Guide and Toolkit in performing their functions on UIFW expenditure and oversight over annual report. The training will also focus on creating an understanding of the process to be followed, contributions on technical terminology pertaining to audit actions, internal controls, accounting and legal matters on financial management.
- Review the terms of reference of MPACs to ensure that the approach and utilising internal and external skills to investigate UIFW expenditure in terms of section 32 of the MFMA are adequately covered.
- Promote efforts to ensure that MPACs are adequately resourced and supported by municipalities, including other assurance providers like internal audit and audit committees, to contribute and guide UIFW expenditure and their other oversight responsibilities.
- Continue to monitor compliance with the MFMA and related legislation to promote accountability and governance as it pertains to the oversight and related responsibilities of MPACs in holding municipalities accountable for how public resources are utilised.
- Continue to monitor the submission of monthly and quarterly reports on the investigation of UIFW expenditure and the implementation of council resolutions, based on the recommendations, including efforts to recover identified financial losses and promoting recommendations for council to address performance management and human resources management failures and consequence management.
- Given the pending local government elections, specific training initiatives will continue to support new MPAC members to carry out their legislative responsibilities effectively.
- Encourage the existing MPACs to prepare detailed hand-over reports, with the support of municipal managers, to enable a smooth transition to new members to effectively sustain the programme of action, and recommendations, on UIFW expenditure.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

5. 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.

Provincial Treasury initiatives to support municipal public accounts committees.

Provincial treasuries should replicate the above-mentioned National Treasury initiatives in supporting MPACs and DC boards of the delegated municipalities in their respective provinces to the extent practical. In addition, provincial treasuries should:

- Promote collaborative support initiatives by ensuring that all relevant role-players, including National Treasury, the provincial local government department and the provincial SALGA are informed and contribute in capacity-building initiatives of MPACs in the province – the inclusion of National Treasury is particularly important where support initiatives are directed at the non-delegated municipalities.
- Where the MPAC function is performed on a shared services basis in municipalities, guide to ensure that there is a proper understanding of the roles and responsibilities and that appropriate service level agreements support the shared MPAC function.
- Where provincial MPAC forums exist, provincial treasuries and relevant role-players should promote the capacity-building of MPACs in those forums.
- Support establishment and functionality of DC Boards.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

6. THE ROLE OF THE ACCOUNTING OFFICER – MUNICIPALITY AND MUNICIPAL ENTITIES

- 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 order to ensure the proper application of the MFMA in the municipality's administration, the accounting officer must develop an appropriate system of delegations that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration. Therefore, 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.
- 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 can separate the process when addressing unauthorised expenditure, from the irregular and fruitless expenditures. For unauthorised expenditure, there are processes which can be followed before the end of the financial year to authorise unauthorised expenditure. Refer to MFMA Circular 68 for further detailed advice.
- 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 or municipal entity. Where there is no disciplinary collective agreement applicable, the disciplinary

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

process should be conducted following the disciplinary policy of the municipality or municipal entity. 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 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.
- 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.
- In terms of section 94(1) of the MFMA, the accounting officer of a municipal entity must act with fidelity, honesty, integrity and in the best interest of the entity in managing the financial affairs of the entity.
- In terms of section 95(d) of the MFMA, the accounting officer of a municipal entity is responsible for managing the financial administration of the entity and must, for this purpose, take all reasonable steps to ensure that irregular and fruitless and wasteful expenditure and other losses are prevented.
- In order to ensure the effectiveness and efficiency of the municipal entity's operations with minimal delays in service delivery, the accounting officer may, in terms of section 106(1) of the MFMA, delegate to an official of that entity any of the powers or duties assigned or delegated to the accounting officer in terms of the MFMA.
- Municipalities and municipal entities are required to disclose any documents, as may be prescribed, on their website. In this regard, municipalities and municipal entities should at least quarterly place on their website information about how they are addressing UIF&W expenditure and consequence management to promote transparency, accountability and building of public trust.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Support to municipalities will be aligned to the above changes, also to assist on MFMA related matters.

- Treasuries are responsible in terms of the MFMA for leading on all the efforts to support municipalities once UIF&W expenditure is detected to ensure that these expenditures are addressed consistent with section 32 of the MFMA. In addition, the treasuries should also support municipalities and municipal entities, ensuring that preventative controls are implemented; and that consequence management is implemented within the context of the MFMA in line with chapter 15, read together with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings. As mentioned before, the related powers and functions of NT and DCOG may require review once the MoU between the two parties is finalised.

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.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

7. THE ROLE OF OTHER OFFICIALS OF A MUNICIPALITY OR MUNICIPAL ENTITY

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.

In terms of section 105(1)(e) of the MFMA, each official of a municipal entity exercising financial management responsibilities to take all reasonable steps within that official's area of responsibility to ensure that any irregular expenditure, fruitless and wasteful expenditure and 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.

8. THE ROLE OF THE MUNICIPAL COUNCIL, INCLUDING THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE AND THE BOARD OF DIRECTORS OF MUNICIPAL ENTITIES

- 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. As mentioned above, the annual performance agreements of the relevant officials must include key performance indicators on the reduction and avoidance of incidences resulting in UIF&W expenditure. This will enable the municipality to implement consequence management against the senior manager for poor performance. Municipal human resource departments and internal audit units must monitor and report on this aspect to ensure internal arrangements are instituted in support of the municipal manager to enforce code of conduct and performance measures.
- In consequence management and disciplinary processes, the HR department's labour relations unit plays an important role. The role of the labour relations unit in disciplinary processes will be to ensure that the municipality or municipal entity conduct any UIF&W expenditure related disciplinary processes in line with the relevant disciplinary collective agreement, regulation or policy where applicable. A crucial secondary role of the labour relations unit will be to ensure that the disciplinary processes are processed within the set timelines prescribed within the relevant disciplinary collective agreement, regulation or policy where applicable.
- Should senior managers fail to action such disciplinary process, the human resource department must take actions against such senior managers. This will ensure that a performance management culture is implemented, as required by the Municipal Systems and Structures Acts. Similarly, human resource departments must ensure all outcomes of disciplinary measures are reported to management, council, to province and national government, as regulated.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

- 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, 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.
- Section 102 of the MFMA requires the board of directors of a municipal entity to report incidences of irregular expenditure to the mayor and the accounting officer of the parent municipality for noting as the legislative responsibility to investigate irregular expenditure in municipal entities vest with the board of directors. This section must be read with regulation 75 of the Municipal Budget and Reporting Regulations.

