CITIZENS' REPORT
MFMA 2018-19

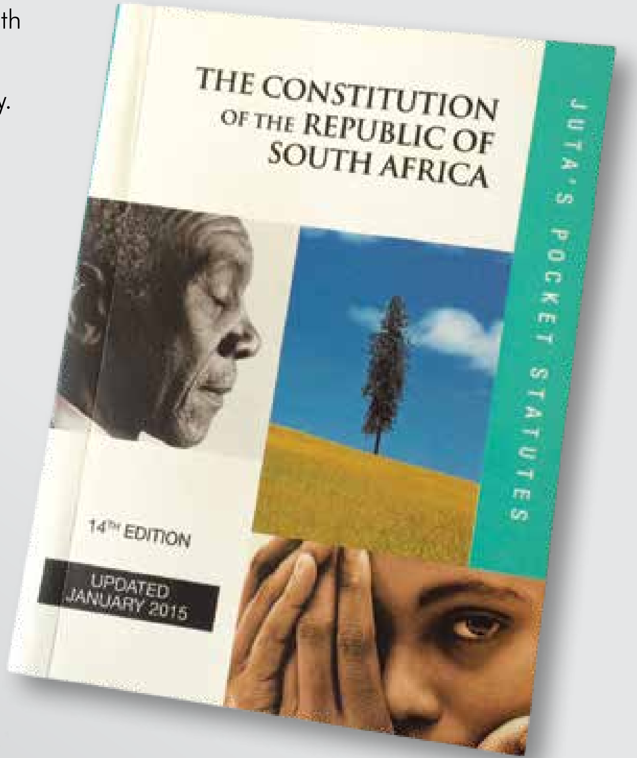
NOT MUCH TO GO AROUND, YET NOT THE RIGHT HANDS AT THE TILL

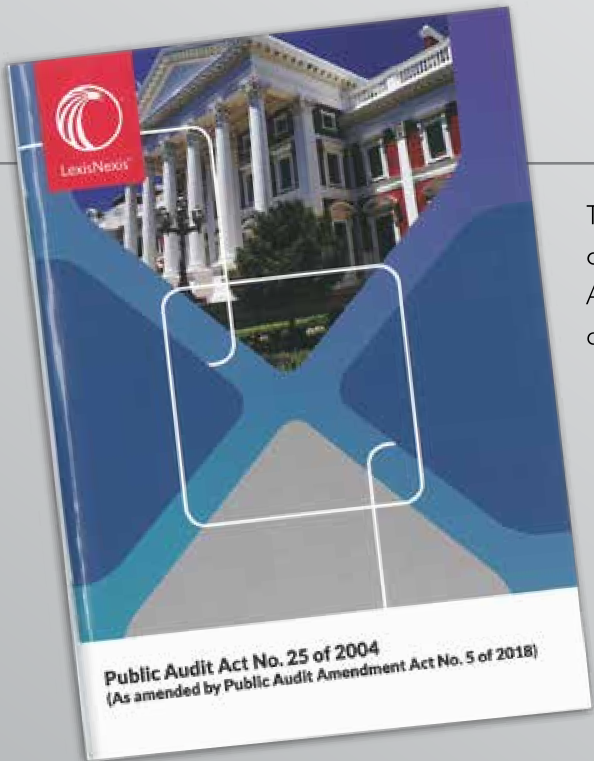
AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

CONSTITUTIONAL AND LEGISLATIVE MANDATE OF THE AUDITOR-GENERAL OF SOUTH AFRICA (AGSA)

Chapter 9 of the Constitution of the Republic of South Africa of 1996 establishes the AGSA as one of the state institutions supporting constitutional democracy. The Constitution recognises the importance and guarantees the independence of the AGSA, stating that the AGSA must exercise its powers and perform its functions without fear, favour or prejudice.





The functions of the AGSA are described in section 188 of the Constitution and further regulated in the Public Audit Act of 2004, which mandates the AGSA to perform constitutional and other functions.

WHAT THIS REPORT IS ABOUT

Dear Fellow Citizen

This is a report to you, as a citizen of South Africa, from the Auditor-General of South Africa (AGSA). Its purpose is to provide feedback to you on the audits we recently completed at municipalities around the country.

Each year, we conduct audits at the 257 municipalities in South Africa and issue an audit opinion on the reliability and credibility of their financial reporting and report any findings on their performance reporting and compliance with key legislation. We then compile a general report that gives a bird's eye view of the audit outcomes.

This citizens' report is a summary of the audit results for municipalities in the financial year that ended on 30 June 2019, taken from the general report on the Municipal Finance Management Act (MFMA) audit cycle.

This information is important because local government is so close to the homes of citizens, providing the basic services we rely on – water, electricity, sanitation, road repairs, public transport and the like.

When municipalities are managing their finances well, we believe it shows in the quality of services they provide. The opposite is just as true: poor financial management translates into poor municipal service delivery.

The most recent MFMA general report is titled *Not much to go around, yet not the right hands at the till*, and is the last general report on local government audit outcomes of the current Auditor-General Kimi Makwetu. The title reflects the reality that although limited resources are available to municipalities, there is a lack of proper care in how this money is managed and spent.

This exposes the public purse to abuse and is cause for concern, as this citizens' report makes clear.

Once again, there was a regression in the audit outcomes under the current local government administration, now in its third year. Over these three years, the audit outcomes of 76 municipalities have regressed, with those of only 31 municipalities improving.

We take a closer look at municipalities' finances per province, and name the municipalities with the best audit results, as well as those with the worst.

A very important part of this report is the section on material irregularities. This is about a new process we began implementing on 1 April 2019 to ensure that municipalities act on our recommendations when our audits pick up material irregularities that point to the abuse or misuse of funds. The new process stems from the powers that Parliament has given the AGSA to deal with financial irregularities in the public sector.

As this was the first year of the material irregularity process, we started on a small scale in 2018-19, focusing on nine municipalities with a history of irregular expenditure and challenges with financial and performance reporting. The material irregularities we identified were not complex accounting or procurement issues. Had certain basic controls been in place, these irregularities – and the losses that went with them – would not have happened. Please turn to page 32 for more details.

Every effort has been made to keep this report reader-friendly, but using some auditing and financial management terms and words is unavoidable. For your convenience, we have included some frequently asked questions about the material irregularity process on page 36 to help with your understanding.

As a citizen, there are a number of meaningful actions you can take to hold government to account for its spending; turn to page 30 for details.

If you would like a more detailed view of the municipal audit outcomes for 2018-19, you can find the full general report on local government audit outcomes for the year on the AGSA's website at www.agsa.co.za.

Sincerely

Communication Business Unit

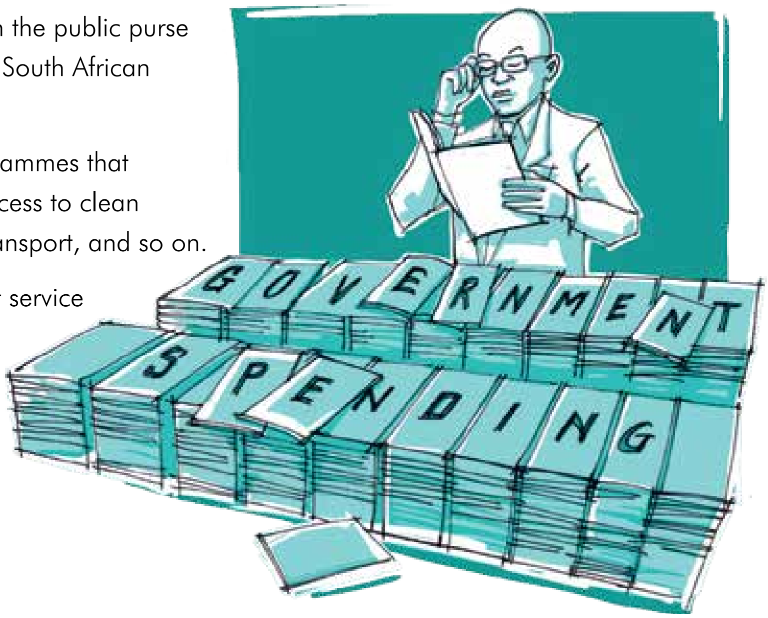
WHERE DOES THE MONEY COME FROM AND HOW IS IT SPENT?

