



AUDITOR - GENERAL  
SOUTH AFRICA

# MEDIA RELEASE

1 July 2020

## Auditor-general releases municipal audit results under the theme - “not much to go around, yet not the right hands at the till”

PRETORIA – Auditor-General (AG) Kimi Makwetu today released the audit outcomes for local government for the period 2018-19. He titled this report *Not much to go around, yet not the right hands at the till* to reflect the state of financial management in local government.

In his latest local government general report the AG paints an undesirable picture of billions of rand in funds allocated to municipalities being managed “in ways that are contrary to the prescripts and recognised accounting disciplines”. He strongly cautions that these administrative and governance lapses “make for very weak accountability and the consequent exposure to abuse of the public purse”.

This is Makwetu’s last municipal audit report as his fixed seven-year term as the country’s AG comes to an end on 30 November 2020.

## The safe and clean hands that can be relied upon to look after the public’s finances in local government are few and far between

In the report Makwetu elaborates on the theme for his report. He explains that services are rendered and goods are delivered to consumers in all municipalities with the expectation that they will pay for them. Yet there has been a growing trend of established businesses across the chain showing signs of a diminishing ability to pay for these services, or completely refusing to pay.

Individuals and households also feel the same pressures and are not forthcoming with payments for these consumed goods and services. To illustrate the prevalence and pervasiveness of this across the country, on average almost 60% of the revenue shown in the books will never find its way into the bank accounts of the municipality. The accounts covered in this report already take into account the extent of this impairment. The system has generally been unsuccessful in converting debt into cash over a number of years, as evidenced by the age of the debt. However, this does not mean that the constant pursuit of this money should cease.

In the meantime, those that render services on behalf of the municipality or provide administrative and other functions continue to receive their income, largely and almost exclusively in some cases from the income that is raised from the national purse. This area of municipal finances is compounded by the fact that not all those that are part of the payroll were brought along with the intention to directly deliver the services that are part of the municipality's plans. This leaves the municipality with little else to do but to seek external help – even in areas where they already have warm bodies in employment. This comes at a significant cost paid to consultants. The common consequence of this is that those that provide goods and services with a promise to be paid in the future have to wait for new money to be allocated for future spending before they can be paid for past deliverables. The ultimate outcome of this is an inevitable downward spiral to a financial cul-de-sac that many of the local municipalities and districts have already reached across the whole country, with a few and limited exceptions.

Fundamentally, this is what characterises the outcomes of the audit of financial statements of local government across the country. Makwetu notes that it should be appreciated that there are some exceptions - a large number of which are concentrated in the Western Cape (although there are dotted areas of concern in the Central Karoo and Garden Route districts of this province).

When the different audit conclusions are analysed in this report, the above context must always be kept in mind. It is no longer about an accelerated drive to achieve a particular audit conclusion, but whether the municipality is investing in qualitative and preventative

controls to avert this systematic decline in financial fortunes within a sphere where all matters. Makwetu warns that the value of this report should therefore not be about a clever, intelligent analysis of concepts where the temptation is to rationalise the problem as if to soften the blow or divert attention from the core issues. It should rather be about “how firm steps are going to be taken to restore the integrity of these institutions and place them in a position to manage their finances towards the achievement of citizens’ needs”.

Since taking over as the head of the country’s supreme audit institution in 2013, Makwetu has persistently called on those charged with administration and oversight to look at basic systems and controls as the foundation for proper accountability to the citizens of the country, to ensure that taxpayers’ monies are spent in a disciplined manner in line with the prescripts set out in the many pieces of legislation governing the proper running of municipalities and that citizens can derive the expected benefits from this spending.

However, in his final local government report, the AG tells a disturbing story of most municipalities “crippled by debt and being unable to pay for water and electricity; inaccurate and lacklustre revenue collection; expenditure that is unauthorised, irregular, fruitless and wasteful; and a high dependence on grants and assistance from national government”.

### **The few municipalities whose diligence reflects the desirable story**

Makwetu acknowledges the efforts of those municipalities that have worked hard to ensure that they not only received or maintained clean audits, but also tell a positive story of how they run their municipalities.

“The financial statements of a municipality tell the story of how well a municipality is managed. As is the case with these few municipalities, it can be a good story of disciplined spending that achieves value for money; meticulous billing and collecting practices; assets that are maintained and safeguarded; careful investments and savings for emergencies and future projects; and commitments to creditors and the community being honoured,” he noted.

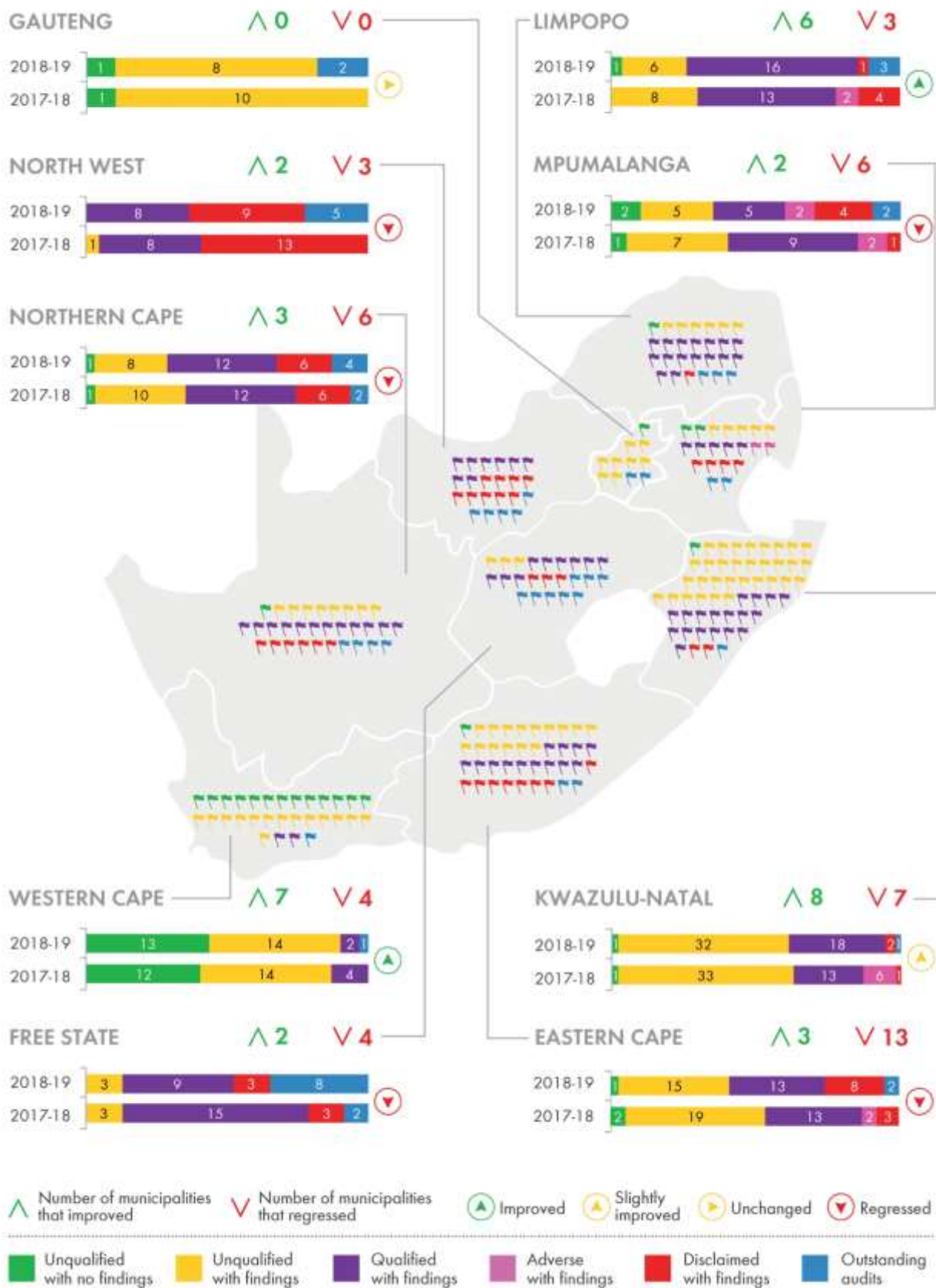
Thirteen of these municipalities are in the Western Cape and included Cape Winelands and West Coast district municipalities, Bergriver, Cape Agulhas, Cederberg, Drakenstein, Hessequa, Langeberg, Overstrand, Prince Albert, Saldanha Bay, Theewaterskloof and Witzenberg. Other municipalities that consistently perform well are Senqu (Eastern Cape), Midvaal (Gauteng), Okhahlamba (KwaZulu-Natal), Capricorn district municipality (Limpopo), Gert Sibanda and Nkangala district municipalities (Mpumalanga), and John Taolo Gaetsewe district municipality (Northern Cape).

