

# FIRST & SECOND SPECIAL REPORT

on the financial management of government's Covid-19 initiatives



AUDITOR-GENERAL  
SOUTH AFRICA



## Mission

“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.”



## Vision

“To be recognised by all our stakeholders as a relevant Supreme Audit Institution (SAI) that enhances public sector accountability.”



# The role of the Auditor-General of South Africa

We have undertaken a comprehensive, multifaceted and risk-based audit of the key initiatives introduced by government and the management of the multibillion rand in funds made available. Our objective with this Covid audit is not to disrupt or stand in the way of the good work that is being done; our role will be to enhance the public confidence that government funds and interventions have reached its intended targets

## Focus Areas

The health sector is at the forefront in the fight to curb the spread of the coronavirus. A number of initiatives were implemented to support the treatment of those affected by the virus and to manage the spread through the population.

These initiatives included procurement of personal protective equipment (PPE) for healthcare workers, community screening (and the increase in testing capacity), additional beds through field hospitals (temporary structures), additional ventilation and additional healthcare workers.

We therefore focused on the following four focus areas during the Covid-19 audit, across the sector:

- Purchase and distribution of PPE
- Purchase, distribution and maintenance of ventilation devices
- Community screening and testing
- Capacitation of hospital beds through erection of field hospitals



# The Covid-19 audit is a real-time audit with 3 components



## Prevention

Building on our strong stakeholder relationships and processes, we had **engagements with accounting officers/ authorities and executive authorities on the need for preventative controls** to be implemented or strengthened to address the increased risks and significant changes in operations.

We are testing **the implementation of the preventative controls** (including automated controls) and report any remaining risks to accounting officers/ authorities, with recommendations on closing the gaps.



## Detection (audit)

We identify high risk transactions, payments, procurement and processes using a **risk identification process enabled through data analytics and a deep understanding of the environment**.

We audit the **high risk items** – the procedures are dependant on the nature of the matter being audited (e.g. emergency procurement or grant payments).

We report any **findings to the accounting officers/ authorities** as soon as they are identified so that they can address the finding and fix any control weaknesses identified before additional payments or distributions are made.




## Reporting


We will be reporting on our work and the outcome thereof as well as the responses by the accounting officers/ authorities to any weaknesses identified in **special reports** tabled in Parliament.



# Focus of the audit




## HEALTHCARE SERVICES




### Purpose of initiative

Support to and treatment of those affected by covid-19 as well as efforts to manage the spread of the virus




### Auditees

- National Department of Health
- Provincial departments of health
- National Health Laboratory Services



