



AUDITOR - GENERAL
SOUTH AFRICA



PFMA 2011-12

Audit outcomes of the Health Sector

CONSOLIDATED GENERAL REPORT
on NATIONAL and PROVINCIAL audit outcomes



Our reputation promise/mission

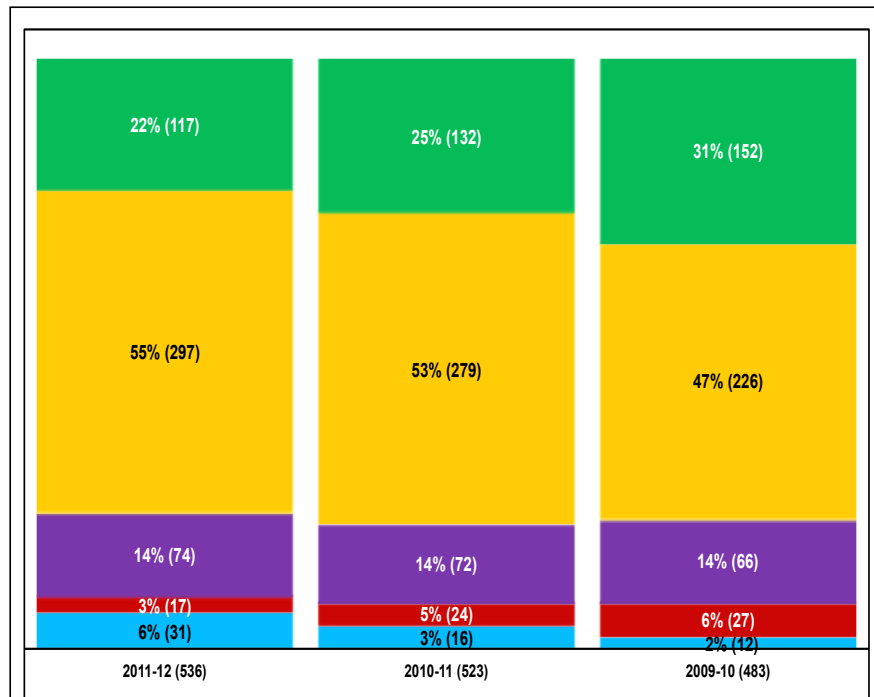
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



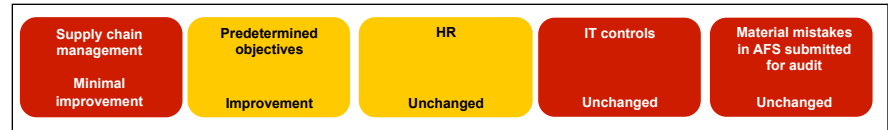


FOREWORD

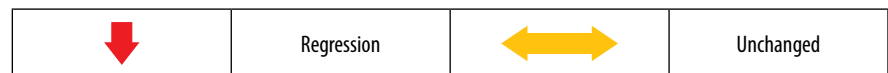
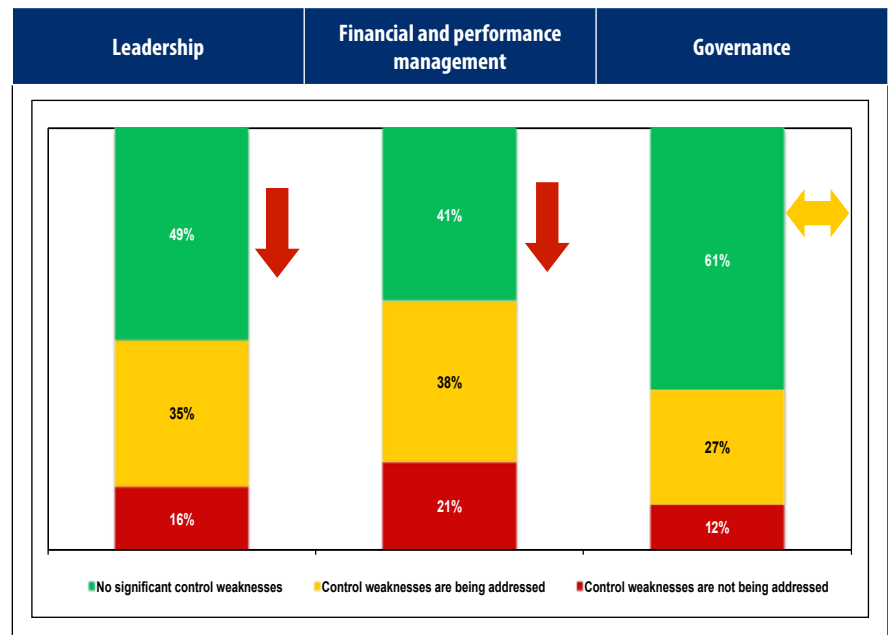
Slow progress towards clean audits with slightly more regressions than improvements



5 risk areas



Key controls



Pervasive root causes



FOREWORD

It is a pleasure to present to Parliament my 2011-12 general report on audit outcomes of departments, legislatures, public entities and other entities in the national and provincial spheres of government.

