

# MEDIA RELEASE



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## AG reports minimal progress, calls on government to double efforts to improve audit outcomes

**PRETORIA** – Auditor-General (AG) Tsakani Maluleke has called on the government to double its efforts to improve its audit outcomes as the rate to address institutional capability, governance and accountability weaknesses is too slow.

Releasing the 2024-25 general report of the Auditor-General of South Africa (AGSA) for national and provincial departments, public entities and legislatures, Maluleke said that one year into the new (7<sup>th</sup>) administration, her office's audits indicate minimal progress towards improved audit results. This is reflected in the overall audit outcomes for the period under review, which show minimal progress: only 151 out of 417 auditees achieved unqualified audit outcomes with no other matters (popularly known as **clean audits**).

This, she says, is a concerning trend as the national audit office had called on the 7<sup>th</sup> administration to build on the improved audit outcomes delivered by the previous (6<sup>th</sup>) administration. However, there is no noticeable shift towards better performance – not in financial management and not in service delivery.

AG Maluleke said, "We acknowledged the improvements in audit outcomes over the term of the 6<sup>th</sup> administration but drew attention to the persistent underperformance of high-impact auditees. The 'high-impact' auditees contribute to the delivery 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. When the current administration took office, I recommended that attention be paid to improving the capability of institutions to deliver on

their mandates and strategic government programmes and priorities. I highlighted that trust in public institutions could be strengthened by ensuring that institutions across the national, provincial and local government spheres collectively plan and systematically and purposefully work towards a culture of performance, accountability, transparency and institutional integrity.

“However, one year into the new administration, our audits show no clear improvement in audit outcomes, financial management, service delivery performance, accountability, transparency or institutional integrity. This shows that our audit counsel has not been adequately heeded.”

Maluleke cautioned that when auditees in national and provincial government, especially high-impact auditees, fail to properly manage their performance, finances, infrastructure and resources, it directly affects delivery on key government priorities.

“Such failures result in non-delivery on government initiatives aimed at improving the lives of South Africans and alleviating poverty and hardship. Wasted money and resources means reduced funding for service delivery programmes and, eventually, a greater burden on taxpayers.”

## **Audit outcomes: regressions, limited clean audits and complacency**

### **Audit outcomes at a glance**

Although the 151 clean audits represent 36% of the total number of auditees, they look after only 12% of the national and provincial expenditure budget.

Maluleke reported that the 266 auditees that did not receive clean audits are responsible for managing 88% of the total expenditure budget but continue to lack the institutional capability to produce credible financial and performance reports or ensure compliance with legislation.

She says audit outcome **regressions**, which should be rare in the absence of significant changes to legislation or reporting requirements, were reported for 45 auditees. These auditees, which include 22 high-impact auditees, oversaw a combined expenditure budget of R523,42 billion. The scale of these regressions significantly outweighs the improvements made elsewhere.

“**High-impact auditees**, in particular, continue to underperform compared to other auditees. Collectively, these auditees were responsible for approximately R2 trillion – 91% of the expenditure budget. They account for over half of the outstanding audits and 64% of all modified (qualified, adverse or disclaimed) audit opinions, underscoring the critical need for focused and sustained intervention to address their persistent shortcomings,” the AG warned.

The report further reveals that the most common audit outcome was ‘**unqualified with findings**’. These auditees received an unqualified audit opinion on their financial statements, but we reported material findings on performance reporting and/or compliance with key legislation.

The 161 auditees in this category exhibited high levels of non-compliance, weak financial and performance management, and inadequate accountability and consequences. More than half achieved unqualified opinions only after correcting material misstatements that were identified during the audit process.

These auditees were responsible for 61% of irregular expenditure, 45% of unauthorised expenditure and 63% of fruitless and wasteful expenditure. Material irregularities (MIs) at these auditees were widespread: they accounted for 109 of the 203 MIs we report on.