### Focus of our audit

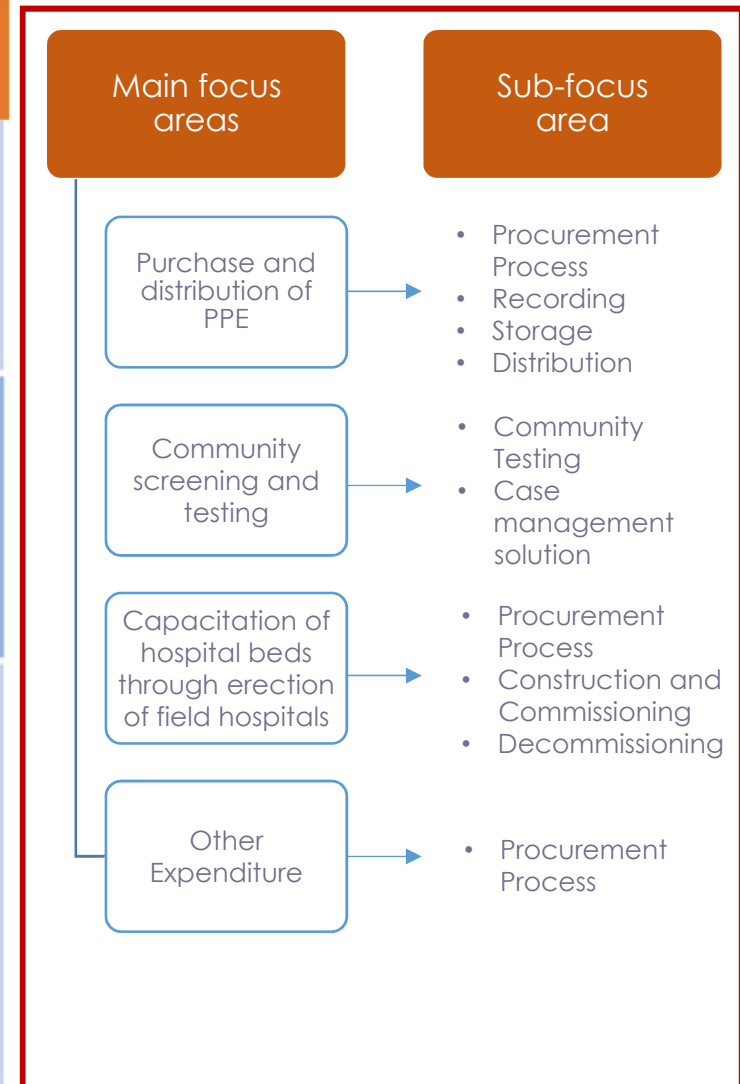
- Purchase and distribution of personal protective equipment
- Community screening and testing (purchase of test machines and kits, and case management solution)
- Capacitation of hospital beds through erection of field hospitals / temporary structures



### Budget and expenditure

Budget (R million)	R22 420		
Expenditure (R million)	R6 473	R5 365	Total expenditure: R11 838

■ Expenditure as at 31 July   
 ■ Expenditure from 1 August to 30 September



# SR 1 Findings, key commitments and follow up in SR 2

#	Province	Key commitments received	
		Implemented	In progress/ Not implemented
1	Eastern Cape	The Eastern Cape DoH established a provincial contract specifically for covid-19 PPE to ensure that PPE was ordered at prices regarded by the National Treasury as market related. Long-outstanding orders with suppliers were cancelled and more recent orders were followed up frequently to ensure timely delivery. Also, a provincial pharmaceutical procurement unit was being established to, among others, centrally manage the procurement of PPE.	The department did not agree with all the identified control weaknesses in relation to the possible fraud risks, but has started improving some controls. In some instances, the control weaknesses have led to actual transactions, therefore, the CFO instructed that manual orders may longer be used. The completeness and accuracy of the asset register, as well as the appropriate classification of covid-19 expenditure, will be audited as part of the 2020-21 financial audit.
2	Free State	N/A	The Free State DoH followed up on outstanding PPE orders on a weekly basis. If the delivery has been outstanding for more than 60 days, the orders placed with the suppliers were cancelled.
3	Gauteng	The Gauteng DoH charged the procurement committees with the responsibility to ensure compliance with the National Treasury Instruction Notes. The supplier appointment letters were updated to reflect the agreed delivery dates. The accounting officer committed to institute disciplinary actions against implicated officials, which resulted in the suspension of the chief director: SCM and the acting chief director: SCM shortly afterwards. The accounting officer also subsequently tendered his resignation after being suspended by the premier of the province.	The acting HoD requested an extension to the end of November 2020 to provide commitments in addressing the issues noted. The accounting officer indicated that the department agrees with the control weaknesses identified in relation to the possible fraud risks reported, and is in the process of developing a response plan to address the control weaknesses. The plan will be made available to the AGSA by the end of November 2020, after which the adequacy and effectiveness of the control improvements can be evaluated.
4	KwaZulu-Natal	The KwaZulu-Natal DoH ordered PPE from suppliers with existing contracts, as far as possible, to ensure that PPE was ordered at prices regarded by the National Treasury as market related. To avoid extended lead times, the department also made it mandatory that suppliers confirm that they had PPE stock on hand when they submitted quotations.	The accounting officer indicated that potential fraud risks to the department's operations are viewed in a serious light and that detailed improvement plans will be developed by the end November 2020, after which the adequacy and effectiveness of the control improvements can be evaluated.



