



AUDITOR-GENERAL
SOUTH AFRICA

Budgetary Review and Recommendations Report

Portfolio Committee on Health

23 March 2022



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FOCUS

Audit outcomes




Important to note

The percentages in this presentation are calculated based on the **completed audits of thirteen 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
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Annual audit focus area

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

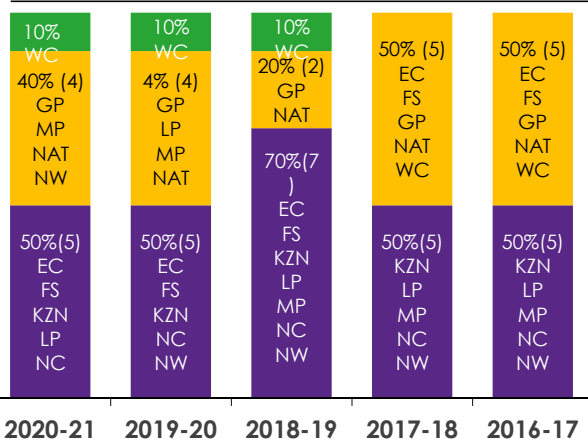
Unqualified opinion with no findings (clean audit)	Financially unqualified opinion with findings	Qualified opinion	Adverse opinion	Disclaimed opinion
				
<p>Auditee:</p> <ul style="list-style-type: none"> produced credible and reliable financial statements that are free of material misstatements reported 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 	<p>Auditee produced financial statements without material misstatements or could correct the material misstatements, but struggled in one or more area to:</p> <ul style="list-style-type: none"> 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 	<p>Auditee:</p> <ul style="list-style-type: none"> 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. 	<p>Auditee:</p> <ul style="list-style-type: none"> 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 	<p>Auditee:</p> <ul style="list-style-type: none"> 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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Sector message

Health sector - Leadership not implementing recommendations leading to a lack of improvement in overall audit outcomes



Overall audit outcomes

Leadership not taking our messages seriously resulting in stagnant audit outcomes for sector:

The sector audit **outcomes remained stagnant** for the current year. While the NW improved its outcomes from qualified to unqualified with findings, the anticipated audit outcome for LP will result in a regression. We however, commend GP, MP, NW and WC for submitting financial statements that were free of material misstatement in 2020/21 year.

Our biggest concern remains the KZN and NC. **Their audit outcomes have been qualified for the past 5 years with no sign of or little improvement.**

The NC has experienced instability in the position of the head of department (HOD) for the past five (5) years as the department has not had a permanent HOD but has been operating under different acting HODs since. The position of the chief financial officer (CFO) in the KZN, which is a critical post in the department, has also been vacant for more than five (5) years. These vacancies have directly contributed to the ineffective control environment within the department, over the years

Province	Outcome
EC	Disclaimer
FS	Qualified
GP	Adverse
KZN	Disclaimer
LP	Disclaimer
MP	Qualified
NAT	Qualified
NC	Disclaimer
NW	Disclaimer
WC	Unqualified

AOPO audit outcomes

Concerns on the sector's inability to report on its performance:

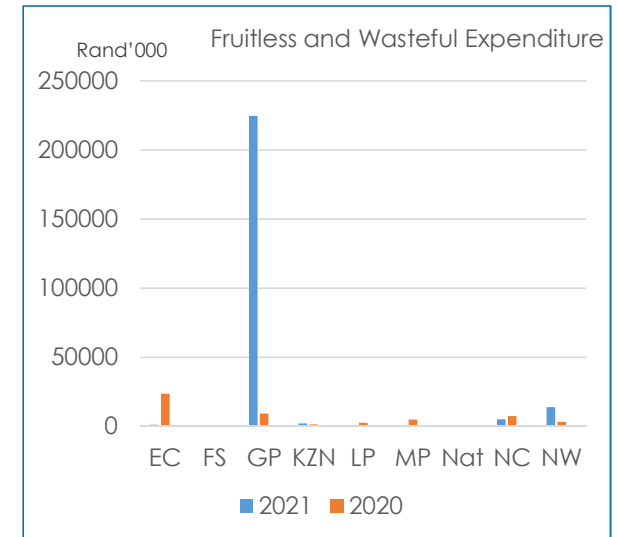
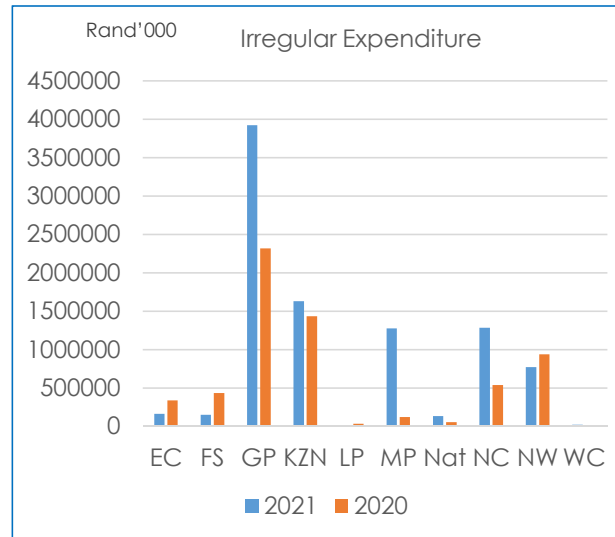
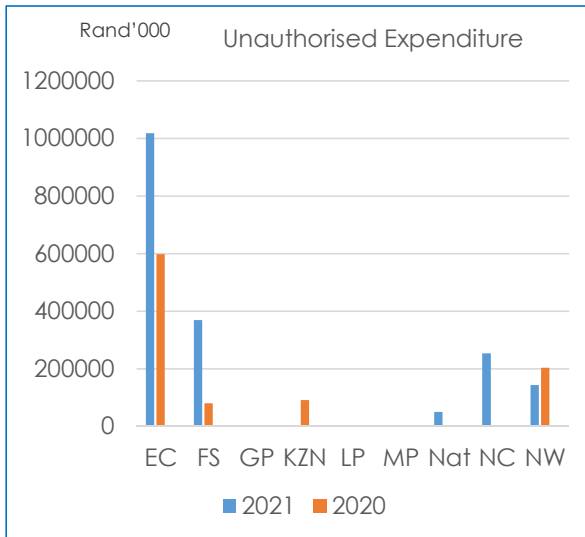
It was confirmed from facility visits that there are always extremely long queues to provide primary health care, and based on the headcounts, the **capacity at these facilities are not sufficient to maintain the relevant patient records**. It is concerning that credible performance data remain a challenge for the district health services programme that should serve as a dipstick to measure the primary health care in the province. Without credible performance data the department will not be able to easily identify and respond to any service delivery challenges that might arise i.e. if the department cannot reliably measure the number of TB patients there is at a hospital it might create a shortage of medicine to treat TB patients and that particular hospital and excess medicine at another hospital.

The limitation to conclude whether the reported achievement are reliable or not resulted in us being unable to determine whether the department has adequately delivered and achieved on the current year targets and whether they are on track to achieve the MTSF objectives and the 2030 Vision

Root Causes:

- Lack of implementation of key recommendations made and /or action plans to address deficiencies identified . **This demonstrates lack of willingness by the leadership to effect the necessary changes.**
- Lack of adequate processes to maintain proper supporting evidence to substantiate reported financial and predetermined objectives performance.
- Lack of proper records management and keeping.

Health sector - Concerning increases in Unauthorised, Irregular and Fruitless and wasteful expenditure (UIFW) due to disregard for legislation and processes



Poor state of preventative and detection controls to prevent UIFW expenditure:

The level of UIFW in the sector is still high which raises concerns regarding management disregard of laws and regulations as issued by National Treasury. The control environment in the sector did not detect and prevent the UIFW resulting in the significant increases reported in the sector as illustrated above.

The majority of the irregular and fruitless and wasteful expenditure in GP was a result of the non-compliance with regulations relating to procurement of PPE. The remaining irregular expenditure is a result of non-compliance with supply chain management processes. The significant unauthorised expenditure in EC was a result of payment to medic-legal claims and interest that was not budgeted for.