9. THE ROLE OF INTERNAL AUDIT, AUDIT COMMITTEE AND RISK MANAGEMENT

Internal audit

- In terms of MFMA section 165, internal audit units must assist municipal managers and chief executive officers of municipal entities 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.
- Internal audit units must compile risk-based audit plans, review internal control measures, and ensure that supply chain management, including the requirements of MFMA circular 65, is sufficiently and adequately covered in the annual coverage plan. Internal auditors must be alert to fraud risks and design audit procedures and indicators that would reasonably assist in preventing and detecting potential or actual fraud and corruption.
- Internal audit units must as far as possible be utilised as a resource to provide the accounting officer with assurance around compliance matters. For instance, municipalities and municipal entities may consider introducing probity audits as part of the SCM implementation system whereby internal audit is utilised to conduct a mini audit after the bid evaluation but before the bid adjudication process to provide the bid adjudication committee and the accounting officer some level of assurance that the process up to that point is consistent with the municipality or municipal entity's SCM policy and the Municipal SCM Regulations. This will ensure that non-compliance is detected before awards are made and expenditure incurred. This proactive measure will directly contribute to reduction of irregular expenditure

Audit committee

- In terms of section 166, 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

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

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.

10. SUPPORT ACTIVITIES BY VARIOUS ROLE-PLAYERS

National Treasury

- Review the audit outcomes and identify the top 10 highest contributors to UIF&W expenditure for NDMs.
- Communicate with the highest contributors NDMs to set up meetings/engagements with the accounting officers, CFOs, MPAC members and the relevant departments within the municipality, including internal audit, SCM units, expenditure management and risk management, among other, to ensure that the NDMs have developed a strategy to achieve the MTSF goals by addressing the UIF&W expenditure.
- Meet NDMs to engage on progress made to address UIF&W expenditure and identify any bottlenecks resulting in a stagnation of the UIF&W expenditure or where there is lack of actions.
- Conduct MPAC training for the NDMs, where relevant.
- Conduct training of municipal officials, where relevant.
- Develop and issue standard operating procedures, where relevant.
- Conduct capacity-building for disciplinary boards with a view to improving its functionality.
- Enforce the establishment of the disciplinary boards where they do not exist as yet.
- Monitor and comment on the implementation of the UIF&W expenditure reduction strategies by municipalities and municipal entities.
- Develop a reporting template for quarterly monitoring of the NDM's efforts to address the UIF&W expenditure, including consequence management.
- Monitor progress made in addressing UIF&W expenditure in terms of section 32 of the MFMA.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

- Identify the top 10 delegated municipalities and engage the relevant PT to implement similar actions for the relevant municipality.
- Conduct engagement in conjunction with the relevant PT with the delegated municipality, similar to the engagements for NDMs.
- Monitor the implementation of the UIF&W expenditure reduction strategy by delegated municipalities through the PT every quarter.
- Monitor progress made in addressing UIF&W expenditure in terms of section 32 of the MFMA by delegated municipalities through the PT every quarter.
- Promote information-sharing, coordination of activities and cooperation with the PTs, DCoG and SALGA to avoid duplication of efforts and requests for information from municipalities on UIF&W expenditure.

Provincial Treasury

- In addition to duplicating the NT actions mentioned above for the delegated municipalities in the provinces, the provincial treasuries should develop a provincial strategy in consultation with DCOG and SALGA in the province to assist and guide the delegated municipalities in the province to address their UIF&W expenditure.
- The PT should document the legislative roles and responsibilities of the respective role-players, including DCOG and SALGA, to ensure that there is a clear understanding of each other's role while promoting cooperation and coordination of activities to prevent the duplication of efforts. The role clarification should be communicated to the municipalities and municipal entities to ensure a coordinated response to UIF&W expenditure advisories by the provincial PT, DCOG and SALGA. The role clarification may be in the form of a circular being issued.
- Report to NT on a monthly and quarterly basis credible information on implementing the strategy to address the UIF&W expenditure, including information on the movement in the associated numbers of the delegated municipalities.
- Ensure that the NT is invited to sessions that the PTs may convene on the UIF&W expenditure reduction strategies of the NDMs.

Municipality

- Addressing historical and current UIF&W expenditure over the MTSF period (refer to annexures 1 to 6)
 - Identify the official/department responsible for the irregular expenditure.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

- 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.
- Maintain an up-to-date register on UIF&W expenditure and locate the report with the CFO and internal audit.
- Report UIF&W expenditure to the council.
- 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).
- The accounting officer or his delegated official must refer UIFW expenditure matters for disciplinary processing where appropriate and if so required.
- 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).
- MPAC to complete the investigation and make recommendations on whether to write-off and recover.
- Council reviews reports and resolves on the recoverability of irregular expenditure
- Where council resolves to recover UIF&W expenditure, institute recovery process and update UIF&W expenditure register
- Where council resolves to write-off UIF&W expenditure, update UIF&W expenditure register.
- Council resolution on write off informs the disclosure note in terms of section 125 of the MFMA and annual financial statements.
- Identify root causes of the expenditure
- Develop a plan and implement measures to address root causes and prevent a recurrence.
- Report to oversight structures, such as the audit committee and the MPAC, to monitor the UIF&W expenditure reduction plan implementation.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

11. TARGET

For 2020/21, 2021/22, 2022/23, and 2023/24 reporting periods, the National Treasury and the provincial treasuries will target 100 municipalities for this support. ***Each PT will prioritise 10 (delegated) municipalities that are the highest contributors to UIFW, except Gauteng (8 delegated municipalities), using the 2018/19 UIF&W expenditure as a baseline for training, engagements, and monitoring, reporting and enforcement.*** However, all municipalities must be monitored and reported on. NT to supplement the two additional municipalities.

12. REPORTING

PT will be expected to provide quarterly reports on progress made regarding training, support, monitoring, reporting to its legislature of the selected municipalities. This will be incorporated into the quarterly monitoring and reporting requirements by NT to be used for consolidation and other reporting.

For NDMs, selected municipalities must report to NT per the template provided by NT as part of the reporting requirements quarterly.

NT will consolidate the inputs and submit its report as required in the MTSF.