# SR 1 Findings, key commitments and follow up in SR 2

#	Province	Key commitments received	
		Implemented	In progress/ Not implemented
5	Limpopo	Where a supplier could not deliver the required PPE within the agreed lead time, the order was automatically cancelled unless extension of the delivery period was specifically granted.	N/A
6	Mpumalanga & Western Cape	N/A	The Mpumalanga and Western Cape DoH continued to ensure compliance with the National Treasury Instruction Notes and they also continued to follow up on long-outstanding orders with suppliers.
7	Northern Cape	Since the previous report, the Northern Cape DoH had provided us with their corrective actions.	The department committed to ensure compliance with the national treasury instruction notes and their system relating to the management of PPE orders was strengthened.
8	North West	The North West DoH ordered, as far as possible, PPE by using existing contracts to ensure that PPE is ordered at prices regarded by the National Treasury as market related. The department also reported suppliers that charged them inflated prices and those who were defaulting in terms of lead times to the provincial treasury. This department also followed up on long-outstanding orders and classified some suppliers as dormant once they did not supply PPE on time.	Although the department's risk register was updated to include covid-19-specific risks, the monitoring of preventative controls was still lacking. This, coupled with late payment of suppliers, resulted in some repeat findings in a number of areas, as reported later in the report.
9	National Department	For the national DoH, the previous special report included findings without management commitments. A follow-up was performed on the findings from the review of the service-level agreement as reported, which revealed that the cost associated with software licences beyond 30 September 2020 was not clearly defined. Communication between the department and the service provider confirmed that although the service provider's services were extended beyond 30 September 2020, this was done at no extra cost to the department; therefore, addressing the risk of any potential additional system implementation costs.	N/A



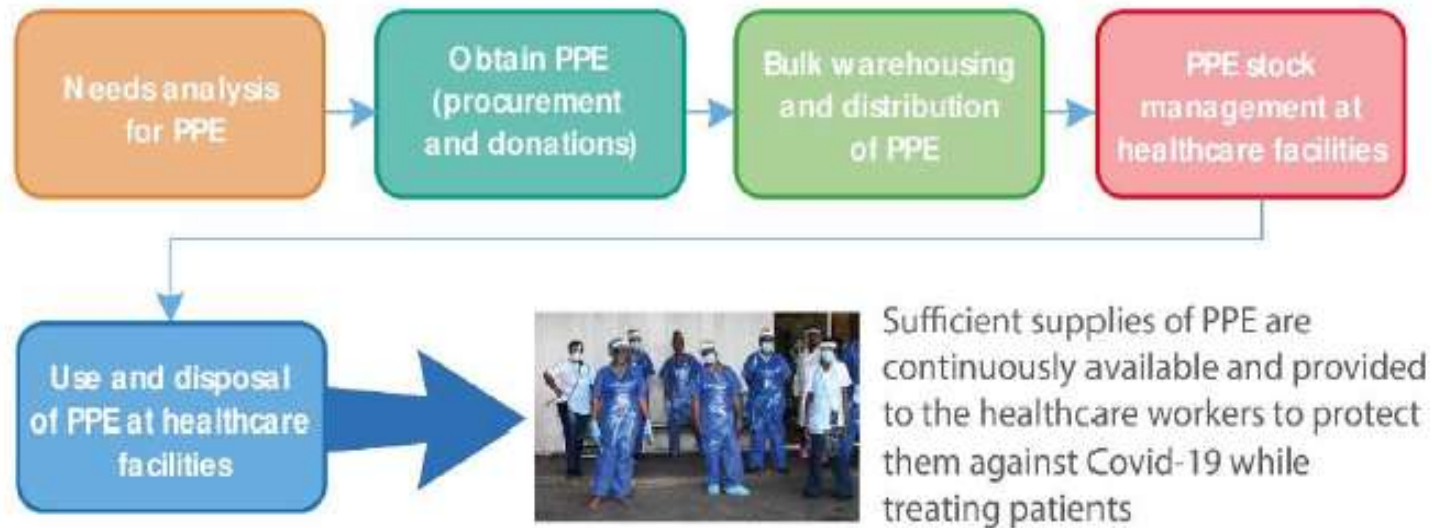
# **FOCUS AREA 1: Personal Protective Equipment (PPE) for Healthcare workers**





