



AUDITOR - GENERAL
SOUTH AFRICA

PFMA 2022-23

MATERIAL IRREGULARITIES IN NATIONAL AND PROVINCIAL GOVERNMENT

8 March 2024

A culture of accountability will improve service delivery



MISSION

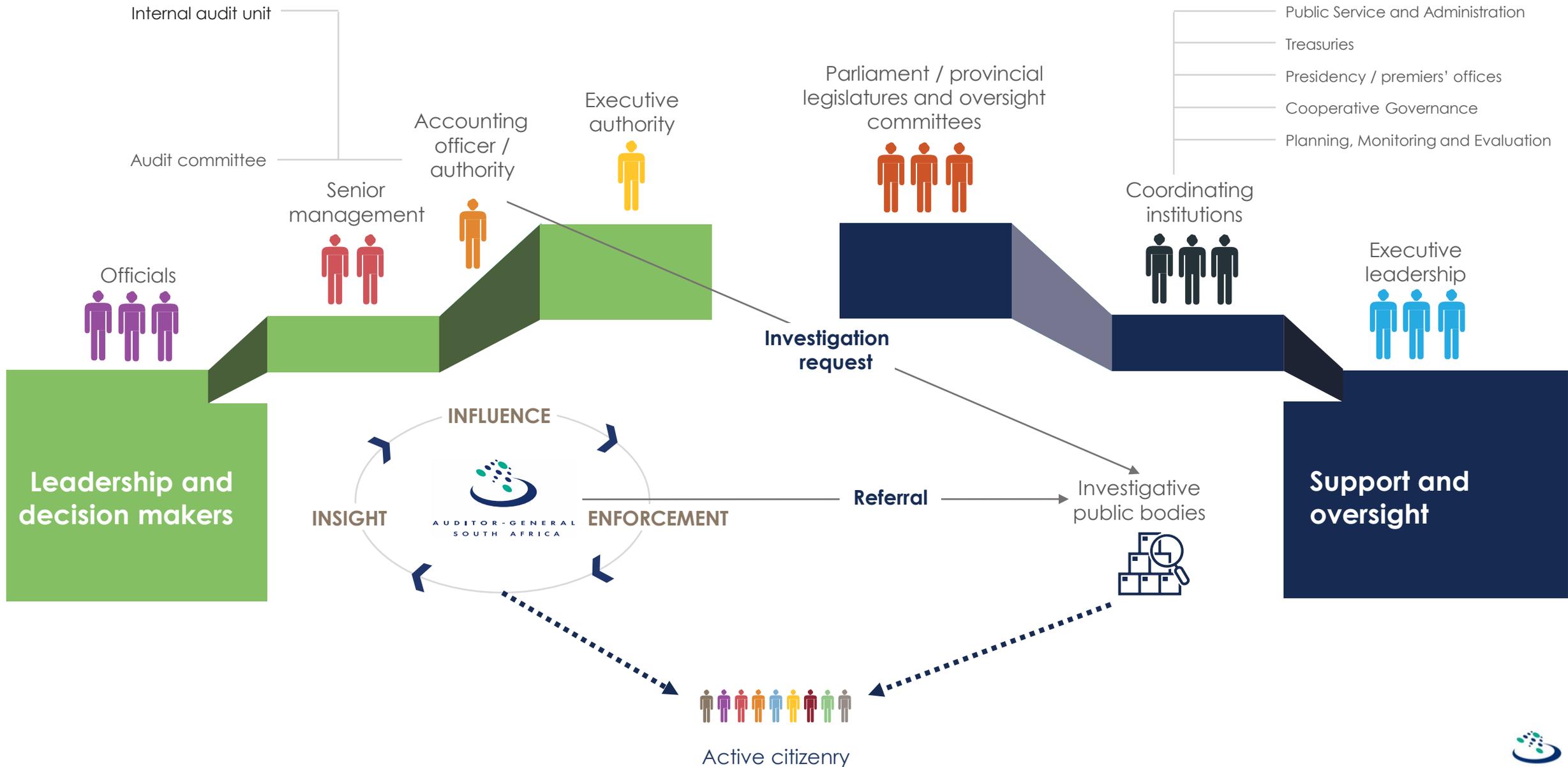
The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence



