



BUDGETARY REVIEW AND
RECOMMENDATIONS REPORT | **PFMA**
2017-18

Briefing to Portfolio Committee on Health



AUDITOR-GENERAL
SOUTH AFRICA

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 the AGSA in the reporting process

Our role as the 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)*.



1

Our focus



Our annual audit examines three areas

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








The percentages in this presentation are calculated based on the completed audits of 6 auditees, unless indicated otherwise

The overall audit outcomes are indicated as follows:

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

- NDoH – Department of Health
- CMS – Council for Medical Schemes
- OHSC – Office of the Health Standards Compliance
- MRC – Medical Research Commission
- NHLS – National Health Laboratory Services
- CCOD – Compensation Commissioner for Occupational Diseases

Movement over the previous year is depicted as follows:

-  Improved
-  Unchanged Movement of 5% or less:  slight improvement  slight regression
-  Regressed



2

The 2017-18 audit outcomes of the Health portfolio

ACCOUNTABILITY = PLAN + DO + CHECK + ACT



No improvement in plan-do-check-act cycle



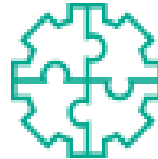
Health Portfolio snapshot (2017-18)



Clean audits: 17%
(2016-17: 33%)



Quality financial statements: 33%
(2016-17: 33%)



Quality performance reports: 50%
(2016-17: 50%)

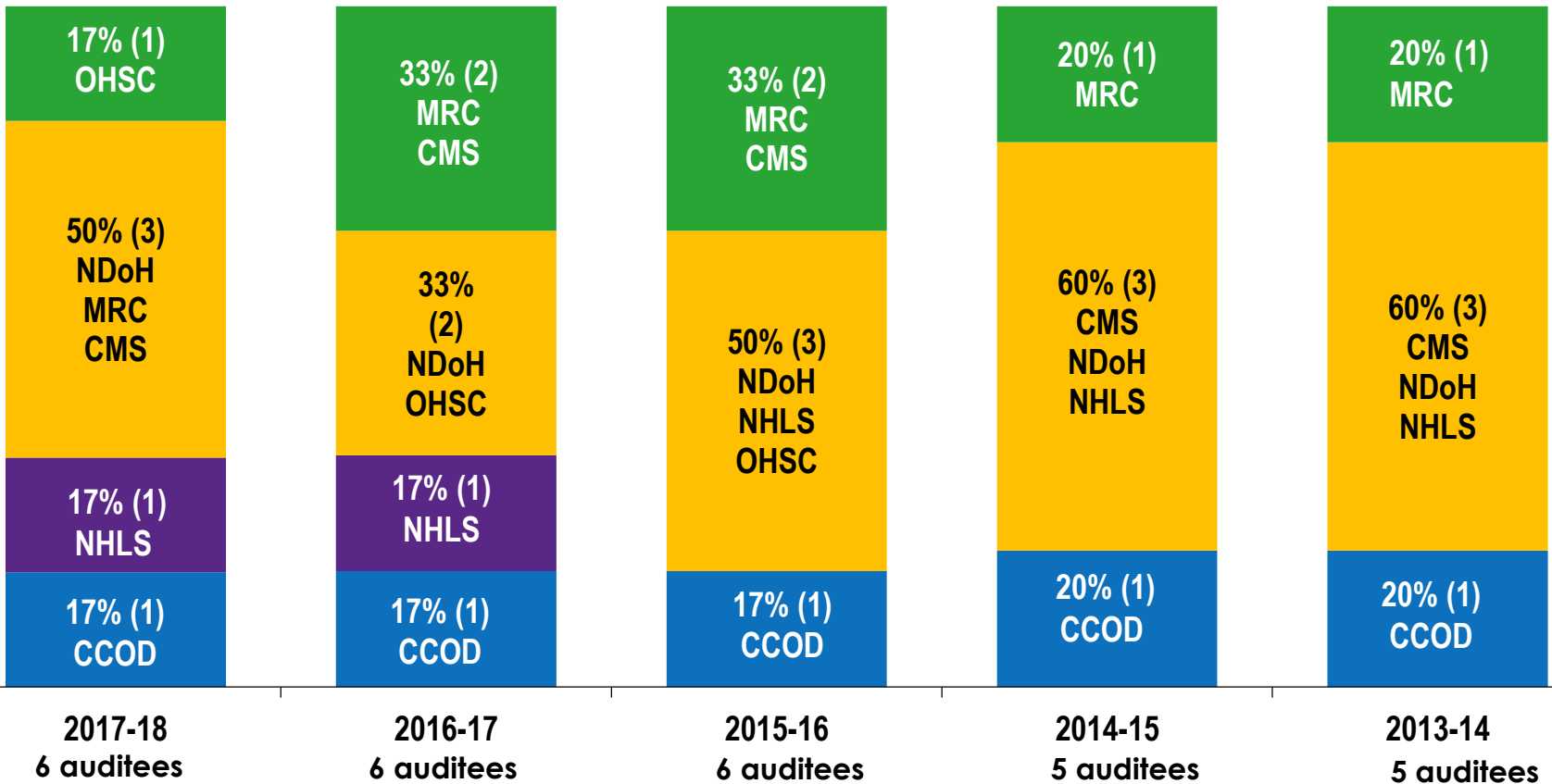


No findings on compliance with legislation: 17%
(2016-17: 33%)



Irregular expenditure: R693 million
(2016-17: R997 billion)

