

**GREATER TZANEEN MUNICIPALITY UIFW  
REPORT: 2018/19 FY**



**UNAUTHORISED, IRREGULAR, FRUITLESS  
AND WASTEFUL EXPENDITURE (UIFW)  
INVESTIGATION REPORT: 2018/2019 FY**

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## **ABBREVIATIONS**

<i>MFMA</i>	<i>Municipal Finance Management Act (Act No 56 of 2003);</i>
<i>STRUCTURES ACT</i>	<i>Local Government: Municipal Structures Act, (Act No 117 of 1998);</i>
<i>SYSTEMS ACT</i>	<i>Local Government: Municipal Systems Act, (Act No 32 of 2000);</i>
<i>“Constitution”</i>	<i>means the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996);</i>
<i>PFMA</i>	<i>Public Finance Municipal Act (Act No.1 of 1999 as amended by Act 29 of 1999);</i>
<i>GTM</i>	<i>Greater Tzaneen Municipality;</i>
<i>AO</i>	<i>Accounting Officer</i>
<i>IA</i>	<i>Internal Audit</i>
<i>AC</i>	<i>Audit Committee</i>
<i>RMU</i>	<i>Risk Management Unit</i>
<i>RMC</i>	<i>Risk Management Committee</i>
<i>UIF</i>	<i>Unauthorised, Irregular or Fruitless and Wasteful Expenditure</i>
<i>SAPO</i>	<i>South African Post Office</i>

## DEFINITIONS

***Accounting Officer***” means: *Municipal Manager* in a municipality and *Chief Executive Officer* in a municipal entity.

***“Audit Committee”*** means: an independent committee constituted to review the control, governance and risk management within the institution established in terms of Section 166 of MFMA.

***“Internal Audit”*** means: an official within the municipality responsible for internal audit activities.

***“Executive Authority”*** means: The Municipal Council in a municipality and Municipal Council of its parent municipality

***“Internal Auditing”*** means: an independent, objective assurance and consulting activity designed to add value and improve municipal’s operations. It helps the municipality to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

***“Management”*** means: all senior officials of the municipality.

***“MFMA”*** means: Municipal Finance Management Act

***“Risk Management Committee”*** means: a committee appointed by Accounting Officer to review the municipality’s system of risk management.

***“Risk Management Unit”*** means: a business unit responsible for coordinating and supporting the overall institutional risk management process, but which does not assume the responsibilities of management for identifying, assessing and managing risk.

***“Councillor”*** means member of municipal council of Greater Tzaneen Municipality

***“Fruitless and wasteful expenditure”*** means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

**“Financial Misconduct”** means any misappropriation, mismanagement, waste or theft of the finances of a municipality, and also includes any form of financial misconduct specifically set out in sections 171 and 172 of the Act.

**“Financial Misconduct Disciplinary Board”** means a disciplinary board that is an independent advisory body that assists the council or the board of directors with the investigation of allegations of financial misconduct, and provide recommendations on further steps to be taken regarding disciplinary proceedings, or any other relevant steps to be taken as defined in terms of chapter 2, paragraph 4(2) of Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings

**“Irregular expenditure”**, in relation to a municipality or municipal entity, means:

- a) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- b) expenditure incurred by a municipality 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

**“Overspending”** means:

- a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be;
- b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section.

**“Political Office Bearer”** means the speaker, executive mayor, mayor, deputy mayor, or a member of the executive committee as referred to in the Municipal Structures Act.

**“Prohibited expenditure”** means unauthorised, irregular, fruitless and wasteful expenditure;

**“Senior Manager”** has the meaning assigned to it in section 1 of the MFMA and in relation to Greater Tzaneen Municipality refers to Directors and CFO

**“Unauthorised expenditure”** any expenditure incurred by a municipality other than in accordance with section 15 or 11(3), 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;
- e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” other than in accordance with any conditions of the allocation; or grant by GTM;
- f) Any grant to an individual or household unless it is in terms of the municipality’s indigent policy, bursary scheme, corporate social responsibility policy, councillors discretionary grant or the grants-in-aid ;
- g) Unforeseen and unavoidable expenditure not authorised within an adjustments budget within 60 days after the expenditure was incurred; and
- h) Any overspending on non-cash items, for example depreciation, impairments, provisions.

**“Vote”** means:

- a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different department or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

**“Official”** in relation to Greater Tzaneen Municipality, means:

- a) an employee of the municipality;
- b) a person contracted by the municipality to work as a member of the staff.

## 1. INTRODUCTION

The Auditor-General has highlighted an escalating trend in unauthorised, irregular, fruitless and wasteful expenditure (UIFW) in municipalities over recent years which is evident in the audit reports and annual reports.

