



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

MATERIAL IRREGULARITIES IN LOCAL GOVERNMENT

MFMA 2021-22

A culture of accountability will improve service delivery

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Abbreviations and acronyms used in this report

DM	district municipality
DWS	Department of Water and Sanitation
Hawks	Directorate for Priority Crime Investigation
LM	local municipality
MEC	member of the executive council
Metro	metropolitan municipality
MI	material irregularity
PPSA	Public Protector South Africa
SIU	Special Investigating Unit
VAT	value-added tax

FOREWORD FROM THE AUDITOR-GENERAL

The amendments to the Public Audit Act, which became effective on 1 April 2019, gave the Auditor-General of South Africa a mandate that goes beyond auditing and reporting. Our new enforcement mandate allows us to expand our participation in government's accountability processes – not to take over the legislated responsibilities of accounting officers and authorities, executive authorities, and public bodies with investigative and enforcement mandates, but rather to be a complementary mechanism in this process.

One of these amendments requires me to account at least annually for all remedial actions that I take, certificates of debt that I issue and material irregularities (MIs) that I refer to public bodies for investigation. I decided to not only account for the use of these powers, but also to report on how the MI process was implemented, as well as on the nature of MIs we have identified and their status.

In this fourth report on the status of MIs, we focus on those MIs we had identified in the local government sphere by 15 January 2023, which coincides with the 2021-22 audit cycle for local government. The report includes a wealth of information on the MIs that we identified through our audits and their impact on our auditees. It also reports overall on what accounting officers have done or are doing to recover financial losses, prevent further losses and harm, and ensure there are consequences for the officials involved. Some have been successful in this regard, while others have not taken appropriate action and are exposing local government to continued loss, misuse, and harm to the general public or to public sector institutions.

The report seeks to activate the accountability ecosystem for local government to oversee the resolution of MIs through ongoing monitoring of the status of MIs, follow-ups on delays and solving the stumbling blocks to resolve MIs. This ecosystem expands beyond the administrative and political leadership of a municipality to provincial leadership and legislatures, the coordinating institutions, the investigative public bodies and, ultimately, the citizen.

Our role in this accountability ecosystem is to use the insights from our audits to influence a shift in local government culture towards accountability, transparency, performance and institutional integrity. We use enforcement if there is continued inaction in spite of our efforts.

I am fully committed to implementing the enhanced powers given to my office – without fear, favour, or prejudice. If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift action when we notify them of an MI, I will not need to use my remedial and referral powers or to issue a certificate of debt. However, if they do not deal with MIs with the required seriousness, I will not hesitate to use them. In this report, I account for the instances where I included recommendations in auditees' audit reports, referred matters to public bodies, taken remedial action and made my intention known to issue a certificate of debt.

I am pleased with the impact we are making through implementing this expanded mandate. We can see the effect of our expanded powers as accounting officers pay increased attention to our audit process and outcomes, take action to address our findings, and even prevent and recover financial loss.

As an office, we are committed to playing our part in instilling a culture of transparency and accountability for the performance of municipalities, built on a foundation of ethical behaviour and institutional integrity. This will ultimately result in improved service delivery and a better life for the people of South Africa.

 1.11.2023

Tsakani Maluleke
Auditor-General



EXECUTIVE SUMMARY

We are in the fourth year of implementing the material irregularity (MI) process in local government. In 2022, we expanded our work significantly by implementing the process at 170 auditees – up from 94 in the previous year.

From 1 April 2019 (when the amendments to the Public Audit Act became effective) until 15 January 2023 (the cut-off date for MIs to be included in this report), we had identified and notified accounting officers of 268 MIs. The MIs we identified were caused by non-compliance with legislation and suspected fraud that has resulted in, or is likely to result in, material financial losses and significant harm to municipalities and the general public.

The nature of these MIs reflects the areas in which municipalities and municipal entities are most vulnerable for loss, misuse and harm – we have highlighted the weaknesses in these areas for a number of years, including in our general and special reports.

Material financial losses were most often caused by weaknesses in the procurement and payment, resource management, and revenue management processes, as well as by interest and penalties charged due to late payments. We estimate the total financial loss of the 194 MIs that involved a material financial loss to be R5,19 billion, with R1,6 billion of that amount being lost by municipalities that invested in VBS Mutual Bank.

Municipal operations, delivery and financial positions were harmed by municipalities not submitting their financial statements and not keeping full and proper financial records. This is clear from those municipalities that repeatedly received disclaimed audit opinions. Through our increased focus on auditing infrastructure and environmental management, we brought to light the harm being done to the general public as a result of polluted water resources and mismanaged landfill sites.

In the past, we have reported that we are starting to see a shift at municipalities and municipal entities, which have gone from responding slowly to our findings and recommendations to paying attention to the MIs we report and taking action to resolve them. Over the past year, the responsiveness continued to improve. We have found that issuing an MI notification to an accounting officer often jolts them into acting to address irregularities and transgressions that they should have dealt with previously – until we issued notifications, nothing was being done to address 86% of the irregularities we identified.

When accounting officers respond to our notifications with commitment and workable plans for how they will take appropriate action to resolve the MIs, the intended impact of the Public Audit Act amendments is achieved. The main objective of these amendments was to enable corrective action to resolve the identified MIs and prevent similar ones from occurring in future by implementing consequence management and accountability. The amendments also sought to empower all roleplayers in the accountability ecosystem to strengthen the internal controls that enable good financial and performance management, compliance with legislation and, ultimately, enhanced service delivery by municipalities.

Where accounting officers did not deal with MIs swiftly and appropriately, which often coincided with mayors and councils not exercising their oversight responsibilities, we have not hesitated to use our enhanced powers. We included recommendations in the audit reports of 14 auditees for MIs that were not dealt with appropriately and took remedial action at 17 auditees that did not implement our recommendations from the previous year. At most of the auditees where we had to take these steps, we saw renewed commitment to address the MIs. However, in two instances where the accounting officer did not appropriately deal with our recommendations and remedial action, we started the certificate of debt process. We also referred 15 MIs to public bodies for further investigation.

Where accounting officers have taken action when we notified them of the MIs, or in response to us using our new powers of recommendation and remedial actions, we have seen the following successes:

- Financial losses prevented, already recovered or in the process of being recovered – R511,76 million
- Consequences being implemented for the officials responsible (through disciplinary processes) and, where applicable, for the suppliers involved
- Fraud and criminal investigations being undertaken
- Internal controls being improved to prevent MIs from reoccurring
- Long-outstanding financial statements being submitted
- Steps being taken to address environmental pollution

These actions have already led to 57 (21%) of the MIs being resolved.

A change in behaviour and culture in local government is a great ambition, and we embarked on this MI journey knowing that it would take time to achieve this outcome. In this report, we celebrate the successes achieved, while also acknowledging the stumbling blocks that are causing delays and frustration, such as leadership instability and delays in investigations and disciplinary processes.

The longer it takes for accounting officers to act, the higher the risk that money lost will not be recovered, that responsible officials and implicated suppliers will not suffer any consequences, and that harm caused will not be addressed. The likelihood of continued financial loss or a repeat of the irregularities that caused the losses also increases.

This report calls on all roleplayers in the local government accountability ecosystem to support, monitor and oversee the resolution of MIs. When the auditor-general invokes her powers of referral, remedial action and, in future, issuing certificates of debt, it not only reflects poorly on the accounting officer, but it also means that the whole accountability value chain has failed – up to executive and oversight level.

In this journey of implementing the MI process, we will continue to sharpen and improve our processes and to learn from our successes and challenges. We trust that the insights and information on the active MIs in local government in this report will strengthen oversight in its important role.

INTRODUCTION

The 2021-22 general report on local government audit outcomes reflected on the ongoing, concerning state of financial and performance management and compliance with legislation. The local government environment is complex as it is riddled with instability at accounting officer level, repeat disclaimed opinions, municipal public accounts committees not always attending to matters such as non-compliance with legislation, procurement deviations and financial misconduct, disciplinary boards not always being in place and weakened institutions because of a steady breakdown in governance over several years. This situation resulted in material financial losses, accountability process failures and substantial harm to the communities served by the municipalities.

The responsibilities and duties of accounting officers, mayors and councils are well defined in the Municipal Finance Management Act and the Municipal Systems Act, which are underpinned by the basic values and principles governing public administration, as set out in our country's Constitution. These responsibilities and duties include having high standards of professional ethics, accountability and transparency, as well as promoting the efficient, economical and effective use of resources.

For many years, our audits have highlighted a systemic failure in local government to establish the systems, processes and controls required to make the constitutional principles and the requirements of municipal legislation the norm. Not only are irregularities and the resultant losses, misuse and harm not prevented from happening, but they are also not appropriately dealt with when they are identified. We made continued calls for accountability for these irregularities and its impact and that those who did wrong (transgressed), did nothing (failed to act) or performed poorly should face consequences.

Our mandate has always been to audit and report on these matters so that councils can play their oversight role effectively and accounting officers can make corrections. This mandate was expanded by the amendments to the Public Audit Act, which became effective on 1 April 2019, to go beyond audit and reporting in an effort to strengthen the accountability mechanisms. These amendments gave us the mandate to report on material irregularities (MIs) and to take action if accounting officers do not deal with these MIs appropriately. The amendments established a complementary enforcement mechanism to strengthen public sector financial and performance management so that irregularities such as non-compliance, fraud, theft and breaches of fiduciary duties and the resulting impact can be either prevented or dealt with appropriately.

The overall aim of our expanded mandate is:

- to promote better accountability
- to improve the protection of resources
- to enhance public sector performance and encourage an ethical culture
- ultimately, to strengthen public sector institutions to better serve the people of South Africa.

In 2022, we expanded our work significantly by implementing the MI process at 170 auditees – up from 94 last year. The selected municipalities and municipal entities were responsible for 90% of the 2021-22 local government estimated expenditure budget of R541,84 billion. We plan to further increase this number to 276 auditees next year with full implementation anticipated in 2023-24.

Material irregularity concepts and process

A short overview of the MI concepts and process follows to better explain the terminology and messages contained in this report, as well as the status of the MIs on which we are reporting.

Definition of material irregularity and overview of expanded powers

Material irregularity

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 the **accounting officer/authority** does not appropriately deal with material irregularities, our expanded mandate allows us to:

1

Refer material irregularities to relevant public bodies for further investigations

2

Recommend actions in the audit report to resolve the material irregularity

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

We identify and report on irregularities, losses, misuse and harm as part of our normal audit processes. What distinguishes MIs are that there are two main gates through which a matter must pass for it to be classified as an MI as per the definition – there needs to be an irregularity (which is the non-compliance, fraud, theft or breach), and that irregularity must have an impact (being a material loss or misuse or significant harm).

By identifying MIs, we support accounting officers and councils by bringing to their attention the irregularities that could have a significant impact on finances, resources and service delivery while also empowering them to take the appropriate steps timeously in terms of legislation and to strengthen their internal control environment to prevent further irregularities.

Legal obligations of municipal manager to address an irregularity

If a municipal manager is made aware of an irregularity (non-compliance, fraud, theft or a breach of fiduciary duty), the Municipal Finance Management Act and its regulations typically prescribe the following steps to be taken:

1

Perform a preliminary investigation to determine the facts and collect information on what caused the transgression, who is responsible and whether a financial loss was (or will be) suffered.

If applicable



2

Prevent any losses or further losses

3

Institute a formal investigation if there are indications of fraud, corruption or other criminal conduct; if confirmed, take further action (e.g. report matter to the police)

4

Recover any financial losses from an external party

5

Take steps against the responsible official(s) (which can include a financial misconduct investigation)

6

Recover any financial losses from the responsible official(s)

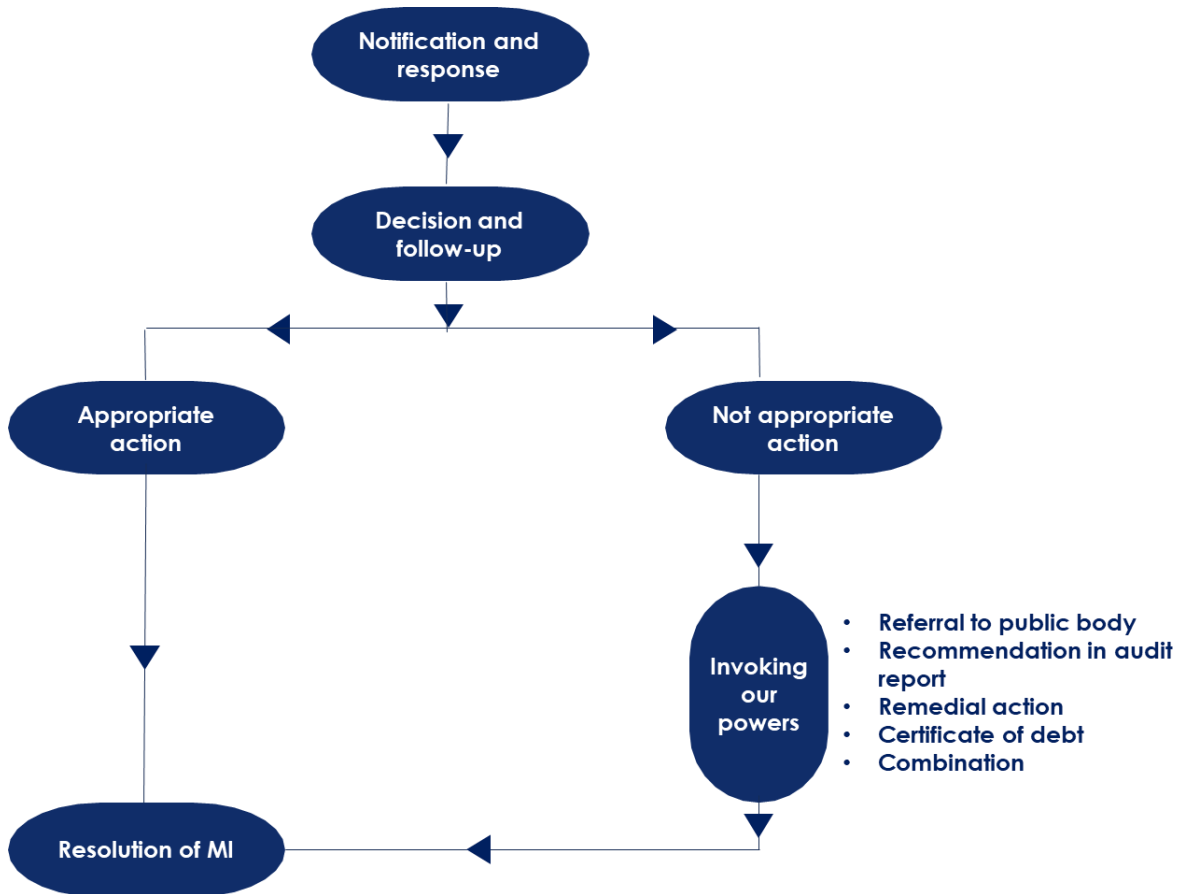
The policies and procedures of a municipality typically describe how and when these steps should be taken.

The same steps should be taken if a municipal manager is notified of a material irregularity.

The amendments to the Public Audit Act and the introduction of the accompanying MI Regulations have been shaped to support the process of fair, transparent and legally sound administrative justice by giving municipal managers an opportunity to take the actions required to deal with the MIs. We use our additional powers only where the municipal manager is not dealing appropriately with such irregularities.

We provide an overview of the process we have followed with MIs we deal with and their status in section 2 of this report.

