



AUDITOR - GENERAL
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AG Maluleke says a good foundation has been laid for new administration to improve on previous audit outcomes

PRETORIA – Auditor-General (AG) Tsakani Maluleke has called on government to build on the improved audit outcomes delivered by the previous administration.

Tabling the 2023-24 general report for national and provincial departments, their entities and legislatures to Parliament's Standing Committee on Public Accounts (Scopa), Maluleke said the audit outcomes over the term of the previous (6th) administration – the focus period of the report – “show an improvement in the ability of national and provincial government to transparently report on their finances and performance”.

However, she raised a concern regarding the high-impact auditees that have the biggest impact on the lives of South Africans and on government finances, as they have not yet demonstrated good performance against their planned targets, and institutionalised strict financial and compliance disciplines. These auditees contribute to the delivery of critical services in the areas of education, skills development and employment; energy; environmental sustainability; financial sustainability; health services; human settlements; infrastructure development; roads and transport; safety and security; and water and sanitation. They also include state-owned enterprises (SOEs) and other key public entities.

These high-impact auditees were responsible for approximately 77% of the 2023-24 expenditure budget of national and provincial government. They continued to have the worst audit outcomes and improved at a slower pace than other auditees.

“It is worth reporting that the last administration dealt with the covid-19 pandemic and various disasters, including the floods in KwaZulu-Natal and the Eastern Cape. In our special reports, we

highlighted the good work done by the 6th administration in dealing with these disruptive events, but also reported on weaknesses in how auditees responded," said the AG.

Maluleke added that through numerous engagements with different stakeholders in the accountability ecosystem, commitments and actions were solicited from key roleplayers.

The ecosystem is made up of all roleplayers in national and provincial government, Parliament and the provincial legislatures that have a part to play in enabling a culture of performance, accountability, transparency and institutional integrity. This system includes the Auditor-General of South Africa (AGSA) as the country's supreme audit institution as well as the citizens of South Africa.

"Improved service delivery and the responsible use of the limited funds available will only be possible when we have capable, cooperative, accountable and responsive institutions that deliver on their mandates. I urge all roleplayers in the accountability ecosystem, particularly those with direct control over service delivery, to work deliberately and with urgency towards a heightened level of accountability, transparency, integrity and improved service delivery for all South Africans."

Service delivery risks

AG Maluleke urged the new administration to continue using her office's work as it provides critical insight into weaknesses in national and provincial government that will remain obstacles to the achievement of the National Development Plan 2030 and the Medium-Term Development Plan of the 7th administration, if not decisively addressed.

These risks to service delivery include:

- Basic services such as education, healthcare, housing, transport and water cannot be delivered without **infrastructure**. The country's existing infrastructure must also be properly maintained to ensure that it remains in a workable and safe condition throughout its lifespan.

"Our audit work over the 6th administration's term incorporated numerous site visits to inspect the progress on and quality of infrastructure projects. We identified and reported on significant deficiencies every year – in 2023-24, we reported findings on 86% of the 143 projects we visited. All too often, infrastructure delivery projects are delayed, the

work done is of poor quality, and projects cost more than planned. There are also examples where newly built infrastructure is standing idle and not being put to use. Once again, we report on existing infrastructure that is deteriorating because it is not properly maintained."

- The modernisation and integration of **systems** and the harnessing of the benefits of technology is a cornerstone in improving the capacity of state institutions and the effective delivery of services. However, the project management weaknesses and gaps in intergovernmental coordination of infrastructure projects are also evident in the delivery of new systems and technologies. Projects are delayed and cost more than planned. Implemented systems are underutilised and often not integrated with existing systems in government.

"The global emergence of hackers targeting government institutions requires increased control and vigilance around cybersecurity. We annually assess cybersecurity controls to alert auditees to vulnerabilities that can be exploited through a cyberattack. In 2023-24, we identified control weaknesses at 70% of the 77 auditees we tested in this regard. The impact of national and provincial government not adequately protecting their systems is evident from the recent, well-publicised incidents of successful cyberattacks."

- Departments and public entities are dependent on service providers and contractors to deliver on their projects and programmes and to support their operations. Continued non-compliance with procurement legislation leads to unfair and uncompetitive **processes**, which often result in financial losses and contractors not delivering what they were contracted to do. Poor contract management and a reluctance to hold suppliers accountable for late and sub-quality delivery is one of the main root causes of project failures and financial loss.