This report relates to the investigation of unauthorized expenditure of **(R83 025 989.00)**, irregular expenditure of **(R 19 073 994.89)** and fruitless and wasteful expenditure of **(R9 975 974.30)** which occurred in 2018/2019 financial year. In terms of section 62 of the Municipal Finance Management Act No. 56 of 2003 (herein referred to as “MFMA”), the accounting officer is responsible for managing the financial affairs of Greater Tzaneen Municipality (GTM) and he must, for this purpose, inter alia:

- a) Take all reasonable steps to ensure that unauthorised, irregular; fruitless and wasteful expenditure and other losses are prevented; and
- b) Ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official or councillor of the municipality who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

This is to ensure the effective, efficient and transparent systems of financial, risk management and internal control.

**Section 32 (2)** of the Local Government Municipal Finance Management Act 56 of 2003 “unauthorised, Irregular, fruitless and wasteful expenditure” states that: “*a Municipality must recover unauthorised, irregular, fruitless and wasteful expenditure from the person liable for such expenditure unless the expenditure-*

- (a) In case of unauthorized expenditure. is*
  - (i) authorised in an adjustment budget; or*
  - (ii) Certified by the municipal Council, after investigation by the council committee as irrecoverable and written off by Council; and*
- (b) 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.”*

## **2. LEGISLATIVE MANDATE**

### **Irregular Expenditure**

Local Government Municipal Finance Management Act of 2003 Circular No 68 on Unauthorised, Irregular, Fruitless and Wasteful expenditure states that: in terms of section 32(2)(b) irregular expenditure may only be written-off by Council if, after an investigation by a Council committee, that irregular expenditure is certified as irrecoverable. In other words writing-off is not a primary response, it is subordinate to the recovery processes, and may only take place if the irregular expenditure is certified by Council as irrecoverable, based on the findings of an investigation.

Local Government Municipal Finance Management Act of 2003 Section 170 (2) states that only the National Treasury may condone non-compliance with a regulation issued in terms of the MFMA or a condition imposed by the Act itself. The municipal Council therefore has no power in terms of the MFMA to condone any act of non-compliance in terms of the MFMA or any of its regulations.

There is no provision in the MSA that allows a contravention of the Act (law) to be condoned. Nevertheless, should a municipality wish to request that an act of non-compliance with any provision of the MSA be condoned, then the Accounting Officer should address the request to the Minister of Co-operative Governance and Traditional Affairs, who is responsible for administering the MSA. The resultant expenditure should however be dealt with in terms of section 32(2) of the MFMA.

With reference to (c) as defined – there is no provision to allow irregular expenditure resulting from a contravention of the Public Office-Bearers Act to be condoned. This is consistent with section 167(2) of the MFMA, which provides that such irregular expenditure cannot be written-off and must be recovered from the political office-bearer concerned.

With reference to (d) as defined – a council may condone a contravention of the council approved SCM policy or a by-law giving effect to such policy, provided that the contravention, is not also a contravention of the MFMA or the SCM regulations, in which case (a) applies and then only National Treasury can condone a contravention of the SCM regulations. Any such requests must be accompanied by a full motivation and submitted to [mfma@treasury.gov.za](mailto:mfma@treasury.gov.za) for consideration.

## **Unauthorised Expenditure**

MFMA Circular No 68 Municipal Finance Management Act No. 56 of 2003 on Unauthorised, Irregular, Fruitless and Wasteful expenditure states that;

*“In considering authorisation of unauthorised expenditure, Council must consider the following factors:*

- (i) Has the matter been referred to Council for a determination and decision?*
- (ii) Has the nature, extent, grounds and value of the unauthorised expenditure been submitted to Council?*
- (iii) Has the incident been referred to a council committee for investigation and recommendations?*
- (iv) Has it been established whether the Accounting Officer or official or public office bearer that made, permitted or authorised the unauthorised expenditure acted deliberately or in a negligent or grossly negligent manner?*
- (v) Has the Accounting Officer informed Council, the Mayor or the Executive Committee that a particular decision would result in an unauthorised expenditure as per section 32(3) of the MFMA?*
- (vi) Are there good grounds shown as to why an unauthorised expenditure should be authorised? For example:*
  - the Mayor, Accounting Officer or official was acting in the best interests of the municipality and the local community by making and permitting unauthorised expenditure;*
  - the Mayor, Accounting Officer or official was acting in good faith when making and permitting unauthorised expenditure; and*
  - the municipality has not suffered any material loss as a result of the action.*

*In these instances, the council may authorise the unauthorised expenditure. If unauthorised expenditure is approved by Council, there would be no further consequences for the political office-bearers or officials involved in the decision to incur the expenditure.”*

## **Fruitless and Wasteful Expenditure**

The processes to respond appropriately to fruitless and wasteful expenditure are similar to the following three processes outlined for irregular expenditure:

- (i) *disciplinary charges* against officials and political office bearers;
- (ii) *criminal charges* against officials and political office-bearers; and
- (iii) *recovery* of the fruitless and wasteful expenditure from the liable persons.