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





MI definition

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**

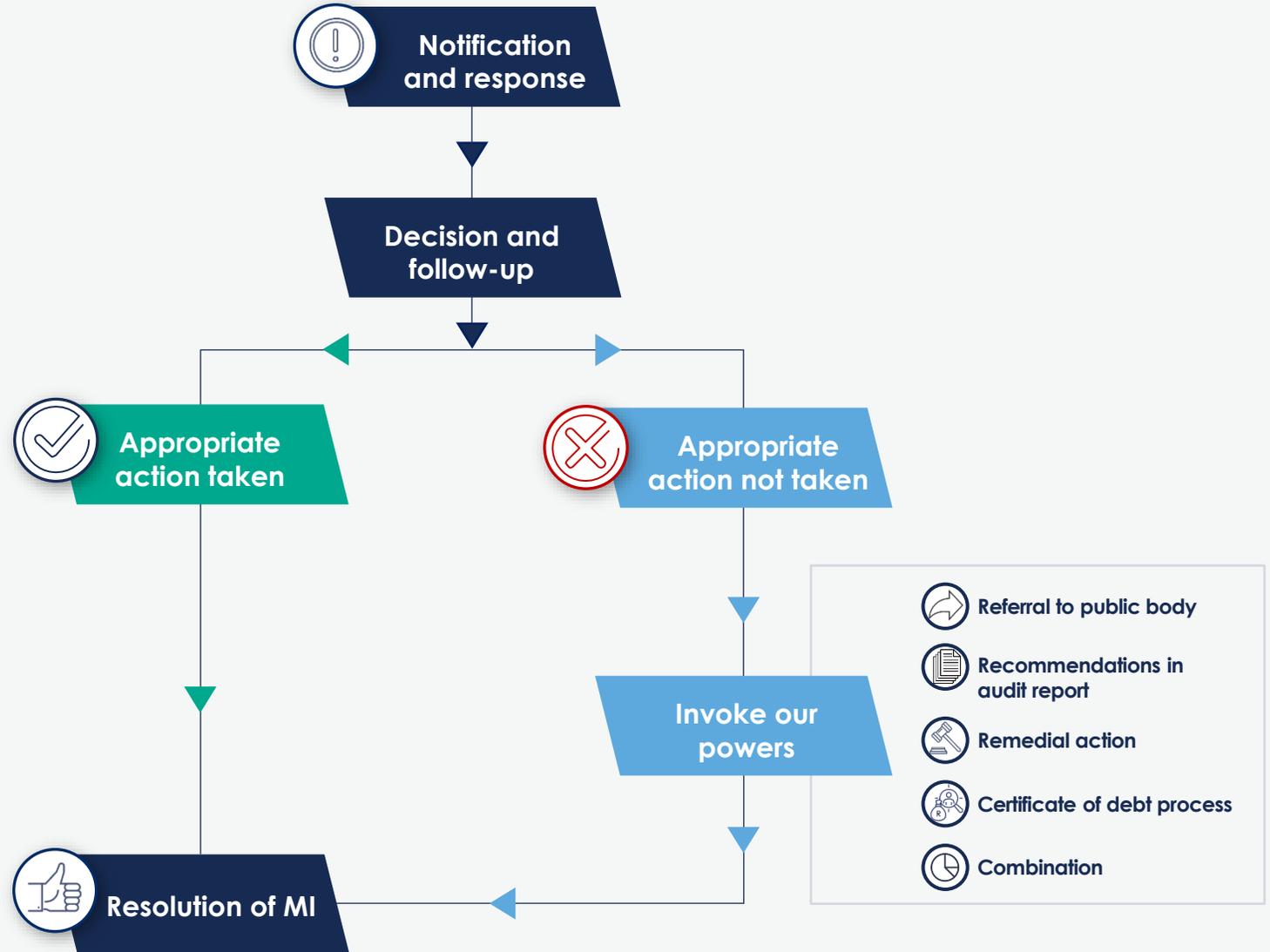


Objective

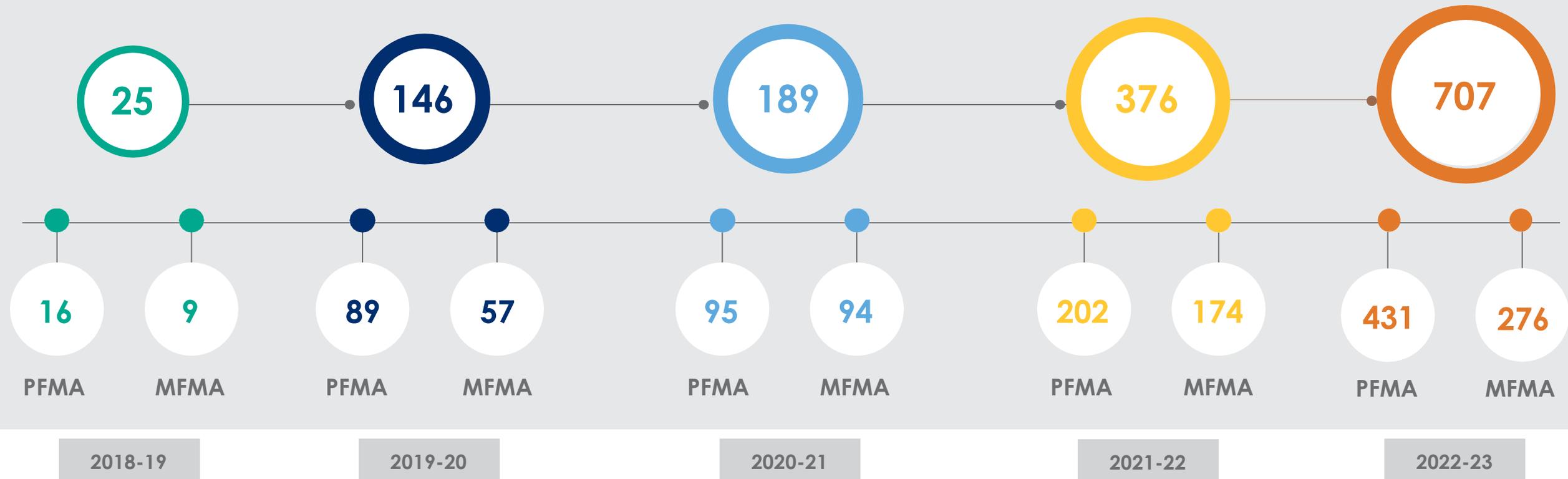
- Instil a culture of **accountability**
- Improve the **protection of resources**
- Enhance public **sector performance** and encourage an **ethical culture**
- Strengthen public sector institutions to **better serve the people of South Africa**



MI process



Incremental increase in auditees selected for implementation



We heeded the call to implement our powers at substantially more auditees



Material irregularities (MIs) identified and status

266 MIs on non-compliance and suspected fraud resulting in:

- 240 material **financial loss** (estimated R14,34 billion)
- 9 **Misuse** of a material public resource
- 3 substantial **harm to the general public**
- 14 substantial **harm to the public sector institutions**

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

- Recover financial losses or remove/address harm caused
- Effect consequences – for officials and third parties involved
- Prevent any further losses and harm – also through improved internal controls

No actions were taken to address 82% of the matters until we issued notifications

Status of MIs



79 Resolved MI



75 Appropriate action taken to resolve MI

32 Appropriate action not taken – decision on invoking our powers in process

23 Recommendations included in audit report

8 Referral to other investigating bodies

6 Referral and recommendations

1 Referral and remedial action

26 Response received on notification – in process of assessing action

16 Recently notified



Material irregularities identified in previously highlighted areas

Procurement and payment (157)

35

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

10

Uneconomical procurement resulting in overpricing of goods and services procured

112

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

Harm to general public (3)

2

Lack of infrastructure/ poorly maintained infrastructure

1

Services not meeting quality standards

Resource management (28)

