



BUDGETARY REVIEW AND  
RECOMMENDATIONS REPORT | PFMA  
2018-19

Briefing to Portfolio Committee on Health



AUDITOR-GENERAL  
SOUTH AFRICA

## Reputation promise

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



## Role of the AGSA in the reporting process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role of assessing the performance of the entities taking into consideration the objective of the committee to produce a *Budgetary Review and Recommendations Report (BRRR)*.



# PAA amendments – the key expansion to our mandate

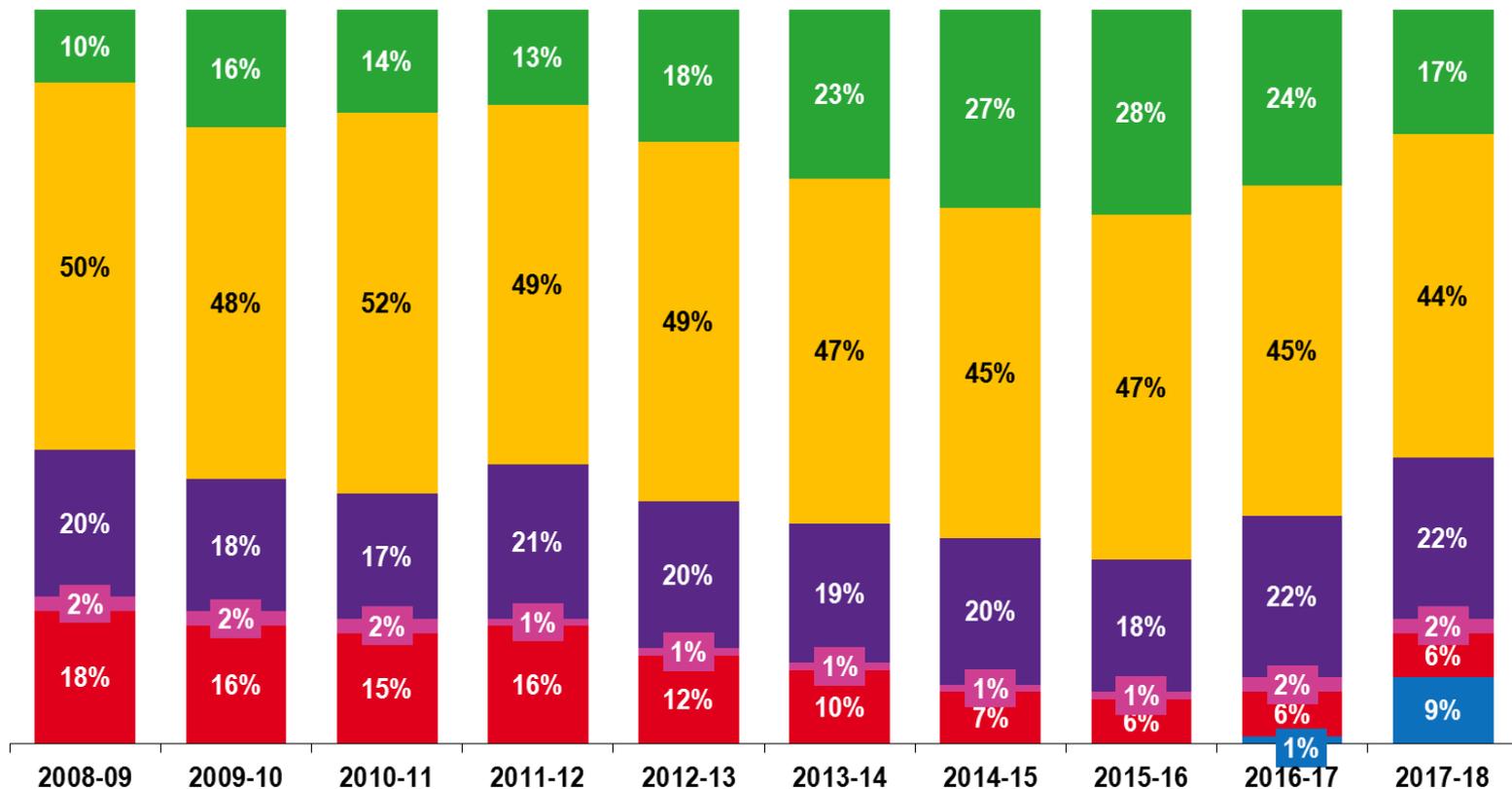




# Audit outcome trends

# Trends over the past 10 years

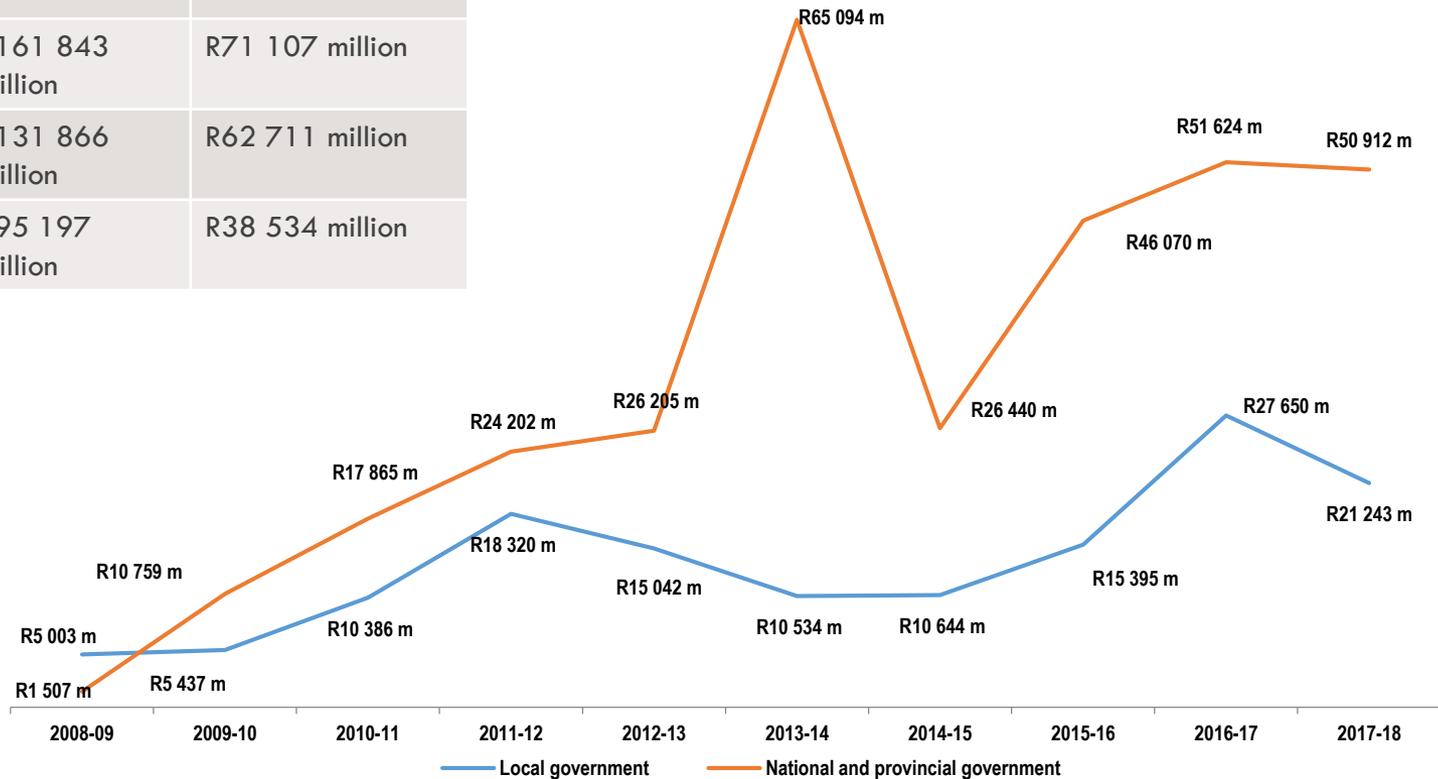
Audit outcomes over the past 10 years - national, provincial and local government