The description of the categories of irregular expenditure in the above three instances can be applied directly to fruitless and wasteful expenditure. The difference is that fruitless and wasteful expenditure can arise in any circumstance and is not dependent on non-compliance with any legislation.

Council should follow section 32(2)(b) of the MFMA when dealing with instances of fruitless and wasteful expenditure. Section 32 (2) MFMA No 56 of 2003 “Unauthorised, Irregular, fruitless and wasteful expenditure”. States that:

*“a Municipality must recover unauthorised, irregular, fruitless and wasteful expenditure from the person liable for such expenditure unless the expenditure-*

*(a) In case of unauthorised expenditure. is*

- (i) authorised in an adjustment budget; or*
- (ii) Certified by the municipal Council, after investigation by the council committee as irrecoverable and written off by Council; and*

*(b) 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.”*

## **MUNICIPAL REGULATIONS ON FINANCIAL MISCONDUCT PROCEDURES AND CRIMINAL PROCEEDINGS Chapter 2, paragraph 4(1)**

**states that** “ A municipal council or board of directors of a municipal entity must establish a disciplinary board to investigate allegations of financial misconduct in the municipality or municipal entity, and to monitor the institution of disciplinary proceedings against an alleged transgressor’.

### 3. PURPOSE OF THE REPORT

The purpose of this submission is to report to Council on the results of the investigations conducted on the 2018/19 unauthorised, irregular, fruitless and wasteful expenditure (UIFW).

### 4. BACKGROUND

Section 32 (2) of the Local Government Municipal Finance Management Act 56 of 2003 "Unauthorised, Irregular, fruitless and wasteful expenditure". States that:

*"a Municipality must recover unauthorised, irregular, fruitless and wasteful expenditure from the person liable for such expenditure unless the expenditure-*

*(c) In case of unauthorized expenditure. is*

*(iii) authorised in an adjustment budget; or*

*(iv) Certified by the municipal Council, after investigation by the council committee as irrecoverable and written off by Council; and*

*(d) 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."*

On the 27th of June 2019 Council resolved that the 2018/19 register of unauthorised, irregular, fruitless and wasteful expenditure (UIFW) be noted and referred for investigation by MPAC as per Council Resolution number **A140 of 27 June 2019**.

### 5. SCOPE OF THE INVESTIGATION

The scope of the investigation will cover 2018/2019 UIF expenditure incurred by the municipality which are accumulated figures of unauthorized expenditure of **R83 025 989.00**, irregular expenditure of **(R 19 073 994.89)** and fruitless and wasteful expenditure of **(R9 975 974.30)**. The scope of the UIF investigation was established by **the Council Resolution number A140 of 27 June 2019**. All relevant information from the opening balances was scrutinized which is covered by the investigation.

It should be noted that despite a diligent effort on our part to obtain all information and documentation relevant to conduct the investigation, we cannot guarantee that such is accurate. Therefore, our opinion and conclusions may change should further documentation or information be obtained or made available to us that materially impacts on this investigation.

The scope of our investigation was limited to an analysis of documentation, information and data made obtained. It should further be noted that this report does not limit the overall scope of this investigation and that GTM may extend the scope of this investigation in the event of further areas of concern and/or irregularities being identified.

**Scope limitation:**

We were not able to interview former Municipal Manager, Director Community Services, Director: Engineering Services and Supply Chain Manager as they are no longer employees of Greater Tzaneen Municipality.

**6. METHODOLOGY**

The procedures performed are based on the information and documentation made available to us during the investigation. The conclusions and recommendations are based on the information obtained through interviews with officials deemed relevant for the investigation and scrutiny of documents obtained. Should further documentation and/or information, previously not divulged to us for whatever reason be made available to ourselves, our conclusions and inferences may change, and if considered necessary, a supplementary report will be issued.

