PFMA
2015-16

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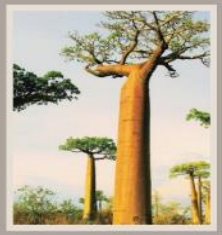
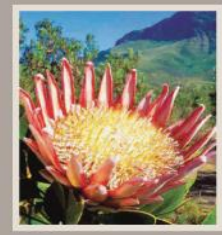
Auditing to build public confidence





Briefing to the Health Portfolio Committee

Audit outcomes of the portfolio and sector for the 2015-16 financial year

11 October 2016

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1 The AGSA's promise and focus

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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 AGSA in the BRRR process

Our role as the AGSA is to reflect on the audit work performed to assist the portfolio committee in its oversight role in assessing the performance of the entities, taking into consideration the objective of the committee to produce a BRRR.

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Our annual audits examine three areas:

1 FAIR PRESENTATION AND RELIABILITY OF FINANCIAL STATEMENTS

2 RELIABLE AND CREDIBLE PERFORMANCE INFORMATION FOR PREDETERMINED OBJECTIVES

3 COMPLIANCE WITH KEY LEGISLATION ON FINANCIAL AND PERFORMANCE MANAGEMENT

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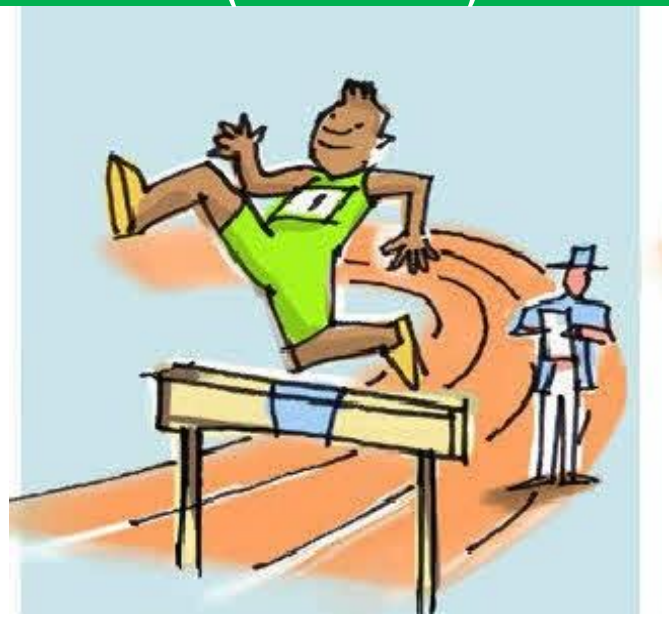
Unqualified opinion with no findings (clean audit)



The auditee:

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

Financially unqualified opinion with findings

The auditee produced financial statements without material misstatements, but struggled to:

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

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Qualified opinion

The auditee:

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

Adverse opinion

The auditee:

- faced the same challenges as those that were qualified but, in addition, 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

The auditee:

- faced the same challenges as those that were qualified but, in addition, 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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2 The 2015-16 audit outcomes and key messages

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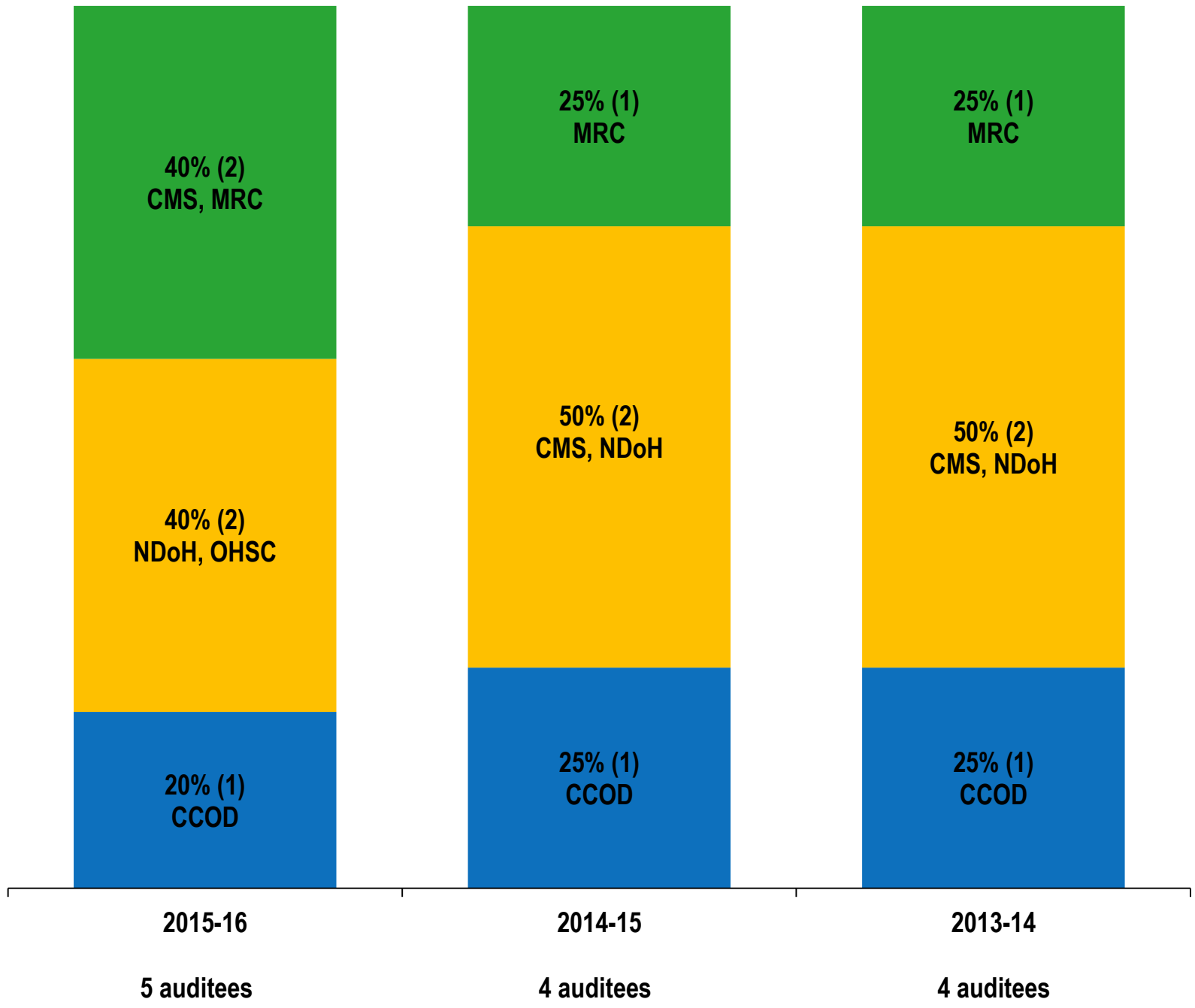
Audit outcomes over three years – Health portfolio