# History of irregular expenditure

## Balances of irregular expenditure not yet dealt with

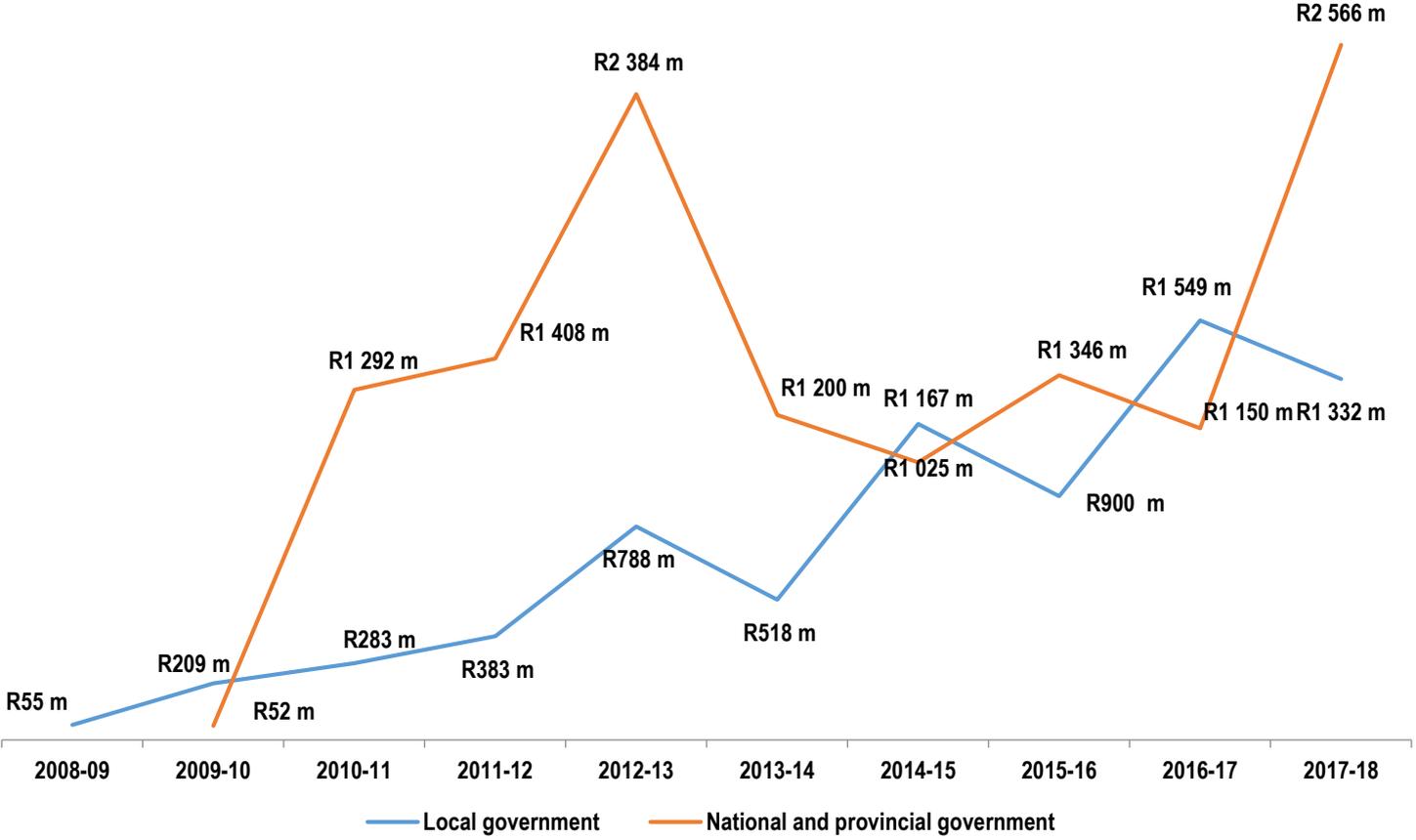
	National and provincial government	Local government
2017-18	R161 843 million	R71 107 million
2016-17	R131 866 million	R62 711 million
2015-16	R95 197 million	R38 534 million