Audit outcomes of the portfolio over five years

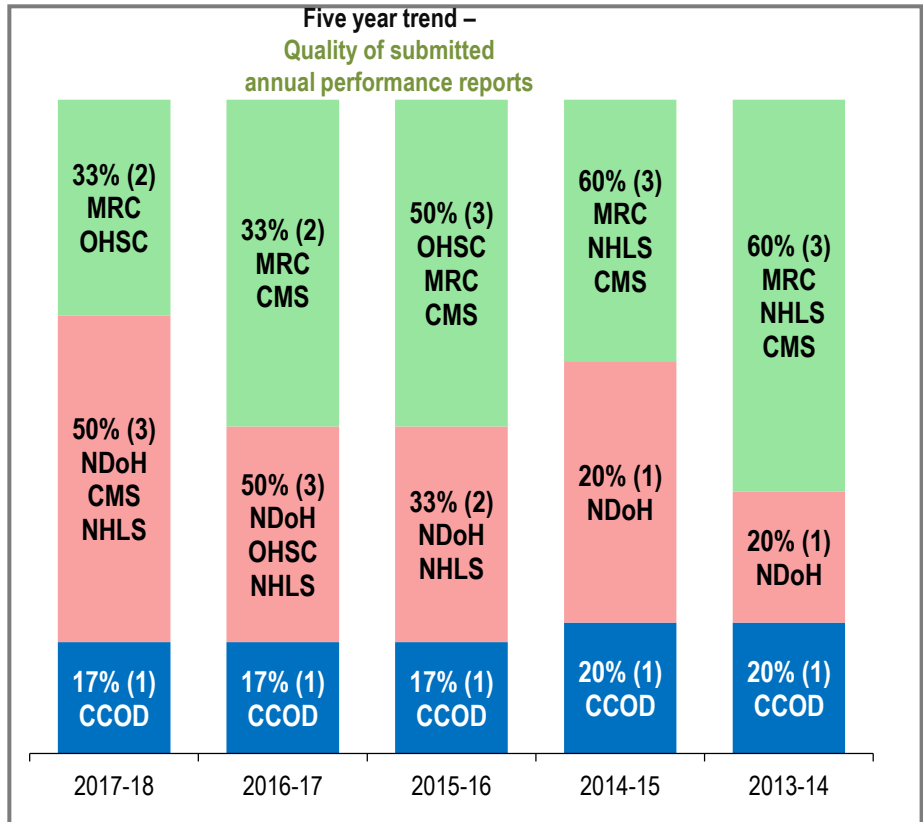
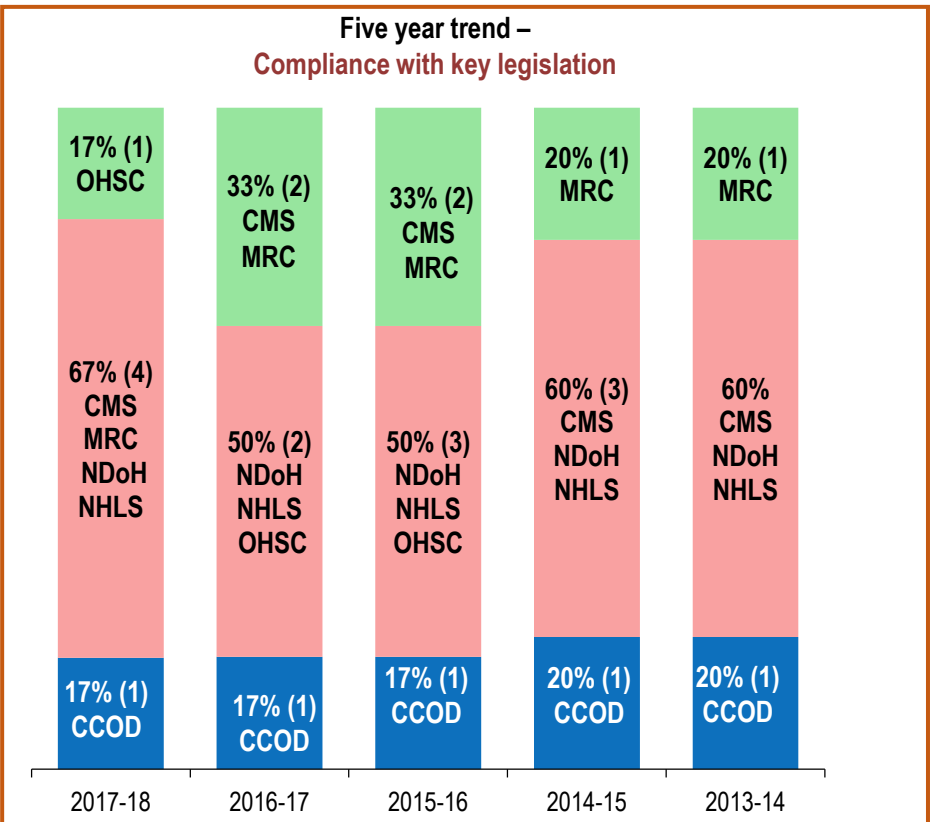


To improve/maintain the **overall audit outcomes**, financial statements processes,

- Overall the portfolio regressed as two entities which were clean for the past two years received an unqualified with findings opinion
- Financial statement preparation remains a concerns as material adjustments were effected to AFS submitted for audit.
- The OHSC showed an improvement in the audit outcome from 2016-17 due to effective controls in place and oversight by the assurance providers.
- CMS regressed from 2016-17 due to inadequate review of the annual financial statements by senior management prior to submission for audit as well as non-compliance with laws and regulations
- MRC regressed due to non-compliance with laws and regulations



Regression in audit outcomes in the current year



- 2 compliance with key legislation and...**
- Financial statement preparation remains a concern as material adjustments were effected to AFS submitted for audit at the NDoH, NHLS and CMS.
 - Although internal controls to detect irregular expenditure are in place, controls are not yet mature to prevent the occurrence of irregular expenditure.
 - The regression at CMS was due to ineffective and appropriate steps were not taken to prevent irregular expenditure for the procuring of consultants.
 - NHLS had a number of compliance findings on the procurement processes
 - MRC procured goods from suppliers that do not meet the local content requirement