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- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

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3

3 Performance management linked to programmes/objectives tested

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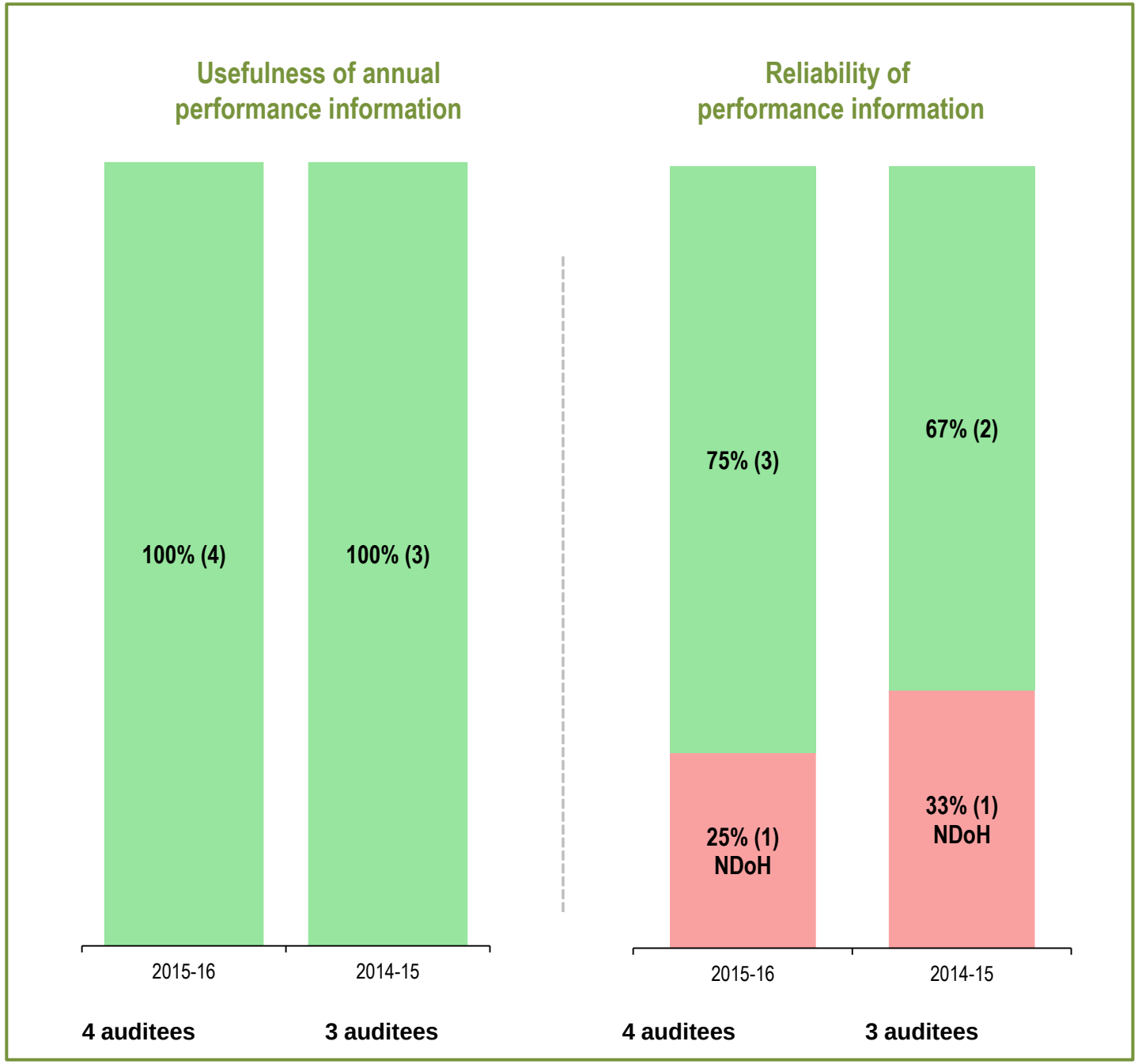
Quality of performance information



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With no material findings

With material findings

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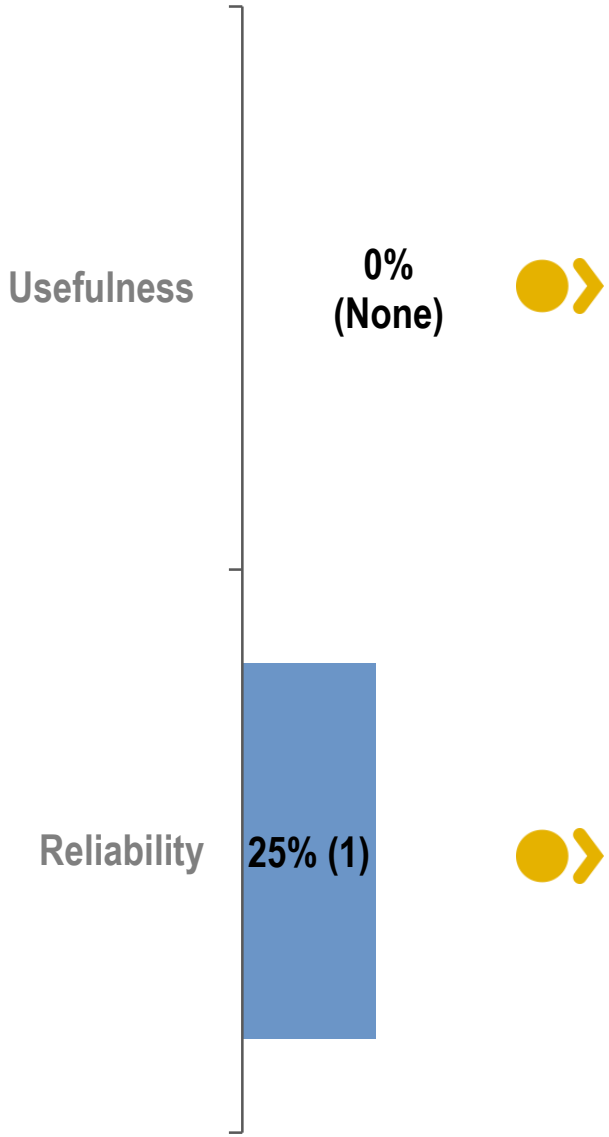
Most common material findings on usefulness and reliability



Usefulness

No material findings raised.

Reliability

The most common findings on reliability of information were the following:

- Reported information not complete
- Reported information not valid
- Reported information not accurate.