This information will also be shared with DCOG and SALGA to ensure effective collaboration, reduce duplication, and ensure consistency in the application of the measures required.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 1:

GUIDANCE ON REDUCING IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE IN ACCORDANCE WITH THE TARGETS SET OUT IN THE MEDIUM-TERM STRATEGIC FRAMEWORK

Background

The 2018-19 MFMA general report on local government audit outcomes indicated that unauthorised, irregular and fruitless, and wasteful (UIFW) expenditure have increased significantly compared to 2017-18 due to governance and accountability failures. The latter relates to the failure of the design, implementation, review and monitoring of preventative controls to prevent non-compliance with the relevant laws, including supply chain management legislation, despite the guidance and training provided by the National Treasury and the provincial treasuries. A general tolerance for legislative transgressions and inadequate consequence management also contributed to the large amounts of UIFW expenditure.

As mentioned already, municipalities must develop and implement appropriate strategies to reduce and prevent UIFW expenditure from achieving the 2019-24 MTSF targets.

Need for guidance

Numerous municipalities have requested National Treasury to guide the development of a UIFW reduction strategy. The guidance in this document, which sets out key preventative controls to reduce the risk of non-compliance with applicable legislation that leads to UIFW expenditure, is not exhaustive.

It must be emphasised that the National Treasury and the provincial treasuries are committed to assisting municipalities to improve the status of their financial management, including compliance with laws and regulations.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Internal control

The accounting officer of a municipality is required by law to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control and the prevention of UIFW expenditure.

Internal control is the process designed and effected by a municipality, including policies and procedures to provide reasonable assurance about the achievement of the municipality's objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Thus, internal control promotes sound financial management, good governance, and accountability while protecting a municipality's assets from theft or fraud.

Oversight structures, such as the municipal council, the municipal public accounts committee (MPAC) and the audit committee, should hold the municipal manager accountable for the effectiveness of the internal control. A proactive approach aimed at identifying risks and requiring assurance from the municipal manager, internal audit and the audit committee that risks are being mitigated through appropriate controls will positively impact the control environment of a municipality.

Types of controls

There are several internal control components, one of the more important being control activities. Control activities are policies and procedures to help ensure that management directives mitigate risks and achieve organisational objectives. They can assist with avoiding and detecting non-compliance with relevant legislation, including errors and fraud in transactions, resulting in more accurate financial reports and the achievement of management's objectives. A control, individually or in combination with other controls, may be a preventative, detective or corrective in nature.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Preventative controls are controls to avert errors and irregularities from occurring. These include relevant policies, the segregation of incompatible duties (separating the preparer, reviewer and approver roles); limiting access to certain information and assets to authorised individuals only; regular processing and review of transactions; regular reporting, including updating the ledgers and relevant registers on a daily or weekly basis; ensuring that each transaction is supported by complete, accurate and appropriate documentation; training of employees, the use of checklists to enable compliance with applicable legislation and other checks and balances prior to delegated approval.

Detective controls are controls to identify errors and irregularities that have already occurred and to assure their prompt correction. Detective controls determine to a large degree if the preventive controls are functioning effectively. Controls relevant for this guide may include the review of SCM transactions, decisions and periodic reporting; internal audits on compliance with relevant legislation, including SCM regulations; and a review of actual versus budget information; monitoring and oversight by municipal governance structures (municipal councils, MPACs and audit committees).

Corrective controls to promptly correct any errors and irregularities that were identified by the internal detective controls. They include consequence management, such as prompt investigations and disciplinary actions, updating policies and procedures, and implementing audit action plans to address audit findings and related internal control deficiencies.

Limitations of internal control

The governance and accountability failures mentioned earlier, without effective internal control, will continue to threaten the achievement of the UIFW expenditure MTSF targets.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

For controls to be effective, they must operate effectively and consistently throughout a financial period, underpinned by a controlled environment characterised by:

- communication and enforcement of integrity and ethical values;
- commitment to competence to ensure the knowledge and skills necessary to accomplish tasks that define the individual's job;
- participation by those charged with governance (municipal council, municipal public accounts committee and the audit committee) to hold the administration accountable;
- a fit-for-purpose organisational structure that provides the framework within which the municipality's activities for achieving objectives are planned, executed, controlled and reviewed;
- how authority and responsibility for operating activities are assigned and how reporting relationships and authorisation hierarchies are established;
- human resource policies and practices relating to recruitment, orientation, training, evaluating, counselling, promoting, compensating and remedial actions;
- effective risk assessment process for identifying and responding to business risks;
- information systems relevant to financial reporting and compliance with applicable legislation, including the related business processes relevant to financial reporting and compliance;
- monitoring of controls, which includes considering whether the controls are operating as intended and that they are modified as appropriate for changes in conditions; assurance provided by internal audit and audit committees.

It is also important to note that internal controls, while effective, are not a guarantee that a municipality's objectives will be achieved. Human and non-human errors are not accounted for by internal controls. In addition, internal controls assume employees are honest and that they would not circumvent policies and procedures or manipulate information to benefit themselves and others.

To address the limitations mentioned above, the municipal council, the municipal public accounts committee and the audit committee should hold the municipal manager accountable for establishing sound internal controls.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Control guidance

The guidance set out in this document will focus on the preventative controls that a municipality should implement to establish a sound control environment related to the prevention and reduction of UIFW expenditure. It is to reduce risks in the procurement and contract management (as the main cause for irregular expenditure) and risks in the management of creditors' payments (as the main cause for fruitless and wasteful expenditure).

It should be noted that while the guidance focuses on measures to address internal control deficiencies that result in irregular expenditure, fruitless and wasteful expenditure, municipalities and municipal entities should develop similar controls to address unauthorised expenditure. In respect of unauthorised expenditure, municipalities and municipal entities are urged to implement appropriate preventative controls to ensure proper budgeting and effective revenue and expenditure management.

Municipalities and municipal entities should also consider measures to address gaps in asset management that might lead to fruitless and wasteful expenditure. For example, controls to ensure the software licences paid or other assets bought for service delivery are used and/or controls to ensure effective utilisation of the software licences or assets acquired for service delivery.

In addition, municipalities and municipal entities should be encouraged to use the financial management capability maturity tool, the financial ratios and norms, risk management framework to respond to related risks and gaps in financial management to strengthen the internal control environment as a whole.

