

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF VOTE NO. 14: NATIONAL DEPARTMENT OF HEALTH FOR THE YEAR ENDED 31 MARCH 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the National Department of Health (NDoH) which comprise the appropriation statement, the statement of financial position as at 31 March 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 144 to 208.

The accounting officer's responsibility for the financial statements

2. The Accounting Officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting determined by the National Treasury as set out in accounting policy note 1.1 and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and the Division of Revenue Act (Act No. 2 of 2008) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Departmental Revenue

7. Included in note 2 to the financial statements is an amount of R29,7 million relating to revenue from the Medicines Control Council (MCC). I was unable to verify the accuracy, occurrence and classification of this revenue due to NDoH not having a system to reconcile application forms to the fees received. I was unable to perform alternative audit procedures to obtain reasonable assurance that the amounts received were for the MCC, that the amounts were accurate in relation to the services rendered and that the amounts received qualified to be classified as revenue.

Goods and Services

8. Included in note 5 to the annual financial statements is an amount of R23,2 million relating to travel and subsistence. The amount relates to costs incurred by the department for the use of vehicles in respect of the National Fleet Public Private Partnership project. The department does not have a system to enable the reconciliation of the payments for the use of vehicles under the National Fleet Public Private Partnership project to the supporting documentation. As a result, I was unable to confirm the amounts paid were an actual expense of the department. I was unable to perform alternative audit procedures to obtain reasonable assurance that the transactions related to this payment was authorised and was for the benefit of the department.

Qualified opinion

9. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the National Department of Health as at 31 March 2009 and its financial performance and its cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the PFMA and the DoRA.

Basis of accounting

10. Without further qualifying my opinion, I draw attention to accounting policy note 1.1, which describes the basis of accounting. The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material non-compliance with applicable legislation

Division of Revenue Act (DoRA)

11. Although the department has a control framework in place to monitor the respective conditional grants to the value of R14,028 billion transferred to the provinces, the department did not always adhere to the framework as:
- The monitoring of applicable conditional grants through quarterly visits and physical inspections by the department was inadequate due to capacity constraints.
 - The evaluation of information provided in the provincial reports to ensure the timeous identification of potential non-compliance with the conditions attached to the grants by the provinces was inadequate because the unexplained differences, errors and omissions that were identified during the audit was neither explained by the provinces nor investigated by the department.

Monitoring performed by the department was also ineffective due to the following:

- Late submission of business plans for specific conditional grants by the provinces, resulting in late submission by the department to National Treasury.
- Late or non-submission of monthly financial, quarterly and annual performance reports by the provinces, resulting in erroneous consolidated reports of the department.
- Significant inconsistencies in the information supplied in the monthly financial and quarterly performance reports by the provincial departments to the department.

Governance framework

12. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below.

Internal control deficiencies

13. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
7	Departmental Revenue	5		6		1
8	Goods and Services		3	5		1

14. The governance framework at the department is generally satisfactory. However there are shortcomings in the adequacy and appropriateness of risk assessments around financial accounting and reporting. These shortcomings result in inadequate policies and procedures being developed to address the attendant risks and inadequate monitoring and supervision of internal controls to assess their effectiveness over financial accounting and reporting.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3

M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

15. The PFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		✓
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 40 of the PFMA	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development of, and compliance with, risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The department had an audit committee in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	✓	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10 	✓	
7.	Internal audit	✓	
	<ul style="list-style-type: none"> The department had an internal audit function in operation throughout the financial year. 	✓	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	✓	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2 	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, was documented and used as set out in Treasury Regulation 3.2	✓	
12.	Powers and duties have been assigned, as set out in section 44 of the PFMA.	✓	

No.	Matter	Y	N
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA resolutions have been substantially implemented.	✓	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the department against its mandate, predetermined objectives, outputs, indicators and targets Treasury Regulation 29.1	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

16. Significant difficulties concerning the availability of requested information was experienced during the audit of revenue from the MCC. This was due to inadequate filing systems and the lack of reconciliations between the bank statements and the application forms.
17. The department made six significant amendments to financial statements. The amendments were due to inadequate monitoring of internal controls over financial reporting.
18. The audit findings relating to DoRA had been reported for a number of years and had not been adequately addressed. The department has inadequate staff numbers to ensure effective monitoring of the implementation of DoRA. The effectiveness of monitoring is further complicated by the constitutional separation of powers and functions between the national and provincial spheres of government.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on performance information

19. I have reviewed the performance information as set out on pages 8 to 96.

The accounting officer's responsibility for the performance information

20. The accounting officer has additional responsibilities as required by section 40(3)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the department.

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
22. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

Findings (Performance Information)

23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the review findings reported below.

Reported performance information not reliable

24. The accuracy of the performance information relating to the activities of the provincial departments, as reported by NDoH, could not be determined due to the lack of a system to collate and verify the source documentation

to support the information received from the provincial departments.

APPRECIATION

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

Auditor-General

Pretoria

31 July 2009



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence