



AUDITOR - GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Health

10 November 2021

OUR MISSION AND VISION



OUR MISSION

We have a constitutional mandate and, as the supreme audit institution of South Africa, exist to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



OUR VISION

To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.

Mandate for AGSA and Portfolio Committees

AGSA mandate

Constitution section 188

AGSA must audit and report on the accounts, financial statements and financial management of government institutions.

PAA section 20(2)

- The AGSA must prepare an audit report containing an opinion/conclusion on the:
 - fair presentation of the financial statements
 - compliance with applicable legislation
 - reported performance against predetermined objectives.
- Discretionary audits (including special audits, investigations and performance audits).

Section 5(1B)

- The auditor-general has the power to:
 - take an appropriate remedial action
 - issue a certificate of debt, as prescribed, where an accounting officer/authority has failed to comply with remedial action.

Portfolio committees

Rule 227 of the National Assembly Rules

Portfolio committees may, among other things, perform the following functions:

- Deal with bills and other matters falling within its portfolio as are referred to it in terms of the constitution, legislation, rules or by resolution of the National Assembly.
- Also maintain oversight of its portfolio of national executive authority, including the implementation of legislation.
- May consult and liaise with any executive organ of state or constitutional institution.
- May monitor, investigate, enquire into and make recommendations concerning any such executive organ of state constitutional institution or other body or institution, including the legislative programme, budget, rationalisation, restructuring, functioning, organisation, structure, staff and policies of such organ of state, institution or other body or institution.
- May consult and liaise with any executive organ of the state or constitutional institution.

Role of AGSA in Reporting process

Our role as the Auditor-General of South Africa (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)*.



What we understand as the role of oversight





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Focus



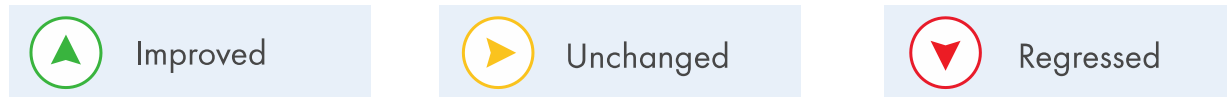
Important to note

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

Audit outcomes are indicated as follows:




Movement over the previous year is depicted as follows:



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



Auditee:

- 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

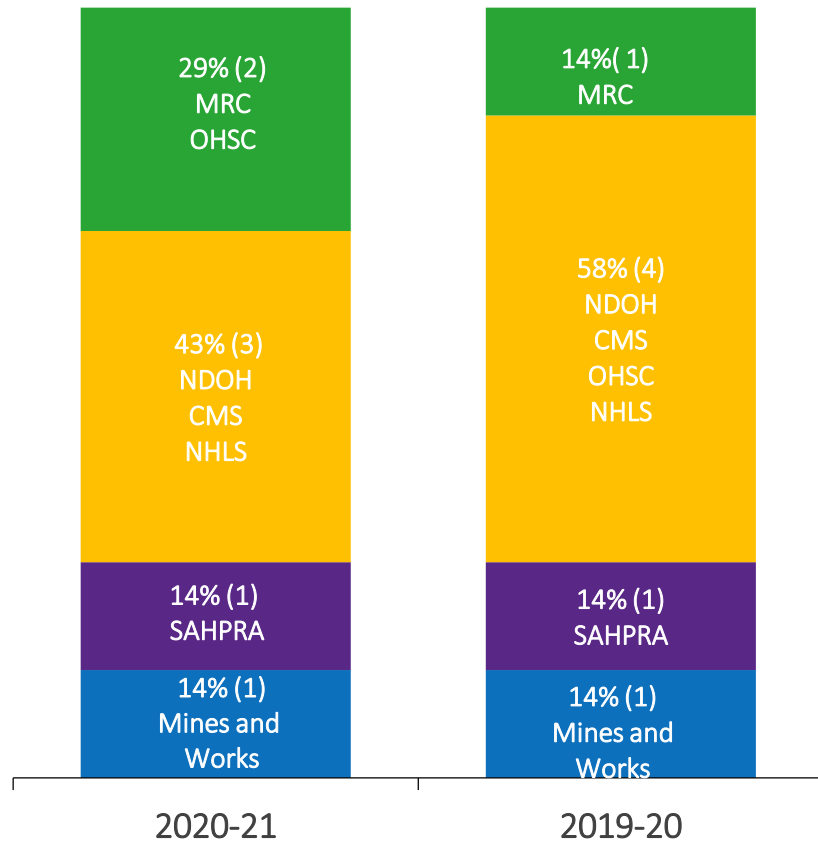


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Portfolio outcome



Audit outcomes of the health portfolio over two years



Movement	
▲	1
▼	0
▶	5

Outstanding audits	
Mines and Works Compensation Fund (Catch up audit)	

