



AUDITOR - GENERAL
SOUTH AFRICA

MEDIA RELEASE

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AG presents material irregularity report on municipalities

PRETORIA – Auditor-General (AG) Tsakani Maluleke today reported a noticeable impact on public sector accountability resulting from the implementation of her office's [expanded powers](#) following the amendment of the Public Audit Act.

“We found that issuing a material irregularity (MI) notification to accounting officers often jolts them into action to address irregularities and transgressions that they should have dealt with previously,” AG Maluleke explains. “In 86% of cases, nothing was being done to address the MIs we identified until we issued the notifications. Through the MI process, accounting officers have taken action, leading to financial losses totalling R511,76 million being prevented, already recovered or in the process of being recovered.”

Maluleke called on all roleplayers in the [accountability ecosystem](#) to work even harder to ensure the gains already made are maintained – and even improved on – in the drive towards achieving wholesale good governance in the public sector.

This is the [fourth report issued by the Auditor-General of South Africa \(AGSA\) on the status of MIs](#), and focuses on those MIs identified in the local government sphere by 15 January 2023 (the cut-off date for MIs included in this report). The report gives details on the status of most of these MIs by 15 February 2023 (the same date as applied in the 2021-22 general report that was tabled on 31 May 2023), with the status of some MIs where further action is being taken or where assessments and decisions were still in progress at that date updated to 25 July 2023.

From April 2019, when the AGSA started implementing its expanded powers, until 15 January 2023, the national audit office identified and notified accounting officers of 268 MIs. After the cut-off date, the office identified a further 66 MIs that will be reported on in the next MI report.

“The MIs we identified were caused by non-compliance with legislation and suspected fraud that resulted in, or is likely to result in, material financial losses and significant harm to the municipalities and the general public. The nature of these MIs reflects the areas in which municipalities and municipal entities are most vulnerable to loss, misuse and harm. We have highlighted the weaknesses in these areas for a number of years, including in our [general and special reports](#).”

“Material financial losses were most often caused by weaknesses in the procurement and payment, resource management, and revenue management processes, as well as by interest and penalties charged due to late payments,” the AG explains. “We estimate the total financial loss of the 194 MIs that involved a material financial loss to be R5,19 billion, with R1,6 billion of that being lost by municipalities that invested in VBS Mutual Bank.”

Impact of the MIs

Maluleke says there has been an encouraging shift in response, with many local government auditees now responding more swiftly to address the MIs raised by her office. “We reported in the past that we are starting to see a shift at municipalities and municipal entities, which have gone from responding slowly to our findings and recommendations to now paying attention to the MIs we report and taking action to resolve them.”

She says that when accounting officers respond to the AGSA's notifications with commitment and workable plans for how they will take appropriate action to resolve the MI, the intended impact of the Public Audit Act amendments is achieved.

The main objective of these amendments was to enable corrective action to resolve the identified MIs and prevent similar ones from occurring in future by implementing

consequence management and accountability. The amendments also sought to empower all roleplayers in the accountability ecosystem to strengthen internal controls that will enable good financial and performance management, compliance with legislation, and, ultimately, enhance service delivery by municipalities.

She says that the actions taken by auditees to address MI-related findings, or in response to the AGSA using its new powers, yielded the following positive results:

- Financial losses have been recovered, prevented or are in the process of being recovered
- Consequences have been implemented for the officials responsible (through disciplinary processes) and, where applicable, for the suppliers involved
- Fraud and criminal investigations have been undertaken
- Internal controls are being improved to prevent MIs from reoccurring
- Long-outstanding financial statements are being submitted
- Steps are being taken to address environmental pollution

Through these actions, 57 of the MIs (21%) have already been resolved.

[Refer to page 13 for details](#)

Status of the 268 identified MIs

The AG reports that of the **57 resolved MIs**, 19 were resolved by the auditee submitting outstanding financial statements. The other 38 MIs (including 13 relating to VBS) were resolved by preventing or recovering R124,36 million in financial losses and implementing consequences for those responsible. The audit office issued 13 MIs where municipalities suffered material financial losses totalling R1,6 billion due to the liquidation of VBS.

95 MIs where action is being taken

Maluleke says that although the 95 MIs where appropriate action is being taken have not yet been fully resolved, accounting officers have made good progress in addressing the issues raised. By 15 February 2023, the average 'age' of these 95 MIs was 15 months from date of notification.