Lack of implementation of consequence management measures prevailed throughout the sector as evidenced by the increases in UIFW expenditure. Lack of will to address poor performance by implementing proper consequence management, underpinned by leadership's lack of appetite to implement corrective and remedial actions by implementing key audit recommendations made were the main drivers.

Health sector - – Pressure of current medico claims and confirmed MIs on financial health of sector due to poor prior performance and inadequate record keeping

Province	2021/22 appropriation	Accruals	Claims against the Department
EC	8 960 084 000	3 774 990	38 842 976 000
FS	4 026 488 000	509 071 000	4 525 725 000
GP	21 381 521 000	5 036 544 000	24 326 745 000
KZN	17 820 714 000	1 780 115 000	26 230 576 000
LP	6 428 616 000	292 965 000	12 316 689 000
MP	6 589 424 000	709 677 000	10 116 520 000
NAT	7 624 400 001	386 238 000	15 373 000
NC	2 302 830 000	590 186 000	1 961 881 000
NW	4 487 038 000	1 114 976 000	5 657 374 000
WC	9 581 317 000	508 461 000	151 558 000
Total	88 233 135 001	15 364 403 000	123 911 047 000
* % of 2021/22 appropriation		17%	140%

The situation in the sector is concerning given the critical role the sector place to ensure south Africans have access to healthcare. The pressure of the situation was aggravated by the covid-19 pandemic as the sector had to expand current activities to included measures to deal with the pandemic. Some activities had to be re-prioritise as the already strained budget was not geared for any unplanned activities.

The significant increase in medico-legal claims is also putting the sector under immense pressure. This is evident from the increase in unauthorised expenditure as provinces such as EC had not budgeted for the claims. This is also inconsistent across the sector.

The impact is also noticeable in infrastructure projects were there some projects are finalised but cannot utilised as there is no budget for medical personnel to be placed at these facilities. This was evident in the MP and possibly NW departments.

The financial strain has also resulted in increased accruals and late payments of suppliers. This has attracted fruitless and wasteful expenditure as suppliers started charging for late payments. These challenges will have a detrimental effect on the ability of the sector to deliver healthcare services.

33 instances of possible material irregularities were identified by the sector in the 2020/21 audit, of which **15 were confirmed as material irregularities. 6 of these MI's (of which two were already confirmed) were because of findings reported from our pro-active audit of the sector's management of allocated Covid-19 funds.** The majority of the confirmed MI's are as a result of interest charged due to late payment of accounts as well overpayments due to extension of contracts. The sector will continue to assess all possible material irregularities that were in progress at the date of signing the reports.

Province	Number of MI's	Amount	Covid-19 related
EC	2	3 572 163	No
FS	1	17 800 000	No
GP	1	7 814 000	No
KZN	2	13 064 000	Yes
NW	6	35 399 650	No
NC	3	8 693 849	No
Total	15	94 191 134	

Health sector – infrastructure Assets

During the 2020/21 financial year, we **audited 23 projects across nine (9) provinces**. However, during the finalisation of this report, the outcome of the audit for the Western Cape province was in the process of being finalised and therefore excluded and will be reported in the next audit cycle.

Time

- Significant delays were experienced in the delivery of these projects in the seven provinces as projects were not completed by the planned practical completion date. The delays were either caused by the provincial department, implementing agents and/or contractors as listed below.
 - Poor management of milestones.
 - Poor performance of contractors.
 - Poor project planning by departments.

Cost

- Some provincial departments failed to manage projects effectively which resulted in potential fruitless and wasteful expenditure on some projects which amounted to approximately R18.5 million.
- The reason for the fruitless and wasteful expenditure was due to poor project management. The expenditure was related to claims for project delays, rectification of poor workmanship and interest charged on delays in payment.

Build Quality

- Site visits were conducted on the selected key projects, and a number of build quality deficiencies were identified.
- In some cases, the projects incurred additional amounts due to poor workmanship. For example, in Mpumalanga at the New Pankop Clinic, the project incurred an additional amount of R1 788 025.46 and in Northern Cape an amount of R410 453 relating to remedial works due to poor workmanship.



Picture 1: Concrete slab joint damaged (Eastern Cape)



Picture 2: Damaged upper wall Eastern Cape)

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