



**PFMA
2021-22**

Budgetary review and recommendations report (BRRR) **Portfolio Committee on Health**

October 2022



AUDITOR-GENERAL
SOUTH AFRICA



MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the supreme audit institution 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.

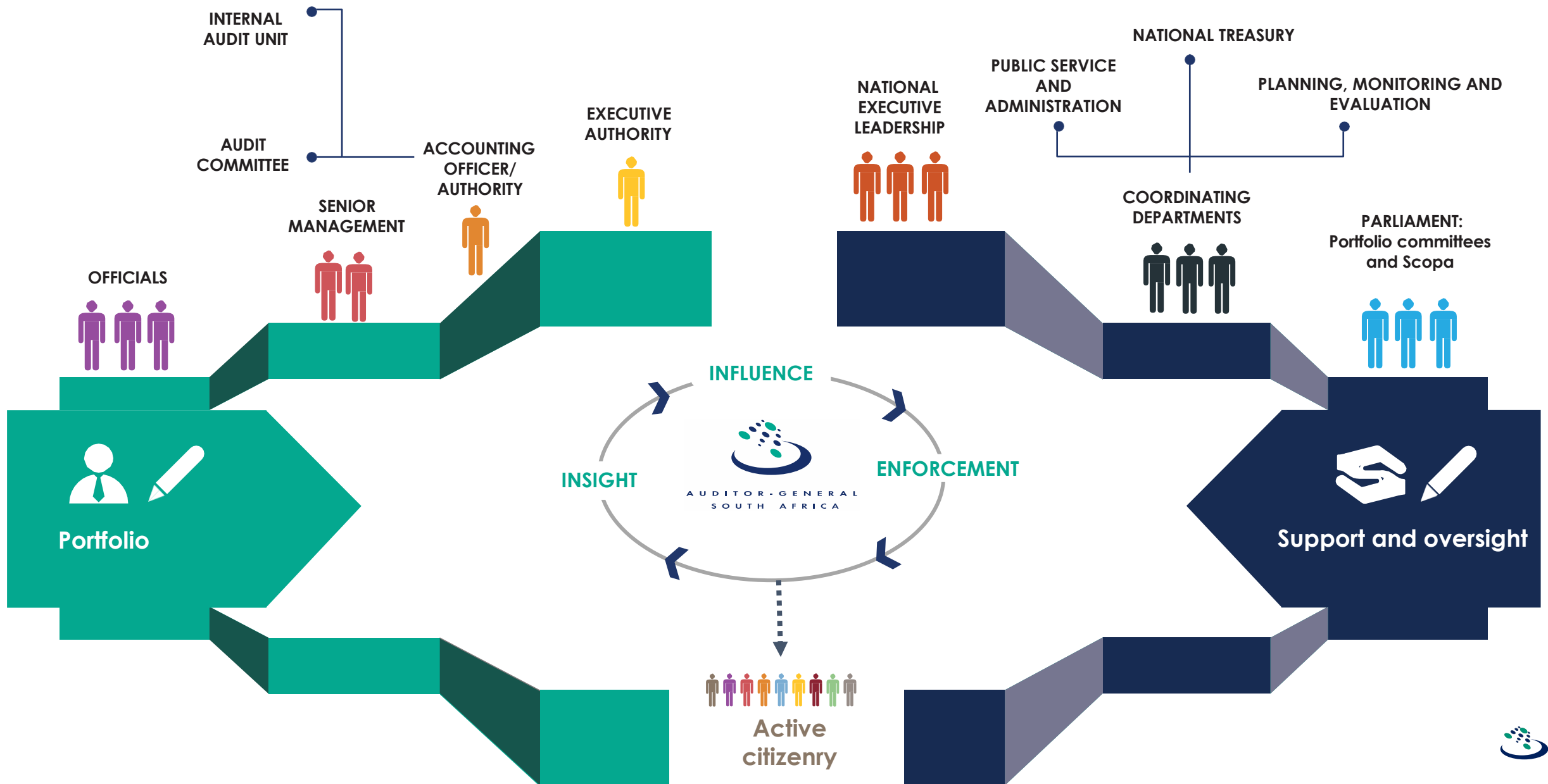


VISION

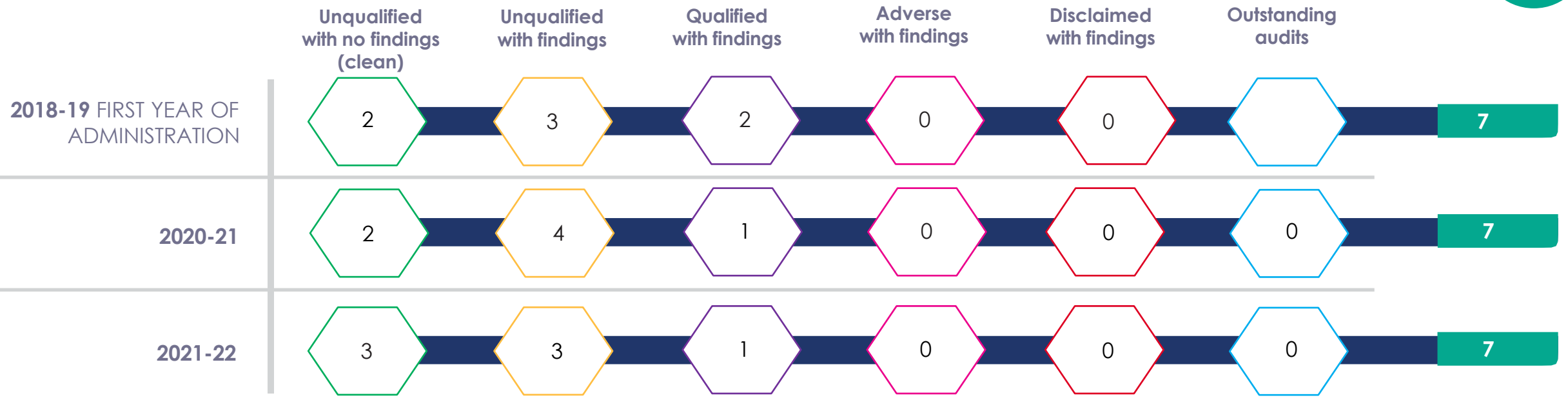
To be recognised by all our stakeholders as a relevant supreme audit institution that enhances public sector accountability.