Overall MI process



Steps in MI process and resultant status of MI

Step in process	Status of MI
Notification and response	
1. When we identify an MI, we notify the accounting officer without delay. We give them 20 working days to respond to the notification by giving us a written submission and evidence on what they have done and plan to do to address the MI.	Recently notified and awaiting response
2. If the response provided does not include all the information we require to perform our assessment, we may request additional information .	Notification response received – awaiting additional information
3. When received, we assess the accounting officer's response to the notification to conclude whether the actions (taken or planned) and outcomes of the actions already taken are appropriate and in line with their legal obligations.	Notification response received – assessment in process

Step in process	Status of MI
Decision and follow-up: Appropriate action	
<p>4. If we determine that the actions and outcomes included in the response are appropriate, we give the accounting officer and other parties involved in resolving the MI (e.g. investigative public bodies) space to implement the further planned actions.</p> <p>Appropriate action means that we have assessed the steps being taken to resolve the MI and are comfortable that these, when fully implemented, will result in the MI having been resolved.</p>	Appropriate action being taken
<p>5. We follow up on the progress made with implementing the planned actions at regular intervals and assess whether the outcomes of the actions are appropriate. For example, if an investigation was planned, we follow up whether it was performed, and assess whether the scope of the investigation addresses the MI and whether the conclusions of the investigation were appropriate.</p>	Follow-up in process (if we are in the process of follow-up or the actions are not yet due)
Decision: Not appropriate action	
<p>6. We notify the accounting officer that their actions are not appropriate if:</p> <ul style="list-style-type: none"> • the accounting officer did not respond to the notification • we determined that the actions and outcomes included in the response to the notification are not appropriate • we originally assessed that appropriate actions are being taken but, based on our follow-up on the progress of implementation, determine that the actions are not being taken or the outcomes are not appropriate. <p>We then proceed with a decision-making process on invoking our powers to ensure the MIs are resolved, which can be either referral to a public body for investigation or including recommendations in the auditees audit report.</p>	Appropriate action not taken – decision on invoking powers in process
Invoking our powers: Referral to a public body	
<p>7. The auditor-general can approve the referral of the MI to a public body for investigation. Such referral is most often made if the public body's mandate, investigative powers and remedial or punitive powers make it better suited to deal with the MI than us or the municipal manager. This power is often employed if the MI requires a fraud or criminal investigation.</p> <p>The public body then regularly reports on its progress on the investigation to the Auditor-General of South Africa until the investigation is completed.</p>	Referral to public body for investigation or referral
Invoking our powers: Recommendations in the audit report	
<p>8. We can include recommendations in the audit report of the auditee. These are not the normal recommendations we provide as part of our audits, but instead deal with the actions accounting officers should take to resolve a specific MI. They typically deal with three areas:</p> <ul style="list-style-type: none"> • Recovery: steps that should be taken to recover financial and public resource losses or to recover from harm • Prevention: steps that should be taken to strengthen internal controls to prevent further losses and harm • Consequences: steps that should be taken to impose consequences for wrongdoing, including disciplinary processes and, if applicable, handing the matter over to a law-enforcement agency <p>If the recommendations are not implemented, the Public Audit Act requires us to take remedial action.</p>	Recommendations in audit report
Invoking our powers: Remedial action and certificate of debt	
<p>9. If our recommendations as included in the audit report are not implemented, we take remedial action that covers the same areas of recovery, prevention and consequences. Remedial action is a binding instruction (in other words, one that must be followed) issued by the auditor-general.</p> <p>If the MI caused financial loss for the state, the remedial action also includes a directive for the financial loss to be quantified and recovered.</p>	Remedial action

Step in process	Status of MI
<p>10. If the accounting officer does not implement the remedial action, we can take any action the Public Audit Act provides for, including escalating the matter to the broader accountability ecosystem, issuing a special report or taking legal action.</p> <p>If the directive issued by the auditor-general is not implemented, we start the certificate of debt process.</p> <p>Stages of certificate of debt process as defined in MI Regulations:</p> <ul style="list-style-type: none"> • The auditor-general issues a notice of intention to issue certificate of debt to the municipal manager and request a written submission on reasons not to issue a certificate of debt. • The auditor-general determines, based on written submissions received, whether the certificate of debt process should continue. • If the process continues, the auditor-general requests that the accounting officer give oral representation at a meeting of the MI advisory committee on reasons not to issue the certificate. The advisory committee is an independent body established to ensure that the process is fair, reasonable and adheres to the principles of administrative justice. • The MI advisory committee meets to hear oral representation and recommend the appropriate course of action to the auditor-general. • The auditor-general decides whether to continue with issuing the certificate of debt, taking the committee's recommendation into account. • If the process continues, the auditor-general issues a certificate of debt to the accounting officer. The debt must be recovered through the mayor and the council, and the auditor-general monitors and reports on the recovery until the amount has been fully recovered. 	<p>Different statuses:</p> <ul style="list-style-type: none"> • Notice of certificate of debt process • Invitation for oral representation • MI advisory committee processes • Certificate of debt issued
Invoking our powers: Combinations	
<p>We can also decide to include recommendations in the audit report or take remedial action combined with a referral to a public body for investigation.</p>	<p>Recommendations in audit report/ Remedial action and referral to public bodies</p>
Decision: Resolution of an MI	
<p>11. An MI is resolved only when:</p> <ul style="list-style-type: none"> • all necessary steps have been taken to recover financial losses and to remove or address any harm caused • internal controls have been strengthened to prevent further losses and harm • there are consequences (including disciplinary processes) for any wrongdoing; and • if applicable, the matter has been handed over to a law-enforcement agency. <p>Different MIs need different actions (and sometimes a combination of actions) to resolve. For example, some require financial losses to be recovered while others also require further financial losses to be prevented. Some require consequences against responsible officials while others also require fraud or criminal investigations, the outcomes of which must be reported to the South African Police Service.</p> <p>MIs are resolved through the actions taken by the accounting officer in response to the notification of the MI or the recommendations or remedial actions we take. MIs can also be resolved at conclusion of the investigation by a public body or as a result of the certificate of debt process.</p>	<p>Resolved</p>

A municipality does not function in isolation; it is part of a bigger system of government. If any part of the MI accountability ecosystem does not effectively play its unique role, it is detrimental to the effectiveness of the ecosystem as a whole. It also tends to undermine the ability of other stakeholders to effectively play their roles, given the additional burden of responsibility they are required to carry over and above that which falls within their particular scope and mandate.

Content of the report

This report is provided in three sections.

In section 1:

- we report overall on the MIs identified, their status and impact
- we spotlight the impact or intended impact of specific MIs on improvements in local government
- we share the stumbling blocks we observed in resolving MIs swiftly and appropriately
- we make a call to action for all roleplayers in the accountability ecosystem to oversee and monitor the resolution of MIs and address stumbling blocks to resolve MIs.

In section 2, we provide information on how we are implementing our expanded mandate.

In section 3, we provide a snapshot of the nature and status of MIs and the actions taken per province as well as our call to action to the provincial leadership.

We trust that the information in this report will enable Parliament, provincial legislatures and provincial Troika to perform their oversight role in support of the MI process. We remain committed to contributing, through our enforcement mandate, to a public sector culture of performance, accountability, transparency and integrity.

The graphic features a large, dark blue circle with a teal border, centered on the right side of the page. The background is a gradient of dark blue to teal, with a horizontal teal bar at the top and bottom. Several vertical teal lines of varying heights are scattered across the background. The text 'SECTION 1:' is written in white, bold, uppercase letters inside the circle, and 'OVERVIEW' is written in teal, bold, uppercase letters below it.

SECTION 1:

OVERVIEW

MATERIAL IRREGULARITIES IDENTIFIED, STATUS AND IMPACT

We identified and notified accounting officers of 268 MIs from 1 April 2019 until 15 January 2023, which is the cut-off date for MIs included in this report and in the 2021-22 general report. After the cut-off date we identified a further 66 MIs that we will report on in the next MI report.

The MIs we identified were caused by non-compliance with legislation and suspected fraud that resulted in, or is likely to result in, material financial losses and significant harm to the municipalities and to the general public. We estimate the total financial loss of the 194 MIs that involved a material financial loss to be R5,19 billion, with R1,6 billion of that being lost by municipalities that invested in VBS Mutual Bank. Municipal operations, delivery and financial positions were harmed by municipalities not submitting their financial statements and not keeping full and proper financial records. This is clear from those municipalities that repeatedly received disclaimed audit opinions. The general public suffered harm as a result of polluted water resources and mismanaged landfill sites.

Nature of material irregularities

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 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

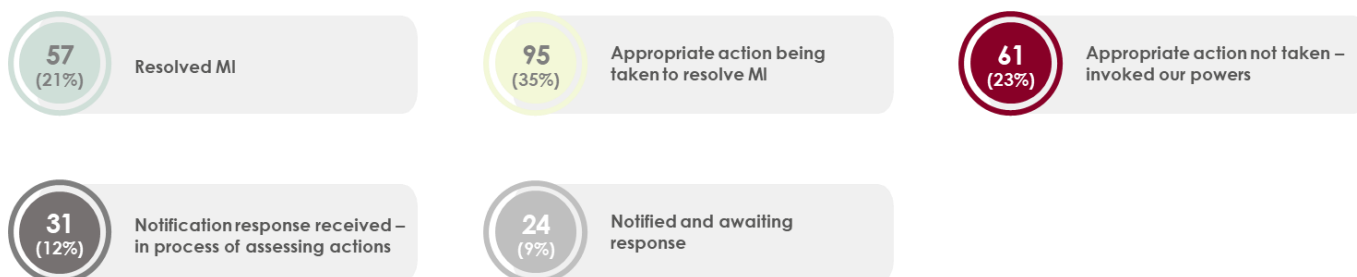
The nature of these MIs reflects the areas in which municipalities and municipal entities are most vulnerable for loss, misuse, and harm – we have highlighted the weaknesses in these areas for a number of years, including in our general and special reports.

Status of material irregularities

In this report, we provide the status of 268 identified MIs. The status of the MIs reflects what accounting officers have done or are doing to recover financial losses, prevent further losses and harm, and ensure that disciplinary measures and consequences are implemented.

The status date for most of the MIs is 15 February 2023 (the same date as applied in the 2021-22 general report that was tabled on 31 May 2023), but we updated the status of some MIs where we are taking further action (invoked our powers) or where we were in the process of making assessments and decisions up to 25 July 2023.

Status of 268 material irregularities



Of the **57 resolved MIs**, 19 were resolved by the auditee submitting outstanding financial statements. The other 38 MIs (including 13 relating to VBS Mutual Bank) were resolved by preventing or recovering a total of R124,36 million in financial losses and implementing consequences for those responsible.

Although the 95 MIs where **appropriate action is being taken** have not yet been fully resolved, accounting officers have made good progress in addressing the issues raised. By 15 February 2023, the average 'age' of these 95 MIs was 15 months from date of notification.

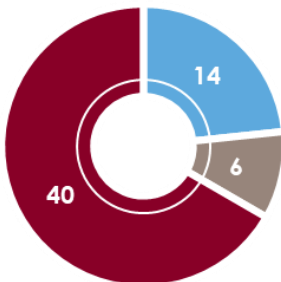
Different MIs need different actions (and sometimes a combination of actions) to resolve. Some require financial losses to be recovered while others also require further financial losses to be prevented. Some require consequences against responsible officials while others also require fraud or criminal investigations, the outcomes of which must be reported to the South African Police Service. Still others require proper access controls, increased environmental monitoring and enforcement, and upgrading or maintenance of infrastructure.

As a result, some MIs can be resolved by the accounting officer within a short period, while others take longer. For example, a proper fraud investigation can take six months, after which a disciplinary process can also take a few months as it needs to adhere to the legislation and policies in place that ensure a fair process. Although the 95 MIs where appropriate action is being taken have not yet been fully resolved, they are in different stages of resolution with some actions already being taken, as seen in the graphs on the following page, which show common actions required to resolve these MIs.

MIs requiring specific actions to resolve – status

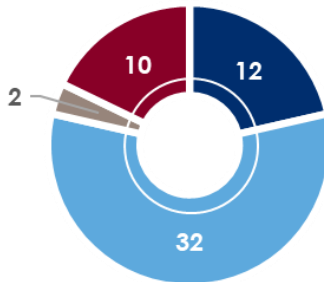
Recovery of financial loss

60 MIs



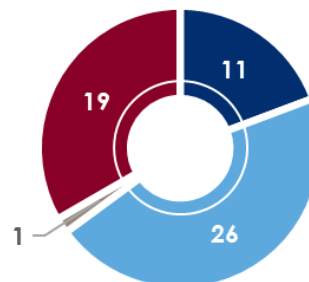
Prevention of further losses

56 MIs



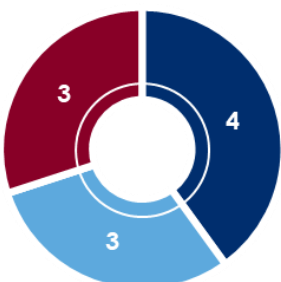
Responsible officials identified through investigation

57 MIs



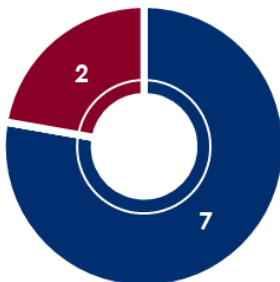
Disciplinary process against responsible officials

10 MIs



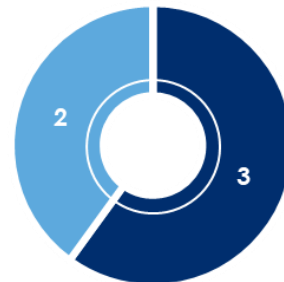
Fraud/criminal investigation

9 MIs



Reporting officials or other parties to South African Police Service in the case of fraud/criminal activities

5 MIs



● Completed
 ● In progress
 ● Partially completed
 ● Not completed/started

These MIs will be fully resolved once the accounting officers have implemented the actions they have committed to take. These actions may include strengthening internal controls to prevent the irregularities from reoccurring, starting disciplinary processes against responsible officials, instituting action against officials or contractors to recover losses, and preventing further losses.

We are fully committed to implementing the enhanced powers given to our office – without fear, favour or prejudice. If accounting officers and authorities, supported by their political leadership, fulfil their legislated responsibilities and commit to taking swift action when we notify them of an MI, there is no need for us to use our remedial and referral powers. However, when they do not deal with MIs with the required seriousness, we do not hesitate to use these powers.

In 61 cases where accounting officers did not appropriately address the MIs we reported to them, we **used our expanded mandate** by including recommendations in audit reports, referring MIs to public bodies, taking remedial action and undertaking the certificate of debt process. The municipalities where we took further action are also those that are typically slow to respond to our findings and to improve the control environment. Further details on the MIs are included in section 2 of this report.