The best practices at these municipalities included a stable leadership that is committed to a strong control environment and effective governance. Continuous monitoring of audit action plans in order to timeously address any audit findings and a proactive approach to dealing with emerging risks were also common features at these municipalities.

The 2018-19 report narrates a story of how the efforts of these diligent municipalities had been overshadowed by the overall regression in audit outcomes.

The graph below shows a breakdown of audit outcomes per province:

### AUDIT OUTCOMES PER PROVINCE



## A. The stories emerging from the provinces

The summary below tells a story of how the various provinces, in alphabetical order, performed in the year under review.

### Eastern Cape

The AG's report tells a story of a widespread lack of financial controls and project monitoring, an ongoing culture of a lack of accountability as well as a tolerance of transgressions, which resulted in a further regression in audit outcomes in the province – improvements were rare and the general trend over the past three years remained negative. Eight municipalities were unable to adequately support the information reported in their financial statements and received disclaimed opinions.

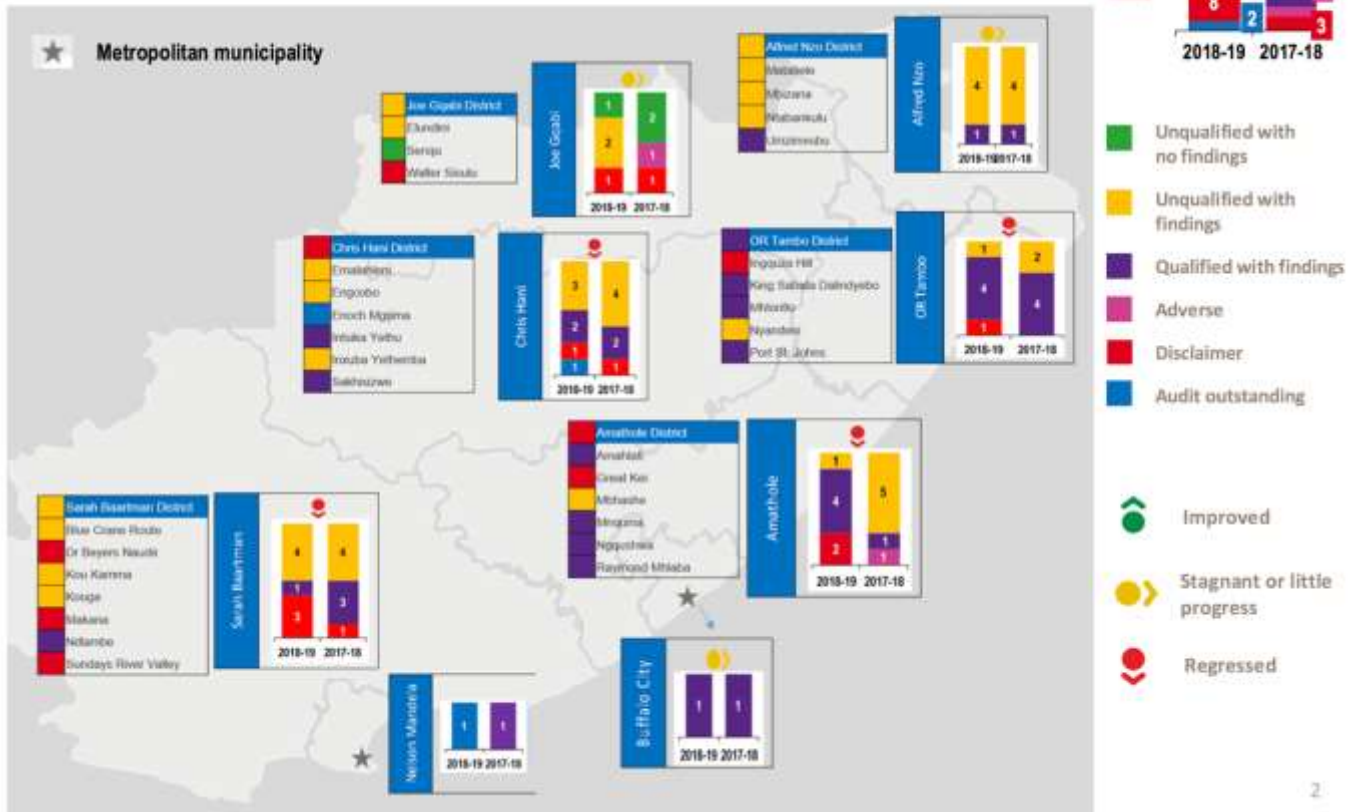
Instead of the responsible and diligent financial management of the limited resources available, there were dysfunctional control environments; extensive disorder in accounting records; prolonged vacancies in key positions and instability in councils; poor procurement processes; no consequences for poor performance and transgressions; and unreliable reporting on municipal finances and programmes.

The report indicates irregular expenditure of R2,5 billion incurred during the year under review. A further R4,2 billion was flagged for audits finalised subsequent to the cut-off date for this report.

The province spent a total of R118 million on consulting costs for financial reporting. Of this, R2 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

# Eastern Cape – audit outcomes per district

Widespread lack of financial controls and project monitoring



## Free State

The audit outcomes in the province continued to regress for the third consecutive year. Ten municipalities did not submit financial statements on time – even more than in prior years, which resulted in eight audits not having been completed by the time of the AG’s general report. Additionally, three municipalities received disclaimed opinions. This means that almost half of the municipalities in the Free State have not yet accounted for the manner in which they used taxpayers’ money in 2018-19 or did it so poorly that their financial statements cannot be trusted.