"Through the material irregularity (MI) process, we have identified multiple cases of financial loss and harm to the public due to procurement and contract management non-compliance and suspected fraud. In total, 63% of auditees had findings on non-compliance with procurement and contract management legislation in 2023-24; findings at 23% of these auditees were material."

- Overspending and the poor **quality of spending** reduce the already limited funds available. The main reasons for the continuing financial losses and waste, especially at high-impact auditees, were poor payment practices, uncompetitive and uneconomical

procurement practices, limited value and benefit for money spent, and weaknesses in project management. The fruitless and wasteful expenditure over the 6th administration's term totalled R10,34 billion.

"The funds government budgets for service delivery activities are reduced by claims made against departments, and by auditees overspending their budgets and being in poor financial health. The budget overspending over the administration's five years was R38,83 billion. By the end of 2023-24, the estimated settlement value of claims against departments totalled R105,57 billion and 41% of auditees had a combined deficit of R69,33 billion."

- The **no-consequence culture** in national and provincial government will continue to slow down progress towards improved service delivery and financial performance. When officials face consequences for their actions, this helps auditees to both recover the losses caused by those officials and deter others from disregarding legislation and perpetuating a culture where officials are paid their salaries without fulfilling their responsibilities.

"The lack of consequences is most evident in the following areas: poor and slow response to investigating allegations of financial and supply chain management misconduct and fraud indicators; investigating and dealing with irregular expenditure and fruitless and wasteful expenditure; and material non-compliance with legislation on consequence management."

Accelerate improvements to positively impact lives of South Africans

Maluleke cautioned that there was an urgent need to accelerate disciplines for quality performance planning, monitoring and reporting at the high-impact auditees that have the biggest impact on the lives of the people of South Africa and on government finances. Together, these auditees were responsible for approximately R1,6 trillion (77%) of the expenditure budget of national and provincial government in 2023-24.

"When auditees, especially high-impact auditees, do not properly manage their performance, finances and infrastructure, this directly affects the delivery of key government programmes that are intended to improve the lives of South Africans and to alleviate hardships stemming from tough economic conditions and poverty."

Expanded powers continue to yield desired impact

The AG reported that through the AGSA's MI process, accounting officers and authorities have taken action to prevent or recover financial losses of R3,39 billion since 2019, with some of this amount still in the process of being recovered.

"Since its implementation in 2019, the MI process has continued to contribute to improved accountability and oversight as well as the protection of public resources. Through this process, we have identified multiple cases of financial loss and harm to the public mainly due to procurement and contract management non-compliance and some due to suspected fraud," the AG reported.

In total, 48% of the 292 MIs identified by the AGSA since 2019 have been resolved by auditees preventing or recovering financial losses, preventing further harm to the general public and public sector institutions, stopping further underutilisation of material public resources and implementing consequences for those responsible for the irregularities; and improving internal controls to prevent the irregularities from recurring.

"We used this enforcement tool to spur accounting officers and authorities into action to strengthen internal controls, institute disciplinary measures, stem resource leakage arising from non-compliant procurement processes, recover funds lost through duplicate payments and overpayments to suppliers, safeguard assets, and improve the use of public resources such that they benefit citizens. We are encouraged that most accounting officers and authorities took action to resolve the MIs we identified," Maluleke explained.

She further added that where the MIs were not dealt with swiftly or with the required seriousness, her office included recommendations in audit reports, took remedial action or referred matters to relevant public bodies for investigation, where appropriate.

"We are pleased that the MI process is proving to be effective in enforcing accountability and protecting state resources. Departments and public entities can direct the recovered funds towards service delivery, enabling government to achieve its strategic priorities. We continue to advocate for investment in good preventative controls, as preventing MIs is more effective than having to deal with the consequences thereof," says Maluleke.

State of national and provincial government

Audit outcomes

The AG reported that audit outcomes improved from 2018-19 (which was the last year of the 5th administration) and the number of clean audits increased from 93 to 142. More auditees improved their audit outcomes than regressed every year over the term of the administration. By 2023-24, 139 auditees had improved their outcomes and 50 had regressed – an overall net improvement of 24%.