The money that government spends comes from the public purse – from the taxes that citizens pay and which the South African Revenue Service (SARS) collects.

This tax money is intended to be spent on programmes that improve the quality of life of citizens through access to clean water, sanitation, electricity, safe and reliable transport, and so on.

The amount of money available for government service delivery is limited, but the demand is huge, and ever-growing.

This means that the limited money available must be spent on the right things – on government's priority service delivery programmes and projects.



The following is a diagram that depicts where the money comes from and how it is spent, from the time SARS collects it from taxpayers to the time the AGSA audits and reports to Parliament on the financial statements, predetermined objectives and compliance with key legislation by municipalities and municipal entities.

DIAGRAM 1

SECTION 1

THE ROLE OF THE AGSA

Once a year, we audit every municipality and municipal entity in the country, further referred to as auditees.

Our auditors go through the financial statements and performance reports to check the quality and to see if they have complied with key laws on financial and performance management (such as the Municipal Finance Management Act).

People sometimes ask why the AGSA itself does not take action against the wrongdoers if an audit shows that money was wasted, misused or not properly accounted for. The answer is that we have a mandate, which comes from the Constitution and the Public Audit Act.

We do not prescribe what political and administrative leadership should do with the audit findings.

When auditing the financial statements, our aim is to give an opinion on whether users of the statements can rely on them to give a full, accurate picture of their spending.

Here is a quick summary of the five audit opinions that the AGSA can give, from best to worst:

Financially unqualified opinion with no findings: The ideal – a clean audit – Everything has been done the way it should be. There are no material misstatements in the financial statements and the auditee has complied with the law and reported properly on its performance objectives. A clean audit means the money has been used ideally and for the intended purpose. A clean audit also confirms that those charged with service delivery have created a solid foundation for the delivery of services and finances are unlikely to be the cause for delayed service where things are going wrong.

Financially unqualified opinion with findings: Not bad, but not ideal – Here, the information in the financial statements is correct and complete, meaning there are no material misstatements. But there are 'material findings': problems with the auditee's performance reporting or non-compliance with the law, or both. This could compromise the auditee's accountability.

A financially qualified opinion with findings: The situation is worrying – The auditee did not manage and account for its finances to achieve the best results. The financial statements contain material misstatements about specific amounts, or there is insufficient evidence for the AGSA to conclude that the amounts are not materially misstated.

A disclaimed opinion with findings: The worst outcome – The finances are so badly managed that the auditee cannot even produce evidence (documentation) to support its financial statements.

An adverse opinion with findings: Lots of problems everywhere – The auditee has not followed the correct rules and procedures and has not provided complete, correct information to account for its spending. There are a lot of material misstatements.

Then there is a sixth category, **'outstanding audits'**, where financial statements were either submitted too late for the AGSA to audit or not submitted at all. This category is considered as bad as a disclaimer.

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THE THINGS WE LOOK AT ARE:

- Whether the financial statements fairly represent the key financial information for the financial year, using the correct reporting framework and in accordance with the law.
- Material misstatements (errors or omissions) that make it difficult to rely on the facts and figures in the financial statements.
- Whether the material errors or omissions could have been prevented or detected if a proper internal control system had been in place.

Sometimes, as you will read later in this report, an audit might show that public money has not been spent the way it should have been or the spender has not provided proper proof of how the money was spent. When this happens, the AGSA points out the problems in an audit report. After reporting on the findings, someone has to take responsibility for acting on our findings and recommendations.

These are the responsible people:

Senior management, including the chief financial officer, chief information officer and head of supply chain management, who are responsible for implementing internal controls.

Municipal managers and municipal entities' chief executive officers: Their responsibilities include ensuring that steps are taken against officials who misspend public money. This is called 'effecting consequences'.

Mayors (including municipal councils): They have oversight and monitoring responsibilities, which include managing the performance of municipal managers and municipal entities' chief executive officers.

IN AS FAR AS MUNICIPAL SPENDING IS CONCERNED THE AGSA MAY DO THE FOLLOWING:

- Check all public spending yearly by conducting audits of municipalities' financial statements.
- Based on our audit findings, we give an opinion on how well or poorly the municipality concerned fared in the three areas listed below.
- In addition, based on the amendments made to the Public Audit Act, the auditor-general may now do the following:

  - Refer a suspected material irregularity to a public body with a mandate and powers that are suitable to investigate suspected material irregularities of that nature. Authorities with requisite investigative capacity and skills include the Public Protector, Special Investigations Unit, the Hawks and several others. The public body would deal with the matter within its own legal mandate and take appropriate action where necessary.

or

  - Make recommendations in the audit report on how a material irregularity should be addressed, within a stipulated period of time. If these recommendations have not been implemented by the stipulated date, the auditor-general must take binding remedial action; and if the material irregularity involves a financial loss, issue a directive to the accounting officer or accounting authority to quantify and recover the loss from the responsible person.
  - If the accounting officer or accounting authority fails to implement the remedial action, including a directive to quantify and recover a financial loss, the auditor-general must issue a certificate of debt in the name of the relevant accounting officer or members of an accounting authority. It is the responsibility of the relevant executive authority such as a minister, a member of the executive council or a municipal council, to recover the loss from the accounting officer or authority.

When we audit the financial statements, we check three areas:

- Have all the facts and figures been included and are these correct and accurate? This is about making sure that the financial statements give a fair presentation of the municipality's finances and that there are no material misstatements. (A material misstatement means that important information is wrong or missing, which could mislead the user of the statements.)
- Did the municipality provide reliable and credible information on the things it was supposed to do during the year (known as performance objectives or predetermined objectives)?
- Did the municipality comply with all the laws and regulations governing public finances? One of the most important of these laws is the Municipal Finance Management Act, which sets out how municipalities must manage and report on their finances.