Audit outcomes are indicated as follows					
■	Unqualified with no findings	■	Unqualified with findings	■	Qualified with findings
■	Adverse with findings	■	Disclaimed with findings	■	Outstanding audits

- The overall outcomes in the portfolio have improved slightly when compared to the prior year with one audit moving from unqualified with findings to unqualified with no findings.
- MRC was able to **maintain** the audit outcome of unqualified with NO findings on performance reporting and compliance with legislation.
- The control environment at SAHPRA **improved** significantly, resulting in no findings on performance reporting. The only matter remaining relates to the prior year misstatements not corrected that had a possible impact on the current year amounts.
- The audit of the Mines and Works Compensation Fund (formerly CCOD) is outstanding. The 2019-20 audit is being finalized. Thereafter, the 2020-21 catch-up audit will commence. Management plan to submit the 2021-22 financial statements within the legislated date.

Portfolio overall message

The objective of this document is to brief the health minister and portfolio committee on the audit outcomes of the health portfolio for the period ended 31 March 2021. In this presentation we highlight recommendations in order to improve audit outcomes for the portfolio.

The overall outcome the portfolio in the portfolio has **improved slightly** when compared to the prior year. This improvement was a result of the sustained clean audit outcome of the **MRC**, and an improved audit outcome of the **OHSC**.

*The **CMS, MRC and OHSC** submitted financial statements that are free from material misstatements. However, the quality of financial statements of the NDoH, and NHLS requires urgent attention.* These auditees received an unqualified opinion due to adjustments made on material misstatements identified by the auditors. Controls relating to financial management and reporting needs to be strengthened to ensure an improved outcome.

*We commend the **NHLS, MRC and SAHPRA** for submitting a performance report free of material misstatements.* The challenges relating to performance management continued to persist at the **NDoH**. Information requested was not provided timeously to allow for assessment by the auditors, which resulted in a limitation of scope. Material findings were identified at the **CMS and OHSC**; however, management was able to make the necessary adjustments to correct the material misstatements identified by the auditors, and therefore no material findings were reported.

We are however concerned by the increase the number of instances of non-compliance with supply chain management prescripts and regulations regarding contract management. This resulted in an increase in irregular expenditure in the portfolio. Some of these instances are *repeat findings from the prior year*. The root cause for these instances is a lack of consequence management implemented to ensure that action is taken against officials who caused the non-compliance.

The overall status of the **key risk areas affecting financial reporting and compliance is still concerning**. This is evident from the repeat findings that were raised from previous year. Leadership's should strengthen its oversight over the financial reporting and compliance to address internal control weaknesses identified during the audit.

Portfolio overall message continued....

Recommendations:

- **Implement consequence management** by investigating and taking action against officials guilty of not complying with laws, regulations and documented internal policies and procedures
- Strengthen controls relating to **proper record keeping** to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Strengthen controls relating to **monthly processing and reconciling** of transactions to be recorded in the financial and performance reports
- Strengthen controls relating to the **preparation and reviewing** of financial and performance report to ensure they are accurate and complete and are supported and evidenced by reliable information
- Improve controls relating to the **review and monitoring** of compliance with legislation relating supply chain management processes and regulations regarding contract management



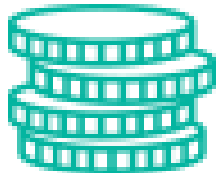
Detail analysis of the three focus areas:

Credible financial reporting
Credible performance reporting
Compliance with legislation



First focus area: Credible financial reporting

Financial statements



Submission of financial statements by legislated date

Financial statements submitted without errors

Quality of final submission after audit

Movement



2020-21

2019-20

100% (6)

100% (6)

50% (3)

33% (2)

83% (5)

83% (5)

Root cause analysis

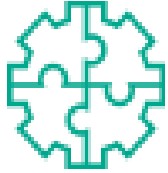
- The controls relating to the preparation and reporting of financial information at the NHLS and NDoH need to be strengthened. The unqualified outcome on the financial statements was due to misstatements identified by the auditees that management was able to correct.
- Inadequate review and reconciling of information before they are recorded in the financial statements resulted in the material findings raised.
- Inadequate review of financial statements by the relevant role players to ensure information included in the financial statements is supported by reliable documents.
- We noted an improvement in the submitted financial statements at SAHPRA; however, prior year material misstatements were not corrected resulting in an unfavorable outcome.

Recommendations

- Accounting officers/authorities must continue to do their work through audit committees to that ensure management implements and enhances processes of review of the financial statements.
- The finance unit should reconcile and review supporting documents/schedules that support information to be included in the financial statements
- Internal audit should be allowed sufficient time to review the financial statements before final approval.

Second focus area: credible performance reporting

Performance report



- Performance report submitted without errors
- Performance report adjusted for material misstatements to improve reliability
- Reliable reporting of achievements (CMS, NHLS, MRC, OHSC, SAHPRA)
- Usefulness of performance indicators and targets (CMS, NHLS, MRC, OHSC, SAHPRA)

Movement

	2020-21	2019-20
▲	50% (3)	33% (2)
▶	33% (2)	33% (2)
▲	5	3
▲	5	3

Root cause analysis

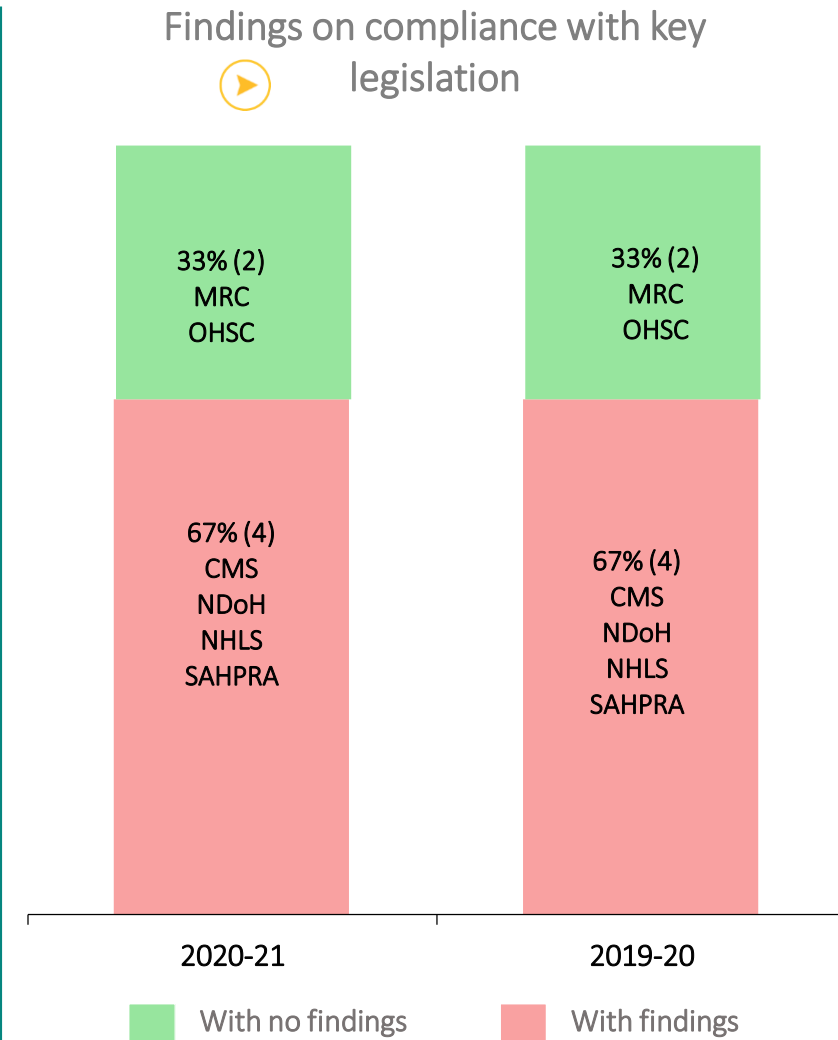
- Recurring challenges were identified with performance reports of the CMS, NDOH and OHSC that the indicators needed to be revised, due to the lack of preventative controls implemented on performance reporting.
- We were unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions for the NDoH. This was due to the limitation on the scope of our work.

