Auditor-General tables three performance audit reports dealing with the pharmaceuticals, water infrastructure and urban renewal projects

PRETORIA – Government leadership needs to prioritise the planning and monitoring of projects, the improvement of inter-governmental coordination and the appropriate allocation of resources as critical enablers for service delivery in South-Africa, Auditor-General Kimi Makwetu advised today.

“This is particularly important in the current economic climate of austerity and fiscal constraints. The requirements of economic, efficient and effective utilisation of resources therefor become critical to do more with less. In keeping with this principle everybody involved in the value chain of delivering services to the citizens should be held accountable for the role that they play in this process and there should be consequences for non-performance” the AG said.

He was tabling three performance audit reports, dealing with the management of pharmaceuticals, water infrastructure and urban renewal projects.

While being critical of these basic control weaknesses, the AG recognised leadership’s responsiveness to the outcomes of his audits. In all three instances, management committed to or initiated corrective action to ensure the effectiveness and efficiency of delivery in these areas. Makwetu was particularly complimentary towards the national health department, where a clear improvement in the
management of pharmaceuticals was evident in certain follow-up work that was conducted during 2015-16.

What is a performance audit?

A performance audit is an independent audit process to evaluate the measures taken by the management of a state entity to ensure that resources were procured economically and used efficiently and effectively.

It is different from the general reports that the Auditor-General normally table (such as the 2015-16 PFMA general report that was tabled on the 16th of November 2016). These general reports deal with the outcome of the annual regularity audit processes that reflects on the strength of financial and performance management in government. Where these deal with matters that form the foundation for proper service delivery, performance audits deal with the resource management within specific strategically important service delivery area.

This kind of auditing places special focus on citizens and taxpayers as the primary questions asked during the assessments are whether government is ‘doing the right thing’ and whether it is doing this ‘in the right and least expensive way’.

Why were the audits conducted?

Makwetu indicated that the audit on pharmaceuticals was undertaken to determine whether medicines and medical supplies were managed in a manner to ensure that patients receive their prescribed medicines on the day of their visits to healthcare facilities. In the process, 109 health institutions and 10 medical depots were visited over the past two years.

The water infrastructure report reflects on the success of implementation and subsequent performance of the water infrastructure programme that was implemented on behalf of the national Department of Water and Sanitation. This
audit was conducted at 7 district municipalities that were supported by the
department, covering 6 provinces.

The audit of urban renewal programme was limited to 4 projects in Gauteng and
was initiated at the request of the provincial Departments of Human Settlements
and Cooperative Governance and Traditional Affairs and focused on the extent
and quality of delivery of renewal projects compared to the original intentions of
this programme.

**Crosscutting challenges highlighted in the AG’s three reports**

In all three reports the AG highlighted common themes which hampered efficient and
effective delivery of services, as follows:

i. Leadership and oversight
ii. Funding
iii. Project management and operations
iv. Intergovernmental coordination

**Matters of concern in the execution of projects**

**A. Leadership and oversight**

**Policy and planning**

While government strategies and policies were generally well intended and thought-
through, the more detailed planning and execution hampered the successful
implementation of these strategies and policies.

Although standard operating procedures to manage pharmaceuticals were
developed, these were not always implemented resulting in amongst others, poor
storage practices at medical depots and health institutions, said Makwetu. In
addition, while the reported burden of disease increased over the past decade,
infrastructure (storerooms, waiting areas, consulting rooms) in the healthcare system
has not proportionally increased, adding additional pressure to delivery of health
services.
A similar negative impact to the delivery of water to communities were experienced because coordination, operation and maintenance agreements were not in place, compromising the useful life of the infrastructure assets as seen at the Ramotshere Moiloa rural water supply works.

In the report on urban renewal projects, Makwetu noted that although extensive overall strategies were developed, challenges were experienced in the more detailed work required to give effect to these projects and to factor in the needs of the community, again hampering successful delivery.

