




# UIF&W EXPENDITURE REDUCTION STRATEGY

## CIGFARO

Office of the Accountant-General  
MFMA Implementation

Represented by:  
**MFMA Implementation**



Date: 18 November  
2021





**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

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NATIONAL TREASURY
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## 2019-24 MEDIUM-TERM STRATEGIC FRAMEWORK GOALS

**MTSF  
2019-24**

Government's  
five-year  
implementation  
plan and an  
integrated  
monitoring  
framework

- Includes seven priorities and mechanisms to monitor outcomes, indicators and targets towards the achievement of the priorities
- Priority 1: To build a capable, ethical and developmental state**

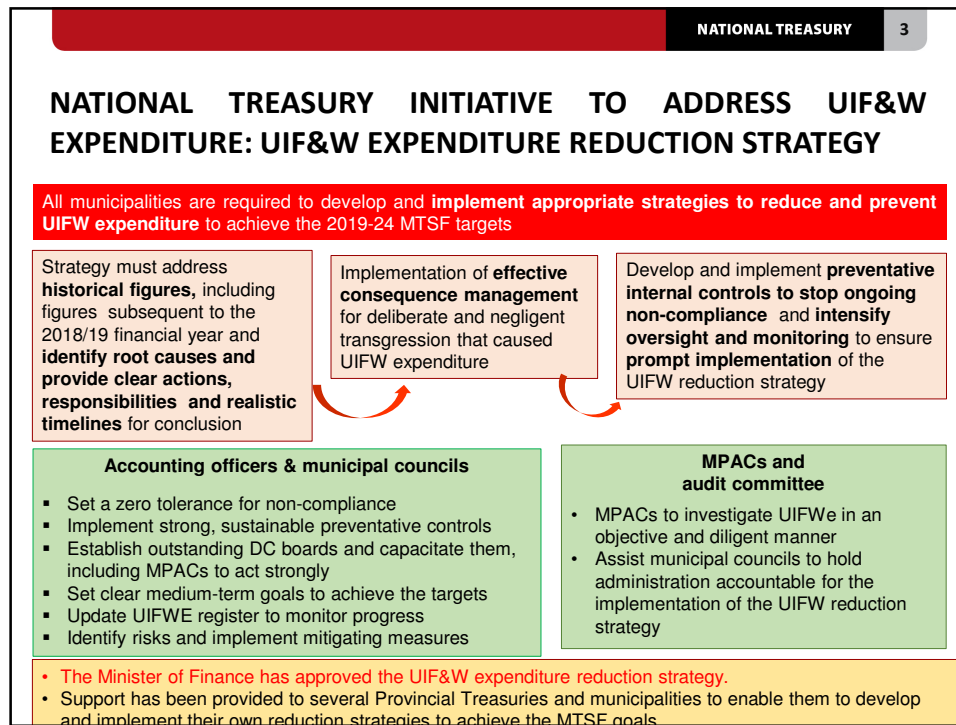
**Some key outcomes of priority 1**

- Improve governance and accountability
- Improve financial management capability in the public sector
- Eliminate wasteful, fruitless and irregular expenditure in the public sector**
- Reduction of qualified audits
- Programme to prevent and fight corruption in government

