MFMA consistency workshop

2025-26 MFMA

Emerging risks

top EMPLOYER South Africa 2026
FOR A BETTER WORLD OF WORK

AUDITOR-GENERAL SOUTH AFRICA

115 YEARS 1911 - 2026

There is no secret to success. It is the result of preparation, hard work and learning from failure!

Colin Powell

Advocating for an effective government culture – what success look like

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

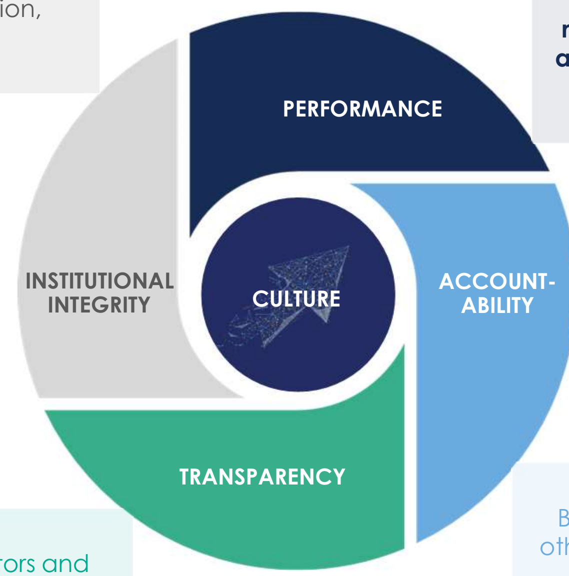
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Implement and maintain **institutionalised controls** to ensure leadership and officials **behave ethically, comply with legislation and act in best interest** of institution, **avoiding conflicts of interest**

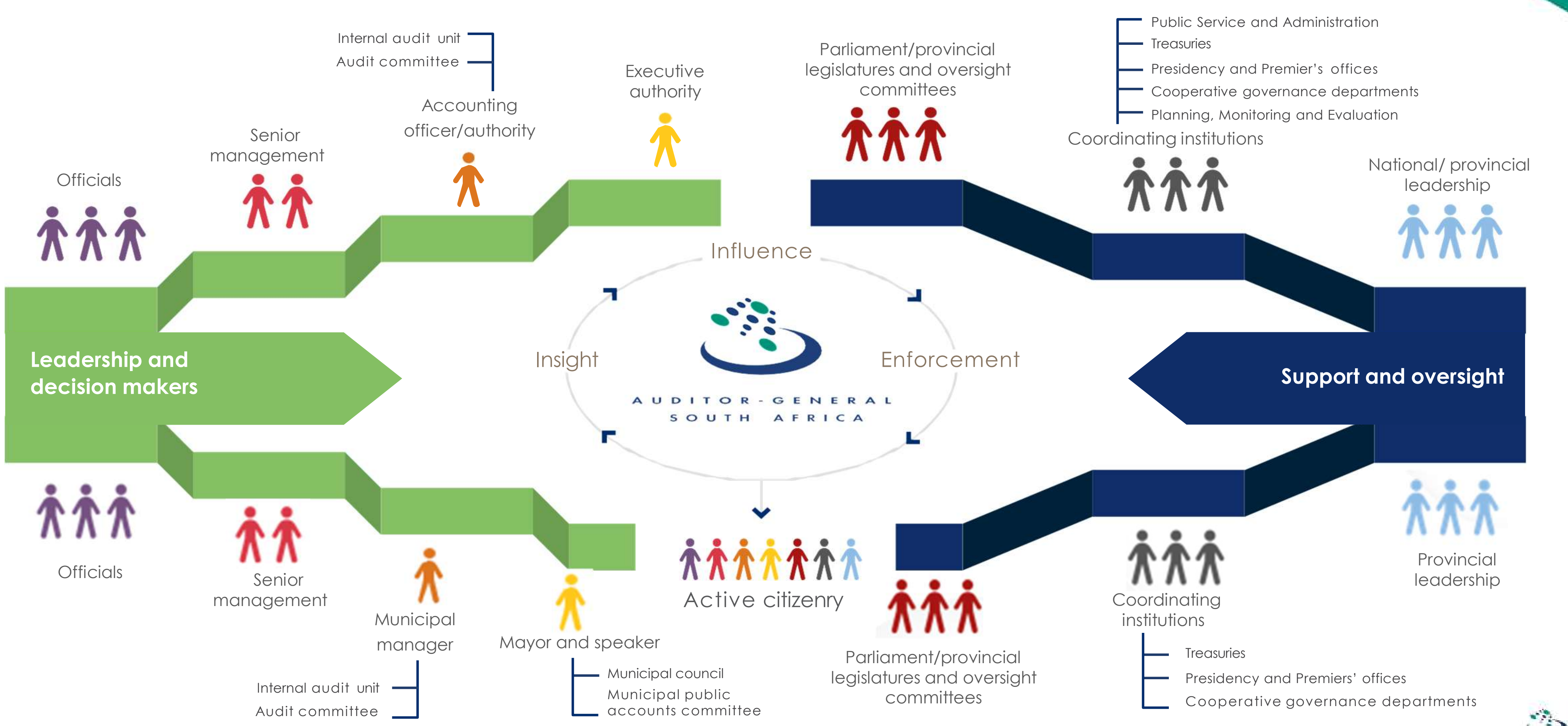
Demonstrate commitment to improving lived realities of South Africans by **delivering on legislated mandate and strategic objectives aligned to people's needs**, being **financially sustainable**, and **avoiding harm to public and public sector institutions**



