

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE NATIONAL DEPARTMENT OF HEALTH FOR THE YEAR ENDED 31 MARCH 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 164 to 237 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No 25 of 2004). The fixed asset opening balances have not been audited because of the timing of guidance from National Treasury to the departments relating to the treatment, valuation and disclosure of fixed assets. These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with International Standards on Auditing read with General Notice 544 of 2006, issued in Government Gazette no 28723 of 10 April 2006 and General Notice 808 of 2006, issued in Government Gazette no 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The department is required to prepare financial statements on the modified cash basis of accounting determined by the National Treasury. The modified cash basis of accounting constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid or when the final authorisation for payment is effected on the system by no later than 31 March of each year.

4. QUALIFICATION

4.1 Division of Revenue Act, 2005 (Act No. 1 of 2005) (DoRA)

The Department of Health was responsible for the transfer of conditional grants under the Division of Revenue Act (DoRA) amounting to R8,8 billion during 2005-2006 financial year. This constituted 89% of the department's expenditure.

The **Framework to the DoRA** indicated that the business plans for the specific grant be approved before any transfers are made. The following non-compliance was noted.

- Payments of R1, 3 billion were made prior to the approval of the business plans.
- Amounts transferred as per the DoRA schedules were R110 million more than the amounts approved in the individual business plans.

The **Framework to the DoRA** required quarterly performance reports, monthly financial reports and quarterly provincial liaison and quarterly visits to the provinces as the monitoring mechanisms to be implemented by the department. In spite of the department's efforts to monitor these grants, the following deficiencies were noted;

- Late or non-submission of monthly financial reports by the provinces resulting in the national department not being able to properly monitor expenditure in the provinces;
- Late or non- submission of quarterly performance reports by the provinces, resulting in the national department not being able to properly monitor the performance of the provinces;
- Quarterly visits to provinces were not always conducted

The National Treasury earmarked funds to the amount of R8 million to appoint managers to monitor conditional grants. The majority of these appointments were made subsequent to year end.

During the year under review I, again, conducted an audit of HIV/Aids and Hospital Revitalisation Grants which amounts to R 2,256 billion of the total. The following was noted with regard to the HIV and Aids and the Hospital Revitalisation grants:

Inadequacies in the performance against the business plans of the provinces were noted. In terms of the DoRA framework the provinces need to submit quarterly performance reports to the National Department as part of the conditions for transfers. My review noted that the majority of the quarterly reports were not submitted during the year under review thus compromising the effectiveness of review by the National Department.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the National Department of Health at 31 March 2006 and the results of its operations and cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury of South Africa, as described in paragraph 3 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Audit committee

During the course of the year the audit committee was not operational and therefore unable to fulfil the requirements of the audit committee charter. This was reflected in the minimum number of meetings, as defined by section 77 of the PFMA, not being met and the fact that for the one meeting held no quorum was present.

6.2 Internal audit

The internal audit function at the department was ineffective as it did not carry out its functions as planned. The majority of the audits planned, were not performed and, were postponed to the next financial year. The internal audit function is also responsible for the operation of a fraud hotline. During the year only 15 (8%) of the 192 cases reported were investigated.

Section 30(1)(a) of the DoRA requires the transferring national officer to determine a minimum set of risks that must be taken into account and mitigated by the receiving province. The internal audit unit of the national department did not determine and communicate the minimum risks to the provinces.

6.3. Non compliance with the National Environmental Management Act (NEMA)

The National Environmental Management Act, 1998 (Act No. 107 of 1998) requires certain departments (including the National Department of Health) to provide environmental Implementation or management plans and to report their compliance against the plans to the Committee for Environmental Coordination. Due to lack of a management framework for monitoring the NEMA requirements, the National Department of Health did not comply with this requirement for the 2005/2006 year.

6.4 Supply chain management

A supply chain management unit has been established by the department as required by Treasury Regulation 16A. However this unit is still not fully operational and delays were experienced in achieving the milestones as per the department's implementation plan. Policies and procedures have been drawn up, but have not been approved by the accounting officer.

6.5 Lack of performance information

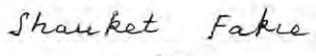
The department was unable to supply the performance information as required by the National Treasury.

7. SCOPA resolutions

A SCOPA hearing was held in 2005, but no resolution has been passed.

8. APPRECIATION

The assistance rendered by the staff of the Department during the audit is sincerely appreciated.



S.A. Fakie
Auditor-General

Pretoria

31 July 2006