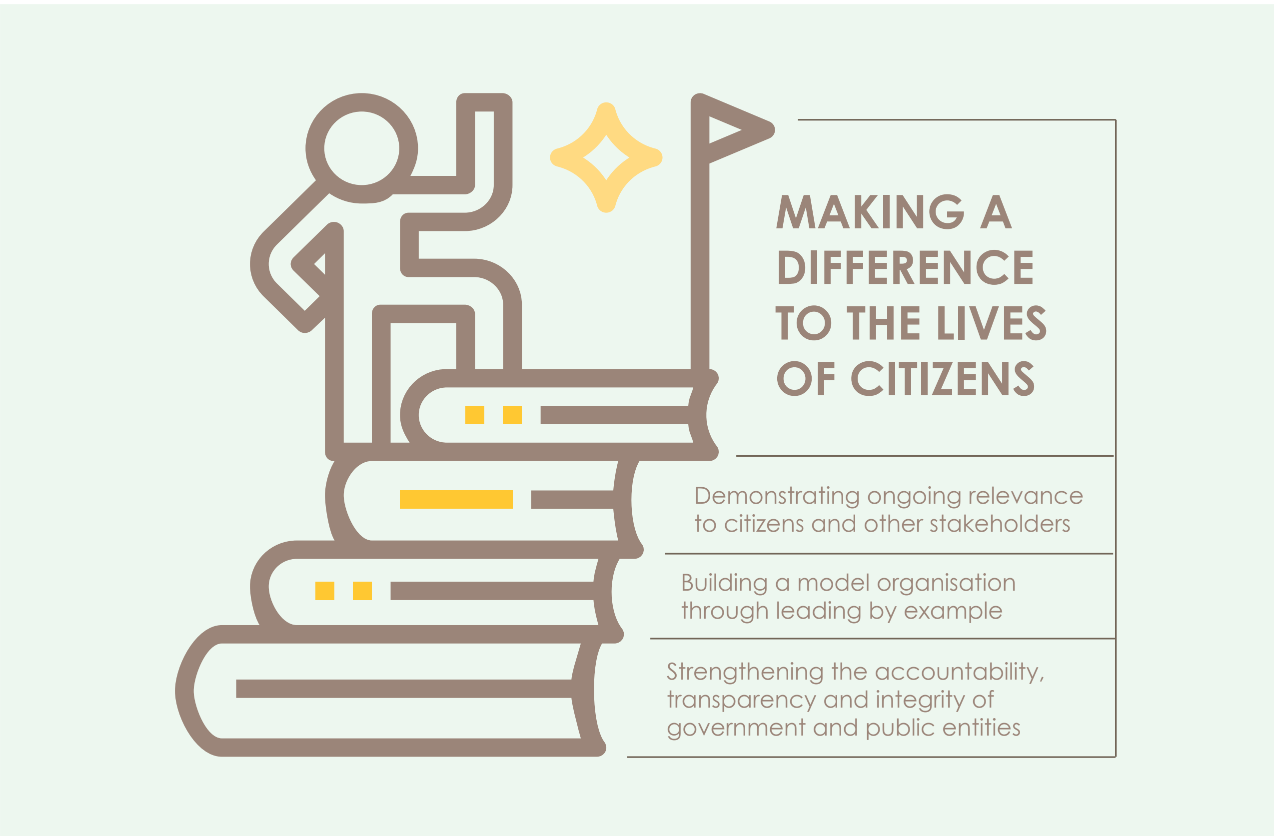
There are three kind of problems that the auditors might flag about government spending. These are:

Unauthorised expenditure: Spending that goes over budget or was not used for the purpose intended. This can be as a result of administration errors or accidents.

Irregular expenditure: Spending that was incurred without complying with applicable legislation. This may be caused by procedures not being followed.

Fruitless and wasteful expenditure: Pointless spending that could have been avoided. This can be simple things such as not paying suppliers on time and incurring interest.

HOW THE AGSA MAKES A DIFFERENCE



SECTION 2

OVERVIEW

Where has all the money gone?

There is not much to go around, yet the right hands are not at the till. This is the theme of this citizens' report and it was chosen to reflect the cold, harsh reality of the state of municipal finances in South Africa.

The fact is that a growing number of South African municipalities are on the brink of financial collapse.

This is not an exaggeration. Here are some sobering fact and figures about the financial state of the country's municipalities, based on the 229 audits we completed at municipalities for the 2018-19 financial year.

We found that **the financial health of 79% of municipalities is concerning or in need of urgent intervention.** Almost a third of the municipalities were in a particularly vulnerable financial position.

These municipalities spend more than they earn, cannot pay their debts and have little success in convincing municipal consumers to pay for services. They also waste vast amounts of money and are highly dependent on grants from government to pay costs such as the salaries of employees.

Cash strapped and burdened with debt

Debt is a huge problem for South African municipalities.

An alarming fact uncovered during our audits is that about 60% of the money that households and businesses owe for municipal services will never find its way into municipalities' bank accounts. There is a **growing trend of non-payment** even among established businesses, whether because they cannot pay or they simply refuse to pay. Individuals and households are also not paying for the goods and services they use.

This is not a new problem; municipalities have for years been unsuccessful in converting debt into cash. The problem is growing worse, however, making it harder and harder for municipalities to pay their own bills.

At the end of the financial year, municipalities owed their creditors R53,52 billion but had only R43,20 billion in cash.

A **large portion of municipalities' unpaid debts were for basic services that citizens rely on each and every day**, such as water and electricity. Municipalities collectively owed R18,91 billion to power utility Eskom (which is itself in financial difficulties) and R9,74 billion to the water boards at the end of the financial year.

To make matters worse, most of this water and electricity debt was already 120 days overdue.

Many municipal creditors wait even longer than 120 days to be paid. On average, they had to wait 180 days (about six months) for payment in the 2018-19 year. The impact of these delays on their own businesses can be extremely damaging.

It must be said that while the poor economic climate plays a role in the deterioration of municipalities' financial health, many are just not managing their finances as well as they should be.

Losses and wastage from many sources

Collectively, 200 municipalities lost R2,07 billion on **fruitless and wasteful expenditure** in 2018-19. That was on top of the R2,2 billion wasted in the two years before that. All told, local government in South Africa has recorded R4,27 billion in fruitless and wasteful expenditure in the past three years.

This was due to poor decision-making, neglect and inefficiencies.

A major concern, for example, is the lack of attention many municipalities give to water and sanitation infrastructure. We found that over a third of municipalities responsible for water and sanitation did not assess their infrastructure in 2018-19, and 41% did not have maintenance policies. It is no surprise, then, that 36% of municipalities reported losing more than 30% of their water. The overall water losses disclosed amounted to R6,56 billion.

There was also a dramatic increase in **irregular expenditure**, which means that this money was spent in contravention of the laws on municipal finances and procurement. A common example is not following competitive bidding processes when procuring goods and services.

Irregular expenditure at municipalities jumped by R7 billion, from R25 billion reported in the previous year to R32 billion in 2018-19.

But the actual amount of irregular expenditure could be even higher. The reason is that the full amount of irregular spending at 55% of municipalities was not known (either because these municipalities gave incomplete information or simply did not know how much they had spent irregularly).

Given all these problems, it should come as no surprise that many municipalities' annual financial statements are in disarray – despite municipalities spending a total of R1,26 billion on financial reporting services from **consultants** in 2018-19.

Financial statements in disarray despite consultants' efforts

The interesting thing is that most of the 183 municipalities which hired consultants to prepare their financial statements already had in-house teams who were supposed to do this. Only 7% of municipalities that used financial services consultants did so because they had internal vacancies.

Another interesting fact about the use of these consultants is that for the most part, municipalities did not submit better financial statements as a result. On the contrary:

32 municipalities were late in submitting their financial statements for auditing.

We had still not received the financial statements of **six municipalities** by 25 March 2020.

Only **18%** of municipalities gave us financial statements without material misstatements (meaning serious errors or omissions). The rest submitted financial statements that were not credible enough for the public or council to use.

Less than a third of municipalities produced quality performance reports (reporting on whether or not they had met the service delivery and project objectives they had set for themselves when planning and budgeting).

Credible financial statements and performance reports are vital because they enable transparency and accountability. When they are incomplete or full of errors, or are not submitted at all, citizens and councils have no way of knowing how the money has been spent.

That 82% of municipalities failed to submit quality financial statements (even after paying hundreds of millions of rand to consultants to help them) shows a serious lack of transparency and accountability.

There is also a widespread culture of non-compliance with the laws governing municipalities. An alarming 91% of municipalities had material lapses in compliance during the year. The most common compliance problems had to do with the poor quality of financial statements; shortcomings in procurement and contract management; failure to prevent unauthorised, irregular and fruitless and wasteful expenditure; a lack of consequences; and poor expenditure management.

Poor reporting, poor audit results

The generally poor quality of municipalities' financial statements and performance reports is of course reflected in the audit outcomes they received for 2018-19.