Provide public, oversight, auditors and other stakeholders with **timely, relevant and reliable information on institution's finances, performance, use of resources and compliance with legislation**

Be responsive to public, oversight and other stakeholders through **reporting and providing answers on mandated responsibilities fulfilled, actions taken and decisions made**; ensure **swift consequences** for transgressions and poor performance

All have a role to play in accountability ecosystem



Let's protect the gains made to date

- Submission of the annual financial statements

Submission of financial statements by legislated date	2020-21	2021-22	2022-23	2023-24	2024-25
	82%	92%	94%	95%	98%

- Submission of the annual performance reports – 100% (First time ever!)
- 39 Clean audits (28 clean from 2020-21 to 2024-25)
- Auditees close to clean (39 municipalities that have relied on the audit process to achieve unqualified audit opinions for the past four years

- Reduction in disclaimer opinions

Reduction in disclaimers	2018- 19	2020-21	2022-23	2023-24	2024-25
	42	29	14	15	8

Emerging risks

01 Risk of complacency – yellow zone auditees

02 Risk to good quality AFS – material adjustments

03 Grant funding

04 Consultants

05 Election risks

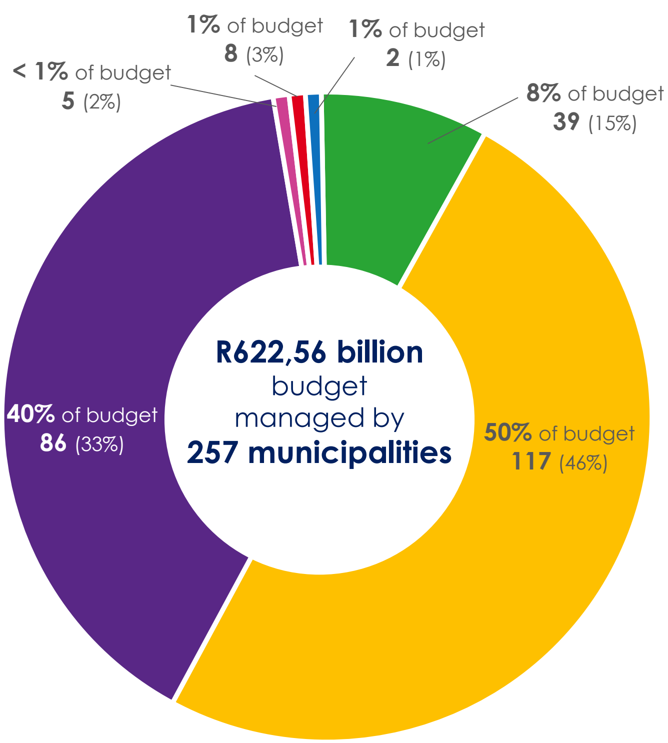
06 Other matters in our line of sight

07 Audit disputes

08 Leakage – the MI focus

Risk of complacency in yellow zone

Audit outcomes



(Budget based on estimated expenditure budget for 2024-25)

117 municipalities with unqualified audit opinion with findings

High levels of non-compliance
- **110 (94%)** repeat material non-compliance with key legislation
- **R14,06bn** irregular expenditure

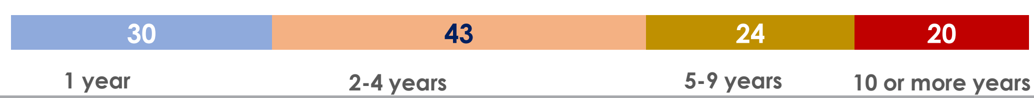
Reporting that is not credible
- **96 (82%)** material misstatements in financial statements submitted for auditing
- **88 (75%)** material misstatements in performance reports submitted for auditing

Poor financial health
- **R13,24bn** unauthorised expenditure
- **R1,90bn** fruitless and wasteful expenditure
- **56** with concerning or unfavourable financial health assessments
- **16** with going concern uncertainties

Lack of consequences
- **34 (29%)** repeat material non-compliance with legislation on consequence management
- **R18,15bn** unauthorised, irregular and fruitless and wasteful expenditure not dealt with

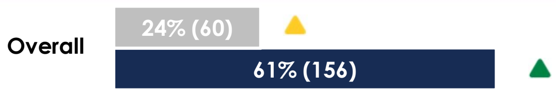
162 material irregularities – 31% of all MIs