Further action taken

Recommendations in audit report

as accounting officer took little or no action to address MI (19)

- Beaufort West LM (WC)
- Chris Hani DM (EC)
- City of Matlosana LM (NW) – 2
- City of Mbombela LM (MP) – 2
- Emalaheni LM (MP) – 2
- Inxuba Yethemba LM (EC)
- Mangaung MET (FS)
- Matjhabeng LM (FS)
- Ngaka Modiri Molema DM (NW) – 2
- Raymond Mhlaba LM (EC)
- uMkhanyakude LM (KZN) – 3
- Govan Mbeki LM (MP)
- Joe Morolong LM (NC)

Remedial action taken

as our recommendations were not implemented (25)

- City of Tshwane Metro (GP) – 3
- JB Marks LM (NW)
- Msunduzi LM (KZN)
- Ngaka Modiri Molema DM (NW) – 4
- uMkhanyakude DM (KZN) – 3
- Dr Ruth Segomotsi Mompati DM (NW)
- Various municipalities with disclaimed opinions – 12

Notice of certificate of debt process (2)

- Ngaka Modiri Molema DM (NW) – 2

Referral to public bodies for further investigation (12)

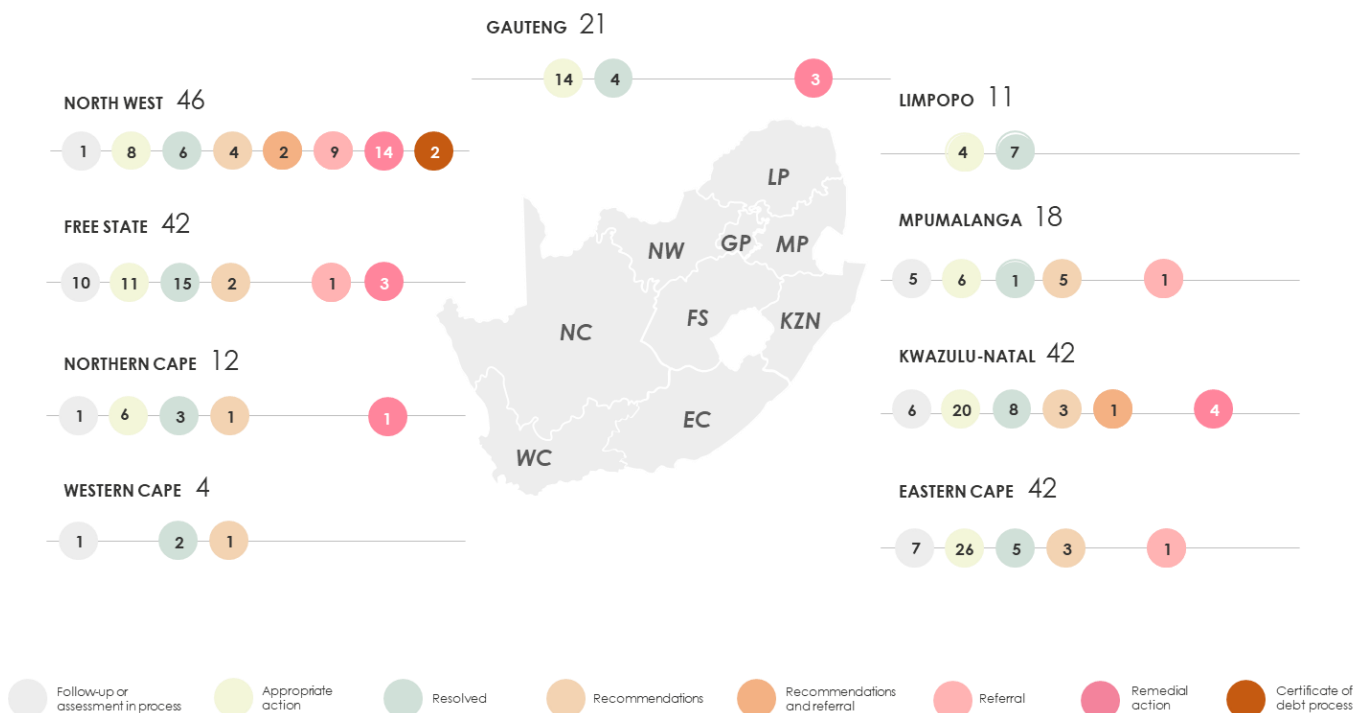
- Chris Hani DM (EC)
- Emalaheni LM (MP)
- JB Marks LM (NW)
- Madibeng LM (NW) – 2
- Matjhabeng LM (FS)
- Ngaka Modiri Molema DM (NW) – 6

Recommendations in audit report and referral to public bodies (3)

- Amajuba DM (KZN)
- Ngaka Modiri Molema DM (NW) – 2

We identified MIs at municipalities in every province, with the highest number of MIs being in North West, which is also the province with the slowest responses, resulting in multiple MIs where we had to take further action. The Free State, the Eastern Cape and KwaZulu-Natal also have high numbers of MIs.

Status of remaining MIs, by province



Impact of material irregularity process

In the past, we have reported that we are starting to see a shift at municipalities and municipal entities, which have gone from responding slowly to our findings and recommendations to now paying attention to the MIs we report and taking action to resolve them. Over the past year, we continued to see greater responsiveness from most municipalities.

We have found that issuing an MI notification to an accounting officer often jolts them into acting to address irregularities and transgressions that they should have dealt with previously – until we issued notifications, nothing was being done to address 86% of the irregularities we identified.

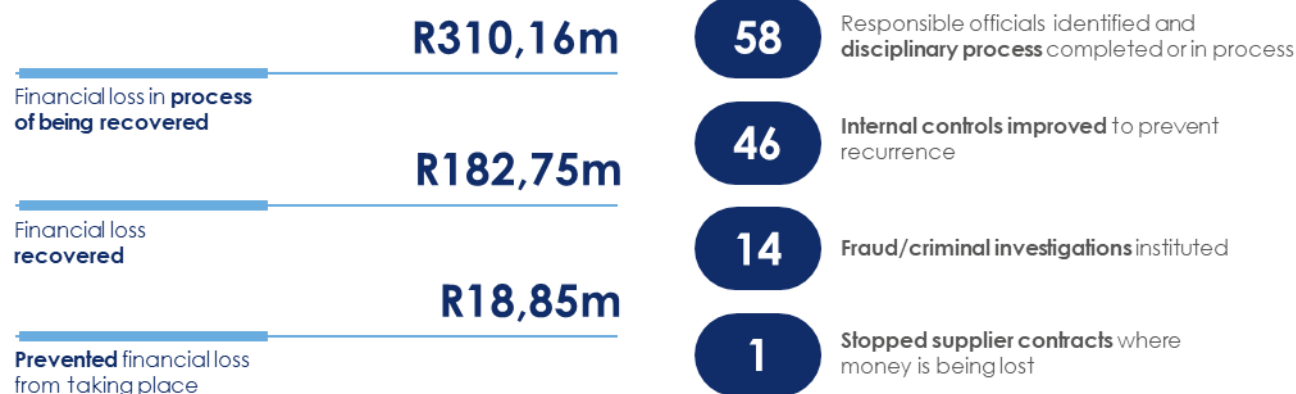
When accounting officers respond to our notifications with commitment and workable plans for how they will take appropriate action to resolve the MI, the intended impact of the Public Audit Act amendments is achieved. The main objective of these amendments was to enable corrective action to resolve the identified MIs and to strengthen the systems of internal controls to prevent similar ones from occurring in future.

Through the MI process, accounting officers have taken action to prevent or recover financial losses of R511,76 million, with some of this amount still in the process of being recovered. These actions have included:

- addressing incorrect billing of municipal services, resulting in increased revenue
- making payment arrangements or negotiating with suppliers that are charging interest and penalties on late payments
- improving systems, processes and controls, and protecting assets to prevent any further financial losses
- recovering financial losses from suppliers
- stopping supplier contracts where money was being lost
- implementing consequences against parties that caused the financial losses, including handing over matters to law-enforcement agencies, identifying the officials responsible and starting disciplinary processes against them.

Municipalities and their entities can now direct these recovered funds towards service delivery, enabling government to achieve its strategic priorities.

Actions taken to address financial loss



Some examples of the actions taken are provided below, while additional actions taken are also included in the section spotlighting local government MIs.

Examples of actions taken to address financial loss

- **Loss recovered:** In 2020, **uMzinyathi District Municipality** (KwaZulu-Natal) erroneously did not charge interest on its long-outstanding debt. The municipality corrected the error by charging interest on these accounts and accounted for the prior-period error in the financial statements, resulting in a loss recovered of R2,57 million. The MI has been resolved.
- **Prevented loss:** in 2019-20, **Emalahleni Local Municipality** (Mpumalanga) did not make payments to a supplier on time, resulting in interest of R8,59 million being charged. The municipal manager engaged with the supplier, resulting in the interest being reversed and the loss thus being prevented. Controls were also put in place to ensure the supplier is paid on time to avoid further interest charges. The MI has been resolved.

We are also starting to see auditees pay attention to matters that we have raised for years in the area of substantial harm to a public sector institution (in this case, a municipality or municipal entity), or to the general public.

In the section that follows, we highlight the impact the MI process has had on dealing with these types of MIs.

SPOTLIGHTING LOCAL GOVERNMENT MATERIAL IRREGULARITIES

In this section, we provide further insight into specific types of MIs and how they are contributing to improvement in the accountability, transparency and performance of local government.

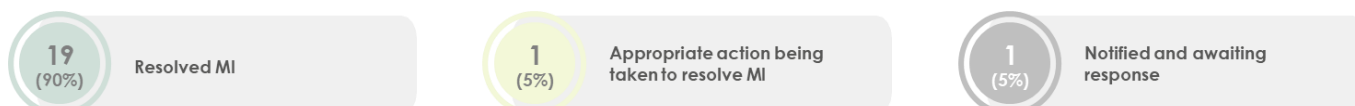
Non-submission of financial statements

The Municipal Finance Management Act requires municipalities to submit their financial statements to us for auditing by 31 August every year. However, there has been an emerging trend of municipalities in primarily the Free State, the Northern Cape and North West submitting their financial statements late, or not preparing financial statements at all – some for multiple years.

If we receive the financial statements late, we cannot complete the audit on time, which results in delays in the annual report being submitted to council. The council is then also unable to call the accounting officer to account and to make financial and related service delivery decisions. The lack of accountability and transparency for their fiscal and financial affairs is likely to result in significant harm to these municipalities.

We reached out to provincial leadership to intervene and reported the non-submission to the provincial legislature, but it did not have the required impact. During 2022 and 2023 we issued 21 MI notifications to the accounting officers of 16 municipalities and municipal entities in the Eastern Cape, the Free State, KwaZulu-Natal, the Northern Cape and North West for not submitting their 2019-20, 2020-21 and 2021-22 financial statements for auditing.

Status of 21 MIs identified – non-submission of financial statements



The **impact** of the MI process is well demonstrated by the responses to the MIs. By 30 June 2023, the municipalities and municipal entities had submitted the one set of outstanding 2019-20 financial statements, all six outstanding 2020-21 financial statements and 12 of the 14 outstanding 2021-22 financial statements.

The impact of our enforcement mandate, combined with the concerted efforts by provincial coordinating institutions to support municipalities, led to the percentage of financial statements being submitted on time improving from 81% in 2020-21 to 91% in 2021-22. In the Northern Cape, for the first time, all financial statements were submitted by the end of December, largely because we issued MIs and oversight followed up with further interventions.

Repeatedly disclaimed audit opinions

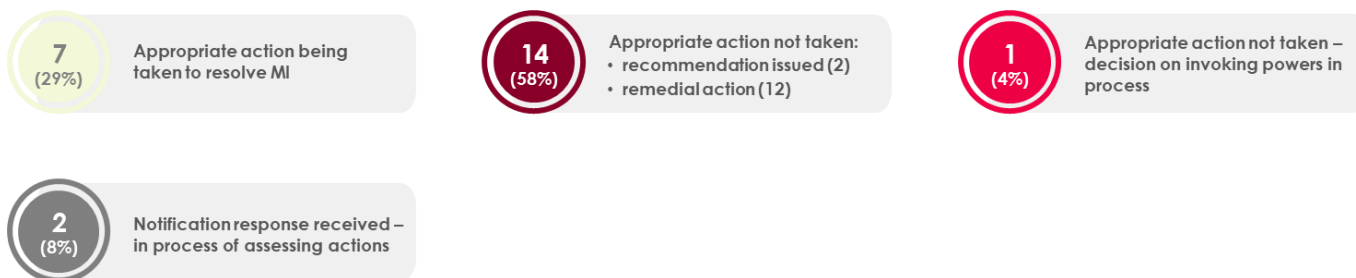
Over the years, we have consistently called in our reports and engagements for disclaimed audit opinions (the worst possible audit opinion) to be eradicated. Although there has been some improvement, there are municipalities that do not move out of this category or do not maintain their improvement and just fall back into it.

The high number of municipalities that received disclaimed audit opinions in 2019-20 compelled us to consider how we can use our enforcement mandate to achieve change at municipalities that repeatedly receive disclaimed audit opinions.

The municipalities did not keep full and proper records and lacked credible financial reporting, which constitutes non-compliance with the Municipal Finance Management Act. These lapses in accountability caused substantial harm to most of these municipalities, as their financial position was so poor that they disclosed in their financial statements that they were uncertain whether they could continue operating. In other words, they were unable to demonstrate that they would be able to ensure that their communities had access to basic services in a financially sustainable manner. The non-compliance and resultant substantial harm qualified this as an MI.

Since 2021, we have issued MI notifications to the accounting officers of 24 municipalities that repeatedly received disclaimed audit opinions due to systemic issues that result in a lack of financial records, which negatively affected their financial position.

Status of 24 MIs identified – repeatedly disclaimed audit opinions



We gave the accounting officers enough time and support to respond to the notifications and, in some cases, had to reissue notifications when the accounting officers changed or the municipalities were placed under administration. The responses we received to the notifications were telling. Most of the accounting officers could not determine and articulate the root causes of the lack of proper municipal records and the financial problems being experienced, nor could they identify appropriate actions with clear timelines to address the matters.

We included recommendations in the 2020-21 and/or 2021-22 audit reports of 14 municipalities, which urged the accounting officers to:

- investigate who or what caused the non-compliance (i.e. the lack of proper records). This required the accounting officer to determine the root causes for the disclaimers; for example, why asset registers are not in place or invoices or contracts could not be provided for auditing
- establish credible action plans to address the lack of full and proper records, which meant there should be specific actions to address the root causes identified through the investigations
- establish credible action plans to improve the poor financial position of the municipality caused by the record-keeping failures.

None of these accounting officers fully implemented our recommendations within the original stipulated period. We assessed the actions they had taken and the reasons they provided for the lack of progress, and allowed two of the municipalities more time. The auditor-general took binding remedial action for the other 12 municipalities in July 2023.

The binding remedial action is similar to the recommendations provided originally – the accounting officers will have six months to implement it.

The slow progress municipalities have made in dealing appropriately with MIs is not unexpected, as MIs require the municipalities to address longstanding problems of poor recordkeeping and internal controls as well as the resultant financial instability. Some municipalities have since improved from a disclaimed audit opinion, often with the assistance of consultants and interventions from the provincial cooperative governance departments and treasuries. However, the MIs have not been resolved because the causes and impact have not been addressed and sustainable improvements have not been made.

The resolution of the MIs is further hampered by instability in municipal manager positions and by municipalities being placed under administration, which results in the action plans not being completed or implemented and in limited accountability for the actions committed to.

Examples of repeatedly disclaimed MIs

- **Tokologo Local Municipality** (Free State) received disclaimed opinions for 2016-17, 2017-18 and 2018-19 and was in a poor financial position. It did not have full and proper financial records, including a complete asset register and meter reading records. The municipality's 2019-20 financial statements were outstanding when we issued the MI notification in June 2021. By December 2021, the accounting officer had taken very little action to resolve the MI and we included recommendations (as detailed earlier) in the auditor's report to be implemented by 14 July 2022.

The responses we received on the implementation of recommendations were late and incomplete, despite reminders and engagements held, partly due to leadership instability. The accounting officer position has been vacant since July 2022 and the municipality was placed under provincial administration in June 2022.

Even though the acting accounting officer has identified some actions to improve the situation in response to the recommendations, these were not based on an appropriate investigation and determination of the root causes for the poor recordkeeping. The municipality improved to a qualified audit opinion in 2019-20 and 2020-21, but because it did not address the root causes, it regressed to a disclaimed opinion for 2021-22. We took remedial action to be implemented within six months and are in the process of notifying the members of the executive council (MECs) for local government and finance of the remedial action and requesting their support to the municipality to implement the action.

- We issued an MI notification for **Govan Mbeki Local Municipality** (Mpumalanga) in June 2021 after it received disclaimed opinions for 2017-18, 2018-19 and 2019-20 and disclosed a material uncertainty about its ability to continue operating due to a lack of full and proper financial records, which included purchases and payment records. We included recommendations (as detailed earlier) in the auditor's report to be implemented by 14 July 2022 because the accounting officer had taken little action to resolve the MI.

Although progress to fully implement the recommendations has been slow, the accounting officer, supported by the council and provincial treasury, has taken several actions. These included establishing council-approved policies and procedures on record management, provincial treasury providing training for record managers and taking steps to implement a financial recovery plan. The municipality also improved to a qualified audit opinion in 2020-21 and 2021-22. We provided the municipality with a further six months to finish implementing the recommendations in recognition of the progress already made.

We have activated the accountability ecosystem, particularly the mayors, councillors and provincial leadership, to oversee and support the resolution of these MIs. Provincial treasuries and cooperative governance departments can assist with financial turnaround plans to improve record management at these municipalities. These processes must be sustainable in the long term, even after the intervention teams are no longer around. This is where the mayors and council play a crucial role in ensuring that operations continue to run smoothly and efficiently. To ensure sustainability, mayors and councils must embed the financial management practices and processes developed during the intervention into the municipality's daily operations.