Recommendations

- The auditee should strengthen controls relating to the preparation and reviewing of performance report to ensure they are accurate and complete and are supported and evidenced by reliable information.
- The auditee should strengthen controls relating to proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support performance reporting.

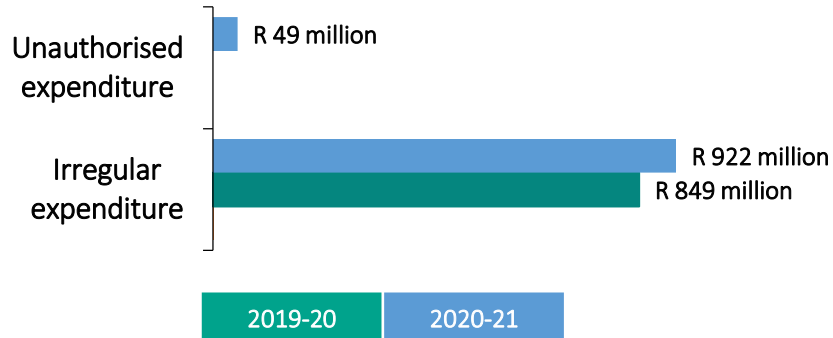
Third focus area: compliance with legislation

- In the current year there has been a stagnation in the compliance with legislation.
- The compliance findings related to the following:
 - Material misstatements in the financial statements
 - Procurement and contract management
 - Expenditure management
- The non-compliance identified is similar to those reported in the prior year. These auditees (**CMS, NDoH, NHLS and SAHPRA**) did not implement effective action plans to address significant internal control deficiencies relating compliance with legislation.
- We will further unpack the challenges of compliance in two sections, i.e. **expenditure management, procurement and contract management and consequence management.**



Irregular and unauthorised expenditure

Irregular and unauthorised expenditure incurred by entities in portfolio



Unauthorised expenditure

- R49 million represents non-compliance in 2020-21

Irregular expenditure

- R922 million incurred due to non-compliance in 2020-21.
- R849 million incurred due to non-compliance in 2019-20.
- Irregular expenditure incurred thus increased by 9% when compared to the prior year.

Nature of the irregular and unauthorised expenditure

Irregular expenditure

Total irregular expenditure identified – R922 million.

R778 million (84% of total) was incurred by the NHLS

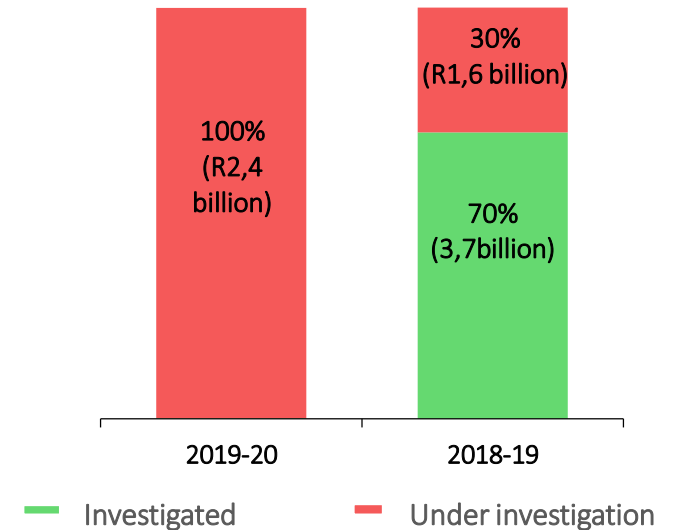
Majority irregular expenditure relates to:

- variation of contract without prior approval from the NT (SAHPRA)
- procurement without following proper quotations and/or tender process (NHLS, NDoH)
- procurement from panel not established according to SCM prescripts (CMS)
- expired contracts (NHLS)