**2018/2019 UIFW INVESTIGATION REPORT**

**7. FRUITLESS AND WASTEFUL EXPENDITURE**

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
1.	Eskom-Bulk Purchases	08/2018	1077737	482 115.50	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom due to cash flow constraints, of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R482 115.50 was incurred and paid during the month of August 2018.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
		11/2018	1079189	354 030.53	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R354 030.53 was incurred and paid during the month of November 2018.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
		12/2018	1079499	803 798.91	Interest of late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom due to cash flow constraints, of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R803 798.91 was incurred and paid during the month of December 2018.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
		01/2019	1079595	1 083 932.73	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom due to cash flow constraints, of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R1 083 932.73 was incurred and paid during the month of January 2019.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
		04/2019	1081142	146 283.99	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R146 283.99 was incurred and paid during the month of April 2019.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
		06/2019	1082113	1 294 480.90	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting Officer)	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom due to cash flow constraints, of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R1 294 480.90 was incurred and paid during the month of June 2019.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
							<b>Recommendation:</b> That the expenditure be written off by Council.
			1082580	609 199.17	Interest on late payment	Budget and Treasury (CFO);  Electrical Engineering: (Director Electrical);  Municipal Manager (Accounting	The expenditure was incurred due to interest paid to Eskom on account overdue. The municipality had long outstanding debt with Eskom due to cash flow constraints, of which interest was incurred, however the municipality made payment arrangements to ensure that the debt is settled, therefore the interest amounting to R609 199.17 was incurred and paid during the month of June 2019.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<b>Recommendations:</b> That the expenditure be written off by Council.
2.	ESKOM- N'wamitwa High Mast	11/2018	1079208/3	50.30	Interest on late payment	Budget & Treasury	<p>The expenditure was incurred due to interest paid to Eskom on overdue account. Invoices were not received on time by the municipality and interest were incurred on invoices received late. The CFO indicated that invoices are normally received late. The municipality made an arrangement with Eskom to send the invoices by email to avoid interest in future.</p> <p><b>Recommendation:</b></p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>It is recommended that the municipality should develop proper systems of control, that is, there is no trace of when the invoice was received by the user departments. The delay in payment of the invoice which attracted the interest cannot be traced.</p> <p>That the expenditure be written off because it is uneconomical.</p>
			1078818/4	38.20	Interest on late payment	Budget & Treasury	The expenditure was incurred due to interest paid to Eskom on overdue account. Invoices were not received on time by

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>the municipality and interest were incurred on invoices received late. The CFO indicated that invoices are normally received late. The municipality made an arrangement with Eskom to send the invoices by email to avoid interest in future.</p> <p><b>Recommendation:</b></p> <p>It is recommended that the municipality should develop proper systems of control, that is, there is no trace of when the invoice was received by the user departments. The delay in payment of the invoice which</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>attracted the interest cannot be traced.</p> <p>That the expenditure be written off because it is uneconomical.</p>
		03/2019	1080326/9	871.42	Interest on late payment	Budget Treasury &	The expenditure was incurred due to interest paid to Eskom on overdue account. Invoices were not received on time by the municipality and interest were incurred on invoices received late. The CFO indicated that invoices are normally received late. The municipality made an arrangement with Eskom to

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>send the invoices by email to avoid interest in future.</p> <p><b>Recommendation:</b></p> <p>It is recommended that the municipality should develop proper systems of control, that is, there is no trace of when the invoice was received by the user departments. The delay in payment of the invoice which attracted the interest cannot be traced.</p> <p>That the expenditure be written off.</p>
3.	DBSA-LTL Redemption	01/2019	1079702	8 723.36	Interest on late payment	Budget Treasury (Expenditure Division) &	The expenditure was incurred due to interest paid to DBSA

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>on overdue account. The municipality received the invoice on the 11<sup>th</sup> of December 2018. Payment was effected on the 22<sup>nd</sup> of January 2019. This was a penalty interest payable on instalment not paid by the due date. The payment processed did not go through the bank because of a system error by the due date for the loan repayment.</p> <p><b>Recommendation:</b> That the expenditure be written off.</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
4.	Eskom-Nkowa Nkowa Stadium House	02/2019	1080021/2	44.07	Interest on late payment	Given Mokwena (lessee)	<p>The expenditure was incurred due to interest paid to Eskom on overdue account. The municipality received the invoice on 15<sup>th</sup> of January 2019. Payment was effected on the 15<sup>th</sup> of February 2019. The municipal employee has entered into a lease agreement with the municipality from 1 June 2017 to 30 may 2018, however the lessee was not making payment for the electricity bill which resulted in interest being incurred.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
							Disciplinary Board as it appears to have an element of financial misconduct.
		05/2019	1081633/6	43.01	Interest on late payment	Given Mokwena (lessee)	The expenditure was incurred due to interest paid to Eskom on overdue account. The municipality received the invoice amount R24.66 on the 12 <sup>th</sup> of April 2019 and R18.35 on 15 <sup>th</sup> of May 2019. Payment was effected on the 31 <sup>st</sup> of May 2019. The municipal employee has entered into a lease agreement with the municipality from 1 June 2017 to 30 May 2018, however the lessee was not making payment for the

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							<p>electricity bill which resulted in interest being incurred.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>
		06/2019	1082104/4	9.49	Interest on late payment	Given Mokwena (lessee)	<p>The expenditure was incurred due to interest paid to Eskom on overdue account. The municipality received the invoice on 14<sup>th</sup> of June 2019. Payment was effected on the 5<sup>th</sup> of July 2019. The municipal employee has entered into a lease agreement</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>with the municipality from 1 June 2017 to 30 May 2018, however the lessee was not making payment for the electricity bill which resulted in interest being incurred.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>
5.	Eskom Mohlaba Mast	03/2019	1080756/1	132.23	Interest on late payment	Budget and Treasury	The expenditure was incurred due to interest paid to Eskom on overdue account. Invoices were not received on time by the municipality and interest