The outcomes were characterised by a lack of basic financial disciplines, an unwillingness to comply with legislation, and a general disregard for internal controls and accountability.

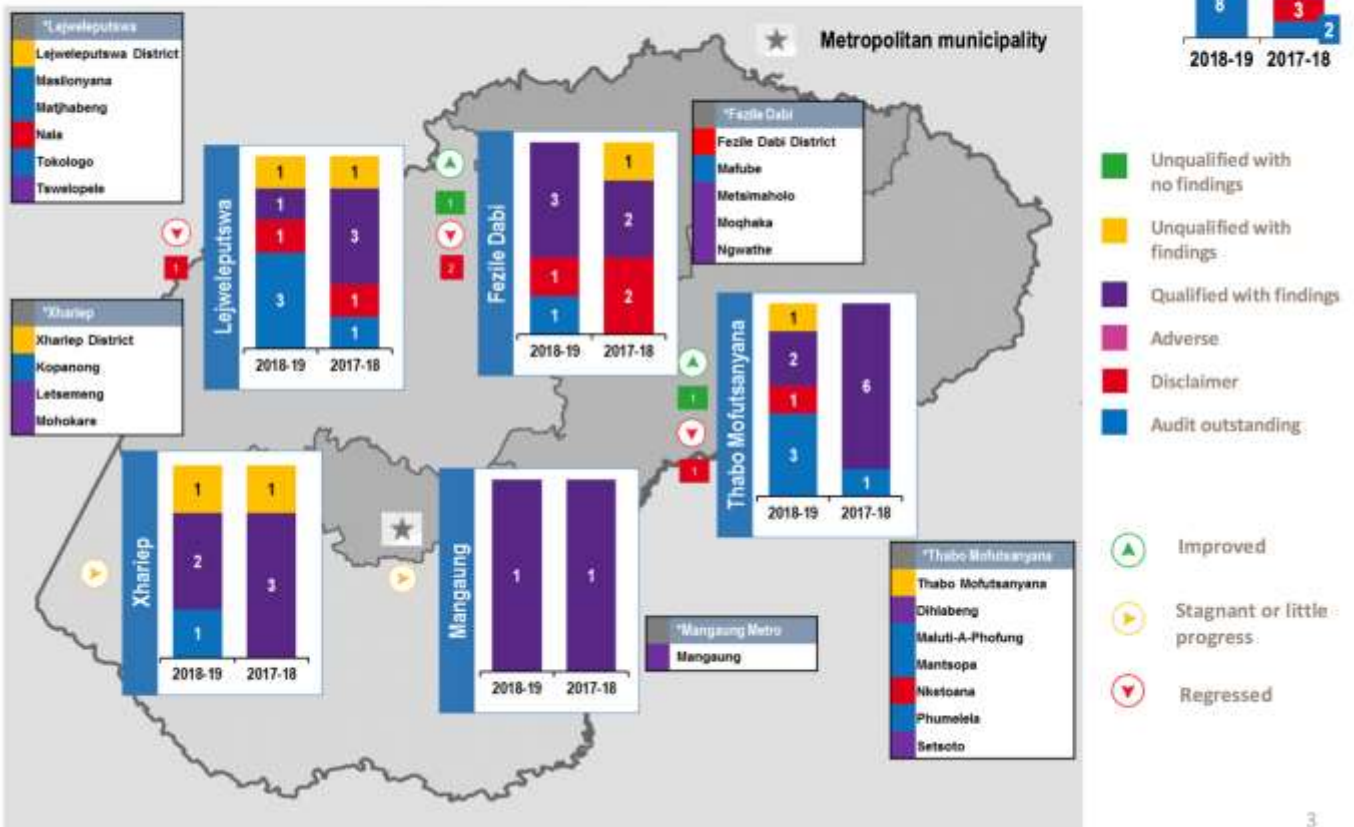


The province's irregular expenditure totalled R1,4 billion for the year under review. A further R341,6 million in irregular expenditure was identified in audits finalised subsequent to the cut-off date for this report.

The province spent a total of R46 million on consultants to assist with financial reporting, although this had little impact on the quality of financial statements submitted for auditing. Of this, R17 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report. The lack of skills transfer from consultants to municipalities was evident by some officials not even being able to provide the most basic of financial information without the help of a consultant.

### Free State – audit outcomes per district

Deliberate lack of accountability by political and administrative leadership





## Gauteng

The picture in Gauteng held steady with all municipalities again maintaining their good audit outcomes. This was the only province in which all the municipalities had unqualified audit opinions, but as in prior years only Midvaal obtained a clean audit opinion. This continued to elude the other municipalities due to good financial accounting but inadequate monitoring of the preventative controls necessary to ensure compliance with legislation and accurate reporting on service delivery achievements.

Municipalities that have both attracted and retained staff with the right skills have benefited from this continuity and managed to maintain good audit outcomes. By contrast, municipalities characterised by instability in political or administrative leadership, such as the City of Tshwane and City of Johannesburg metros, were unable to improve their outcomes.

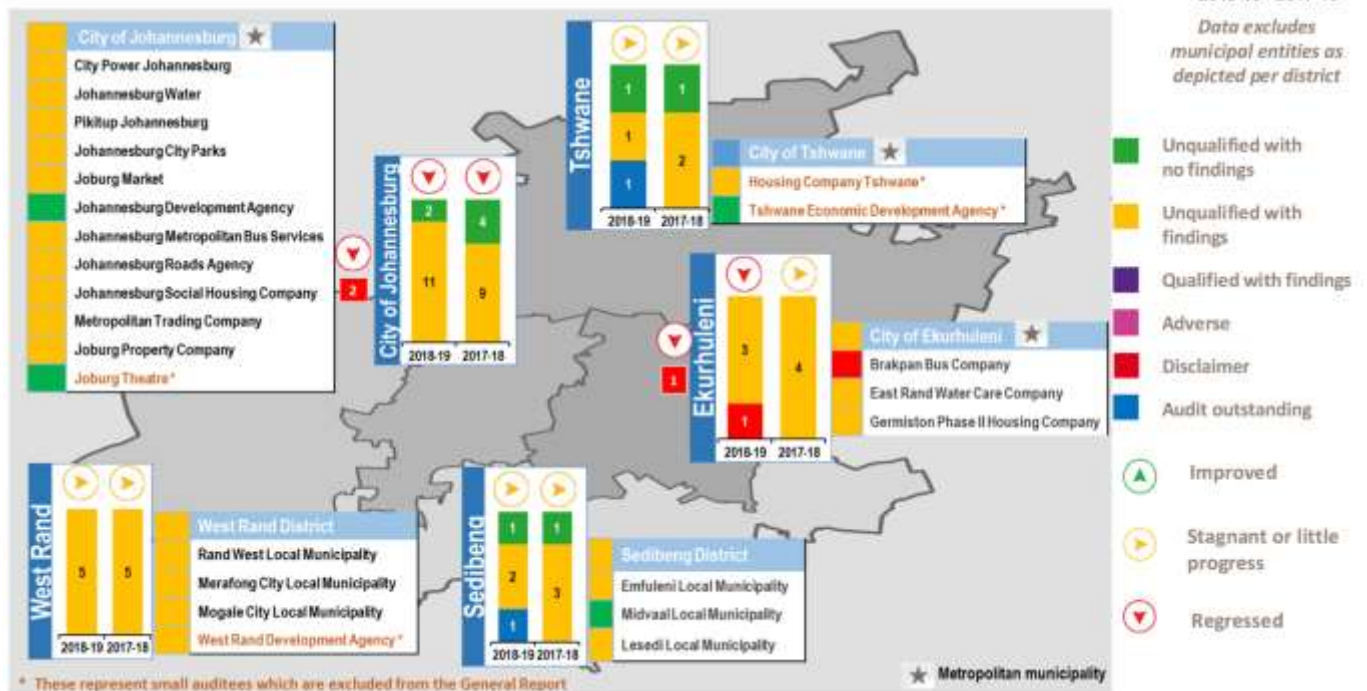
Irregular expenditure in this province amounted to R1,7 billion for municipalities. A further R3,3 billion was reported for audits finalised subsequent to the cut-off date for this report, with the City of Tshwane Metro, accounting for R2,9 billion of this amount and Emfuleni R358 million.