# Value Chain- PPE

The value chain below includes the ideal chain of events from when the healthcare sector determines the need for PPE during the pandemic up to the time when sufficient supplies of PPE are continuously available at healthcare facilities and provided to healthcare workers to protect them against the Covid-19 virus while treating patients.



# Special Report 1 Findings: Personal Protective Equipment (PPE) for Healthcare workers



# Key audit observations

## Findings raised

Procurement of PPE was tested against the current Treasury Regulations. At the date of this report, 116 contracts with a contract value of R2 214 million had been selected for testing across the sector. A total of R1 676 million had been paid on these awards as at 30 June 2020

Finding on SR 1	Detailed audit findings	Province
1	PPE items not ordered at prices regarded by the National Treasury as market related	EC, GP, KZN, MP, NW, NC, WC
2	Extended lead times to deliver PPE	EC, FS, KZN, MP, NW, WC
3.1	Specifications not indicated on awards and submissions	KZN, GP
3.2	Insufficient controls over receiving of goods	KZN
3.3	Goods received and accepted other than those ordered	KZN, GP
3.4	Transactions noted with tax-related discrepancies	KZN, GP
3.5	Other items of PPE: pricing related discrepancies	KZN, GP, NW
3.6	No evidence submitted to support the deviations due to emergency procurement	GP, NW
3.7	Procurement of Items not listed in annexure A of the National Treasury instruction note 8 of 2019/20 were not reported by department to the provincial treasury within 30 days	GP
3.8	Emergency procurement commitment letters were awarded but no system-generated orders had been placed as at 30 June 2020	GP
3.9	Contracts awarded to service providers with no known history and capacity of supplying PPE	GP



# Special Report 2 Findings: Personal Protective Equipment (PPE) for Healthcare workers



# Key audit findings - PPE

## Findings raised

The following findings were raised when testing PPE

No.	Finding on SR 2	Description of finding	Repeat finding	Province
<b>Procurement and contract management</b>				
1	1.1	Reasons for deviation not recorded and approved as per the approved delegation of authority	Yes	EC, GP, NC, NW
2	1.2	Non-declaration of interest by winning bidders	No	GP
3	1.3	Goods procured at prices higher than National Treasury Instruction Notes	Yes	GP, KZN, NW, WC
4	1.4	Non-compliance with local content requirements	No	KZN, MP, NC
5	1.5	Specifications not indicated on quotations and submissions	Yes	EC, GP, KZN
6	1.6	Discrepancies in the RFQs sent to suppliers resulting in unfair procurement practices	No	LP, KZN
7	1.7	Items procured not according to the specifications of the NDoH and the World Health Organisation	No	KZN
8	1.8	Transactions entered into with suppliers who are not tax compliant at award date	Yes	EC, KZN
9	1.9	Limitation of scope –procurement information requested not submitted for audit	No	FS, GP, KZN, MP