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Improved

Stagnant or little progress

Regressed

Material findings on usefulness:

- **None**

Findings on reliability:

- **NDoH**

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4 Compliance

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Improvement in compliance with legislation

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With no material compliance findings

With material compliance findings

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Slight improvement in compliance with legislation and quality of financial statements

Figure 1: Findings on compliance with key legislation – all auditees

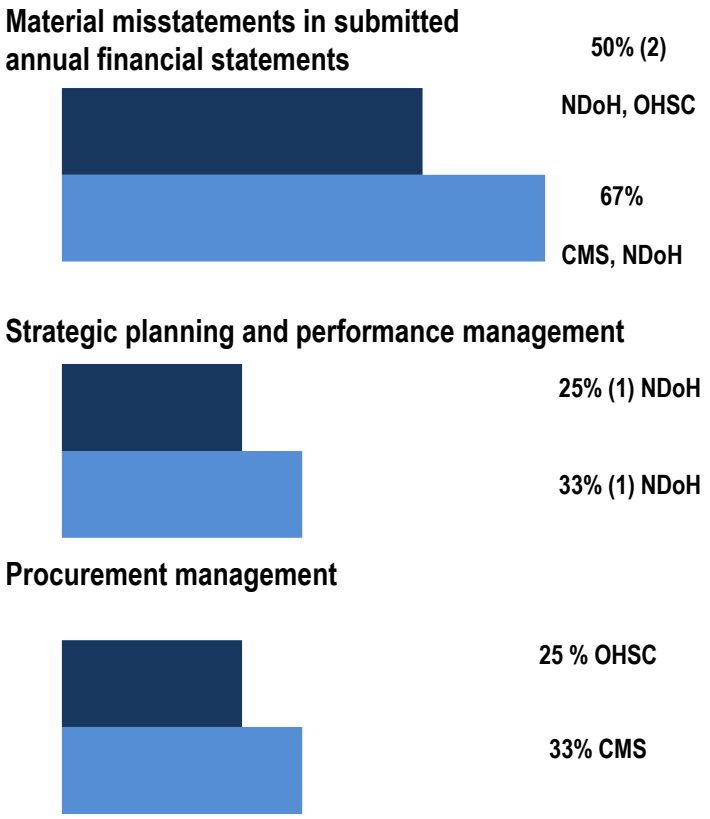


Figure 2: Findings on compliance with key SCM legislation – all auditees

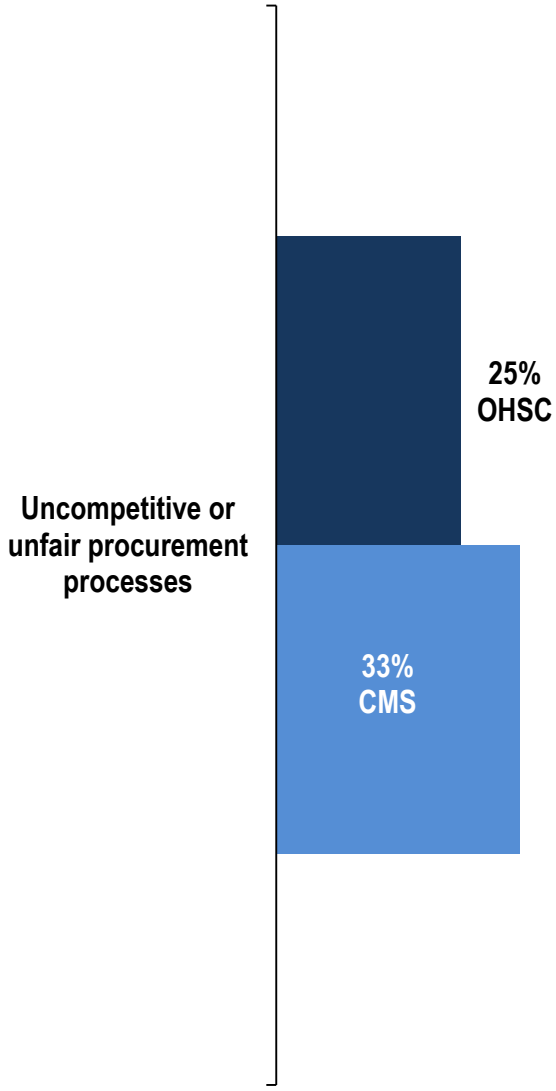
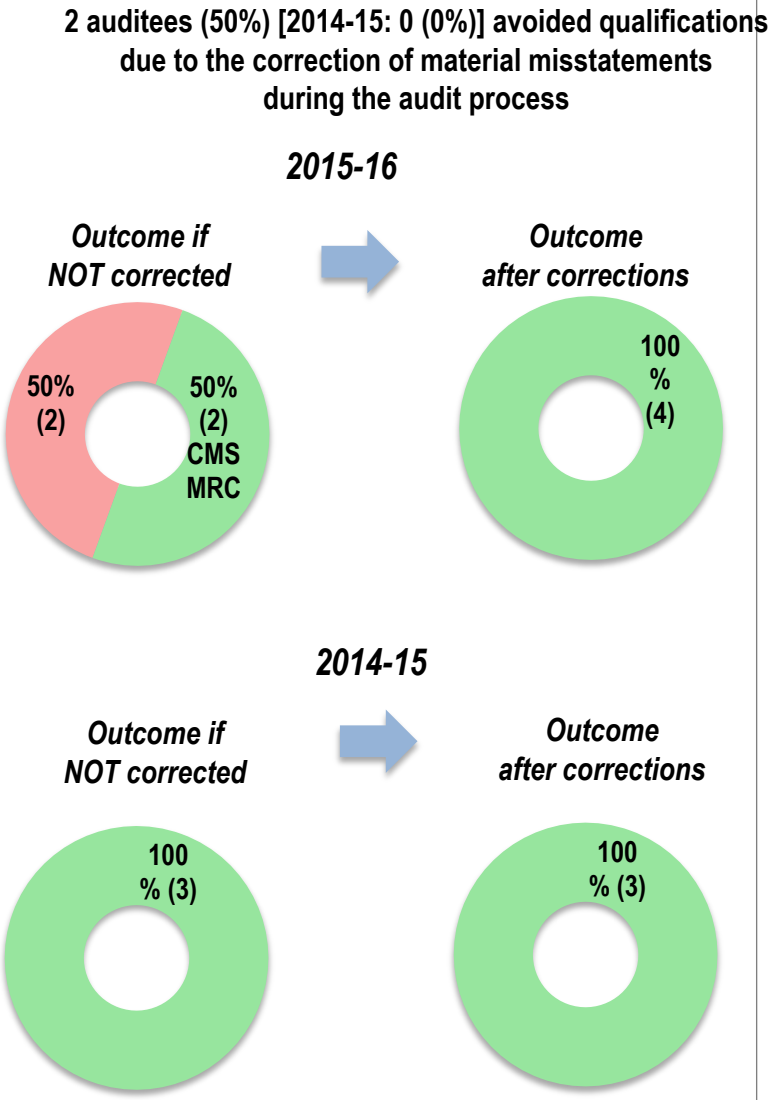


