



MATERIAL IRREGULARITIES IN NATIONAL AND PROVINCIAL GOVERNMENT

Presentation to the Chartered Institute of
Government Finance, Audit and Risk Officers

8 March 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

MISSION AND VISION



VISION

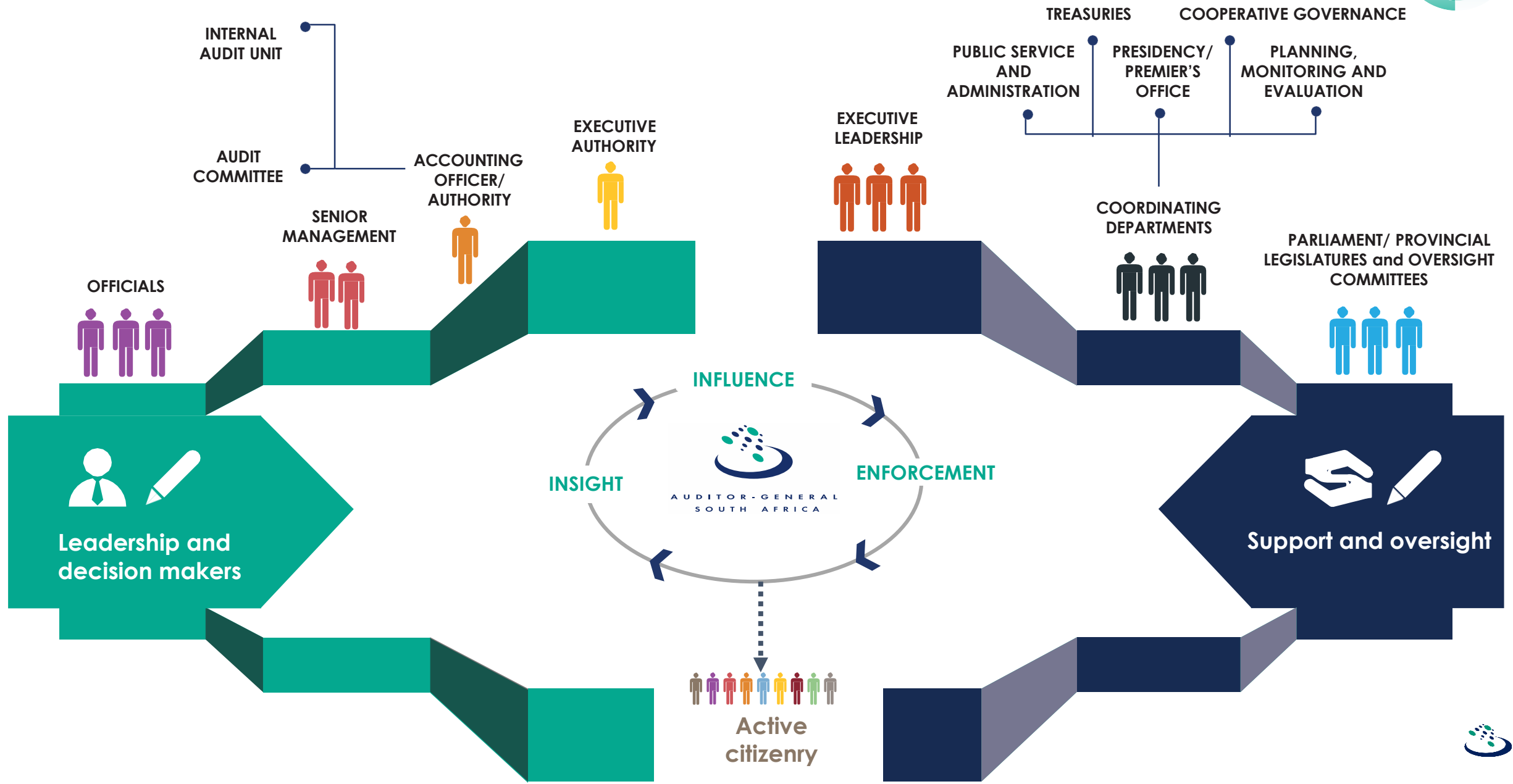
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability

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



All have a role to play in accountability ecosystem



Why were our powers extended and what does it mean

We have long reported on **pervasive mismanagement/ leakage of public funds without consequences** and our **audit recommendations not receiving the required attention**, with little or no improvement noted in the status quo, leading to our relevance being questioned

Public outcry for increased **accountability and transparency**, saw calls from parliamentary oversight structures, civil society, organised labour, media and the public at large for the **AG to be empowered to hold accounting officers entrusted with public funds accountable for their actions**

The original expanded mandate now finding its basis in our strategy



Enforcement

Apply powers to directly and indirectly recover resources lost to the state and taxpayers, and ensure application of consequences for wrongdoing – **#cultureshift2030**

Material irregularity

means 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**.