Maluleke encouraged the 7th administration to continue on this positive path. In particular, auditees with unqualified audit opinions with findings must work harder to achieve a clean audit.

“Just over 40% of auditees obtained an unqualified audit opinion with findings. This is not a desirable outcome and auditees should not remain comfortable in this category as they currently do. Even though their financial statements might be unqualified (often due to corrections made based on our findings), the material findings on performance mean that their performance reports are not credible and the material findings on compliance signal a disregard for legislation or significant lapses in control. They could easily lose the unqualified status due to these remaining challenges in their control environment,” cautioned Maluleke.

Audit outcomes of the legislature sector set an example

The audit outcomes of the legislature sector improved significantly from 2018-19, showing a net improvement of 60%. Parliament and eight of the provincial legislatures now have clean audits, setting an example for other sectors.

Provincial overview

Provincial outcomes showed an overall net improvement of 31% from 2018-19. The biggest net improvements were in North West (56%), followed by the Free State (44%), KwaZulu-Natal (33%) and Gauteng (30%). The Western Cape, Gauteng, KwaZulu-Natal and the Eastern Cape are the provinces with the highest number of clean audits.

More effort needed to maintain encouraging signs of improvement

The AG reports that over the 6th administration's term, her office "saw some encouraging signs of improvement in the three areas we audit, which should be sustained and built on by the new administration". The 7th administration is encouraged to also focus on the following:

- The unqualified opinions on financial statements increased from 67% to 75% and performance reports with no material findings from 60% to 71%. Although the quality of financial statements and performance reports that were published and used for oversight purposes improved, the versions we received for auditing at most auditees continued to be materially misstated. If auditees had not made corrections based on our findings, only 57% of financial statements would have been unqualified and 48% of performance reports would not have had material errors.
- The improvements in the quality of financial statements were mostly due to improved controls, stability in finance units, limited changes in accounting frameworks, and support provided by provincial treasuries.
- The improvements in the quality of performance reports were often not due to the efforts of the auditee, but rather due to refinements of performance plans over the administrative term based on reviews and support by coordinating institutions and national sector departments as well as in reaction to our findings.

Clean audits

The AG noted that the number of clean audits continues to increase every year due to significant effort and commitment by the leadership, officials and governance structures of these institutions.

She re-emphasised the importance of clean audits, which show that an auditee's financial statements and performance report give a transparent and credible account of its finances and its performance against the targets that had been set. It also means that the auditee had complied with the important legislation that applies to financial and performance management. This enables everyone with an interest in the auditee – particularly those who need to oversee its performance and provide support for it to succeed – to determine if the auditee is addressing citizen needs and delivering services.

“A clean audit is not always an indicator of good service delivery,” the AG explained. “However, a clean audit positions an auditee to transparently communicate to citizens on whether and when their needs will be met through accurate records, which also enables informed decisions by the different roleplayers in the accountability ecosystem. We have seen that auditees with institutionalised controls and systems to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often also have a solid foundation for service delivery to the people of South Africa.”

Maluleke commended the 142 auditees (63 departments and 79 public entities) that achieved clean audits in 2023-24. Collectively, they managed R266,28 billion (13%) of the R2,07 trillion expenditure budget in national and provincial government.

She highlighted 65 of these 142 auditees, as they have managed to sustain their clean audit status over the administrative term through practices such as institutionalising and monitoring key controls (including preventative controls), and by having all roleplayers in the accountability ecosystem committed to fulfilling their monitoring, governance and oversight roles.

She further acknowledged the 39 auditees that are very close to obtaining a clean audit, and only need to address one finding on either the quality of their financial statements or on their performance reporting.

“An auditee will often find it difficult to sustain a clean audit if it does not have financial and performance management systems that operate consistently and effectively, and controls that are properly embedded.”

Adverse and disclaimed outcomes

The AG explained, “Adverse and disclaimed audit opinions are the worst opinions an auditee can receive. An adverse opinion means that the financial statements included so many material misstatements that we disagree with virtually all the amounts and disclosures in the financial statements. A disclaimed opinion means that those auditees could not provide us with evidence for most of the amounts and disclosures in the financial statements.”