Unauthorised expenditure

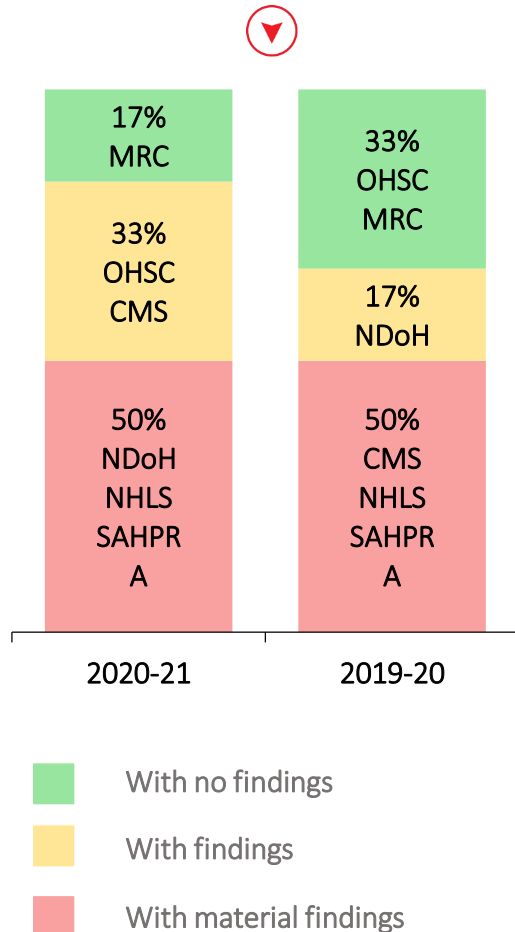
Total unauthorised expenditure amounting to R49 million was incurred by the NDoH relating to overpayment of transfer payment and overtime costs for staff at port of entry due to covid-19.

Previous year irregular expenditure reported for investigation



Supply chain management and consequence management

Overall regression in SCM compliance
All SCM findings should be investigated



Most common findings on supply chain management	Recommendations
Awards to suppliers whose tax matters had not been declared by the South African Revenue Service to be in (NDoH, NHLS).	<ul style="list-style-type: none"> Procurement process to be performed by the SCM unit
Procurement without following procurement processes (NDoH, SAHPRA).	<ul style="list-style-type: none"> Capacitate the finance directorate which includes the SCM unit that deals with procurement
Awards to suppliers who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state (NDoH, NHLS).	<ul style="list-style-type: none"> Review of procurement process to ensure compliance with laws and regulations

Consequence management (2019-20 non-compliance)	Recommendations
<p>SAHPRA has effective consequence management processes when non-compliance, irregular and/or fruitless and wasteful expenditure is detected</p> <p>The NHLS completed investigations; however, not all recommendations from these investigations were implemented</p> <p>At the NDoH, investigations are either not initiated or those initiated were not completed and, therefore, no one was held accountable for the irregular or fruitless expenditure</p> <p>CMS has investigated instances of non-compliance and are in a process of implementing recommendations</p>	<ul style="list-style-type: none"> Management should continue to hold perpetrators accountable Recommendations from investigations should be taken seriously and action should be taken Ownership of the loss control functions needs to be determined to enable the investigation process to take place Investigations should be finalised and actions taken against transgressors.