Only 20 municipalities in the entire country managed to obtain a clean audit outcome, meaning only 8% prepared credible financial statements and performance reports and were in compliance with the law.

The total of 20 clean audits is a slight improvement on the 18 clean audits of the previous year, and is mostly as a result of the increased number of clean audits in the Western Cape. That province received 13 clean audits, or 65% of all the clean audits issued.

However, there was a big drop – from 105 to 91 – in unqualified audit opinions with findings (meaning the financial statements were credible but there were questions over legal compliance or performance reporting).

On the plus side, we saw a slight improvement in qualified audit outcomes, decreasing from 87 to 83, and a bigger improvement in adverse outcomes, which were down from 12 to two.

Offsetting that, however, was that the number of disclaimed audit opinions (an extremely unfavourable outcome) increased from 31 to 33.

Making matters worse, many of the municipalities with disclaimed audit outcomes are repeat cases, receiving the same poor outcomes every year, with no improvement at all.

Lack of progress

Why is it that some municipalities carry on making the same mistakes or missteps year after year, while others also start slipping further and further backwards? And why does this happen despite the AGSA's recommendations and assistance, year after year, on what municipalities can do to improve their financial and performance reporting?

As we said earlier and in last year's MFMA citizens' report, accountability is lacking.

When municipal officials ignore or break the rules or do not perform, there are seldom any consequences. Similarly, many municipalities do not routinely investigate irregular, unauthorised or fruitless and wasteful expenditure. As for their response when there are allegations of fraud or supply chain misconduct, some municipalities simply do not follow up these allegations or when they do, their investigations move painfully slow.

Thus, prohibited practices such as awarding contracts to municipal employees, their family members and councillors are still widespread.

For example:

Contracts worth **R1,2 billion** were awarded to officials of other state institutions in 2018-19. In all, 141 municipalities were implicated in this.

R474 million in contracts were awarded to close family members of employees; this was found at **77** municipalities.

Forty municipalities awarded contracts worth **R30 million** to employees and councillors.

The tendency to follow unfair or uncompetitive procurement practices continued; in fact, it has become even more common:

90% of municipalities did not follow fair and competitive procurement practices, up from **88%** in the previous year. Most of the violations, **76%**, were material.

Contract management non-compliance occurred at **49%** of municipalities; **40%** of these cases involved material non-compliance.

The most common infringements were failing to request three written quotes (114 findings), not inviting competitive bids (99 findings), and not insisting that suppliers submit declarations of interest (79 findings).

The main reasons why these prohibited practices are still so widespread are that many municipalities have poor internal controls and are inconsistent in investigating and acting against irregularities.

For example, we found that only 38% of municipalities had investigated all the non-compliance findings on supply chain management that we raised in the previous year. A further 18% investigated some of our findings, while 44% did not investigate any of them.

Of the 80 municipalities that did investigate all or some of our findings, 61% satisfactorily resolved their investigations, but the remaining 39% did not. These municipalities failed, for instance, to cancel contracts where employees had failed to disclose their interests.

Who are these municipalities that are failing to look after the resources entrusted to them, and in which provinces can they be found? On the other hand, who and where are the municipalities that are disciplined in their spending, pay their creditors on time, collect what is owing from consumers, and look after their assets and infrastructure?

Turn the page to find out.

SECTION 3

THE POSITION IN THE PROVINCES

While the overall financial position of South African municipalities is poor, even the worst-performing provinces have one or two municipalities that are managing their finances responsibly. But then, the few provinces whose audit outcomes did not deteriorate in the 2018-19 financial year have municipalities that are letting them down as well.

There are two lessons to take from this:

1. For provinces with generally poor audit outcomes, there is hope for improvement if other municipalities start following the example of the municipalities that are doing better.
2. For provinces with outcomes that are generally fair or good, it is vital to be on the alert for 'bad apples' that spoil their track records of financial responsibility and accountability.

Let's look at some of the major trends in the provinces in 2018-19.

A result that stands out is that only the Western Cape significantly improved its audit outcomes, receiving 13 out of the 20 clean audits among the country's municipalities. Gauteng, which has the second-best track record for audit outcomes, maintained its outcomes on the same level as the previous year.

Limpopo, which has long been struggling with its financial management and reporting, managed to improve its audit outcomes, while KwaZulu-Natal narrowly avoided regressing.

The audit outcomes in the other five provinces declined.

There has unfortunately been an acceleration in the financial precariousness of municipalities. While all provinces have some municipalities that are in a vulnerable financial position, this is reaching alarming levels in certain provinces. In the Free State, 80% of municipalities are financially vulnerable; and in North West, the figure stands at 65%.

The tenuous financial state of many municipalities is already having an impact on the delivery of basic municipal services, but that is not where the problem ends. The financial health of municipalities has a ripple effect on the financial health of utilities such as Eskom and the water boards, meaning that all South Africans stand to lose when municipalities do not manage their finances properly.

We also noted the impact of administrative instability – and increasingly, political instability too – on the state of municipal finances.

Vacancies at senior management level were extremely high in some provinces. For example, 49% of municipalities in the Eastern Cape had senior management vacancies.

Political instability has also taken its toll. During 2018-19, political instability and infighting were the order of the day at a number of municipalities, including some of the biggest metros such as Nelson Mandela Bay Metro in the Eastern Cape, City of Tshwane Metro and City of Johannesburg Metro in Gauteng and, to a lesser extent, City of Cape Town Metro in the Western Cape. This has weakened financial oversight and internal controls, opening the door for higher rates of irregular spending, for example.

Let's turn now to a snapshot of the audit outcomes in each province.

***Eastern Cape's** slide continues*

A **widespread lack of financial controls and project monitoring**, an ongoing culture of a lack of accountability as well as a tolerance of transgressions resulted in a further regression in audit outcomes in the province.

Only one of the province's 39 municipalities achieved a clean audit, namely Senqu in the Joe Gqabi district.

Three other municipalities in the province managed to improve their audit outcomes but many more, 13, regressed.

Some of these slipped so far backwards that they received disclaimed audit opinions (the worst possible audit outcome). In all, eight Eastern Cape municipalities were disclaimed in 2018-19, up from three in the previous year.

Of great concern is the high number of vacancies in senior management positions, resulting in dysfunctional control environments. For example, only 24% of Eastern Cape municipalities complied with supply chain management requirements during the year.

The culture of supply chain non-compliance is reflected in the high levels of irregular expenditure. This came to R2,5 billion in 2018-19 but the actual amount could be even higher: 15 municipalities were unable to provide a complete picture of their irregular expenditure and the audits of two others were still outstanding.

Given the deteriorating audit outcomes in the Eastern Cape, it is not surprising that there have been some highly publicised service delivery failures:

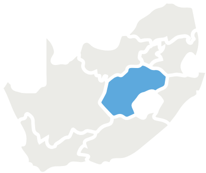
At Buffalo City Metro, various infrastructure and housing projects have been delayed for three and even four years.

Dr Beyers Naudé received R30 million from national government for drought relief, of which R25 million was spent on expenses not relating to such drought relief.

In Makana, where residents frequently went without water for extended periods, the community took the municipality to court and won. Makana has been placed under administration.

Overall, the financial health of Eastern Cape municipalities is cause for concern: only seven (19%) are in good financial health, while the finances of 43% are of concern and 38% require intervention. The financial position of 10 municipalities is particularly vulnerable.

***Free State** still fails to produce a single clean audit*



There appears to be a **deliberate lack of accountability by the political and administrative leadership** in the province.

We come to this conclusion because in the previous year, we reported a total breakdown of internal controls at municipalities and a lack of response from leadership. This was again the case in 2018-19. For example, two municipalities, Maluti-A-Phofung and Masilonyana, did not submit financial statements for two consecutive years and no action was taken.

