AUDITOR-GENERAL
SOUTH AFRICA

#CultureShift 2030

CIGFARO Engagements

OUR MISSION AND VISION

OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

OUR VISION

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

AUDIT OUTCOMES

CONTEXT

Overall audit outcomes

	Unqualified with no findings (clean)	Unqualified with findings	Qualified with findings	Adverse with findings	Disclaimed with findings	
2020-21 Last year of previous administration	4	7	5	1	3	20
2021-22	2	9	7	1	1	20
	10%	45%	35%	5%	5%	

Stagnation in overall audit outcomes from previous year and improvement in municipalities with disclaimed audit opinions

Improved

Regressed

Stagnant

Unqualified with no findings (clean)

Unqualified with findings

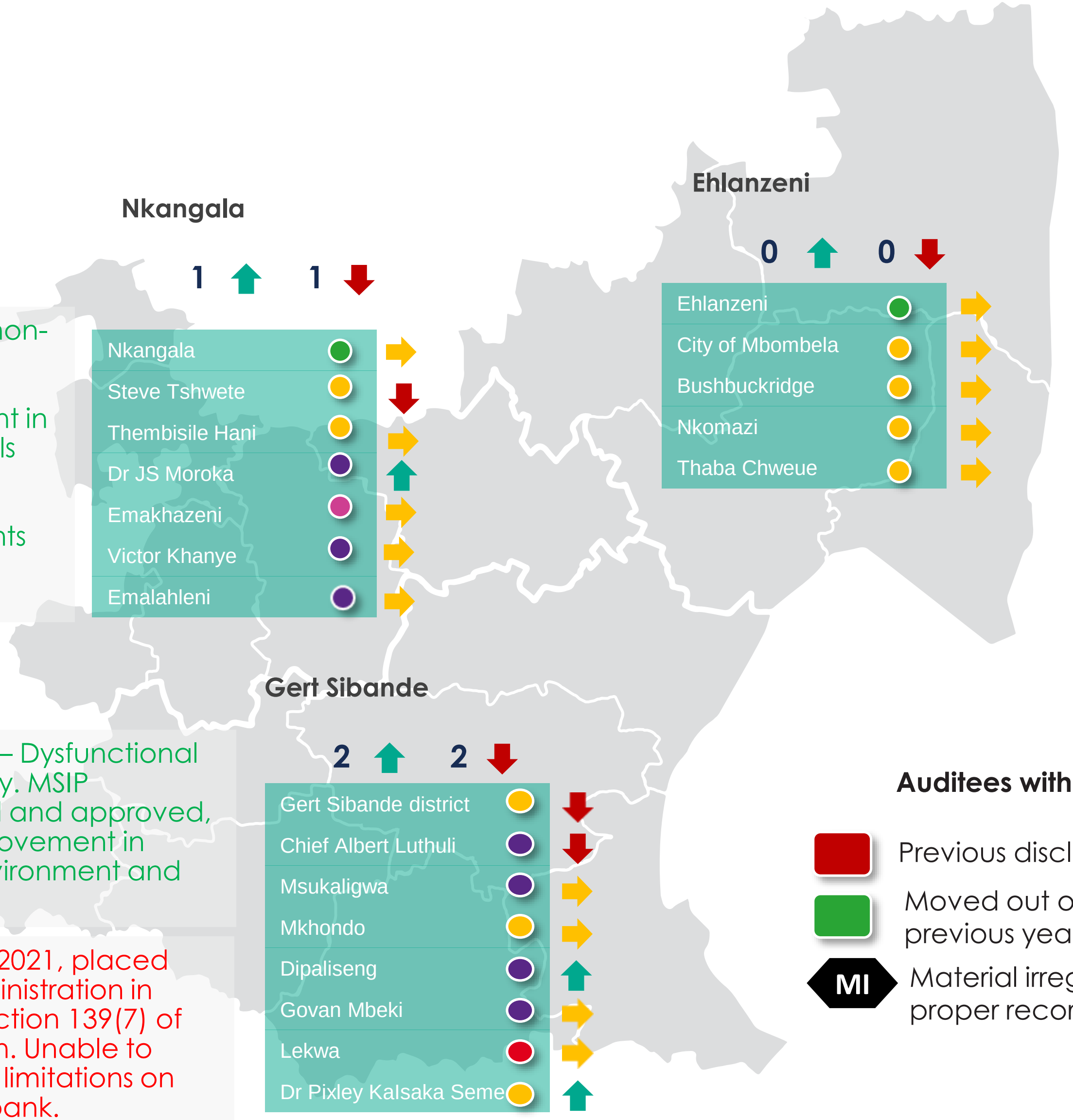
Qualified with findings

Adverse with findings

Disclaimed with findings

Dr JS – Disclaimed for non-submission of representation letter in prior year. Improvement in record keeping controls and overall control environment and assistance of consultants and the coordinating ministries.

MI



Dipaliseng – Dysfunctional municipality. MSIP developed and approved, led to improvement in control environment and outcomes.

MI

Lekwa – In 2021, placed under administration in terms of section 139(7) of Constitution. Unable to resolve the limitations on cash and bank.

MI

Auditees with disclaimed opinions

Previous disclaimers, repeat in 2021-22 (1)

Moved out of disclaimer opinion from previous year (2)

MI Material irregularity (lack of full and proper records)

Provincial audit outcome snapshot

MP

Where we are in 2021-22:

Quality of financial statements

- Quality of published AFS remains a challenge.
- Only two municipalities were able to submit credible financial statements for auditing.
- The investment in financial reporting amounted to R941,4 million (consultants plus own staff), coupled with assistance received from co-ordinating departments and governance structures.
- The investment did not yield many benefits due to the weak control environments that persist at most of our municipalities and slow response by leadership.

Performance reporting

- Quality of performance reports regressed due to the ineffective and inadequate planning processes.
- Targets for critical service delivery needs were not included in the planning documents at some municipalities .
