

GROTER TZANEEN MUNISIPALITEIT GREATER TZANEEN MUNICIPALITY

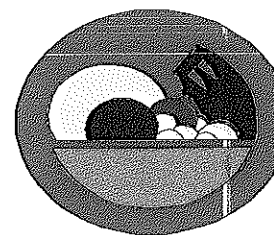
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A 42 MPAC (UNAUTHORIZED, IRREGULAR, AND FRUITLESS EXPENDITURE)

(E/C 2016 07 07; C 2016 07 07)

RESOLVED

1. That Council should condone all the unauthorized expenditure as irrecoverable. Reasons being: amount has been spent, services were received, some of the items were non-cash items, some of the items were not easy to forecast, the municipality's total budget was not exceeded as the exceeding of the vote happened at the department and standard items level and some of the officials like Accounting Officers are no longer with municipality.
2. That Council should condone an amount of R26 503 270.25 in respect of expired contracts, considering that the service has been received by the municipality.
3. That Council should condone the irregular expenditure relating to the payment to GTFM amounting to R81 050 after submission of proof of services rendered.
4. That a number of payment were made to suppliers amounting to R15 475 809.52 where Supply Chain Management Process have not been fully or partial followed. MPAC recommends that Council should condone this expenditure as well since the service has been received and the current Accounting Officer must identify the root-cause of such expenditures.
5. That the Accounting Officer should develop a more comprehensive and clear UIF guidelines and policies in line with MFMA.

6. That the Accounting Officer should appoint a Compliance and Contract management official.
7. That the Accounting Officer should consider appointing an internal control official for verification of all transactions before and after payments made.
8. That all the tenders should be reviewed by internal audit, risk management and internal control official before approval by Accounting Officer.
9. That Council should write-off the fruitless expenditure amounting to R1 158 346, and Accounting Officer must implement more effective measures and steps that must prevent this from happening in the future. The said amount relates to penalties payment to Eskom and Telkom
10. That the Accounting officer should recover an amount of R162 135.24 paid to Fintech for services never received due to failure of the officials to cancel the contract timeously. Furthermore the Accounting Officer should submit a report to Council detailing how the amount will be recovered from the officials within 30 days
11. That the Irregular Expenditure as it relates to Engineering Services, Council should await the finalization of the current forensic investigation before finalization of section 32 investigation in order to also address the recommendations of the forensic report and consider the outcome of the current disciplinary action process which is currently underway.
12. That all the expired contracts must be advertised within 14 days of this report.
13. That the Irregular Expenditure relating to Legal fees, Council should consider instituting forensic investigation as there is a concern with the number of hours billed by attorneys and the rates used by the said legal representations as well as SCM process not followed. The main aim of this investigation should be to recover some of the money spent on Legal fees as there is such a possibility
14. Council resolution is sought for abolition of utilization of month-to-month contracts. This is an indication of poor planning and bad contract management practices.
15. That the Accounting Officer should implement a more prudent budget process.
16. That the current Information system should be reviewed with the view of reviewing of current order system and capturing of system
17. That all officials should be trained around supply chain matters regularly.

18. That management should draft and implement steps that will be taken to prevent recurrence of unauthorized, irregular, fruitless and wasteful expenditure.
19. That the Accounting officer should investigate the unauthorized, irregular, fruitless and wasteful expenditure as soon as it arise.
20. That the Accounting Officer should promptly inform the Mayor, the MEC for local government in the province and the AGSA in writing of the occurrence of unauthorized, irregular, fruitless and wasteful expenditure.
21. That National Treasury should be requested to condone the non -compliance with regulations. A letter should be written to Treasury on the outcome of this investigation by Accounting Officer within 14 days of the adoption of this report.
22. That there should be consequence for non compliance with the Supply Chain process in order to prevent recurrence of such expenditure.
23. That the Accounting Officer, members of bid evaluation and bid adjudication committees and staff involved in appointing and managing service providers and projects should critically evaluate their current internal processes and structures. This should be done to determine if the relevant existing laws, regulations, policies and guidelines are being followed and if value for money is received when making use of consultants.
24. That Council should monitor compliance with relevant legislation, regulations and policies and enforce appropriate action where municipality deviate
25. That Accounting Officer should within available funds address the gaps between the human resources required to perform the municipality's functions and the existing human resources by means of recruitment and retention strategies.
26. That management should establish mechanisms to urgently identify the risks and weaknesses facing SCM environment with the aim of introducing improved mitigation strategies and internal processes to address these weaknesses.
27. That the current year UIF/W must be investigated by Accounting Officer and the report be submitted to Council and Audit Committee on a quarterly basis.
28. That the Accounting Officer should develop a consequence management framework.
29. That the new Council of 2016 implement the resolutions on the report together with the forensic report.