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>were incurred on invoices received late. The CFO indicated that invoices are normally received late. The municipality made an arrangement with Eskom to send the invoices by email to avoid interest in future.</p> <p><b>Recommendation:</b></p> <p>It is recommended that the municipality should develop proper systems of control, that is, there is no trace of when the invoice was received by the user departments. The delay in payment of the invoice which</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>attracted the interest cannot be traced.</p> <p>That the expenditure be written off because it is uneconomical.</p>
6.	Steven Murray & Associates	04/2019	1080974	11 924.00	Interest on late payment	Corporate Services (Communications Division)	<p>Former Director of Community Services has entered into a contract with African directory for advertising and government handbook of which payment was not effected to African Directory PTY LTD, then a letter of demand has been send to the municipality from the African Directory lawyers (Steven Murray and</p>

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							<p>associates) then the account had to be settled with the interest overdue.</p> <p>Advertising and government handbook is the function of communication division hence the payment process has been requested from their division. However the former Director of Community Services that has entered into an agreement with African Directory is no longer the employee of the municipality.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							Disciplinary Board as it appears to have an element of financial misconduct.
7.	Readira Matlala/Nyapele JV	06/2019	AG Audit Finding	5 180 296.49	Expenditure incurred in vain (P & Gs) Moruji-Matshwi-Kheshokolwe	(Former Director: Engineering Services) (Former Municipal Manager) (Former Supply Chain Manager)	Readira Matlala/ Nyapele JV has been appointed for the construction of Moruji-Matshwi- Kheshokolwe tarred road, however Quality Plant Hire construction took the municipality to court against the appointment of Readira Matlala/Nyapele JV. The court ruled in favour of Quality Plant Hire which resulted in appointment of the contractor by the municipality, the court judgement stated that the

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>tender process for the award of Readira Matlala/Nyapele JV was unlawful, however Readira Matlala/ Nyapele JV has done the site establishment and the Geo-tech report which the new contractor (Quality Plant Hire) also did their own site establishment. The amount paid to the Readira Matlala/ Nyapele JV resulted to a fruitless and wasteful expenditure.</p> <p>Limitation of scope since former Municipal Manager, Director Engineering Services and SCM Manager</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT (R')	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>are no longer working for the municipality.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>

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**8. IRREGULAR EXPENDITURE PER DEPARTMENT**

**8.1.BUDGET AND TREASURY DEPARTMENT**

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
1.	Focus Outsourcing Solutions CC	26/07/2018	1077215	12 161.18	Bid adjudicated -printing of municipal statements - awaiting appointment by MM	Budget and Treasury (CFO) Accounting Officer (Municipal Manager)	Focus Outsourcing renders the services of water and lights statements. The contract has long lapsed, 14 years ago. However the supply chain process are underway for the appointment of the recommended/ preferred bidder. CFO further indicated that service provider will be given 90 days termination notice through Legal Services Division.  MFMA Section 33 states that long contracts must not exceed 3 year period.
		31/08/2018	1077711	14 256.16			
		30/10/2018	1078723	11 918.64			
		30/10/2018	1078723	12 033.18			
		20/12/2018	1079500	24 367.52			
		28/01/2019	1079742	12 582.19			
		28/02/2019	1080282	11 852.76			
		29/03/2019	1080777	11 970.15			
		31/05/2019	1081641	10 778.78			

						<p><b>Recommendation:</b></p> <p>It is recommended that the expenditure be written off and the municipality should finalise the appointment of the recommended or preferred bidder to render the required services.</p>
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## 8.2 BUDGET & TREASURY AND ELECTRICAL ENGINEERING SERVICES DEPARTMENTS

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
1.	Contour Technology	12/07/2018	1076980	19 124.71	New bid advertised ,termination letter with notice period sent to SP	Budget and Treasury (CFO)  Accounting Officer (Municipal Manager)  Electrical Engineering Services (Director: Electrical Services)	The service provider was appointed to render the services of electricity prepaid vending for the municipality. The contract has long lapsed, 14 years ago; Contour Technology has monitoring hardware and software for specific metres which also specialises in hindering ghost vending. The municipality has sent the termination letter with 90 days' notice to the service provider and the SCM processes are under way, The matter is at the BAC stage.
		31/08/2018	1077708	20 851.51			
		27/09/2018	1078264	20 704.26			
		30/10/2018	1078719	19 182.72			
		12/12/2018	1079360	43 893.11			
		28/01/2019	1079741	20 942.12			
		29/03/2019	1080768	44 549.26			
		27/05/2019	1081451	45 576.84			
		28/06/2019	1082028	26 600.18			

							<p>MFMA Section 33 in terms of long term contracts, states that contracts must not exceed 3 year period.</p> <p><b>Recommendation:</b></p> <p>It is recommended that the expenditure be written off and the municipality should finalise the appointment of the recommended or preferred bidder to render the required services.</p>
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### 8.3 COMMUNITY SERVICES