All have role to play in the national government accountability ecosystem



Improvement/Regression/No change over administration term

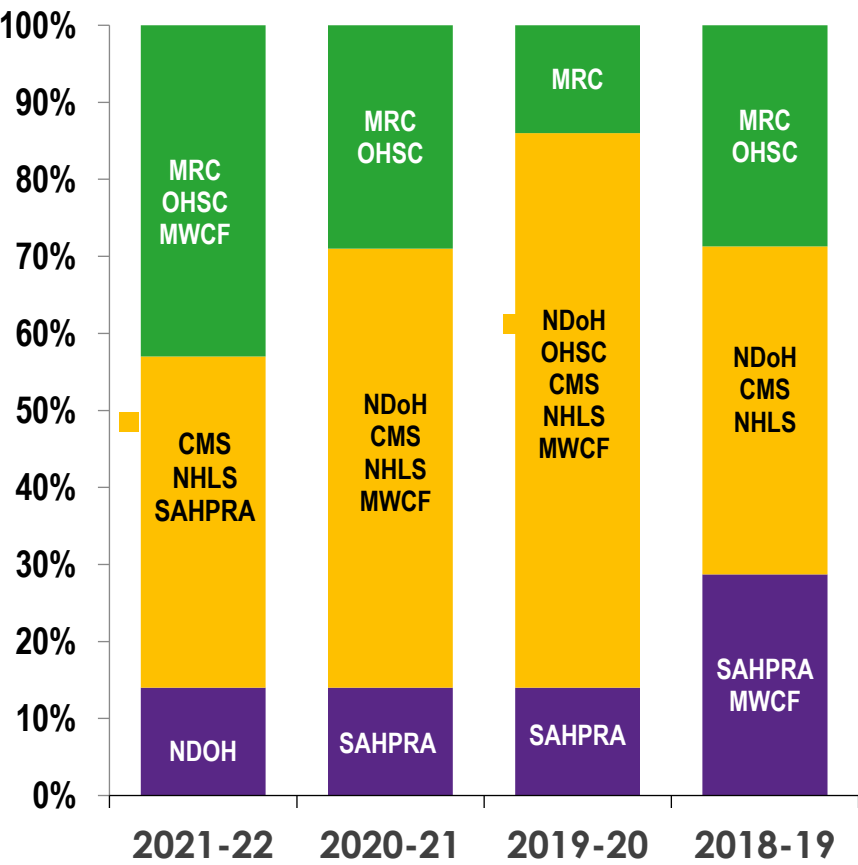


- Medical Research Council (MRC)
- Mines and Works Compensation Fund (MWCF – previously CCOD)
- Office of Health Standards Compliance (OHSC)
- Council for Medical Schemes (CMS)
- National Health Laboratory Services (NHLS)
- South African Health Products Regulatory Authority (SAHPRA)
- National Department of Health (NDoH)

MOVEMENTS FROM PREVIOUS YEAR:
 2 ↑ 1 ↓



Overall improvement on the audit outcome, **recommendations**



Overall, the audit outcomes of the portfolio **improved** mainly due to the **MWCF (previously CCOD)** achieving a clean audit outcome.

- We commend the **MRC** and the **OHSC** for **maintaining a clean** audit outcomes in the current year. Management should continue to maintain internal controls relating to financial management and good governance in order to sustain this audit outcome.
- **MWCF (previously CCOD) improved its audit outcome** from an unqualified opinion to a clean audit in the current year. The entity continues to improve their control environment and were able to address matters raised in prior audit cycles. Management should **continue to strengthen and maintain oversight responsibility over the review of the financial statements** as this will ensure that quality financial statements are submitted for audit and clean audit is maintained.
- **SAHPRA** also **improved its audit outcomes** by addressing the prior qualification on revenue and income received in advance. Material misstatements were still identified by the audit process which management was able to correct. Management should improve their **record-keeping** to ensure complete, relevant and accurate information are available to support the financial statements. Furthermore, the entity needs to ensure appropriate review and monitoring of compliance with revenue and debt management policies.
- **CMS and NHLS maintained an unqualified audit opinion** with findings on compliance. Several misstatements were identified by the audit process which management were able to correct. Management of both entities should that there are adequate internal controls to **monitor compliance with applicable laws and regulations** as well as to **adequately implement review controls over the annual financial statements** in order to improve current audit outcomes and progress towards clean audit outcomes.

- **NDoH regressed** in the current year, received a qualified opinion. The qualification area relates to a limitation finding in accrued departmental revenue relating to the recoupment of the covid-19 vaccine. The systems implemented by management was not **always adequate to ensure all transactions and events were accurately recorded in the financial statements**. Although management was able to address procurement findings reported in the prior year, material non-compliance relating to expenditure and asset management were reported. Furthermore, the department had repeat finding on consequence management as investigations on irregular and fruitless and wasteful expenditure incurred were not performed as required by the PFMA.

Movement	
▲	2
▼	1
▶	4



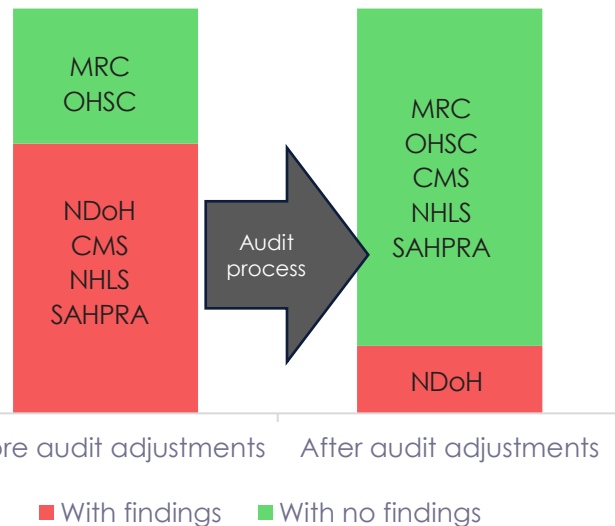


Portfolio performance

section does not include MWCF – unlisted public entity



Quality of performance reports before and after audit



Programmes selected for audit:

- NDoH – National Health Insurance
- MRC – Core research
- OHSC – Certification and enforcement
- CMS – Financial supervision
- NHLS – Laboratory services
- SAHPRA – Clinical and pharmaceutical evaluation

Findings

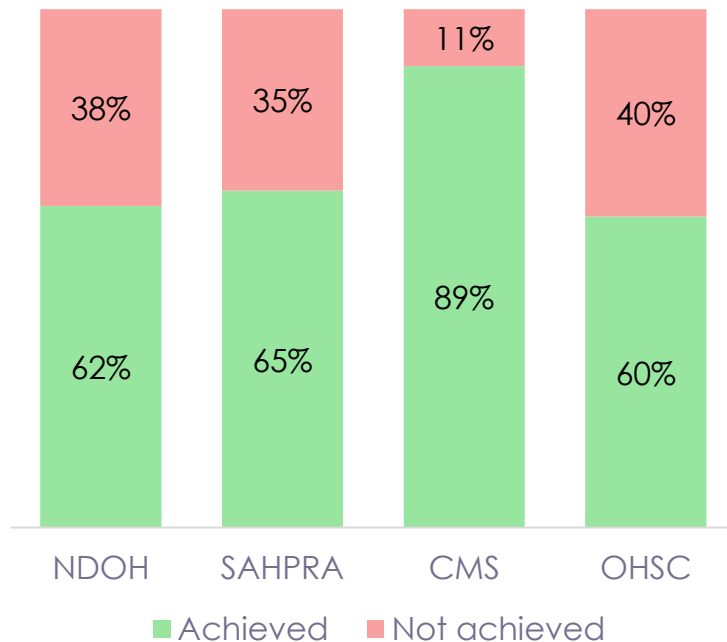
- Targets were not specific in clearly identifying the nature and required level of performance and measurable for one indicators (NDoH).
- Material misstatements were noted at CMS, NHLS and SAHPRA, however as management subsequently adjusted the annual performance report, we did not report material findings in the audit report.



Key targets in Medium Term Strategic Framework (MTSF) for portfolio

- Enabling legal framework created for the implementation of National Health Insurance (NHI) Bill.
- Develop a comprehensive policy and legislative framework to mitigate the risks related to medical litigation.
- Develop and implement an HRH strategy 2030 and HRH plan 2020-21 to 2024-25 to address the human resources requirements, including filling critical vacant posts for full implementation of universal healthcare.
- Establish provincial nursing colleges with satellite campuses in all 9 provinces.
- Improved quality of primary healthcare services through expansion of the Ideal Clinic Programme.

Achievement of annual targets as reported in annual performance report (all indicators) – 2021-22



Key targets not achieved include:

- A policy and legal framework gazette to manage medico-legal claims in South Africa.
- Portfolio Committee and NCoP public hearings on the NHI Bill in Parliament attended.
- 40 million persons vaccinated against covid-19; and
- complaints resolved within 30 working days and within 6, 12 or 18 months.

Impact of targets not achieved

- Overall budget spending may not be aligned with the performance targets. Planning of target may not be consistent with budget requirements and impact implementation.
- Negative impact in the entities' performance for the following years due to backlogs, further making it difficult for the portfolio to meet its MTSF targets and service delivery objectives.