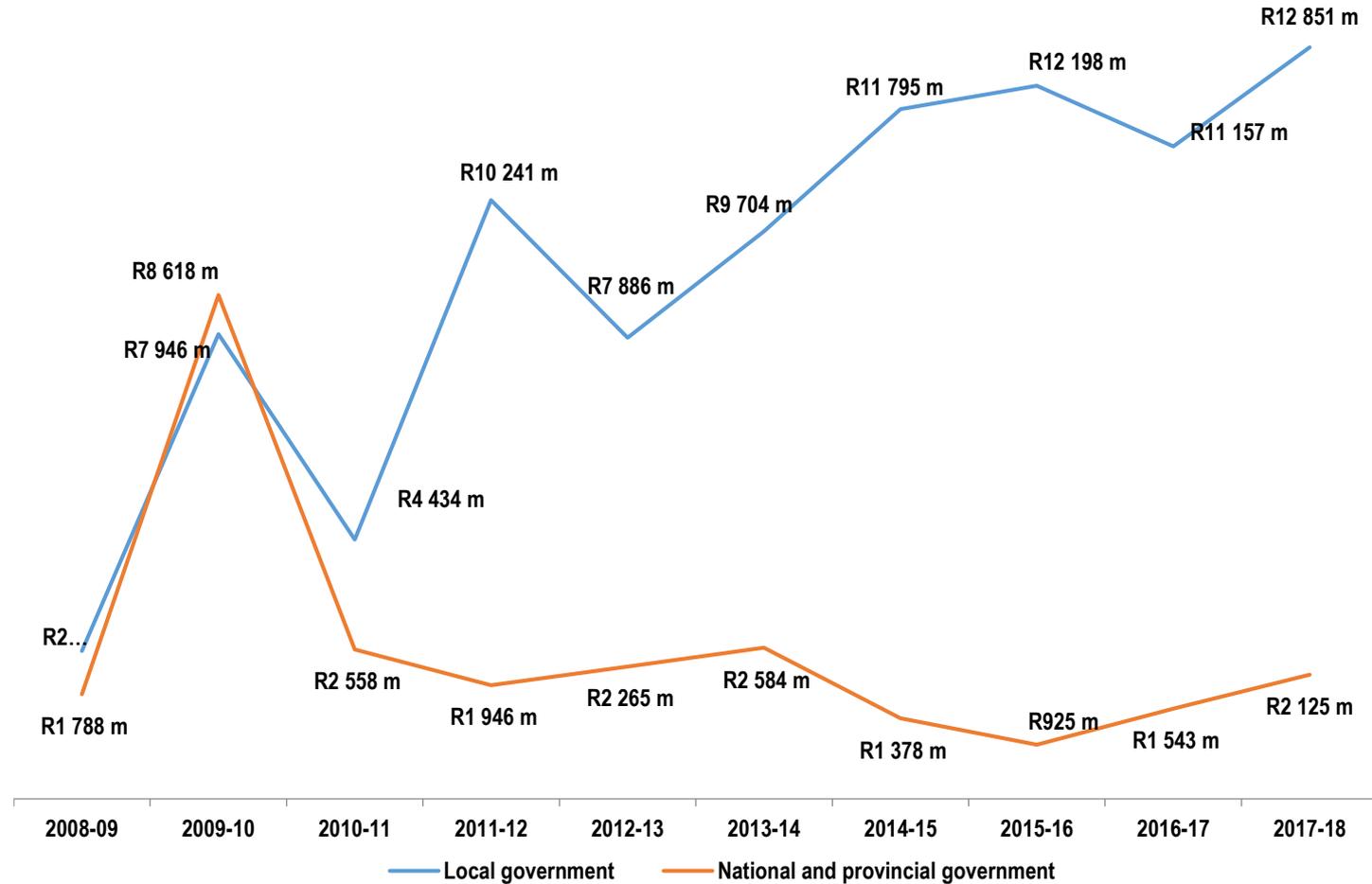
The annual irregular expenditure and the balances as shown is not complete as the disclosure of irregular expenditure is often qualified on completeness thereof – e.g. 74 auditees were qualified in 2017-18



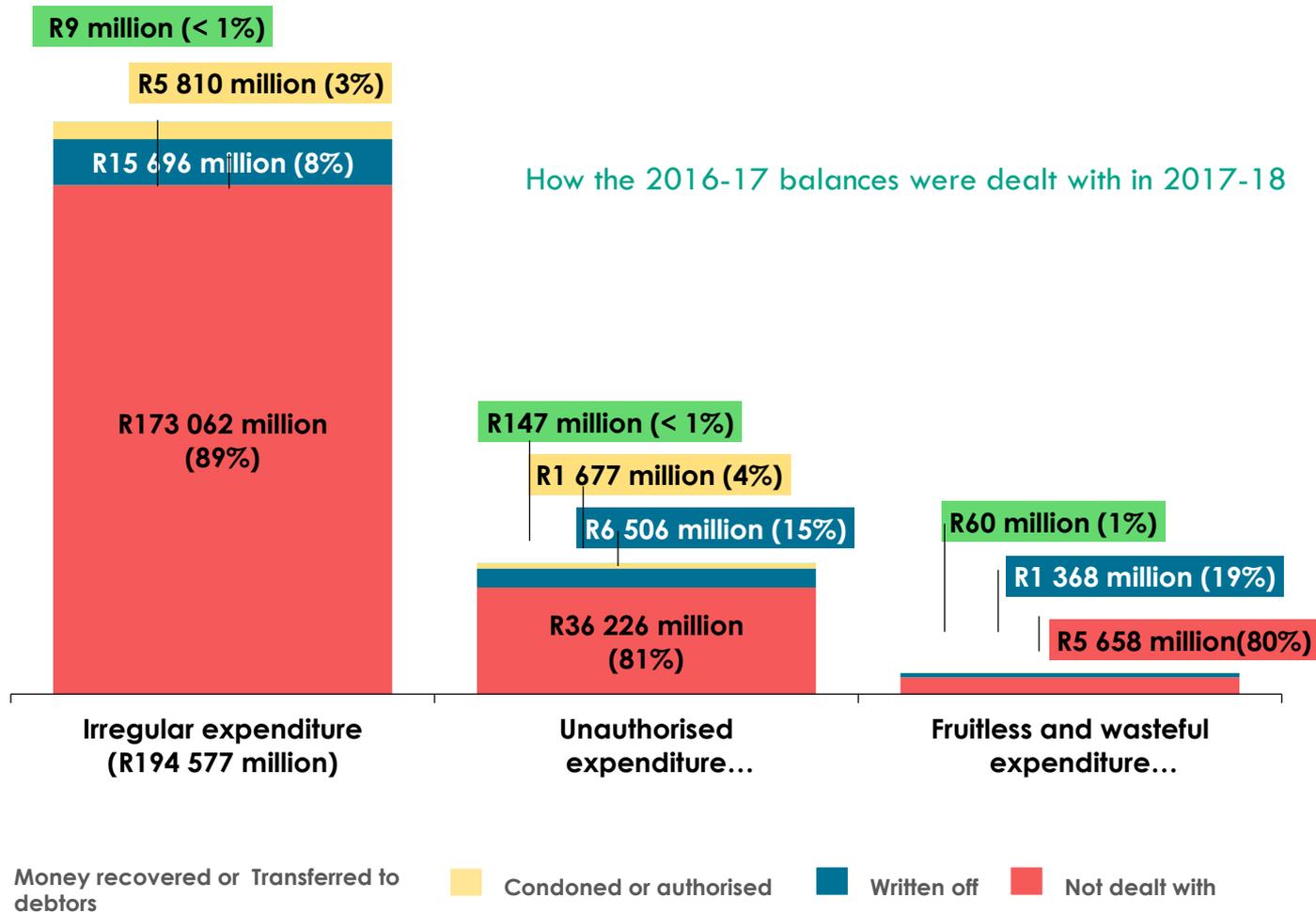
# History of fruitless and wasteful expenditure



# History of unauthorised expenditure



# Dealing with unauthorised, irregular and fruitless wasteful expenditure



# Root causes of continued poor outcomes



Slow or no response  
to recommendations

- **Blatant disregard** for **controls, compliance** with legislation and AGSA **recommendations**

- Continued **capacity gap** in administration



Instability/  
vacancies /  
competence

- **Vacancies and instability** slow down systematic and disciplined improvements