## Key audit findings – PPE (continued)

### Findings raised

No.	Finding on SR 2	Description of finding	Repeat finding	Province
<b>Other observations related to procurement</b>				
10	2.1	Award granted to a supplier who had to be part of a joint venture, supplier not bona fide PPE supplier and CIPC returns not up to date	No	NC
11	2.2	Award granted to a supplier who had to be part of a joint venture, supplier not bona fide PPE supplier and CIPC returns not up to date	No	NC
<b>Internal control deficiencies</b>				
12	3.1	Award made to suppliers who did not submit tender documents	No	FS PT
13	3.2	Insufficient controls over receiving of goods and services	Yes	FS PT, LP
<b>Recording, storage and/or distribution of PPE</b>				
14	4.1	Systems and/or controls to account for PPE not in place or not effectively used at bulk storage and healthcare facilities	No	EC, KZN, MP, NC, NW
15	4.2	PPE not distributed in a complete and/or timely manner to healthcare facilities	No	EC, FS, GP, KZN, LP, NW
16	4.3	Poor storage practices at bulk storage and health care facilities	No	EC, FS, GP, KZN, LP, MP, NC, NW
17	4.4	Limited security controls at bulk storage facilities	No	EC, FS, NC, NW
18	4.5	PPE not meeting the required standards and/or specifications	No	EC, FS, GP, KZN, MP, NC, NW



# Key audit findings – PPE (continued)

## Findings raised

No.	Finding on SR 2	Description of finding	Repeat finding	Province
<b>Payment processes</b>				
19	5.1	Payments made for goods and services with no evidence of delivery and/or contract arrangement	No	GP



Picture 1: PPE stored in the walkways, outside the boxes and on top of each other in a disorderly manner.



Picture 2: PPE stock was stored at a temporary bulk storage facility and some healthcare facilities where the infrastructure was not well maintained and therefore in a poor condition. Instances were identified where the ceilings were not in a good condition due to water damage. Some of the PPE was damaged by water as indicated in picture 2.



Some PPE stock was stored outside a temporary bulk storage facility. Picture 3 shows sanitisers that were stored outside the facility that were exposed to the sun and rain. Some of these items were damaged due to exposure to direct sunlight, therefore its integrity/quality was compromised.



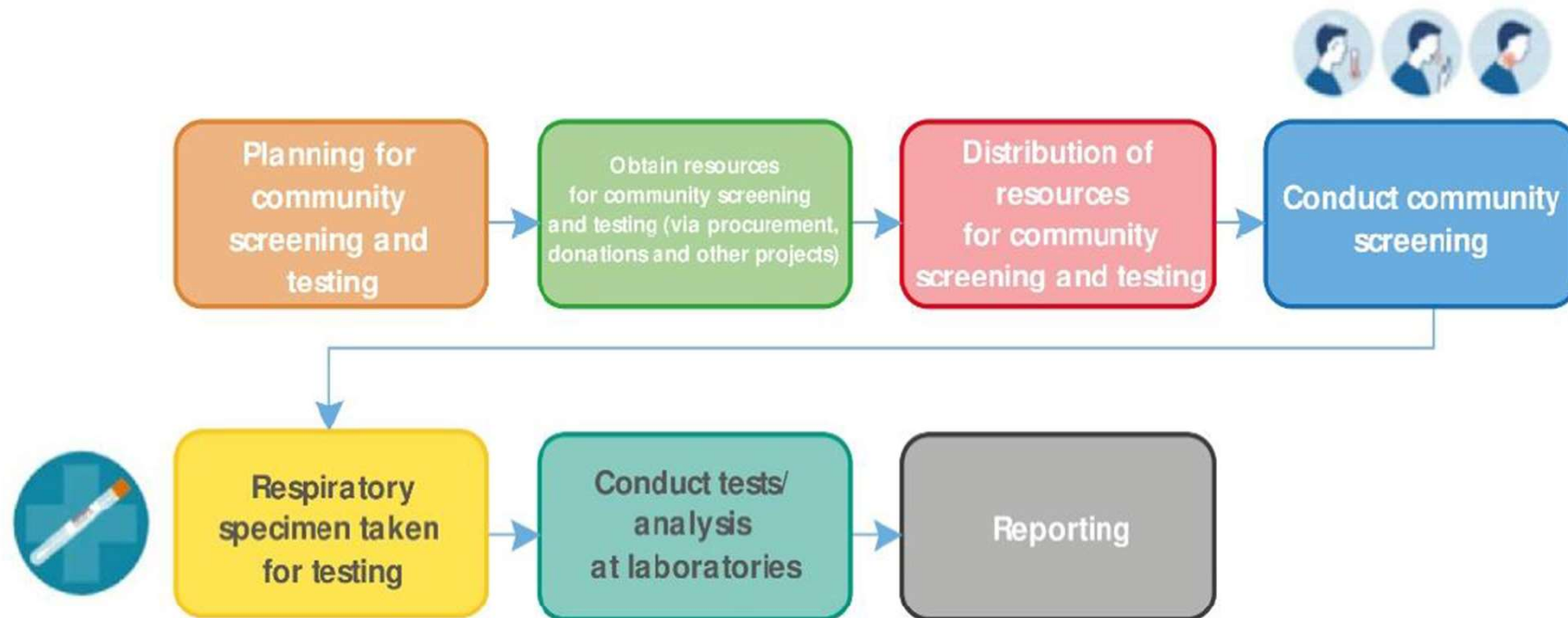
# FOCUS AREA 2: Community testing and Case Management Solution