5

Assets not safeguarded resulting in loss

23

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

Harm to public sector institution (14)

2

Lack of proper performance-related records

9

Non-submission of financial statements

3

Financial mismanagement

Revenue management (13)

3

Revenue not billed

9

Debt not recovered

1

Revenue received but not recorded/ deposited

Misuse of material public resource (9)

9

Underutilisation of material public resource

Interest and penalties (34)

28

Payment not made in time, resulting in interest/standing time/penalties

6

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 (8)

6

Suspected fraud resulting in loss

2

Non-compliance resulting in penalties

- Investing in **preventative measures** to avoid MIs is more effective than dealing with the consequences when they occur
- Internal audit units and audit committees** can be of great value – to assess risks, recommend good preventative controls and monitor implementation



RESPONSIVE ACCOUNTING OFFICERS TOOK ACTION



R1,29 bn

Financial loss **recovered**

R0,56 bn

Financial loss **prevented**

R0,70 bn

Financial loss **in process of being recovered**

- 58** Internal controls improved to prevent reoccurrence
- 50** Responsible officials identified and **disciplinary process** completed or in process
- 15** Fraud / criminal investigations instituted
- 4** Supplier contracts stopped where money was being lost

Greater impact can be made through:

- Swifter and timely action taken by accounting officers and authorities to respond to Mis and implement preventative controls to improve the overall control environment
- Regular monitoring of progress in implementing planned actions by executive authorities and oversight structures

Examples of impact:



Health

- The **North West Department of Health's** Jouberton Community Health Centre in Klerksdorp was completed in July 2019, but only started been utilised in May 2021. The accounting officer responded to the MI by ensuring that all critical vacant posts were filled, and the **facility is now fully operational**. The MI has been **resolved**.