- 3 performance planning and reporting**
- The implementation of recommendations made by the AGSA when conducting the interim reviews of the APPs has resulted in improvement in the usefulness of performance information.
 - Indicators and targets are still aligned to the mandate of the entities.
 - The CMS, NDoH and NHLS made some material adjustments to the APR submitted for audit, mainly due to inadequate controls around record keeping, rectification of inconsistencies between APP and APR and reliability of information provided for audit. The remaining misstatements that could not be corrected were material


With no material findings	With material findings	Outstanding audits	No APR/late submission
---------------------------	------------------------	--------------------	------------------------



AGSA Status of records review- National Department of Health

Engaging accounting officers in **conversations** that are **insightful, relevant and have an impact**

Status of records review 

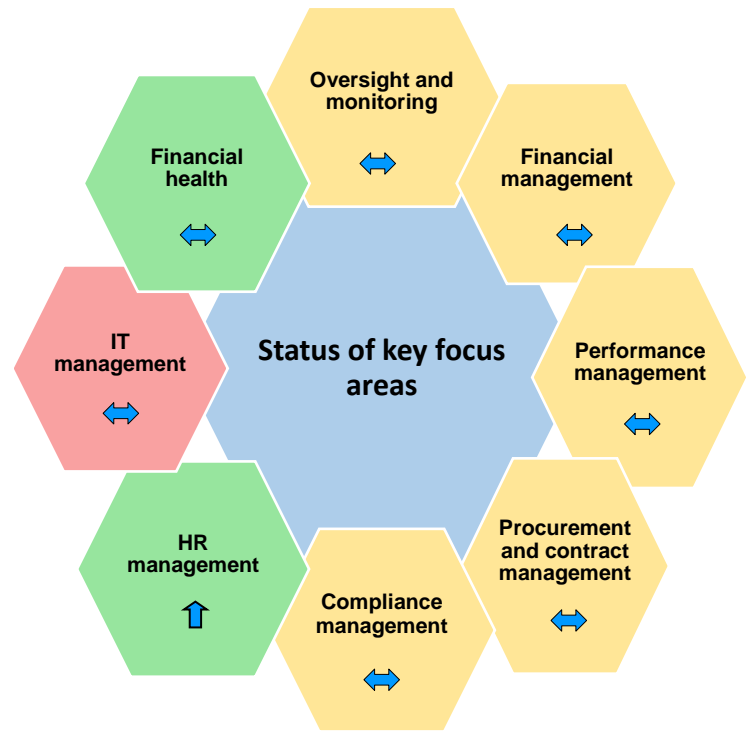
Pro-active follow up procedures 

Financial and non – financial information (internal and external reports/documents & discussions with senior managers)



Feedback linked to Audit Outcomes Key matters for attention:

Key matters for attention
Financial management remains in progress with the department addressing issues around the classification of immovable asset. Controls around the complete recording of commitments need to be strengthened to avoid possible qualifications in audit outcomes.
There is slow progress on IT management. The Accounting officer should ensure that the action plans in place are implemented and monitored to address issues raised on IT management.
Oversight and monitoring over performance reporting and compliance need to be improved.
Thorough reviews should be performed on reported performance information before being submitted for reporting purposes. This will ensure that performance reports are accurate, complete and supported by reliable information.



 Good  Of concern  Intervention required



3

Quality of APP, Analysis of spending and Key projects



Quality of APP and Analysis of expenditure per programme vs performance achievements

Programmes	Usefulness	Reliability	Budgeted amount (R '000)	Spent amount (R '000)	% Spending	No. of targets planned	No. of targets achieved or overachieved	% Achievement
Programme 1- Administration	Not audited	Not audited	R 500,541	R 478 160	95.52 %	7	4	57.14%
Programme 2-National Health Insurance, Health Planning and Systems Enablement	Audited	Audited	R 924 954	R 841 540	90.98%	27	21	77.7%
Programme 3- HIV and AIDS, Tuberculosis, and Maternal and Child Health	Not audited	Not audited	R 18 295 310	R 18 279 941	99.91 %	21	15	71.42%
Programme 4 - Primary Health Care Services	Not audited	Not audited	R 263 343	R 253 771	96.36 %	25	21	84%
Programme 5 - Hospitals, Tertiary Health Services and Human Resource Development	Audited	Audited	R 20 914 800	R 20 828 771	99.58 %	29	9	31.03%
Programme 6 – Health Regulation and compliance management	Not audited	Not audited	R 1 746 609	R 1 742 507	99.76%	5	4	80%
Total			R 42 645 557	R 42 424 690	99.48%	114	74	64.91%



Management and delivery on scoped in programmes – spending, performance and reporting

Programme	Budget spent	Achievement of programme	Material misstatements corrected	Findings on material indicators (Useful and reliable)
Programme 2 – National Health Insurance, Health planning and Systems enablement	91.0%	77.7%	N/A	No material findings
Programme 5 – Hospitals, Tertiary Health Services and Human Resource Development	99.6%	31.03%	No	Material findings on usefulness and reliability