- **R5,45bn** estimated financial loss
- **32** on substantial harm to general public

Complacency evident from stagnation in category



Unqualified with no findings (clean) | Unqualified with findings | Qualified with findings | Adverse with findings | Disclaimed with findings | Outstanding audit

Risk to good qualify AFS - Material adjustments



Common misstatements in submitted financial statements and reasons

Revenue and receivables:

Material misstatements before audit: 62% (159 municipalities)
Material misstatements after audit (qualifications): 49% (126 municipalities)

Incomplete or incorrect billing, unsupported revenue recognised, misclassification of revenue, and overstated or poorly disclosed receivables due to weak debt-management and impairment processes

Impact: Inability to accurately assess own-revenue and budget effectively. Reduced capacity to fund service delivery, manage and sustain cash flow and maintain financial stability.

Fixed and movable assets

Material misstatements before audit: 50% (127 municipalities)
Material misstatements after audit (qualifications): 21% (54 municipalities)

Poor asset record-keeping, supporting schedules for assets not maintained or updated timeously, delays in asset verification, and inadequate reviews done

Impact: Inability to verify the existence or value of assets, which misstates the financial position, undermines resource planning, and increases the risk of asset loss or misuse.

Criteria of material adjustments – where it will not be allowed:

- Recurring significant internal control deficiencies persist without corrective action
- Identical misstatements in the past
- Adjustment has already been allowed
- Correcting it will not improve the opinion
- Cannot correct the root cause or underlying population error in time considering the extent of work, expertise and skills needed.
- Insufficient time for the audit team to perform additional audit procedures on corrections

- **Learn from the past**
- **Learn from others**

Number of quality AFS | Before audit | After audit | Movement from 2020-21 | Improvement | Slight improvement | Unchanged | Regression | Slight regression

Grant funding

Allocation of grant funding through direct (schedule 4B or 5B) conditional grants is made through the Division of Revenue Act (Dora) if a municipality is assessed as capable of implementing and managing the infrastructure project; otherwise, a schedule 6B (in-kind/indirect) allocation is made.