Figure 3: Quality of submitted financial statements



2015-16 | 2014-15

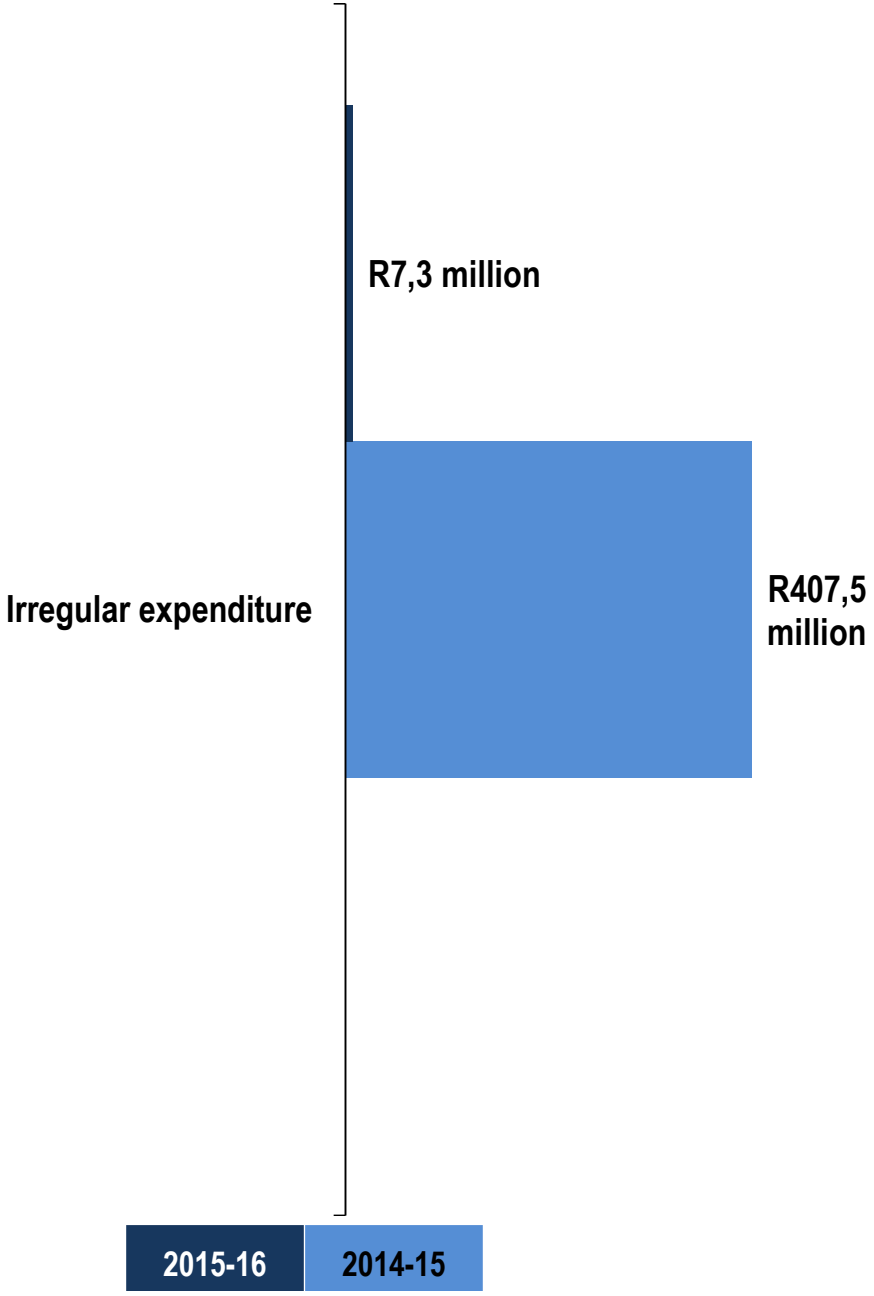
With no material misstatements | With material misstatements

Irregular expenditure

Definition

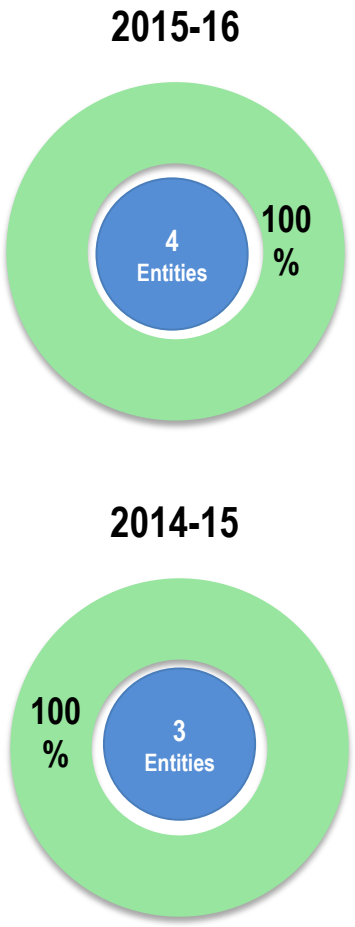
Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

UIF amounts incurred by entities in portfolio



Investigations of UIF expenditure

4 auditees (100%) [2014-15: 3 (100%)] lodged investigations to determine root cause and consequences of U.I.F incurred



Irregular expenditure – portfolio

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Irregular expenditure identified for the year

Definitions

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

NDoH	R2 939 148
CMS	R983 000
MRC	R1 472 658
OHSC	R1 963 263
Totals	R7 358 069

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5

Key controls, assurance providers, top root cause, proposed recommendations and commitments made