Suppliers not paid on time, resulting in interest

The Municipal Finance Management Act requires municipalities to pay their creditors within 30 days of receiving the invoice or statement, but we report every year on the widespread non-compliance with this requirement. When municipalities pay their suppliers late, or do not pay them at all, this seriously affects the cashflows of local government suppliers. Some of these suppliers even stop providing services to the municipalities, which results in projects not being completed and services not being delivered. Eskom and the water boards are in a particularly difficult situation as they are required to continue delivering services even when they are not paid. Local government is also losing billions of rands each year in interest charges due to late payments. To influence an improvement in municipal policies, processes and arrangements with suppliers, we issued MI notifications on interest payments (financial losses) as a result of non-compliance with the requirement to make payments on time, with a specific focus on late or non-payments to Eskom and the water boards.

Status of 49 MIs identified – suppliers not paid on time, resulting in interest



Most accounting officers noted in their responses that the main reason for late payments was cashflow problems, and thus officials cannot be held accountable. We acknowledge that many municipalities are in financial distress and the main objective of the MIs was not to ensure consequence management. However, some municipalities manage their finances poorly and do not actively manage their supplier payment arrangements.

A typical example is where municipalities collect money for electricity services and receive funding from national government to subsidise electricity for indigents, but their Eskom accounts remain unpaid because they use these funds for other purposes. Some municipalities did not bill for all the electricity services delivered (or did not bill at the correct tariff) and did not effectively collect the money they were owed, which contributed to their cashflow problems.

We did see **impact** from these MIs, as most accounting officers took appropriate actions to address the late payments. For example, to address the interest charged by Eskom, some municipalities entered into repayment agreements with Eskom, while others ring-fenced electricity revenue to only pay the power utility. Some municipalities undertook projects to replace faulty electricity meters, correct debtors accounts and review indigent registers. A few municipalities even settled the whole outstanding amount.

An **example** of a resolved MI is at **Newcastle Local Municipality** (KwaZulu-Natal), which responded to an MI dealing with interest paid in 2019-20 (a loss of R2,38 million) by entering into a debt and repayment agreement with Eskom, suspending future interest charges. The municipality also implemented controls to prioritise paying Eskom accounts, and ultimately did not incur further losses due to interest charges in 2020-21. The MI has been resolved.

uThukela District Municipality (KwaZulu-Natal) responded positively to an MI dealing with bulk water purchases not being paid within 30 days of receiving an invoice from Umgeni Water Board, resulting in an estimated financial loss of R4,33 million in 2019-20. The municipality submitted a request to Umgeni Water Board to have the interest written off and, in July 2022, a decision was made that the request will only be considered once a payment agreement has been signed and the municipality is adhering to the payment agreement. Further appropriate actions are in process to resolve the MI.

Similarly, **Govan Mbeki Local Municipality** (Mpumalanga) responded positively to an MI dealing with interest paid to Rand Water in 2019-20 (a loss of R18 million) by instructing their attorneys in August 2021 to send summons to all debtors that were given final notices of demand by the municipality's legal department. The municipality also established a cashflow committee to prioritise paying major creditors and, in February 2022, completed a campaign to service ageing water infrastructure. Further appropriate actions are in process to resolve the MI.

We took further action at 10 municipalities where little action was taken in response to the MIs by including recommendations in the audit reports or taking remedial action to compel the municipalities to investigate the causes of the late payments and address these causes through well-considered action plans.

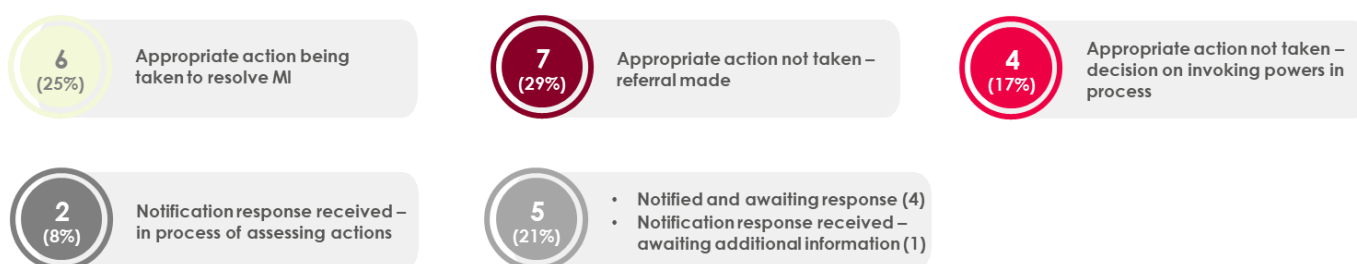
Pollution of water resources

Municipalities are responsible for a range of environmental functions, including waste management, pollution control, and the management of natural resources such as water. The National Environmental Management Act and the National Water Act require municipalities to take reasonable measures to prevent, minimise and rectify pollution. We performed environmental inspections of wastewater treatment plants at selected metropolitan municipalities (metros) and municipalities that had repeatedly received disclaimed audit opinions. We identified non-compliance with legislation in the form of poor or ineffective environmental management, limited environmental monitoring and enforcement, and defective management of wastewater.

The aged infrastructure and lack of maintenance at these municipalities significantly contributed to the dysfunctional wastewater treatment plants. We cautioned over multiple years about the risks created by the poor state of municipal infrastructure.

These shortcomings harmed the communities that were using polluted water resources every day for drinking and washing, as well as the farmers using the water for irrigation and livestock. The situation at some of these municipalities is well known and has been the subject of both investigations by the South African Human Rights Commission and court cases, but little has been done to rectify the problems. The likely substantial harm to the general public caused by contaminated water sources meets the definition of an MI.

Status of 24 MIs identified – pollution of water resources



These environmental MIs require municipalities to stop the pollution, repair or rebuild the plants, put measures in place to ensure the infrastructure is maintained, and compensate the people affected by the pollution, where applicable. We acknowledge that municipalities might not be able to implement these actions within a short period and often need support from national government to fund the infrastructure projects required, but they must plan and take deliberate steps to eradicate the pollution of rivers, streams and underground water.

An example is the well-publicised case of the Rooiwal Wastewater Treatment Works, which has been operating above capacity and with the necessary repairs and maintenance being delayed or not done since 2010 because of limited funding and a breakdown in the intergovernmental processes. This resulted in continued spilling and discharge of effluent into the Apies River and Leeuwkop Dam over several years. The Apies River feeds the Leeuwkop Dam, which is the extraction point of the Temba Water Treatment Plant. We notified the City of Tshwane Metro of an MI on 15 December 2021 and have been following the slow but deliberate progress made to address the matter. This included providing water tanker services to Hammanskraal residents, starting phase 1 of the upgrade project, budgeting processes, and reaching out to various roleplayers for funding and support.

The National Water Act gives the Department of Water and Sanitation the mandate to investigate alleged breaches of the legislation and take action to address the pollution of water resources. We are encouraged by the actions that the department is taking, such as the minister issuing a directive for the board of Bloem Water to take over some of the wastewater management functions of Maluti-a-Phofung Local Municipality in the Free State.

At the end of June, we referred MIs on seven dysfunctional wastewater treatment works to the department for investigation, as the responsible municipalities were taking little action to address these MIs. Ngaka Modiri Molema District Municipality (North West) is responsible for five of the seven dysfunctional sites to be investigated.

As the National Environmental Management Act was also breached, we shared the MIs referred to the Department of Water and Sanitation with the Department of Forestry, Fisheries and the Environment, which is the custodian of the act. The department will not initiate a separate investigation but will assist with the investigation by the Department of Water and Sanitation if requested.

Our desired impact for these MIs is to conserve our scarce water resources and prevent further harm to communities.

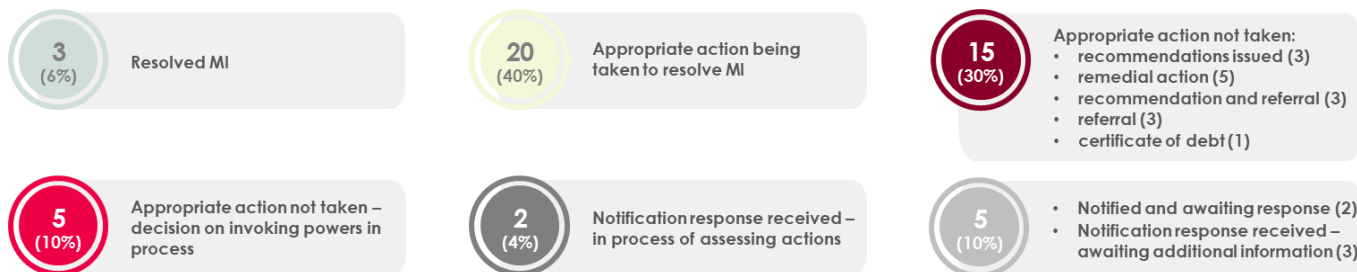
Procurement and payments

Fair and competitive procurement processes enable local government to get the best value for the limited funds available and give suppliers fair and equitable access to government business. When work has been awarded to suppliers, the contracts must be actively managed to ensure that these suppliers deliver at the right time, price and quality before any payments are made. Municipalities suffer financial losses because of significant weaknesses in their procurement and payment processes.

In our audits, we find that payments are not always made in accordance with the contract requirements or are made for goods and services that are not received or are of poor quality. We also identify payments of salaries and allowances for which employees were not eligible. To date, we have notified accounting officers of 38 MIs relating to these lapses in the basic financial controls required by the Municipal Finance Management Act that have resulted in material financial losses.

We have also issued MI notifications on overpricing of goods and services procured as a result of non-compliance with the requirements for fair and competitive procurement processes (nine MIs) and uneconomical procurement (three MIs).

Status of 50 MIs identified – procurement and payments



Where accounting officers took appropriate action in response to being notified of the MIs, the desired impact was achieved – procurement and payment controls were improved, and steps were taken to recover financial losses and to hold the responsible officials to account.

Examples of impact of procurement and payment MIs

- In 2019-20, **Dr Ruth Segomotsi Mompati District Municipality** (North West) awarded a tender for value-added tax (VAT) recovery services that would pay the supplier a percentage-based commission fee for VAT refunds. At the functionality stage of the tender process, the municipality incorrectly disqualified a bidder that quoted a lower commission fee percentage than the winning supplier, despite the bidder having submitted the required information. If the municipality had applied the functionality criteria correctly, it would have paid a lower commission fee on the total VAT refund. The municipality terminated the contract with the supplier in February 2022. We took remedial action because the municipality did not implement the recommendations included in its audit report.
- Between 2017 and 2020, the **City of Cape Town Metro** (Western Cape) paid contractors to repair plumbing and install water management devices that were not included on the job cards. The accounting officer quantified the financial loss at R3 million and filed civil claims against the contractors through the High Court. The MI has been resolved.

Non-compliance with procurement legislation and the resultant irregular expenditure often also results in material financial losses. We have raised concerns about how irregular expenditure is dealt with for many years, but despite these warnings, procurement breaches are the cause of many of the MI notifications that we issue. Most municipalities did not investigate irregular expenditure, and thus consequence management was very slow.

Inaction on almost a third of the MIs resulted in further action being taken, which can lead to a certificate of debt process due to the material financial losses incurred. An MI dealing with duplicated payments on a construction contract by the Ngaka Modiri Molema District Municipality (North West) has already progressed to the stage in the certificate of debt process where the municipal manager will be making oral representation to the MI advisory committee. Our target is not to issue a certificate of debt, but to ensure that the municipal manager takes the right actions to resolve the MI by recovering the money lost from the liable parties – this is why we have continued to reach out to all the roleplayers including the mayor and council to support the municipal manager in doing the right thing.

Revenue management

The main source of revenue for most municipalities is the rates and taxes paid by property owners and consumers of municipal services. While the economic downturn does affect revenue collection, municipalities do not always play their part. The Municipal Finance Management Act requires accounting officers to ensure effective revenue-management processes are in place, but we often find that they do not always bill all the revenue and interest they are owed, and poor debt-collection practices are common.

We identify these practices through our financial audit of revenue, which includes comparing the records of consumers receiving services to the municipalities' monthly billing. In addition to highlighting these concerns through our audit findings, we also issued MI notifications in cases where municipalities were suffering material financial losses due to these practices.

Status of 24 MIs identified – revenue management



The responses to these MIs have been positive, with accounting officers taking action to address longstanding problems with systems and processes. Some of the underlying causes for the MIs could be addressed swiftly, while others require changes to policies and projects to fix water and electricity meters and connections, which take longer.

Examples of impact of revenue management MIs

- In 2020 and 2021, **Joe Morolong Local Municipality** (Northern Cape) did not charge interest on late payments, resulting in an estimated loss of R14,15 million. The municipality updated the service-type configuration on the system to charge interest from April 2022, preventing further losses of R3,42 million. The municipality also now compiles and reviews interest schedules for calculation internally. Further appropriate actions are in process to resolve the MI.
- Beginning in 2020, **Vhembe District Municipality** (Limpopo) did not bill many of its customers for their water consumption because the meters were not read every month, resulting in an estimated financial loss of R92 million. In May 2022, the Development Bank of Southern Africa signed up to help the municipality address its issues for the next 18 months. The bank has helped create a revenue-enhancement strategy (addressing database cleansing, tariff reviews and structuring, and water meter audits) and appoint service providers to assist with meter reading and data cleansing. Further appropriate actions are in process to resolve the MI.
- Between July 2020 and June 2021, **Buffalo City Metro** (Eastern Cape) lost an estimated R9,6 million in revenue because it did not calculate revenue for water services every month. At the beginning of 2020-21, the metro

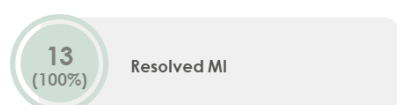
notified the affected consumers and started billing them in line with its credit control policy. By June 2022, the metro had also developed standard operating procedures to guide the flow of information from the source to the financial system. After investigating the matter, the accounting officer issued written warning letters to those responsible, namely the finance staff in the revenue section. Further appropriate actions are in process to resolve the MI.

By continuing to identify these practices and raising it as MIs if they are not attended to, we aim to contribute to improved financial sustainability of municipalities.

Loss of investments – VBS Mutual Bank

The Municipal Finance Management Act and Municipal Investment Regulations stipulate that municipalities are only permitted to invest with banks registered in terms of the Banks Act – namely, commercial banks – and not mutual banks such as VBS Mutual Bank (VBS).

Status of 13 MIs identified – loss of investments



We issued 13 MIs where municipalities suffered material financial losses totalling R1,6 billion due to the liquidation of VBS. The municipalities have taken all the steps possible to resolve the MIs, including lodging claims with the VBS liquidators, initiating disciplinary processes against the responsible officials, cooperating with the ongoing Hawks investigation, reviewing and updating the cash management and investment policy (which was approved by the council) to prevent reoccurrence, and ensuring future investments are only made with appropriately registered banks.

In February 2022, the municipalities received R109,43 million (7%) as recovery through the VBS liquidation process. It is unlikely that all the money will be recovered from the liquidation process, which leaves civil recovery from those responsible. The Hawks investigation of the investments made by the municipalities has progressed, albeit slowly, and is expected to result in the liable officials being identified and the remainder of the losses potentially being recovered from those officials through the National Prosecuting Authority's asset forfeiture unit. Many of the officials involved in the investments resigned from the municipalities, putting them out of reach of disciplinary processes.

All 13 of the MIs relating to VBS have been **resolved**, but we will follow-up on the preventative controls implemented to ensure similar instances do not happen in future and on the actions taken by the municipalities (if any are required) once we receive the final reports from the Hawks investigation.

Infrastructure

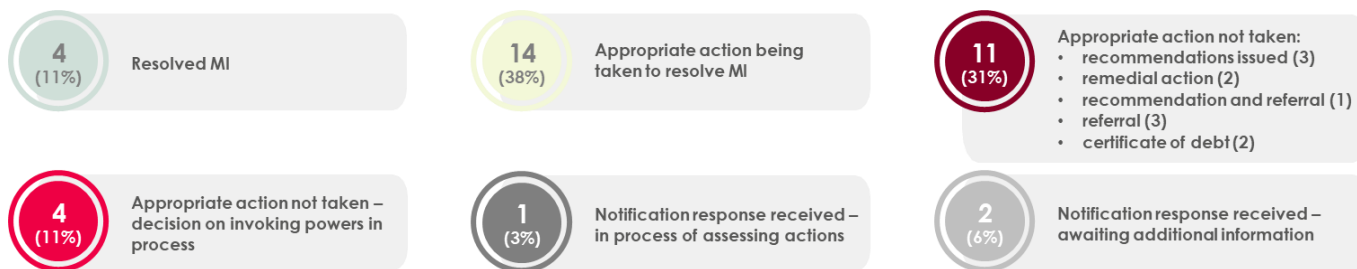
We audit the development and maintenance of critical infrastructure such as water, wastewater treatment, electricity, housing, public transport and roads because failure to deliver on promised new infrastructure in these areas directly affects the public and deprives them of the basic services they are entitled to receive.