**Communication**

In the pharmaceuticals report, Makwetu highlighted instances of poor communication between directorates responsible for planning, budgeting and pharmaceutical services. This resulted in a misalignment of the pharmaceutical budget and the actual healthcare needs.

The same trend was evident regarding the management of water infrastructure, with poor communication being evident throughout the value chain, from source to tap and tap to source resulting in a breakdown in water service delivery.

The challenges experienced in implementation of urban renewal projects in Gauteng also suffered from the negative effects of poor communication, firstly raising the expectations of communities before detailed planning was finalised and budgets secured and secondly not keeping communities abreast of project progress, challenges and changes in plans.

**Monitoring**

In all three reports the discipline of monitoring adherence to policies and procedures were lacking, leading to challenges with the storage of pharmaceuticals and related losses due to damage and expiry, deterioration of water infrastructure and related increased costs of maintenance, as well as – generally speaking - delays in project delivery. For the urban renewal programme this resulted in poor quality of infrastructure at all four projects.
B. Funding and Budgets

Some health departments overspent on their pharmaceutical budgets as they budgeted incrementally based on historical information rather than on the actual healthcare needs of the citizens.

Throughout the water infrastructure value chain a significant lack of funding was evident, especially at municipal level. Furthermore, as evidenced in the Greater Mbizana project, funding for reticulation was not aligned to other project phases. Makwetu also noted his concern about the lack of funding for operating and maintaining existing assets.

Urban renewal projects also suffered from the same constraints, with significant funding gaps being identified in the year under review, as follows:

- Evaton - of the R3.7 billion budgeted, only R260 million was allocated,
- Winterveldt - of the R4.3 billion budgeted, only R278 million was allocated, and
- Bekkersdal - of the R1.2 billion budgeted, only R440 million was allocated

C. Project management and operations

Staffing/ capacity

Makwetu indicated that, generally, the quality and timeliness of healthcare delivery was negatively affected due to the shortage of pharmacists and pharmacist assistants to deliver pharmaceutical services and provide operational support to nurses.

In reporting on the delivery of water to citizens, the Auditor-General highlighted the risk of an ageing professional work-force and a lack of succession planning in the areas of water engineering and scientists. Generally he expressed concern about inadequate capacity to operate and maintain infrastructure at district municipalities as evidenced in the Hlabisa regional bulk scheme.

The significant vacancies that existed in the urban renewal program compromised proper segregation of duties – a cornerstone of good internal control – and
operational capacity to execute projects. The related lack of transfer of knowledge to new staff, also raised concern.

**Supply chain management**

Throughout the three reports challenges with supply chain management processes were identified. In the case of the management of pharmaceuticals this was evident in penalties not always being imposed on suppliers for the late delivery of pharmaceuticals and late payments to suppliers. We noted a significant improvement in the payment to suppliers during the 2015-16 financial year. Instances of purchases outside national contracts resulted in medical depots paying higher than normal prices.

Emerging contractors involved with water infrastructure projects experienced financial strain due to delays in payment which constrained their ability to deliver on time.

Makwetu reiterated this theme in his urban renewal report where instances of non-compliance with supply chain management prescripts were identified. An example was the reappointment of a contractor for a contract with a value of R21.6 million on the Bekkersdal project without adherence to National Treasury practice notes.

**Document management /record keeping**

The Auditor-General indicated that the pharmaceuticals audit found that staff at 63% of health institutions did not record patients’ details and medicines dispensed to them. As a result, they could not account for the pharmaceuticals dispensed. In addition, some medical depots and health institutions could not accurately and completely account for the movement in and value of medical inventory due to poor record keeping.

As evidenced by the lack of documented conditional assessments of infrastructure at the Livuvhu Scheme in Limpopo and others, the area of water service delivery also
experienced challenges with document management, which in turn impacted negatively on the ability of delivery agents to plan maintenance interventions.

Document management also significantly hampered the effectiveness of delivery of urban renewal projects with missing and incomplete project files, as well as payment certificates and design-related information not being available all of which impacted on the credibility of decision-making in this area of delivery. The lack of documentation limited the ability of audit teams to execute all procedures.