Good



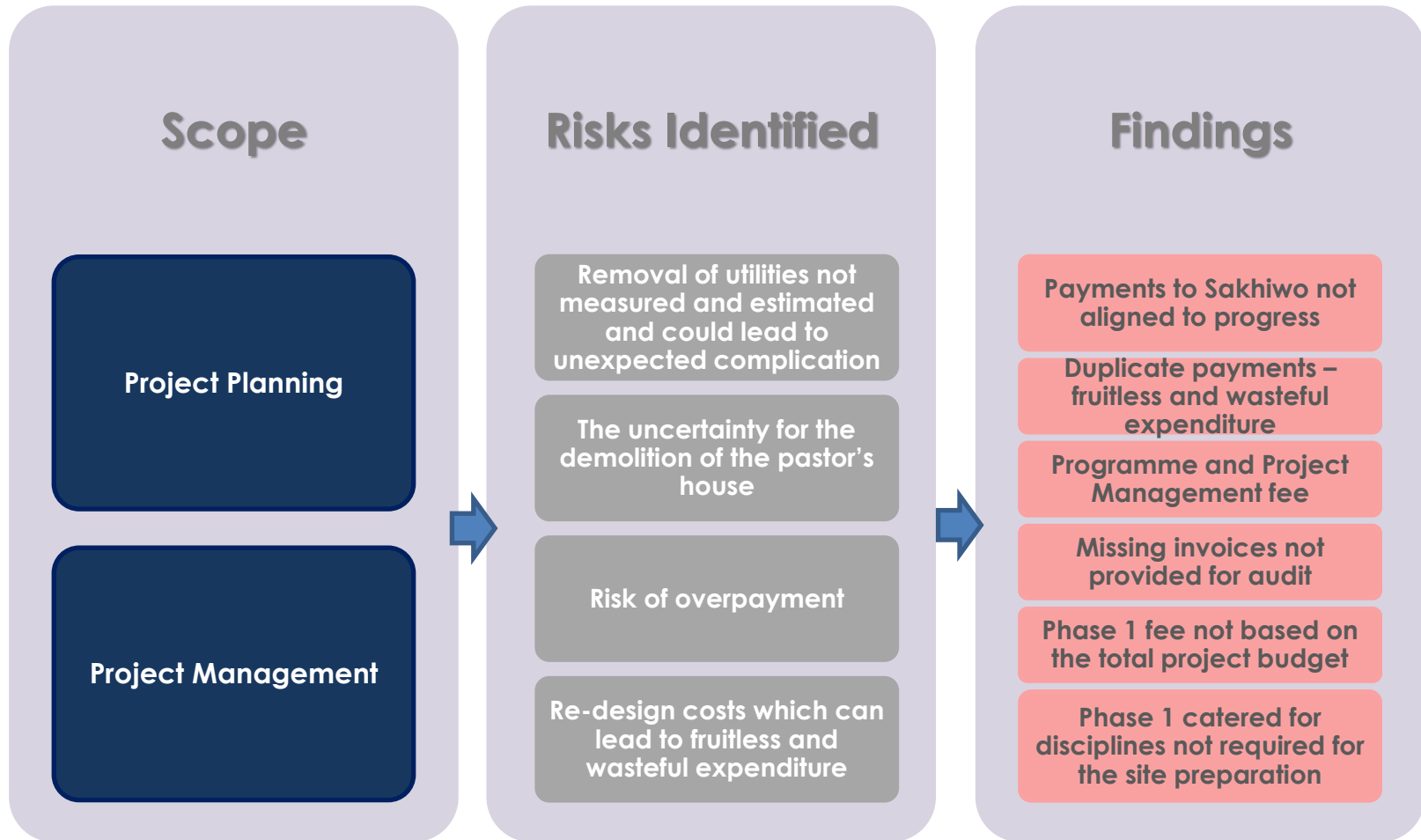
Of concern



Intervention required



Key audit findings on Key Project – Siloam Hospital



Good

Of concern

Intervention required

4

Financial management and information technology



Irregular expenditure over 5 years

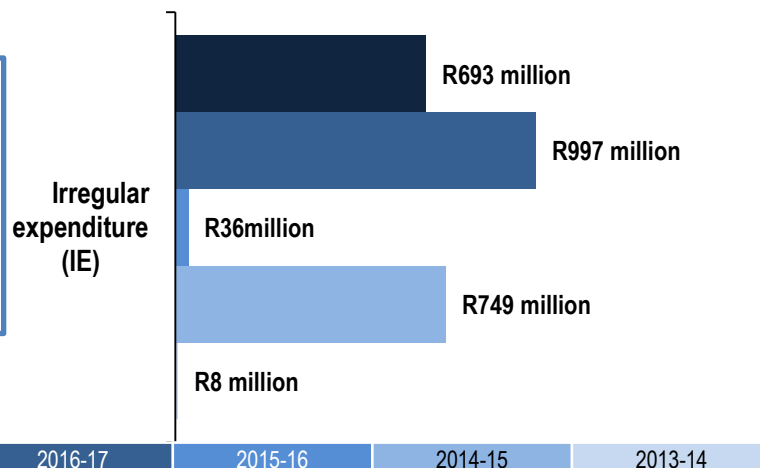
Definition

Irregular amounts incurred by entities in portfolio

Nature of irregular expenditure R'million

Audit report impact

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



Irregular expenditure incurred by NHLS amounts to 86% of the total irregular expenditure in the portfolio

- NHLS - the majority of the irregular expenditure relates to payment made on contracts entered into without board approval
- NDoH did not follow procurement process for transactions with NPO's.
- CMS did not follow procurement process for the appointment of consultants.

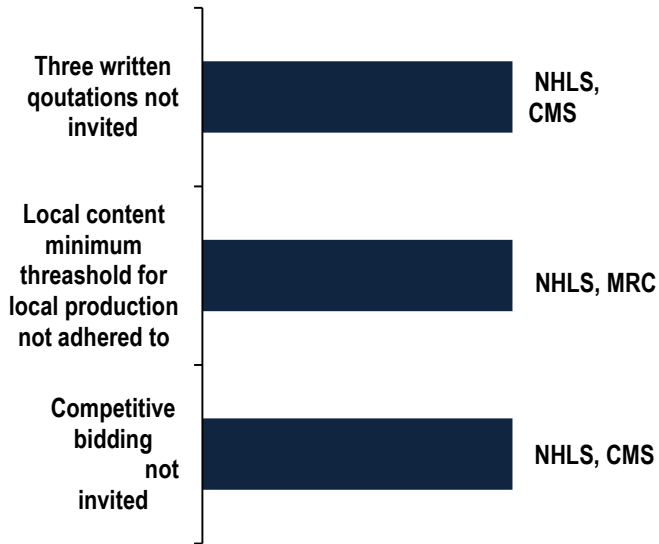
- IE was qualified for NHLS due to significant doubt on the completeness of the expenditure which was disclosed for NHLS in the annual report.
- Compliance paragraph on management not taking effective steps to prevent irregular expenditure