Refer to annexures:

- 2 - Control environment
- 3 - Procurement and contract management
- 4 - Consequence management
- 5 - Management of creditors' payments
- 6 - Suggested incremental targets in respect of the UIFW expenditure outcome indicators over the 2019-2024 MTSF

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 2:

CONTROL ENVIRONMENT – SUGGESTED PREVENTATIVE CONTROLS

Control	Applicable laws and regulations
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	SCM reg 46(3)(c)
2. The municipality implements effective human resources management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, which should include implementing effective consequences against officials who fail to comply with applicable legislation, continuously underperform or are negligent, as well as against those whose actions and decisions cause financial losses	SCM reg 7(1) & (3); SCM reg 8; minimum competency reg. 10; MSA sec 51(h); MFMA 32(2)(a)(ii); MFMA 102(1); SCM reg 38(1)
3. The municipality establishes and communicates policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities - an approved SCM policy is in place	MFMA sec.99(2)(h), 111 and 112; MFMA sec 62(1)(e); MFMA sec 95(f); MFMA sec. 32(6); MFMA sec 102(2)); MFMA sec. 59(2)(a); MFMA sec. 79(3)(a); SCM reg. 5(2); SCM reg. 12(1) & (3); SCM reg. 19(a) & (b); SCM reg. 13; SCM reg. 15; SCM reg. 16; SCM reg. 17(1); SCM reg. 18; SCM reg. 21; SCM reg. 22(1); SCM reg. 23; SCM reg. 26(1); SCM reg. 33(1); SCM reg. 34; SCM reg. 36(1)(a); 38(1); SCM reg. 41(1); SCM reg. 42; SCM reg. 43(1); SCM reg. 44; SCM reg. 46(1), (3) & (4); SCM reg. 49(;SCM reg. 50(1)

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

4. Develop and monitor the implementation of action plans to address internal control deficiencies	MFMA sec. 131(1) & (2)
5. Implement proper record keeping promptly to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	SCM reg. 17(1)(c) & (d); SCM reg. 18(e); SCM reg.20(h); SCM reg.21; SCM reg.23(c)(i); SCM reg.24(2)
6. Implement controls over daily and monthly processing and reconciling of transactions	SCM reg. 12(3); MFMA sec. 116(2)(b); SCM reg. 46(2)(e); Code of conduct for councillors/directors; Code of conduct for staff members
7. Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	MFMA sec 114(1); SCM reg. 5(3) & (4); SCM reg. 6(2)(a)(i) & (ii); SCM reg. 17(2); SCM reg. 18(d); SCM reg 6(3); SCM reg 23(c)(iii); SCM reg 22(3)
8. Review and monitor compliance with applicable laws and regulations	SCM reg. 3(1)(b); SCM reg 42; SCM reg 50(5); SCM reg. 50(6); SCM reg. 50(1); SCM reg. 50(4)(b); SCM reg. 46(2)
9. Implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risk and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored	SCM reg. 41(2)
10. There is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively	MFMA sec. 165
11. The audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment	MFMA sec. 166

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

including financial and performance reporting and compliance with laws and regulations	
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Questions that could be asked to obtain assurance

Regarding number 1:

- 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.
- How does management promote compliance with ethical standards and related transgressions?
- Has the municipality implemented a code of conduct for SCM officials, and all SCM officials have formally signed the code?

Regarding number 2:

- Has the municipality established a SCM unit that operates under the CFO's direct supervision or a delegated official?
- Are SCM officials trained in accordance with National Treasury guidelines and do they meet the minimum competency requirements as per the Municipal Regulations on Minimum Competency Levels, 2007 for SCM to ensure that they have the skills, experience and capacity to assume and fulfil the responsibilities and exercise their functions and powers in respect of SCM?
- Have roles and responsibilities been clearly assigned and clear delegations signed off by individual officials for the management and coordination supply chain management unit?

Regarding number 3:

- Has the municipality implemented an approved supply chain management policy that complies with the MFMA and SCM regulations?
- Has the municipality adopted adequate SCM SOPs and have the respective senior managers signed acknowledgement of such SOPs?
- Have the officials involved in the SCM processes signed an acknowledgement of the SCM policies, procedures and delegations annually and understand their individual roles and responsibilities pertaining to internal control in acquiring goods, services or infrastructure?

Questions that could be asked to obtain assurance

- Does the municipality have documented policies and procedures for dealing with allegations of financial misconduct and irregular or fruitless & wasteful expenditure?
- Are policies and procedures in place to ensure that disciplinary and/or criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct?
- Are there policies and procedures in place to ensure that the municipality or municipal entity reports to the SAPS all cases of alleged irregular expenditure that constitute a criminal offence; and theft and fraud that occurred in the municipality?
- Is there an approved system of delegation in place for officials or committees with detail on the thresholds, conditions and limitations applicable to the delegation?
- How is consequence management implemented to give effect to section 32(2)(b) of the MFMA and the related Financial Misconduct Regulations and what is the current status of consequences implemented?
- Are sufficient measures in place to prevent any overpayment to councillors, which may be contrary to the upper limits, as published by the Minister of Cooperative Governance and Traditional Affairs? (This will be an irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councillor(s) concerned.)

Regarding number 4:

- Have the council and MPAC resolutions on SCM been implemented substantially?
- Does the municipality have a credible audit action plan for addressing internal and external audit findings on SCM, and is adherence to the plan monitored on a monthly/ quarterly basis by the appropriate level of management?

Questions that could be asked to obtain assurance

Regarding number 5:

- Is proper record-keeping in place to ensure that complete, relevant and accurate information is accessible and available to support the procurement processes followed?

Regarding number 6:

- Does segregation of duties exist between those individuals involved in selecting providers (through quotations/ bidding) and those making and approving payments to the providers?
- Are controls in place to ensure that goods or services are not deliberately split into parts or items of a lesser value to avoid complying with the SCM legislation?
- Are controls in place to monitor the contractor's performance under the contract or agreement monthly?
- Are declarations of interests made by all SCM officials and members of the respective committees on every procurement initiative and are conflicts of interest reported to the accounting officer and maintained in a register?
- Have controls been implemented for SCM officials or other role players to declare any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person?
- Have controls been implemented for council members (including the mayor) to declare their financial interest?
- Have controls been implemented for staff members to declare their benefits to the council where a staff member, or his/her spouse, partner business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality?