- **Unethical behaviour** in administration and by political leaders

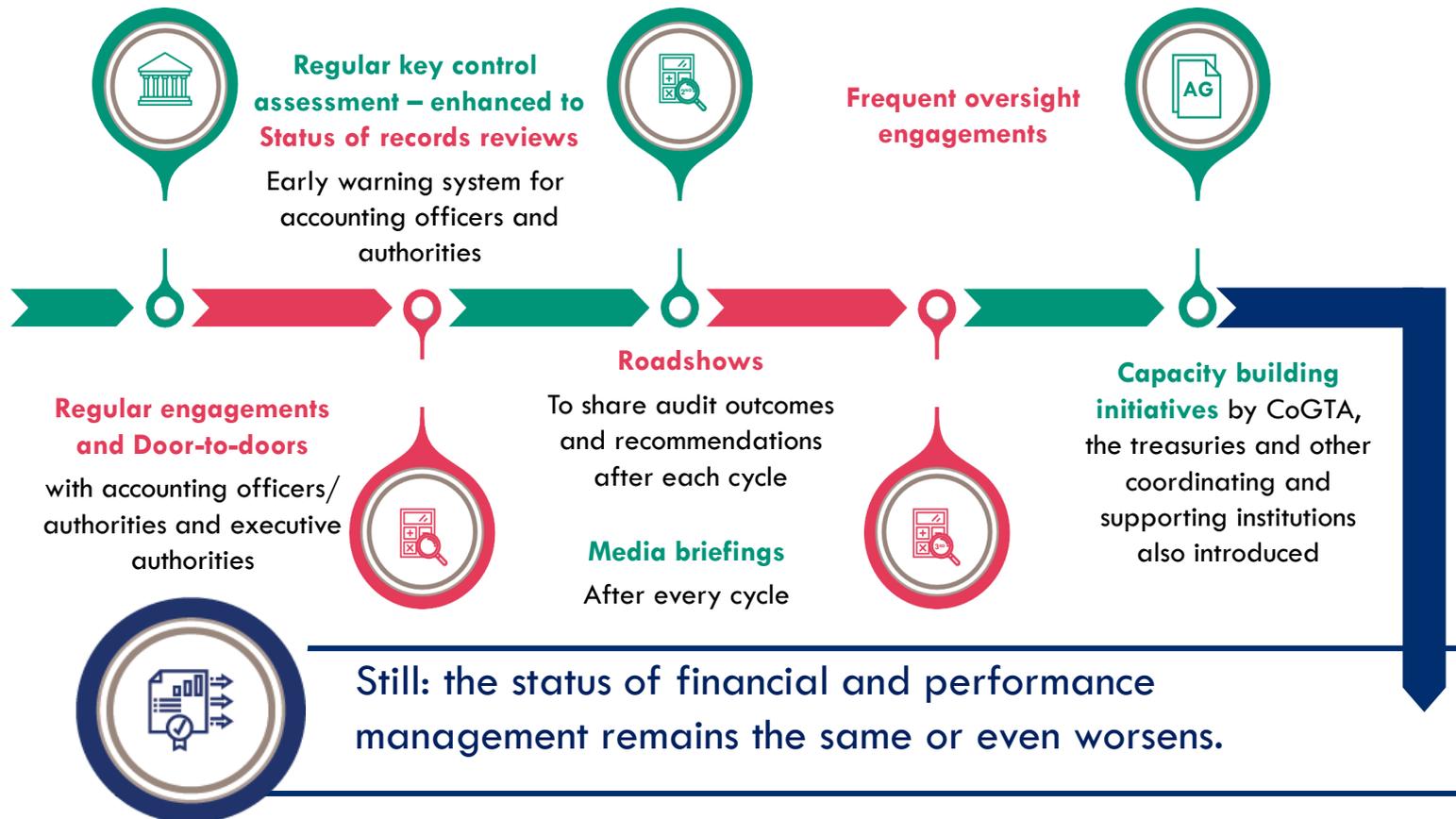


Inadequate  
consequences

- Leadership's inaction / inconsistent action to addressing persistent transgression creates culture of **'no consequences'**



# Additional efforts were introduced





# PAA amendments – the key expansion to our mandate

Enhanced powers for enhanced accountability

# Key expansion of our mandate



**Refer material irregularities** to relevant public bodies for further investigations



**Take binding remedial action** for failure to implement the AG's recommendations for material irregularities



**Issue a certificate of debt** for failure to implement the remedial action if financial loss was involved



# What is a material irregularity?

## Irregularity

- .....▶..... any **non-compliance** with, or contravention of, legislation, **fraud, theft or a breach of a fiduciary duty**



identified during an audit performed under this Act that **resulted in or is likely** to result in ...

## Impact

- .....▶..... 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.**



# Examples of material irregularities

## Irregularity



Non-compliance with the SCM legislation requiring a competitive bidding process.



## Impact

A material financial loss due to goods being priced at above market value.



Suspected bribery of an official to approve the payment for services not received.



A material financial loss due to no value being received for the money paid.



A board of a public entity not exercising their duty of utmost care in investing the funds of the entity.



A material loss in the value of the public entities investments.



A repeat disclaimer audit opinion.



Substantial harm to the auditee as oversight and accountability are significantly weakened.



Neglect in maintaining the infrastructure for sanitation.



Substantial harm to the community as a result of contamination of the water sources.



# Material irregularity vs irregular expenditure

## What is the

## Irregular Expenditure

## Material Irregularity



### Definition

Expenditure incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

Non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource, or substantial harm to a public sector institution or the general public.



### Difference: Irregularity

The irregularity is only non-compliance with legislation when incurring expenditure.

The irregularity is any non-compliance (not limited to expenditure) as well as fraud, theft or a breach of fiduciary duty.



### Difference: Impact

The impact is not specified, as the PFMA requires the accounting officer or authority to determine the impact.

There can be irregular expenditure that did not result in any losses, misuse of harm.

The irregularity must have resulted in or there must be indicators that it is likely to result in a material financial loss/ misuse of loss of a material public resource or substantial harm to a public sector institution or the general public.



### Difference: Value

The value is the expenditure to date.

A material irregularity does not necessarily have a value.



### Example

A lack of competitive bidding process for the awarding of a contract of Rm20.

The irregular expenditure is all the payments made on the contract to date (e.g. Rm10).

A lack of competitive bidding process for the awarding of a contract of Rm20 resulting in a material financial loss as the same service could have been delivered at a lower price (e.g. Rm18).

The financial loss is Rm2 (what was lost and what can still be lost).