Municipal entities in this province incurred R1,8 billion of irregular expenditure in the period of review.

The province spent a total of R341 million on consulting costs for financial reporting. Of this, R312 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

## Gauteng – audit outcomes per district

Good financial accounting with inadequate monitoring of preventative controls



## KwaZulu-Natal

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.

Most district municipalities continued to struggle with basic financial and performance management processes, displayed a lack of responsiveness to implement and monitor action plans, and had weak governance structures that did not enable effective accountability.

Leadership did not always influence robust systems of internal control to drive good governance and discipline – more focus must be placed on exercising political oversight and addressing the aspirations of citizens.



## Limpopo

Six municipalities in the province improved their audit outcomes and three regressed. The improvements were mostly consultant-driven, but despite the province having spent a total of R249 million on consultants for financial reporting purposes, many municipalities continued to receive qualified opinions. Of this, R127 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

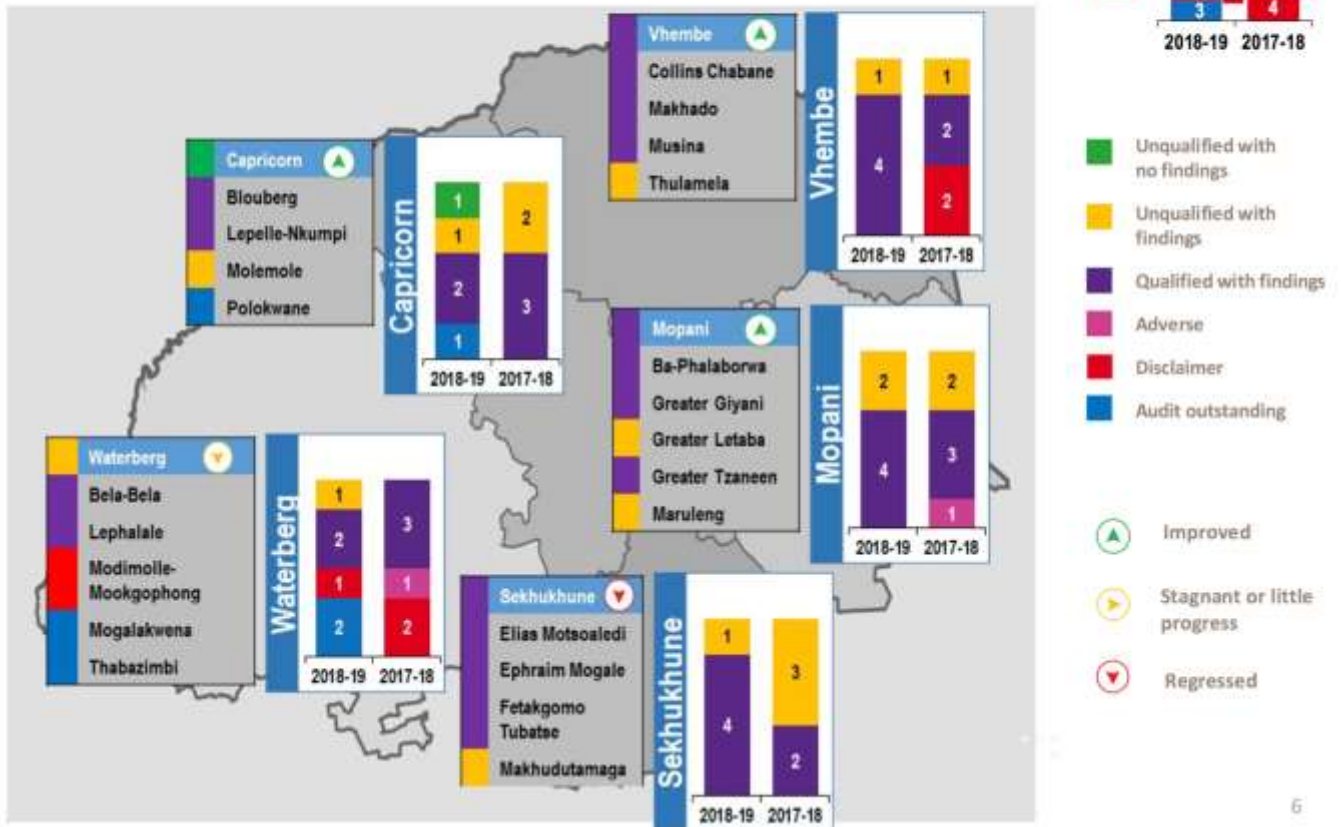
There was a high reliance on consultants, skills were not transferred, and some officials became complacent when consultants were appointed and did not perform the jobs they were appointed to do, raising questions about municipalities paying for officials and consultants to do the same job. Millions were spent to improve the outcomes, but there were no consequences for poor performance.

The impact of the R1,2 billion loss following the liquidation of VBS Mutual Bank is still being felt by the municipalities concerned, where service delivery has been affected.

The province's irregular expenditure totalled R1,5 billion for the year under review. Another R594 million in irregular expenditure was reported for audits finalised after the cut-off date for this report.

## Limpopo – audit outcomes per district

Millions spent to improve audit outcomes – yet no consequences for poor performance



6

### Mpumalanga

Deteriorating accountability and financial management coupled with weakened oversight is at the centre of the significant regressions in audit outcomes in the province – six municipalities regressed and only two improved. There was a breakdown in internal control across various municipalities, which included basic financial disciplines such as record keeping, reconciliations and verifications.