If AO/AA does not appropriately deal with MIs, our expanded mandate allows us to:

- 1 **Refer material irregularities** to relevant public bodies for further investigation
- 2 **Recommend actions** in audit report to resolve the material irregularities
- 3 **Take binding remedial action** for failure to implement recommendations
- 3 **Issue certificate of debt** for failure to implement remedial action if financial loss was involved

The overall aim of our expanded mandate is to:

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



We have tabled the following reports on material irregularities that are available on our website (www.agsa.co.za):

1

- Material irregularities in national and provincial government (Status at 30 September 2022)
- Status of material irregularities in national, provincial and local government (Status at 15 April 2022)

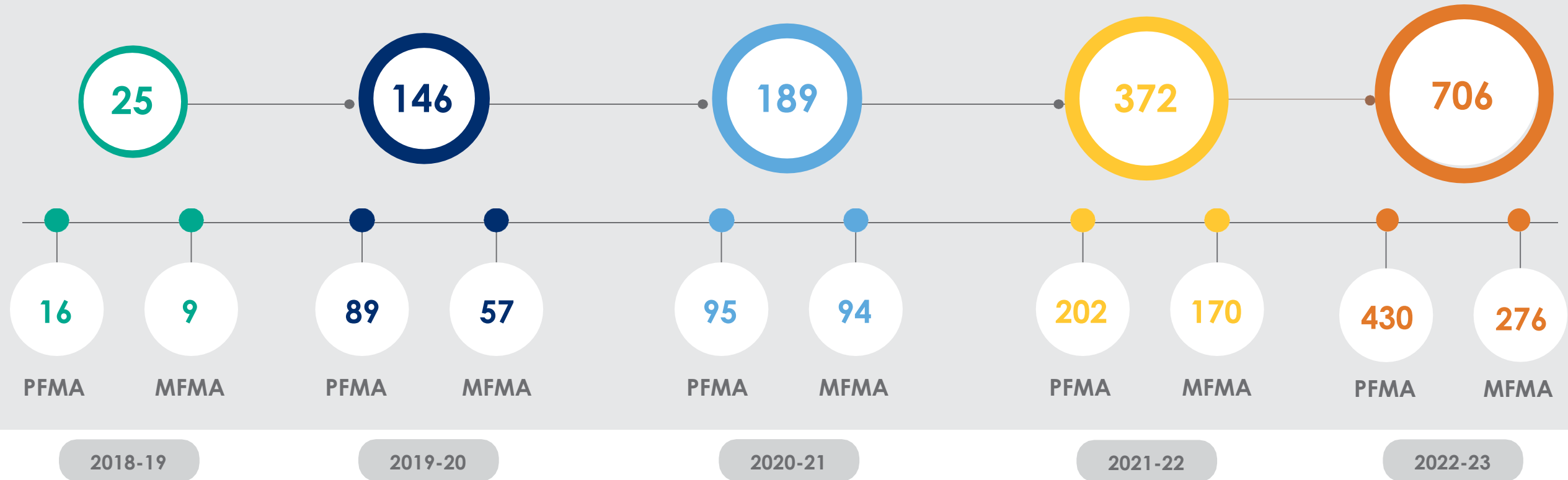
We have tabled the following consolidated general reports where information on the status of material irregularities are also included:

2

- 2019-20 PFMA – Consolidated General Report on national and provincial audit outcomes
- 2020-21 PFMA – Consolidated General Report on national and provincial audit outcomes
- 2021-22 PFMA – Consolidated General Report on national and provincial audit outcomes



