



AUDITOR - GENERAL
SOUTH AFRICA

Embargoed until 3 November 2023 @ 10:00

MATERIAL IRREGULARITIES IN LOCAL GOVERNMENT

3 November 2023

A culture of accountability will improve service delivery

Mission and vision

2



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

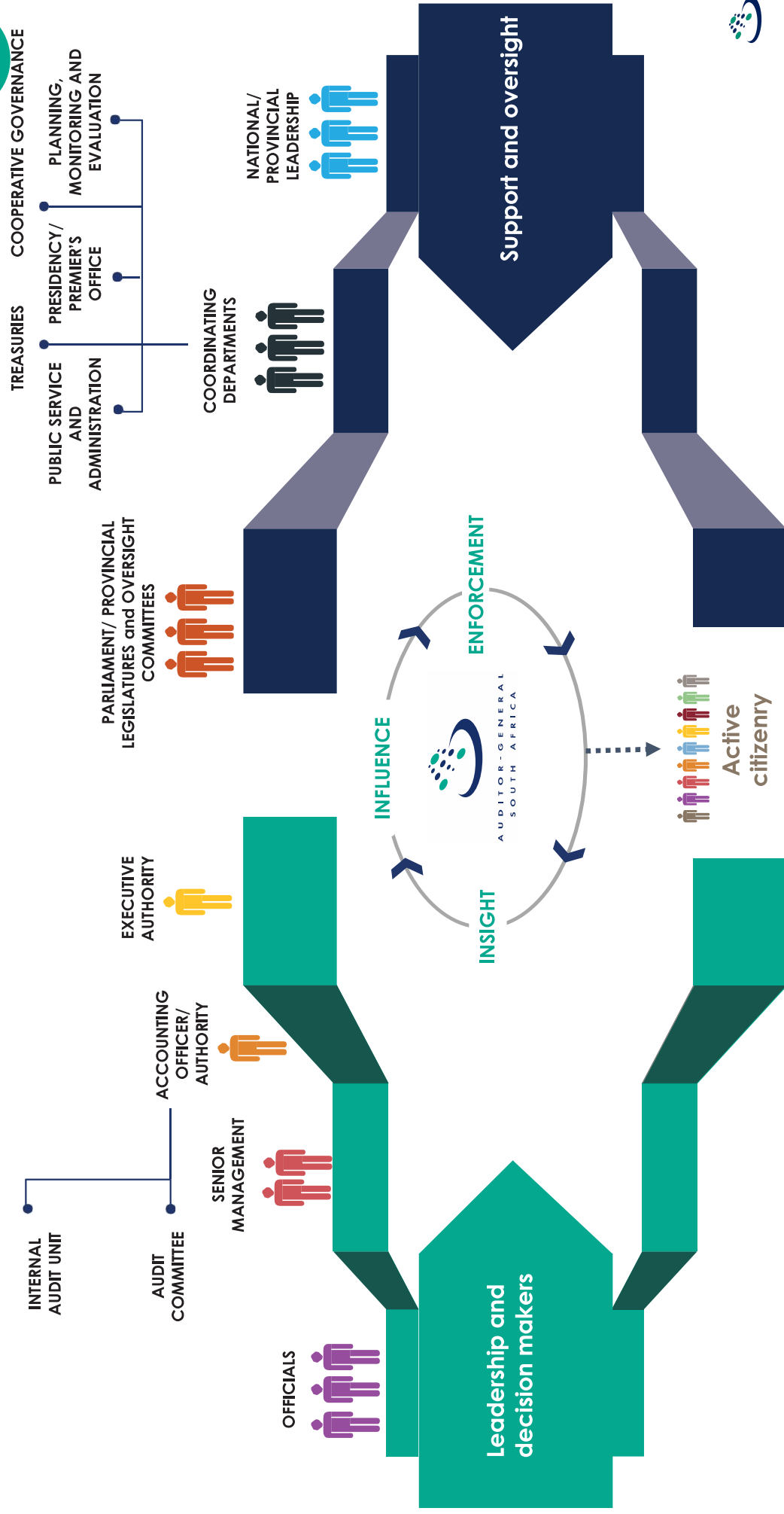


VISION

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

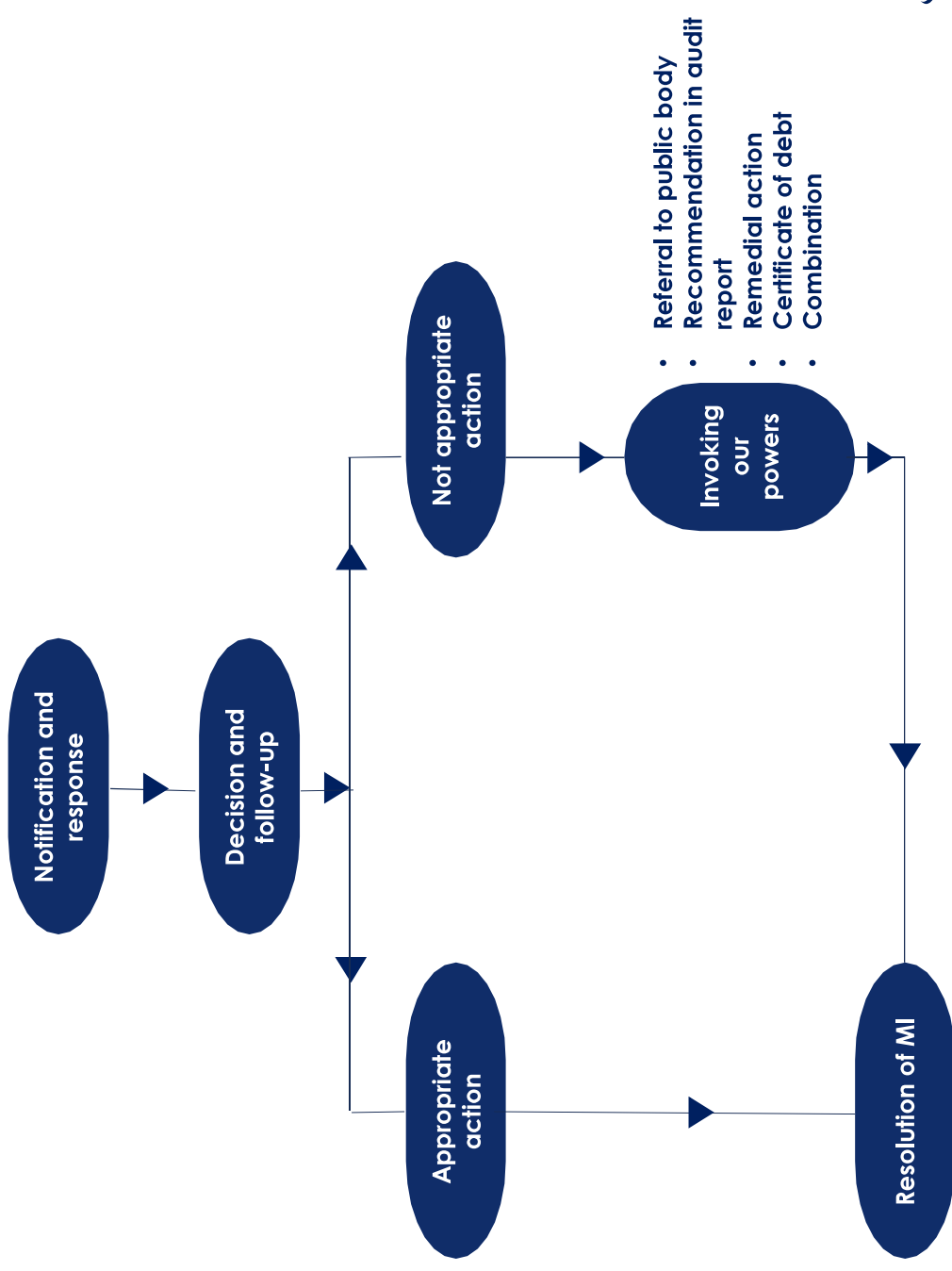


All have a role to play in accountability ecosystem

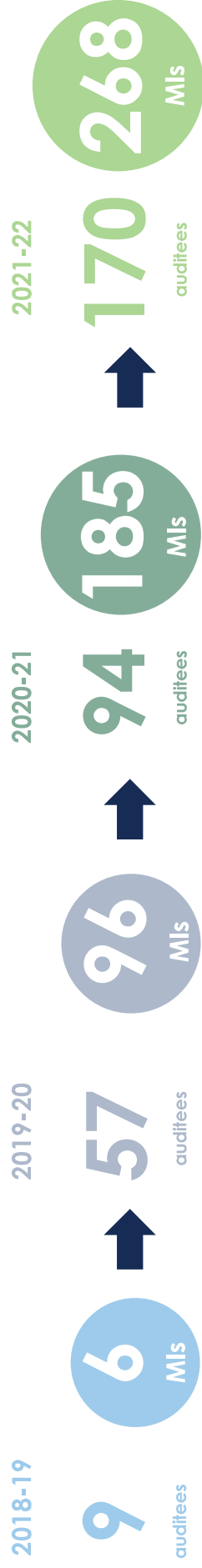


Material irregularity (MI) definition and process

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



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



MI process is making an impact



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**

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

Revenue management

22

Revenue not billed

2

Debt not recovered

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

Fraud and compliance

3

Suspected fraud resulting in loss

1

Non-compliance resulting in penalties

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

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



If accounting officers do not take appropriate action, we take action



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)
- Masiinyana (FS)
- Msunduzi (KZN)
- Naledi (NW)
- Ngaka Modiri Molema DM (NW) – 4
- Ramatshere Moiboa (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:

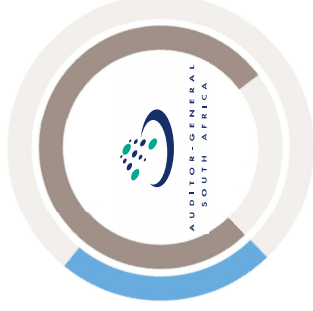
- Delays in investigations by auditees and/or public bodies
- Delays in recovery process, including liquidation of suppliers
- Instability at accounting officer level
- Delays in identifying responsible officials and completing disciplinary process

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



SCoAG

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.

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.



Physical Address:
4 Daventry Road, Lynnwood Manor, Pretoria, SA

Postal Address:
PO Box 446, Pretoria, 0001

Telephone:
012 426 8000

Fax to Email:
012 426 8257

Email:
agsa@agsa.co.za

www.agsa.co.za

f Auditor-General of South Africa



Auditor-General of South Africa



@AuditorGen_SA