Underspending

A total of **71 municipalities underspent** their allocated grants **by more than 10%.** Underspending was most common among municipalities in the Northern Cape (14 municipalities) and the Free State (13 municipalities).

Concern re the quality of spent:

At 21 municipalities (9%), the noncompliance related to the utilisation of the MIG, RBIG and W SIG. These grants were either spent on operational costs / not in accordance with the business plan, and/or spending information and evidence were not made available for audit purposes (audit limitation).

We raised **findings on infrastructure project delivery** at all auditees and on 101 (78%) of the 129 projects audited; 68 (81%) of the 84 projects funded by grants had findings.

- Project delays
- Projects with cost overruns
- Projects with poor built quality
- Projects with commissioning shortcomings
- Findings on noncompliance with procurement and contract management legislation were raised on 18 (86%) of the 21 projects we audited

Emerging Risk - Financial reporting consultants

Number of municipalities that used consultants and consultant costs

2014-15	2020-21	2023-24	2024-25
179 – R586,20m	**230 – R1 444,65m**	225 – R1 520,42m	**225 – R1 606,72m**

2024-25 use of financial reporting consultants

Consultant cost is ***10% of total financial reporting cost*** of R15,43bn

Recurring appointment at 153 municipalities (68%) (2020-21: 53%)

Reasons for appointment of consultants

- Skills and vacancies – 93 municipalities (41%) (2020-21: 33%)
- Skills – 119 municipalities (53%) (2020-21: 61%)
- Vacancies – 13 municipalities (6%) (2020-21: 6%)

Common findings on consultants

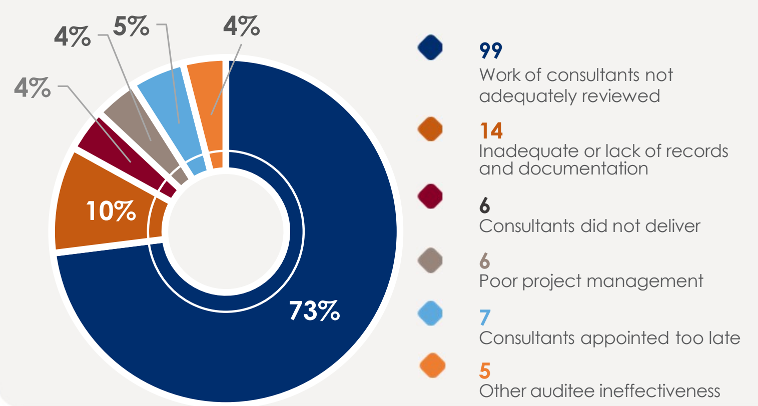
- No consultancy reduction plan in place – 44 (20%)
- Conditions or clauses relating to transfer of skills not included in contract – 24 (11%)
- No evidence that skills transfer or training programmes took place – 51 (23%)
- Consultants appointed without conducting needs assessment/ gap analysis and project plan – 43 (19%)
- Measures to monitor transfer of skills not implemented – 32 (14%)

Consultant cost by type – 2024-25

- **Preparation/review of financial statements –** R0,53bn (33%) (2020-21: 28%)
- **Asset management –** R0,51bn (32%) (2020-21: 34%)
- **Accounting services –** R0,13bn (8%) (2020-21: 5%)
- **Tax services –** R0,34bn (21%) (2020-21: 26%)
- **Other services –** R0,10bn (6%) (2020-21: 7%)

61% (137) of financial statements submitted for auditing included material misstatements in area of consultant work

Reasons misstatements in area of consultant work were not prevented



33 MIs on ineffective or inefficient use of consultants per province at 31 municipalities

Election risk

- **Leadership and oversight changes**: The election period is likely to be characterised by leadership changes, governance instability and administrative disruption, which may weaken oversight and accountability processes.
- **Procurement risks:** Election periods often trigger urgent procurement, which increases the risk of irregular procurement practices.
- **Recruitment risks**: Elections may result in short-term staffing which may be required to support election related activities.