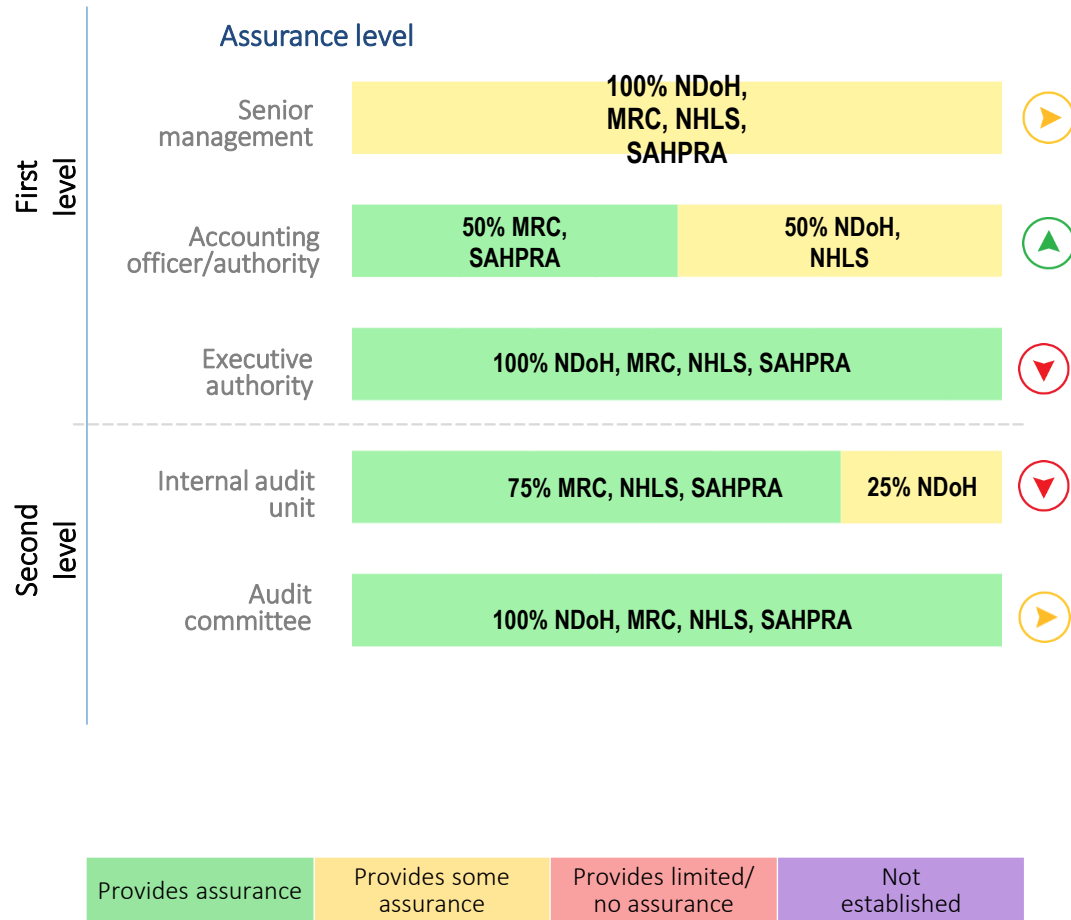


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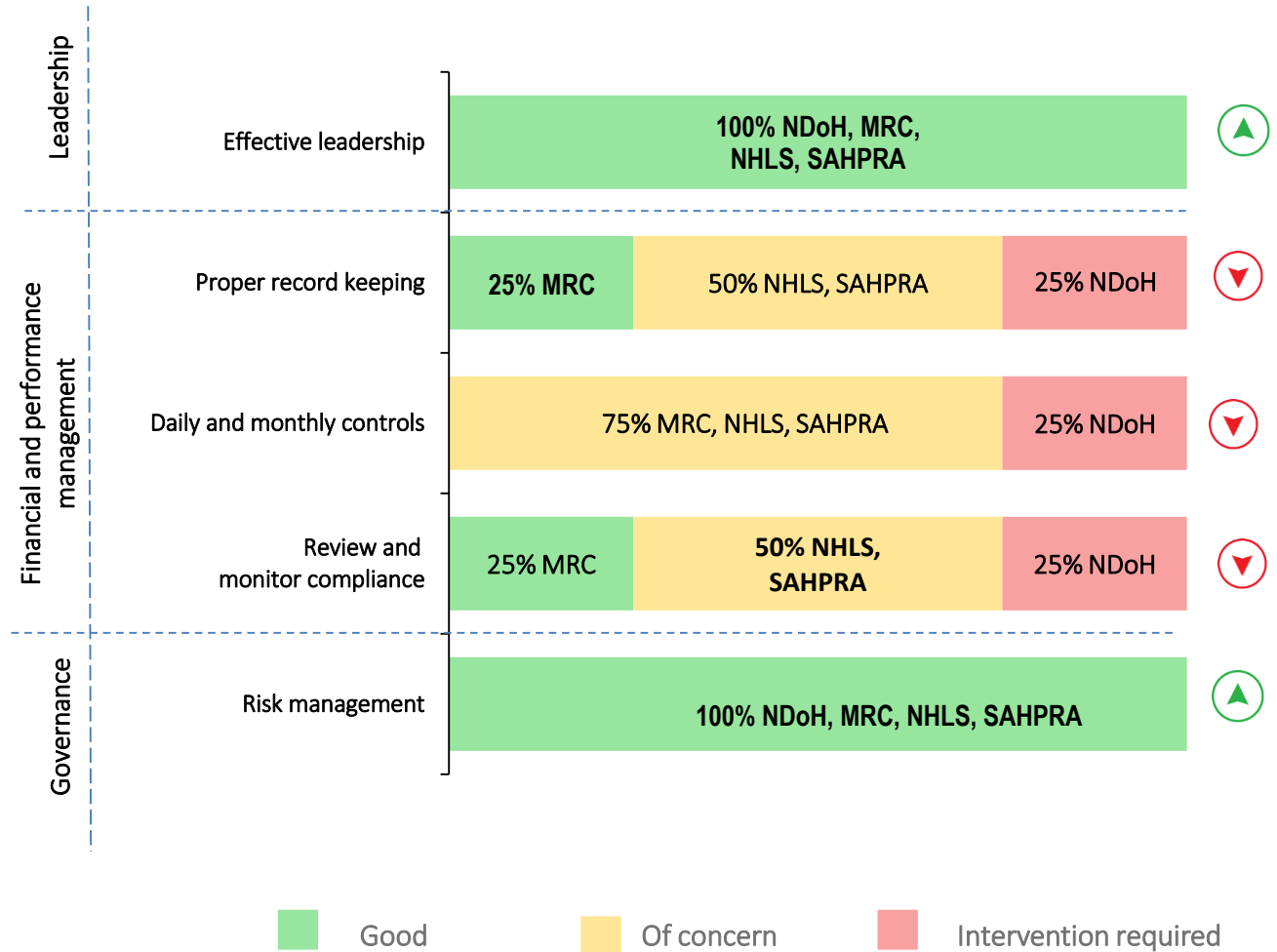
Governance and internal controls



