

GEORGE MUNICIPALITY

UNAUTHORISED; IRREGULAR; FRUITLESS & WASTEFUL EXPENDITURE (UIF&W) REDUCTION STRATEGY 2023/24

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1. INTRODUCTION

1.1. The George Municipality has one of the lowest balances of Unauthorised; Irregular; Fruitless & Wasteful Expenditure Balances in the Garden Route District and Western Cape Province as at the baseline year of 2019/20. It has further reduced the Unauthorised; Irregular; Fruitless & Wasteful Expenditure Balances in 2020/21 as the UIF&W is continuously investigated and reported to Council through the appropriate delegation system.

1.2. National Treasury model policy introduction contains the following details:

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.

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.

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

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 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 announced during this medium term. The 2019/20 audit findings are used as the baseline. However, the information will be updated from time to time to reflect progress and changes.

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.

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.

4. THE ROLE OF (NT) NATIONAL TREASURY

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.

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.

5. THE ROLE OF (PT) PROVINCIAL TREASURY

2. *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.

6. THE ROLE OF THE ACCOUNTING OFFICER (MM)

- 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 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.

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.

7. THE ROLE OF OTHER OFFICIALS OF A MUNICIPALITY

In terms of section 78(1) of the MFMA, each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that

any unauthorised, irregular, fruitless and wasteful expenditure and any other losses are prevented.

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

- 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.

- 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 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 incurrance 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 ROLEPLAYERS

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.
- 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 UIFW 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 of MFMA NT Circular 111)
 - o Identify the official/department responsible for the irregular expenditure.
 - o 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.
 - o Maintain an up-to-date register on UIF&W expenditure and locate the report with the CFO and internal audit.
 - o Report UIF&W expenditure to the council.
 - o 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).
 - o The accounting officer or his delegated official must refer UIFW expenditure matters for disciplinary processing where appropriate and if so required.
 - o 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).
 - o MPAC to complete the investigation and make recommendations on whether to write-off and recover.
 - o Council reviews reports and resolves on the recoverability of irregular expenditure
 - o Where council resolves to recover UIF&W expenditure, institute recovery process and update UIF&W expenditure register

- o Where council resolves to write-off UIF&W expenditure, update UIF&W expenditure register.
- o Council resolution on write off informs the disclosure note in terms of section 125 of the MFMA and annual financial statements.
- o Identify root causes of the expenditure
- o Develop a plan and implement measures to address root causes and prevent a recurrence.
- o Report to oversight structures, such as the audit committee and the MPAC, to monitor the UIF&W expenditure reduction plan implementation.

11. GUIDANCE TO BE IMPLEMENTED TO IMPROVE THE INTERNAL CONTROL ENVIRONMENT

GUIDANCE ONE – IMPROVING THE CONTROL ENVIRONMENT – PREVENTATIVE CONTROLS

CONTROL	ACTION	TIMELINE	OWNER
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	<ul style="list-style-type: none"> - Ensure all SCM officials have signed the Code of Conduct - Implement Disciplinary or necessary action against staff who breached the code of conduct. 	<p>31 July of each year</p> <p>Ongoing as required</p>	SCM MANAGER / DD: EXP&SCM
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	<ul style="list-style-type: none"> - Review the SCM Organogram to ensure compliance and efficiency - Ensure all staff are enrolled and trained in Minimum Competency - Ensure all SCM staff have signed their job descriptions that reflect assigned 	<p>31 May 2023</p> <p>31 May 2023</p> <p>31 May 2023</p>	SCM MANAGER / DD: EXP&SCM

CONTROL	ACTION	TIMELINE	OWNER
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	tasks and delegations		
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	<ul style="list-style-type: none"> - Annually review the SCM Policy and SOP's as part of the Budget process - Ensure staff sign acknowledgement of SCM policy and SOP reviews annually - Approve UIF&W Policy and Reduction Strategy - Communicate to staff and have SCM staff sign acknowledgement. - Ensure Consequence Management is enforced ito MFMA section 32. 	<p>31 May each year</p> <p>31 July of each year</p> <p>31 May 2023</p> <p>30 June 2023</p> <p>Ongoing as required</p>	SCM MANAGER / DD: EXP&SCM
4. Develop and monitor the implementation of action plans to address internal control deficiencies	<ul style="list-style-type: none"> - Implement Audit Action Plan timeously 	31 July each year	SCM Manager