“More than half of these auditees with the audit outcome of ‘unqualified with findings’ are high-impact auditees, meaning that their operational failures have a direct and detrimental effect on key service delivery areas. Notably, 75% of state-owned enterprises (SOEs) and 69% of departments in the key sectors of basic education, health, human settlements, public works and transport fall into this category.

“Despite the risks posed by their continued underperformance on audit outcomes, most of the auditees in this category have shown little commitment to achieving clean audits. A total of 113 auditees (70%) were in this category in both 2023-24 and 2024-25, with 57 (35%) having been in this category for at least five years and 13 (8%) for at least a decade. Their complacency stems from a minimum compliance mindset and a false sense of achievement. In part, this is due to accounting officers, accounting authorities and politicians misconstruing an unqualified audit opinion with findings as a good audit outcome,” explained Maluleke.

## Persistent and pervasive non-compliance with legislation

The AG's report indicates that the pattern of non-compliance with legislation observed in the previous administration continued, with 224 auditees (58%) having material findings on compliance with key legislation. This non-compliance carried financial and non-financial costs.

Says Maluleke, "Widespread non-compliance with legislation continues unabated, with minimal consequences. This entrenched culture of disregarding the rule of law not only erodes public trust but also signals that such conduct is tolerated. The continuing high levels of non-compliance stem from a lack of institutional integrity and a culture of impunity. Without strong internal controls, ethical leadership and a culture of accountability, officials are neither incentivised to comply with legislation nor deterred from transgressing. Until this is addressed, the cycle of non-compliance, financial loss and public disillusionment will continue."

## Non-compliance and high levels of irregular expenditure in procurement and contract management

The report reveals that auditees continue to breach the principles of section 217 of the Constitution, which requires that all government procurement be conducted in a manner that is fair, equitable, transparent, competitive and cost-effective.

In particular, auditees persistently used **uncompetitive and unfair procurement practices**, which included evergreen contracts and month-to-month extensions.

"This undermines not only the constitutional values but also the strategic intent of procurement to foster transformation and inclusive economic growth. These practices create barriers to entry for new and historically disadvantaged suppliers. Not following fair and competitive procurement processes can result in paying higher prices for goods and services and appointing contractors that do not deliver. We see these risks manifesting in the poor delivery of infrastructure projects and financial losses – for which we have issued multiple MI notifications.

These practices are not merely procedural lapses. They significantly heighten the risk of fraud and financial loss, erode public trust and directly impair service delivery. Despite these issues being raised repeatedly in prior audit cycles, leadership, executive authorities and oversight

bodies have largely failed to take corrective action. This reflects a breakdown in institutional integrity and a disregard for accountability.

### **Irregular expenditure**

Maluleke says the irregular expenditure that arises when institutions deviate from legislated procurement and payment processes should remain a critical concern for everyone in the accountability ecosystem. It serves as a tangible indicator of non-compliance with government's procurement laws and a failure to uphold the principles of good governance.

She says the growing trend of treating irregular expenditure as a mere technicality, rather than a serious governance failure, is concerning. "Combined with reduced disclosure requirements and protracted resolution timelines, it has fostered a permissive environment in which non-compliance is normalised and consequences are rare.

"Equally, dismissing irregular expenditure or changing the rules to reduce the amounts disclosed will not address the problem. The root cause of continued non-compliance with the constitutional and legislated requirements for fair, equitable, transparent, competitive and cost-effective public procurement must be determined. Only then can disciplines be institutionalised to prevent irregular expenditure and reduce its impact on the quality of spending," said the AG.

Procurement and contract management failures were the primary drivers of the high levels of irregular expenditure. The reported irregular expenditure incurred in 2024-25 totalled R42,58 billion (2023-24: R49,53 billion), representing more than 3% of the total expenditure budget (excluding employee costs). However, this figure likely underrepresents the true extent of the problem, as 33% of auditees were qualified on the completeness of their irregular expenditure disclosures or were still investigating these amounts to determine if they had been irregularly spent. Delays in finalising these assessments have left more than an estimated R32,04 billion in irregular expenditure under review and therefore not included in the reported number for irregular expenditure.