# Legal obligations of an AO/AA to address an irregularity

If an AO/ AA is made aware of an irregularity (non-compliance, fraud, theft or a breach of fiduciary duty) the **PFMA, treasury regulations and instructions notes typically prescribe** the following steps to be taken:

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

## **If applicable**

2. Prevent any losses or further losses
3. Institute a formal investigation if there are indications of fraud, corruption or other criminal conduct. If confirmed take further action e.g. report the matter to the SAPS
4. Recover any financial losses from an external party
5. Take steps against the responsible official (which can include a financial misconduct investigation)
6. Recover any financial losses from the responsible officials

**The policies and procedures of an auditee typically describes how these steps should be taken and the timing thereof.**

The same steps should be taken if an AO/AA is notified of a material irregularity





# Oversight and Monitoring

Enhanced powers for enhanced accountability

# Oversight initiatives



## Implemented by oversight

Held issue based oversight  
(UIFW)

Undertook oversight visits to SOEs

Held follow up hearings to address audit findings

Advocated for Ministerial Accountability for poor  
governance

Resuscitated the coordination of Anti-Corruption  
Agencies

Various legislatures implemented sections 100  
and 139 of the Constitution (administration)



## Oversight gaps

Oversight in-year monitoring to prevent a  
reactive approach

Oversight prioritisation not based on the audit  
outcomes / internal control failures

Limited Committee resolutions and debate  
reports in the House in order to maximise impact

Opportunity to improve the tracking mechanism  
for all oversight activities held



# Role of oversight and executive authority

## Executive authority

- Insist on credible and frequent **reporting** on state of financial and performance management
- Use reports to **monitor, direct and support accountability**
- **Set the tone** for accountability and consequence management by investigating and dealing with any allegations of financial misconduct and irregularities by accounting officers and authorities
- **Share any knowledge** on possible material irregularities
- Monitor the **implementation of the recommendations** on material irregularities
- **Support referral and remedial processes**, including recovery of debt, if required.
- If responsible for **public body – monitor progress of investigations**

## Oversight structure

- Use information in the **audit report on material irregularities** for accountability and oversight purposes, insisting on timeous implementation of recommendation
- Use reports tabled on **progress with material irregularities** to oversee and influence progress made by public bodies with investigations and executive authorities (for recovery of debt)



# The 2018-19 audit outcomes



# Our annual audit examines three areas

THE AG'S  
ANNUAL  
AUDITS  
EXAMINE

# 3

AREAS:



**1** FAIR PRESENTATION AND  
ABSENCE OF SIGNIFICANT  
MISSTATEMENTS IN  
FINANCIAL STATEMENTS

**2** RELIABLE AND CREDIBLE  
PERFORMANCE  
INFORMATION FOR  
PREDETERMINED OBJECTIVES

**3** COMPLIANCE WITH ALL  
LAWS AND REGULATIONS  
GOVERNING FINANCIAL  
MATTERS

# The AGSA expresses the following different audit opinions

## Unqualified opinion with no findings (clean audit)



Auditee:

- produced credible and reliable financial statements that are free of material misstatements
- reported in a useful and reliable manner on performance as measured against predetermined objectives in the annual performance plan (APP)
- complied with key legislation in conducting their day-to-day operations to achieve their mandate

## Financially unqualified opinion with findings



Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:

- align performance reports to the predetermined objectives they committed to in APPs
- set clear performance indicators and targets to measure their performance against their predetermined objectives
- report reliably on whether they achieved their performance targets
- determine the legislation that they should comply with and implement the required policies, procedures and controls to ensure compliance

## Qualified opinion



Auditee:

- had the same challenges as those with unqualified opinions with findings but, in addition, they could not produce credible and reliable financial statements
- had material misstatements on specific areas in their financial statements, which could not be corrected before the financial statements were published.

## Adverse opinion



Auditee:

- had the same challenges as those with qualified opinions but, in addition, they had so many material misstatements in their financial statements that we disagreed with almost all the amounts and disclosures in the financial statements

## Disclaimed opinion



- had the same challenges as those with qualified opinions but, in addition, they could not provide us with evidence for most of the amounts and disclosures reported in the financial statements, and we were unable to conclude or express an opinion on the credibility of their financial statements

# Important to note

The percentages in this presentation are calculated based on the **completed audits of six auditees**, unless indicated otherwise.

## Audit outcomes are indicated as follows:

 Unqualified with no findings	 Unqualified with findings	 Qualified with findings	 Adverse with findings	 Disclaimed with findings	 Outstanding audits
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## Movement over the previous year is depicted as follows:

 Improved	 Unchanged	 Regressed
Movement of 5% or less:  Slightly improved  Slightly regressed		

## Health and its entities:

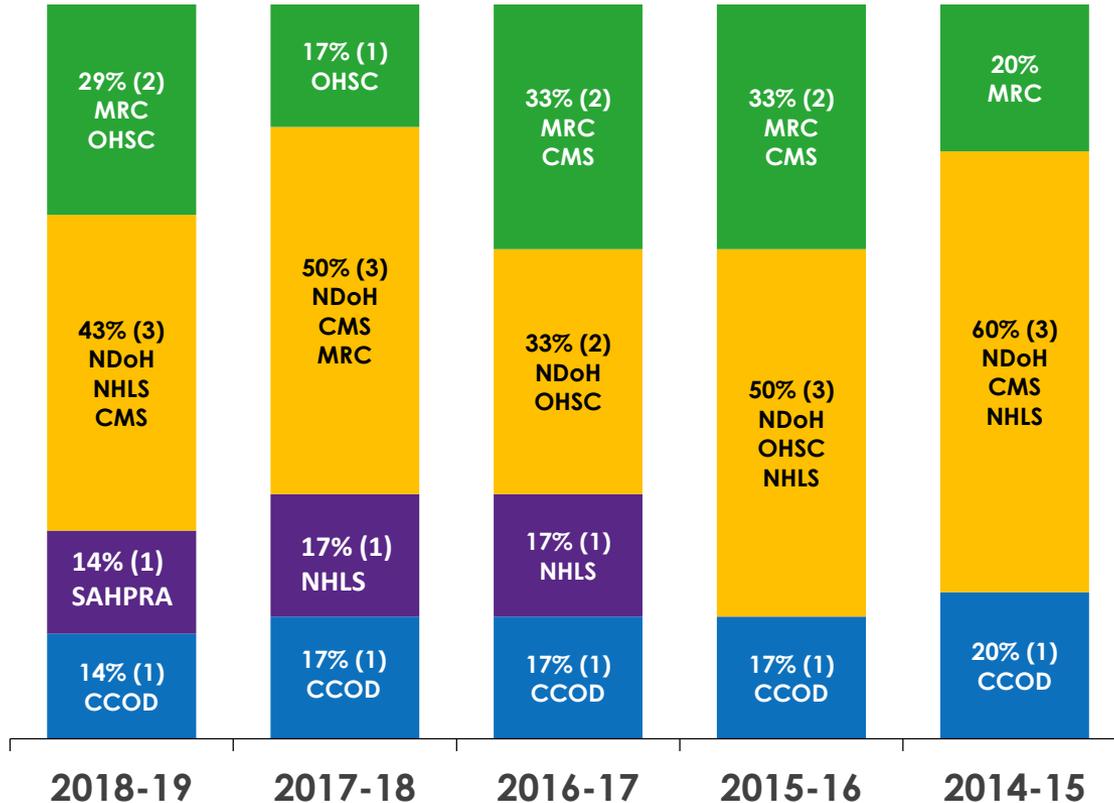
NDoH – Department of Health	CMS – Council for Medical Schemes
OHSC – Office of the Health Standards Compliance	MRC – Medical Research Commission
NHLS – National Health Laboratory Services	SAHPRA – South African Health Products Regulatory Authority
CCOD - Compensation Commissioner for Occupational Diseases (also known as Mines and works compensation fund)	