They are not the only ones that fell short with their financial statements in 2018-19. Ten Free State municipalities did not submit their financial statements on time, which resulted in eight audits not being completed in time to be included in the AGSA's general report.

This means that almost half of the province's 23 municipalities have either not yet accounted for the way they spent taxpayers' money in 2018-19 or they did such a poor job that their financial statements cannot be trusted.

The Free State holds the dubious record of going without a single clean audit for three consecutive years.

The lack of accountability for the province's financial management has serious consequences for Free State residents. A few examples follow:

In Metsimaholo, we found that various individuals in the municipality's indigent register did not qualify for indigent status. Some of these people were government officials and people doing business with government.

The same municipality received and spent R21,7 million from national government to construct a community sports complex. On visiting the site, only a fence was visible.

In Dihlabeng, a contract of R16,7 million was awarded to a contractor even though funding of only R9,5 million was available. The contractor was paid this amount but sued when the contract was cancelled. We visited the site and found that R3 million had been paid for the project designs and R6,5 million for building materials, which the contractor was storing on his own premises.

In Moquaka, the newly activated sludge plant collapsed and sewage was pumped into the Vals River, the town's main source of drinking water. This was due to an almost complete lack of maintenance.

Overall, irregular expenditure by Free State municipalities doubled to R1,4 billion. The actual amount could be higher considering that Maluti-A-Phofung and Masilonyana did not submit financial statements and eight other municipalities had outstanding audits.

Free State municipalities owed R3,1 billion to Eskom and the water boards at the end of the 2018-19 financial year.

Our overall assessment is that not one Free State municipality is in good financial health and 13 municipalities (88%) are in need of intervention. Of these, 12 are in a vulnerable position.

***Gauteng** achieves four years of unqualified outcomes*

The province's audit outcomes held steady. Gauteng is the only province where municipalities did not have negative outcomes on their financial statements – a feat it has achieved for four years in a row.

However, of the 11 municipalities in Gauteng, only one received a clean audit. This was Midvaal, which has had clean audits for the past six years. It is the only municipality in the province that consistently produces good financial statements and has the checks and balances necessary to comply with legislation and report accurately on service delivery (performance reporting).

While the other Gauteng municipalities have **good financial accounting, they fall short in monitoring the preventative controls** necessary to ensure compliance with legislation and accurate reporting on service delivery achievements.

For these municipalities, non-compliance with legislation, especially around procurement and contracts, has been the main barrier towards achieving clean audits. This resulted in irregular expenditure increasing from R3,2 billion in the previous year to R4,6 billion in 2018-19.

The metros were responsible for most of this irregular expenditure:

- City of Tshwane Metro (R2,9 billion)
- City of Johannesburg Metro (R816 million)
- City of Ekurhuleni Metro (R413 million)

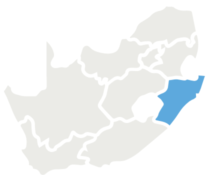
Much of this irregular expenditure was due to contracts awarded irregularly in prior years, with the metros subsequently taking steps to rectify this. For example, the City of Tshwane Metro has cancelled non-compliant contracts such as the smart prepaid meter and infrastructure project management services contracts. The fact remains that it is better to focus on controls to prevent supply chain management non-compliance than just reacting to it.

Political and administrative instability took its toll on the control environment at both the City of Johannesburg Metro and the City of Tshwane Metro. Since the city manager resigned in August 2019, Tshwane has had two acting city managers. In Johannesburg, the position of group chief financial officer was vacant for almost two years before being filled.

This is in contrast to Midvaal, which has succeeded in attracting and retaining high-level staff, thus ensuring continuity and sound institutional knowledge. Its key officials, including the municipal manager, chief financial officer and head of supply chain management, have been at the municipality for at least five years.

An area of growing concern is the financial health of Gauteng municipalities. The expanding population is placing strain on municipal finances, as are high municipal salary costs and debt-collection challenges. The only municipality considered to be in good financial health is Midvaal; the finances of four are of concern and four are in need of intervention. Of these, four municipalities are considered to be financially vulnerable.

KwaZulu-Natal *takes one step forward, one step back*



There was **little change in the audit outcomes of the province, accountability was not adequately practised and enforced by leadership, and the failure of key controls continued**.

Only one of the province's 54 municipalities, Okhahlamba in the foothills of the Drakensberg mountains in Bergville, achieved a clean audit. This was the fourth year in a row it has done so. One audit (Inkosi Langalibalele) was not finalised at the cut-off date. Of the remaining 52 municipalities, 62% received financially unqualified audits, a relatively good result compared to some of the other provinces.

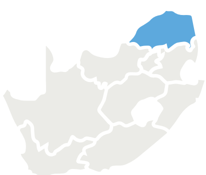
However, there was an unwelcome increase in qualified audit opinions, jumping from 15 in the previous year to 18 in 2018-19.

Quite a number of KwaZulu-Natal municipalities struggled with debt collection, which in turn affected their ability to pay their creditors. One of the worst off was eDumbe in the Zululand district, which took an average of 222 days to collect debt. Altogether, municipalities in the province owed R2,04 billion to Eskom and R0,64 billion to water boards.

Ageing water infrastructure and a lack of maintenance were serious problems for many municipalities, which experienced heavy water losses as a result. They include uThukela District, which lost water to the value of R246 million; and Msunduzi, which had water losses of R157 million. Abaqulusi lost 60% of its water and Ilembe almost 62%.

Only eight municipalities (15%) in the province were in good financial health during the year, while the finances of 36 (68%) were of concern and nine (17%) required intervention. Of these, eight municipalities were considered to be in a financially vulnerable position.

Limpopo *earns first clean audit in six years*



For the first time in over six years, the province achieved a clean municipal audit. Capricorn District in Polokwane earned this distinction, which was due to, among others, stability in the positions of chief financial officer and deputy chief financial officer, and the involvement of the mayor in the audit process.

Limpopo also reported a net improvement in audit outcomes as six municipalities improved their outcomes and three regressed.

Another improvement for the province was the reduction in the least favourable audit outcomes, disclaimed opinions, which decreased from four to one. The disclaimed municipality was Modimolle-Mookgophong, which has received a disclaimed opinion for three consecutive years.

Despite the overall improvements, Limpopo still has a long way to go. Sixteen of its municipalities received qualified audits as they were still struggling with the basics of financial reporting, legal compliance and performance management.

This was reflected in irregular expenditure ballooning from R677 million in the previous year to R1,5 billion in 2018-19.

It must also be said that there are question marks over whether the province will be able to sustain its better audit outcomes. The reason is that Limpopo relies heavily on **consultants to improve the outcomes**, spending R249 million on this in 2018-19 alone. There is very little skills transfer from the consultants to municipalities and some officials become complacent when consultants are appointed and do not perform the jobs they are appointed to do. Yet, **there are no consequences for poor performance**.

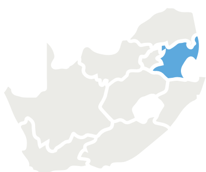
Service delivery in the province continues to be a concern. Water shortages are becoming more and more common as water losses rise, owing to leaks, ageing infrastructure, unauthorised consumption and illegal tampering with water metres. The province's water losses amounted to R341 million in 2018-19, which was R114 million more than in the year before.

Residents of Sekhukhune District near Groblersdal reportedly had no access to water for six months, while communities in Giyani have been without water for even longer.

The VBS Mutual Bank fiasco, which led to eight Limpopo municipalities losing R1,2 billion they had invested, is still having an impact on municipal service delivery. For example, Vhembe District, which lost R369 million, was unable to pay for repairs and maintenance of water pipes and boreholes in 2018-19. Makhado, which lost R63 million, could not fill critical positions.