Questions that could be asked to obtain assurance

Regarding number 7:

- If a tender other than the one recommended is approved, has the accounting officer, in writing, notified the Auditor-General, the relevant provincial treasury and the National Treasury of the reasons for deviating from such recommendation?
- Has the accounting officer submitted a report on the implementation of the SCM policy of the municipality and of any municipal entity under its sole or shared control to the council of the municipality within 30 days after the financial year-end?
- Has the accounting officer or the CFO been notified, on a monthly basis, in writing of all written and verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation?
- Within 10 days after the end of each quarter, has the accounting officer submitted a report on the implementation of the SCM policy to the mayor of the municipality?
- Are contract registers in place to record contracts awarded and to monitor expenditure on the contracts?

Regarding number 8:

- Is the implementation of the SCM policy reviewed on an annual basis?
- Is there an internal monitoring system to determine, based on a retrospective analysis, whether the authorised SCM processes are being followed and whether the desired objectives are being achieved?
- Have processes been established for SCM officials to report to the accounting officer any alleged irregular conduct in the SCM system which they become aware of, including any alleged fraud, corruption, favouritism, unfair conduct, failure to comply with SCM regulation 47(1) or breach of the code of the ethical standards?

Questions that could be asked to obtain assurance

Regarding number 9:

- Did the municipality perform a risk assessment of the SCM system, including actions taken to address the risk related to procurement and contract management?
- Is the risk assessment used to identify deficiencies in internal control, which are then responded to promptly?
- Is a fraud prevention plan in place, including specific measures for preventing and detecting fraud in the procurement process?

Regarding number 10:

- Does internal audit have sufficiently competent, experienced and independent officials who evaluate the controls, processes and compliance with SCM legislation?
- Does management implement the internal audit recommendations promptly"

Regarding number 11:

- Does the audit committee review of the municipality' compliance with laws and regulations include compliance with the SCM regulations?
- Does the audit committee's report on the effectiveness of internal controls cover controls around the SCM system, and are its recommendations attended to promptly?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 3:

PROCUREMENT AND CONTRACT MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS

Control	Applicable laws and regulations
<p>1. Implementation of demand management and the utilisation of procurement plan goods, service or infrastructure projects in a pro-active manner (to get the right price and at the right location, and that the quantity and quality satisfy the needs of the municipality) instead of merely reacting to purchasing requests</p>	<p>SCM reg. 10</p>
<p>2. An effective system of acquisition management to ensure that:</p> <ul style="list-style-type: none"> • the municipality procures typical goods and services following authorised processes and different threshold values only; • expenditure on goods and services is incurred in terms of an approved budget in terms of section 15 of the Act; • quotes are evaluated following the preference point system as prescribed by the PPPF Act; • bid documentation, evaluation and adjudication criteria, and general conditions of a contract, are in accordance with any applicable legislation. 	<p>SCM reg. 11; SCM reg. 12(1)(b) & 16(a); SCM reg. 12(1)(c) & 17(a); SCM reg 19(a)</p> <p>PPPFA Sec 2(1)(a) & (f); PPRs 4(4), 4(5), 5(2), 10, 5(2)&(3), 11(8), PPR 6(1), PPR 11(2), 5(1), 5(4) & 11(4), 5(5) & 11(5) and 7(1); SCM reg. 17(c); SCM reg. 36(2)</p>
<p>3. Appropriate measures are in place and operating effectively where competitive bidding was not followed:</p> <ul style="list-style-type: none"> • This was done only under the following circumstances:- 	<p>SCM reg. 36(1)</p>

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Control	Applicable laws and regulations
<p>i) in an emergency - where immediate action is necessary;</p> <p>ii) if goods or services are produced or available from a sole provider;</p> <p>iii) for the acquisition of special works of art or historical objects;</p> <p>iv) acquisition of animals for zoos; or</p> <p>iv) in any other exceptional case where it is impractical or impossible to follow the official procurement process.</p> <ul style="list-style-type: none"> The deviation from inviting competitive bids was recorded and approved by the accounting officer or delegated official, was reported to the next council/ board meeting, was disclosed in the notes to the annual financial statements is not indicative of fraud. 	<p>SCM reg. 36(2)</p>
<p>4. The utilisation of a list of accredited prospective providers or, if not from the list, the providers meet the listing criteria in the SCM policy</p>	<p>SCM reg. 16(a); SCM reg. 17(b)</p>
<p>5. Proper committee systems exist, and bid documentation is maintained in a manner that is complete, appropriate and accurate</p>	<p>SCM reg. 27(2)(a) & (e); SCM reg 27(2)(g); SCM reg 27(4) SCM reg. 21(b); PPR 3(b); PPR 9(1); Instruction Notes on Designated Sectors; PPR 4(1); PPR 4(3); SCM reg. 28(1)(b)</p> <p>SCM reg. 28(2)(a); SCM reg. 28(2)(b); SCM reg. 29(1)(b); SCM reg. 29(2); SCM reg. 29(5)(a)(ii) & (b)(ii); SCM reg. 29(4); MFMA sec 117</p>

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Control	Applicable laws and regulations
	MFMA sec 112 – fairness; PPR 9(5); PPR 14; SCM reg 13(b); SCM reg 43; SCM reg. 28(1)(a)(I); PPR 8; SCM reg 38(1)(d)(ii) & (g)(iii); SCM reg 38(1)(e); SCM reg 38(1)(g)(i) SCM reg 38(1)(g)(ii); SCM reg 28(1)(c); SCM reg 38(1)(d)(i)
6. Effective measures are implemented to ensure that construction contracts are awarded following the applicable SCM and CIDB legislation	CIDB Act sec 18(1); CIDB reg. 17; CIDB reg. 25 (7A); CIDB regulation 25 (5); CIDB reg. 17
<p>7. Proper mechanisms, controls and safeguards are in place to manage conflict of interest, as it relates to:</p> <ul style="list-style-type: none"> • declarations of interests by SCM officials and role players recorded in a register kept by the accounting officer; • declarations by SCM officials or other role players of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person; • declarations by council members (including the mayor) of their financial interest. <p>controls for staff members to declare their benefits to the council where a staff member, or his/her spouse, partner business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality.</p>	SCM reg. 13(c); SCM reg. 44; MFMA 112(j); SCM reg 46(2)(c) & (6); SCM reg. 47(1) & (3); MFMA sec. 117; SCM reg. 45

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Control	Applicable laws and regulations
8. Utilising effective contract management ensures that the extension, expansion, or variation of a contract is justifiable and not indicative of the circumvention of SCM processes.	MFMA sec. 116
9. 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.	MFMA section 125(2)(d) & (e)

Questions that could be asked to obtain assurance

Regarding number 1:

- Was a procurement plan developed annually?
- Has the municipality established a five-year demand management plan that is aligned to the IDP and MTREF process.
- Has the demand management plan been reviewed and reprioritised annually through a procurement plan?
- Did the accounting officer approve the procurement plan that includes operating and capital expenditure items and any amendments thereto and made it public in terms of section 75 of MFMA?
- How is the plan monitored – who is responsible for monitoring, and how are deviations from the plan dealt with?
- Were written or verbal quotations obtained from at least three prospective suppliers following the requirements of the SCM policy, considering the following threshold values:
 - R2 000 – R10 000 (written or verbal quotations)
 - R10 000 – R30 000 (formal written quotations)
 - R30 000 – R200 000 (formal written quotations)?