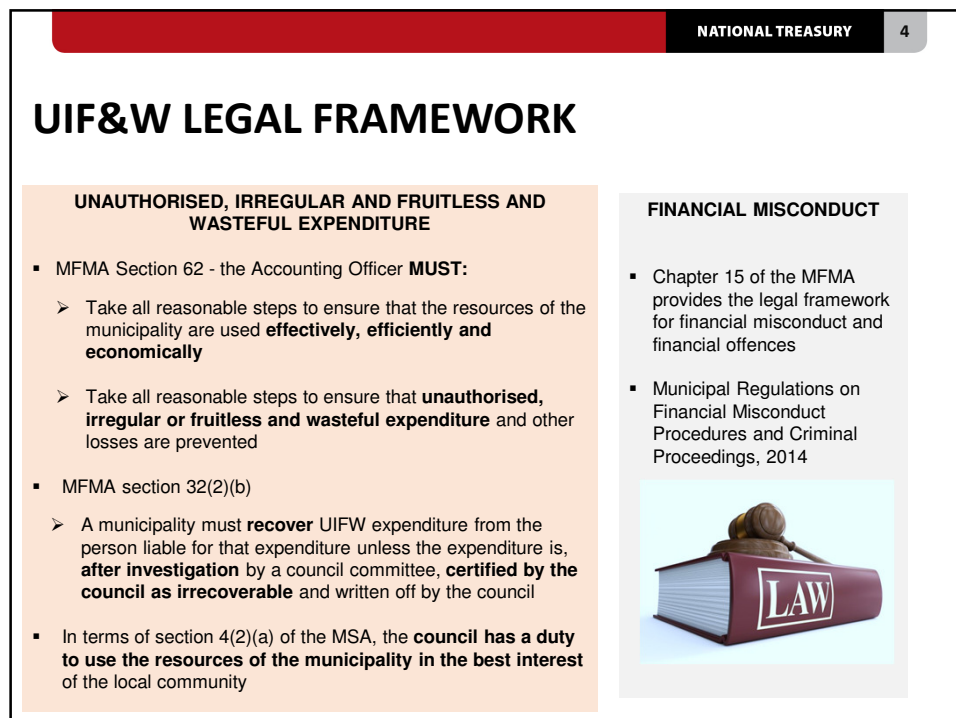
Outcome	Outcome indicator	Baseline	Five-year target
Sound financial controls and management of public Finances	Percentage elimination of <b>wasteful and fruitless expenditure</b> in public sector institutions	2018 Baseline	<b>100% elimination</b> of wasteful and fruitless expenditure in the public sector institutions incrementally from baseline of 2019 by 2024
	Percentage reduction of <b>irregular expenditure</b> in public sector institutions	2018 Baseline	<b>75% reduction</b> of irregular expenditure in public sector institutions incrementally from baseline of 2019 by 2024

**This forms part of the 6 game-changers to address the audit outcomes**

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## INVESTIGATION AND REPORTING: SECTION 32 OF THE MFMA

### Investigation

#### Section 32(2) of the MFMA:

A municipality must recover UIFW expenditure from the person liable for that expenditure unless the expenditure, in the case of **unauthorised expenditure**:

- authorised in an adjustments budget; or
- certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
- in case of **irregular or fruitless and wasteful expenditure**, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council



### Reporting

The AO 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;
- whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- the steps that have been taken—
  - ☐ to recover or rectify such expenditure; and
  - ☐ to prevent a recurrence of such expenditure.



Munis must put internal controls in place to prevent UIFW

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## ADDRESSING UIFW EXPENDITURE: ROLE OF MUNICIPALITIES AND TREASURIES

### Role of municipalities

- Municipal managers to **address conditions that result in slow investigation** of UIFW expenditure
- Establish **robust preventative internal controls** to enable compliance with SCM legislation that will prevent UIFW expenditure
- Set a **tone of zero tolerance** for non-compliance
- **Develop and implement a clear strategy to reduce UIFW expenditure** to achieve the MTSF goals
- Establish **functional disciplinary boards**, as soon as practically possible (applicable to non-compliant municipalities) with **council-approved terms of reference**
- **Undertake probity audits** in relations to contracts exceeding R10m – internal audit to be utilised to provide assurance

### Role of treasuries

- Develop a **clear strategy and plan to support** its municipalities in **reducing UIFW expenditure**, given the MTSF priority 1 indicators
- More actively **support MPACs**, as a key player in the UIFW value chain, to address **conditions that result in the slow investigation** of UIFW expenditure
- Actively support **establishment of disciplinary boards and provide capacity-building**
- **Work more closely with strategic partners** who also has a key role to play in the UIFW value chain albeit from a different perspective
- Promote the implementation of **consequence management**
- **NT to target top 10 UIFW (NDM) and each PT target top 10 UIFW (Delegated) = 100 Muni.**