Only two municipalities that made use of consultants improved their audit outcomes despite consultants being used to do the work of employed staff. The province spent a total of R98 million on consulting costs for financial reporting. Of this, R3 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

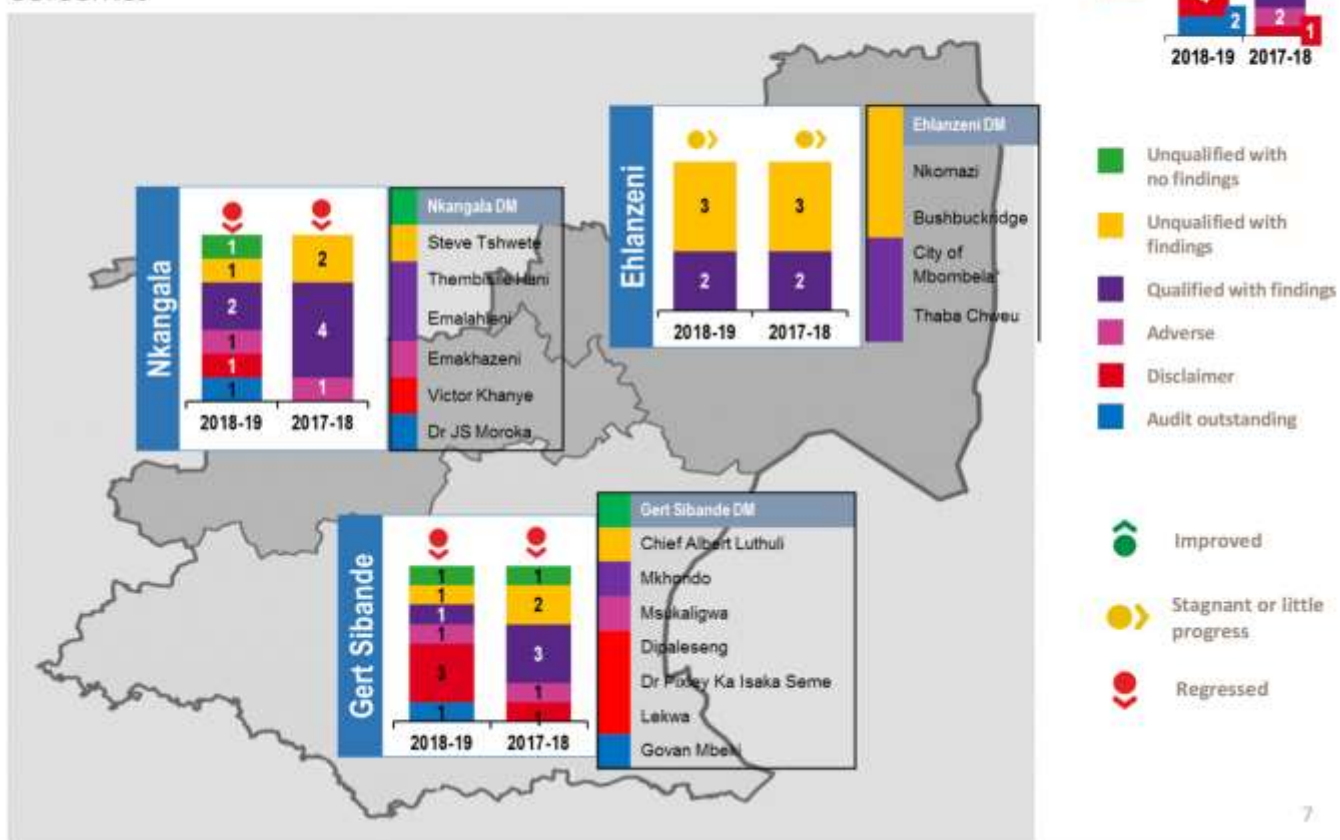


A trend of underspending on conditional grants reflects poor planning by municipalities – a total of R154,3 million was unspent.

The province's irregular expenditure totalled R1,09 billion for the year under review. A further R358 million was flagged for audits finalised subsequent to the cut-off date for this report.

## Mpumalanga – audit outcomes per district

Deteriorating accountability and financial management coupled with weakened oversight at the centre of the significant regressions in audit outcomes



## Northern Cape

The province is in a prolonged state of undesirable audit outcomes, with yet another overall regression – six municipalities regressed and only three improved.

The breakdown in the control environment continued with little response by the leadership to the messages of the Auditor-General of South Africa (AGSA) to implement preventative controls. The result has been an environment in which supply chain



management processes are abused; bank accounts are not properly scrutinised; revenue is lost due to system failures and transactions that are recorded twice; and proper reconciliations are not performed.

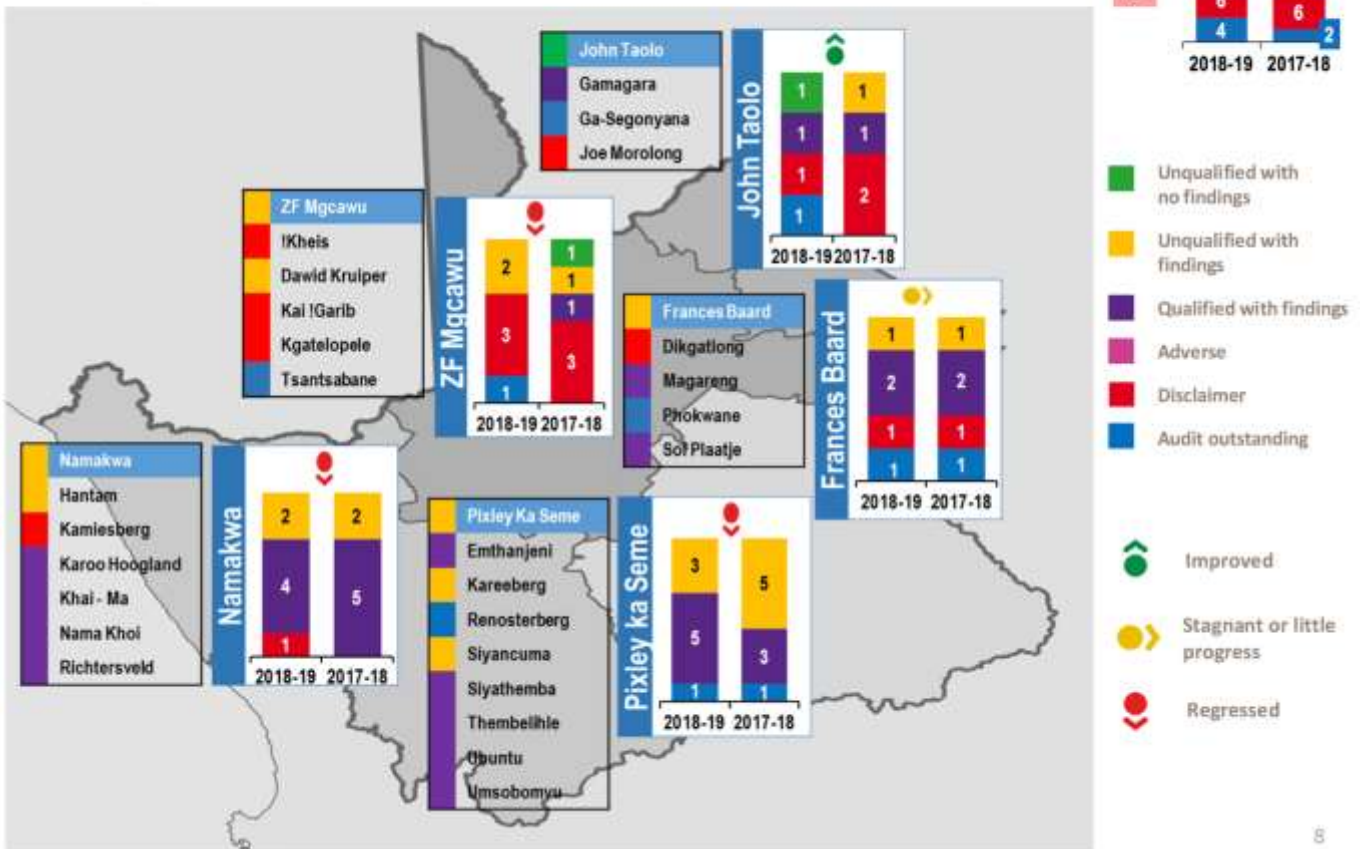
For the year under review, the municipalities in the province incurred irregular expenditure totalling R390 million.