Questions that could be asked to obtain assurance

- Were goods and services with a transaction value of more than R200 000 or long-term contracts procured through a competitive bidding process?
- Does procurement take place in accordance with the plan? If not, what actions are being taken to address any non-adherence?
- If it was found that the municipality did not follow a competitive bidding process for contracts (i.e., there were deviations), contracts were extended, variations were done, or projects were delayed or not delivered as a result of poor procurement processes:
 - Was the procurement included in the procurement plan?
 - Why did the procurement not take place in accordance with the plan?

Regarding number 2:

- Does the policy cover all types of procurement and areas of risk, as set out in number 1 above, including emergency procurement, using a sole supplier, deviations from the procurement process, unsolicited bids, extensions, and variations on contracts?
- For written / verbal / formal written quotations:
 - Was the provider with the lowest price quote or that scored the highest on other predetermined criteria was selected? If not, what objective criteria were used to justify that reasonable grounds existed not to select the supplier and was the deviation was recorded and approved by a delegated official?
 - Was the final decision on which quotation to accept made by an appropriately delegated official or committee?
 - What measures are in place to ensure that the total payments made under the quotation did not exceed the original quoted amount?
 - What measures are in place to ensure that the procurement of goods/ works/ services is not deliberately split into parts or items of lesser value merely to avoid complying with the requirements of the SCM policy/SCM regulations?

Questions that could be asked to obtain assurance

- What measures are in place to ensure that quotes are evaluated in accordance with the preference point system as prescribed by the PPPF Act?
- For competitive bidding:
 - Are there documented standard operating procedures for all types of procurement in line with the policy?
 - What tools (e.g., automation, checklists and templates) have been implemented at the institution to enable a consistent and thorough procurement process that reduces the risk of human error?
 - What technical support is available to officials if they are unsure or come across complex issues?
- If it was found that there were failures in the procurement process of the institution resulting in irregular expenditure:
 - What do the policy and procedures prescribe on this matter?
 - Why did the standard procurement process and controls fail?
 - What actions are being taken to improve the controls?
- With regard to the budget:
 - What proof is there that goods, services and infrastructure projects above the value of R10 million (all applicable taxes included) were only be advertised after the CFO has verified in writing that budgetary provision exists for the commencement of the particular project? (There should be proof that budgetary provision exists for the procurement of goods and services and/or infrastructure projects, as well as details of multi-year budgetary implications, including the estimated expenditure if a project will take more than one financial year?)
 - What proof is there of any ancillary budgetary implications related to the bid, for example, if the project is for the acquisition of a municipal asset, does budgetary provision exist for the operation of the asset,

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Questions that could be asked to obtain assurance

maintenance costs relating to the asset, administration costs and rehabilitation/renewal costs?

Regarding number 3:

- Suppose the deviation was based on the procurement being an emergency case. Are the reasons justifiable in that immediate action was necessary to avoid a dangerous or risky situation or misery, or where the time available would have made it impossible/ impractical to go through a competitive bidding process? (It should be noted that a lack of or bad planning does not constitute an urgency or emergency.)
- If the deviation was based on goods/ services being available from a sole provider:
 - Is there evidence to confirm that there are no other available providers for the commodity/ service?
 - Is there is evidence that a thorough market analysis was done to substantiate the sole provider?

Regarding number 4:

- Has the municipality use the central supplier database for the registration of prospective suppliers to assist in performing validation functions of key supplier information, such as confirmation and status of business registration documents; proof of bank account registration; tax compliance status; employee in the service of the state as defined in the municipal SCM Regulations with information only available in the relevant human resources management system at this time, namely national and provincial officials; identity documentation; and tender defaulters and restrictions status?

Regarding point 5:

- What measures are in place to ensure that:
 - the winning bidder or director of the bidder was not involved in the bid specifications committee?

Questions that could be asked to obtain assurance

- the points system was used, as prescribed by the PPPFA?
- the bid specification specified the minimum threshold for local production and content?
- How did the accounting officer ensure that the bid adjudication committee was properly constituted, as per the SCM regulations?

Regarding number 6:

- In respect of construction contracts, how did the accounting officer ensure that:
 - The winning bidder is registered with the CIDB, and whose grading is suitable for the value of the contract?
 - Were the rules pertaining to joint ventures complied with in awarding the tender?
 - Is the contractor registered in the class of construction works to which the projects relate?

Regarding number 7:

- What percentage of officials of the institution completed their annual declaration of interest? What steps are being taken to address the outstanding declarations?
- What process is followed to verify whether officials declared all of their interests? What have been the general findings from the verification process?
- Were any business or personal interests identified that could potentially create a conflict of interest? What safeguards were put in place to prevent officials with such interests from having any influence on a related procurement process?
- Is the declaration of conflicts of interest in procurement processes a standard practice? How has it been implemented, and has it proven to be successful?

Questions that could be asked to obtain assurance

- Explain the membership of the bid specification, evaluation and adjudication committees as defined in the SCM policy and the terms of reference of the committees.
- How are the members safeguarded from undue influence or pressure to favour certain suppliers or prevent them from doing so themselves?
- Are prospective suppliers required to declare whether any state official, political office-bearer or any person involved in the procurement process has an interest in the supplier (business or personal) as a prerequisite for accepting their bid? How is 100% compliance to this requirement ensured?
- What actions are taken to check whether suppliers declared all interests; in other words, how is the validity of their declarations verified?
- What mechanisms are in place for officials, suppliers, and other role players to report any undue influence, fraud, unfair processes, or other system abuses? Provide reports on the number of allegations/complaints reported, the steps taken to investigate and deal with them, and the timelines involved. Where was it found that the complaint was valid, what was done to remedy the matter?
- If it was found that there were unfair or uncompetitive procurement processes at the institution as a result of conflicts of interest:
 - which preventative control failed
 - what actions are being taken to improve the control?