In response to the 2010-11 audit outcomes, commitments were made by the executive and oversight bodies to intensify their efforts in bringing positive change within the administration.

Despite my expectation that these commitments would drive improvements towards clean audits, the audit outcomes for the year show a general stagnant trend, with less than a quarter of auditees obtaining clean audit opinions and 52 not able to sustain their prior year clean audit opinion. My report shows that many leaders did not own and drive these commitments, so the commitments are left to flounder until the next audit starts. In this regard, I single out two significant commitments made a year ago:

- The executive committed to meet with my office quarterly for at least an hour. About 78% of them have made time at least three times in the past year to meet and share the results of our assessment of the risks and controls and to consider the status of commitments made and make new commitments. Although the engagements were well received, only small movements in audit outcomes can be seen. This was due to frequent leadership changes resulting in disruption in the implementation of commitments, our message being ignored, or our conversation not being compelling and persuasive enough. We therefore undertake to continue with the quarterly engagements, but with greater emphasis on quality conversations leading to increased impact.



- Parliament and legislatures committed to improve the collaboration between their respective public accounts committees and portfolio committees. We have yet to see more concentrated efforts in this regard as an uncoordinated approach will continue to weaken the effectiveness of oversight.

Of special concern is the increase in auditees with material findings on non-compliance with legislation, bringing it to 74%. Even though I have stressed for the past three years the urgent need to address the quality of the financial statements submitted for audit and weaknesses in supply chain management, human resource management and information technology controls, there has been minimal improvement.

The usefulness and reliability of the annual performance reports continue to improve, which is gratifying. I am now able to make a clearer assessment of service delivery risks but not to the full extent necessary (as some key departments responsible for national outcomes, such as those in the health, education and human settlement sectors, continue to have material shortcomings). Based on the annual performance reports, about 42% of auditees achieved 80% or fewer of their planned service delivery targets, while some departments had significantly underspent their conditional grants and capital budgets. My report further highlights risks to the financial health of national and provincial government flowing from poor budget management, cash and debtors management of departments and the financial management of some public entities. These indicators reflect that the fiscus could be placed under further pressure if such risks are not addressed.

In this general report, I raise three areas that require corrective steps by those charged with governance to achieve improvements in the audit outcomes:

- **Vacancies in key positions** and **instability in leadership** positions affect the pace of sustainable improvements. **Ineffective performance management** is evident at some auditees, which means that officials who perform poorly are not dealt with decisively. A concerted effort is required to address the challenges in human resource capacity and productivity.

- **Effective internal controls** to prevent, detect and correct non-compliance with legislation and mistakes in the financial and performance reports are lacking. Overall the effectiveness of key controls has regressed, as they were not designed and implemented in a sustainable manner. Checks and balances for all key processes, monthly reporting and validation processes to ensure the credibility of all management information are basic controls which skilled professional should be able to implement.
- Governments should be monitored in a thorough, diligent and collaborative manner. My office only provides independent assurance on the credibility of financial and performance information and compliance with selected legislation. We are not the only **provider of assurance** to the citizens that government is delivering services in a responsible and accountable manner. The monitoring functions vested in **senior management, accounting officers, internal audit, audit committees and executive authorities** should be better exercised so that audit outcomes and service delivery issues are dealt with through self-monitoring, while audit provides an external validation. The **treasuries, offices of the premiers, public service administration and other coordinating/monitoring institutions** should fulfil their role envisaged in legislation to guide, support, coordinate and monitor government. The **legislatures and Parliament** should be scrupulous and courageous in performing their oversight function in order to make an impact on clean administration. My assessment (detailed in this report) is that not all of these role players are providing the level of assurance required to create the momentum towards improve audit outcomes.

A common reaction to the audit outcomes is the question posed by many about the need for officials to be accountable, and for there to be consequences for poor performance, misappropriation of state resources and fraud. In response, we have highlighted in a separate booklet, the range of legislation at the government's disposal that enables remedies to be applied where there has been transgression. These must be used where necessary to reverse the culture of "business-as-usual". It is my assessment that the full power of the law is yet to be activated, leading to commentators asking "What can be done?" or saying "There are no consequences".