- The budget is spent yet targets are not achieved, with dire consequences such as environmental harm (possible MIs) at some municipalities.
- Unreliable performance information negatively affects accountability, enforcement and ultimately service delivery.

Compliance

- Municipalities continued to contravene legislation and we reported material non-compliance at most municipalities (90%) (2021:80%).
- The lack of consequences has created a culture of impunity and a complete disregard for the rule of law.
- Of concern, non-compliance is mostly prevalent in SCM, resulting in increased levels of irregular expenditure of R R2,08 billion (2021: R1,26 billion).

Financial health

- The financial health of municipalities remains dire.
- 50% of municipalities (10) implemented unfunded budgets due to weak controls on financial administration.
- Five municipalities (25%) disclosed significant doubt in the AFS about their ability to continue operating as a going concern in the foreseeable future.
- Concerns remain regarding the inability to implement and manage credit control and debt collection, which resulted in an average of 58% of all billings being impaired.
- Consequently, critical suppliers such as Eskom and Water boards are not paid in a timely manner and service delivery suffers.

Unauthorised, irregular, fruitless & wasteful expenditure

- ***UIFW increased*** *from the previous year and balance continues to remain* ***high.***
  - ***IE*** *increased to R2,08 billion (PY: R1,26 billion)*
  - ***FWE*** *increased to R836,6 million (PY: R105,44 million)*
  - ***UE*** *increased to R3 billion (PY: R2,59 billion)*
- Auditees also have a poor track record when it comes to dealing with irregular expenditure swiftly and ensuring accountability, with a total of R10,3 billion in prior year UIFW not yet being dealt with.
- We remain concerned that a significant portion of irregular expenditure is written off and no one is held liable, endorsing a culture of impunity.

Project management failures delays service delivery

- A total of R3,87 billion in conditional grants for infrastructure development was allocated to municipalities.
- However, accounting officers did not effectively monitor the related spending and performance of contractors in order to derive the intended efficiencies and quality.
- The project management units at these municipalities did not function as expected.