# ACCOUNTABILITY = PLAN + DO + CHECK + ACT



# Audit outcomes of portfolio over three years



Movement	
▲	2
▼	0
▶	4
New Audit	1
Outstanding audits	1
Outstanding audits	
CCOD	

- Overall the portfolio improved as MRC and NHLS improved their audit outcomes to unqualified with no findings and unqualified with findings respectively. This was due to improvement of controls over financial reporting and compliance
- The portfolio had an addition of a new entity SAHPRA, which received a qualified opinion. This was due to lack of controls over proper record keeping to ensure that complete, relevant and accurate information is available to support financial and performance reporting supporting as well a number of vacancies in the entity
- Financial statement preparation remains a concerns as material adjustments were effected to AFS submitted for audit for NDoH and CMS
- The OHSC has maintained a clean the audit outcome from 2017-18 due to effective controls in place and oversight by the assurance providers.





# Credible financial reporting



## Financial statements

Submission of financial statements by legislated date (all auditees)

AFS submitted without errors

Quality of final submission after audit

### Movement



### 2018-19

### 2017-18

71%

83%

33%

40%

83%

80%

**60%** achieved unqualified opinions only because they corrected all misstatements identified during the audit

## Qualification areas

Revenue (SAHPRA)

17%

-

Deferred income (SAHPRA)

17%

Operating expenditure (SAHPRA)

17%

Irregular expenditure (NHLS)

-

17%





# Credible performance reporting



## Performance report

APR submitted without errors

Quality of final submission after audit

### Movement



	2018-19	2017-18
APR submitted without errors	0%	0%
Quality of final submission after audit	50%	40%

**100%** had no material findings only because they corrected all misstatements identified during the audit

### Material findings raised

Reliable reporting of achievements (NDOH, CMS, NHLS, SAHPRA)

Usefulness of performance indicators and targets (NHLS, SAHPRA)

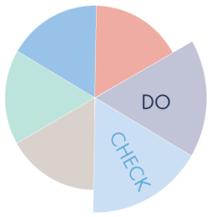
67%

67%

33%

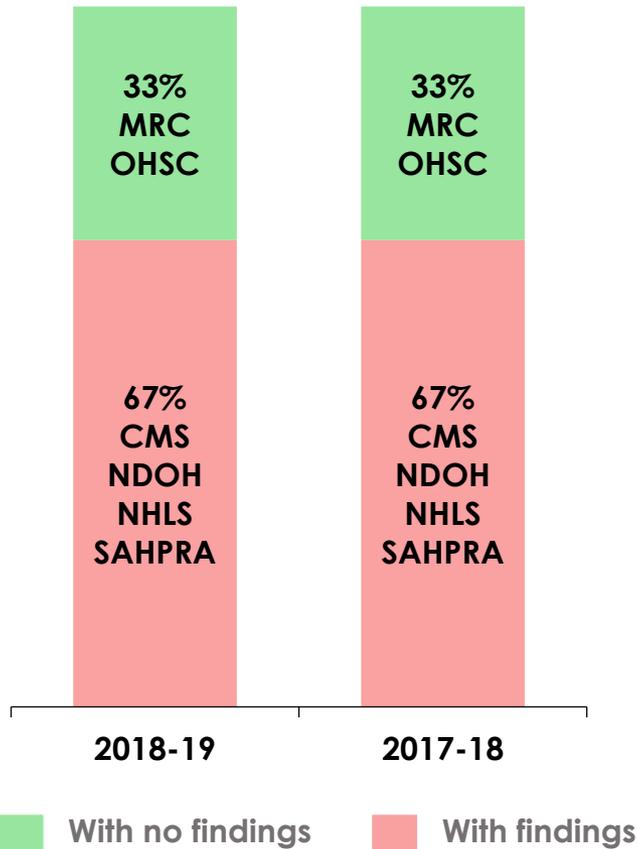
17%





# Disregard for compliance with legislation

## Findings on compliance with key legislation

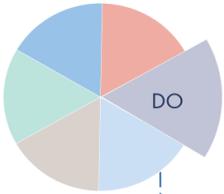


## Non-compliance areas

- Quality of financial statements (CMS, NDOH, NHLS, SAHPRA)
- Management of procurement and contracts (CMS, NHLS, SAHPRA)
- Prevention of irregular expenditure (NHLS)
- Financial statements not submitted within months (NHLS)



# Status of internal control (excluding CMS and OHSC)



Leadership

Effective leadership

75% (NDOH, NHLS, MRC)

25% (SAHPRA)



Financial and performance management

Proper record keeping

75% (NDOH, NHLS, MRC)

25% (SAHPRA)



Daily and monthly controls

75% (NDOH, NHLS, MRC)

25% (SAHPRA)



Review and monitor compliance

75% (NDOH, NHLS, MRC)

25% (SAHPRA)



Governance

Risk management

25% (MRC)

75% (NDOH, NHLS, SAHPRA)