Assurance provided*



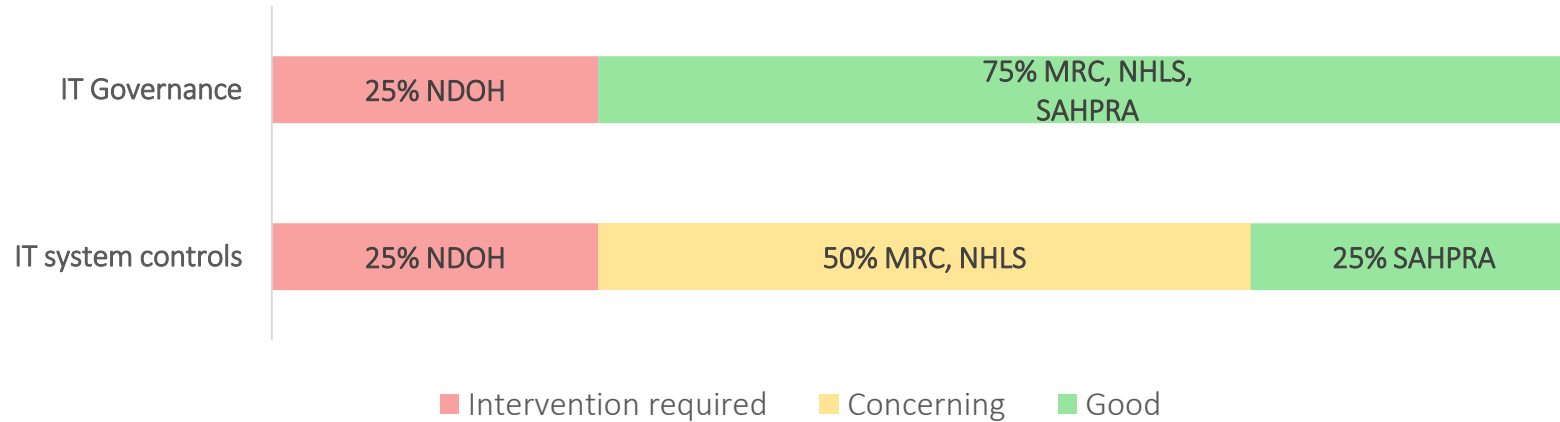
Status of internal control*



* CMS and OHSC is not included in the assessment of assurance providers and internal controls is not performed for small auditees.