IE amounts incurred by entities in portfolio

Year	2017-18	2016-17	2015-16	2014-15	2013-14
NDoH	R 73 439 000	R 1 388 000	R 2 939 148	R 398 333 000	R 188 000
CMS	R 17 578 000	R 1 368 000	R 983 000	R 8 436 000	R 0
MRC	R 1 655 061	R 711 166	R 1 472 658	R 729 000	R 215 440
OHSC	R 2 948 002	R 2 871 119	R 1 963 263	N/A	N/A
NHLS	R 597 783 000	R 990 429 000	R 29 000 000	R 341 126 000	R 7 912 000
CCOD	Outstanding	Outstanding	Outstanding	Outstanding	R 0
Totals	R 693 403 063	R 996 767 285	R 36 358 069	R 748 624 000	R 8 315 440

Irregular expenditure and supply chain management

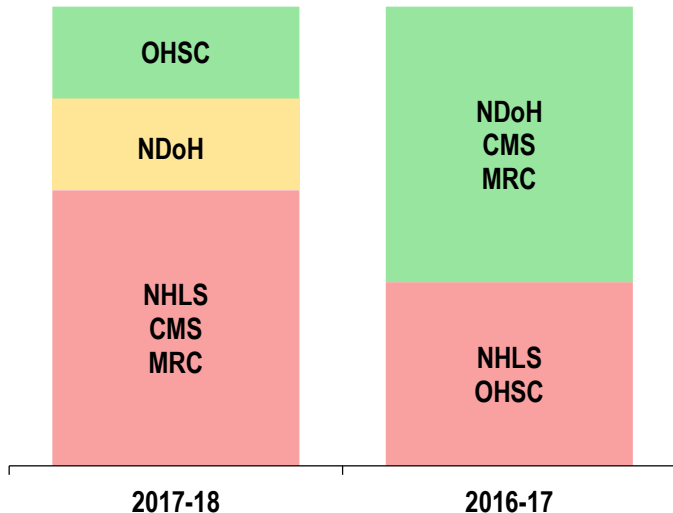
▲ Irregular expenditure identified during the year decreased from R967 million to R693 million



2% (R13.9 million) of the irregular expenditure was payments/expenses in previous years only uncovered and disclosed for the first time in 2017-18

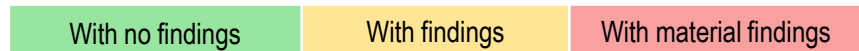
17% (R115.2 million) of the irregular expenditure includes payments made on contracts entered into without the relevant approval - if the non-compliance is not investigated and condoned, the payments on multi-year contracts continue to be viewed and disclosed as irregular expenditure

How much of the R 693 million then represents **non-compliance in 2017-18?**
Based on analyses it is estimated to be 81%



▼ **Regression of SCM compliance (2016-17: 60% with no findings)**

Uncompetitive and unfair procurement processes at **40% of entities**



Findings on information technology - NDoH

1. IT Governance Framework adopted by the departments did not address key aspects
2. The business Continuity Policy approved was inadequate
3. The service level agreements (SLA) for the service providers are not formalized. ICT management did not monitor services providers' performance for services rendered
4. The firewall standard operating procedures to govern the management of incoming and outgoing network traffic has not been approved
5. Inadequate network and application monitoring tools to effectively monitor and report on uptime and downtime
6. The Change management policy was not reviewed due to the lack of implementation and inadequately implemented on e-Directory
7. IT security management controls were inadequate because of the policy was not reviewed, inadequate patch management process in the change control policy
8. Backup policy inadequately designed as it did not include critical aspects and Disaster Recovery Plan not documented and backup processes were inadequately designed.



5

Root causes and recommendations - portfolio

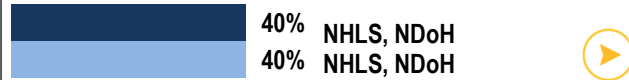


Top root causes, commitments and proposed recommendations

Root Causes

■ 2017-18 ■ 2016-17

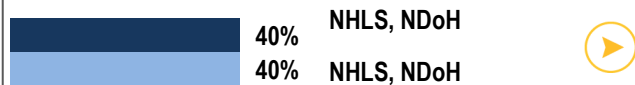
Slow response by management (Accounting Officer and Senior Management)



Instability or vacancies in key positions



Inadequate consequences for poor performance and transgressions



Key officials lack appropriate competencies



Slow response by management in improving key controls and addressing risk areas
 Lack of accountability by management has resulted in slow response to the findings.
 Key personnel positions had remained vacant
 Lack of understating of compliance with applicable laws and regulations

Status of key Minister's commitments

Completed

Significant progress has been made to address audit findings raised for CCOD. The commitment to submit the financial statements for 2010-11 to 2013-14 has been honoured. The 2014-15 audit is currently in progress.

In progress

The NDoH will strengthen their processes and controls to improve the quality of financial and performance 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

Recommendations

1. PC should request management to provide feedback on the implementation and progress and of the action plans to address poor audit outcomes during quarterly reporting.
2. PC should request management to provide quarterly feedback on status of key controls, project management and key projects.
3. List of action taken against transgressors should be provided quarterly to PC for follow up for all irregular expenditure incurred.