Limpopo's financial health is poor, with only two municipalities considered to be financially healthy; 79% are of concern and 13% in need of intervention. Three municipalities are regarded as being in a financially vulnerable position.

Mpumalanga's *internal controls found wanting*



Credit must be given to the two Mpumalanga municipalities that received clean audits in 2018-19. Gert Sibande District maintained its clean audit status and Nkangala District moved up from a financially unqualified audit outcome to a clean audit.

Their success was overshadowed somewhat by the **deteriorating accountability and financial management coupled with weakened oversight** at other municipalities, where there was a blatant disregard for non-compliance and no consequences for this, as the latest regressions clearly show.

Six of Mpumalanga's 17 municipalities received worse audit outcomes than in 2018-19. Four were disclaimed opinions and two were adverse opinions, indicating just how serious the breakdowns in internal control were.

On top of this, five municipalities received qualified audit opinions, bringing the total number of unfavourable audits to 11. Then there were the two municipalities, Govan Mbeki and Dr JS Moroka, with incomplete audits.

Irregular expenditure was slightly lower, at just over R1 billion, compared to R1,1 billion in the previous year, but was probably higher given the two delayed audits. However, very little of the province's irregular expenditure was properly investigated and recovered by municipal councils.

Here are some examples of control vulnerabilities and the consequences of these:

All the municipalities bar one, Ehlanzeni District, used consultants for their financial reporting, which is supposed to be the core function of the chief financial officer. This cost municipalities some R95 million in consultant fees.

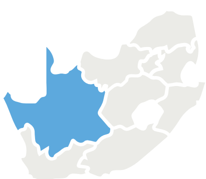
At Victor Khanye, the accounting system did not work for half the year, with the result that the municipality transacted through the bank without recording the transactions in its own system.

Emakhazeni was unable to monitor and record water and electricity losses. It also relied on consultants to do its bank reconciliations and prepare its financial statements, so no adequate reconciliations were done and there were unexplained differences between the financial statements and the municipal accounting system.

Seven municipalities did not investigate any of their previously reported irregular, unauthorised and fruitless and wasteful expenditure.

The financial health of most Mpumalanga municipalities is of concern. Only five (28%) are considered to be in good financial health, while 10 (55%) are in need of intervention and three (17%) are of concern. Seven municipalities are in a vulnerable financial position.

Northern Cape's *outcomes reflect unresponsive leadership*



The province is in a **prolonged state of undesirable audit outcomes**, with yet another overall regression – six of the 31 municipalities regressed and only three improved, while three audits had not been finalised as the financial statements were submitted late.

This sad state of affairs reflects an unresponsive leadership and ongoing breakdowns in the control environment, resulting in the abuse of supply chain management processes, a lack of proper reconciliations, inadequate scrutiny of bank accounts, and revenue lost due to system failures.

The municipal salary bill grew to R2,4 billion. The province's municipalities had a R500 million shortfall, severely affecting their ability to deliver services and pay service providers.

Debt owed to Eskom grew by 39% during the year, amounting to R1,2 billion at the end of the year.

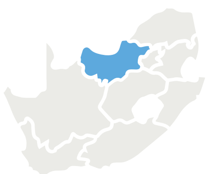
Ageing and neglected water and electricity infrastructure resulted in heavy distribution losses. For example, Sol Plaatje lost 26% of its electricity and 62% of its water, despite spending R159 million on repairs to infrastructure.

Only three (11%) Northern Cape municipalities are in good financial health, while the rest are either of concern or in need of intervention (63%). Twelve municipalities incurred a deficit and 15 (56%) were considered to be in a financially vulnerable position at year-end.

Against this backdrop of poor municipal performance, John Taolo Gaetsewe District in Kuruman stands out. It achieved a clean audit on the strength of its sound internal controls and its involved municipal manager and other senior staff members, who set the tone from the top.

Unfortunately, the clean audit status of ZF Mgcawu District regressed to financially unqualified with one compliance finding, as preventative controls were not implemented for competitive bidding. Previously, this municipality had received clean audits for six consecutive years.

North West *financial health in distress*



With nine municipalities receiving disclaimed audit opinions and eight qualified opinions, North West failed to receive a single clean audit. It was also the only province without even one unqualified audit. Accountability failures by senior management, municipal managers, mayors, internal audit units, audit committees, municipal public accounts committees and councils are indicative of **a systemic breakdown in the discipline of financial controls**.

The availability of documents to substantiate spending was a massive challenge across the province and there was little – if any – evidence that any effort had been made to address the control weaknesses flagged in the previous three years.

These oversight lapses resulted in a further eight North West municipalities being placed under administration in 2018-19, bringing the total number to 13.

The state of financial health of municipalities in the province is cause for distress. The municipal deficit increased by 243% and the equitable share, which enables municipalities to provide services to poor households, did not even cover salaries.

Irregular expenditure remained high and increased by R719,8 million. The continued increase in irregular expenditure demonstrates a culture where compliance is not proactively monitored and transgressions and poor performance are not decisively dealt with.

Progress in investigating irregular expenditure was limited, to say the least. The unresolved balance of irregular expenditure among municipalities in the province stood at R16,4 billion as at 30 June 2018, indicating the lack of political will to restore financial integrity.

Only one municipality (Dr Kenneth Kaunda District) was considered to be in good financial health, while two (12%) were of concern and 14 (82%) in need of intervention. No fewer than 65% of North West municipalities were in a vulnerable financial position.

Western Cape *financial health the strongest*

While the province showed **improved outcomes, concerns remain** at municipalities where controls were not institutionalised. More municipalities in the province struggled to collect their debt than previously but, overall, the financial management and health of Western Cape municipalities was the strongest of all the provinces.

The Western Cape has 30 municipalities and 45% of them received clean audits in 2018-19, compared to 41% in the previous year.

There was also a good improvement in the number of municipalities that received financially unqualified audits, up from 86% to 93%.

While these results are positive, three municipalities were found to have dysfunctional control environments, which can be attributed to the weak tone set by the leadership: Beaufort West and Laingsburg in the Central Karoo district as well as Kannaland in the Garden Route district.

For the second year in a row, Kannaland was late in submitting its annual financial statements, and has had no functioning internal audit unit for even longer – three years. The municipality has vacancies in key positions such as chief financial officer and supply chain manager, and skills and capacity are lacking in the finance unit.

At both Beaufort West and Laingsburg, the political and administrative leadership lacked visibility, seemed to have a high tolerance for poor audit outcomes, and displayed a lack of urgency in working towards improvements.

Debt-collection challenges are becoming more apparent across the province. Municipalities with disciplined financial management are managing the reduction in revenues by reducing their operating and capital costs, but those such as Beaufort West are going deeper into the red. This municipality's overdraft grew from R7,8 million to R12,9 million, and the large surplus of the previous year, R58,7 million, has plunged to just R600 000.

All told, 21 (72%) of the Western Cape's municipalities were found to be in good financial health, while six (21%) are of concern and two require intervention. These two are in a vulnerable financial position.

CLEAN AUDITS 2018-19 (municipalities)

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

EASTERN CAPE	Senqu
FREE STATE	No municipality in the Free State achieved a clean audit
GAUTENG	Midvaal
KWAZULU-NATAL	Okhahlamba
LIMPOPO	Capricorn District
MPUMALANGA	Gert Sibande District Nkangala District
NORTHERN CAPE	John Taolo Gaetsewe District
NORTH WEST	No municipality in North West achieved a clean audit
WESTERN CAPE	Cape Winelands District West Coast District Bergriver Cape Agulhas Cederberg Drakenstein Hessequa Langeberg Overstrand Prince Albert Saldanha Bay Theewaterskloof Witzenberg

IRREGULAR SPENDING: THE 10 WORST MUNICIPALITIES

These 10 municipalities racked up irregular expenditure amounting to R9,15 billion. This was 43% of all irregular spending that municipalities disclosed in 2018-19.