Pre-election: Protect the integrity of the audit process, the gains made and the audit outcomes

- Availability of key personnel
- Availability of information / supporting documentation
- Prevent regression into disclaimer at all cost
- Where system changes happen during the year – confirm the accuracy of balance before submitting the AFS

Other matters of interest

Focus areas

01 Procurement and contract management

02 Consequence management

03 Financial health

04 Governance and oversight

05 Human resource management

06 Environmental risk (climate changes)

Audit disputes

Audit disputes require the AGSA to carefully balance two competing, yet equally important, constitutional and legal imperatives.

- On the one hand, **the AGSA has a statutory obligation to complete and report on audits within strict legislated timelines** (three months in terms of the MFMA). Adherence to these timelines is critical in maintaining the credibility, efficiency, and constitutional mandate of the institution.

- On the other hand, as an institution exercising public power, **we must ensure that our actions are consistent with the principles of procedural fairness**. Auditees must be afforded a reasonable and meaningful opportunity to raise disputes or complaints regarding audit processes or outcomes, particularly where these may have an impact on audit findings and conclusions.

To help us manage audit disputes effectively, it is important that **disputed matters are raised with us early in the audit process.**

Internally, we are also sharing the same message with our auditors and requesting that they communicate any audit findings and their potential impact to management at an early stage. This will enable management to assess the findings promptly and decide whether to raise any disputes or concerns in a timely manner.

Leakage – MI focus (516 MIs)

Material financial loss

305

- 77 Payment for **goods or services not received / of poor quality / not in line with contract** or to **ineligible beneficiaries**
- 55 Eskom, water boards, lenders and suppliers **not paid on time** resulting in interest
- 19 Payroll and value-added tax (VAT) **not paid on time** or **incorrectly calculated** resulting in South African Revenue Service interest and penalties
- 1 **Non-compliance** resulting in penalties
- 3 Employees on **prolonged suspension**
- 3 **Suspected fraud** resulting in financial loss
- 42 Revenue losses due to **unbilled revenue, debt not recovered or unrecorded receipts**
- 4 Revenue lost due to **electricity and water losses**
- 44 **Inefficient use of resources** resulting in no/ limited benefit derived for money spent
- 20 **Assets not safeguarded/maintained** resulting in financial loss
- 8 Non-compliance in procurement processes resulting in **overpricing of goods and services procured or appointed supplier not**
- **Delivering**
- 14 **Uneconomical procurement** resulting in overpricing of goods and services procured
- 15 **Loss** of investment

Substantial harm to the public

110

- Non-compliance with environmental legislation resulting in **pollution of water resources**
- 29 **Landfill site mismanagement** resulting in harm to public
- 6 **Pension fund contributions** deducted and not paid over to the pension fund
- 4 Non-compliance with national standards on water quality resulting in **unsafe drinking water**
- 1 **Asset not safeguarded/maintained** resulting in harm to public
- 1 Project delays resulting in beneficiaries living in **unsafe and unhygienic conditions**

Substantial harm to the public sector institution

96

- **28 Repeat disclaimed audit opinion**
- **1 Repeat adverse audit opinion** resulting in compromised transparency and accountability
- 11 Lack of proper **performance information records and systems**
- 3 Poor **financial, performance or project management**
- 39 **Non-submission** of financial statements
- 5 **Non-submission** of performance report
- 1 **Asset not safeguarded/maintained** resulting in harm to the municipality
- 8 **Bank and creditor's reconciliation not performed** resulting in compromised transparency and accountability on the bank and creditors balances

Every battle is won, before its fought.

Sun Tzu

THANK YOU

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