Provincial leadership tone

- The leadership of each municipality (Executive Mayor, Speaker, Chief Whip, MPAC, MMCs)and provincial leadership made commitments after the 2020-21 audit outcomes. However, very few of those could be fully implemented.
- The slow pace for implementation at all levels of the accountability ecosystem contributed to the stagnation in the audit outcomes.
- Provincial leadership need to take urgent action to restore the failed accountability by focusing on the core challenges that cripple this local government.

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**

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** to resolve material irregularities in audit report

   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

WHAT DID WE FIND?

32 MIs were brought to the attention of the AO/AA with an estimated financial loss of **R666,01 million**

PROCUREMENT AND PAYMENT

- **9** — Non-compliance in procurement processes, resulting in **overpricing of goods and services procured or appointed supplier not delivering**
- **3** — Internal capacity not developed resulting in reliance on consultants
- **1** — Payment for **goods or services not received / of poor quality**

REVENUE MANAGEMENT

- **1** — Revenue not billed

INTEREST AND PENALTIES

- **11** — Eskom, water boards, lenders, and suppliers not paid on time, resulting in interest
- **3** — SARS late payments, resulting in interest and penalties

HARM TO PUBLIC SECTOR INSTITUTION

- **4** — Full and proper records not kept as evidenced by **repeat disclaimed opinions** – resulting in **substantial harm** to municipalities

STRATEGIC CONTEXT

CONTINUED misuse of state resources

Persistent weaknesses in systems of transparency, accountability and performance is of significant concern for citizens of South Africa broadly

News24

SA's municipalities racked up R26 billion in irregular expenditure - AG

On Tuesday, Auditor-General Tsakani Maluleke briefed Parliament on the 2019-'20 municipal audit outcomes. The case of a Eastern Cape municipality which spent...

22 Jun 2021

The Citizen

12% of govt, SOEs still not improving, says Auditor-General

5 billion at the end of the 2019-'20 financial year. Auditor-General Tsakani Maluleke was worried that the Auditor-General of South Africa's (AGSA) calls for...

13 Mar 2021

Biznews

R186 billion vanished from SA municipalities in just 10 years

Over just ten years, R186bn has seemingly disappeared from South African ... Auditor-General Tsakani Maluleke recently revealed that there was R26bn in...

24 Jun 2021

FOR SUBSCRIBERS 04 Apr

Auditor-General Tsakani Maluleke unhappy as R54 billion goes down the drain

City Press

Poloko Tau

SHARE

BusinessTech

South African municipalities' R28.4 billion irregular spend in 4 charts

4 billion ($2.2 billion) in the 2017 fiscal year as accountability "continues to fail in local government," the Auditor-General said. The bulk of the increase...

23 May 2018

IOL

SOEs ran up R68 billion in irregular expenditure

Auditor-General Tsakani Maluleke has found state-owned entities (SOEs) ran up R68 billion in ... Eskom (R11.2bn) and Airports Company South Africa (R0.6bn).

02 Apr 2021

IOL

AG slams procurement systems that led to R17bn in ...

... WEAK procurement systems were a major gateway for the rampant financial irregularities in government, auditor-general Tsakani Maluleke said yesterday.

12 Feb 2021

TimesLIVE

Auditor-general report: Tracking billions blown by towns

The auditor-general's report on local government finances is a ... wasted R3.47bn on avoidable costs such as South African Revenue Service...

04 Jul 2021

NEGATIVE impact on the lived reality of our people

What tends to be overshadowed by the headlines is the more important story of the impact on the lived reality of ordinary South Africans that is represented by the numbers, findings and audit outcomes

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FOR SUBSCRIBERS 04

Auditor-Genera
Maluleke unha
billion goes do

City Press

BusinessTech

South African municipalities'
charts

4 billion ($2.2 billion) in the 2017 fisc
in local government," the Auditor-Ge

23 May 2018

Residents of Marikana Section, Phase 1 are unhappy with their Ward Councillor and living conditions.