Highlighting these remedies provides a starting point for our responsible leaders and the relevant legislatures and departments to take action. All parties have to play their part.

Although progress towards clean audits is slow, I am encouraged by examples of commitments by leaders and officials which translated into improved audit outcomes and I am confident similar results can be achieved by all auditees. In conjunction with various key role players, my office has provided input towards the development of solutions to the challenges highlighted in this report, and will in future share assessments of progress in joint sessions with the Head of Government Business and Parliament and through similar engagements in the provinces.

It is through all our efforts and the work of auditors that we will contribute towards strengthening our democracy through auditing.

Auditor-General

**Auditor-General
Pretoria
March 2013**










SECTOR AUDIT OUTCOMES

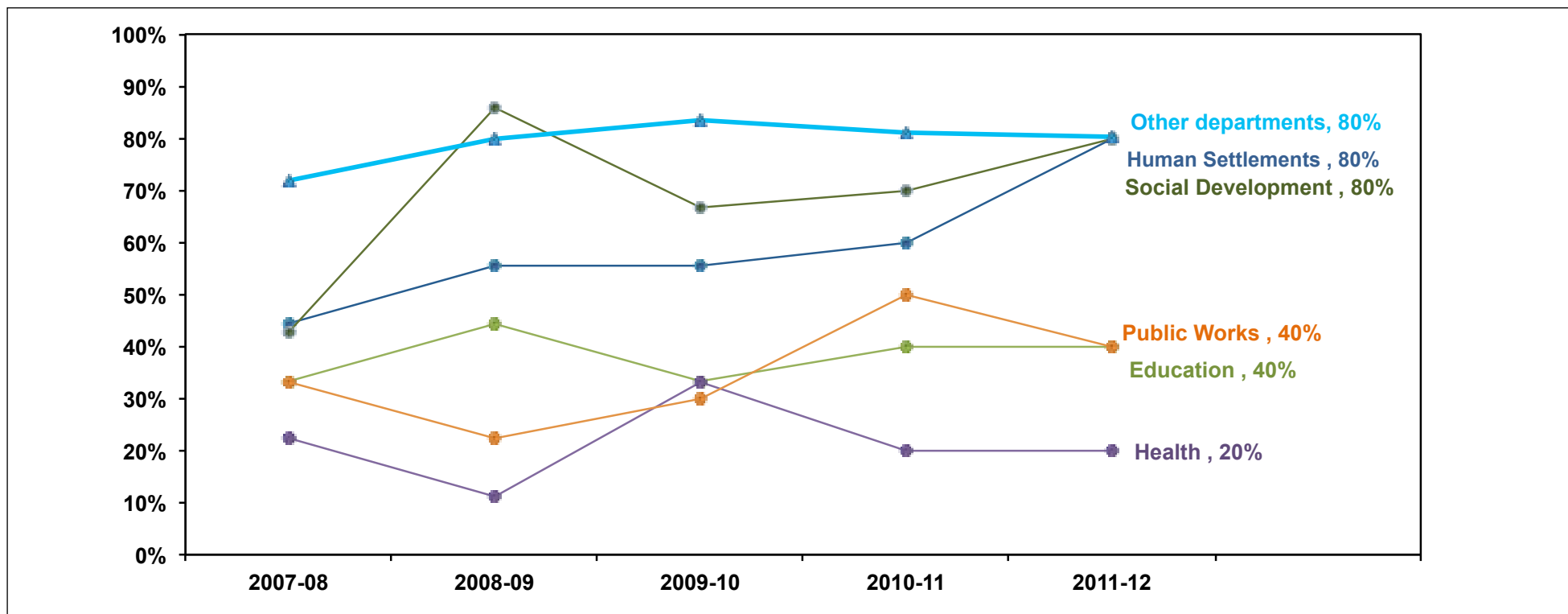
SECTOR AUDIT OUTCOMES

AUDIT OUTCOMES OF SECTOR DEPARTMENTS

Current year (2011-12) improvements and regressions in sector department audit outcomes

Movement in audit outcomes from 2010-11 of major sectors				
Audit opinion	Improvement	Unchanged	Regressed	Total auditees reported on
Financially unqualified with no findings				0
Financially unqualified with findings	 <p>6 Education (1) Health (1) Human Settlements (1) Public Works (1) Social Development (2)</p>	 <p>18 Education (3) Health (1) Human Settlements (5) Public Works (3) Social Development (6)</p>	 <p>1 Human Settlements (1)</p>	25
Qualified, with findings		 <p>13 Education (3) Health (5) Human Settlements (2) Public Works (1) Social Development (2)</p>	 <p>5 Education (1) Health (1) Human Settlements (1) Public Works (2)</p>	18
Adverse/Disclaimer, with findings		 <p>5 Education (1) Health (2) Public Works (2)</p>	 <p>2 Education (1) Public Works (1)</p>	7
Total	6	36	8	50