Achieving key performance targets – summarised information from performance report

NDoH

Performance indicator	Target	Actual performance	Management's reason for non-achievement
A policy and legal framework to manage medico-legal claims in South Africa developed	A policy and legal framework gazette to manage medico-legal claims in South Africa	Nil	The South African Law Reform Commission (SALRC) published the Discussion paper on Medico-Legal Claims Project 141 to come up with the legal framework to manage medico-legal claims in South Africa. After consideration of public comments, the SALRC will finalise the report with a proposed Bill.
NHI Fund purchasing health services by 2023-24	Portfolio Committee and NCoP public hearings on the NHI Bill in Parliament attended	The Department of Health attended all the public hearings on the NHI Bill in Parliament as scheduled by the portfolio committee	NCoP public hearings on the NHI Bill delayed due to portfolio committee hearings that were still underway at the end of the financial year
Number of persons vaccinated against covid-19	40 million persons vaccinated against covid-19	More than 20 million (20 954 169) persons vaccinated	Poor uptake of covid-19 vaccines

SAHPRA

Performance indicator	Target	Actual performance	Management's reason for non-achievement
Percentage of reports on health product safety signals issued within 40 working days	70% reports on health product safety signals issued within 40 working days	28% reports on health product safety signals issued within 40 working days Out of the 235 applications received, 95 (40%) reports were issued, of which 66 (28%) were issued within 40 working day	lack of human resources and appropriate training



Achieving key performance targets – summarised information from performance report

OHSC

Performance indicator	Target	Actual performance	Management's reason for non-achievement
Percentage of health establishments against which enforcement action is initiated within 10 days from the date of the final inspection report	100%	0	Although all non-compliant facilities were issued compliance notices and given time to correct non-compliance, enforcement may not begin until an additional inspection that confirms the health establishment's persistent non-compliance is completed. During the 2021-22 financial year, the first group of HES issued with notices of non-compliance were subjected to a re-inspection process. At the end of the fiscal year 2021-22, 24 re-inspection reports were completed. The office is in the process of completing enforcement action against the identified health establishments, which is expected to be finalised by the end of quarter 1 of 2022-23
Percentage of private health establishments inspected for compliance with the norms and standards	6% (26 of 431)	Nil	Routine inspections could not be conducted during this financial year pending the Finalisation of the private hospital's inspection tools. Pilot inspections were conducted in four private hospitals during quarter 4.
Percentage of user complaints resolved through assessment within 30 working days of receipt of a response from the complainant and/or the health establishment	55%	26.71% (39 / 146)	Negative deviation due to inflation of the denominator caused by a large number of backlog cases, as well as new complaints. The performance has steadily increased from 7.4% in quarter 1 to 27% in quarter 4, indicating persistent hard work from the complaints assessment team to clear backlogs.
Percentage of complaints resolved within 6 months through Investigation	10%	4.43% (7/158)	Negative deviation due to inflation of the denominator caused by a large number of backlog cases, referral of new cases for investigation, human resource constraints and lengthy investigative processes.
Percentage of complaints resolved within 12 months through Investigation	5%	1.27% (2/158)	Negative deviation due to inflation of the denominator caused by a large number of backlog cases, referral of new cases for investigation, human resource constraints and lengthy investigative Processes.
Percentage of complaints resolved within 18 months through investigation	2%	0%	Negative deviation due to inflation of the denominator caused by a large number of backlog cases, referral of new cases for investigation, human resource constraints and lengthy investigative processes.





Information and Communication Technology (ICT)





NDoH

Impact

Limitations to implement necessary controls to improve the ICT control environment

Possible exposure to attacks on the systems on the department may adversely affect the departments operations

Cause

Lack/insufficient budget allocated to ICT

Recommendations to AO/AA

Fill vacant positions

Revisit budget allocation for ICT

IT Governance Framework

- The **vacant positions in the ICT department** were not filled due to misalignment of the current organogram as well as resource requirements that are outlined in the ICT strategy.
- The **lack of ICT risk assessments** were due to the vacant position. The role of a dedicated ICT Governance, Risk and Compliance Analyst remained vacant for the period under review.
- The lack of an **adequately developed ICT governance framework** resulted in corporate governance aimed at improving the overall management of ICT and achieving value from ICT investment in ICT not being achieved.
- The ICT steering committee had been established; however, it was **not operating effectively** which resulted in ICT functions not being adequately monitored.
- There was **lack of governance structures over ICT projects**, which led to inadequate project planning and poor project governance