NEGATIVE impact on our constitutional democracy

Regressing outcomes and the lived reality of ordinary South Africans that they represent have detrimental implications on the strength of our constitutional democracy

DAILY MAVERICK

Dismal voter turnout at South Africa's municipal polls a blow to democracy

3 days ago

BROOKINGS

South Africa's municipal elections: A referendum on political parties and local democracy

1 week ago

01 Nov

'Angry and hungry': Tshwane youth have no faith that voting will change things

news24 Alex Mitchley

SHARE

RESIDENTS RUNNING MUNICIPAL WATER SERVICES PAVES WAY FOR PRIVATISATION - EXPERT

The Koster Ratepayers' Association in the Kgetleng Municipality in the North West successfully took over water services from the municipality, which had failed in its legal obligation to do so.

- Political/social instability
- Service delivery protests and violence
- Opting-out of public services
- Litigation against government for citizen take-over of service delivery
- Opting-out of democratic processes (e.g. voter apathy)

RISK to stakeholder confidence in AGSA

Persistent pattern of regressing audit outcomes may also affect public confidence in the AGSA and our ability to strengthen democracy through auditing and reporting as required by our mandate

CLEAN AUDITS 2017-18 (municipalities)

Unqualified financial statements with no material findings on the quality of the performance report or compliance with key legislation

MPUMALANGA Gert Sibande District

Municipal

eMbalenhle locals tired of their living conditions

Residents threatens to punish the ANC in 2021 because of their Ward Councillor.

November 26, 2019 Sifiso Mathebula 2 minutes read

Local news

Police arrest 100 protesters at Embalenhle

Municipal offices, trucks and Somalian shops were burnt down during the on-going service delivery protest at Embalehle.

October 16, 2017 Mpumalanga News 1 minute read

Mantshinga
@mtshalitt

Replying to @AuditorGen_SA and @Mkhu_H

Our institutions of government post 94' are globally revered on paper.

But 278 municipalities only 27 received a clean bill of accountability for 2020 fy. AG does not bite.

ronald
@itsronaldus

'Damning **auditor-general** reports have been issued religiously every year' #SusanBooysen on #municipalelections in **#SouthAfrica**. dailymaverick.co.za/opinionista/20... Are they ever listened to?

Natalie Grobbelaar
@natalieGrobb

Replying to @News24 and @Fin24

Unacceptable really. How can an Auditor-General not know what happened to 5.5 billion. Desperately scary for South Africa. It just keeps coming and coming.

9:52 AM · Jun 23, 2021 · Twitter Web App

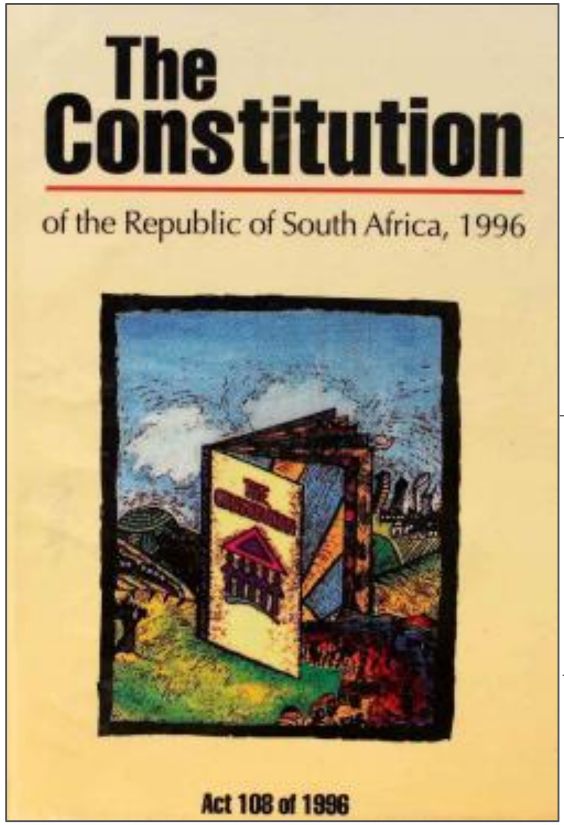
Sithembiso Ntombela
@dadalazi

Replying to @irenes123 and @AuditorGen_SA

We are also great at celebrating clean audits without any visible impact on service delivery.