We reported, as in previous years, in the 2021-22 local government general report on lack of maintenance and safeguarding of infrastructure, as well as on significant weaknesses in the procurement, project management and payment processes for construction projects, which results in project delays, poor build quality, cost overruns, delayed commissioning and financial losses.

These matters often meet the definition of an MI. Of the 268 MIs we have reported, 36 relate to infrastructure and generally fall into the following categories, which are dealt with in the section on procurement and payments:

- Procurement irregularities, resulting in overpricing
- Payment for construction or project management services not delivered
- Payments made to contractors that are not in line with the contracts
- Non-payment of contractors, resulting in standing time
- Infrastructure not safeguarded, resulting in theft and vandalism (which are dealt with in the section that follows).

Status of 36 MIs identified – infrastructure-related



For many years, we have been reporting on infrastructure project failures, and we are now seeing an impact with the MIs issued as accounting officers enforce consequence management processes. These include placing contractors on notice to address poor performance according to the contract conditions and holding officials accountable for poor performance. However, where accounting officers did not appropriately address the MIs we reported to them, we used our expanded mandate to include recommendations in the audit reports or the auditor-general invoked her additional powers of referral and remedial action.

Examples of impact of infrastructure MIs

- Between April 2017 and June 2019, **Matjhabeng Local Municipality** (Free State) made payments for the construction of an attenuation (flood-protection) dam in the Nyakallong stormwater system after it had been certified as complete. However, a site visit confirmed that the attenuation dam had not been built, resulting in overpayments on the project, which led to an estimated loss of R7,21 million. The accounting officer did not take appropriate action to resolve the MI and in June 2021 we referred the matter to the Hawks for investigation. Three individuals were arrested and appeared in court during July 2023. The case was postponed to August 2023 and the accused were granted bail.
- From July 2019 to June 2021, **OR Tambo District Municipality** (Eastern Cape) paid Amatola Water (an implementing agent for water projects) for goods and services that had not been delivered, resulting in an estimated loss of R57 million. We notified the accounting officer of the MI in April 2021. In June 2022, after having performed some of the paid-for work, the implementing agent refunded R46 million to the municipality. The council started a forensic investigation into the matter and recommended that corrective action be taken against the officials who facilitated the payment. Further appropriate actions are in process to resolve the MI.

We issued an additional 13 MIs related to infrastructure after 15 January 2023 in response to the multiple deficiencies identified in infrastructure project management.

Examples of infrastructure MIs issued after 15 January 2023

- The rapid transport project of **Rustenburg Local Municipality** (North West) aimed to provide a reliable public transport system by 2020, but by September 2022 the project still had not been completed, with multiple contractors having been appointed because previous contracts were terminated. During our site visit, we observed that some of the partly completed construction work had deteriorated and had been vandalised. By year-end, the municipality had spent R3,51 billion on the project since it started. The municipality had also paid contractors more than it should have for the work done and had not recovered the funds after the contracts were terminated. The quantity surveyor calculated that the first and second contracts were overpaid by R8,10 million and R25,12 million, respectively.
- Mopani District Municipality (Limpopo)** paid R12,99 million to the original contractor appointed for the Mameitja-Skororo regional water scheme project. This contractor's services were later terminated and a second contractor was appointed. During our November 2022 site visit, we found that the pump station and motor control centre building that the original contractor had completed were not being used, and cables at the motor control centre building had been stolen. This meant that none of the works completed by the original contractor were being used and the municipality did not get any value for the money it had paid to that contractor. The municipality had also paid R48,96 million for designs to be used on the project, but because the replacement contractor did not use the original designs, the municipality did not receive full value for its payments to the original contractor.

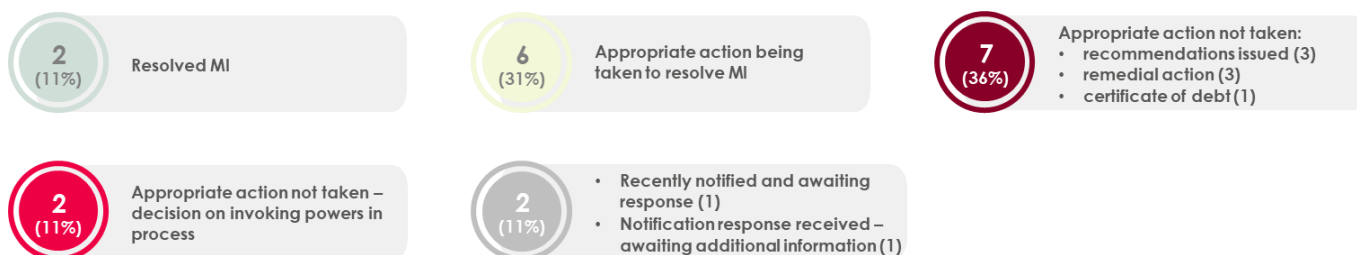
Through our focus on infrastructure projects and the resultant MIs, we want to focus the attention of the accounting officer and the broader accountability ecosystem on the systemic problems with infrastructure projects to prevent further financial loss, infrastructure deterioration, service delivery failures and harm to the public.

Assets not safeguarded

Municipalities are required to implement controls to ensure the safety of their assets. These assets, which include municipal infrastructure, play a key role in supporting service delivery. Municipalities do not always protect or safeguard their assets due to poor budget management and resource prioritisation, which can result in theft, vandalism or damages.

We issued 19 MIs on assets not safeguarded, resulting in loss. This negatively affected government's ability to deliver services to the public and placed further strain on government finances. These municipal assets will now need to be extensively refurbished at additional cost to support service delivery.

Status of 19 MIs identified – assets not safeguarded, resulting in loss



Examples of impact of assets not safeguarded MIs

- In 2020-21, **Kwa-Dukuza Local Municipality** (KwaZulu-Natal) did not adequately safeguard assets at the Woodmead Transport Node, resulting in the vandalism of work-in-progress assets and an estimated loss of R2,4 million. The municipality performed an internal investigation which found that this occurred after the contractor abandoned the taxi rank while it was still under construction. The municipality recovered financial losses incurred by withholding from retention amounts that may have been due to the contractor in June 2022 and implemented 24-hour armed security to prevent further damage. Further appropriate actions are in process to resolve the MI.
- The **City of Tshwane Metro** (Gauteng) did not adequately safeguard assets at the Annlin reservoir project, resulting in assets being stolen or vandalised in January 2018 and a loss of R5,53 million. The metro reported the matter in January 2018 to the South African Police Service, which closed the case in 2021 due to lack of evidence. It also strengthened access control at the project by installing electronic locks and steel doors and appointed security personnel in February 2022 to safeguard the assets and prevent further losses. The MI has been resolved.

It is not enough for municipalities to effectively develop and maintain infrastructure assets, they must also prioritise safeguarding these assets to protect the investment made. By elevating the impact of inadequate asset management, we aim to facilitate an improvement in this area of municipal operations.

Financial reporting consultants

We have been reporting on the ineffective use of consultants for financial reporting for multiple years. Our reporting is aimed at the accounting officers, who are responsible overall for the effective use of consultants and must prevent consultants from being appointed if the accurate records they need to add any value are not available. They must also avoid relying too much on consultants as well as paying them excessive amounts. To encourage the responsible use of consultants, we issued 11 MIs where we identified financial losses that result from these practices.

Status of 11 MIs identified – financial reporting consultants



Example of impact of consultant MIs

- In May 2019, **Joe Morolong Local Municipality** (Northern Cape) appointed consultants to compile financial statements even though it did not have proper records for the consultants to work with, resulting in an estimated loss of R2,7 million. The municipality continued to receive disclaimed audit opinions for the 2018-19 to 2020-21 financial years. In response to the MI, the accounting officer developed a plan to reduce the use of consultants, filled some key positions in the finance unit and started an investigation into the MI. Further appropriate actions are in process to resolve the MI.

Where progress was slow, we took further action and included recommendations in the audit report. We recommended that the accounting officers should determine the root causes of the ineffective use of consultants and then develop – and start implementing – an action plan to address these root causes.

We will assess the responses and their impact on these MIs going forward and will use our enforcement powers where necessary.

Suspected fraud

An audit is not an investigation, which means we do not use forensic investigators to obtain and examine evidence and conclude whether fraud took place. When we identify indicators of fraud, this is reported to the accounting officer for investigation – we then follow up and report on whether the matters have been adequately dealt with. However, for some cases there is already enough evidence available for us to conclude that the cause of a financial loss was suspected fraud and not an internal control weakness. We issued MIs where we determined that the accounting officer is not dealing with the matter appropriately.

Status of 3 MIs identified – suspected fraud



With suspected fraud MIs, we expect accounting officers to institute a forensic investigation. If the investigation confirms fraud, the matter must be reported to the South African Police Service and the employee dismissed. The accounting officer must also establish or improve internal controls to prevent such occurrences in future.

Example of suspected fraud MIs

- At **Emthanjeni Local Municipality** (Northern Cape), an employee intentionally changed supplier banking details, and, between April 2013 and August 2019, fraudulently processed payments intended for suppliers to their own bank account, resulting in an estimated loss of R1,5 million. The accounting officer reported the matter to the South African Police Service for criminal investigation and possible recovery in February 2021. After we issued the MI, the municipality designed and implemented internal controls for expenditure management, which include verifying supplier banking details before payments are made. Further appropriate actions are in process to resolve the MI.

The desired impact of raising MIs on suspected fraud is to ensure that accounting officers, with the support of council and disciplinary boards, deal with fraud swiftly and effectively and put controls in place to prevent reoccurrence.

STUMBLING BLOCKS IN RESOLVING MATERIAL IRREGULARITIES

The local government environment is complex because it is riddled with instability at accounting officer level; repeatedly disclaimed audit opinions; municipal public accounts committees that do not always attend to matters such as non-compliance with legislation, procurement deviations and financial misconduct; disciplinary boards that are not always in place; and institutions that have been weakened by a steady breakdown in governance over several years.

The instability in administrative leadership and a lack of accountability for poor performance, including delayed investigations or disciplinary processes, continues to be the biggest stumbling block to meaningfully resolving MIs.

How long it takes to resolve MIs depends on how many delays there are in taking the necessary action. Generally, it takes longer to recover financial loss than to implement other actions, as the matter first needs to be investigated, suppliers are often liquidated, and it takes time to establish liability and submit civil claims.

Some MIs can be resolved relatively quickly, while others require municipalities to correct deep-rooted issues or to quantify financial loss that occurred across multiple years, which will take a lot longer to address. For example, in the case of the MIs issued to municipalities that have repeatedly received disclaimed audit opinions, these municipalities need to address longstanding problems of poor recordkeeping and internal controls, as well as the resulting financial instability. Municipalities with severely neglected infrastructure may also need multiple financial years to conduct repairs, depending on the funds they have available and the assistance they get from national and provincial government.

Not all of these delays are avoidable, and where we assessed them to be reasonable, we did not invoke our powers. However, the delayed resolution of MIs highlights challenges in local government, some of which we describe below.

Some MIs can only be resolved once external parties have completed their investigations and processes and, as we have reported previously, a common reason for delayed resolution is **prolonged investigations or delays by public bodies** due to reasons that include:

- delayed acceptance and commencement of investigation by public bodies due to multiple approvals required by public body officials and executive authorities
- difficulties experienced by public bodies in obtaining statements from various roleplayers who may not be available during the investigation
- various other dependencies, including on expert witnesses and legal counsel, court processes and other law-enforcement agencies and public bodies.

This makes it difficult for accounting officers to act swiftly to recover financial losses, and to implement consequence management processes and criminal proceedings. An example is the time it takes for the Hawks to finalise investigations. Below are some examples of these delays.

Hawks investigations – referred by accounting officer

Auditee	Material irregularity	Date referred
Nelson Mandela Bay Metro (EC)	Payment for services not received: stormwater drain cleaning (2 MIs)	January 2020
Rustenburg LM (NW)	Fleet management services procured not part of the original tender	March 2020
	Payments made for fleet management service items above market value	March 2020
City of Matlosana LM (NW)	Market dues not collected	May 2021
Emthanjeni LM (NC)	Chief financial officer made payments to himself	February 2021
City of Tshwane Metro (GP)	Payment to an incorrect beneficiary	September 2019

Instability at accounting officer level continues to affect how MIs are resolved. If, after we have issued an MI notification, the original person is no longer in the position or an administrator takes on the accounting officer role, we often have to reissue the notification to allow the new official an opportunity to respond or the progress of resolving the MI comes to a halt.

Examples of instability

- At **Amathole District Municipality** (Eastern Cape) we experienced delays in obtaining information required to complete our assessment to resolve the MI because of instability at the municipality. For two months after the accounting officer's contract ended in March 2022 there was no one in the position, with the reappointment only being made in June 2022. The appointment of the accounting officer was challenged and subsequently declared invalid by the court in July 2022, with the chief financial officer appointed to act as accounting officer in August 2022. The executive mayor, municipal speaker and whip of council were recalled in August 2022, and immediately after that the acting accounting officer was also changed. In September 2022, a director of engineering was appointed to act as the accounting officer. The chief financial officer was suspended in October 2022.
- At **Masilonyana Local Municipality** (Free State) we experienced delays in obtaining information required to complete our assessment to resolve the MIs because of instability at the municipality, which was placed under administration from 19 July 2022 and an official seconded from the provincial cooperative governance department to act as the accounting officer. When the acting period ended in December 2022, an official from the municipality was appointed as acting accounting officer.

We often see **delays when it comes to disciplining the officials** responsible for MIs issued because investigations to identify these officials might be complex and/or take an unreasonable amount of time, or because additional time is taken to ensure the process is procedurally fair according to labour legislation to ensure that any applicable sanctions can be enforced. If officials resign, the process is further delayed because different processes are then activated, such as referrals to other accounting officers to implement corrective action if the officials are still employed at other government institutions.

Example of delays in disciplinary processes

- **City of Matlosana Local Municipality** (North West) did not collect the money it was owed by its fresh produce market from 2017, resulting in a financial loss of R46,47 million. The investigation to identify the responsible officials was concluded in April 2021 and the municipal manager started disciplinary proceedings in April and May 2021. During June and July 2021, the 10 implicated officials were served with amended charges, and hearings were scheduled accordingly. Two officials were dismissed in November 2021, three resigned on various dates in the same month and three others received final written warnings along with a directive to repay the losses monthly. The disciplinary processes for the remaining two officials have dragged out and are currently waiting for the presiding officer to finalise sanctions.

To address the stumbling blocks and ensure MIs are resolved swiftly, we include recommendations for all roleplayers in our call to action.