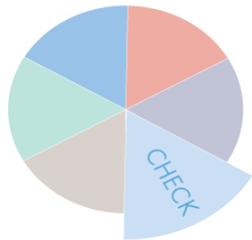


 Good

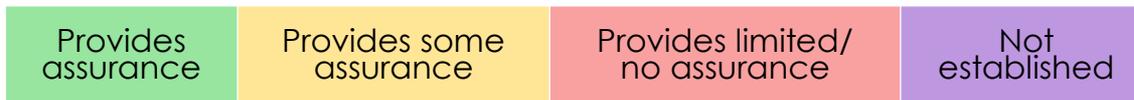
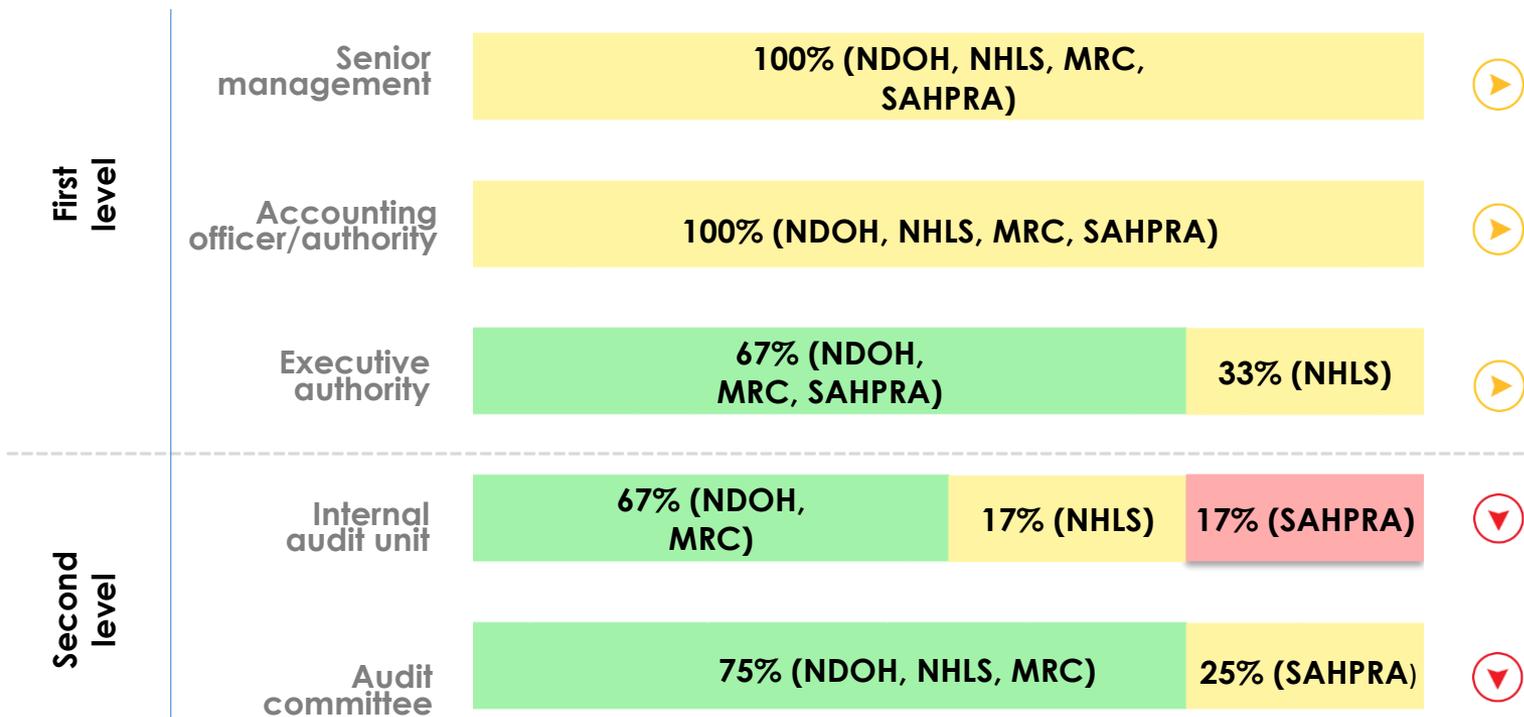
 Of concern

 Intervention required

31



# Assurance provided (excluding CMS and OHSC)



# Financial management

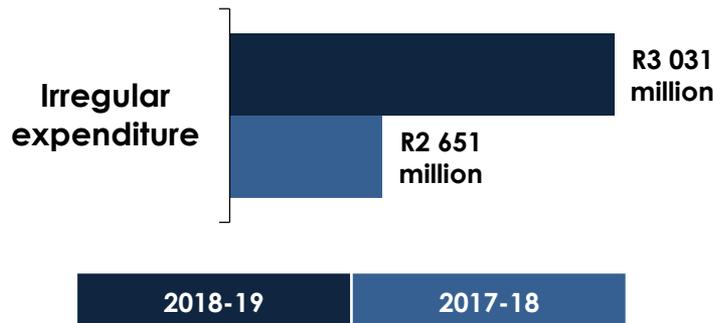


# Irregular expenditure increase over 2 years

## Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

## Irregular expenditure incurred by entities in portfolio

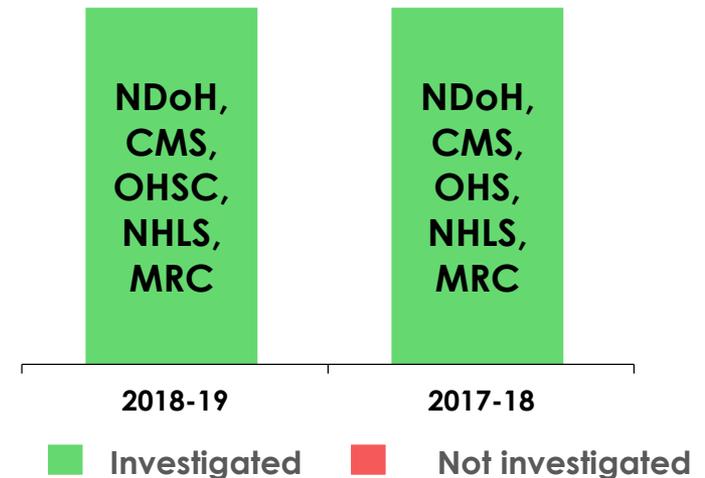


- The irregular expenditure represents non-compliance in 2018-19

## Nature of irregular expenditure

- 99% of the irregular expenditure relates to NHLS, of
- The nature of the irregular expenditure is due to:
  - ✓ Procurement made on expired contracts (NHLS, NDoH, CMS)
  - ✓ Procurement from panel not in line with Treasury Regulations (NDoH, CMS)
  - ✓ Procurement processes not followed (NHLS, NDoH, CMS, SAHPRA)
  - ✓ Overspending on contracts (NHLS)

## Previous year irregular expenditure reported for investigation



# Detailed irregular expenditure over 5 years

## Definition

*Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed*

## Detailed irregular expenditure incurred by entities in portfolio

Year	2018-19	2017-18 (Restated)	2016-17	2015-16	2014-15
NDoH	R 16 837 000	R 73 439 000	R 1 388 000	R 2 939 148	R 398 333 000
CMS	R 16 168 000	R 17 468 000	R 1 368 000	R 983 000	R 8 436 000
MRC	R 151 335	R 1 655 061	R 711 166	R 1 472 658	R R 729 000
OHSC	R0	R 2 948 002	R 2 871 119	R 1 963 263	N/A
NHLS	R 2 996 842 000	R 2 555 695 000*	R 990 429 000	R 29 000 000	R 341 126 000
SAHPRA	R 1 206 785	N/A	N/A	N/A	N/A
CCOD	Outstanding	Outstanding	Outstanding	Outstanding	Outstanding
Totals	R 3 031 205 120	R 2 651 205 063	R 996 767 285	R 36 358 069	R 748 624 000

### 2017-18 restatement:

- NHLS restated their 2017-18 irregular expenditure amount from R598m to R2,5bn.
- The restatement was as a result of management's efforts in clearing the 2017-18 qualification on irregular expenditure