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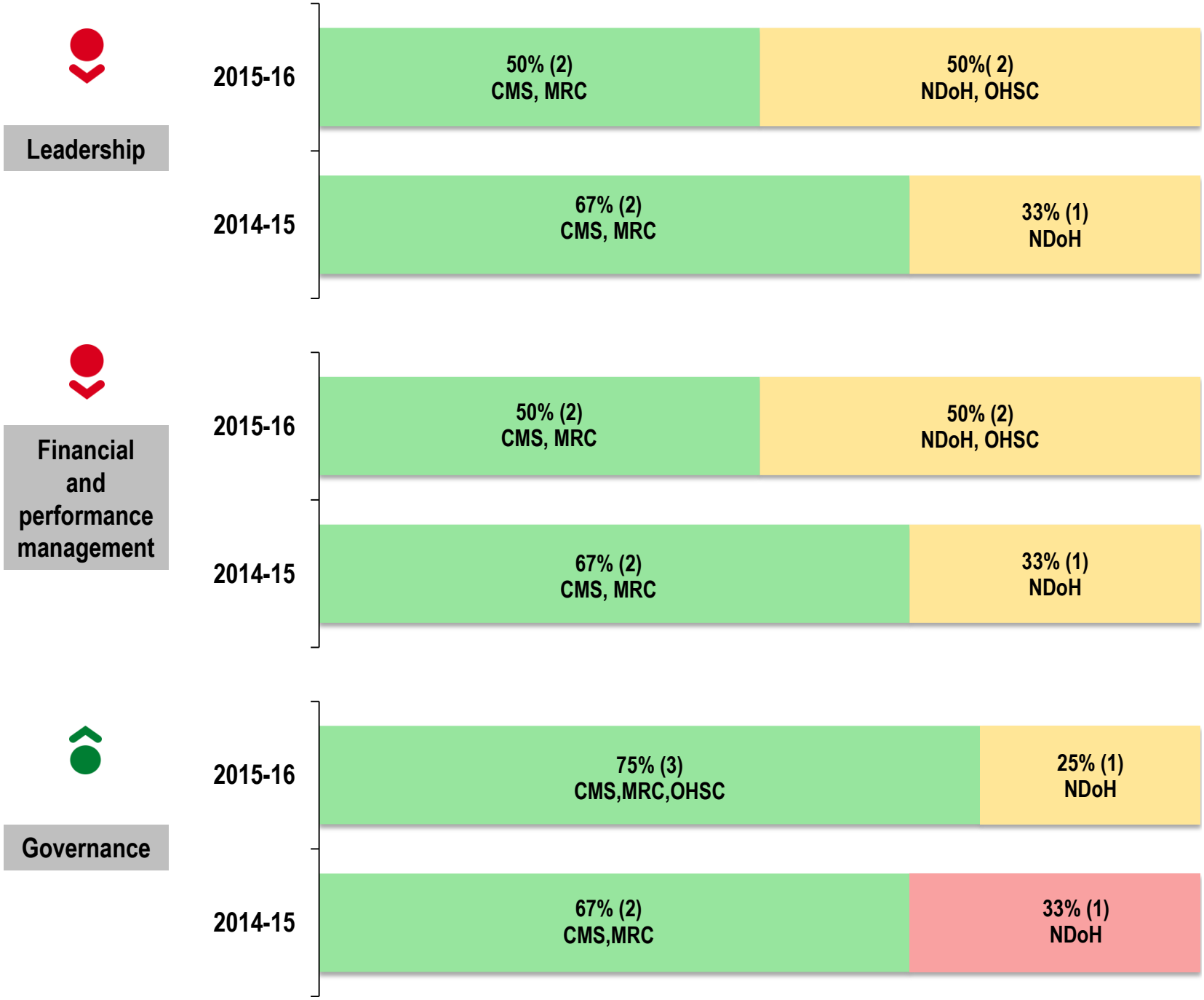
Slight improvement in controls *



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Good

Concerning

Intervention required

Improved

Stagnant or little progress

Regressed

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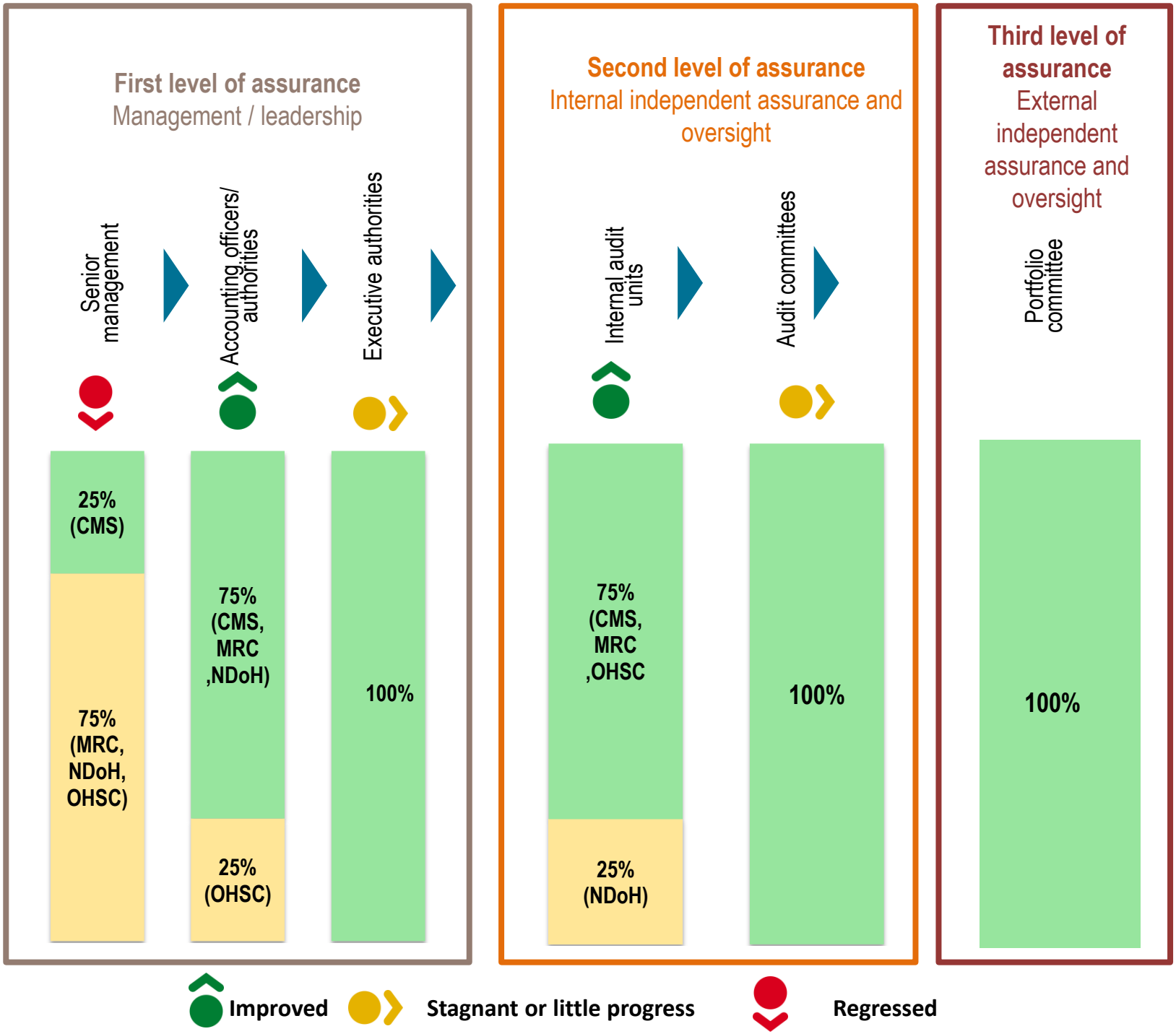
* - Slight improvements noted in controls excluding the impact of the newly established entity (OHSC)

Improvement in assurance provided by key role players



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- Provides assurance
- Provides some assurance
- Provides limited / no assurance

Basis for PC evaluation:

- **Oversight role** it terms of robust budget vote process, review of the annual report including the audit report, quarterly reporting;
- **Follow up** on progress made by the auditees to address poor audit outcomes and key matters in the BRRR report.
- **Recommendations** made in relation to key audit matters;

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Top root cause

Slow response in improving key controls and addressing risk areas

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2014-15

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Key recommendations for improvement to be overseen by the portfolio committee

- NDoH and OHSC should strengthen their processes and controls to create and sustain a control environment that supports quality financial reporting.
- CCOD must submit quality financial statements for audit.
- The NDoH must implement in a timely manner an appropriate information system to support the reliable recording of health data.