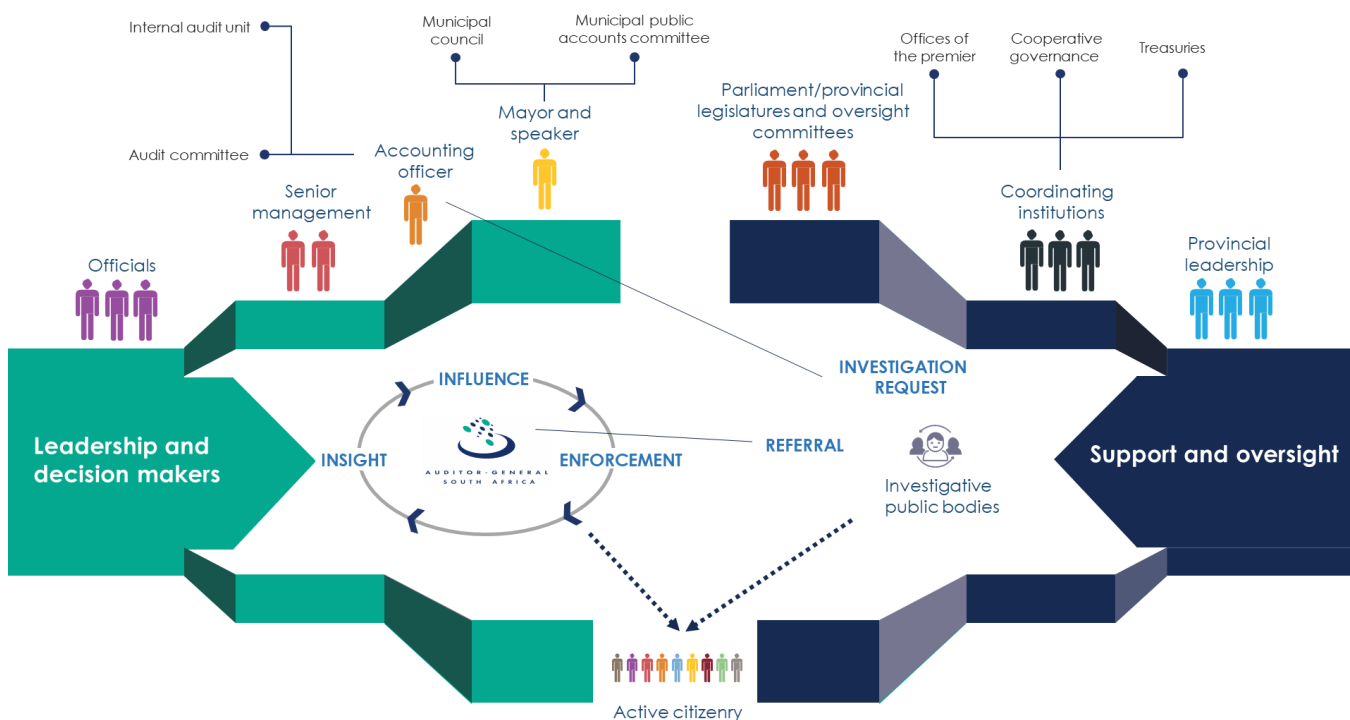
ACTIVATING THE ACCOUNTABILITY ECOSYSTEM – A CALL TO ACTION

In the 2020-21 and 2021-22 general reports on local government audit outcomes, we introduced the concept of the accountability ecosystem. The accountability ecosystem is made up of all the roleplayers in national, provincial and local government that have a part to play in enabling a culture of performance, accountability, transparency and integrity. This includes the Auditor-General of South Africa as the country's supreme audit institution, as well as the people of South Africa.

The different roleplayers in the accountability ecosystem all have specific responsibilities, whether legislative or moral, to drive, deepen and insist on public sector accountability. Our expanded mandate did not change their roles and responsibilities, but rather provides opportunities for them to work together in a focused and collaborative manner to lessen the adverse effect of MIs on municipalities, set the right tone for accountability, highlight the need for

consequences, and encourage behavioural change at the highest levels. Preventing MIs – and dealing with them if they do occur – is a shared responsibility across the accountability ecosystem.

MI accountability ecosystem for local government



If any part of the MI accountability ecosystem does not effectively play its unique role, this has a detrimental impact on the effectiveness of the ecosystem as a whole. It also tends to undermine the ability of other stakeholders to effectively play their roles, given the additional burden of responsibility they are required to carry over and above that which falls within their particular scope and mandate.

Our call to action is to the five main groups in the accountability ecosystem – in the paragraphs that follow, we provide insight on the responsibility of the different roleplayers and highlight what our main recommendations are for them to deal with the MIs we report on.

Municipal leadership and management

Accounting officers, supported by **senior management**, are responsible and accountable for implementing committed actions to address MIs and to improve controls to prevent the MIs from reoccurring; for preventing losses; for ensuring disciplinary steps are taken against officials who have committed misconduct or an offence; for setting an ethical tone for municipal officials; and for ensuring accountability and consequence management.

They are supported by **audit committees** and **internal audit units**, which play an important role in providing an independent view of the effectiveness of municipal controls and processes and which are responsible for helping councils to carry out their monitoring responsibilities and to make informed decisions.

We recommend the following to accounting officers in our engagements and when reporting to them:

- **Invest in preventative controls.** Preventing MIs is more effective than having to deal with the consequences when they occur – money is lost, costly investigations have to be instituted, and officials are subjected to the discomfort and anxieties associated with these processes, which can often take years. Internal audit units and audit committees can be of great value – to assess the risks, recommend good controls and monitor implementation.
- **Establish an ethical culture and prioritise accountability** by ensuring timely consequence management and committing to take quick and appropriate disciplinary action against officials found guilty of financial misconduct.

Mayors have a monitoring and oversight role at both municipalities and municipal entities by reviewing progress and supporting the accounting officer in addressing MIs and improving controls. If the auditor-general issues a certificate of debt to the municipal manager, the debt must be recovered through the mayor and the council.

Municipal councils are required to establish a **disciplinary board** to investigate allegations of financial misconduct in the municipality and to monitor the implementation of disciplinary proceedings against an alleged transgressor. For the council to effectively perform its oversight and monitoring role, the accounting officer and senior managers must provide them with regular reports on progress made in resolving MIs.

The **municipal public accounts committees** were introduced as a committee of council to promote good governance, transparency and accountability in the use of municipal resources. They also play a key role in investigating unauthorised, irregular, and fruitless and wasteful; monitoring and supporting the resolution of MIs; and implementing consequences for wrongdoing.

We recommend the following:

- **Councils** led by the **speakers**, should appoint skilled and experienced accounting officers who have a strong sense of ethics and who will work swiftly to respond to MIs, prevent and recover financial losses, improve internal controls, and foster a culture of integrity, transparency, accountability, and high performance among municipal officials.
- **Councils** should adopt a proactive approach geared towards preventing MIs by identifying risks for MIs and requiring assurance from accounting officers that these risks are being mitigated through a strong control environment and implementing preventative controls.
- **Councils and municipal public accounts committees** should support, monitor, track and validate how accounting officers are dealing with MIs by requesting quarterly reports on the progress made in resolving them. Where there are any unreasonable delays, or where accounting officers are unable demonstrate progress with planned corrective actions that address the root causes of deficiencies identified, these structures must hold them accountable.
- **Councils**, with the help of coordinating institutions, should strengthen municipal public accounts committees and **disciplinary boards**, as well as processes relating to investigations conducted by council and these structures. These structures should ensure that robust and timely investigations take place and that consequences are implemented where applicable.

National and provincial government

Coordinating institutions, which comprise the national and provincial cooperative governance departments and treasuries, the ministers and MECs responsible for those departments, and the provincial premiers and their offices, play an important role in – and can contribute to – resolving MIs. The role of these institutions is to monitor, support and strengthen the capacity of municipalities, which includes intervening and enforcing legislative requirements.

The **MEC for local government** in a province is responsible for establishing mechanisms, processes and procedures to monitor whether municipalities are effectively managing their own affairs, exercising their powers and performing their functions. If there is any alleged maladministration, fraud, corruption or any other serious malpractice, the MEC may designate a person or persons to investigate the matter, as well report to the provincial legislature on whether issues raised in the audit reports, including MIs, have been adequately addressed.

Investigative public bodies are any organ of state that is responsible for investigations and should respond promptly when MIs are referred to ensure that investigations progress efficiently.

We recommend the following:

- **Coordinating institutions** should support and empower the municipal administration and strengthen the capacity of local government to deal effectively with MIs.
- **Troika** (made up of the provincial premier's offices, cooperative governance departments and treasuries) should influence all local government roleplayers to assist with, monitor and oversee the resolution of MIs.
- **Premiers** should strengthen intergovernmental relations to allow for collaborative decision making on matters affecting local government and should ensure that strong monitoring mechanisms are in place to assess the effectiveness of initiatives implemented.
- **Public bodies** should collaborate effectively with other stakeholders involved in the MI process and be held accountable for any delays in investigations.

Parliament and provincial legislatures

Parliament and legislatures, led by the **speakers**, are responsible for ensuring that municipalities function effectively and efficiently, and for monitoring the legislative reports that outline municipal performance and remedial action for improvement. They need to ensure that the MEC for finance and local government comply with their statutory responsibility over municipalities.

We recommend the following:

- **Parliament and legislatures**, led by the **speakers**, through the portfolio committees of the cooperative governance departments, should monitor the implementation of corrective action on MIs. They must establish mechanisms to request regular reports from public bodies on the progress of ongoing investigations, including milestones achieved, challenges encountered and timelines for completion.
- **Portfolio committees** of departments affected by MIs and those responsible for overseeing public bodies should exercise oversight on matters impacting the departments they are responsible for.
- Similarly, the **portfolio committee on cooperative governance and traditional affairs** in Parliament and **portfolio committees responsible for overseeing public bodies** play a crucial role in this process and must monitor the progress of investigations, addressing unreasonable delays and recommending measures to expedite investigations if necessary.

Active citizenry

Active citizenry by communities and community organisations promotes positive change and is crucial to ensure that the needs of the public are heard and acted on, and that municipal leadership is accountable for any wrongdoing. We encourage the **public** to hold government accountable through public participation processes and other available channels and to report any indicators of abuse, mismanagement and fraud.

A culture of performance, accountability, transparency and integrity should be a shared vision for all involved in the public sector. We urge all roleplayers in the accountability ecosystem to fulfil their designated roles and to play their part effectively, without fear or favour, to ensure accountability for government spending and improvement in the lives of all South Africans.

We remain committed to partnering with and supporting local government through our audits, the MI process and the many initiatives we have implemented to assist and guide all roleplayers. We trust that the insights and recommendations included in this report will be of value in this pursuit.

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SECTION 2:

USING OUR EXPANDED MANDATE

STATUS OF MATERIAL IRREGULARITIES WHERE WE INVOKED OUR POWERS

In this section, we list the 61 MIs where we used our expanded mandate and their status.

Recommendations in audit reports

We included recommendations on **22** MIs in the audit reports of **14** auditees.

List of MIs in recommendation stage, and status by 25 July 2023

Auditee	Material irregularity (MI)	Recommendation implementation date	Status
Payments			
Beaufort West LM (WC)	Employee remunerated in excess of remuneration policy	14 July 2023	Assessing implementation information
Chris Hani DM (EC)	Services paid for no value (VAT consultants)	15 January 2024	Follow-up not yet due
Mangaung Metro (FS)	Payment for extension of time not in terms of contract, relating to construction of trunk routes for Integrated Public Transport Network roads	28 January 2024	Follow-up not yet due
Revenue management			
uMkhanyakude DM (KZN)	Water service charges not billed monthly, resulting in loss of revenue	13 September 2023	Follow-up not yet due
Interest and penalties			
Inxuba Yethemba LM (EC)	Late payments to Eskom, resulting in interest	31 May 2023	Assessing implementation information
Raymond Mhlaba LM (EC)	Late payments to Eskom, resulting in interest	30 June 2023	Assessing implementation information
City of Mbombela LM (MP)	Late payments to Eskom, resulting in interest	30 June 2023	Assessing implementation information
	Late payments to supplier, resulting in interest	30 June 2023	Assessing implementation information
Emalahleni LM (MP)	Late payments to Eskom, resulting in interest	31 May 2023	Assessing implementation information
	Late payments to Department of Water and Sanitation, resulting in interest	31 May 2023	Assessing implementation information
Matjhabeng LM (FS)	Late payment of employees' taxes to South African Revenue Service, resulting in interest and penalties	14 July 2023	Assessing implementation information
City of Matlosana LM (NW)	Late payments to Eskom, resulting in interest	30 September 2023	Follow-up not yet due
	Late payments to water supplier, resulting in interest	30 September 2023	Follow-up not yet due
Harm to public sector institution – Repeat disclaimed audit opinions			
Govan Mbeki LM (MP)	Full and proper records not kept, causing substantial harm to municipality	11 March 2024	Follow-up not yet due
Joe Morolong LM (NC)	Full and proper records not kept, causing substantial harm to municipality	11 March 2024	Follow-up not yet due

Auditee	Material irregularity (MI)	Recommendation implementation date	Status
Inefficient use of resources			
Ngaka Modiri Molema DM (NW)	Failure to keep full and proper records of municipality's financial affairs, resulting in ineffective use of financial consultants	30 May 2023	Assessing implementation information
Procurement			
Amajuba DM (KZN)	Award made for construction contract without evaluating suppliers for functionality, resulting in overpricing of procured goods and services	3 October 2023	Follow-up not yet due
Ngaka Modiri Molema DM (NW)	Procurement of generators at excessive prices (Boikhutsong pump stations), resulting in overpricing of procured goods and services	31 January 2024	Follow-up not yet due
	Procurement of generators at excessive prices (Boitshepegji), resulting in overpricing of procured goods and services	31 January 2024	Follow-up not yet due
Assets not safeguarded			
Ngaka Modiri Molema DM (NW)	Assets that could not be verified and were presumed stolen or vandalised were written off due to lack of internal control system to safeguard assets	29 May 2023	Assessing implementation information
uMkhanyakude DM (KZN)	Unused water pipes not appropriately safeguarded, resulting in impairment losses	3 October 2023	Follow-up not yet due
	Write down of water meters due to damage from poor storage	3 October 2023	Follow-up not yet due

Remedial action

We took remedial actions for **25** MIs at **17** auditees.

List of MIs in remedial action stage, and status by 25 July 2023

Auditee	Material irregularity	Remedial action implementation date	Status
Maluti-a-Phofung LM (FS)	Full and proper records not kept (2018-19), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Masilonyana LM (FS)	Full and proper records not kept (2017-18), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Tokologo LM (FS)	Full and proper records not kept (2018-19), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
City of Tshwane Metro (GP)	Rental account at Bothongo plaza not paid within 30 days, resulting in interest	1 November 2022	Decision making in process
	Overpayment on fuel purchase	4 February 2024	Follow-up not yet due
	Interest not levied on outstanding sundry consumer debtors, resulting in loss of revenue	15 May 2023	Decision making in process

Auditee	Material irregularity	Remedial action implementation date	Status
Msunduzi LM (KZN)	Revenue not billed at landfill site, resulting in loss of revenue	8 June 2023	Assessing implementation information
uMkhanyakude DM (KZN)	Failure to collect long-outstanding debts	15 Jan 2024	Follow-up not yet due
	Late payments to supplier, resulting in interest	15 Jan 2024	Follow-up not yet due
	Unverified assets written off	15 Jan 2024	Follow-up not yet due
Kai !Garib LM (NC)	Full and proper records not kept, causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Ditsobotla LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Dr Ruth Segomotsi Mompati DM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
	Unfair disqualification of supplier based on functionality for VAT-recovery services, resulting in overpricing	14 November 2023	Follow-up not yet due
JB Marks LM (NW)	Inadequate safeguarding of sport complexes, resulting in vandalism and impairment losses	1 December 2022	Decision making in process
Kgetlengrivier LM (NW)	Full and proper records not kept (2018-19), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Lekwa-Teemane LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Madibeng LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Mamusa LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Naledi LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Ramotshere Moiloa LM (NW)	Full and proper records not kept (2019-20), causing substantial harm to municipality	7 March 2024	Follow-up not yet due
Ngaka Modiri Molema DM (NW)	Overpayment on water tankering services to communities	1 August 2022	Decision making in process
	Payment for security services without services being rendered	3 February 2023	Assessing implementation information
	Overpayment of service provider delivering sanitation services	3 February 2023	Assessing implementation information
	Assets that could not be verified and were presumed stolen were written off due to lack of an internal control system to safeguard assets (2019-20)	3 February 2023	Assessing implementation information

Referral to public bodies for investigation

We made referrals to four public bodies for the investigation of **15** MIs at **seven** auditees. These public bodies include the Special Investigating Unit (SIU), the Hawks, the Public Protector South Africa (PPSA) and the Department of Water and Sanitation (DWS).