### **Poor financial reporting, discipline and quality of spending**

A total of 159 auditees (41%) submitted financial statements containing material misstatements. Without the opportunity to correct these errors during the audit process, only

59% of auditees would have received unmodified audit opinions – far below the 81% that ultimately did. We expressed modified opinions on the financial statements of 72 auditees (19%).

“We have consistently advised successive administrations that **credible financial reporting** is not merely an administrative exercise – it is the cornerstone of sound fiscal discipline management and a critical safeguard against financial mismanagement. Yet, we continue to encounter poor-quality financial statements and a troubling reliance on our audits to identify and correct material errors and omissions. Auditees should be able to independently prevent, detect and address these mistakes through basic internal controls that are implemented throughout the financial year.

“Financial reporting extends beyond the annual preparation of financial statements. It is a continuous process that underpins effective monitoring, oversight and decision-making throughout the financial year. The quality of financial statements and supporting documentation submitted for auditing is a strong indicator of the reliability of in-year financial reporting. Material misstatements in these submissions suggest that decisions may be based on flawed or unreliable data.”

### **Poor quality of spending**

During the 2024-25 financial year, accounting officers and authorities oversaw an expenditure budget of an estimated R2,21 trillion.

Maluleke reports that despite the fiscal constraints facing government, the poor quality of spending continues to receive insufficient attention. In an environment of limited resources, wastage cannot be tolerated and every opportunity to recover lost funds must be pursued with urgency.

“In our previous general report, we highlighted how overspending and poor-quality expenditure placed significant strain on government finances and posed a growing risk to service delivery. These concerns remain valid and the lack of prudent spending and disciplined financial management persisted, further eroding the funds available for service delivery. This was especially the case at high-impact auditees.”

## Fruitless and wasteful expenditure

Auditees incurred R1,42 billion in fruitless and wasteful expenditure in 2024-25 (2023-24: R3,54 billion). High-impact auditees were responsible for 84% (R1,19 billion) of this amount.

Fruitless and wasteful expenditure of R1,60 billion remains under assessment and has not been disclosed, of which R1,28 billion has exceeded the prescribed resolution timelines.

## Key weaknesses in financial performance

Below are some of the main weaknesses in the financial performance of national and provincial government:

- **Budget overruns:** Despite ongoing budget cuts aimed at alleviating fiscal pressure, many auditees failed to revise or proactively monitor their spending plans. As a result, the 2024-25 budget was overspent by R6,23 billion (2023-24: R7,25 billion). The overspending had to be funded from the following years' allocations or through borrowing, thus reducing funds available for service delivery in subsequent years.
- **Accruals:** At year-end, accruals at national and provincial departments totalled R51,25 billion, reflecting the extent of unpaid expenses that will be funded from following years' budgets.
- **Deficits:** In 2024-25, 67 departments (45%) ended the year with a deficit and spent R44,23 billion more than the funds allocated (2023-24: R61,82 billion), which effectively reduced the funds available for following years' service delivery. Public entities, government business enterprises, technical and vocational education and training colleges, constitutional institutions and trading entities recorded deficits totalling R13,85 billion (2023-24: R6,45 billion).
- **Debt-collection challenges:** Most public entities are self-funded and rely on revenue collection to sustain operations. However, they took an average of 104 days to collect outstanding debt in 2024-25 (2023-24: 103 days). A total of 74 high-impact public entities (64%) disclosed that over 10% of their debt was deemed irrecoverable.
- **Creditor payments:** Overall, 44 auditees (13%) – of which 70% are high-impact auditees – failed to comply with the legal requirement to pay suppliers within 30 days. Late

payments resulted in R0,48 billion in interest and penalties. On average, payments were delayed by 73 days in 2024-25 (2023-24: 133 days).

- **Severe financial distress:** In 2024-25, 16 public entities disclosed material uncertainty about their ability to continue operating. In essence, they are unable to cover their expenses with available revenue and are burdened by liabilities that exceed their assets.