"Some MIs can be resolved by the accounting officer within a short period, while others take longer. For example, a proper fraud investigation can take six months, with disciplinary processes taking another few months once the investigation is concluded, as it needs to adhere to the legislation and policies in place that ensure a fair process. Although the 95 MIs have not yet fully been resolved, they are in different stages of resolution with some actions already being taken and there is demonstration of common actions required to resolve these MIs. These MIs will be fully resolved once accounting officers have implemented the actions they have committed to take. This may include strengthening internal controls to prevent the MIs from reoccurring, starting disciplinary processes against responsible officials, instituting action against officials or contractors to recover losses, and preventing further losses," the AG explains.

Stumbling blocks in swiftly resolving MIs

Maluleke reports that the instability in administrative leadership at local government and a lack of accountability for poor performance, including delayed investigations or disciplinary processes, continue to be the biggest stumbling blocks to meaningfully resolving MIs.

"The local government environment is complex as it is riddled with instability at accounting officer level; repeated disclaimed audit opinions; municipal public accounts committees not always attending to matters such as non-compliance with legislation, procurement deviations and financial misconduct; disciplinary boards not always in place; and weakened institutions because of a steady breakdown in governance over several years."

She explains that “not all of these delays are avoidable, and where we assessed them to be reasonable, we did not invoke our powers. However, the delayed resolution of MIs highlights challenges in local government that must be addressed”.

Prolonged investigations or delays by public bodies

The AG says some MIs can only be resolved once external parties have completed their investigations and processes, and a common reason for delayed resolution is prolonged investigations or delays by public bodies due to various reasons, including:

- delays in public bodies accepting and starting to investigate MIs due to multiple approvals required by officials and executive authorities
- difficulties in public bodies obtaining statements from various roleplayers who may not be available during the investigation
- various other dependencies, including on expert witnesses and legal counsel, court processes, and other law-enforcement agencies and public bodies.

The AG says this makes it difficult for accounting officers to act swiftly to recover financial losses, and to implement consequence management processes and criminal proceedings.

[Refer to page 28 for examples of referred matters](#)

Using the expanded mandate without fear, favour or prejudice

Maluleke says that if those charged with administration, governance and oversight were fulfilling their roles, there would be no need to use the powers given to her office. However, her office will not hesitate to use these powers where there are lapses in governance.

“We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice. If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift

action when we notify them of an MI, there is no need for us to use our remedial and referral powers. However, when they do not deal with MIs with the required seriousness, we do not hesitate to use these powers.”

“In [61 cases](#) where accounting officers did not appropriately address the MIs we reported to them, we used our expanded mandate to include recommendations in audit reports, refer MIs to public bodies, take remedial action and undertake the certificate of debt process. The municipalities where we took further action are also those that are typically slow to respond to our findings and to improve the control environment,” she explains.

“Where accounting officers did not deal with MIs swiftly and appropriately, often coinciding with mayors and councils not exercising their oversight responsibilities, we have not hesitated to use our enhanced powers. We included recommendations in the audit reports of [14 auditees for MIs that were not dealt with appropriately](#) and took remedial action at [17 auditees that did not implement our recommendations](#) from the previous year. At most of the auditees where we had to take these steps, we saw renewed commitment to address the MIs. However, in [two instances where the accounting officer did not appropriately deal with our recommendations and remedial action](#), we commenced with the certificate of debt process. We also referred [15 MIs to public bodies for further investigation](#),” Maluleke adds.

Greater impact will be achieved by quicker resolution of MIs

The AG says an even greater impact could be achieved if all roleplayers in the accountability ecosystem played their part.

“A change in behaviour and culture in local government is a great ambition and we embarked on this MI journey knowing that it would take time to achieve this outcome. In this report, we celebrate the successes achieved but also acknowledge the stumbling blocks that cause delays and frustration, such as leadership instability and delays in investigations and disciplinary processes.”

“We once again urge all roleplayers in the local government accountability ecosystem to support, monitor and oversee the resolution of MIs. Those charged with oversight should request quarterly reports from accounting officers and authorities on the status of their MIs, and hold them accountable for any unreasonable delays in resolving the MIs. Where there are delays in investigations, responsible parliamentary and legislature committees should request regular reports on the status of these investigations and must hold the public bodies to account for unreasonable delays in the investigations,” says the AG.

“As the national audit office, we are committed to doing our part to instil a culture of performance, accountability, transparency and integrity at local 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](#). In this journey of implementing the MI process, we will continue to sharpen and improve our processes and to learn from our successes and challenges,” concludes Maluleke.

End.

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