The province spent a total of R47 million on consultant costs for financial reporting. Of this amount, R12 million related to audits finalised after the cut-off date for the report.

Despite the overall poor performance of municipalities in the province, a handful of municipalities continued to deliver good audit results, such as the John Taolo Gaetsewe district municipality that achieved a clean audit outcome.

## Northern Cape – audit outcomes per district

A prolonged state of undesirable audit outcomes



## North West

The regression in audit outcomes completes a three-year downward trajectory in the province: nine municipalities received disclaimed opinions and eight received qualified opinions. The availability of documents or evidence to support financial activities remained a vast challenge across the municipalities, as evidenced by the number of repeat disclaimed opinions. The inability of the province to reverse the trend of negative audit outcomes points to a culture that is not proactive in dealing with control weaknesses flagged in prior years.

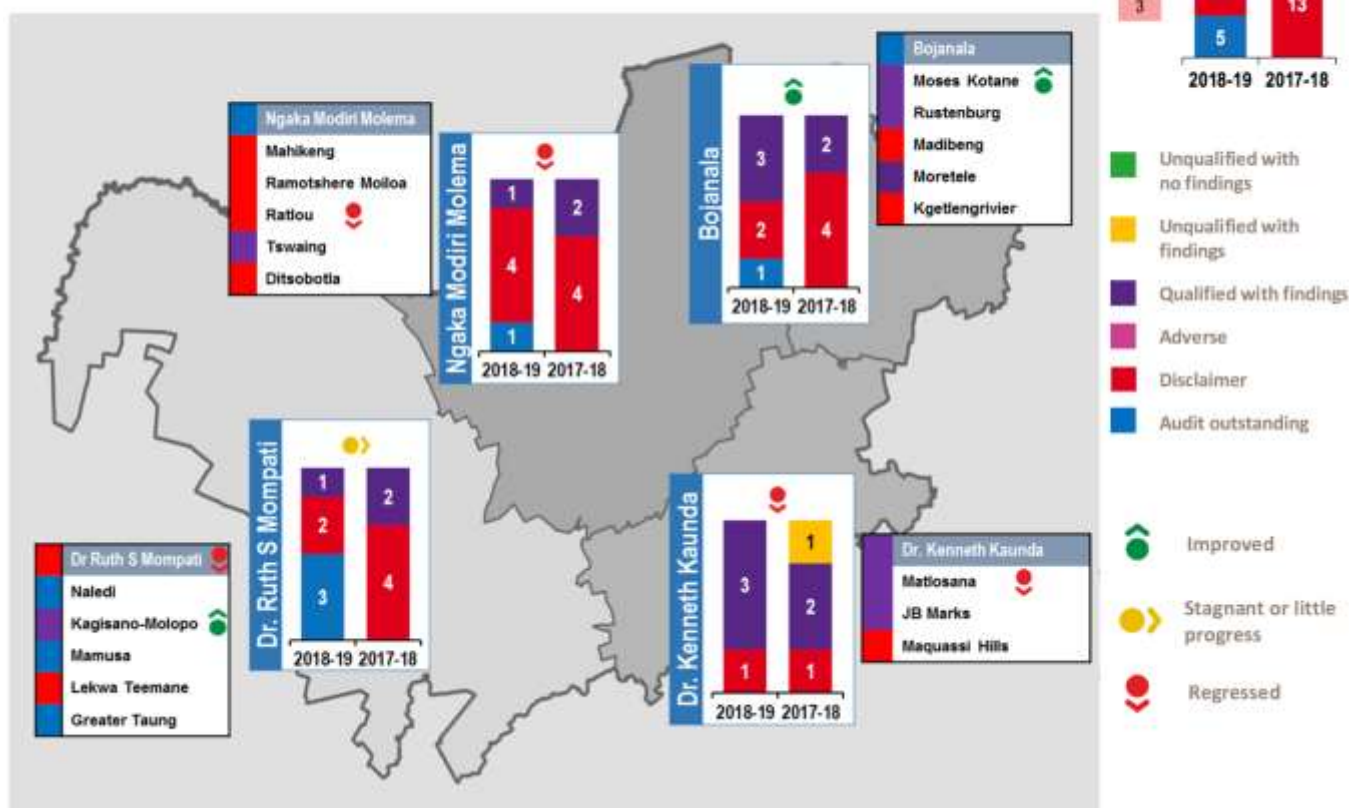
Accountability failures by senior management, municipal managers, mayors, internal audit units, audit committees, municipal public accounts committees and councils are indicative of a systemic breakdown in the discipline of financial control.

For the year under review, the municipalities in the province incurred irregular expenditure totalling R3,7 billion, with a further R1,8 billion relating to audits finalised after the cut-off date for this report.

The cost of using consultants amounted to R227 million for financial reporting, with municipalities paying their staff and the consultants for the same service without any value being realised and resulting in a waste of scarce public resources. Of this, R47 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

## North West – audit outcomes per district

Systemic breakdown in the discipline of financial controls



## Western Cape

The largest concentration of clean audits remained in the Western Cape (45%), with 93% of the province’s municipalities receiving unqualified opinions on their financial statements. Eight municipalities retained their clean audit status – six of which have maintained this status for the past five years or longer.

Municipalities that sustained their clean outcomes are characterised by control environments that are institutionalised, preventative in nature and reinforced by a strong tone set by leadership. This includes operational controls that are institutionalised within their systems independent of individuals, which implies that staff turnover will not result in the failure of controls. In addition, there is a low tolerance by management for audit findings and a high level of accountability; and all the relevant assurance providers know their roles and do their part in the control environment.