IT Systems

- The lack of adequate resources in the ICT function resulted in **repeat findings impacting the ICT control environment**.
- Access to system functionalities that perform critical business transactions was not adequately controlled which resulted in **inappropriate system activities performed not being detected**.
- There **was lack of budget for procuring network monitoring tools** that are required to implement controls in the area of IT security management. As a result, National Department of Health was running **outdated version on the network**, and this increases the risk of cyber security incidents.
- An **inadequately designed and/or non-compliance to the IS policy** resulted in inadequately implement patch management processes, inadequate password management, firewall rule settings not defined on the network, security breaches and invalid logon attempts not being monitored. Furthermore, lack of security awareness training.

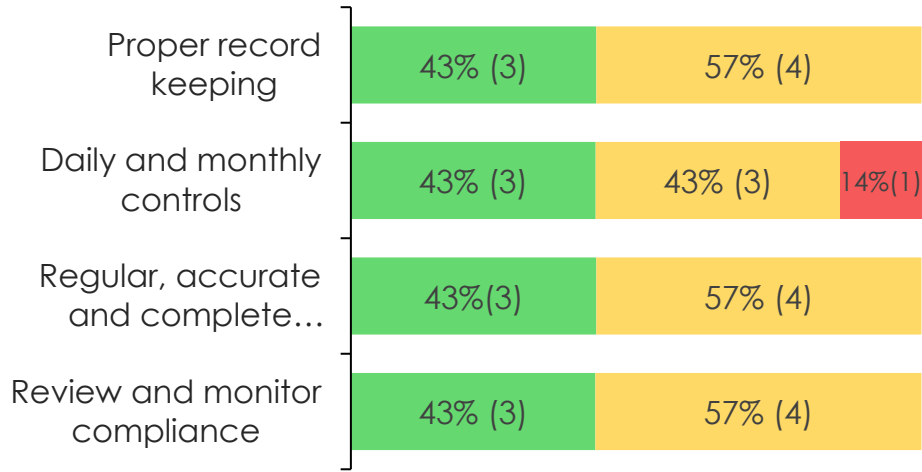
There were no material findings relating to Information Technology in other entities, with exception of NHLS which did not adequately design and implement controls over IT systems to ensure reliability of the systems and availability, accuracy, and protection of information (findings raised by Internal auditors)



**Financial management
and compliance**

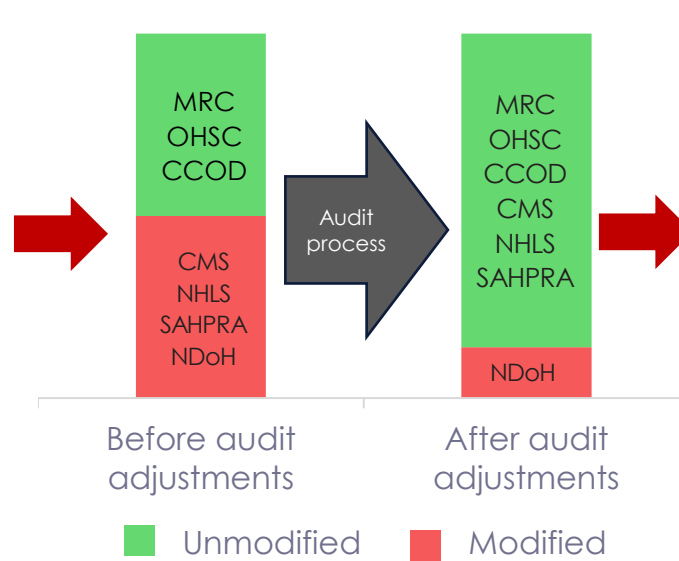


Financial management controls



■ Good
 ■ Of concern
 ■ Intervention required

Impact on quality of financial statements submitted for auditing



■ Unmodified
 ■ Modified

Main qualification areas

NDoH - Accrued departmental revenue

The other entities subsequently corrected the identified material misstatement, resulting in unqualified opinion.