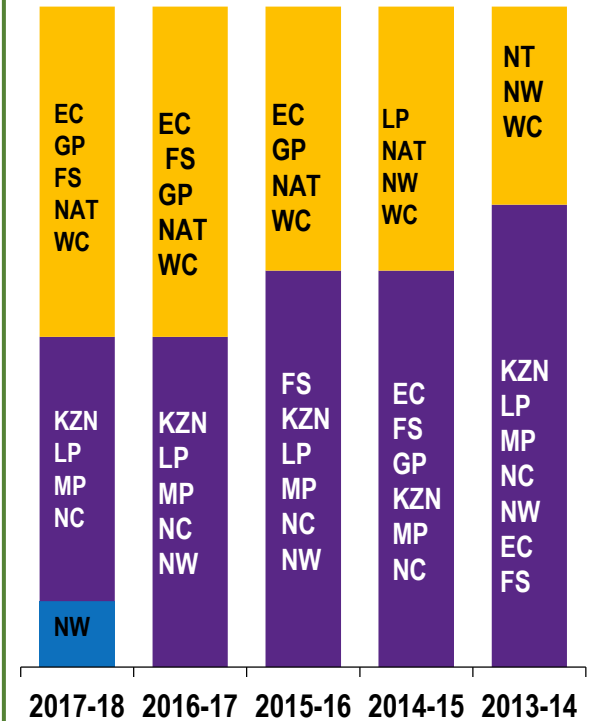
6

Health Sector audit outcomes



Stagnation in audit outcomes

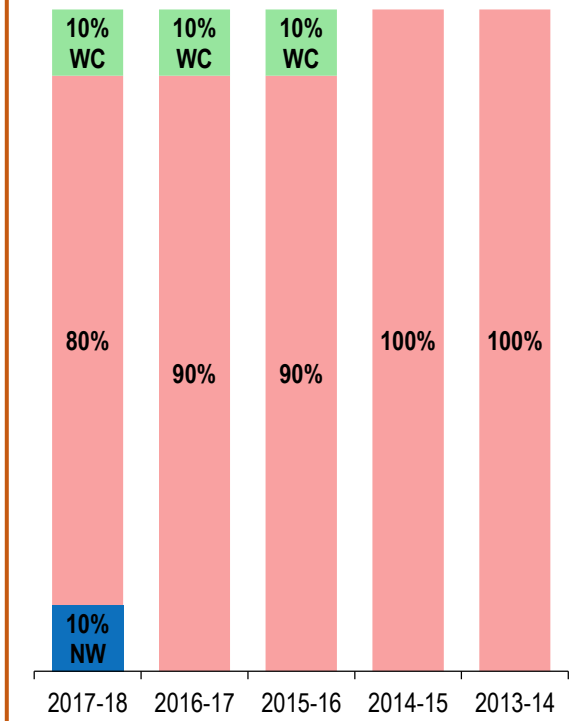
Five year trend –
Overall audit outcomes



1 To improve/maintain the **overall audit outcomes**, financial statements processes,

- The sector showed a stagnation in the 2017/18 audit outcome when compared to prior years.
- The riots that occurred in the North West province has had an impact in the finalisation of the current year's audit hence no reporting outcomes for the province.
- Although the departments were able to correct the material misstatement, it appears that issues noted in the prior year annual financial statement have not been fully addressed as similar findings were raised in the current year.

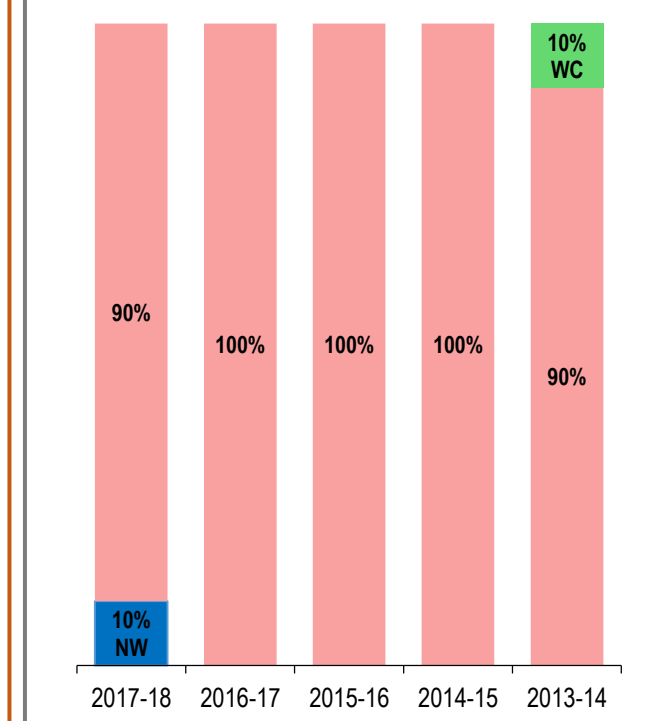
Five year trend –
Compliance with key legislation



2 **compliance** with key legislation and....

- Minimal improvements have been noted in the annual financial statement submitted for audit as material adjustments are still being effected to AFS.
- Inadequate monitoring systems in the SCM environment, has resulted in non-compliances with procurement management laws and regulations.
- Internal controls in place to detect and prevent U.I.FW expenditure, are not adequately being implemented and are not matured enough to prevent incurring U.I.FW expenditure.

