



AUDITOR - GENERAL
SOUTH AFRICA

MATERIAL IRREGULARITIES IN LOCAL GOVERNMENT

3 November 2023

A culture of accountability will improve service delivery



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence

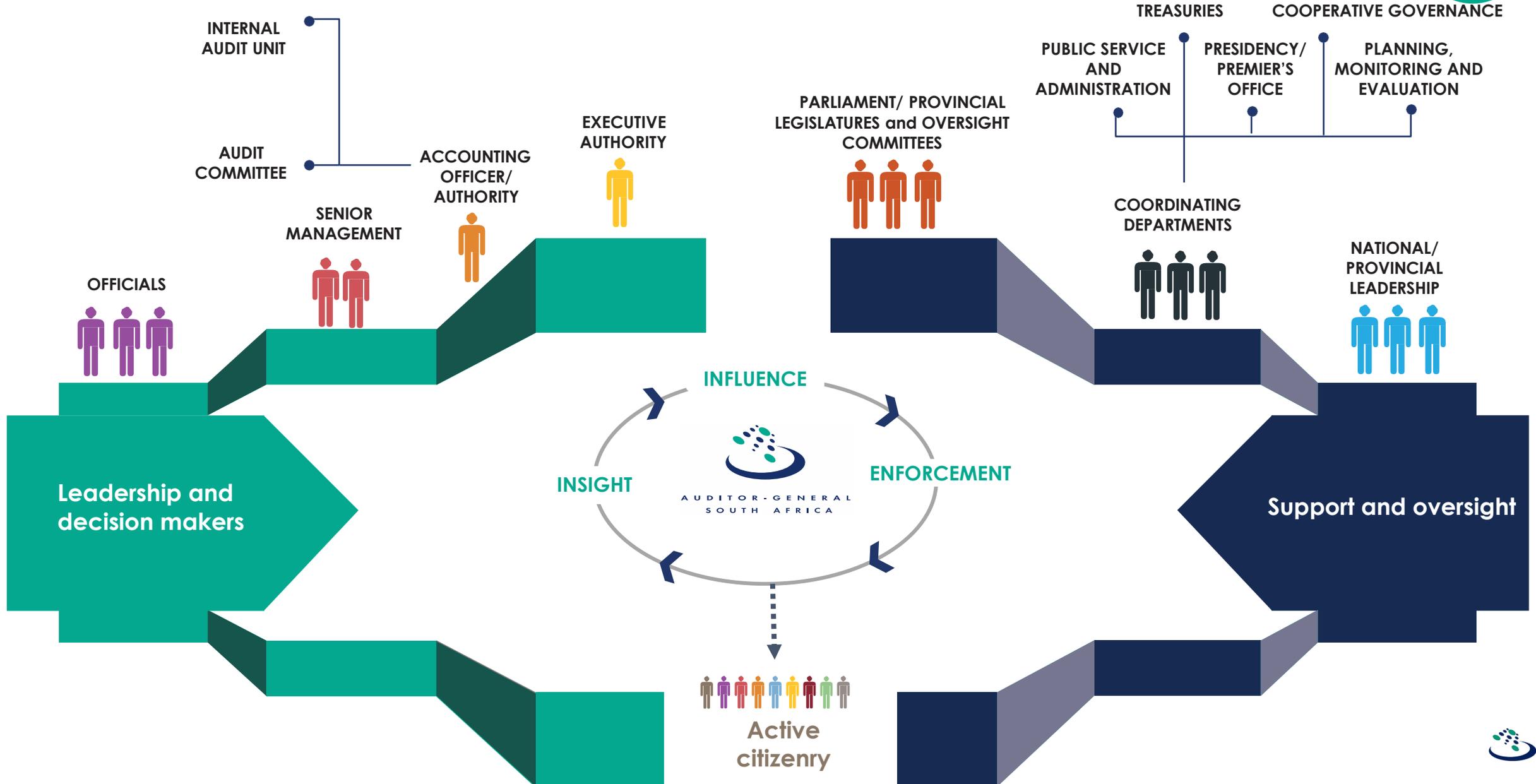


VISION

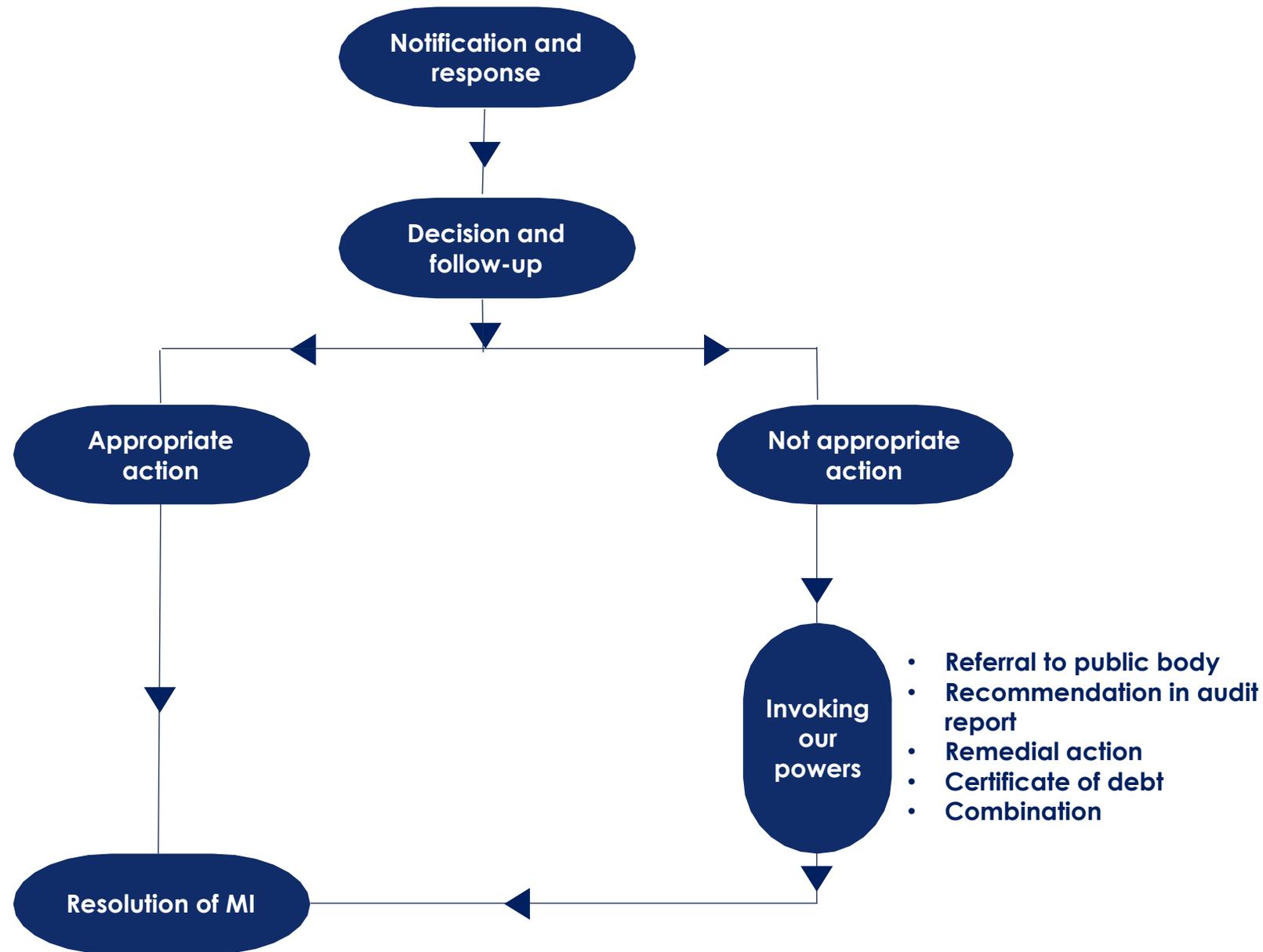
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability



All have a role to play in accountability ecosystem



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**



MI process addresses significant issues in local government

5

2018-19

9
auditees

6
MIs



2019-20

57
auditees

96
MIs



2020-21

94
auditees

185
MIs



2021-22

170
auditees

268
MIs

268 MIs on non-compliance and suspected fraud, resulting in:

194

Material **financial loss** (estimated R5,19bn)

- **Payments** for goods and services not received
- Unfair, uncompetitive or uneconomical **procurement**
- Ineffective use of financial reporting **consultants**
- **Value for money** not received
- **Revenue** not billed or not recovered
- Interest and penalties **on late or non-payments**
- **Asset and investment** losses

44

Substantial **harm to public sector institutions**

- Repeated **disclaimers**
- **Non-submission** of financial statements

29

Substantial **harm to general public**

- Pollution of water resources
- Poor **landfill site management**

Material irregularities could have been prevented by basic disciplines and processes – through the MI process we highlight these internal control weaknesses and track improvements to prevent recurrence





From **INACTION** to **ACTION**

No actions were taken to address **86%** of matters until we issued notifications

MI is resolved only when all possible steps have been taken to:

- Recover financial losses or remove/address harm caused
- Implement consequences
- Prevent any further losses and harm; also through improved internal controls

Status of 268 MIs:



57 21% **resolved MI**



95 35% **appropriate action taken to resolve MI**



61 23% **no appropriate action taken** – invoked our powers

31

12% **response received on notification** – in process of assessing action

24

9% **recently notified**



ACTIONS TAKEN BY AUDITEES

R182,75m Financial loss **recovered**

R18,85m Financial loss **prevented** from taking place

R310,16m Financial loss **in process of being recovered**

46 **Internal controls improved** to prevent recurrence

58 Responsible officials identified and **disciplinary process** completed or in process

14 **Fraud/criminal investigations** instituted

1 **Supplier contracts stopped** where money is being lost

19 **Outstanding financial statements** submitted



Nature of MIs

Procurement and payment

9

Non-compliance in procurement processes resulting in **overpricing of goods and services procured** or **appointed supplier not delivering**

3

Uneconomical procurement resulting in overpricing of goods and services procured

38

Payment for **goods or services not received/of poor quality/ not in line with contract** or to **ineligible beneficiaries**

Fraud and compliance

3

Suspected fraud resulting in loss

1

Non-compliance resulting in penalties

Resource management

19

Assets not safeguarded resulting in loss

13

Loss of investments

17

Inefficient use of resources resulting in no/limited benefit derived for money spent

Harm to general public

24

Non-compliance with environmental legislation resulting in **pollution of water resources**

5

Landfill site mismanagement resulting in harm to public

Revenue management

22

Revenue not billed

2

Debt not recovered

Harm to public sector institution

24

Full and proper records not kept as evidenced by **repeat disclaimed opinions** resulting in substantial harm to municipalities

21

Non-submission of financial statements

Interest and penalties

49

Eskom, water boards, lenders and suppliers **not paid on time** resulting in interest

18

Payroll and value-added tax returns **not paid on time or incorrectly calculated** resulting in South African Revenue Service interest and penalties





61

23%
No appropriate action being taken – invoked our powers

Recommendations in audit report (19) as AO took little or no action to address MI

- Beaufort West (WC)
- Chris Hani DM (EC)
- City of Matlosana (NW) – 2
- City of Mbombela (MP) – 2
- Emalahleni (MP) – 2
- Govan Mbeki (MP)
- Inxuba Yethemba (EC)
- Joe Morolong (NC)
- Mangaung Metro (FS)
- Matjhabeng (FS)
- Ngaka Modiri Molema DM (NW) – 2
- Raymond Mhlaba (EC)
- uMkhanyakude (KZN) – 3

Remedial action taken (25) as our recommendations were not implemented

- City of Tshwane (GP) – 3
- Ditsobotla (NW)
- Dr Ruth Segomotsi Mompati DM (NW) – 2
- JB Marks (NW)
- Kai !Garib (NC)
- Kgetlengrivier (NW)
- Lekwa Teemane (NW)
- Madibeng (NW)
- Maluti-A-Phofung (FS)
- Mamusa (NW)
- Masilonyana (FS)
- Msunduzi (KZN)
- Naledi (NW)
- Ngaka Modiri Molema DM (NW) – 4
- Ramotshere Moiloa (NW)
- Tokologo (FS)
- uMkhanyakude DM (KZN) – 3

Notice of certificate of debt process (2)

- Ngaka Modiri Molema DM (NW) – 2

Referred to public bodies for further investigation (12)

- Chris Hani DM (EC)
- Emalahleni (MP)
- JB Marks (NW)
- Madibeng (NW) – 2
- Matjhabeng (FS)
- Ngaka Modiri Molema DM (NW) – 6

Recommendations in audit report and referral to public bodies (3)

- Amajuba DM (KZN)
- Ngaka Modiri Molema DM (NW) – 2

Resolution of MI often delayed by:

- Delays in investigations by auditees and/or public bodies
- Delays in recovery process, including liquidation of suppliers
- Instability at accounting officer level
- Delays in identifying responsible officials and completing disciplinary process

Greater impact can be made through:

- Monitoring by council on quarterly basis
- Swifter investigations and actions – councils, municipal public accounts committees and disciplinary boards
- Stability in municipal manager positions





OVERSIGHT

1

We urge all roleplayers in the national and provincial ecosystem to support, monitor and oversee the resolution of MIs.

2

Councils and municipal public accounts committees and provincial legislatures should request quarterly reports from accounting officers on the status of their MIs and should hold them accountable for any unreasonable delays in resolving the MIs.

3

Where there are delays in investigations, 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.

S CoAG

1

Continue to showcase the positive impact of implementation of our expanded powers to parliamentary committees to encourage the swift resolution of MIs, thereby enabling greater impact.

2

Advocate to parliamentary committees for greater accountability where there are unreasonable delays by accounting officers and public bodies in resolving MIs.



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