

SCOPA BRIEFING NOTE



PFMA audit outcomes of the 2017-18 financial year for

**Western Cape
Department of Health**

9 October 2018

*Issued under embargo until SCOPA is briefed on
the audit outcome*



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence

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1. Introduction

1.1 Reputation promise of the Auditor-General of South Africa

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

1.2 Purpose of document

The purpose of this document is to provide an executive summary of the audit outcomes of the financial audit, audit of performance information and compliance with key legislation of the Western Cape Department of Health for the 2017-18 financial year.

1.3 Overview

The aim of the department is to provide equitable access to quality health services in partnership with the relevant stakeholders within a balanced and well managed health system to the people of the Western Cape and beyond.

1.4 Organisational structure

Designation	Incumbent
MEC	Dr Nomafrench Mbombo
Head of department (accounting officer)	Dr Elizabeth Engelbrecht
Chief financial officer	Mr Andries van Niekerk
Chief Director: Finance	Mr Johann Jooste
Chief Director: Human Resources	Ms Bernadette Arries
Chief Director: Performance Information	Dr Krish Vallabhjee
Chief Director: Infrastructure Management	Dr Laura Angeletti Du Toit

1.5 Funding

As disclosed on page 16 of the department's annual report, the Western Cape Department of Health spent R21,5 billion of a budget of R21,7 billion, resulting in an overall under-expenditure of R190,4 million or 0,9% (2016-17: 0,3% underspent).

As disclosed on page 15 of the department's annual report, the department's revenue budget of R522,3 million was exceeded by R49,3 million or 9,4% (2015-16: 19,7% over-collected).

The main explanations for the underspending on the expenditure budget and over-collection on the revenue budget are set out on pages 234 to 238 of the department's annual report.

2. Audit opinion history

Details	2017-18	2016-17	2015-16
Audit opinion			
Findings on compliance with key legislation	No	No	No
• Material misstatements in financial statements submitted	No	No	No
• Procurement and contract management	No	No	No
• Expenditure management	No	No	No
• Revenue management	No	No	No
• Strategic plan and performance management	No	No	No
• Utilisation of conditional grants	No	No	No
• Consequence management	No	No	No
Findings on predetermined objectives	Yes	Yes	Yes
Internal control deficiencies	Yes	Yes	Yes

Audit opinions

	CLEAN AUDIT OPINION (no findings on PDO or compliance with laws & regulations)
	UNQUALIFIED with findings on PDO and/or compliance
	QUALIFIED AUDIT OPINION (with or without findings)
	DISCLAIMER/ADVERSE AUDIT OPINION

PDO = Predetermined objectives (audit of performance information/service delivery/annual performance report)

2.1 Significant emphasis of matter

Material losses/impairments: As disclosed in note 22.3 to the financial statements on page 273 of the department's annual report, accrued departmental revenue was significantly impaired. The impairment allowance amounted to R241 million (2017: R238 million).

Restatement of corresponding figures: As disclosed in note 32 to the financial statements on page 289 of the department's annual report, the corresponding figures for 31 March 2017 were restated as a result of an error discovered during the 2017-18 financial year in the financial statements of the department at, and for the year ended, 31 March 2018.

2.2 Significant other matter

Unaudited supplementary schedules: The supplementary information set out on pages 293 to 310 of the department's annual report does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

3. Key focus areas

3.1 Compliance focus areas

No material findings were raised on any of the compliance focus areas indicated in paragraph 2 of this document.

3.2 Predetermined objectives

I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the department for the year ended 31 March 2018:

Programmes	Pages in the annual performance report
Programme 2 – district health services	53 to 63
Programme 4 – provincial health services	70 to 82

The material findings in respect of the reliability of the selected programmes are as follows:

Programme 2: District health services

School grade 1 learners screened: The reported achievement of 48 889 learners screened was not supported by sufficient appropriate audit evidence, since screenings which were not described as full screenings (which includes all elements per the service package), were also reported on. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any audit adjustments were required to the achievement of 48 889 learners screened as reported in the annual performance report.