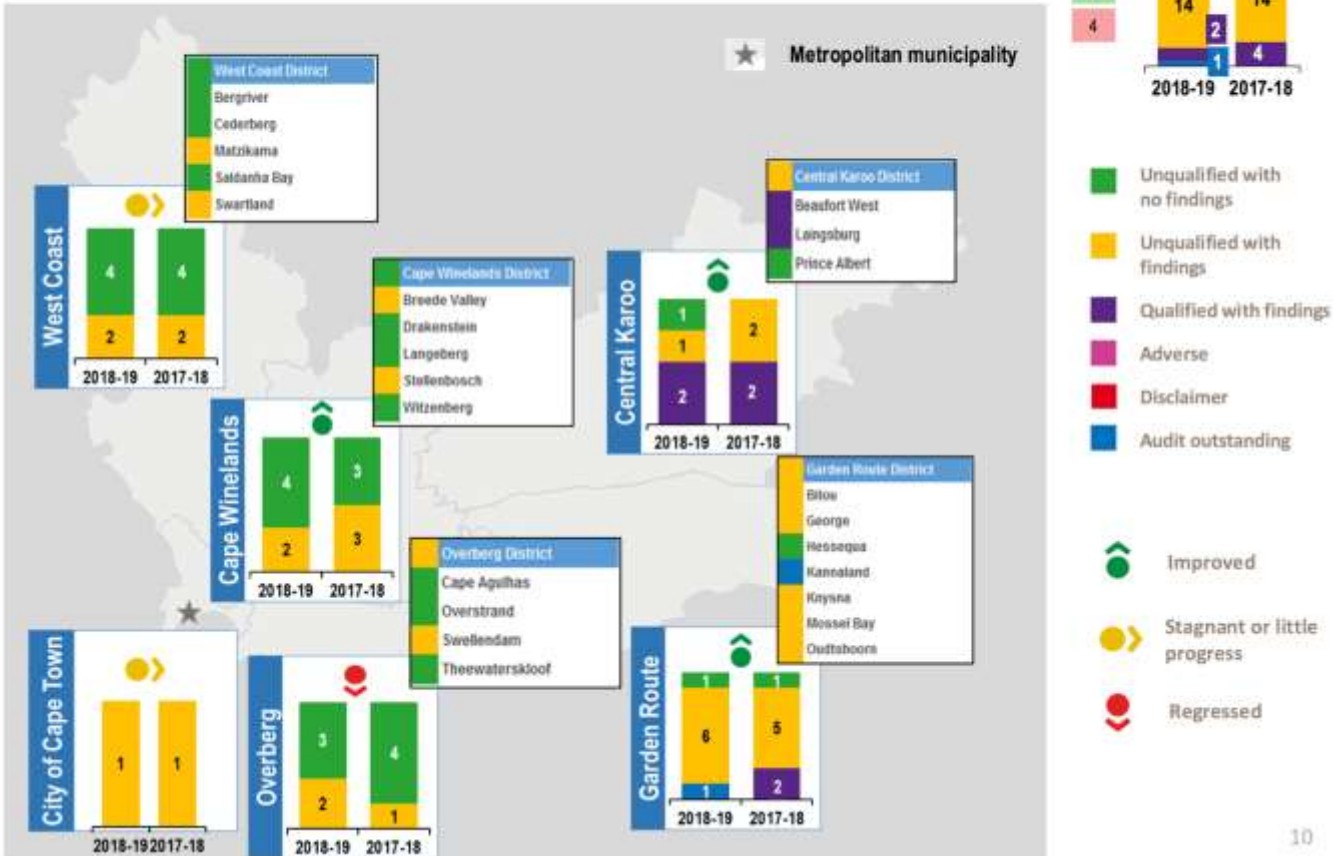
The financial statements generally correlated with the socio-economic climate of the respective municipalities as well as the AGSA's assessment of financial discipline. More municipalities struggled to collect their debt, but overall the financial health of Western Cape municipalities was the strongest of all the provinces.

For the year under review, the municipalities in the province incurred irregular expenditure totalling R2,7 billion.

The province spent a total of R42 million on consulting costs for financial reporting. Of this, R1 million was spent by municipalities whose audits had not been finalised by the cut-off date of the report.

### Western Cape – audit outcomes per district

Improved outcomes but concerns remain



## B. The audit outcomes at a glance

In its annual audits, the AGSA examines the following aspects:

- Fair presentation and absence of material misstatements in financial statements
- Reliable and credible performance information for purposes of reporting on predetermined performance objectives
- Compliance with key legislation governing financial matters

The audited institution achieves a clean audit when its financial statements are unqualified, with no findings in respect of reporting on predetermined objectives and compliance with legislation.

### The overall national trends

For the period under review, the AGSA audited 257 municipalities and 21 municipal entities. The AG's report includes the audit outcomes of 229 municipalities, as the audits of 28 municipalities had not yet been completed by the 31 January 2020 cut-off date.

The graphic below shows the overall performance of municipalities in various audit areas:



## OVERALL AUDIT OUTCOMES

OVERALL  
REGRESSION  
IN AUDIT  
OUTCOMES



**46** ✓ Regressed  
**33** ▲ Improved



### Outstanding audits

The audits of **28** municipalities were not finalised by 31 January 2020

### Clean audits



**8%** ▲  
(2017-18: 7%)

### Quality financial statements

**48%** ▼  
(2017-18: 52%)

**18% (43)**

Municipalities submitted financial statements without material misstatements

Cost of consultants to assist in financial statement preparation

**R1,26 billion \***

**59% (134)**

Financial statements submitted for auditing included **material misstatements in areas in which consultants did work**

\* Consultant costs include **R741 million** for audits completed by 31 January 2020 and **R522 million** relating to outstanding audits or audits subsequently finalised

### No findings on performance reports



**33%** ▼  
(2017-18: 37%)

**48% (109)**

Achievement reported not reliable

### No findings on compliance with legislation



**9%** ▲  
(2017-18: 8%)

### Irregular expenditure



**R32,06 billion \*\*** ▼  
(2017-18: R24,38 billion)

\*\* Irregular expenditure includes **R21,46 billion** (2017-18: R16,63 billion) for audits completed by 31 January 2020 and **R10,60 billion** (2017-18: R7,75 billion) relating to outstanding audits or audits subsequently finalised

## MATERIAL IRREGULARITIES

**6** material irregularities identified from **6** completed audits

**R24 499 866** likely financial loss (**R2 421 897** known and **R22 077 969** estimated)

### Nature of material irregularities



Payment for **goods or services not received**

**33% (2)**

**R11 418 843**



Assets **not safeguarded** resulting in **theft/vandalism**

**50% (3)**

**R11 849 379**



Unfair procurement leading to **overpricing**

**17% (1)**

**R1 231 644**



## **Overall audit outcome regression**

There was again a regression in the audit outcomes under the current local government administration, now in its third year. Over the three-year period, the audit outcomes of 76 municipalities regressed with those of only 31 improving.

The following serious weaknesses in the financial management of local government had not been addressed over the past three years:

### **Poor quality of submitted financial statements and performance reports**

Makwetu explains that credible financial statements and performance reports are crucial to enable accountability and transparency in government. He reveals that most municipalities continued to fail in these areas.

He states that, "Not only did the unqualified opinions on the financial statements decrease from 47% to only 43%, but the quality of the financial statements provided to us for auditing showed no improvement from the previous year. Only 18% of the municipalities could give us financial statements without material misstatements."

The AG adds that the performance reports of 67% of the municipalities that produced such reports had material flaws and were not credible enough for the council or the public to use.