Regarding number 8

- How does the accounting officer ensure that the total payments made under the contract are up to date do not exceed the original contract price plus any further approved extensions to the contract?
- Have effective project management measures been implemented to ensure that goods/services relating to contracts were completed during the current year and were actually received and are being utilised?
- For any extension/modification to the contracts, did the accounting officer table the reasons for the proposed amendment in the municipality's council?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Questions that could be asked to obtain assurance

- What are remedial actions in place to deal with ineffective contract management that could result in irregular and fruitless, and wasteful expenditure?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 4:

CONSEQUENCE MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS

Control	Applicable laws and regulations
<p>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.</p>	<p>MFMA sec. 32; Financial Misconduct Regulations, Local Government: Disciplinary Regulations for Senior Managers, Municipal Systems Act concerning the applicability of disciplinary collective agreements.</p>
<p>2. Historical irregular expenditure is dealt with expeditiously by the municipal public accounts committee.</p>	<p>MFMA sec. 32</p>

Questions that could be asked to obtain assurance
<p>Regarding numbers 1 and 2:</p> <ul style="list-style-type: none"> • How is consequence management implemented to give effect to section 32(2)(b) of the MFMA and the related Financial Misconduct Regulations, and what is the current status of consequences implemented in the case of irregular expenditure, financial misconduct, possible fraud and abuse of the SCM system and transgressions of the relevant laws and regulations and the municipality's policies? • How is it ensured that officials are aware of the consequences of poor performance and transgressions?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

- Is the municipal accounts committee adequately capacitated to investigate irregular expenditure successfully?
- Does the municipal accounts committee receive sufficient assistance in further research and follow-up on the reports referred to them for consideration and investigation?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 5:

MANAGEMENT OF CREDITORS' PAYMENTS AND OTHER SUGGESTED CONTROL MEASURES TO PREVENT FRUITLESS AND WASTEFUL EXPENDITURE

Control	Applicable laws and regulations
1. Implementing robust financial management, including effective revenue and budget management, to ensure sufficient cash flow is available to pay creditors on time	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	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	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.	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	MFMA sec. 32; MFMA 32(4)

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

<p>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</p>	<p>MFMA section 125(2)(d) & (e)</p>
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Questions that could be asked to obtain assurance

Regarding numbers 1 to 3:

- Are the management, accounting and information systems operating effectively to ensure that expenditure when it is incurred; accounts for creditors; and accounts for payments made?
- Is the system of internal control in respect of creditors and payments sufficiently robust to ensure that payment of short-term debt is made as it falls due, considering the requirements of MFMA circular 49, Non-payment of obligations?
- What measures did the accounting officer put in place to deal with long outstanding creditors to avoid further penalties and interest that result in fruitless and wasteful expenditure?
- Did the accounting officer inform the mayor in writing whether any person was responsible or investigated for such fruitless and wasteful expenditure, and were steps taken to recover such expenditure, where applicable?

Regarding numbers 4 and 5:

- How is consequence management implemented to give effect to section 32(2)(b) of the MFMA and the related Financial Misconduct Regulations?
- What is the current status of consequences implemented in fruitless and wasteful expenditure, related financial misconduct and transgressions of the relevant laws and regulations and the municipality's policies?
- How is it ensured that officials are aware of the consequences of poor performance and transgressions?
- Is the municipal accounts committee adequately capacitated to investigate fruitless and wasteful expenditure successfully?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Questions that could be asked to obtain assurance

- Does the municipal accounts committee receive sufficient assistance in further research on the reports referred to them for consideration and investigation?

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 6:

SUGGESTED INCREMENTAL TARGETS IN RESPECT OF THE IFW OUTCOME INDICATORS OVER THE 2019-2024 MTSF PERIOD

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 in public sector institutions	2019-20 baseline	50% reduction of irregular expenditure in public sector institutions incrementally from baseline of 2019-20 by 2024	60% reduction of irregular expenditure in public sector institutions incrementally from baseline of 2019-20 by 2024	70% reduction of irregular expenditure in public sector institutions incrementally from baseline of 2019-20 by 2024	75% reduction of irregular expenditure in public sector institutions incrementally from baseline of 2019-20 by 2024
	Percentage elimination of wasteful and fruitless expenditure in public sector institutions	2019-20 baseline	50% elimination of fruitless and wasteful expenditure in the public sector institutions incrementally from baseline of 2019-20 by 2024	70% elimination of fruitless and wasteful expenditure in the public sector institutions incrementally from baseline of 2019-20 by 2024	90% elimination of fruitless and wasteful expenditure in the public sector institutions incrementally from baseline of 2019-20 by 2024	100% elimination of fruitless and wasteful expenditure in the public sector institutions incrementally from baseline of 2019-20 by 2024

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

ANNEXURE 7:

SUGGESTED TEMPLATE / GUIDANCE FOR THE UIFW EXPENDITURE REDUCTION STRATEGY / PLAN

NAME OF MUNICIPALITY

SUGGESTED FORMAT FOR THE UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE REDUCTION PLAN / STRATEGY

Purpose

- State the purpose of the document.

Background

- List the identified deliverables and the related problem statement(s).
- Include the goals set out in the medium-term strategic framework (MTSF) to reduce irregular expenditure by 75% by 2024 and eliminate fruitless and wasteful expenditure by 100% by 2024.

Applicable legislation

- MFMA
- Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings
- Municipal Budget and Report regulations
- SCM Regulations and related legislation
- Municipal Systems Act and related regulations
- Municipal Structures Act and related regulations
- Any other applicable legislation and future applicable legislation.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Summary of scope and objectives

Consider the following matters set out in the table below and include, as applicable.

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

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

No	Deliverable	Scope	Objectives
			<ul style="list-style-type: none"> submit a motivation explaining its recommendations to the council for a final decision in terms of section 32(2) of the MFMA
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 	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.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

No	Deliverable	Scope	Objectives
		and production of an investigation report	
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.

Roles and responsibilities in respect of the unauthorised, irregular and fruitless and wasteful expenditure

- Accounting officer
- Other municipal officials
- Municipal council
- Council committee / municipal public accounts committee
- Disciplinary Board
- Internal audit
- Audit committee
- HR department
- Etc.