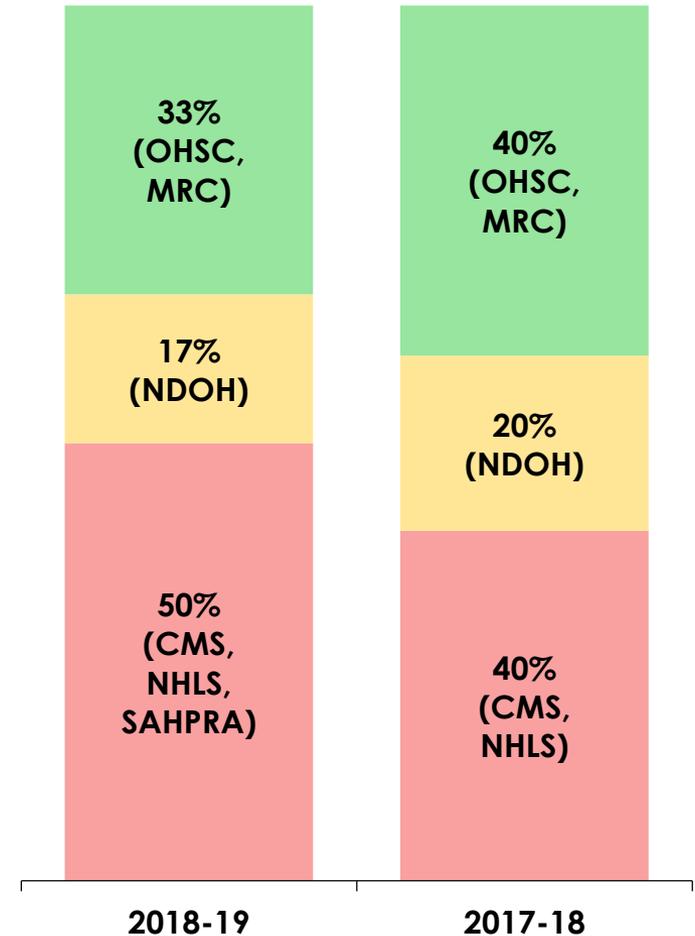
# Supply chain management

## Regression in SCM compliance (2018-19: 40% with no findings)

All SCM findings should be investigated

### Most common findings on supply chain management

- Not able to audit procurement of due to **missing or incomplete information** (SAPRA, NHLS)
- **Uncompetitive and unfair procurement** processes (CMS, SAHPRA, NHLS)
- Interest not **declared** on some of the procurement contracts (SAHPRA, NHLS)



With no findings



With findings



With material findings 36

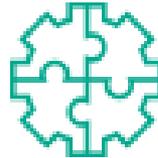
# Portfolio snapshot (2018-19)



**Clean audits: 33%**  
(2017-18: 20%)



**Financially unqualified financial statements: 83%**  
(2017-18: 80%)



**No findings on performance reports: 50%**  
(2017-18: 40%)

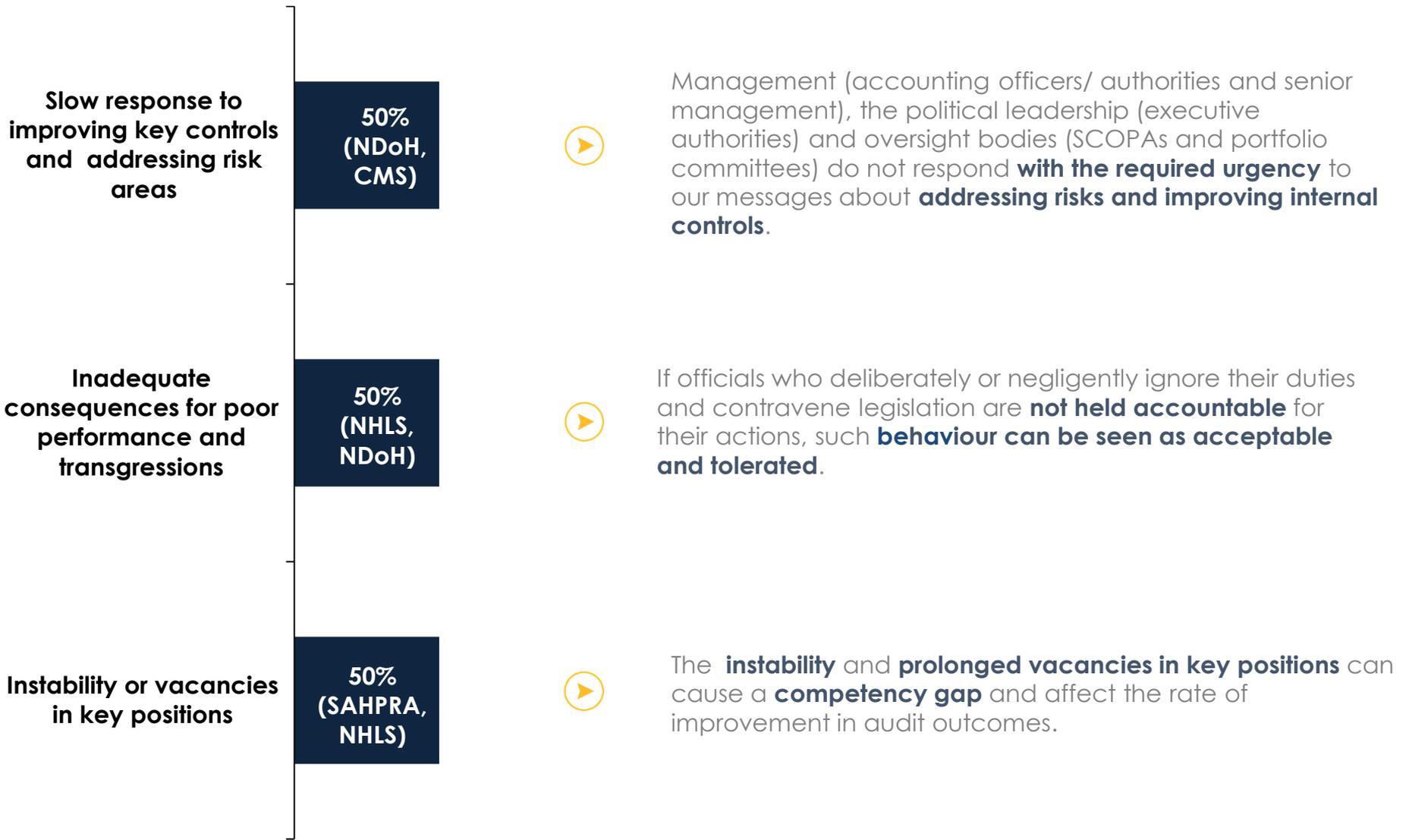


**No findings on compliance with legislation: 33%**  
(2017-18: 20%)



**Irregular expenditure: R3,03b**  
(2017-18: R2,6b)

# Root causes



# Recommendations

To department and its entities

Leadership should:

- Exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls

Management should:

- implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support performance reporting
- Prepare accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Review and monitor compliance with applicable legislation relating expenditure and procurement and contract management

To the portfolio committee

- Request management to provide feedback on the implementation and progress and of the action plans to address poor audit outcomes during quarterly reporting. Effective monitoring by the portfolio committee should ensure that officials are held accountable.
- Monitoring of appointments for key vacancies at the NHLS
- List of action taken against transgressors should be provided quarterly to PC for follow up for all irregular expenditure incurred



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