# Value chain - Community testing and case management solution

The diagram below summarises the process flow that we had planned to focus on:



# Special Report 1 Findings: Community testing and case management solution



# Key audit observations – Case management system

## Background

On 16 April 2020, the NDoH appointed a service provider to provide a national Covid-19 surveillance and case management system, which was intended to strengthen Covid-19 laboratory- and hospital-based reporting. The total value of the six month contract was R18,19 million, with R8,9 million already paid to the service provider at 30 June 2020.

The service provider initially provided a lab surveillance solution to the government. The national Covid-19 surveillance and case management system was an extension of the above solution. with addition of the following services:

- Individual case management (location, symptoms, progress, hospitalisation, ICU admission, ventilator requirements and outcomes, mortality)
- Contact management
- Hospital bed capacity and utilisation at all facilities accepting Covid-19 patients
- National ventilator capacity and utilisation
- National hospital healthcare worker health monitoring

The above are achieved by implementing specific system modules at hospitals to enable monitoring of hospital capacity and individual case management, as well as the pathology laboratory surveillance application programming interfaces that facilitate documentation of all positive results from all private and public laboratories in real time.

## Findings raised

Finding on SR 1	Detailed audit findings	Auditee
1	Cost of potential future software license fees unknown	NDoH
2	No provision for data backup management process in the service level agreement	NDoH
3	No provision for change management process in the Service level agreement	NDoH



# Special Report 2 Findings: Community testing and case management solution



# Key audit findings - Community testing and case management solution

The audit focus was to determine whether the scoped-in testing kits, equipment and PPE items were obtained at market-related prices during the Covid-19 pandemic and delivered by the suppliers within the required lead times, to ensure continuous service delivery.

The primary objectives of the review of the Case Management solution were to determine whether the systems implemented operated as intended, as well as determine the effectiveness of system controls in ensuring completeness and accuracy of the Covid-19 data, as it is being transferred through the various application systems.

## Findings raised

The following findings were raised when testing community testing and case management solutions

No.	Finding on SR 2	Description of finding	Repeat finding	Auditee
1	6	PPE procured at prices higher than National Treasury instruction notes	No	NHLS
2	7	Lack of IT project management governance and system implementation controls deficiencies resulted in incomplete and inaccurate data	No	NDoH
3.	7	Lack of system controls which resulted in incomplete and inaccurate data that led to management relying on manual interventions, which compensated the deficiencies on the systems.	No	NDOH