In 2023-24, four auditees received an adverse audit opinion, of which one was a high-impact auditee (Road Accident Fund). Five auditees received a disclaimed audit opinion, including two high-impact auditees (Compensation Fund and Central Johannesburg TVET College).

Six of the 16 high-impact auditees that received a disclaimed audit opinion in 2018-19 have moved out of this category; namely, the Gauteng Department of Human Settlements, Ehlanzeni TVET College, South West Gauteng TVET College, Tshwane North TVET College, Pelchem, and South African Nuclear Energy Corporation.

Financial management and pressure on government finances

Irregular expenditure remains high

The amount of irregular expenditure incurred every year since 2018-19 has remained high, totalling R406,83 billion over the administrative term. The biggest contributor to irregular expenditure, comprising 68% of the five-year total, was non-compliance with procurement and contract management legislation.

This type of non-compliance resulted in 85% or more of the irregular expenditure incurred each year of the administration's term, except for 2020-21 when non-compliance with bursary-related regulations by the National Student Financial Aid Scheme accounted for 44% of the irregular expenditure incurred.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure incurred over the administrative term totalled R10,34 billion, with high-impact auditees being responsible for R8,73 billion (84%) of this amount. In 2023-24, the total fruitless and wasteful expenditure for all auditees was R2,57 billion, an increase of 49% from the previous year, with high-impact auditees being responsible for R2,05 billion (80%) of this amount.

The biggest contributors to the increase in fruitless and wasteful expenditure were the following:

- Transnet (R0,58 billion) – overpayments, interest and penalties, and cost of cancelled infrastructure projects
- Gauteng Department of Human Settlements (R0,52 billion) – cost of feasibility studies on cancelled housing projects
- Free State Development Corporation (R0,27 billion) – overpayment for assets on the Special Economic Zone project that were valued lower than what was paid for their construction

Overspending by departments and entities

When departments overspend their budgets, they disclose this as unauthorised expenditure, while public entities disclose their overspending as irregular expenditure. The combined overspending of departments and public entities totalled R38,83 billion over the administrative term.

In 2023-24, departments incurred R7,19 billion in unauthorised expenditure – 57% more than in the previous year.

Public entities incurred irregular expenditure due to overspending of R0,17 billion in 2023-24; a decrease of 81% from R0,90 billion in the previous year.

Conclusion

Call to action and recommendations to the new administration

Maluleke said national and provincial government are instrumental in building trust by delivering basic services such as healthcare, education, housing, safety and security, water and sanitation, and social security; and for ensuring an environment that is not harmful to the health and wellbeing of South Africans. The country depends on departments and public entities to provide and maintain essential infrastructure and to deliver on programmes that enable economic opportunities and growth.

“Through the insights from our audits during the administrative period and the real-time audits we performed on the funding for covid-19 and flood-relief initiatives, and our experience with the MI process, we identified three main shortcomings in national and provincial government that hold back progress. We reported on these root causes throughout the term of the administration:

- Inadequate intergovernmental planning, coordination and support
- Ineffective resource management
- A culture of no accountability and consequences

To address the root causes, improve service delivery and proactively manage the risks that can derail the progress made, Maluleke recommended prioritisation and oversight focus by the

newly elected executive authorities and the members and committees of Parliament and the provincial legislatures on five key matters:

1. Intergovernmental and institutional planning for delivery on the Medium-Term Development Plan
2. Institutional capacity and effective governance for transparent reporting and accountability
3. Infrastructure, systems and professionalisation as key enablers
4. Managing the risks to service delivery created by the poor quality of spending and financial mismanagement, weaknesses in procurement and contract management, cybersecurity vulnerabilities, and a culture of no consequences
5. Optimising the MI process as an oversight tool

The AG also called on all other roleplayers in the accountability ecosystem to fulfil their designated roles and play their part effectively and without fear or favour, to promote a culture of performance, accountability, transparency and institutional integrity that will improve service delivery and create tangible prospects for a better life for our people.

Maluleke concluded, "We remain committed to partnering with and supporting the public sector through our audits, the use of our expanded powers as granted by the Public Audit Act amendments, and the many initiatives that we have implemented to assist and guide all roleplayers."

End.

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Media note: The 2023-24 consolidated general report on national and provincial government audit outcomes will be available on www.agsa.co.za.

About the AGSA: The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.