List of MI referrals to public bodies, and status by 7 July 2023

Auditee	Material irregularity	Referral date	Public body	Status
Chris Hani DM (EC)	Payment for extension of time without any value for water services project	6 June 2022	SIU	Referral being considered by public body
Matjhabeng LM (FS)	Payment for attenuation dam not constructed on Nyakallong stormwater system phase 1	17 June 2021	Hawks	Investigation in progress
Amajuba DM (KZN)	Award made for construction contract without evaluating suppliers for functionality, resulting in overpricing	21 November 2022	SIU	Referral being considered by public body
Emalahleni LM (MP)	Unfair disqualification of bidder – updating and maintaining of immovable asset register, resulting in overpricing	21 November 2022	PPSA	Investigation in progress
JB Marks LM (NW)	Inadequate planning and budgeting for construction of floodline canal, resulting in project being abandoned and limited benefit derived from money spent	10 June 2023	SIU	Referral being considered by public body
Madibeng LM (NW)	Pollution of water resources (Mothotlung wastewater treatment plant), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
	Pollution of water resources not prevented (Lethabile wastewater treatment plant), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
Ngaka Modiri Molema DM (NW)	Procurement of generators at excessive prices (Boikhutsong Pump Stations)	7 July 2023	SIU	Referral being considered by public body
	Procurement of generators at excessive prices (Boitshepegi)	7 July 2023	SIU	Referral being considered by public body
	Procurement of water service material, tools and electrical components without following competitive bidding process, resulting in overpricing	7 July 2023	SIU and PPSA	Referral being considered by public body Investigation by PPSA in progress
	Pollution of water resource not prevented (Coligny Wastewater Treatment Works), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
	Pollution of water resource not prevented (Itsoseng Wastewater Treatment Works), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
	Pollution of water resource not prevented (Lichtenburg/ Blydeville Wastewater Treatment Works), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
	Pollution of water resource not prevented (Lehurutshe Wastewater Treatment Works), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body
	Pollution of water resource not prevented (Zeerust wastewater treatment plant), resulting in harm to public	30 June 2023	DWS	Referral being considered by public body

Certificate of debt process

If accounting officers have failed to implement the recommendations, we then implement remedial actions that cover the same areas of recovery, prevention and consequences. If the remedial actions are also not implemented and the MI involves a financial loss, we can move towards the certificate of debt stage.

We notified the municipal manager of Ngaka Modiri Molema District Municipality of our intention to start the certificate of debt process for two MIs and requested written submissions on reasons not to issue a certificate of debt.

Details on notices of certificate of debt process

Material irregularity	Status
Failure to monitor a contract for construction work to municipal office building and gatehouse, resulting in contract extension that included items already paid for as part of original contract	<p>After considering the written representations and the substantiating documentation provided by the accounting officer in February 2023, we concluded that the accounting officer did not provide adequate reasons not to issue a certificate of debt against them.</p> <p>We will decide on the outcome of this MI after the advisory committee on material irregularities meets to hear oral representations from the accounting officer and makes a recommendation to the auditor-general.</p>
Infrastructure and movable assets that could not be verified and were presumed stolen, were written off due to lack of an internal control system to safeguard assets	<p>After considering the written representation and substantiating documents provided by the accounting officer in February 2023, we concluded that we will not proceed with the certificate of debt process at this time. On 20 July 2023, we granted the accounting officer an additional six months to complete the actions in progress to address the MI.</p> <p>We will assess the accounting officer's progress on implementing the required actions by the implementation date before deciding on the next steps in the process.</p>

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SECTION 3:

SNAPSHOT OF MIs
BY PROVINCE

EASTERN CAPE

42 material irregularities

Excludes 1 MI resolved in prior years



Buffalo City Metro
Nelson Mandela Bay Metro

- Amahlati LM
- Amathole DM
- Chris Hani DM
- Dr Beyers Naudé LM
- Enoch Mgijima LM
- Intsika Yethu LM
- Inxuba Yethemba LM
- King Sabata Dalindyebo LM
- Makana LM
- Ntabankulu LM
- OR Tambo DM
- Port St. Johns LM
- Raymond Mhlaba LM
- Sundays River Valley LM
- Walter Sisulu LM

IMPACT OF MI PROCESS (43 MIs, including 1 resolved in prior year)



From **INACTION** to **ACTION**

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

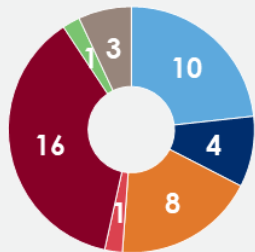
- 39** Material financial loss estimated at R632,82m
 - 3** Substantial harm to public sector institution
 - 1** Substantial harm to public
- No actions were taken to address **88%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

- R46m** Financial loss recovered
- 1** Internal controls improved to prevent recurrence
- 1** Responsible officials identified and disciplinary process completed or in process

NATURE OF MIs (43 MIs, including 1 resolved in prior year)



PROCUREMENT AND PAYMENT

- Overpricing of goods and services procured or appointed supplier not delivering **1**
- Payment for goods or services not received/ of poor quality/ not in line with contract/ ineligible beneficiaries **9**

RESOURCE MANAGEMENT

- Assets not safeguarded **1**
- Inefficient use of resources resulting in no/ limited benefit for money spent **3**

REVENUE MANAGEMENT

- Revenue not billed **8**

FRAUD AND COMPLIANCE

- Suspected fraud resulting in loss **1**

INTEREST AND PENALTIES

- Eskom, water boards, lenders and suppliers not paid on time, resulting in interest **10**
- Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties **6**

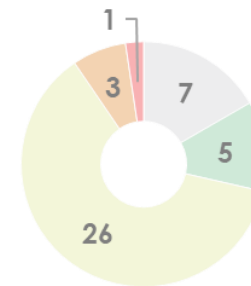
HARM TO THE GENERAL PUBLIC

- Landfill site mismanagement **1**

HARM TO A PUBLIC SECTOR INSTITUTION

- Full and proper records not kept and repeatedly disclaimed opinions **1**
- Non-submission of financial statements **2**

STATUS OF MIs | Total: 42 MIs



- Follow-up or assessment in process **7**
- Resolved **5**
- Appropriate actions in process **26**
- Recommendations **3**
- Recommendations and referral **0**
- Referral **1**
- Remedial action **0**
- Certificate of debt process **0**

UIFW

Irregular expenditure disclosed for province in 2021-22: **R10,62bn**
(35% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,22bn**

Unauthorised expenditure disclosed for province in 2021-22: **R1,80bn**

CALL TO ACTION

- Portfolio committees for Cogta and various accountability ecosystem roleplayers (including heads of department, MECs of coordinating departments, audit committees and council) should follow up on accounting officers' actions to recover and prevent further losses.
- We urge administrative leadership to hold officials accountable for effective action plans that will ensure adequate implementation of controls over financial reporting, financial management and compliance with legislation, as well as effective responses to material irregularities and financial wastage.

FREE STATE

42 material irregularities

Excludes 1 MI resolved in prior years and 7 MIs recently notified



Mangaung Metro

- Kopanong LM
- Letsemeng LM
- Mafube LM
- Maluti-A-Phofung LM
- Maluti-A-Phofung Water
- Mantsopa LM
- Masibiyana LM
- Matjhabeng LM
- Metsimaholo LM
- Mohokare LM
- Moqhaka LM
- Ngwathe LM
- Nketoana LM
- Setsofo LM
- Tokologo LM

IMPACT OF MI PROCESS (50 MIs, including 1 resolved in prior year and 7 recently notified)



From **INACTION** to **ACTION**

50 MIs on non-compliance resulting in:

- 14** Material financial loss estimated at R423,50m
- 19** Substantial harm to public sector institution
- 17** Substantial harm to public

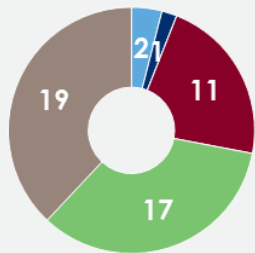
No actions were taken to address **80%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

- 3** Internal controls improved to prevent recurrence
- 1** Responsible officials identified and disciplinary process completed or in process

NATURE OF MIs (50 MIs, including 1 resolved in prior year and 7 recently notified)



PROCUREMENT AND PAYMENT

Payment for goods or services not received/ of poor quality/ not in line with contract/ ineligible beneficiaries **2**

RESOURCE MANAGEMENT

Assets not safeguarded **1**

INTEREST AND PENALTIES

Eskom, water boards, lenders and suppliers not paid on time, resulting in interest **7**

Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties **4**

HARM TO THE GENERAL PUBLIC

Landfill site mismanagement **3**

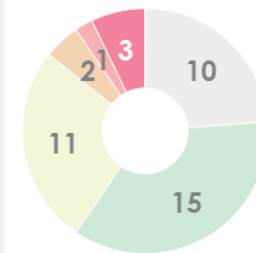
Pollution of water resources **14**

HARM TO A PUBLIC SECTOR INSTITUTION

Full and proper records not kept and repeatedly disclaimed opinions **5**

Non-submission of financial statements **14**

STATUS OF MIs | Total: 42 MIs



- Follow-up or assessment in process** 10
- Resolved** 15
- Appropriate actions in process** 11
- Recommendations** 2
- Recommendations and referral** 0
- Referral** 1
- Remedial action** 3
- Certificate of debt process** 0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R1,57bn**
(5% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,63bn**

Unauthorised expenditure disclosed for province in 2021-22: **R5,57bn**

CALL TO ACTION

- Municipalities should strengthen their oversight and management of infrastructure assets, including projects to construct, repair or refurbish these assets, to eliminate poor project management and delays, and ensure that adequate preventative maintenance is done in time.
- Municipalities should develop revenue-enhancement strategies to support funding their budgets, with prioritised attention given to billing and debt collection.
- The council, through the MPAC, should investigate UIFWE and implement consequences against the responsible officials.
- Coordinating and legislature institutions should strengthen their role in the local government sphere through effective interventions that will support municipalities to strengthen their control environments and enforce legislative requirements

GAUTENG

21 material irregularities

City of Johannesburg Metro
City of Tshwane Metro

Emfuleni LM
Merafong City LM
West Rand DM



IMPACT OF MI PROCESS (21 MIs)



From **INACTION** to **ACTION**

21 MIs on non-compliance resulting in:

20 Material financial loss estimated at R578,75m

1 Substantial harm to public

No actions were taken to address **90%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

R32,23m Financial loss recovered

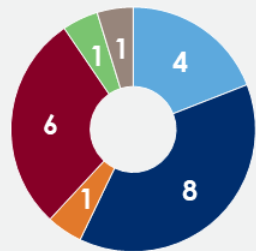
R310,16m Financial loss in process of being recovered

13 Internal controls improved to prevent recurrence

8 Responsible officials identified and disciplinary process completed or in process

5 Fraud/ criminal investigations instituted

NATURE OF MIs (21 MIs)



PROCUREMENT AND PAYMENT

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

4

RESOURCE MANAGEMENT

Assets not safeguarded
Inefficient use of resources resulting in no/limited benefit for money spent
Loss of investments

3

3

2

REVENUE MANAGEMENT

Revenue not billed

1

INTEREST AND PENALTIES

Eskom, water boards, lenders and suppliers not paid on time, resulting in interest

4

Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties

2

HARM TO THE GENERAL PUBLIC

Pollution of water resources

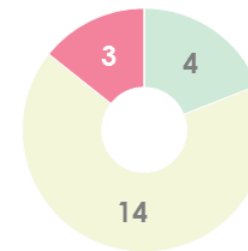
1

FRAUD AND COMPLIANCE

Non-compliance resulting in penalties

1

STATUS OF MIs | Total: 21 MIs



<input type="checkbox"/>	Follow-up or assessment in process	0
<input checked="" type="checkbox"/>	Resolved	4
<input checked="" type="checkbox"/>	Appropriate actions in process	14
<input type="checkbox"/>	Recommendations	0
<input type="checkbox"/>	Recommendations and referral	0
<input type="checkbox"/>	Referral	0
<input checked="" type="checkbox"/>	Remedial action	3
<input type="checkbox"/>	Certificate of debt process	0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R3,56bn**
(12% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R2,21bn**

Unauthorised expenditure disclosed for province in 2021-22: **R5,18bn**

CALL TO ACTION

- Council through MPAC should ensure that actions as committed by AO are regularly tracked and should provide feedback to council on progress made by AOs
- Executive mayors should closely monitor AOs' implementation of committed actions to address MIs / recommendations / remedial actions
- Audit committees should assess AOs' progress in implementing committed actions to resolve MIs / recommendations / remedial actions
- Internal audit should continue to assess effectiveness of internal controls implemented to prevent financial losses and non-compliance with laws and regulations to ensure they are achieving desired objectives
- Accounting officers should continue to monitor implementation of controls responsible for preventing MIs
- Accounting officers should improve effectiveness of consequence management processes to instil right behaviour
- Senior management should embed discipline of adequate reviews and monitoring of projects to prevent MIs

KWAZULU-NATAL

42 material irregularities

Excludes 3 MIs resolved in prior years



eThekweni Metro

Abaqulusi LM
 Amajuba LM
 Harry Gwala DM
 Kwa-Dukuza LM
 Maphumulo LM
 Mpofana LM
 Msunduzi DM
 Newcastle LM
 Ugu DM
 uMkhanyakude DM
 uMzinyathi DM
 uThukela DM
 uThukela Water Entity
 Zululand DM

IMPACT OF MI PROCESS (45 MIs, including 3 resolved in prior years)

From INACTION to ACTION

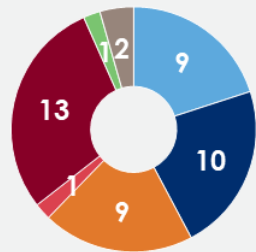
45 MIs on non-compliance and suspected fraud, resulting in:

- 42 Material financial loss estimated at R518,72m
 - 2 Substantial harm to public sector institution
 - 1 Substantial harm to public
- No actions were taken to address 89% of matters until we issued notifications

ACTION TAKEN BY AUDITEES

- R2,57m Financial loss recovered
- R6,84m Financial loss prevented
- 9 Internal controls improved to prevent recurrence
- 27 Responsible officials identified and disciplinary process completed or in process
- 1 Fraud/ criminal investigations instituted

NATURE OF MIs (45 MIs, including 3 resolved in prior years)



PROCUREMENT AND PAYMENT

- Overpricing of goods and services procured or appointed supplier not delivering 3
- Payment for goods or services not received/ of poor quality/ not in line with contract/ ineligible beneficiaries 6

RESOURCE MANAGEMENT

- Assets not safeguarded 8
- Inefficient use of resources resulting in no/ limited benefit for money spent 2

REVENUE MANAGEMENT

- Revenue not billed 7
- Debt not recovered 2

FRAUD AND COMPLIANCE

- Suspected fraud resulting in loss 1

INTEREST AND PENALTIES

- Eskom, water boards, lenders and suppliers not paid on time, resulting in interest 11
- Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties 2

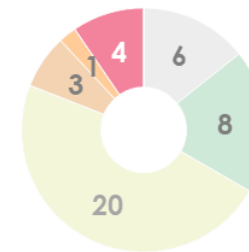
HARM TO THE GENERAL PUBLIC

- Landfill site mismanagement 1

HARM TO A PUBLIC SECTOR INSTITUTION

- Full and proper records not kept and repeatedly disclaimed opinions 1
- Non-submission of financial statements 1

STATUS OF MIs | Total: 42 MIs



- Follow-up or assessment in process 6
- Resolved 8
- Appropriate actions in process 20
- Recommendations 3
- Recommendations and referral 1
- Referral 0
- Remedial action 4
- Certificate of debt process 0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R5,92bn**
 (19% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,12bn**

Unauthorised expenditure disclosed for province in 2021-22: **R2,46bn**

CALL TO ACTION

- Accounting officers need to improve the control environment to prevent the re-occurrence of MIs and implement appropriate actions to resolve MIs.
- Executive authority and oversight bodies need to enforce accountability and consequence management by swiftly responding to transgressions through investigations, disciplinary action, and recovery of losses.
- Coordinating departments to continue influencing the Accounting Officers to take the necessary actions to resolve material irregularities.