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Follow up on commitments by the minister

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The NDoH and OHSC will strengthen their processes and controls to improve the quality of financial reporting.

The NDoH has started a process to develop and implement an information system that will support the reliable recording of health data. The department will continue its efforts to address control weaknesses impacting on the reliable recording of health data.

Significant progress has been made in addressing audit findings raised for CCOD. A commitment was made that the financial statements for 2010-11 and 2011-12 will be submitted for audit before the end of the year.

Implemented

In progress

Not Implemented

New

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Entity included in the portfolio not audited by AGSA: PAA (section 4(3) audit entities)

Three-year audit outcome of auditee within the Health portfolio which is not audited by the AGSA in terms of section 4(3) of the PAA:

Auditee:	Three year Trend	Audit Outcomes 2015-16			Audit Outcomes 2014-15			Audit Outcomes 2013-14		
		AFS	AoPO	Compliance	AFS	AoPO	Compliance	AFS	AoPO	Compliance
National Health Laboratory Service (NHLS)			✕	✕		✓	✕		✓	✕

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Improved

Stagnant

Regressed

Outcome legend

Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse with findings

Disclaimed with finding

Audits outstanding

✓ No Material Findings

✕ Material findings

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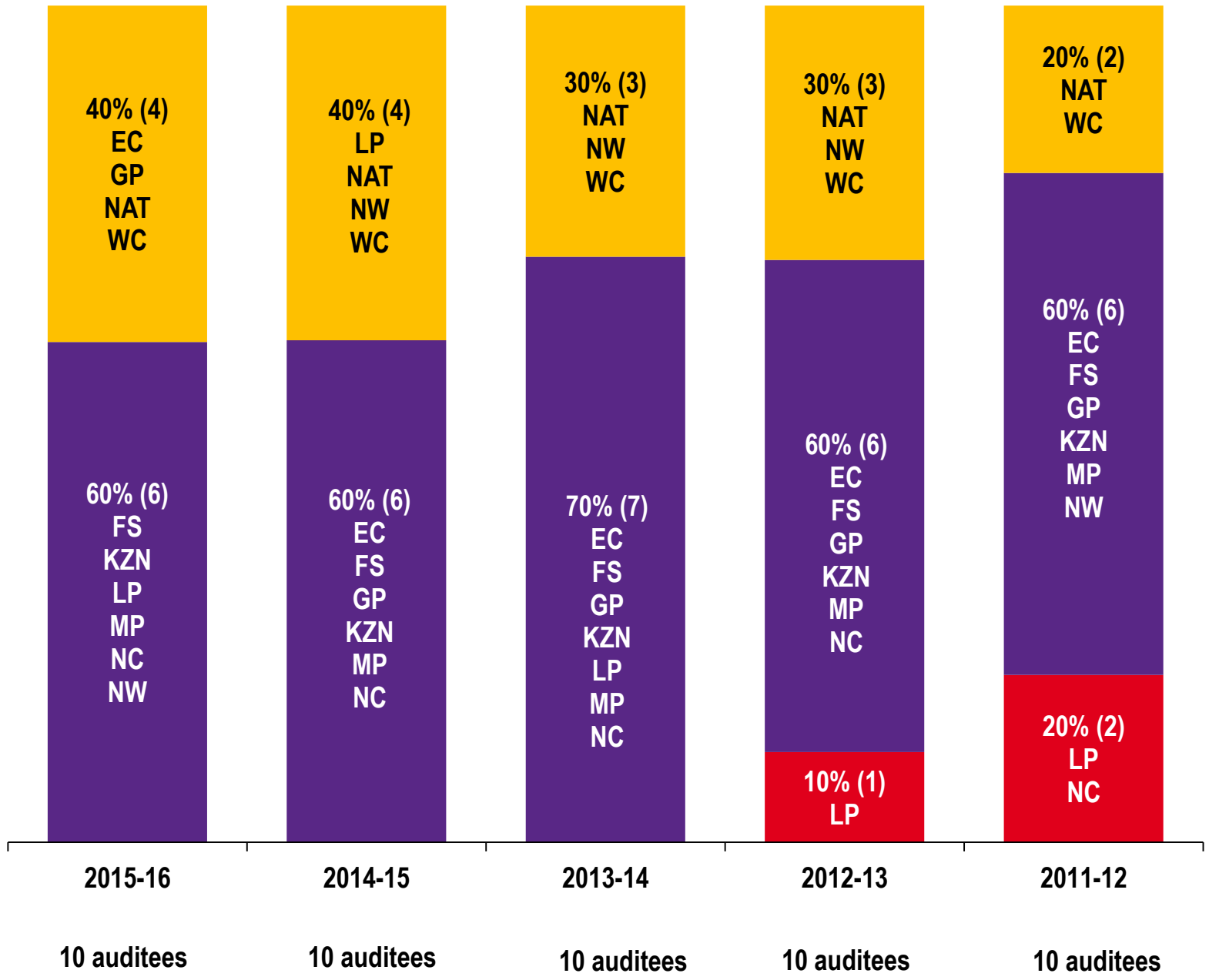
6 Health sector audit outcomes

Overall audit outcomes for health sector



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- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

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Movement in audit outcomes

Movement / Audit outcome	Improved (2)	Unchanged (6)	Regressed (2)	Outstanding audits (0)
Unqualified with no findings = 0				
Unqualified with findings = 4	Eastern Cape, Gauteng	National Department of Health, Western Cape		
Qualified with findings = 6		Free State, Kwa-Zulu Natal, Mpumalanga, Northern Cape	Limpopo, North West	
Adverse with findings = 0				
Disclaimed with findings = 0				

Colour of the provinces indicates audit opinion from which department has moved

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- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

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Overall audit outcomes per audit criteria

