



AUDITOR - GENERAL
SOUTH AFRICA

MEDIA RELEASE

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Auditor-general enhanced powers making the impact

CAPE TOWN – Auditor-General (AG) Tsakani Maluleke today presented a report to Parliament about progress of implementation of the material irregularities process and asserted that her office's enhanced powers are making an impact in promoting a culture of accountability, integrity, transparency and performance in the public sector.

In 2016, concerned by the pervasive mismanagement and leakage of public funds without consequences, and with audit recommendations not being implemented or receiving the required attention over the years, Parliament commenced with a process to grant the AG enhanced powers through the amendment of the Public Audit Act, these powers came into effect in April 2019.

A central feature of the amendments is the introduction of the concept of a material irregularity (MI), which is intended to isolate common errors or deficiencies so that activities that put the public purse at risk of financial loss are identified and pursued. An MI is defined as any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to- result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public. Once an MI has been identified or is suspected, these expanded powers allow the AG to:

- **refer** a suspected MI to a public body with a suitable mandate and powers
- make **recommendations** in the audit report on how an MI should be addressed, within a stipulated period of time. If these recommendations have not been implemented by the stipulated date, the AG may take binding **remedial action** and, if the irregularity involves a financial loss, issue a directive to the accounting officer or authority to quantify and recover the loss from the responsible person

- issue a **certificate of debt** in the name of the relevant accounting officer or accounting authority if the accounting officer or authority fails to implement the remedial action.

The overall aim of the AG's expanded mandate is to instil a culture of accountability, improve the protection of resources, enhance public sector performance, encourage an ethical culture and strengthen public sector institutions to better serve the people of South Africa.

From inaction to action

Presenting the latest report on national and provincial government to the Standing Committee on the Auditor-General (Scoag), AG Maluleke said, "of the 179 MIs on non-compliance and fraud identified to date, 169 resulted in material financial loss (estimated at R12 billion), while nine led to substantial harm to public sector institutions and one related to misuse of material public sector resources".

She reported that "no actions were being taken to address 82% of these matters until we issued notifications to accounting officers and accounting authorities".

However, through the actions taken by accounting officers and accounting authorities in response to MI notifications, the following noticeable progress was observed:

- Financial loss of R636 million was prevented from taking place
- Financial loss of R148 million was recovered
- Financial loss of R509 million was in the process of being recovered
- Thirty-six responsible officials were identified, and disciplinary processes for these officials have been completed or are in progress
- Fifteen fraud/criminal investigations were instituted
- Five supplier contracts where money is being lost were stopped.

"This is a clear demonstration that our enhanced powers are having an impact and we are pleased with the attention accounting officers and accounting authorities are giving to addressing and acting on the MIs," said Maluleke.

Examples of actions taken by auditees

Below are some examples of actions taken by auditees as part of the MI process:

- The **Department of Defence** imported an unregistered drug (Heberon) at a cost of approximately R260 million without approval from the South African Health Products Regulatory Authority. The unused vials were repatriated to Cuba, preventing an estimated financial loss of R227 million.
- The **Property Management Trading Entity** made payments to a landlord for leasing properties that exceeded the amount payable per the lease agreement, resulting in an estimated R11 million in overpayments. By 31 March 2022, the entity had recovered R9,7 million from the landlord and was in the process of recovering the remaining amount.
- The **KwaZulu-Natal Department of Health** procured sanitiser detergent at a significantly higher price than that mandated by the National Treasury, resulting in a R1,3 million financial loss. The supplier signed an acknowledgement of debt, resulting in R0,5 million of the loss being recovered.
- Multiple instances of non-compliance by **the Passenger Rail Agency of South Africa (Prasa)** were identified in the procurement process for locomotives in July 2012. Seven Prasa officials were charged with procurement irregularities and are being subjected to disciplinary processes; so far, one official has been dismissed and another has resigned.
- The **National Department of Cooperative Governance** made payments to non-qualifying government employees as part of the community work programme. In response to the AG's recommendations and an internal investigation into the matter, the accounting officer referred the matter to the Directorate for Priority Crime Investigation (Hawks) for investigation. The accounting officer also took disciplinary steps against the responsible officials.
- The **Eastern Cape Department of Human Settlements** awarded three contracts for housing units to bidders who did not score the highest points. On an application by the accounting officer, the High Court set two of the contracts aside, declaring them invalid, which prevented an estimated financial loss of R6,45 million.

For full report on the MIs : [PFMA MI report - FINAL signed report \(23 Nov\) - interactive.pdf \(agsa.co.za\)](#)

Greater impact will be achieved by quicker resolution of MIs

The AG called for quicker resolution of MIs if greater impact was to be achieved and for all roleplayers in the accountability ecosystem to play their part.

“An MI is resolved when accounting officers and authorities have taken all possible steps to recover financial losses or remove or address harm; to implement consequences against officials and third parties involved; and to prevent any further losses and harm from taking place through improved controls,” said AG Maluleke.

“We urge all roleplayers in the national and provincial government ecosystem to support, monitor and oversee the quicker resolution of MIs.” Portfolio committees in Parliament and provincial legislatures should request that accounting officers and authorities provide quarterly reports on the status of their MIs and should hold them accountable for any unreasonable delays in resolving the MIs.

“Where there are delays in investigations, the portfolio committees in Parliament responsible for public bodies should request regular reports on the status of these investigations and must hold the public bodies to account for unreasonable delays in the investigations,” said Maluleke.

If accountability fails, the AG will not hesitate to invoke her powers to enforce accountability. This was demonstrated on the 19 MIs where no appropriate action was taken by the accounting officers and authorities, and the AG stepped in and took action.

She added that the national audit office is “committed to doing our part to instil a culture of performance, accountability, transparency and integrity in national and provincial government, which will ultimately result in a better life for the people of South Africa. That is the foundation of, and what informs, our #cultureshift2030 strategy”.

End.

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