CONTROL	ACTION	TIMELINE	OWNER
5. Implement proper record keeping promptly to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting	<ul style="list-style-type: none"> - Maintain a suitable hard-copy filing system - Make an electronic backup of hard copies where possible 	<p>31 March 2022</p> <p>31 May 2022</p>	SCM Manager
6. Implement controls over daily and monthly processing and reconciling of transactions	<ul style="list-style-type: none"> - Maintain Segregation between selecting quotes and making payments - Ensure systems are in place to prevent intentional splitting of procurement - Evaluate all Service Providers Performance Monthly with minutes of meetings - Ensure declarations of interest / gifts or benefits are continuously made 	<p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p>	<p>DD: EXP&SCM SCM Manager & Manager: Exp</p> <p>Manager: SCM</p> <p>SCM Practitioner: Contract Management</p> <p>Snr SCM Practitioner: Mr A Mabuto</p>
7. Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information	<ul style="list-style-type: none"> - Ensure all SCM Regulations reporting requirements are adhered to on a monthly; quarterly; & annual basis 	Immediate & Ongoing	SCM Manager: / DD: EXP&SCM

CONTROL	ACTION	TIMELINE	OWNER
8. Review and monitor compliance with applicable laws and regulations	- Ensure all SCM compliance and possible abuse of SCM Policy is reported on a monthly basis	Immediate & Ongoing	SCM Manager: / DD: EXP&SCM / CFO
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	- Conduct annual Risk Assessment of SCM system, procedures and processes - Update SCM areas in Risk registers - Review SCM risks in Fraud prevention plan annually	by 30 June each year by 30 June each year by 30 June each year	SCM Manager: / DD: EXP&SCM / CFO Chief Risk Officer
10. There is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively	- Ensure SCM findings raised by internal and external audit are addressed.	by 30 June each year	SCM Manager: / DD: EXP&SCM / CFO
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	- Ensure Internal audit reports on SCM to the AC covers the compliance with laws & regulations and internal controls	31 December 2023	Chief Audit Executive & SCM Manager

CONTROL	ACTION	TIMELINE	OWNER
including financial and performance reporting and compliance with laws and regulations			

GUIDANCE TWO – PROCUREMENT AND CONTRACT MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS

CONTROL	ACTION	TIMELINE	OWNER
1. Implementation of demand management and the utilisation of procurement plan goods, service or infrastructure projects in a proactive 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	- Develop a Draft procurement plan to be tabled with Draft Budget	31 March each year	DD: EXP&SCM
	- Develop a Final Procurement plan to be tabled with Final Budget	31 May each year	DD: EXP&SCM
	- Report adherence & deviations to procurement plan on a monthly basis	Monthly	SCM Manager
	- Report contracts; contract extensions and variations that should but did not go through a competitive process	Monthly	SCM Practitioner: Contracts Management
2. An effective system of acquisition management to ensure that: <ul style="list-style-type: none"> the municipality procures typical goods and services following authorised processes and 	- Ensure that SOP's are adhered to for procurement thresholds and report variances	Monthly	SCM Manager

CONTROL	ACTION	TIMELINE	OWNER
<p>different threshold values only;</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> - Ensure Budget Manager / Official signs to confirm correct and available budget - Monitor correct BBBEE / preferential points allocation - Ensure continuous controls over evaluation for bid compliance 	<p>Daily</p> <p>Ongoing</p> <p>Ongoing</p>	<p>Manager: Budget Control</p> <p>BEC members</p> <p>BEC members</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: - <ul style="list-style-type: none"> i) in an emergency - where immediate action is necessary; ii) if goods or services are produced or available from a sole provider; iii) for the acquisition of special works of 	<ul style="list-style-type: none"> - Develop a SOP for deviations - Ensure that all deviations are processed as per the SOP - Ensure deviations are reported to the next Council (Section 80) meeting and in the Annual Financial Statements 	<p>30 April 2023</p> <p>02 May 2023 & Ongoing</p> <p>Immediate & Ongoing</p>	<p>SCM Manager</p> <p>SCM Manager</p> <p>SCM Manager</p>