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School grade 8 learners screened: The reported achievement of 11 401 learners screened was not supported by sufficient appropriate audit evidence, since screenings which were not described as full screenings (which includes all elements per the service package), were also reported on. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any audit adjustments were required to the achievement of 11 401 learners screened as reported in the annual performance report.

Programme 4: Provincial hospital services

I did not raise any material findings on the usefulness and reliability of the reported performance information on this programme.

Other matters relating to predetermined objectives

I draw attention to the following matters:

Achievement of planned targets: Refer to the annual performance report on pages 53 to 63 and 70 to 82 for information on the achievement of planned targets for the year and explanations provided for the under-/over-achievement of a number of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information.

Adjustment of material misstatements: I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of programme 2 – district health services. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are included above.

3.3 Internal control deficiencies

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report.

Performance management

Facility management did not sufficiently review the information after it was captured and reported by nursing staff. Training provided to nursing staff was not sufficient to facilitate their understanding of how to record activities on the assessment forms completely and accurately. The current manual process in place does not assist the nursing staff to record information completely and accurately and does not allow for an effective review process to identify errors in capturing timeously.

4. SCOPA resolutions

Pages 145 of the department's annual report details unresolved resolutions or matters of concern included/raised in the *Report of the Standing Committee on Public Accounts*.

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5. Emerging risks

5.1 New pronouncements

Modified cash standards

Componentisation of assets: Departments are encouraged to componentise assets in their asset registers as it will become a requirement in future. The effective date to componentise assets has not been determined yet.

Inventory: Departments are encouraged to develop their inventory management systems as the inventory disclosure note will become a requirement in future. The effective date to disclose inventory is still to be determined by the accountant-general.

5.2 New legislation

National instruction notes: Instruction notes are issued by the National Treasury on a continuous basis in terms of section 76 of the PFMA. The arrangement in the Western Cape is that the Provincial Treasury reviews these instruction notes and re-issue them to the various departments and entities on a selective basis. The risk exists that material non-compliance could arise if certain national instruction notes are not complied with, where the necessary approval from the National Treasury to depart from them was not obtained as required by section 79 of the PFMA.

Treasury regulations: The treasury regulations are currently being revised, which may introduce a number of new requirements once effective.

5.3 Risks that require continuous monitoring

Local content: The compliance requirements of local content for commodities within designated sectors are applicable for all tenders. The term tender in terms of the Preferential Procurement Regulations of 2017 is attributed to all awards above R30 000.

B-BBEE certificates: Footnote 3 in Treasury Instruction 4A of 2016-17 noted that the Central Supplier Database (CSD) does not verify B-BBEE status level and set a future date for verification of B-BBEE status (1 October 2016). The office of the chief procurement officer (OCPO) failed to achieve this deadline and up to now the CSD does not verify the B-BBEE status of suppliers. The instruction did not exempt institutions from complying with the PPPF Act requirements for obtaining a valid evidence of B-BBEE level status (e.g. sworn affidavits).

B-BBEE Act: Paragraph 13G requires all spheres of government, public entities and organs of state to report on their compliance with broad-based black economic empowerment in their audited annual financial statements and annual reports required under the PFMA. Discussions are ongoing between the AGSA and B-BBEE Commission to scope this requirement into the audit for the 2018-19 financial year.

Central Supplier Database: The OCPO introduced the Central Supplier Database on 1 September 2015 accessible on www.csd.gov.za, which will reduce the administrative burden on both the supplier and the administrator. The system verifies and validates information with the South Africa Revenue Service (SARS), Companies and Intellectual Property Commission (CIPC), and Department of Home Affairs amongst others. The system was mandatory from 1 April 2016 for all suppliers to national and provincial government and entities at these two spheres of government.

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Permission was granted for the Western Cape Government to run the Western Cape Supplier Database (WCSD) concurrently with the CSD for a year (up to 31 March 2017), provided that the CSD is the master of supplier information and such information cannot be modified by the WCSD and suppliers registered on the CSD should not be excluded or disadvantaged in any way by the existence of the WCSD.

eTenders Portal: Suppliers who meet all compliance requirements can access opportunities on www.eTenders.gov.za. The portal enables suppliers to have access to tenders published on the platform. The compulsory implementation of this portal was from 1 April 2016.

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