### State-owned enterprises continue to pose major risk to the country's fiscal health

Maluleke says the audit outcomes of **SOEs** reflect poor-quality financial and performance reporting and high levels of disregard for legislation. She says the weak commitment to transparency and accountability, gaps in institutional capability, lack of institutional integrity and poor governance and oversight continued to impact South Africans directly through the resultant non-performance and financial instability of the SOEs.

Eight (8) SOEs reported serious financial health concerns relating to their ability to continue operating. For seven of them, this has been the situation for at least six consecutive years. These uncertainties arise from persistent operating losses, liquidity constraints driven by delayed revenue recovery, high fixed costs and/or reliance on government support that is not always formally committed at the time of financial statement preparation and submission for audit.

The poor financial position of SOEs such as Transnet and Eskom resulted in them relying heavily on borrowings to keep running, with the total liabilities of these two SOEs nearing one trillion rand (R866 billion).

To remain afloat, SOEs have had to rely on government guarantees of R453,48 billion with exposure of R414,45 billion, as disclosed in the 2024-25 financial statements of the National Revenue Fund.

“While progress has been made at some SOEs, the pace is slower than what the country and its already strained fiscus require. Defaulting on the conditions for guarantees, bailouts and turnaround plans continues to create pressure on government finances. Without urgent reforms, improved governance, sustainable revenue models and the implementation of

credible turnaround strategies, SOEs will continue to pose a major risk to South Africa's fiscal health and economic recovery."

## Persistent delays and systemic failures in infrastructure delivery and maintenance

The AGSA audited 152 **infrastructure projects** implemented across the country by provincial and national departments and five public entities. The projects covered critical assets such as schools, hospitals, housing developments, roads, water systems and government buildings. These projects had a combined estimated cost of R47,39 billion.

The audit office reported findings on 136 (89%) of the projects. The findings were prevalent across all service delivery areas.

"The delivery of basic services such as education, healthcare, housing, transport and water depends on quality infrastructure that is well maintained and functional throughout its life cycle. However, poor planning, coordination and execution by the different roleplayers in the infrastructure value chain led to the poor quality of spending on infrastructure delivery and maintenance. The planned level of services was also not delivered even after projects were completed after lengthy delays.

Poor-quality construction can harm the members of the public or public sector officials that use the infrastructure and can increase the costs to fix defects. Unbudgeted cost overruns deplete funds needed for completing projects and limit the resources available for both new infrastructure and the upkeep of existing assets," Maluleke reported.

She said the **maintenance of public infrastructure** remains largely neglected. Without regular assessments and proactive maintenance, infrastructure deteriorates rapidly and increases long-term costs, compromises service delivery and heightens health and safety risks to the public and public sector officials.

## Chronic delays and systemic project failures in human settlements

The AG lamented the chronic delays and project failures in the human settlements sector. The sector recorded the longest average infrastructure project delays, with some projects being

delayed for almost 20 years. These delays highlight deep-rooted weaknesses in project planning, execution and oversight.

The AGSA assessed 24 **housing projects** valued at R5,67 billion across all nine provinces and found shortcomings on 96% of the projects. Projects were completed without essential services such as electricity, water and sanitation, indicating poor alignment with end-user needs, inadequate planning and poor intergovernmental coordination. Poor construction quality was observed in most provinces, raising concerns about residents' safety and the potential for costly remedial work.

The AG also noted that, at national level, the oversight of human settlements **grant funding** to provinces was found wanting, as monitoring by the national department focused on expenditure rather than project completion. Due to capacity constraints, not all projects were verified, despite recurring issues with quality, timelines and commissioning.

### **Accountability and consequence management: a critical weakness**

Maluleke says that a persistent lack of accountability and consequences remains one of the primary drivers of ongoing non-compliance with legislation, high levels of irregular expenditure, financial losses, poor audit outcomes and service delivery failures.

She says these issues "are deeply rooted in weak institutional integrity".

The link between poor consequence management and **financial misconduct** is clear: 36% of auditees that failed to prevent irregular expenditure and 43% of those that failed to prevent fruitless and wasteful expenditure also had a history of material compliance findings on delayed investigations and/or lack of disciplinary action.