Risk identification and mitigation

List details of any significant risks (internal and external factors) that could impact the municipality's efforts to achieve the relevant MTSF goals within the municipality's planned timeframes, budget, and requirements. Mitigating actions should be identified for each identified risk.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

UIFW Expenditure action plans

Number:	Actions	Timelines	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

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Suggested incremental targets in respect of the UIF&W expenditure outcome indicators over the 2019-2024 MTSF period

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	20% reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024	40% reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024	60% reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024	75% reduction of irregular expenditure incrementally from baseline of 2019-20 by 2024
	Percentage elimination of wasteful and fruitless expenditure	2019-20 baseline	20% elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	50% elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	75% elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024	100% elimination of fruitless and wasteful expenditure incrementally from baseline of 2019-20 by 2024

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Details of reducing historical irregular and wasteful expenditure to achieve the medium-term strategic framework goals

Nature of irregular and fruitless and wasteful (IFW) expenditure	Amount	Financial year to which the IFW expenditure relates	Planned date of reporting the IFW expenditure to the council	Planned date of the council resolution to refer the IFW expenditure to a council committee for investigation	Planned date/timeframe of the investigation of the IFW expenditure by the council committee	Planned date for the council committee report on its recommendations to the council for a final decision in terms of section 32(2) of the MFMA	Planned date for the council decision to recover or certify the IFW expenditure as irrecoverable and for write-off	Planned date to implement the council decision in respect of any related disciplinary or criminal proceedings	Timeframe to implement the council resolution related to any recovery or write-off and/or disciplinary or criminal proceedings
			<i>Accounting officer</i>	<i>Municipal council</i>	<i>Council committee</i>	<i>Council committee</i>	<i>Municipal council</i>	<i>Municipal council</i>	<i>Accounting officer</i>
Note 1	Note 2	Note 3	Note 4		Note 5	Note 6	Note 7	Note 7	Note 8

Note 1: Summarise the nature of the IFW expenditure, based on the classification by management and/or the related audit findings, for example, non-compliance with supply chain management regulations. This can be specific and presented in categories, for example, SCM regulations 36, SCM regulation 32, MFMA section 33, MFMA section 116, etc.

Note 2: Provide the total amount of the IFW expenditure subject to the MFMA section 32 process. The recorded amount(s) should be supported by detailed listings making up that amount, including supporting documentation and responsible persons, based on the investigation of the accounting officer, the UIFW expenditure register and the audited financial statements.

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Note 3: Include the financial year(s) to which the IFW expenditure relates, as per the audited financial statements of the municipality.

Note 4: The accounting officer must prepare a report, including full details of the IFW, as per the relevant registers and audited financial statements, as required by MFMA section 32(4).

Note 5: The council committee, normally the municipal public accounts committee, should determine the terms of reference for the investigation, including the modality of the investigation, for example, through internal audit, the municipal forensic service, etc. *(National Treasury does not encourage the use of external service providers to conduct section 32(2) investigations).*

Note 6: The council resolution should reflect the council's decision to recover UIFW expenditure from the person liable for that expenditure unless the expenditure (a) in the case of unauthorised expenditure is (i) authorised in an adjustments budget; or (ii) certified by the municipal council, after an investigation by a council committee, as irrecoverable and written off by the council; and (b) in the case of IFW expenditure, is, after an investigation by a council committee, certified by the council as irrecoverable and written off by the council.

Note 7: The dates are important to track to ensure that the council resolutions in respect of UIFW expenditure are implemented.

Note 8: According to section 32(5) of the MFMA, the writing off in terms of subsection (2) of any UIFW expenditure as irrecoverable is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this

REDUCTION STRATEGY FOR UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL MUNICIPALITIES AND MUNICIPAL ENTITIES

Act (MFMA) relating to such unauthorised, irregular or fruitless and wasteful expenditure. The accounting officer must also report to the South African Police Service all cases of alleged irregular expenditure that constitute a criminal offence and theft and fraud that occurred in the municipality, as per section 32(5) of the MFMA. In this regard, effect should be given to the requirements of the Municipal Financial Regulations on Financial Misconduct Procedures and Criminal Proceedings. The municipality should implement a separate process to track and monitor the actions in implementing the requirements of these regulations.

Implementation of controls to prevent unauthorised, irregular and fruitless and wasteful expenditure

Municipalities should identify and document the preventative controls that should be implemented to establish a sound control environment related to preventing and reducing irregular and fruitless, and wasteful expenditure. The document should address what the municipality should implement to reduce risks in the procurement and contract management (as the main cause for irregular expenditure) and risks in the management of creditors' payments (as the main cause for fruitless and wasteful expenditure).

The preventative controls should consider the identified internal control deficiencies (root causes) that give rise to the irregular and fruitless, and wasteful expenditure, as identified through the external and internal audit processes to prevent such expenditure in the future. Such controls, for example, should focus on strengthening the control environment, procurement and contract management, consequence management and financial management as it relates to preventing penalties and interest and losses related to the late or non-payment of creditors.

The designed controls should also focus on detecting irregular and fruitless and wasteful expenditure where such expenditure has been incurred to deal with it under the requirements of the MFMA (for example, in respect of reporting, investigation and disclosure in the annual financial statements).

Importantly, consideration should also be given to the requirement for consequence management to deal with any related financial misconduct according to the Municipal Financial Misconduct Regulations and Criminal Proceedings requirements.

Monitoring and evaluation

Provide details on how the initiatives to achieve the various milestones set out in the strategy document/plan will be monitored and evaluated to ensure that deliverables are achieved.

Responsibilities for monitoring and evaluation and the timing thereof should be clearly defined.

Communication and reporting

Responsibilities for communication and reporting and the timing thereof should be clearly defined.

REFERENCES:

1. Relevant NT MFMA Circulars, Guides and Regulations
2. AGSA 2018-19 and 2019/20 MFMA general report on local government audit outcomes
3. AGSA preventative controls guide and related compliance controls
4. Municipal Finance Management Act
5. Municipal Systems Act
6. Municipal Structures Act
7. SCM Regulations
8. Financial Misconduct and Criminal Proceedings
9. COSO Framework
10. ISA 315 *Understanding the entity and its environment and assessing the risks of material misstatement*
11. High Court of South Africa (Western Cape Division, Cape town) - Case No: A309/2017
12. 2019-2024 Medium-term strategic framework
13. Various other reference material on internal control
14. NT MFMA FMCMM model
15. NT MFMA Audit Action Plans