CONTROL	ACTION	TIMELINE	OWNER
<p>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>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>- Ensure procurement is only done from CSD registered Service Providers</p>	<p>Immediate & Ongoing</p>	<p>SCM Staff</p>
<p>5. Proper committee systems exist, and bid documentation is maintained in a manner that is complete, appropriate and accurate</p>	<p>- Ensure all Bid attendance registers; Agenda; & minutes are signed and filed accordingly</p>	<p>Immediate & Ongoing</p>	<p>SCM Manager</p>

CONTROL	ACTION	TIMELINE	OWNER
6. Effective measures are implemented to ensure that construction contracts are awarded following the applicable SCM and CIDB legislation	<ul style="list-style-type: none"> - Ensure that Construction and similar contracts as prescribed by CIDB include the correct CIDB criteria and is advertised on CIDB and correct platforms - Bid award must be made to SP with correct or higher CIDB grading 	<p>Immediate & Ongoing</p> <p>Immediate & Ongoing</p>	<p>Bid Spec Chairperson / SCM Manager</p> <p>BAC Chairperson / SCM Manager</p>
<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. • controls for staff members to declare 	<ul style="list-style-type: none"> - Ensure all SCM staff sign declarations of interests by 01 July each year - Ensure all Directors and MM disclose their interests by 01 July - Ensure all other staff complete declarations upon entry to the institution - Send an annual reminder to all staff to update their declarations of interest 	<p>01 July each year</p> <p>01 July each year</p> <p>Ongoing</p> <p>by 31 May each year</p> <p>Ongoing</p>	<p>SCM Manager</p> <p>SCM Manager</p> <p>Human Resources / SCM Manager</p> <p>SCM Manager</p> <p>SCM Staff</p>

CONTROL	ACTION	TIMELINE	OWNER
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.	- Continuously request MBD declarations from service providers and not less than once per year		
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.	- Before contract payments are approved, SCM Contracts Practitioner to capture in contract register - send 7-month reminder before contract expiry	Ongoing Ongoing	SCM Practitioner: Contracts / Manager: Exp SCM Practitioner: Contracts
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.	- disclose all F&W in the AFS	31 August each year	DD: EXP&SCM / Manager: Exp Manager SCM Manager: AFS

GUIDANCE THREE – CONSEQUENCE MANAGEMENT – SUGGESTED PREVENTATIVE CONTROLS

CONTROL	ACTION	TIMELINE	OWNER
1. There should be consequences for transgressions, a lack of action and	- Ensure policies on UIF&W are approved by Council / Mayco	31 May 2023	Municipal Manager

CONTROL	ACTION	TIMELINE	OWNER
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.	- Circulate approved policy to all users	30 June 2023	Section 56 Managers
	- Ensure All Managers; Directors and SCM staff are aware of policy contents and consequences of UIF&W and poor performance	31 May 2023	Chief Audit Executive / Chief Risk Officer / SCM Manager
	- Cascade PMS to middle managers	31 December 2023	HR Manager / Director: Corporate
2. Historical irregular expenditure is dealt with expeditiously by the municipal public accounts committee.	- Ensure UIF&W investigation reports are tabled to MPAC at least Quarterly	Every quarter as per calendar of meetings	Chief Audit Executive / Chief Risk Officer /

GUIDANCE FOUR – MANAGEMENT OF CREDITORS’ PAYMENTS AND OTHER SUGGESTED CONTROL MEASURES TO PREVENT FRUITLESS & WASTEFUL EXPENDITURE

CONTROL	ACTION	TIMELINE	OWNER
1. Implementing robust financial management, including effective revenue and budget management, to ensure sufficient cash flow is available to pay creditors on time	- Increase collection rate to 95%	30 June 2023	DD: Revenue
	- Monitor Cash forecasting and actuals reports	Quarterly to Audit Committee	CFO
2. Implementing standardised processes and exercising financial discipline that enables the payment	- Prepare monthly cash flow targets and payment listing forecast to ensure timeous	Ongoing	CFO DD: Revenue DD: EXP&SCM