OUR MANDATE

Constitution of the Republic of South Africa, Chapter 9 defines our mandate to strengthen the constitutional democracy in the Republic



Chapter 3: Section 41
*All organs of state must **secure the well-being of the people** of the Republic*

Chapter 3: Section 41
*All organs of state must provide **effective, transparent, accountable and coherent government** for the Republic as a whole*

Chapter 9
*The AGSA mandate: **Strengthen constitutional democracy** in the Republic*

Status and functions of the Auditor General: (*Public Audit Act*)

The AG has the power to:

- *Perform an appropriate audit to … determine whether appropriate and adequate measures have been implemented to ensure that resources are procured economically and utilised efficiently and effectively*
- *Take any appropriate remedial action, and*
- *Issue a certificate of debt …where an AO or AA has failed to comply with remedial action*

Strategy 2030

CultureShift 2030

making a difference in the lives of our people

Having reflected on our South African context and the root causes of the persistent regressive outcomes we have resolved that as long as there is no focus on shifting public sector culture, outcomes will not change materially

Over the next 8 years **we are committing ourselves to making a more direct, consistent and meaningful impact on improving the lives of ordinary South Africans**

Strategic aspiration

To have stronger, more direct and consistent impact on improving the lived reality of ordinary South Africans

Theory of change

Sustainably and efficiently shift public sector culture through insight, influence and enforcement

Accountability ecosystem

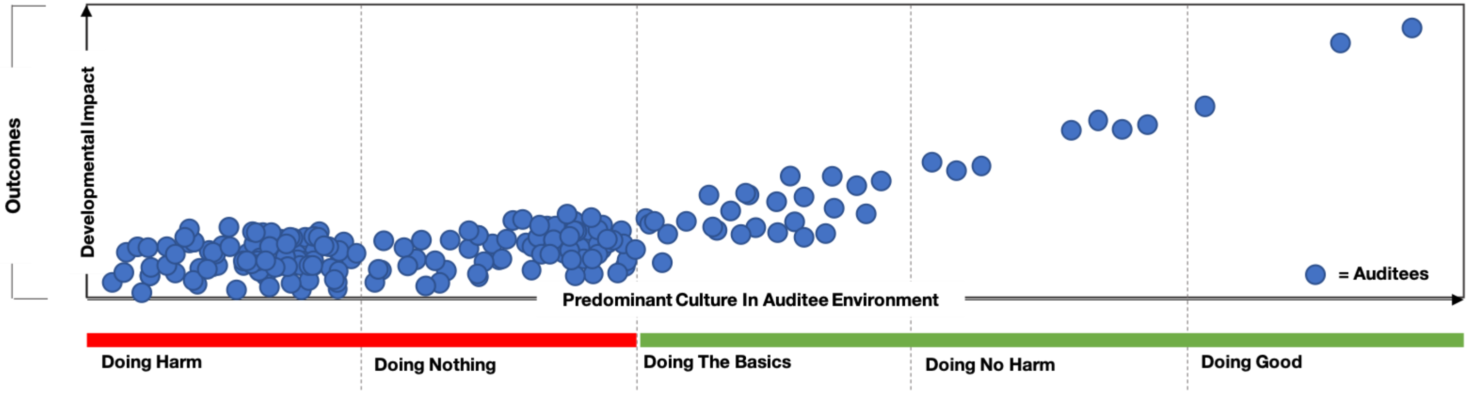
Broad-based, effective network of stakeholders driving and deepening public sector accountability

CultureShift 2030

Sustainably and efficiently shift public sector culture through insight, influence and enforcement

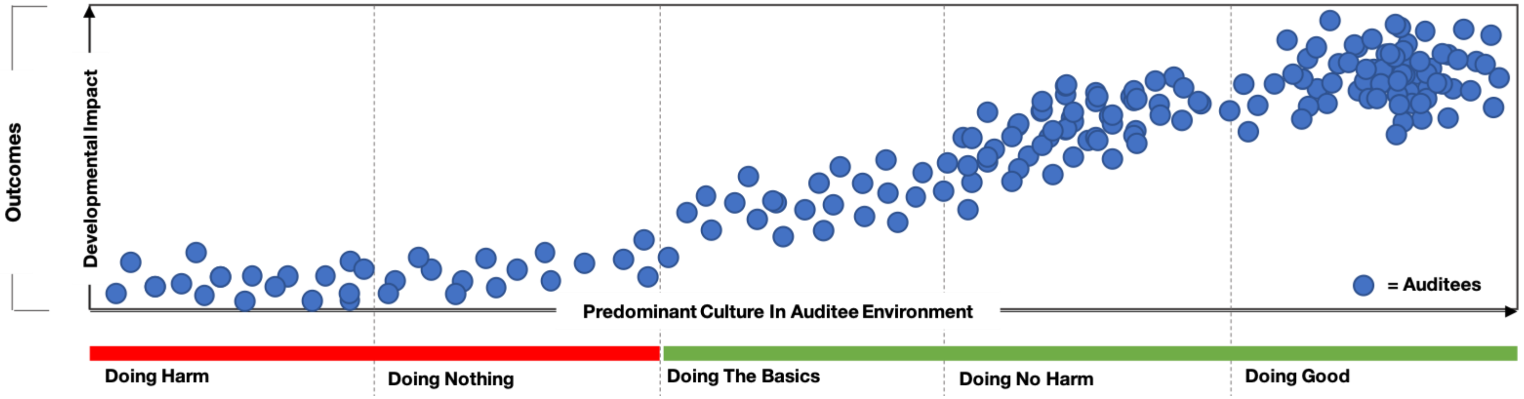
Today

Only a small number of our auditees do good



2030

A critical mass of our auditees moved towards cultures characterised by performance, accountability, transparency and integrity



Illustrative Diagrams

CultureShift 2030

making a difference in the lives of our people

We will realise our strategic aspiration by focusing on six strategic goals

Strategic aspiration

Stronger, more direct and consistent impact on improving the lived reality of ordinary South Africans

Theory of change

Sustainably and efficiently shift public sector culture through insight, influence and enforcement

Accountability ecosystem

Broad-based, effective network of stakeholders driving and deepening public sector accountability

Sustainably

Acquire, develop and maintain the quantity, quality and configuration of people, resources and capabilities to safely achieve and sustain our desired levels of impact

Insight

Generate audit insights that illuminate understanding, drive action and yield results

Efficiently

Unlock latent capacity in the existing resource base and our people and lower the cost and effort with which we derive each marginal unit of quality, insight, influence and enforcement

Influence

Move stakeholders from mere awareness of our messaging to action on and advocacy of our messaging