Impact

- Material misstatements were identified through the audit process, which the entities subsequently correct.
- NDOH and NHLS had a significant number of financially misstated financial statement items which were corrected, indicating weakness in the control environment resulting in the controls not being effective to prevent material errors.
- NDoH however remained with a materially misstated financial statement item, which resulted in the modified audit opinion.





2021-22

MRC, CCOD, OHSC

NDoH, CMS, SAHPRA, NHLS



No material findings



Material findings

MOVEMENTS FROM PREVIOUS YEAR:

1 ↑ 3 ↓

Most common areas of non-compliance

	NDOH	CMS	SAHPRA	NHLS
Quality of financial statements	X	X	X	X
Prevention of irregular, unauthorised, and fruitless and wasteful expenditure		X	X	X
Effecting consequences	X	X		
Procurement and contract management			X	X

X Previous year's finding addressed

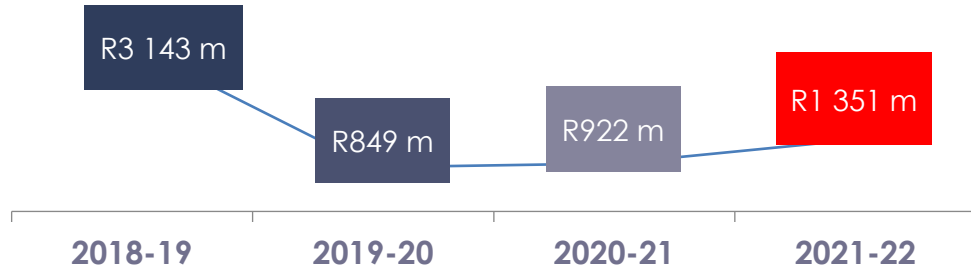
X New finding identified in 2021-22

X Repeat finding

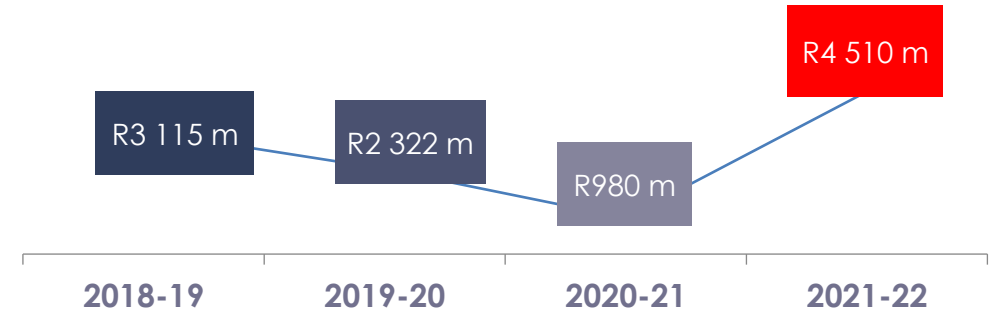


Irregular expenditure

Annual irregular expenditure



Closing balance of irregular expenditure



Nature – Main contributors

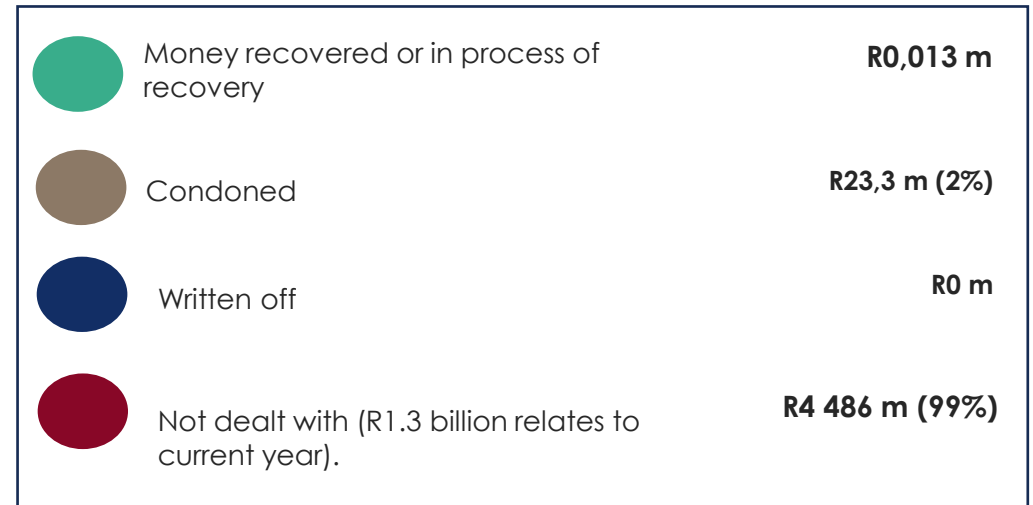
Breach of five pillars of procurement – equitable, fair, cost effective, transparent and competitive:
NHLS: R339 million