Municipality	How much?	Why?
eThekwini Metro, KwaZulu-Natal	R2,34 billion	Non-compliance with procurement processes
OR Tambo District, Eastern Cape	R0,98 billion	Non-compliance with procurement processes
City of Cape Town Metro, Western Cape	R0,95 billion	Procurement without following competitive bidding or quotation processes
Rustenburg, North West	R0,92 billion	Non-compliance with procurement processes
Mangaung Metro, Free State	R0,84 billion	Non-compliance with procurement and contract legislation
City of Johannesburg Metro, Gauteng	R0,82 billion	Procurement without competitive bidding or quotes
JB Marks, North West	R0,68 billion	Non-compliance with procurement processes
George, Western Cape	R0,62 billion	Non-compliance with procurement processes
Mopani District, Limpopo	R0,51 billion	Non-compliance with procurement processes
uMkhanyakude District, KwaZulu-Natal	R0,49 billion	Non-compliance with legislation on contracts

UNAUTHORISED SPENDING: THE 10 WORST MUNICIPALITIES

Together, these 10 municipalities had unauthorised expenditure of R5,79 billion, which was 48% of the total for the year.

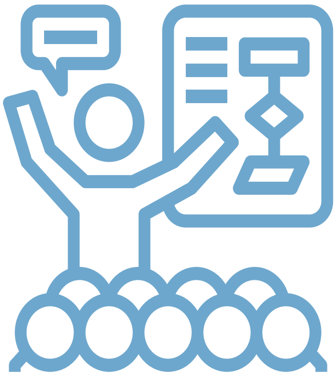
Municipality	How much was overspent?
Mangaung Metro, Free State	R1,36 billion
Rustenburg, North West	R1,04 billion
Setsoto, Free State	R0,62 billion
Vhembe District, Limpopo	R0,57 billion

Municipality	How much was overspent?
Emalahleni, Mpumalanga	R0,52 billion
City of Johannesburg Metro, Gauteng	R0,48 billion
Mnquma, Eastern Cape	R0,42 billion
City of Mbombela, Mpumalanga	R0,27 billion
Mkhondo, Mpumalanga	R0,26 billion
Bitou, Western Cape	R0,25 billion

FRUITLESS AND WASTEFUL EXPENDITURE: THE 10 WORST MUNICIPALITIES

Collectively, the 10 municipalities below were responsible for fruitless and wasteful expenditure totalling R1,21 billion. This was 58% of all fruitless and wasteful expenditure at municipalities in 2018-19.

Municipality	How much was pointless spending?	What was it spent on?
Emalahleni, Mpumalanga	R0,40 billion	Interest and penalties, mostly on debt to Eskom and water boards
Ditsobotla, North West	R0,15 billion	Interest and penalties
Lekwa, Mpumalanga	R0,12 billion	Interest and penalties
City of Johannesburg Metro, Gauteng	R0,11 billion	Unused information technology licences and discontinued projects
Ngwathe, Free State	R0,11 billion	Interest and penalties
Mopani District, Limpopo	R0,10 billion	Interest and penalties
City of Matlosana, North West	R0,07 billion	Interest and penalties
Rand West City, Gauteng	R0,05 billion	Interest and penalties
Modimolle-Mookgophong, Limpopo	R0,05 billion	Interest and penalties
Thaba Chweu, Mpumalanga	R0,04 billion	Interest and penalties



WAYS FOR CITIZENS TO PARTICIPATE ACTIVELY

When government spending is irregular, unauthorised or fruitless and wasteful, it is citizens' tax money that is being misused.

If you as a taxpaying citizen of South Africa are unhappy with the way any municipality or municipal entity is spending public funds, you have the right and the power to speak up and demand accountability to ensure that public funds are utilised responsibly.

Here are a few suggestions about what you can do:

Attend and ask questions during Parliament's public meetings such as Taking Parliament to the People (TPTTP). TPTTP is run by the National Council of Provinces and is held in a different province every year. It includes public meetings where citizens can talk about their experiences of government service delivery and related matters.

Participate in the integrated development plan (IDP) consultation meetings in your region and engage with your municipality's leadership on service delivery issues and infrastructure developments as well as service delivery plans for your ward.

Participate at local government level by attending ward committee meetings.

Participate in civil society or community-based organisations' meetings.

SECTION 4

CHANGE IS IN THE AIR AS EXPANDED POWERS OPEN A NEW CHAPTER

The single most important characteristic of a well-functioning, financially stable municipality is effective leadership willing and able to ensure proper administration and superintendence of the municipality's financial affairs.

The AGSA's audits have for many years been highlighting the failure of local government to prevent irregularities and, when these occur, to take appropriate action. This failure was evident yet again in 2018-19, when irregular expenditure rose but little was done to deal with it. We saw a similar lack of action on potential fraud and corruption, and a general disregard for our findings and recommendations.

While this unresponsiveness may seem depressingly familiar, change is in the air. On 1 April 2019, the amendments to the Public Audit Act became effective and the AGSA began exercising the extended powers introduced by these amendments.

These extended powers introduced the concept of a material irregularity and are activated when we report such an irregularity to a municipal manager and they do not take appropriate and timely action to address it.

On 1 April 2019, the day the expanded powers took effect, we began implementing the material irregularity process at nine selected municipalities. The selection was based on their history of irregular spending and audit outcomes. In this phase, we focused on legal non-compliance that has resulted in, or is likely to result in, a material financial loss.

Here is a summary of what we found:

At two of the selected municipalities, eThekwini Metro in KwaZulu-Natal and the City of Cape Town Metro in the Western Cape, no material irregularities were identified during our audits.

At Nelson Mandela Bay Metro in the Eastern Cape, material irregularities were identified but were classified as 'other' material irregularities in the audit report as we could not finalise the process of receiving and assessing the metro's response before finalising the audit.

At three of the municipalities, our audits were still under way on 31 March 2020 and so we cannot yet report on these. These municipalities are Matjhabeng in the Free State, Mogalakwena in Limpopo, and Dr JS Moroka in Mpumalanga.

At the remaining three municipalities, we identified a total of six material irregularities that resulted in a financial loss of R24 499 866:

- o Three of the material irregularities were identified at Ngaka Modiri Molema District in North West
- o Two material irregularities were identified at the City of Tshwane Metro in Gauteng
- o One material irregularity was identified at Ga-Segonyana in the Northern Cape

The municipal managers concerned reacted positively to the notifications they received of the material irregularities we identified, and all are taking appropriate action to address these. Some had already started taking action within the 20 working days we gave them to respond.

Here is a summary of the action being taken at these three municipalities:

Municipality	Description	Action being taken by municipal manager
Ngaka Modiri Molema District	A failure by the municipality to monitor a contract for construction work to the municipal office building and gate house resulted in a contract extension that included items which had already been paid for as part of the original contract – this resulted in costs that could have been avoided.	The municipal manager plans to request access to a report from an investigation commissioned by the provincial treasury on the awarding of the contract and extension to the contractor. If the report is not provided, an independent investigation will be commissioned by the municipal manager by 15 June 2020. Further steps will be taken based on the outcome of the investigation.
	The claims from a supplier of water tankering services were paid without ensuring that the services had actually been rendered and that the claims were based on actual kilometres travelled – this resulted in an overpayment to the supplier.	The municipal manager will appoint an independent party in February 2020 to investigate the claims and quantify the financial loss. Further steps will be taken based on the outcome of the investigation.
	Poor safeguarding of assets resulted in a material write-off of assets that could not be located during the year-end asset verification process. The assets are presumed to have been stolen.	The municipal manager plans a full asset verification process and investigation into the missing assets by 31 March 2020. Further steps will be taken based on the outcome of the investigation by 30 April 2020.