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## ADDRESSING UIFW EXPENDITURE: ROLE OF INTERNAL AUDIT AND AUDIT COMMITTEE

### Internal audit

- Established i.t.o section 165 of the MFMA
- **Proactive approach to assurance**
  - Provides independent, objective assurance and consulting to add value to and improve an organisation's operations
  - It evaluates and improve the effectiveness of risk management, control and governance processes
  - 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 can advise and provide assurance on the development and implementation of the IF&W reduction strategy

### Audit committee

- Established i.t.o section 166 of the MFMA
- **Proactive approach to assurance**
  - Advises the municipal manager and council on governance, risk management and control frameworks, compliance and performance management
  - Assist in following up on implementation of financial misconduct regulations and make recommendations to council.
  - May investigate municipal financial affairs, but not similar in nature to the disciplinary board investigation, which relates to the conduct of individuals.
- Can advise municipal manager on the implementation of the IF&W reduction strategy and provides assurance on the adequacy, reliability and accuracy of the strategy.

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## ADDRESSING UIFW EXPENDITURE- FINANCIAL MISCONDUCT: DISCIPLINARY BOARD'S ROLE

- Must conduct a **preliminary investigation** into the allegations
- If allegation is **frivolous, vexatious, speculative or obviously unfounded**, terminate investigation
- If allegations are founded, **conduct full investigation** by:
  - the disciplinary board
  - an independent person with specialist expertise who is not an official, or
  - a provincial structure to conduct investigations
- Provides **recommendations** to council on further steps to be taken regarding **disciplinary proceedings**, or any other relevant steps to be taken.
- **Monitor** the institution of **disciplinary proceedings** against an alleged transgressor.

### Matters for considerations

- ✓ Does **reasonable cause** exist that an act of financial misconduct has been committed **before** reporting it to the disciplinary board?
- ✓ Has the matter been reported to the disciplinary board **after** receiving a report on alleged financial misconduct that was tabled in council?
- ✓ Disciplinary board must be **effective**.

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## RECOMMENDATIONS

Accounting officers should:

- Implement a proactive approach to identify risks affecting their municipalities and ensure that these risks are mitigated by implementing appropriate preventative controls.
- Intensify oversight and monitoring to ensure that audit action plans are adequate and implemented diligently to address persistent internal control deficiencies, including those causing repeat material findings on supply chain management (internal audit and audit committees can assist to monitor the implementation of the AAPs)
- Enforce accountability and hold officials accountable for the failure regarding UIFW expenditure – municipal leadership must be accountable for their actions and create a culture of zero tolerance for transgressions and non-compliance with legislation.
- Ensure that controls and oversight mechanisms are in place to proactively prevent or detect non-compliance, while continuously monitoring the control environment
- Develop and implement a clear strategy to reduce unauthorised, irregular and fruitless and wasteful expenditure to achieve the medium-term strategic framework priorities in this regard and implement appropriate internal control measures to respond to the guidance and support from the treasuries to achieve the MTSF targets
- Facilitate and support the ongoing capacitation of MPACs to investigate UIFW expenditure
- Use internal audit to undertake probity audits in relations to contracts exceeding R10m – internal audit to be involved to provide assurance on compliance with SCM Regulations and related legislation.
- Address the deteriorating financial health of their municipalities

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## RECOMMENDATIONS (CONTINUED)

- Municipal councils should:
- Address conditions that result in slow investigation of UIFW expenditure
- Be effective and instil order, institute investigations to determine if anyone is liable for UIFW expenditure incurred and take the necessary corrective actions
- Encourage all political and municipal leaders to support each other and play their roles in creating an environment that is conducive to good governance, accountability and oversight
- Enforce Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, including the establishment of the disciplinary boards
- Not write off UIFW expenditure without ensuring that losses had not been suffered or that any such losses cannot be recovered and that goods and services have been delivered

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## Contact

All enquiries to be submitted to MFMA helpdesk  
Email: [mfma@treasury.gov.za](mailto:mfma@treasury.gov.za)  
Mark subject email -  
Name of Municipality : UFWe Reduction Strategy

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DISCUSSION

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