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
1.	Theuwedi Trading Enterprise	01/08/2018	1077353	547 128.07	NEW Bid Advertised and appointed	Former Acting MM  Former Manager: SCM  Former Director: Community Services	The irregular expenditure occurred due to non-compliance to CIDB regulations (threshold) 2018. The initial advert had a required grading of 6CE PE and it was later change to 5CE PE the reasons for the change were not stated in the advert, the initial advert was issued out for publication by former SCM Manager and approved by the former acting Municipal Manager. The
		31/08/2018	1077705	547 128.07			
		21/09/2018	1078125	557 128.07	Wrong criteria used on bid advert		
		26/10/2018	1078634	600 378.24			
		29/11/2018	1079187	600 378.24			
		18/12/2018	1079405	600 378.24			
		30/01/2019	1079841	600 378.24			
		28/02/2019	1080255	600 378.24			
		28/03/2019	1080726	600 378.24			
		26/04/2019	1081106	600 378.24			
		29/05/2019	1081610	600 378.24			
		27/06/2019	1081905	600 378.24			

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>contractor awarded the bid had 5CE PE grading which can undertake a contract in the range of tender values of less than or equal to R 6 500 000.00 as per the CIDB regulation.</p> <p>Therefore the awarded contractor did not have the required CIDB grading for the project value of R 20 060 637.59.</p> <p>7CE PE Grading can undertake a contract in the range of tender values of less than or equal to R 40 000 000.00 as per the CIDB regulation which was the</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>required grading for the project value of R 20 060 637.59.</p> <p>Limitation of scope since former SCM Manager and Director: Community Services are no longer working for the municipality.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>

#### 8.4 ENGINEERING SERVICES

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
1.	Tshiamiso Trading (MULATI)	30/05/2019	1081615	3 086 697.55	(AG Audit finding- Disagreement) - Bids awarded a month apart -on both bids proof of Risk assessment done not adequate	Accounting Officer; BAC Members: (Chief Financial Officer; Director: Engineering Services; Director: Electrical services; Director: Planning and Development. BEC Members: (Former PMU	On 12 October 2018, Greater Tzaneen Municipality (GTM) advertised a tender for the upgrade of Mulati Access Road in the Mopani Herald. In terms of the design report by Letsopa Project Managers and Consulting Engineers, the estimate cost was R 37 224 194.28 and the lengths of the road is 5.7 Km.  A compulsory briefing /site inspection was held on 25 October 2018 and the closing date was on 08 November 2018. The Municipality received 50 bids on the closing date. On 05 December 2018, during compliance evaluation, five (5) bids were disqualified and forty-five (45)

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
						Manager; Former SCM Manager)	<p>bids were evaluated on functionality and eight (8) bids could not achieve the required 70 thresholds.</p> <p>On 17 January 2019 the Bid Evaluation Committee recommended the appointment of Tshiamiso Trading 135 for an amount of R 26 824 512.88. On 18 January 2019 the Bid Adjudication Committee (BAC) supported the BEC recommendation to appointed Tshiamiso Trading 135 for an amount of R 26 824 512.88.</p> <p>On 21 January 2019, the Municipal Manager appointed Tshiamiso Trading in line with the BAC</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>recommendation for an amount of R26 824 512.88.</p> <p>The irregular expenditure occurred due to non-compliance with SCM processes. On 26 October 2018, the municipality advertised a tender for the upgrade of Codesa Street to Hani Street in the Mopani Herald and Letaba Herald with a CIDB grading of 6 CE or higher. Forty –two (42) bid proposals were receive by the municipality and during the evaluation process, one (1) service provider was disqualified due to suspended CIDB certificate and 41 bids were evaluated on functionality, and two (2) bids failed to achieve the required minimum threshold of 70%,</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>therefore thirty-nine (39) bids were evaluated further on price and preference point.</p> <p>On 18 December 2018 the Bid Evaluation Committee recommended the appointment of Tshiamiso Trading 135 for an amount of R 9 217 610.99. On 20 December 2018, the Bid Adjudication Committee (BAC) recommended the award to the Municipal Manager.</p> <p>On 21 January 2019, the Municipal Manager appointed Tshiamiso Trading in line with the BAC recommendation for an amount of R9 217 610.99.</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>Tshiamiso Trading, was previously and recently appointed on the other infrastructure project (Codesa access road). The service provider was appointment on 21 January 2019, the same plant, equipment and the key personnel where submitted for evaluation of two tenders and both constructions where performed at the same period. The recommended/ approved bidder might not be able to deliver resulting in the municipality incurring fruitless and wasteful expenditure due to poor performance.</p> <p>However, It was indicated that during the procurement processes of each bid for the appointment of Tshiamiso trading was evaluated and adjudicated</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>separately, there were no comparison made with regard to the personnel, plant and equipment and the letter of acceptance for the bid was sent to the bidder which provided guarantee and gave the municipality the satisfaction that the bidder will be able to perform the projects to its completion.</p> <p>It was further indicated that the bids were treated separately and they were both compliant during the appointment and the contractor made special arrangement for the implementation of each of the projects and the construction progress was fast tracked and it was ahead of the programme, however the project</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>has been terminated due to contract price disparities.</p> <p>The contractor demanded to be paid amount of R17 639 667.20 which is above the tendered amount of R9 217 610.99.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
2.	Tshiamiso Trading (CODESA)	30/05/2019	1081616	<b>4 259 525.25</b>	(AG Audit finding)-	Accounting Officer;	On 26 October 2018, The Municipality advertised a tender for the upgrade of Codesa Street to Hani Street in the Mopani Herald with a CIDB grading of 6 CE or higher. A compulsory briefing session was held on 06 November 2018 and the closing date was on 23 November 2019. On the closing date, the Municipality received forty-two (42) bid proposals. During the evaluation process, stage one (1) service provider was disqualified, due to suspended CIDB certificate and 41 bids were evaluated on functionality, and two (2) bids failed to achieve the required minimum threshold of 70%, therefore
		30/05/2019	1082025	<b>1 988 728.35</b>	Contract terminated due to contractual disputes and no site activity for six (6) months, as a result roads washed off/washed away. Road construction to be re-advertised later, since there's challenges currently	BAC Members: (Chief Financial Officer; Director: Engineering Services; Director: Electrical services; Director: Planning and Development.	
		28/06/2019	1081208	<b>998 632.40</b>	witMIG funds	BEC Members: (Former PMU Manager;	