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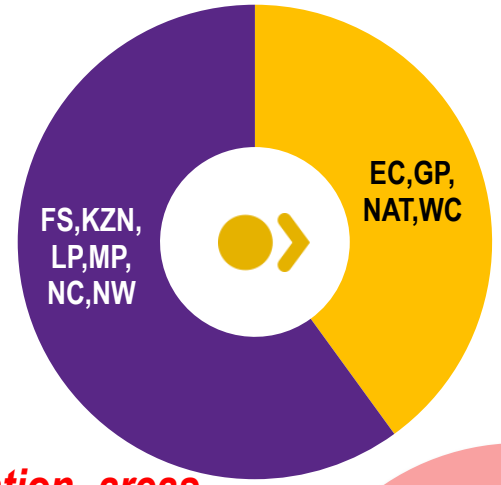
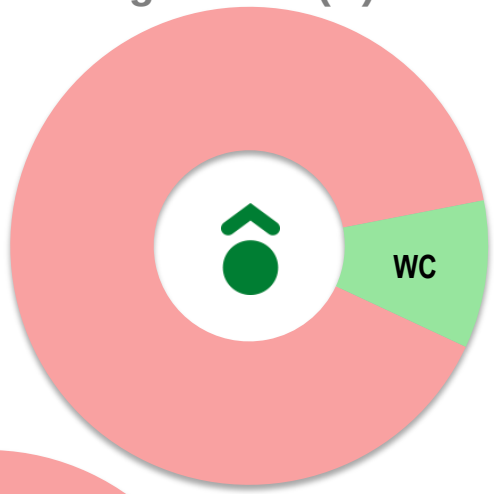
Financial statements (F)



Compliance with legislation (C)

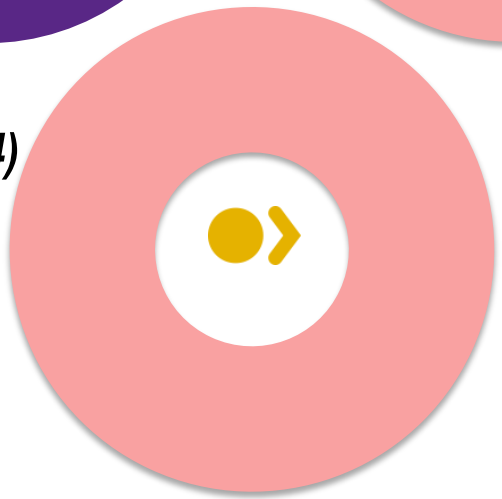


Key compliance areas

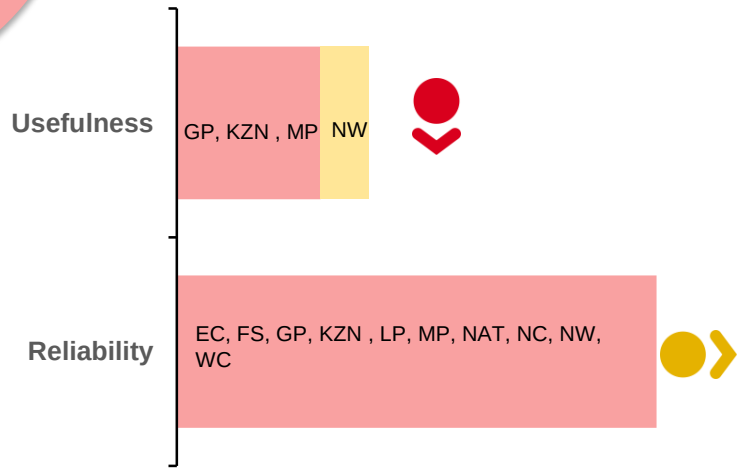
- ***Unauthorised, irregular and/or fruitless and wasteful expenditure expenditure (8)***
- ***Material corrections to AFS (8)***
- ***Control over expenditure and/or payments within 30 days (8)***
- ***Billing and revenue management (6)***

Top 4 qualification areas

- ***Irregular expenditure (4)***
- ***Property, plant and equipment (4)***
- ***Expenditure (4)***
- ***Other disclosure items (4)***



Performance reports (P)



- Unqualified with no findings
- Unqualified with findings
- Qualified with findings
- Adverse with findings
- Disclaimed with findings
- Audits outstanding

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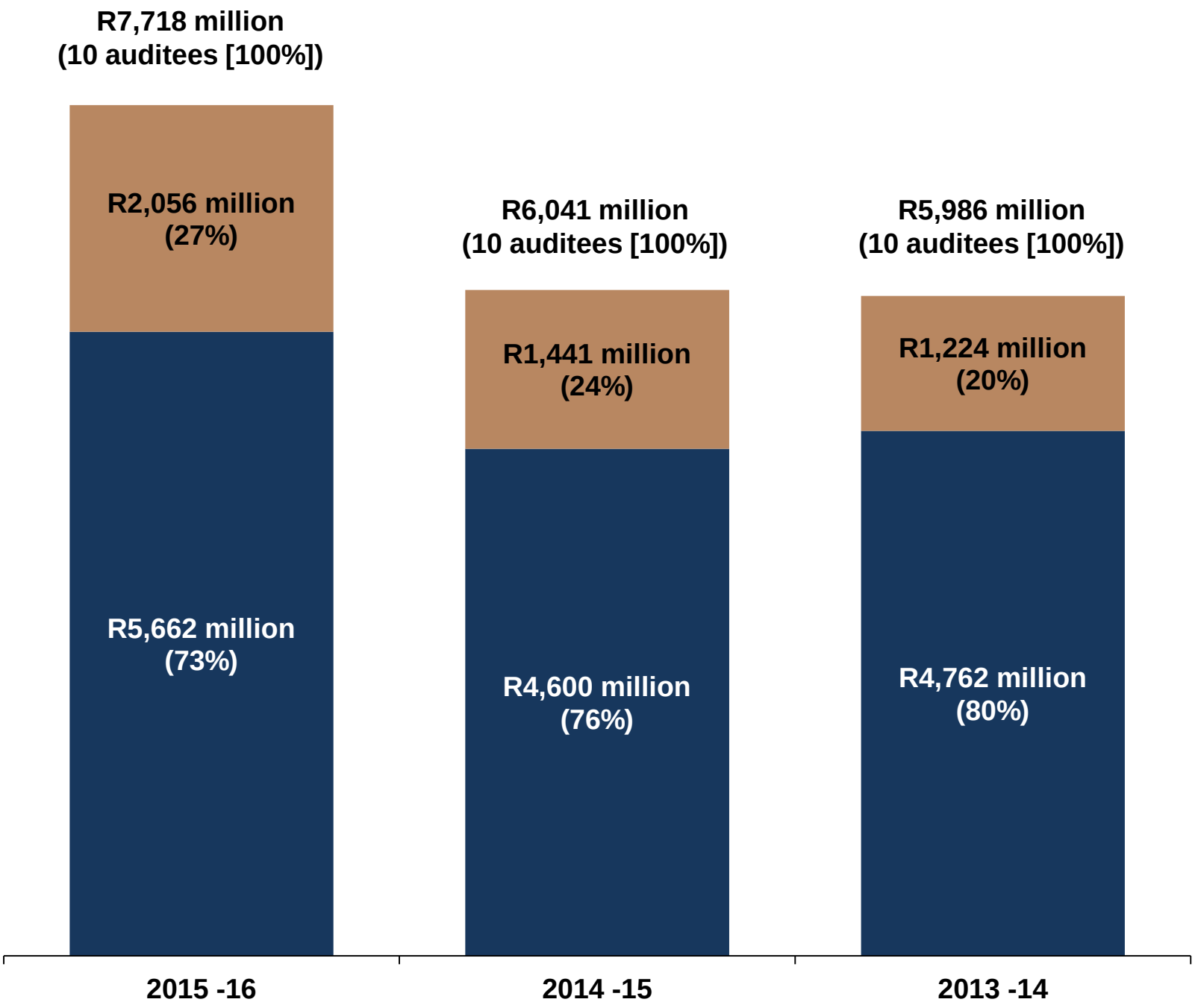
Three-year trend in irregular expenditure