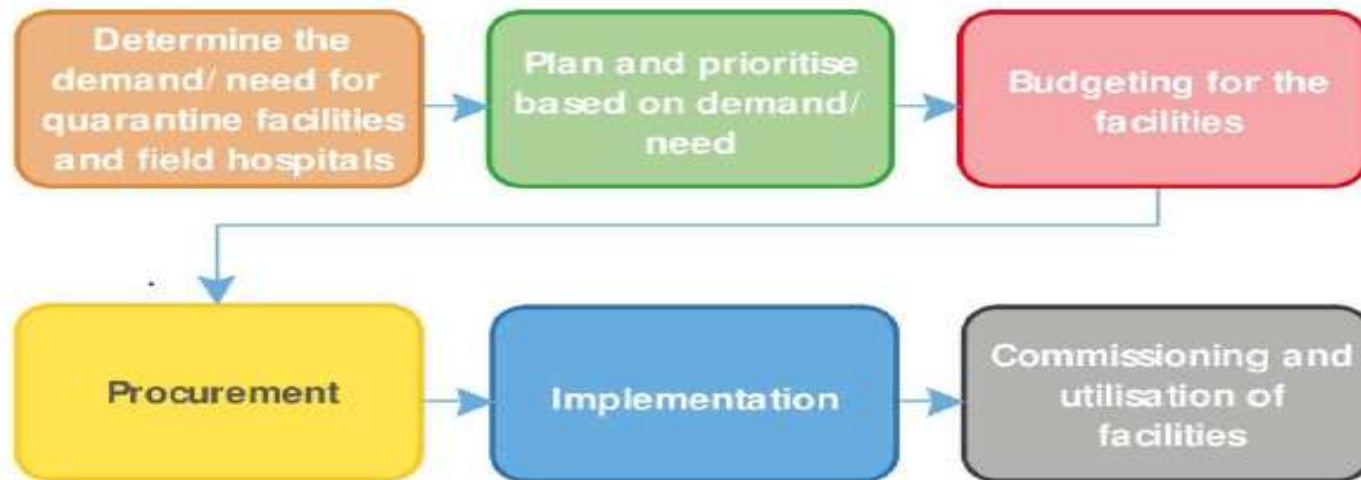


# **FOCUS AREA 3: Temporary quarantine facilities and field hospitals**



# Value chain - Temporary quarantine facilities and field hospitals

The value chain includes the ideal chain of events from when the public sector determines the needs for temporary quarantine facilities and field hospitals during the Covid-19 pandemic up to utilisation of these facilities.



Adequate number of facilities that are available in the public health sector to treat Covid-19 patients



# Special Report 1 Findings: Temporary quarantine facilities and field hospitals





# Key audit observations

## Findings raised

Procurement of quarantine sites and field hospitals was tested against the current Treasury Regulations. At the date of the SR1 report, 16 contracts for quarantine sites with a contract value of R573 million was selected for KZN, NW and NDoH . A total of R351 million had been paid as at 30 June 2020.

Similarly, 27 contracts for field hospitals with a contract value of R1 786 million was selected for the sector. A total of R598 million had been paid as at 30 June 2020.

## Findings raised

The following findings were raised when testing field hospitals:

Finding on SR 1	Detailed audit findings	Province
1	Needs assessments and evaluation of major capital projects not performed	KZN
2	Declaration of interest (SBD 4) not included in procurement documents	KZN
3	The awarded supplier was not tax compliant at the date of the award	KZN



# Special Report 2 Findings: Temporary quarantine facilities and field hospitals



# Key audit findings - Temporary quarantine facilities & field hospitals

## Findings raised

The following findings were raised when testing field hospitals:

No.	Finding on SR 2	Description of finding	Repeat finding	Province
<b>Procurement and contract management</b>				
1	8.1	Standard bid documentation was not included in procurement documents provided	No	DOH – KZN, DPW - GP,
2	8.2	Unfair procurement processes as bids were not invited, bid committee systems not applied and/or no evidence provided for bid committee system in approval of deviations	No	DOH – KZN, LP, DPW –GP
3	8.3	The total payments made under the contract exceeded the contract price	No	DOH - KZN
<b>Implementation and commissioning</b>				
4	9.1	Free State: Bloemfontein Show Grounds	No	FS
5	9.2	KZN: Clairwood Temporary Field Hospital	No	KZN