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
					not approved for re-adverts.	Former SCM Manager)	<p>thirty-nine (39) bids were evaluated further on price and preference point.</p> <p>On 18 December 2018 the Bid Evaluation Committee recommended the appointment of Tshiamiso Trading 135 for an amount of R 9 217 610.99. On 20 December 2018, the Bid Adjudication Committee (BAC) recommended the award to the Municipal Manager.</p> <p>On 21 January 2019, the Municipal Manager appointed Tshiamiso Trading in line with the BAC recommendation for an amount of R9 217 610.99.</p> <p>AGSA noted that, the same plant, equipment and the key personnel</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>where submitted for evaluation of two tenders (Tshiamiso Trading: Mulati &amp; Condesa projects) and both constructions where performed at the same period. It was not clear how the members of the BEC satisfied themselves that the bidder has sufficient resources to undertake two big projects at the same period. The said poses a risk on the municipality as the winning bidder might not be able to deliver resulting in the municipality incurring fruitless and wasteful expenditure due to poor performance.</p> <p>However. It was indicated that during the procurement processes of each bid for the appointment of Tshiamiso</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>trading was evaluated and adjudicated separately, there were no comparison made with regard to the personnel, plant and equipment and the letter of acceptance for the bid was sent to the bidder with provided guarantee and gave the municipality the satisfaction that the bidder will be able to perform the projects to its completion. However the contract has been terminated due to contractual disputes on contract price disparities between the municipality and the service provider.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/OFFICIAL RESPONSIBLE	COMMENTS/RECOMMENDATIONS
							Board as it appears to have an element of financial misconduct.
3.	Eternity star investment (ESI)-(Mopye High School)	30/05/2019 26/06/2019	1081613 1081797	<b>931 362.44</b> <b>370 915.26</b>	(AG Audit finding- Disagreement) -Tendered amount over estimated -Tender not awarded to the lowest bidder	Accounting Officer: BAC Members:(Chief Financial Officer; Director: Engineering Services;	The irregular expenditure occurred due to non- compliance with SCM processes. On 6 August 2018, the municipality invited bids for the construction of Mopye High school access road: SCMU/2018.The bid was advertised in the Sowetan and Mopani Herald newspapers. The closing date was on 22 November 2018.  The BEC evaluated bids and subsequently recommended the appointment of Shwings Construction for an amount of R 13 941 161.47.

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>On 17 January 2019, the BAC held a meeting and did not accept the recommendation from BEC to appoint Shwings Construction. The reason was because Shwings Construction did not initial the price changing/cancellation on the bill of quantity and should be disqualified. The matter was referred back to the BEC to re-evaluate the bids.</p> <p>On 18 January 2019 the BEC re-evaluated the bid and subsequently recommended the appointment of Moepeng at R16 619 222. The Municipal Manager approved the appointment of Moepeng on 21 January 2019.</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>On 24 January 2019 Moepeng (Managing Director: Church Mushwana) accepted the offer and also requested a 10% increased on the tendered amount, which the service provider claimed were not included in the original tender amount.</p> <p>On 15 February 2019, Moepeng wrote a letter to the municipality declining the tender. The reason stated was that after performing the site visit, they noticed that the project was high risk and they quoted a price that is too low.</p> <p>After the recommended bidder declined the bid, the municipality appointed Mosomo Consulting engineer to perform a risk assessment.</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>The risk assessment report reflected that amongst other the selection of the winning bidder was based on a 16% threshold of below and above the estimated cost R 24 241 479, 63 of the project The risk assessment report stated that the project is extremely complex and requires a contractor with a reputable record and a tender amount marginally close to the cost estimate.</p> <p>On 21 February 2019 the BEC re-evaluated the bid and recommended the appointment of Eternity Star Investment based on the risk assessment report and the BAC supported the recommendation to appoint Eternity Investment Star at</p>