A 42 REPORT OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE OF UNAUTHORISED, IRREGULAR, AND FRUITLESS AND WASTEFUL EXPENDITURE FOR YEAR ENDED 30 JUNE 2015.

E/C 2016 07 07; 2016 07 07)

(12/2/3/1/1)

REPORT OF THE MUNICIPAL PUBLIC ACCOUNTS COMMITTEE
CHAIRPERSON, COUNCILLOR TK NUKERI

PURPOSE OF THE REPORT

The purpose of this report is to present the MPAC investigation report of Unauthorized, Irregular, Fruitless and Wasteful Expenditure (UIF/W) for the year ended 30 June 2015 to Council for deliberation and adoption.

BACKGROUND

The main aim of investigation was to investigate the unauthorized, irregular, and fruitless and wasteful expenditure in line with section 32 of the Municipal Finance Management Act. The investigation adopted a mixed method of investigation, namely interviews and thorough documentation review and examinations (including AGSA management report). Officials' interviewed include amongst others Chief Financial Officers, Directors, Acting Directors and Supply Chain Officials. Investigation was carried out by MPAC with the assistance of Internal Audit (under supervision and direction of the Audit Committee as they report directly to the committee). The scope of the investigations was for the financial year ended June 2015.

Section 62 of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

Section 32 (2) (a-b) of MFMA states that a municipality must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for the expenditure unless the expenditure:

(a) In the case of unauthorized expenditure, is-

- (i) Authorized in an adjustment budget, or
- (ii) Certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council.

(b) In case of irregular or fruitless and wasteful expenditure, is after investigation by a council committee, certified by the municipal council as irrecoverable and written off by the council.

DISCUSSIONS

The investigations revealed amongst others that:

- Unauthorized expenditure amounts to R25 387 498
- Fruitless and wasteful expenditure amounts to R1 320 482
- Irregular expenditure amounts to R61 967 716
- Legal Fees amounting to R10 806 423: MPAC is concerned with number of hours billed by attorneys and rates used by the said legal representations as well as Supply Chain Management processes were not followed. MPAC recommend Council to institute more detailed investigation.
- Failure of the Accounting Officers at the time to fully comply with his or her fiduciary duties as required by MFMA
- The then Accounting Officers failed to take all reasonable steps to ensure that unauthorized, irregular or fruitless and wasteful expenditure (UIF/W) and other losses are prevented.
- The then Accounting Officers failed to investigate the UIF/W when it arose.
- The then Accounting Officers failed to utilize adjustment budget to regularize unauthorized expenditure.

- The then Accounting Officers failed to promptly inform the mayor, the MEC for local government in the province and the AGSA in writing, of the occurrence of UIF.
- Management failed to develop a more comprehensive UIF/W guidelines and policies.
- A lot of irregularities in respect of transactions that took place in the Engineering department.
- Current Information System is not adequate and is failing to assist management to identify irregularity.
- Lack of consequence management.
- Inappropriate budget practices and weaker budget steering committee

RECOMMENDATIONS

1. That Council should condone all the unauthorized expenditure as irrecoverable. Reasons being: amount has been spent, services were received, some of the items were non-cash items, some of the items were not easy to forecast, the municipality's total budget was not exceeded as the exceeding of the vote happened at the department and standard items level and some of the officials like Accounting Officers are no longer with municipality.
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27. That the current year UIF/W must be investigated by Accounting Officer and the report be submitted to Council and Audit Committee on a quarterly basis.
28. That the Accounting Officer should develop a consequence management framework.

FOR CONSIDERATION