Incremental increase in auditees selected for implementation



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

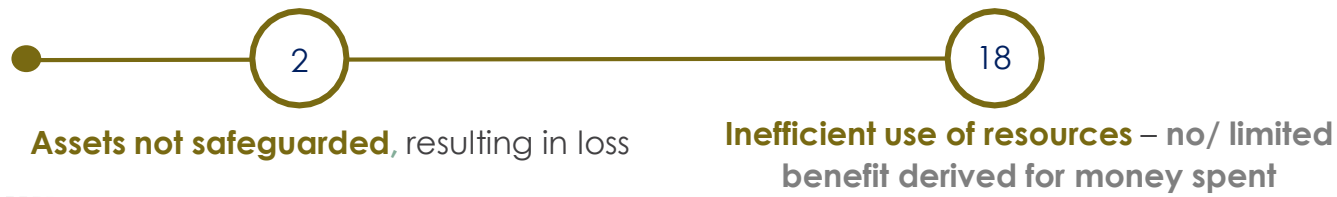


Nature of material irregularities at National and Provincial Government

Procurement and payment



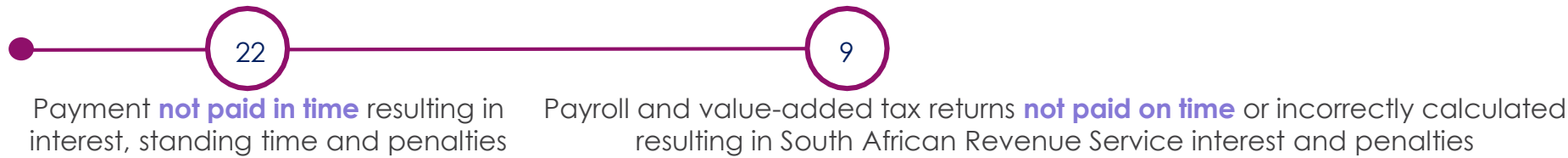
Resource management



Revenue management



Interest and penalties



Fraud and compliance



Misuse of a material public resource



Harm to public institution



From INACTION to ACTION

179 material irregularities on non-compliance and fraud resulting in:

169 material financial loss (estimated R12 billion)

9 substantial harm to public sector institution

1 misuse of material public sector resource

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

ACTIONS TAKEN BY AUDITEES

R636 m Prevented financial loss from taking place

R509 m Financial loss in process of recovery

R14 m Financial loss recovered

36 Responsible officials identified and disciplinary process completed or in process

15 Fraud/criminal investigations instituted

5 Stopped supplier contracts where money is being lost

Examples of actions taken by auditees

The **Department of Defence** imported an unregistered drug (Heberon) at a cost of approximately R260 million without approval from the South African Health Products Regulatory Authority. The unused vials were repatriated to Cuba, preventing an estimated financial loss of R227 million.

The **Property Management Trading Entity** made payments to a landlord for leasing properties in excess of the amount payable as per the lease agreement, resulting in an estimated R11 million in overpayments. By 31 March 2022, R9,7 million had been recovered from the landlord and the remaining amount was in the process of being recovered.

The **KZN Department of Health** procured sanitiser detergent at a significantly higher price than that mandated by the National Treasury, resulting in a R1,3 million financial loss. Acknowledgement of debt was signed with the supplier, resulting in R0,5 million of the loss being recovered.

Multiple instances of non-compliance by **Prasa** were identified in the procurement process for locomotives in July 2012. Seven officials were charged with procurement irregularities and are being subjected to disciplinary processes; so far, one official has been dismissed and another has resigned.

The **National Department of Cooperative Governance** made payments to non-qualifying government employees as part of the community work programme. In response to the recommendations we made and an internal investigation into the matter, the accounting officer referred the matter to the Directorate for Priority Crime Investigation (Hawks) for investigation. The accounting officer also took disciplinary steps against the responsible officials.

The **Eastern Cape Department of Human Settlements** awarded three contracts for housing units to bidders who did not score the highest points. On an application by the accounting officer, the High Court set two of the contracts aside, declaring them invalid, which prevented an estimated financial loss of R6,45 million.



Greater impact will be achieved by quicker resolution of material irregularities

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

Resolution of MI is often delayed by:

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

Status of 124 active and assessed MIs:



14

11%

Resolved MI



91

74%

Appropriate action taken to resolve MI



19

15%

No appropriate action taken – invoked our powers

Recommendations in audit report

as AO/AA took little or no action to address MI

- Health (EC)
- National Student Financial Aid Scheme – 3
- Property Management Trading Entity
- South African Social Security Agency
- National Skills Fund
- Department of Defence

Remedial action issued

as our recommendations were not implemented

- Human Settlements (FS) – 2
- Department of Defence

Remedial actions and referral

- Free State Development Corporation

Referred matter to public bodies for further investigation

- Human Settlements (FS) (Hawks – 18 Aug 2022)
- Health (NC) (National Treasury – 7 Oct 2019)
- National Treasury (SIU – 13 Jan 2022)
- Department of Defence (Hawks – 19 Nov 2021)
- South African Post Office (Hawks – 19 Nov 2021)
- Umgeni Water Board – 2 (SIU – 26 Jul 2022)

Our recommendations and remedial actions deal with **prevention, recovery** and **consequences**



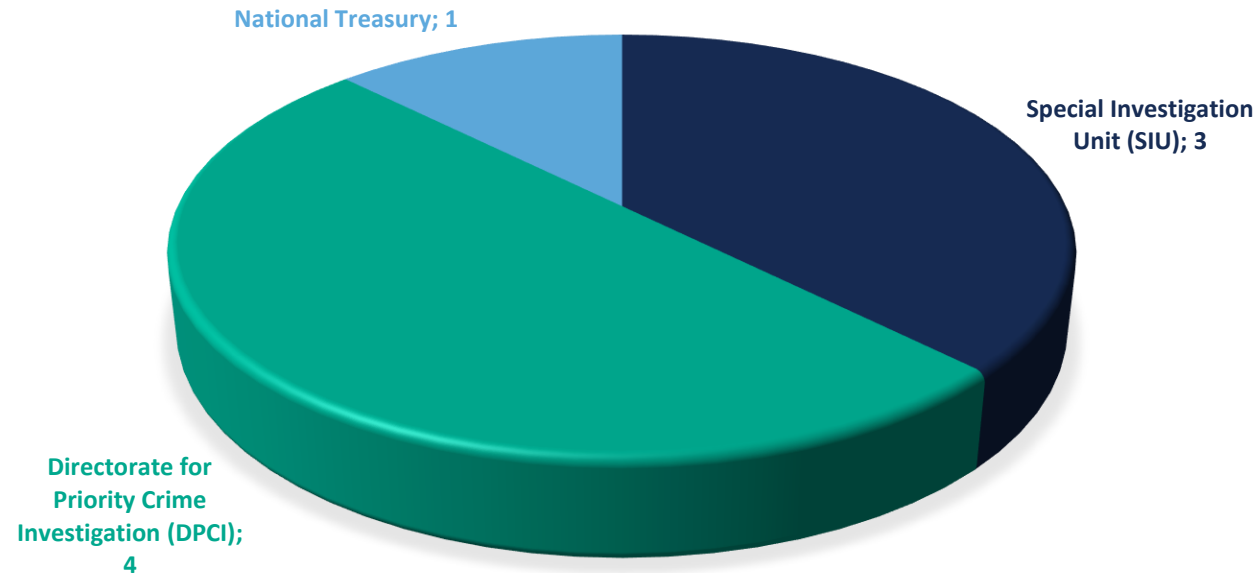


The AGSA may refer a suspected MI to a public body (PB) for an investigation, and the PB **must** keep the AGSA informed of the progress and the final outcome of the investigation (Section 5(1A) of the PAA and MI Regulation 6).



The accounting officer or accounting authority may also refer parts of the recommendations of a MI to a PB, often referred to as an indirect referral.

As at 30 September 2022



Complimentary mandates



MI notified by AG 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; and
- Prevent any further losses and harm – also through improved internal controls



Delays in concluding the investigations further hamper the timeous recovery of financial losses, implementation of consequence management processes and criminal proceedings.

The completion of investigations by a public body will strengthen the integrity of the MI instrument



- Recovery of financial losses will take place;
- The public outcry on lack of consequence management and possible prosecutions of the transgressors will be attended to; and
- A strong message will finally be set that, the AG 's extended powers are working and will serve as a deterrent to abuse of the public purse





1

Review our policies and regulations to further streamline processes to assess at which stage will we be comfortable stating a MI is resolved

2

Cooperate closely with public bodies to strengthen each others hands to resolve matters of wrong doing

3

Improve ability to monitor and report regularly on the progress with MIs

4

Focus on **increasing impact of MIs** and identify MIs where general public has experienced significant harm – **ensure that MIs identified relate to experience of citizens**

5

Promote improved public and stakeholder **understanding** of our expanded mandate and processes

6

Influence alignment of legislative requirements and governance arrangements for **enhance accountability and transparency**



CALL TO ACTION



1

We urge all roleplayers in the national and provincial ecosystem to support, monitor and oversee the resolution of MIs.

2

Continue to showcase the positive impact of implementation of our expanded powers to all role players in the accountability ecosystem to encourage the swift resolution of MIs, enabling greater impact.



THANK YOU



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