LIMPOPO

11 material irregularities

Excludes 10 MIs recently notified



Collins Chabane LM
 Ephraim Mogale DM
 Fetakgomo Tubatse LM
 Greater Giyani LM
 Lepelle-Nkumpi LM
 Makhado LM
 Mogalakwena LM
 Vhembe DM

IMPACT OF MI PROCESS (21 MIs, including 10 recently notified)



From **INACTION** to **ACTION**

21 MIs on non-compliance, resulting in:

21 Material financial loss estimated at R1 368,26m

No actions were taken to address **62%** of matters until we issued notifications



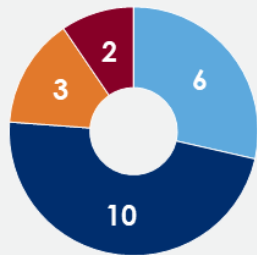
ACTION TAKEN BY AUDITEES

R79,94m Financial loss recovered

8 Internal controls improved to prevent recurrence

9 Responsible officials identified and disciplinary process completed or in process

NATURE OF MIs (21 MIs, including 10 recently notified)



PROCUREMENT AND PAYMENT

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

RESOURCE MANAGEMENT

Assets not safeguarded
 Inefficient use of resources resulting in no/limited benefit for money spent
 Loss of investments

INTEREST AND PENALTIES

Eskom, water boards, lenders and suppliers not paid on time, resulting in interest

Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties

REVENUE MANAGEMENT

Revenue not billed

STATUS OF MIs | Total: 11 MIs



<input type="checkbox"/>	Follow-up or assessment in process	0
<input checked="" type="checkbox"/>	Resolved	7
<input checked="" type="checkbox"/>	Appropriate actions in process	4
<input type="checkbox"/>	Recommendations	0
<input type="checkbox"/>	Recommendations and referral	0
<input type="checkbox"/>	Referral	0
<input type="checkbox"/>	Remedial action	0
<input type="checkbox"/>	Certificate of debt process	0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R1,68bn**
 (6% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,16bn**

Unauthorised expenditure disclosed for province in 2021-22: **R2,57bn**

CALL TO ACTION

- AO to investigate MIs, and identify and take disciplinary action against responsible officials
- AOs must stop, prevent or recover financial losses once notified
- Improve/enhance internal controls to prevent same/similar MIs from reoccurring

MPUMALANGA

18 material irregularities

Excludes 1 MI resolved in prior years



- Bushbuckridge LM
- City of Mbombela LM
- Dipaleseng LM
- Dr JS Moroka LM
- Emalahleni LM
- Govan Mbeki LM
- Lekwa LM
- Thaba Chweu LM
- Victor Khanye LM

IMPACT OF MI PROCESS (19 MIs, including 1 resolved in prior years)

From INACTION to ACTION
19 MIs on non-compliance, resulting in:

15 Material financial loss estimated at R566,51m

4 Substantial harm to public sector institution

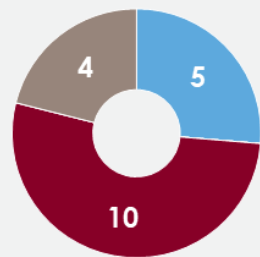
No actions were taken to address **100%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

R8,59m Financial loss prevented

NATURE OF MIs (19 MIs, including 1 resolved in prior years)



PROCUREMENT AND PAYMENT

- Overpricing of goods and services procured or appointed supplier not delivering **1**
- Payment for goods or services not received/ of poor quality/ not in line with contract/ ineligible beneficiaries **3**
- Uneconomical procurement **1**

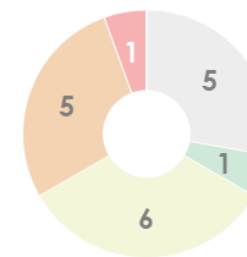
INTEREST AND PENALTIES

- Eskom, water boards, lenders and suppliers not paid on time, resulting in interest **8**
- Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties **2**

HARM TO A PUBLIC SECTOR INSTITUTION

- Full and proper records not kept and repeatedly disclaimed opinions **4**

STATUS OF MIs | Total: 18 MIs



- Follow-up or assessment in process **5**
- Resolved **1**
- Appropriate actions in process **6**
- Recommendations **5**
- Recommendations and referral **0**
- Referral **1**
- Remedial action **0**
- Certificate of debt process **0**

UIFW

Irregular expenditure disclosed for province in 2021-22: **R2,08bn**
(7% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,84bn**

Unauthorised expenditure disclosed for province in 2021-22: **R3,08bn**

CALL TO ACTION

2022-23 – immediate provincial leadership action:

- Strengthen internal capacity
- Enforce meaningful consequences to ensure lasting audit improvement, accountability and quality service delivery

NORTHERN CAPE

12 material irregularities

Excludes 2 MIs recently notified



Emthanjeni LM
Ga-Segonyana LM
Phokwane LM
Joe-Morolong LM
Kai !Garib LM
!Kheis LM
Renosterberg LM
Sol Plaatje LM

IMPACT OF MI PROCESS (14 MIs, including 2 recently notified)



From **INACTION** to **ACTION**
14 MIs on non-compliance and suspected fraud, resulting in:

8 Material financial loss estimated at R36,30m

6 Substantial harm to public sector institution

No actions were taken to address **93%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

R3,42m Financial loss prevented

4 Internal controls improved to prevent recurrence

1 Fraud/ criminal investigations instituted

NATURE OF MIs (14 MIs, including 2 recently notified)



RESOURCE MANAGEMENT

Inefficient use of resources resulting in n.o./ limited benefit for money spent **3**

REVENUE MANAGEMENT

Revenue not billed **1**

INTEREST AND PENALTIES

Eskom, water boards, lenders and suppliers not paid on time, resulting in interest **3**

FRAUD AND COMPLIANCE

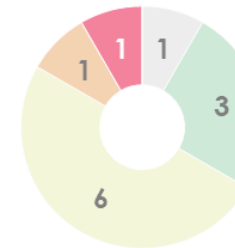
Suspected fraud resulting in loss **1**

HARM TO A PUBLIC SECTOR INSTITUTION

Full and proper records not kept and repeatedly disclaimed opinions **4**

Non-submission of financial statements **2**

STATUS OF MIs | Total: 12 MIs



Follow-up or assessment in process	1
Resolved	3
Appropriate actions in process	6
Recommendations	1
Recommendations and referral	0
Referral	0
Remedial action	1
Certificate of debt process	0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R1,12bn**
(4% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,21bn**

Unauthorised expenditure disclosed for province in 2021-22: **R1,11bn**

CALL TO ACTION

- Stability in the accounting officer position will improve the efficiency of the MI process and, more importantly, improve accountability at municipalities.
- Municipalities should improve the quality of responses to MI communication by making sure matters are responded to comprehensively. Accounting officers should also ensure that all required supporting documentation is submitted when responding.
- Accounting officers should take action to prevent losses. Where a loss was suffered, timely and adequate steps must be taken to ensure speedy recovery and consequence management.
- Coordinating ministries (Treasury, MEC of Cogosta, Office of the Premier, Legislature or Troika) should start monitoring actions taken by accounting officers to address MIs to ensure that oversight bodies develop an interest in ensuring that accountability processes are taking place.

NORTH WEST

46 material irregularities

Excludes 5 MIs recently notified



- City of Matlosana LM
- Ditsobotla LM
- Dr Ruth Segomotsi Mompati DM
- JB Marks LM
- Kgetlengrivier LM
- Lekwa Teemane LM
- Madibeng LM
- Mahikeng LM
- Mamusa LM
- Maquassi Hills LM
- Moretele LM
- Naledi LM
- Ngaka Modiri Molema DM
- Ramotshere Moiloa LM
- Rustenburg LM

IMPACT OF MI PROCESS (51 MIs, including 5 recently notified)



From **INACTION** to **ACTION**

51 MIs on non-compliance, resulting in:

- 31 Material financial loss estimated at R1 005,692
- 11 Substantial harm to public sector institution
- 9 Substantial harm to public

No actions were taken to address 88% of matters until we issued notifications

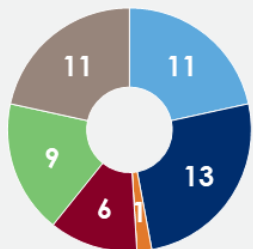


ACTION TAKEN BY AUDITEES

R22,02m Financial loss recovered

- 6 Internal controls improved to prevent recurrence
- 10 Responsible officials identified and disciplinary process completed or in process
- 7 Fraud/ criminal investigations instituted
- 1 Stopped supplier contracts where money is being lost

NATURE OF MIs (51 MIs, including 5 recently notified)



PROCUREMENT AND PAYMENT

- Overpricing of goods and services procured or appointed supplier not delivering 4
- Payment for goods or services not received/ of poor quality/ not in line with contract/ ineligible beneficiaries 5
- Uneconomical procurement 2

RESOURCE MANAGEMENT

- Assets not safeguarded 4
- Inefficient use of resources resulting in no/ limited benefit for money spent 5
- Loss of investments 4

REVENUE MANAGEMENT

- Revenue not billed 1

INTEREST AND PENALTIES

- Eskom, water boards, lenders and suppliers not paid on time, resulting in interest 5
- Payroll and value-added tax returns not paid on time or incorrectly calculated, resulting in South African Revenue Service interest and penalties 1

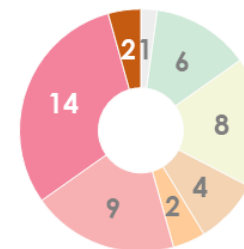
HARM TO THE GENERAL PUBLIC

- Pollution of water resources 9

HARM TO A PUBLIC SECTOR INSTITUTION

- Full and proper records not kept and repeatedly disclaimed opinions 9
- Non-submission of financial statements 2

STATUS OF MIs | Total: 46 MIs



- Follow-up or assessment in process 1
- Resolved 6
- Appropriate actions in process 8
- Recommendations 4
- Recommendations and referral 2
- Referral 9
- Remedial action 14
- Certificate of debt process 2

UIFW

Irregular expenditure disclosed for province in 2021-22: **R3,29bn**

(11% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,32bn**

Unauthorised expenditure disclosed for province in 2021-22: **R2,40bn**

CALL TO ACTION

- Premier (chair of NW premier coordinating council) to ensure municipal MIs are tracked and mayors give regular feedback on status of addressing MIs
- Premier to consider establishing ethics and governance task team of experienced risk management professionals to help premier and provincial exco track and deal with matters relating to ethics and risk management (incl. UIFW and MIs) at provincial and municipal level, and to help deal swiftly with governance issues
- Speaker (chair of NW speakers forum) to ensure municipal MIs are regularly tracked and council speakers account for how well they are dealing with MIs (incl. holding mayors, AOs accountable for promptly addressing MIs)
- Coordinating departments to help municipalities deal with MIs through skill- and capacity-building initiatives (record management, budgeting, financial management)
- Internal audit to regularly assess internal controls for areas likely to have MIs due to financial loss, harm or misuse of public resources; as part of reporting to audit committee, to advise on mitigations to be implemented by executive authority and its committees
- Audit committee, as part of governance oversight process, to assess how well AO and senior managers are addressing MIs (incl. adequacy of investigations) and report quarterly to municipal council for intervention
- Council to ensure MPACs are well capacitated to investigate UIFW and functional disciplinary board can investigate financial misconduct by municipal officials; council to regularly track progress of MPAC investigations and DC processes

WESTERN CAPE

4 material irregularities

City of Cape Town Metro

Beaufort West LM



IMPACT OF MI PROCESS (4 MIs)



From **INACTION** to **ACTION**

4 MIs on non-compliance and fraud, resulting in:

4

Material financial loss estimated at R58,10m

No actions were taken to address **75%** of matters until we issued notifications



ACTION TAKEN BY AUDITEES

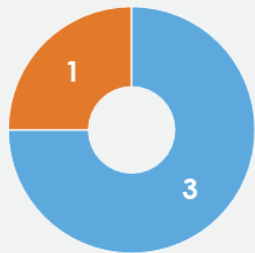
2

Internal controls improved to prevent recurrence

2

Responsible officials identified and disciplinary process completed or in process

NATURE OF MIs (4 MIs)



PROCUREMENT AND PAYMENT

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

3

REVENUE MANAGEMENT

Revenue not billed

1

STATUS OF MIs | Total: 4 MIs



<input checked="" type="checkbox"/>	Follow-up or assessment in process	1
<input checked="" type="checkbox"/>	Resolved	2
<input type="checkbox"/>	Appropriate actions in process	0
<input checked="" type="checkbox"/>	Recommendations	1
<input type="checkbox"/>	Recommendations and referral	0
<input type="checkbox"/>	Referral	0
<input type="checkbox"/>	Remedial action	0
<input type="checkbox"/>	Certificate of debt process	0

UIFW

Irregular expenditure disclosed for province in 2021-22: **R0,49bn**
(1% of IE across all provinces)

Fruitless & wasteful expenditure disclosed for province in 2021-22: **R0,03bn**

Unauthorised expenditure disclosed for province in 2021-22: **R1,3bn**

CALL TO ACTION

- We urge leadership to continue taking rapid action on raised MIs and to ensure prompt implementation of controls over financial reporting, financial management, compliance with legislation and safeguarding against continued financial loss
- Where there is no traction in the response to MIs, other roleplayers in the accountability ecosystem (mayors, councillors, audit committees, MPACs) need to follow up with the administrative leadership to ensure that preventative controls and consequence management processes are implemented
- Municipal managers should continue to create a sound control environment to prevent MIs
- Coordinating ministries, including the provincial legislature, should take appropriate action where the direct roleplayers are not responding in time

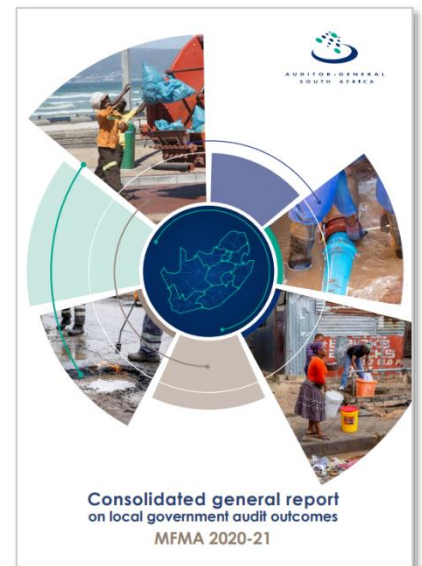
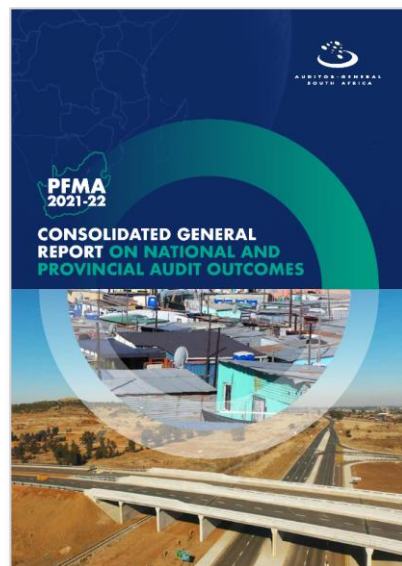
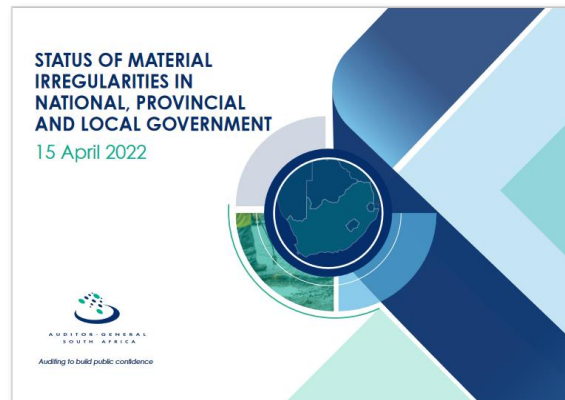
PRODUCTS OF THE AGSA

Every year, the AGSA produces audit reports for all government departments, public entities, municipalities and municipal entities.

The outcomes of these reports are analysed in our consolidated general reports, which cover the Public Finance Management Act (PFMA) cycle for national and provincial government, and the Municipal Finance Management Act (MFMA) cycle for local government.

Since we began implementing our expanded powers in 2019, we have also started to produce special reports on the material irregularities we identify during the course of our audits of local, national and provincial government. The reports give an overview of these material irregularities, as well as their status and what government is – or is not – doing to address them.

These and our other reports (including our special reports on our real-time audits) are available on our website (www.agsa.co.za) and our reports website (www.agsareports.co.za).



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