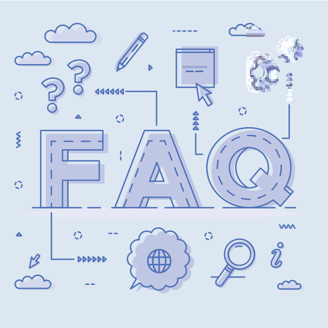
Municipality	Description	Action being taken by municipal manager
City of Tshwane Metro	The municipality did not take all reasonable steps to safeguard the assets at the Annlin reservoir project, resulting in assets being stolen and vandalised on 8 January 2018.	The municipal manager reported the matter to the South African Police Service and commissioned an investigation by the internal forensic services division to be completed by 30 June 2020. Steps were taken to improve security at the site and a security company is planned to be appointed by 31 March 2020 in order to prevent further losses.
	The municipality did not take all reasonable steps to safeguard the assets at the Baviaanspoort water treatment plant, resulting in assets being stolen and vandalised on 10 February 2016.	The municipal manager reported the matter to the South African Police Service and arrests were made. An investigation by the internal forensic services division was commissioned to be completed by 30 June 2020. Steps were taken to improve security at the site and a security company is planned to be appointed by 31 March 2020 in order to prevent further losses. An insurance company reimbursed R174 716 of the loss.
Ga-Segonyana	A contract was awarded on 8 February 2019 to a supplier of protective clothing without following a competitive bidding process. The basis for deviation was impracticality, which was not a valid reason. The prices of the goods were significantly higher than market prices.	The municipal manager instituted an investigation into the matter on 3 March 2020. Based on the outcome of the investigation, disciplinary steps will be taken and financial losses recovered.

NEXT STEPS

We will be following up to confirm that the municipal managers concerned have followed through on their undertakings, including the recovery of financial losses, and will also complete the outstanding audits.

This is just the first phase of implementing our expanded powers. Over the next few years, we will continue with a phased approach, progressively increasing the extent of the work we do until it is fully implemented at all municipalities across South Africa.

FREQUENTLY ASKED QUESTIONS



Q. What is the extended mandate of the auditor-general (AG)?

A: The AG has the power to:

- refer material irregularities to the relevant public bodies for further investigation in accordance with their mandate
- take binding remedial action for failure to implement the AG's recommendations regarding material irregularities
- issue a certificate of debt for failure to implement the remedial action if financial loss was involved.

Q. What is a material irregularity (MI)?

A: An MI is 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 (PAA) which 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.

Q. What process will be followed when material irregularities are identified during an audit?

A:

- Identify the MI during the normal regularity audit.
- Notify the accounting officer (AO) or accounting authority (AA) of the MI and provide 20 working days for them to respond on actions taken and/or planned.
- Conclude based on the AO/AA response whether appropriate action was taken or is planned to be taken.
- If actions were not appropriate, include recommendations in the audit report on how the MI should be addressed by a specific date (e.g. within 6 months).
- Follow up to determine whether the recommendations have been implemented. If not, issue a notice for remedial action to the AO/AA which must be implemented by a specific date (e.g. within 3 months).

Q. How will the referral process work?

A:

- Identify appropriate public body and submit referral and supporting documents.
- Receive acknowledgement of receipt and an indication of whether referral is accepted, with a commencement date.
- Notify AO/AA and engagement manager of referral.
- Receive progress updates from public body.
- Receive report on outcome of investigation.
- Public body publishes the report or findings.
- The AGSA will include the progress on referrals in its accountability reports.

Q. How long is the referral process?

A: The PAA does not prescribe specific timelines within which the public bodies must conduct the investigations referred to them by the AG. The duration of an investigation depends on a number of factors. Each investigation must be assessed on its own merits by considering, among others, the following: nature and extent of allegations; scope of investigation (if allegations relate to multiple periods); complexity of matters to be investigated; and availability of information and systems. Therefore, the duration of a referred investigation cannot be determined by following a blanket, one-size-fits-all approach.

Q. Why does it take that long?

A: The process includes several steps meant to ensure that the rights of the AO/AA are fully protected and that their right of reply is respected. When MIs are identified, the AG will at all times afford the AO/AA an opportunity to address the MI in line with the provisions of applicable legislation. The AG's powers only kick in if the MI is not addressed. These safeguards add to the time spent on dealing with MIs.

Q. When does the AG issue remedial action?

A: Remedial action is triggered by the lack of implementation of the recommendations included in the audit reports.

Q. What process will be followed when issuing a certificate of debt (CoD)?

A:

- Determine financial loss if not determined or inaccurately determined by the AO/AA and notify the AO or individual members of the AA who had failed to implement remedial actions of the intent to issue a CoD and request written representation within 20 days.
- Receive written representation and assess whether the AG should continue with CoD.
- Notify the AO or individual members of the AA of the intent to issue a CoD and invite them to make an oral presentation to the advisory committee (an external independent committee) by the stipulated date.
- Receive recommendations from advisory committee, consider the recommendations, make a decision and inform the AO or individual members of the AA accordingly.
- Serve the CoD on the AO or individual members of the AA in a prescribed form, signed by the AG, and present a copy thereof on the executive authority, who should recover the debt and provide feedback on progress.

Q. What is the difference between a material irregularity and irregular expenditure?

A:

- An MI is any non-compliance with, or contravention of legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the PAA which 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.
- Irregular expenditure is expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation.

Q. What is the difference in value between irregular expenditure and a material irregularity?

A:

- Irregular expenditure: The value is the expenditure to date.
- MI: An MI does not necessarily have to have a value. If the MI relates to financial loss, it will be the value of the loss suffered.

Q. Will the certificate of debt issued to the accounting officer be paid from public funds?

A: No, the amount on the CoD will be paid by the AO in his/her personal capacity using his/her own funds. The money is paid to the state and will become available to spend on matters that benefit the public.

Q. What is the role of the minister after the certificate of debt has been issued to the accounting officer?

A: Section 5B(2) of the PAA provides that the responsible minister must collect the amount specified in the CoD from the AO in terms of the applicable debt-recovery processes. Therefore, the role of the minister is to collect the money and to keep the AG informed of the recovery progress. It is important to note that the responsible minister's efforts to collect the money will be monitored and reported to Parliament. This is done in the AGSA's general reports and annual reports. Regulation 20 of the MI Regulations deals in detail with the collection of the amount specified in the CoD.

To access the content of this report on our website, simply use the **QR code scanner** on your mobile phone or tablet to scan the code.

ANNEXURES

The annexures containing information on the following are available on **www.agsa.co.za** *(our website):*

- **Annexure 1**: Auditees' audit outcomes; areas qualified; and findings on performance reports, compliance, specific risk areas and unauthorised, irregular as well as fruitless and wasteful expenditure
- **Annexure 2**: Auditees' financial health indicators, supply chain management findings and root causes
- **Annexure 3**: Auditees' audit opinions over the past five years
- **Annexure 4**: Assessment of auditees' key controls at the time of the audit

PRODUCTS OF THE AGSA

The AGSA annually produces audit reports on all government departments, public entities, municipalities and municipal entities.

Over and above these entity specific reports, the audit outcomes are analysed in the general reports that cover both the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) cycles.

The AGSA tables reports to the legislature with a direct interest in the audit, namely Parliament, provincial legislature or municipal councils. The reports are then used in accordance with their own rules and procedures for oversight.

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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