Five year trend –
Quality of submitted annual performance reports

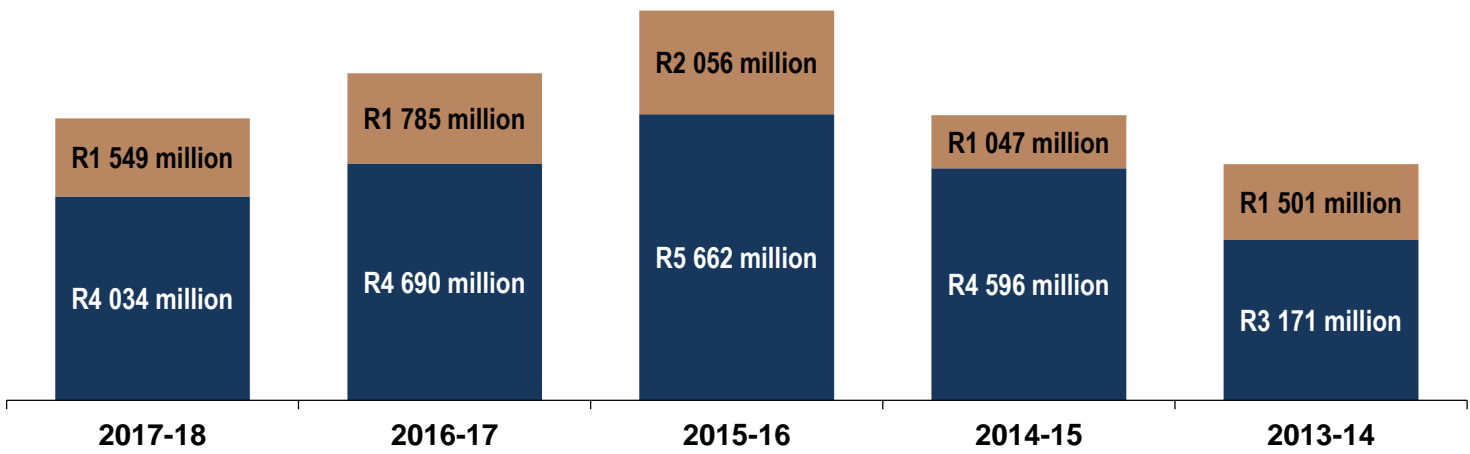


3 **performance planning and reporting** must be improved by....

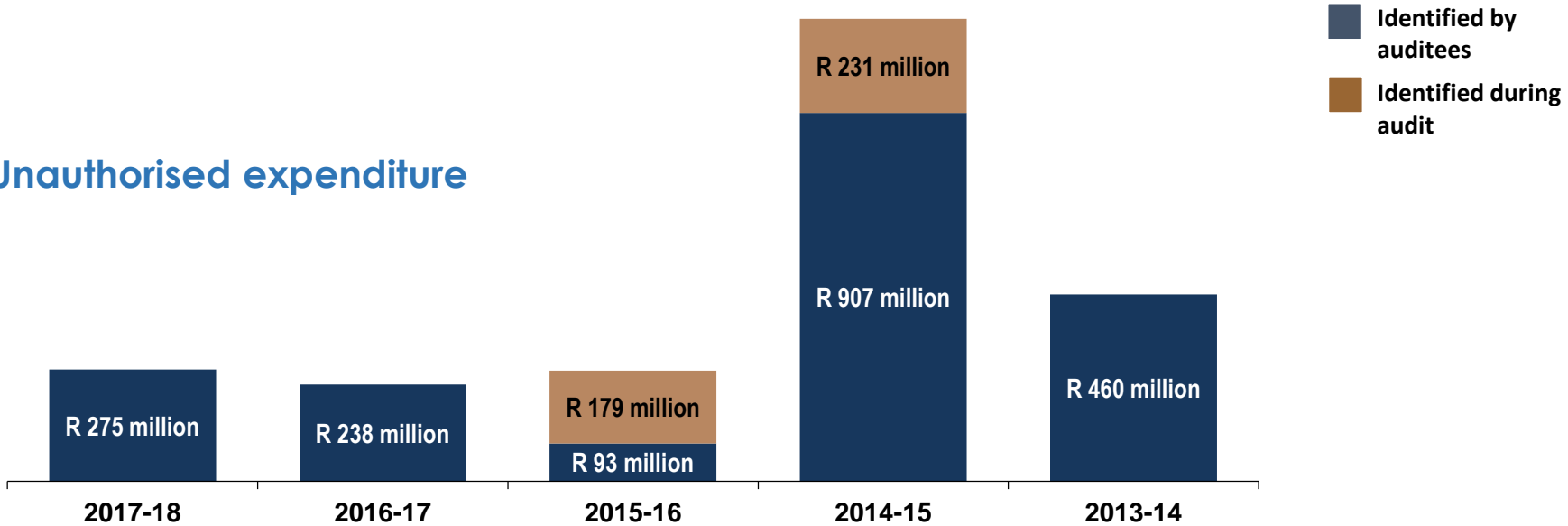
- Material findings were noted in the sector on usefulness and reliability in the annual performance reports submitted for audit.
- Findings reported were due to inadequate information systems for the collection of data, inadequate implementation of policies and procedures, manual control processes and poor filing systems.

Five year trend irregular and unauthorised expenditure

Irregular expenditure



Unauthorised expenditure



Unauthorised and irregular expenditure for the sector

Unauthorised expenditure

Irregular expenditure

Definitions

Expenditure not in accordance with the budget vote/ overspending of budget or programme

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

Province	2017-18	2016-17	Mov	2017-18	2016-17	Mov
EC	R 0	R 0	▶	R266 627 000	R 26 861 000	▼
FS	R140 791 000	R 67 634 000	▼	R797 861 000	R300 996 000	▼
GP	R 0	R 0	▶	R1 703 204 922	R1 860 019 668	▲
KZN	R 0	R18 997 000	▲	R1 829 543 000	R1 325 084 000	▼
LP	R 0	R 0	▶	R166 491 000	R217 342 000	▲
MP	R33 999 000	R 0	▼	R309 920 000	R1 474 808 000	▲
NAT	R 0	R 0	▶	R73 439 000	R1 388 000	▼
NC	R100 296 000	R51 576 000	▼	R412 379 000	R574 183 000	▲
NW	Outstanding	R 99 647 000		Outstanding	R682 777 000	
WC	R 0	R 0	▶	R23 617 000	R11 330 000	▼
Totals	R275 086 000	R 237 854 000		R5 583 081 922	R6 474 759 000	

Legends:

- ▲ Decrease in expenditure
- ▶ No change
- ▼ Increase in expenditure



6

Management and delivery of key programmes - Sector

Key projects tested – sector

(Programme 2 – District Health Services)

Core function (Reduction of the burden of HIV and AIDS)