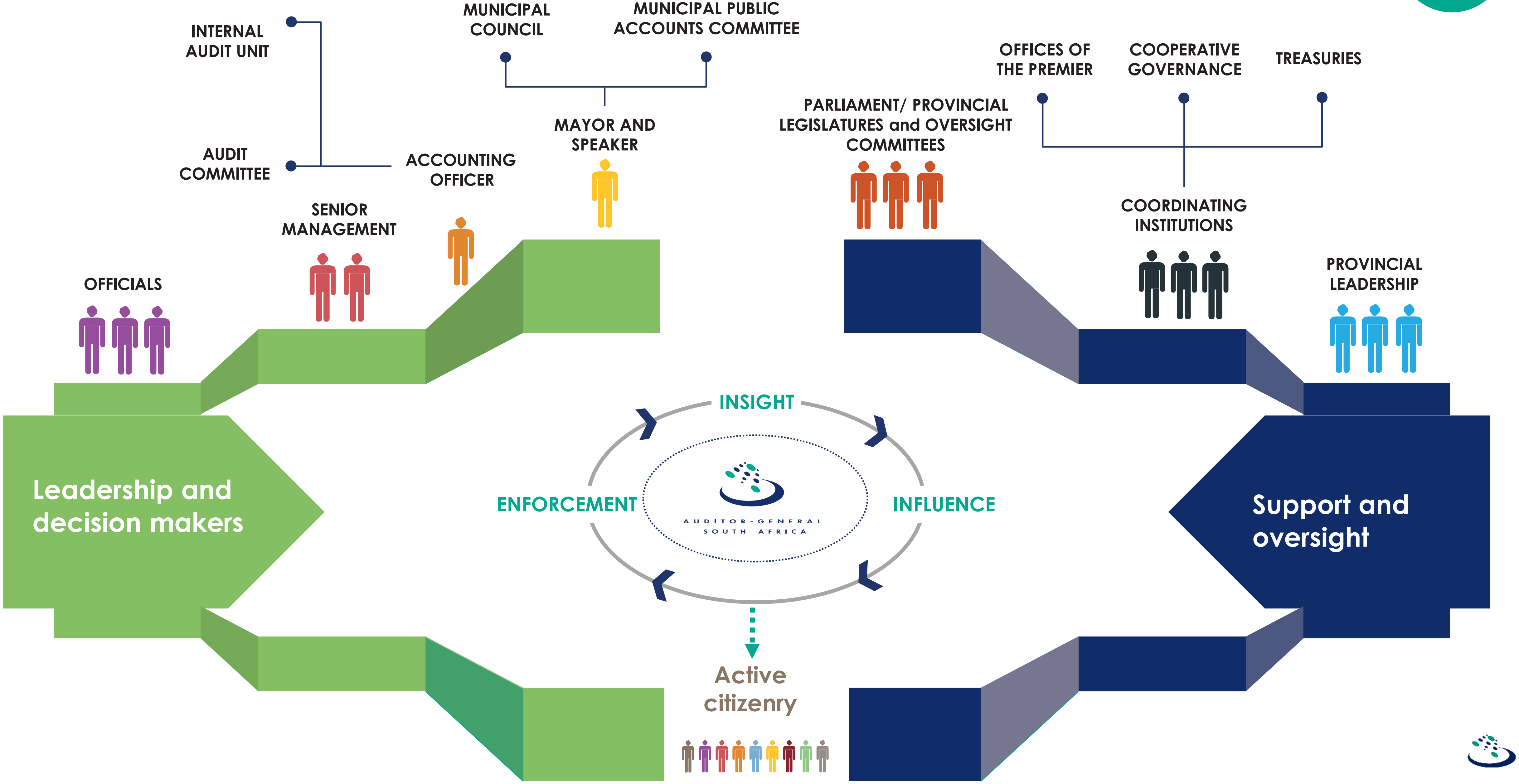
Shift Public Sector Culture

Move a critical mass of auditees towards organisational cultures characterised by performance, transparency, integrity & accountability

Enforcement

Apply powers to directly and indirectly recover resources lost to the State and taxpayers and ensure application of consequences for wrongdoing

All have a role to play in accountability ecosystem



Activating the accountability ecosystem

CALL TO ACTION

Weak control environment and lack of leadership accountability

1

- **Implement effective preventative controls** driven by leadership. These include building internal capacity, effective use of consultants and proper project planning and monitoring. This will build stronger control environments.

2

- **Strengthening the state of financial health at all our municipalities should take priority**. A robust financial management culture which includes ensuring all revenue due is collected, prudent spending, and prevention and speedy recovery of financial loss and wastage will contribute to improved service delivery.

3

- **Adherence to laws and regulations, especially SCM should be a top priority.** Council committees like MPAC's and disciplinary boards should be capacitated in order to deal with high balances of UIFW.

4

- Political and administrative leadership together with coordinating departments must **foster a culture of accountability, implement effective consequences for transgressions** and strengthen governance structures.

AVAILABLE RESOURCES

RESOURCES

Reports available on our website

Report on the material irregularities identified and their status

Preventative control guidelines available on our website

1. Importance of preventative controls
2. Tone and control culture
3. Institutionalised internal controls
4. Procurement of goods and services
5. Preparation of financial statements
6. Asset management
7. Infrastructure delivery process

www.agsa.co.za

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