**D. Intergovernmental coordination**

The last of the common themes that hampered the efficient and effective delivery of services relates to intergovernmental coordination – the ability of all spheres of government and all role-players to work together seamlessly to the benefit of citizens.

The poor quality and timeliness of submissions by provincial health departments to national level definitely had an impact of the effective execution of oversight at that level, indicated Makwetu.

Poor cooperation throughout the water delivery value-chain resulted in delays in finalising water user licences by the water service authorities for example at the Sebokeng, Evander, and Wolmaransstad waste water treatment works. A lack of integrated planning for this important area of service delivery also contributed to the slow pace of achieving the government’s goals for providing citizens with appropriate access to water. For example at the Hlabisa rural bulk scheme, the secondary bulk storage was only at the planning stage whilst the other three parts of the value chain were completed or nearing completion.

Cooperation agreements between all key stakeholders in the urban renewal space were not obtained in writing, which significantly impacted on the ability of leadership to hold role-players accountable, thus negatively impacting on the achievement of project deliverables.
Recommendations

The AG recommended the following initiatives to remedy the challenges highlighted above:

Pharmaceuticals

- Implement the standard operating procedures,
- Align pharmaceutical budgets to actual health care needs,
- Update human resource plans,
- Ensure payments to suppliers within 30 days. Impose penalties for late delivery,
- Monitor the availability of pharmaceuticals at the medical depots and health institutions,
- Comply with standards, and the appropriate standard operating procedures, and
- Provide training to staff on stock management.

Water Infrastructure

- Leadership and specialist vacancies need to be filled,
- Ensure adequate succession planning,
- Provide adequate on-the-job training to meet professional requirements,
- Engage in integrated planning when projects need to be built, tested and commissioned,
- Ensure that critical components are completed on time, and
- Ensure consequence management for non-performance.
Urban Renewal Programme

- Re-assess the original business plans to the needs of the communities,
- Improve monitoring of URP at a central point,
- Improve the communication strategy to stakeholders,
- Establish a proper document management system,
- Enhance capacity and skills on project management,
- Develop a uniform approach for reporting,
- Develop a funding mechanism that will address the complex requirements of the programme,
- Coordinate the planning and budgets for the programme with all stakeholders,
- Formalise the commitments of, and agreements with all stakeholders.

Leadership commitments/ initiatives implemented

As indicated above, Makwetu recognised the good reaction he observed from the leadership responsible for the areas highlighted in the three reports he tabled. These include:

Pharmaceuticals

- Representative committees established to enhance the value chain,
- Suppliers on national contracts monitored,
- Development of policies and national core standards to enhance service delivery,
- Improved monitoring over the directorates,
• Introduced the stock visibility system and other tools that serve to detect stock shortages early at a primary healthcare level,

• Introduce direct deliveries to hospitals reduce the workload of medical depots and delivery lead times,

• Provincial action plans developed to address shortcomings, and

• Follow-up audit reflects an improvement in stock-out rates.

**Water Infrastructure**

• Development of integrated plan to address challenges across the value chain, and

• Establishment of programme management office.

**Urban Renewal Programme**

• Coordinating departments have committed to address the shortcomings identified,

• Newly appointed chief director will assume responsibility for the programme, and

• The process of refocusing the urban renewal programme has begun by the department.

**Conclusion**

The achievement of the priorities that government has outlined in its National Development Plan requires that departments and entities:

• make the best possible use of the current model for planning, budgeting and monitoring in government, and

• institute a foundation of strong controls that are executed with discipline and at a level of excellence.
Attending to the recommendations of these reports will assist in moving government to such a situation, where citizens can tangibly experience these basic elements of quality living in South-Africa, as envisaged in the Constitution.

Makwetu restated his appreciation for the good reaction that he has already observed in response to the findings of these audits and indicated that such a constructive approach can only bode well for the improvement and strengthening of service delivery in the areas reported on.

End.

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Media note: The three performance audit reports are available on www.agsa.co.za.

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