CONTROL	ACTION	TIMELINE	OWNER
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	payment of Creditors		Manager: Expenditure
3. Procurement is economical (the goods/ services are obtained at a reasonable price), and related expenditure was not made in vain and could have been avoided is reasonable care had been taken	<ul style="list-style-type: none"> - Ensure optimal and efficient SCM services - Timeous awarding of tenders - Timeous processing of orders 	Immediate & Ongoing	All Directors / DD: EXP&SCM / SCM Manager
4. There should be consequences for transgressions, a lack of action and poor performance. Consequences should be instituted against officials who fail to comply with applicable legislation, continuously underperform or are negligent, and against those whose actions and decisions cause financial losses.	<ul style="list-style-type: none"> - Ensure policies on UIF&W are approved by Council - Circulate approved policy to all users - Ensure All Managers; Directors and SCM staff are aware of policy contents and consequences of UIF&W and poor performance - Cascade PMS to middle managers 	<p>31 May 2023</p> <p>30 June 2023</p> <p>31 May 2023</p> <p>31 December 2023</p>	<p>Municipal Manager</p> <p>Section 56 Managers</p> <p>Chief Audit Executive / Chief Risk Officer / SCM Manager</p> <p>HR Manager / Director: Corporate</p>
5. Historical fruitless and wasteful expenditure is dealt with expeditiously by	<ul style="list-style-type: none"> - Ensure UIF&W investigation reports are tabled to MPAC at least Quarterly 	Every quarter as per calendar of meetings	Chief Audit Executive / Chief Risk Officer /

CONTROL	ACTION	TIMELINE	OWNER
the municipal public accounts committee			
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	- Ensure F&W register is complete and reported in the AFS at year end	31 August each year	DD: EXP&SCM / Manager: Exp Manager SCM Manager: AFS

12. STRATEGIES TO BE IMPLEMENTED TO REDUCE UIF&W

INCREMENTAL TARGETS TO ACHIEVE NATIONAL MEDIUM-TERM STRATEGIC FRAMEWORK (MTSF) GOALS

1. To reduce Irregular Expenditure by 75% of the 2019/20 baseline by 2024.
2. To eliminate Fruitless & Wasteful Expenditure by 100% of the 2019/20 baseline by 2024
3. To reduce Unauthorised Expenditure by 75% of the 2019/20 baseline by 2024 (own set goal)

The above goals will be broken down into the following annual targets as per the MTSF document and where targets were missed in prior years, additional efforts must be exerted to catch-up to the current financial year target:

Outcome	Outcome Indicators	Baseline	Incremental Target			Main Target
			2020-21	2021-22	2022-23	2023-24
Sound Financial controls and management of public finances	Percentage reduction of irregular expenditure in George Municipality	2019/20 Audited AFS baseline of R3,527,769	5% reduction of irregular expenditure incrementally from the baseline of 2019/20 by 2024	15% reduction of irregular expenditure incrementally from the baseline of 2019/20 by 2024	50% reduction of irregular expenditure incrementally from the baseline of 2019/20 by 2024	75% reduction of irregular expenditure incrementally from the baseline of 2019/20 by 2024
	Percentage reduction of fruitless & wasteful expenditure in	2019/20 Audited AFS baseline of R518,903	50% elimination of fruitless & wasteful expenditure incrementally from the baseline of	75% elimination of fruitless & wasteful expenditure incrementally from the baseline of	90% elimination of fruitless & wasteful expenditure incrementally from the baseline of	100% elimination of fruitless & wasteful expenditure incrementally from the

Outcome	Outcome Indicators	Baseline	Incremental Target			Main Target
			2020-21	2021-22	2022-23	2023-24
	George Municipality		2019/20 by 2024	2019/20 by 2024	2019/20 by 2024	baseline of 2019/20 by 2024
	Percentage reduction of unauthorised expenditure in George Municipality	2019/20 Audited AFS baseline of R880,734	5% reduction of unauthorised expenditure incrementally from the baseline of 2019/20 by 2024	15% reduction of unauthorised expenditure incrementally from the baseline of 2019/20 by 2024	50% reduction of unauthorised expenditure incrementally from the baseline of 2019/20 by 2024	75% reduction of unauthorised expenditure incrementally from the baseline of 2019/20 by 2024

**UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE (UIF&W)
REDUCTION STRATEGY POLICY**

This Policy is effective from the date of approval by the Council, as per the approved system of Delegations of the George Municipality.

Signed at GEORGE on the day of 12 June 2023.



**DR MR GRATZ
MUNICIPAL MANAGER**