Status of Information Technology (IT) environment

- **IT governance** is there to ensure that the effective and efficient use of IT to enable entities to achieve its mandate. This is done by specifying the decision rights and accountability framework to encourage desirable behavior in using IT.
- **IT system controls** are there to ensure that the information technology (IT) used by entity operates as intended to achieve its mandate.
- The effectiveness of the two areas will assist in ensuring that the entities are not vulnerable to cyberattacks and business continuity concern.



Areas	Root cause	Recommendations
IT governance	Delays in appointment process led to key positions in the IT department being vacant. The IT steering committee did not effectively monitor IT initiatives, consequently, IT strategic plans and initiatives within the department were not translated into the medium-term expenditure framework (MTEF) process and were therefore not budgeted for.	Management should finalise the appointment of key staff members and ensure the ICT initiatives are budgeted for in the next budget.
IT system control	The department had a labour impasse for over three years, operated without a complete ICT staff complement and had no offices as the head office building was closed. Additionally, legacy systems and the delays in filling vacancies and budget constraints also led to IT security control weakness and IT risk assessments not performed.	



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Portfolio snapshot



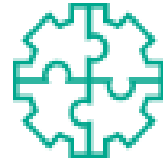
Portfolio snapshot 2020-21



Clean audits: 2
(2019 - 20: 1)



Financially unqualified
financial statements: 5
(2019-20: 5)



No findings on performance
reports: 5
(2019-20: 3)



No findings on compliance with
legislation: 2
(2019-20: 2)



Irregular expenditure:
R922.25 m
(2019-20: R849.07 m)

Root causes within Health Portfolio preventing improvement in audit outcomes & actions to deal with complacency of and lack of action by management:

The following must be addressed:

What remains which still requires attention:

NDoH

- Capacity in the finance directorate, which also deals with procurement
- End users procuring on their own poses SCM challenges
- No real consequences as there is no ownership of the loss control committee
- Coordination between the finance unit and the end user units to ensure information to support that financial statements transactions and balances are supported by reliable evidence



NHLS

- Reflection by the leadership of their understanding of the real risks of the environment or situation
- Detailed review of financial statements to ensure they comply with the reporting framework and are supported by reliable evidence
- Improve controls relating to contract management to ensure approvals are sought for variations where services are still required
- Improve controls relating to procurement process to ensure all procurement is performed either through a quotation or tender process

CMS

- Sustain corrective actions implemented to address the current year SCM deficiencies reported

SAHPRA

- Addressing misstatement relating to the prior period to ensure these misstatements do not continue to impact the current year balances.
- Improve controls relating to contract management



What must be done/ actions to effectively journey towards of clean audits:

NDoH

- Establish an effective contract management unit
- SCM to take back control on all procurement processes
- Finance unit to invest time to review the information submitted by units before inclusion in the annual financial statements
- Perform and finalise Investigate on all prior year IFWE
- Strengthen controls relating to proper record keeping and diligently maintain those reconciliations required to support reported financial and performance information



NHLS

- Senior management to review financial statements to ensure account balances and disclosures items are recorded in line with the reporting framework and supported by reliable evidence
- Strengthen controls relating to proper record keeping relating to supply chain management processes
- Strengthening the supply chain management processes to ensure all procurement is performed in line with relevant prescripts

CMS

- Continuously monitor implemented action plans to ensure procurement processes are in line with supply chain management prescripts

SAHPRA

- Leadership should continue the good efforts exerted on clearing the remaining opening balance qualification on revenue
- Continuous monitoring of contracts and where required, variations are approved timeously

Recommendations for entities within Health Portfolio to deal with complacency of management and lack of coordination preventing improvement in audit outcomes

By the accounting officer / accounting authorities

Strengthen controls relating to proper record keeping and diligently maintain reconciliations required to support reported financial and performance information.

Strengthen controls relating review of financial and performance reports to ensure they comply with relevant reporting frameworks and evidenced by reliable supporting documents

Improve and monitor internal controls relating to procurement and contract management processes

Perform and finalise investigations to enable consequence management



And those actions be monitored by the portfolio committee

Follow up on action plans implemented for proper record keeping, reconciliations and detailed review of financial and performance quarterly reports which will effectively feed into the financial statements and performance report.

Follow up with management action plans implemented to ensure compliance with regulations relating to procurement and contract management

Monitor the consequence management processes to ensure perpetrators are held accountable.

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