Water and sanitation

- The **Water Trading Entity** placed the construction of the Hazelmere Dam on hold and paid for site re-establishment costs and standing time, resulting in a financial loss of R39,1 million. An investigation was completed in July 2022 and disciplinary proceedings are underway. The raising of the dam wall was completed in March 2023. The **entity improved its internal controls** to limit further losses and is taking further appropriate action to fully resolve the MI.



Education

- The **Department of Basic Education** made a prepayment in March 2017 for bulk materials but didn't receive the equivalent materials. After a notification in July 2021, they **recovered** R21,6 million in March 2023. The MI has been **resolved**



Water and sanitation

- **Umgeni Water Board** paid R2,15 million in interest due to late payment of invoices in February 2021 and December 2021. We notified the accounting officer of an MI in September 2022, The accounting officer investigated the matter and **improved controls** and processes relating to payment approval by amending the delegation of authority framework. The MI has been **resolved**.



National

Department of Correctional Services
Department of Defence
Department of Mineral Resources and Energy
Department of Police
Construction SETA
Independent Development Trust
National Skills Fund
National Student Financial Aid Scheme – 3
Property Management Trading Entity
South African Social Security Agency

Provincial

Department of Community Safety and Transport Management (NW)
Department of Cooperative Governance, Human Settlements and Traditional Affairs (NC)
Department of Education (FS) – 3
Department of Health (EC)
Department of Public Works (KZN)
Department of Roads and Public Works (NC) – 3
Mpumalanga Economic Growth Agency

23

Recommendations in audit report as accounting officer or authority took little or no action to address MI

Example

- We issued an MI notification for the **Department of Defence** in April 2023 after the department purchased medical equipment but could not use it. The department did not have suitably qualified medical staff to operate the equipment.
- The accounting officer's written submission on the steps to be taken to resolve the MI was **not appropriate**. We included **recommendations** in the auditor's report to implement reasonable steps to prevent further non-utilisation of the medical equipment to be implemented by March 2024.



Provincial
Free State Development Corporation

1

Remedial action taken and referral to public bodies

Example

- At the **Free State Development Corporation** a service provider appointed to bill and collect electricity payments did not pay over R109,2 million collected between April 2019 and March 2021. The service provider was placed under **voluntary liquidation** in May 2020.
- The accounting authority did not take appropriate action to resolve the MI and the matter **was referred to the Hawks for investigation** in November 2021. The investigation is ongoing.
- We also included **recommendations** which the accounting authority was required to implement by January 2022. We performed follow-up work on the response and concluded that the accounting authority failed to make satisfactory progress with the implementation of the recommendations, and we notified the accounting authority of **remedial action** to be taken
- The **remedial action** involves taking appropriate action to investigate the non-compliance to determine if any official should be held responsible; and commencing with effective and appropriate disciplinary steps against any official that the investigation finds to be responsible.



8

Referral to public bodies for further investigation

National

Department of Defence – 2
National Treasury
South African Post Office
Umgeni Water Board – 2

Provincial

Department of Health (NC)
Department of Human
Settlements (FS)

Example

- **The South African Post Office** was awarded the contract to administrate and process the payment of South African Social Security Agency grants through its then Postbank division in 2018.
- The South African Post Office was required to procure and implement an integrated grants payment system for this purpose. The system was not properly implemented and secured, resulting in the issuer master key for the bank cards of grant beneficiaries being compromised and **fraudulent transactions** taking place in the 2018-19 and 2019-20 financial years.
- The matter was referred to the **Hawks** for investigation in November 2021. The investigation is ongoing and the AGSA receives regular progress feedback on the investigation.



Accountability ecosystem roleplayers

- 1** **Accounting officers** and **authorities** should establish an ethical culture and foster accountability by ensuring timely consequence management whilst also prioritising the monitoring of preventative controls.
- 2** **Executive authorities** and **leadership (president and premiers), Parliament** and **legislatures, their committees,** and **coordinating institutions** should work together to identify common indicators that lead to irregularities, losses and harm; insist that **accounting officers and authorities** address any identified irregularities; and monitor the progress made in resolving them.
- 3** **Executive authorities** and **oversight committees** should adopt a proactive approach geared towards preventing MIs and with the help of **coordinating institutions** should strengthen processes relating to investigations.
- 4** **Portfolio committees** in Parliament responsible for **public bodies** should request regular reports on the status of investigations and must pursue any unreasonable delays. **Public bodies** should collaborate effectively with other stakeholders involved in the MI process.

SCoAG

- 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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