### Notes:

- 9.1 Free State: Bloemfontein Show Grounds - Delay in completion of the field hospital
- 9.2 KZN: Clairwood Temporary Field Hospital:
  - ✓ 9.2.1. Project cost – no evidence provided for approval and breakdown of project costs
  - ✓ 9.2.2. Request for proposals invited from a limited number of suppliers
  - ✓ 9.2.3. Project delays
  - ✓ 9.2.4. Project snags/poor project quality



# Other expenditure

## Special Report 1 Findings: Other expenditure



# Key audit observations

An analysis of the expenditure type revealed that significant amounts are also spent on other types of expenditure besides those under the four focus areas selected. Procurement processes of some of those transactions were then tested against the Treasury Regulations.

At the date of the SR1 report, 25 contracts with a contract value of R75,21 million were selected for EC, NW and NDoH. A total of R10,50 million had been paid as at 30 June 2020.

## Findings raised

The following findings were raised when testing procurement :

Finding on SR 1	Detailed audit findings	Province
1	Procurement of Items (Advertisement) not listed on annexure A of the National Treasury instruction note 8 of 2019/20 were not reported by department to the provincial treasury within 30 days	NW



# Conclusion



# Summary of key findings: Healthcare services

## PPE - Procurement process

- **Competitive processes not followed**, resulting in contract being awarded to a specific supplier or group of suppliers without the necessary motivation or approval for such deviations.
- Requirement to favour **local producers** and ensure the **tax affairs** of suppliers are in order not always applied.
- Businesses competing for PPE contracts across country **not treated in fair and equal manner** - some disqualified based on not complying with the requirements, while others were not.
- Contracts awarded to businesses that **do not have a history of providing PPE** - often working in a different industry or being formed or registered just before a contract was awarded. Risk of non-delivery/ unfairness/ conflicts.

## PPE - Quality, price and delivery

- PPE procured at **prices that were higher than market-related rates** as determined by National Treasury. Potentially suffered financial losses as a result
- Some suppliers **delivered PPE that did not meet the required specifications** or was **not what they had been contracted to deliver**, or they **under delivered or delivered late**. Despite this, the **suppliers were still paid** by most of the departments.
- **Poor contract management and significant deficiencies in the order, delivery, receipt and payment processes** further exposed the health and education sectors to financial loss and resulted in health workers not always receiving the PPE they required.

## PPE - Storage and distribution

Ineffective **stock management processes, inadequate storage facilities and poor storage practices**.  
Impacted effectiveness of the distribution of PPE in some provinces and exposed the PPE to loss.



# Summary of key findings: Healthcare services

## Field Hospitals

- There were certain provinces that had planned to upgrade existing facilities from the start e.g. LP. **We identified non-compliance with legislation in the appointment process of some of the contractors and suppliers**, which included competitive procurement processes not being followed and that all the required declarations and bidding documentation was not requested and evaluated.
- **The contracts were not always concluded and approved as required** and we raised concerns on how some of the contracts were managed and enforced.
- **Decommissioning plans were not developed** in two of the sites and we were therefore unable to confirm how all assets allocated to field hospitals are accounted for.



Overall, we have further identified several control weaknesses and related findings throughout the health sector that **materially impacted the quality and value for money of the services or products delivered**, and communicated these to management. These had a significant impact on whether the **funds allocated had actually been spent for the intended purpose**, by the institutions involved.

A majority of the new findings included in this report, were in progress at the time of tabling the first report. Repeat findings noted, were as a result of the **slow response by management to implement the recommendations and commitments made, with appreciation that management were occupied with responding to the pandemic.**



The accounting officers have **committed to implementing a number of internal controls to address the significant deficiencies identified**, with most accounting officers committing to suspending emergency procurement and reverting back to normal procurement processes, as well as ensuring that matters reported are followed up. These follow up actions **should include investigations and consequence management, where applicable, for transgressions.**





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