ITEM NO	SERVICE PROVIDER	PAYMENT DATE	PAYMENT NO	AMOUNT	DESCRIPTION	DEPARTMENT/ OFFICIAL RESPONSIBLE	COMMENTS/ RECOMMENDATIONS
							<p>R20 411 938,80 based on the risk assessment report.</p> <p><b>Recommendation:</b></p> <p>That the matter be referred to the Financial Misconduct Disciplinary Board as it appears to have an element of financial misconduct.</p>

**9. UNAUTHORISED EXPENDITURE: (Unauthorised expenditure occurs when the municipality exceeded their budget)**

<b>DEPARTMENTS THAT OVERSPENT</b>	<b>ORIGINAL BUDGET (R-Value)</b>	<b>ACTUAL JULY TO JUNE'19 (R-Value)</b>	<b>DIFFERENCE (R-Value)</b>	<b>% VARIANCE</b>
1. BUDGET AND TREASURY (FINANCIAL SERVICES)	104 244 570	182 538 971	78 294 401	133.14%
2. ELECTRICAL ENGINEERING	509 551 609	514 283 197	4 731 588	0.93%

Although these expenditures are considered as non-cash items related to depreciation and debt impairment because there is no transaction with any service provider or supplier, an under provision during the budget compilation process is a material misstatement of the surplus or deficit position of the municipality. This could be the result of poor budgeting or financial management, or unknown events that gave rise to the asset and debt impairment after the adoption of the budget. Therefore it is recommended the unauthorised expenditure be condoned.

## **10. CRITICAL ISSUES IDENTIFIED DURING INVESTIGATIONS**

- a) Non-termination of contracts by the municipality;
- b) Long term expired contracts continue rendering services to the municipality;
- c) Overspending on budget by departments which led to unauthorized expenditure;
- d) Supply chain processes not properly followed;
- e) Court matters takes time to be finalized;
- f) Payments delayed due to cash flow problems;
- g) Non- compliance with relevant legislation or regulation in line with the SCM processes.

## **11. RECOMMENDATIONS**

- a) It is recommended that the Financial Misconduct Disciplinary Board investigate any financial misconduct on any element of financial misconduct and against any alleged transgressor;
- b) Unauthorized expenditure be condoned (MFMA Sec 32 (2)(a)) on the basis that it is mainly non-cash items, no loss was incurred by the municipality;
- c) The municipality to adhere to the SCM policy, Regulations and processes;
- d) Budget and Treasury Office (Office of the CFO) conduct awareness workshops regularly on SCM policy and Regulations to sensitize employees about SCM processes;
- e) Consequence management be implemented on non-compliance;
- f) Unauthorized, irregular or fruitless and wasteful expenditure policy or procedure manual be developed;
- g) Monitoring and evaluation of projects be strengthened;
- h) Contract management be strengthened, that is, each municipal department to develop its own contract register;
- i) Communication gap between SCM and user departments be strengthened;
- j) Budget practices be strengthened, that is, availability of budget be monitored to avoid unauthorized expenditure;
- k) Payments to services provider not be effected where user department cannot produce proper documentation;
- l) Unauthorized, irregular or fruitless and wasteful expenditure be reported to Council on quarterly basis.

## **12. CONCLUSION**

In terms of Section 32(2) (b) of the MFMA the irregular expenditure may only be written off by Council, if after an investigation by Council committee, the irregular expenditure is certified as irrecoverable. In term of Section 170 of the MFMA only National Treasury may condone non-compliance with a regulation issued in terms of the MFMA or a condition imposed by the Act itself. The municipal Council has therefore has no power in terms of the MFMA to condone any act of non-compliance in terms of the MFMA or any of its regulations. The treatment of expenditure associated with non-compliance is therefore the responsibility of the Council.

The municipality can avoid unauthorised, irregular or fruitless and wasteful expenditure if due processes and procedures are being followed. The development of the policies such as unauthorised, irregular, fruitless and wasteful policy will be of the utmost importance. Those charged with responsibilities should adhere to the policies, procedures and processes. That proper procedures and processes be conducted for any elements of financial misconduct within the municipality and consequence management be implemented.