"When officials are held accountable for their actions, it not only facilitates the recovery of losses but also serves as a deterrent to future transgressions. Yet, the number of auditees failing to comply with legislation on consequence management increased from 119 (37%) to 140 (43%). This issue was pronounced among high-impact auditees, where 38% failed to comply. The lack of action taken to enable consequence management is also evident in the limited progress that has been made to address the significant balances of unauthorised, irregular, and fruitless and wasteful expenditure carried over from the previous administration.

“Accountability must also extend to allegations of financial misconduct and fraud, but 30% of the 57 auditees with reported allegations (e.g. via fraud hotlines) failed to investigate any of them. These failures delay criminal investigations, allow misconduct to continue and hinder the recovery of financial losses,” the AG said.

## Impact of the MI process

AG Maluleke reports slow progress but notable impact in the implementation of the MI process, which is part of the AG's expanded mandate that came into effect in 2019.

The previous (2023-24) general report indicated that the audit office had identified 292 MIs over the term of the 6<sup>th</sup> administration. Almost half of these (140 MIs) were resolved over the administrative period.

The impact of resolving these 140 MIs prior to this year's general report was as follows:

- Financial losses totalling R2,41 billion (42%) were prevented or recovered, or were in the process of recovery, from the liable person or entity.
- Overdue financial statements at 10 auditees were submitted for auditing.
- Unsafe practices by a school in preparing and storing food as part of the National School Nutrition Programme were rectified.
- Three underutilised health facilities and medical equipment at a hospital are now in use.
- Underutilised ferry boats were donated to entities that use them to fulfil their mandates.
- Unused buses were converted to operate as mobile libraries.

In addition to the 140 resolved MIs, four MIs were subsequently closed. This brings the number of active MIs that the 7<sup>th</sup> administration inherited from the previous administration to 148.

By 31 July 2025 (the cut-off date for MIs to be included in the latest report), the AGSA had identified 55 new MIs. The estimated financial loss of the 55 new MIs is R0,61 billion, bringing the total estimated financial loss of MIs to R9,17 billion. Since last year's general report, losses of R1,38 billion on a further 29 MIs were prevented or recovered (or a recovery process has started).

The AG indicated that she reports on 203 active MIs in this first year of the 7<sup>th</sup> administration.

## Conclusion

### Root causes of governance lapses

Maluleke says her office has identified three main shortcomings in national and provincial government that continue to hold back progress. She says the administration must double its efforts in addressing these root causes to build a stronger foundation for service delivery:

- Governance failures and a lack of consequences and institutional integrity
- Inadequate institutional capability
- Weaknesses in oversight and intergovernmental coordination and cooperation

“To address the root causes and build a stronger foundation for service delivery, we call for effective leadership and governance, as well as diligent oversight. Throughout our report, we highlight weaknesses in governance, oversight, accountability, institutional capability and intergovernmental processes. Such weaknesses are not the result of unclear mandates, ill-defined legal responsibilities or government processes, a lack of structures or even insufficient funding. It is because roleplayers in the accountability ecosystem do not fulfil their designated and legislative roles consistently or effectively.

### Recommendations and call to action

“Our recommendations are similar to those of the previous year, as little progress has been made with their implementation. We therefore call on executive authorities and oversight structures to prioritise the following:

- Intergovernmental and institutional planning for delivery on the Medium-Term Development Plan
- Institutional capability and effective governance for transparent reporting and accountability
- Infrastructure, systems and professionalisation as key enablers
- Managing the risks to service delivery created by the poor quality of spending and financial mismanagement, weaknesses in procurement and contract management and the reluctance to address such weaknesses by dealing appropriately with irregular expenditure, cybersecurity vulnerabilities and the lack of consequences

- o Optimising the MI process as an oversight tool"

Maluleke also called on all others in the accountability ecosystem to fulfil their designated roles and play their part effectively and without fear or favour to promote an effective public service culture: 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.

"As the national audit office, 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," concluded the AG.

**End.**

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