Non-compliance with legislation on contracts:
 NDoH: R22,9 million; **NHLS: R319.2 million;**

Non-compliance with procurement process requirements:
 NDoH: R38 million; **NHLS: R626 million;** SAHPRA: R3 million

Impact not yet assessed: NHLS: R115 million (emergency procurement for covid-19 PPE)

How have auditees dealt with irregular expenditure



Conclusions and recommendations



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



Overall root causes of significant findings

- Implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
- Prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information
- Implement controls over daily and monthly processing and reconciling transactions
- Review and monitor compliance with applicable legislation

Key recommendations to, and commitments by, accounting officers and authorities

- Appropriate oversight controls must be implemented for proper record keeping of information supporting the financial statements
- Strengthen controls relating review of financial and performance reports to ensure they comply with relevant reporting frameworks and evidenced by reliable supporting documents
- Strengthen controls relating to diligently maintain reconciliations required to support reported financial and performance information
- Perform and finalise investigations to enable consequence management
- Strengthening the supply chain management processes to ensure all procurement is performed in line with relevant prescripts

Commitments by executive authority

Ensure that the action plans are compiled and monitor implementation of action plans relating to the:

- Investigations into irregular and fruitless and wasteful expenditure incidents and consequence management implemented thereof
- Improving the internal controls relating to financial and performance management and governance
- Monitoring of compliance with relevant laws and regulations
- Regular engagements with the executive authority, supported by the accounting officer. Commitments received from the minister on 06 October 2022.



In 2020-21, we recommended the following:

- Implement action plans to capacitate the finance directorate, which also deals with procurement (NDoH)
- Improve controls relating for contract management to ensure approvals are sought for variations where services are still required (NDoH; NHLS; SAHPRA)
- Address misstatement relating to the prior period to ensure these misstatements do not continue to impact the current year balances (SAHPRA)
- Strengthening the supply chain management processes to ensure all procurement is performed in line with relevant prescripts (NHLS; CMS)



Overall reflections on implementation of recommendations:

- Most of the auditees did not adequately implement some of the recommendations, resulting in lack of progress to clean audit outcomes.
- SAHPRA: Efforts and measures implemented to address and clear the prior qualification area resulted in improved audit outcomes. These financial management disciplines should be maintained to ensure that the improvement in outcomes is sustainable.

Key messages going forward: Effective Implementation of action plans

1

The committee must request regular feedback on the progress of the implementation of effective action plans to improve the internal control environment.

2

The committee must request management to prioritise Investigations into irregular and fruitless and wasteful expenditure incidents, and report back in sufficient detail on the consequence management processes implemented.

3

The committee must also closely monitor the areas that are contributing the funds be depleted from the sector that could have otherwise been used to procure much needed equipment, expand and maintain infrastructure, increase capacity and skills in the sector. These include the areas of medico-legal claim, fruitless and wasteful expenditure and better management of goods and services processes so that accruals are reduced.

4

The committee must invest in engaging the National Health Council (NHC), the sector executives, on how it will turn around the key service delivery matters for the sector, to ensure that it meets its key delivery targets (NHI, Vision 2030).

5

The oversight committees in the sector must request the sector leadership to provide plans the measures the leadership will implement to not only improve the systems of internal controls relating to financial and performance management disciplines. This must be supported by proper governance processes.



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