### **Prevalent use of consultants yields minimal intended results**

Municipalities spent R1,26 billion on consultants for financial reporting services, of which only 7% was as a result of vacancies in municipal finance units. This amount includes R522 million for consultant costs at municipalities with outstanding audits where financial statements were received. Only 14% of the municipalities using consultants showed an improvement in their audit outcomes, while 22% regressed.

### **Financial health of municipalities concerning and requires urgent intervention**

The financial statements show increasing indicators of a collapse in local government finances – the AGSA assessed 79% of the municipalities as having a financial health status

that was either concerning or requiring urgent intervention. Just under a third of the municipalities were in a particularly vulnerable financial position.

“The inability to collect debt from municipal consumers was widespread. In these circumstances, it is inevitable that municipalities will struggle to balance the books. Overall, 34% of the municipalities disclosed a deficit (in other words, their expenditure exceeded their income) – the total deficit of these municipalities amounted to R6,29 billion.

“The financial woes of local government also weighed heavily on municipal creditors. The average creditor-payment period was 180 days. At year-end, R53,52 billion was owed to municipal creditors but the cash available amounted to only R43,20 billion. The money owed to Eskom by year-end was in arrears of R11,31 billion, of which R9,02 billion had already been outstanding for more than 120 days. The water boards also struggled to collect money owed by municipalities – their accounts were R6,24 billion in arrears, of which R5,38 billion was for more than 120 days,” notes the AG.

He says that while the poor economic climate does play a role in the deterioration of municipalities’ financial health, many are just not managing their finances as well as they should.

### **Rise in fruitless and wasteful expenditure**

Makwetu says government cannot afford to lose money because of poor decision-making, neglect or inefficiencies. However, the audit office continued to see a rise in fruitless and wasteful expenditure, with 200 municipalities losing R2,07 billion in the current year. Over the three-year period, R4,27 billion of government expenditure was fruitless and wasteful.

### **High level of non-compliance with key governance laws**

In total, 91% of the municipalities did not comply with legislation. The outcome is similar to the previous year and slightly higher than the 85% in 2016-17. The lapse in oversight and lack of controls relating to compliance were evident in a number of areas, including supply chain management.

### **Regression in compliance with supply chain management legislation**

The compliance with supply chain management legislation regressed since 2016-17. The AG remains concerned that only 2% of the municipalities are fully complying. "This is in spite of all the reporting we have done in this area, the red flags we have raised, and the many recommendations we have made. Uncompetitive and unfair procurement processes and inadequate contract management were common," explained Makwetu.

### **Increase in irregular expenditure**

Irregular expenditure increased to R32,06 billion from the R25,2 billion reported last year. It includes the irregular expenditure (R10,60 billion) of those municipalities of which the audits were completed after the cut-off date for this report (31 January) as well as the unaudited amounts disclosed in the financial statements of the municipalities whose audits were still outstanding.

The AG cautions that the amount could be even higher, as 55% of the municipalities were qualified because the amount they disclosed was incomplete and/or they disclosed that they had incurred irregular expenditure but that the full amount was not known. In addition, R0,36 billion worth of contracts could not be audited due to missing or incomplete information.

Municipalities have a poor track record of dealing with irregular expenditure and ensuring accountability. As a result, the year-end balance of irregular expenditure that had accumulated over many years and had not been dealt with (through recovery, condonement or write-off) stood at R65,59 billion.

### **Shortcomings in the development and maintenance of infrastructure**

The audits again identified a number of shortcomings in the development and maintenance of infrastructure. Infrastructure development projects displayed widespread underspending of budgets, delays in project completion, non-compliance with supply chain management legislation, and irregular expenditure.

The key concern, the AG notes, is the lack of attention being paid to water and sanitation infrastructure – the condition of water and/or sanitation infrastructure was not assessed

at over a third of the responsible municipalities; and 41% of the municipalities did not have policies for maintenance. "It is not unexpected then, that 36% of the municipalities responsible for water services and related infrastructure disclosed water losses of more than 30%. The overall water losses disclosed amounted to R6,56 billion," the AG explains

The maintenance of roads did show some improvement, but 27% of the municipalities did not develop or implement approved road maintenance plans for renewal and routine maintenance, while a backlog in renewal and routine maintenance continued at 16% of the municipalities.

## **The first phase of implementing the AG's enhanced powers**

The AG's enhanced powers became effective on 1 April 2019, and the AGSA started implementing the material irregularity process at nine selected municipalities. Six of these audits were completed by the date of the local government report. The focus in the year under review was on non-compliance with legislation that resulted in, or is likely to result in, a material financial loss.

A total of six material irregularities were identified at three of the municipalities, which resulted in a financial loss of R24 499 866. R2 421 897 is known as the municipal manager quantified the loss, and the remainder is an estimate of the loss. The most material irregularities (three) were identified at Ngaka Modiri Molema district municipality in North West.

Says the AG, "The material irregularities we identified and reported are not complex accounting or procurement issues and could have been prevented through basic controls. It related to assets not being safeguarded resulting in theft or vandalism, payments for goods and services not received, and an unfair procurement process that resulted in overpricing.

"Municipal managers reacted positively to the notifications they received of the material irregularities we identified, and all of them are taking appropriate action to address these. This shows that municipal managers understand what they are required by legislation to do when they become aware of irregularities and that they are willing and

able to take on these responsibilities. It also signals a behavioural change towards responding in a decisive and timely manner to our findings.”

## Conclusion

The AG concludes, “When looking across the board and after carefully analysing the financial statements we audited, we can safely conclude that local government does have sufficient money and assets to fulfil most of the basic needs and aspirations of its citizens. But a lot of work is needed to make sure that this is realised. Proper administration and superintendence over the financial affairs of local government were not exercised and were found, through this audit examination, to be seriously lacking with some devastating consequences already evident in certain identified areas.”

### **Implementing preventative controls to improve the concerning picture**

Makwetu says preventative controls will go a long way to remedy the concerning picture of governance lapses and weaknesses flagged in his report.

Internal controls are the preventative mechanisms, rules and procedures implemented by a municipality to ensure the integrity of financial and accounting information, to promote accountability, and to prevent fraud and error. Besides complying with legislation, and protecting the entity's assets from theft or preventing fraudulent activities, preventative controls can help increase operational efficiency by improving the accuracy and timeliness of financial reporting.

“Preventing poor-quality financial statements and performance reports, non-compliance and material irregularities is more effective than having to deal with the consequences thereof – money and time are lost, costly investigations have to be instituted, and officials are subjected to the discomfort and anxieties associated with these processes, which often take a number of years.

“Our message has been consistent over the years that a strong control environment and related processes are the key to achieving strategic objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens.

Identified risks that we include in our management, audit and general reports, will assist in identifying the other areas that need attention."

*In every society  
some people do not want to work,  
Unfortunately, they have the upper hand  
In a society that lacks good leadership!*

End

**Issued by:** Auditor-General of South Africa

**Contact:** Africa Boso • (012) 422 9880 • Africab@agsa.co.za



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**Media note:** The *Consolidated general report on the audit outcomes of local government* is available on [www.agsa.co.za](http://www.agsa.co.za).

**About the AGSA:** The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911.