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Identified by auditees

Identified during audit

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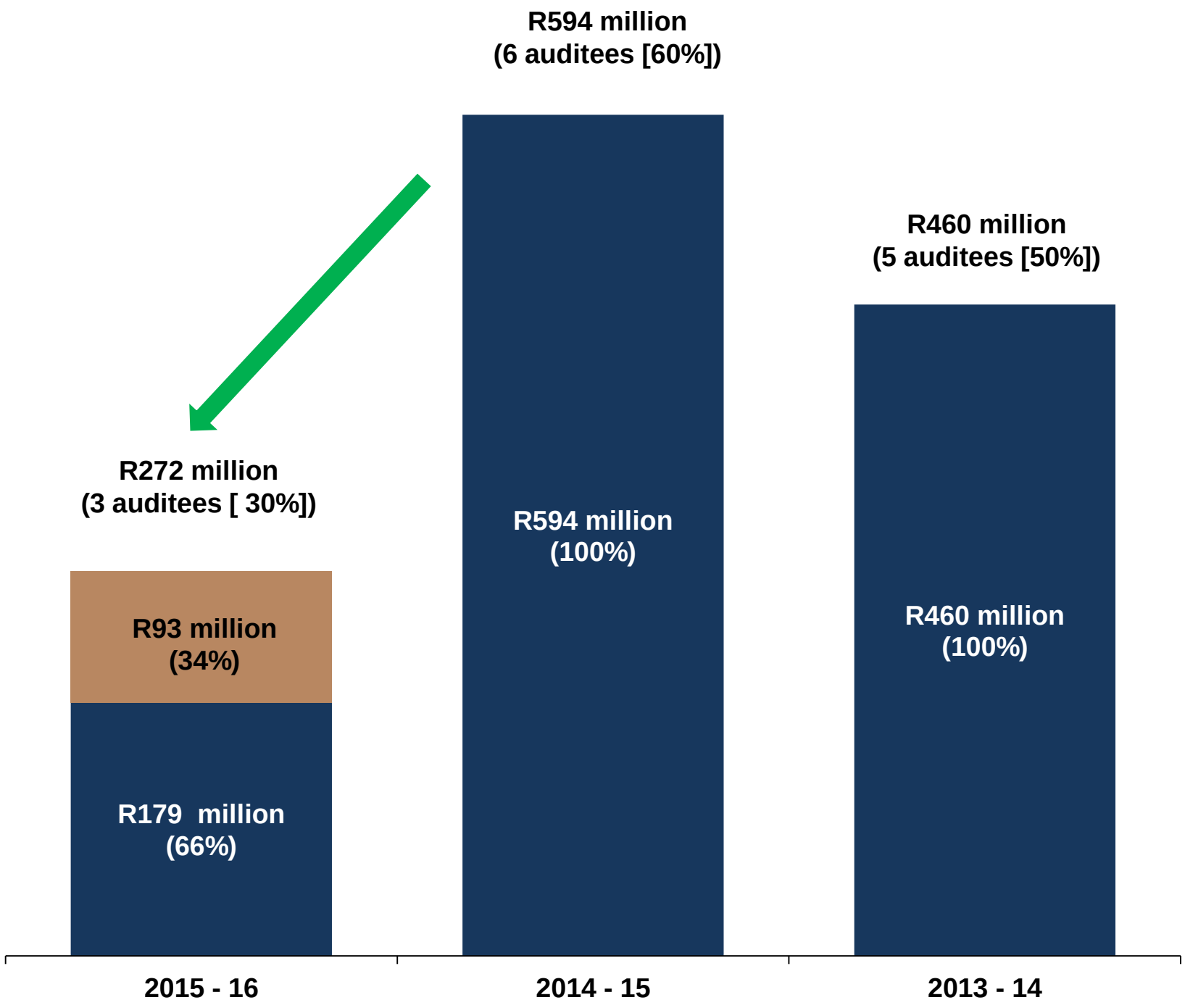
Three-year trend in unauthorised expenditure



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Identified by auditees

Identified during audit

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Unauthorised and irregular expenditure for the sector

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Definitions

Unauthorised expenditure	Irregular expenditure
Expenditure not in accordance with the budget vote/ overspending of budget or programme	*Expenditure incurred in contravention of key legislation; prescribed processes not followed*

	Unauthorised expenditure		Irregular expenditure	
EC	R0	●	R11 464 000	●
FS	R31 814 000	●	R827 934 000	●
GP	0	●	R466 458 000	●
KZN	R147 119 000	●	R2 520 572 000	●
LP	R0	●	R259 062 000	●
MP	R0	●	R1 919 578 000	●
NAT	R0	●	R2 939 000	●
NC	R92 790 000	●	R1 006 186 000	●
NW	R0	●	R696 706 000	●
WC	R0	●	R7 284 000	●
Totals	**R 271 723 000**		**R7 718 183 000**	

Legends:

- Decrease in expenditure
- No change
- Increase in expenditure

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7 Root causes and recommendations

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Root causes should be addressed (top three)

Root causes	Recommendation
Slow response by political leadership and senior management in addressing the root causes of poor audit outcomes (10)	• Leadership and senior management must take ownership of service delivery weaknesses and poor audit outcomes. Management at facility level should be improved in order to implement the recommendations and these need to be regularly monitored by the leadership in each province. • Senior management should ensure that they address the weaknesses in key controls reported by the AGSA and internal auditors. • Leadership should foster a culture of accountability.

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Root causes should be addressed (top three)

Root causes	Recommendation
Lack of consequences for poor performance and transgressions (8)	• Accounting officers should ensure that compliance findings are investigated to determine whether there are indicators of financial misconduct or misconduct in the SCM processes, followed by disciplinary hearings where misconduct has been confirmed. • All unauthorised and irregular expenditure should be investigated promptly, as required by the PFMA, to determine whether such expenditure should be recovered from the responsible official(s). • Leadership should set the tone by implementing sound performance management processes, evaluating and monitoring officials' performance and consistently demonstrating that poor performance has consequences. • All service delivery failures should be followed up and corrective action implemented at all health facilities.
Instabilities and key positions vacant (3)	Key positions should be filled as soon as possible with officials who have the appropriate competencies to improve service delivery and financial outcomes.

Questions

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