Key project 1

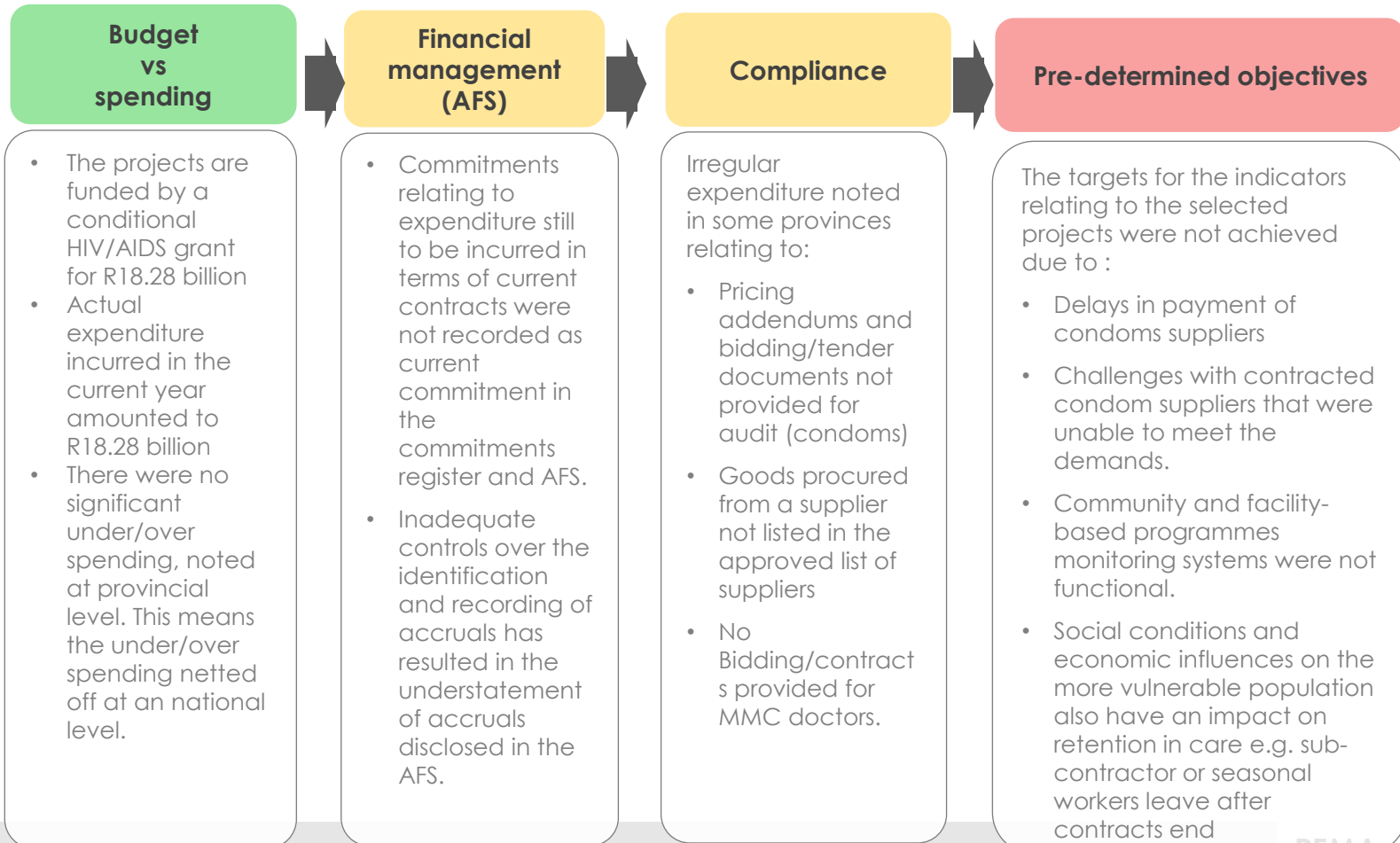
(Patients initiated and remaining on ART)

Key project 2

(Condoms distributed)

Key project 3

(Prevention of Mother to Child Transmission (PMTCT))



Key Projects:

- ART related interventions
- Condom distribution and high transmission area (HTA) interventions
- Prevention of mother to child transmission (PMTCT)

Budget vs spending

- The projects are funded by a conditional HIV/AIDS grant for R18.28 billion
- Actual expenditure incurred in the current year amounted to R18.28 billion
- There were no significant under/over spending, noted at provincial level. This means the under/over spending netted off at a national level.

Financial management (AFS)

- Commitments relating to expenditure still to be incurred in terms of current contracts were not recorded as current commitment in the commitments register and AFS.
- Inadequate controls over the identification and recording of accruals has resulted in the understatement of accruals disclosed in the AFS.

Compliance

- Irregular expenditure noted in some provinces relating to:
- Pricing addendums and bidding/tender documents not provided for audit (condoms)
 - Goods procured from a supplier not listed in the approved list of suppliers
 - No Bidding/contracts provided for MMC doctors.

Pre-determined objectives

- The targets for the indicators relating to the selected projects were not achieved due to :
- Delays in payment of condoms suppliers
 - Challenges with contracted condom suppliers that were unable to meet the demands.
 - Community and facility-based programmes monitoring systems were not functional.
 - Social conditions and economic influences on the more vulnerable population also have an impact on retention in care e.g. sub-contractor or seasonal workers leave after contracts end



$$C = M + D - A$$

C = **M** + **D** - **A**

MONOPOLY + DISCRETION - ACCOUNTABILITY



#AGSA

#AntiCorruption



$$c = M + D - A$$

c = **M** + **D** - **A**

MONOPOLY + DISCRETION - ACCOUNTABILITY



#AGSA

#AntiCorruption



Corruption



Stay in touch with the AGSA



www.agsa.co.za



@AuditorGen_SA



Auditor-General of South Africa



Auditor-General of South Africa