Five-year progress towards financially unqualified audit reports: Sector departments compared to other departments



Since the 2007-08 audit cycle the AGSA's regularity audits have included a specific assessment of service delivery aspects relevant to the health, education and human settlements sectors, with the audits of the social development and public works sectors added and reported on in the 2008-09 general report. It is important to note that the total budgets for the 50 departments within the five sectors (Education, Health, Human Settlements, Public Works and Social Development) represent approximately 85% of the total budget for all provincial departments. Apart from their size, unique aspects related to these five sector departments include the specific focus of the 12 national outcomes on the services to be delivered by the sectors as well as the importance of these sectors in building a strong society and economy. Other unique aspects of these five sectors include their dependency on an appropriately trained, skilled and committed workforce, the need for appropriate policies and procedures to ensure efficient and effective service delivery as well as the importance of good and functional monitoring and evaluation systems to ensure relevant and continuous service delivery of good quality. This section summarises the outcomes related to the audits of financial statements and performance against predetermined objectives and compliance with laws and regulations. Sector department audit outcomes are analysed in more detail in sub-sections 3.2.1 to 3.2.5, together with findings arising from the audit of their implementation of key national programmes.

Audit outcomes of sector departments: Progress towards financially unqualified audit reports

As depicted, the sector departments were subject to a net deterioration in their current year audit outcomes, with the Social Development and Human Settlements portfolios having reached the same level of financially unqualified audits as the non-sector departments over the past five years.

Movements in financial statement areas that attracted audit qualifications are summarised in the following table.

Table 29: Movements in financial statement areas that attracted qualifications

Financial statement qualification areas	Number of departments	Education	Health	Human Settlements	Public Works	Social Development
Property, plant and equipment	19	↑	↑	↓	↓	↓
Other disclosure items	14	↔	↓	↔	↑	↑
Receivables (debtors)	11	↔	↑	↔	↔	↔
Payables, accruals and borrowings	9	↓	↑	↑	↔	↔
Expenditure	9	↑	↓	↑	↔	↔
Unauthorised, irregular and fruitless and wasteful expenditure	14	↓	↑	↔	↑	↔

Decrease	↓	Increase	↑	Unchanged	↔
----------	---	----------	---	-----------	---

Sector departments' rate of addressing findings on predetermined objectives and compliance

Figure 47: Three-year progress in addressing findings on predetermined objectives - Sector departments compared to other departments

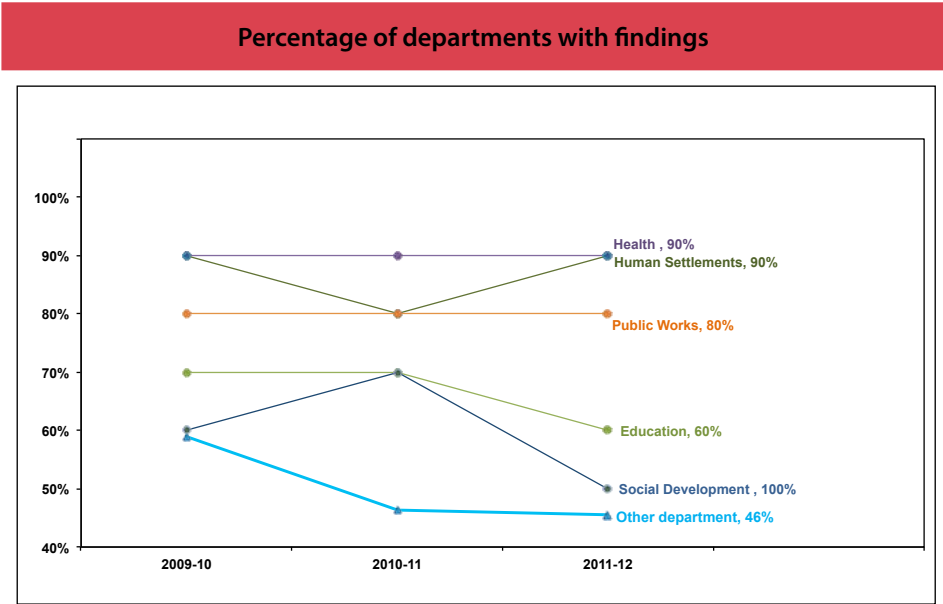
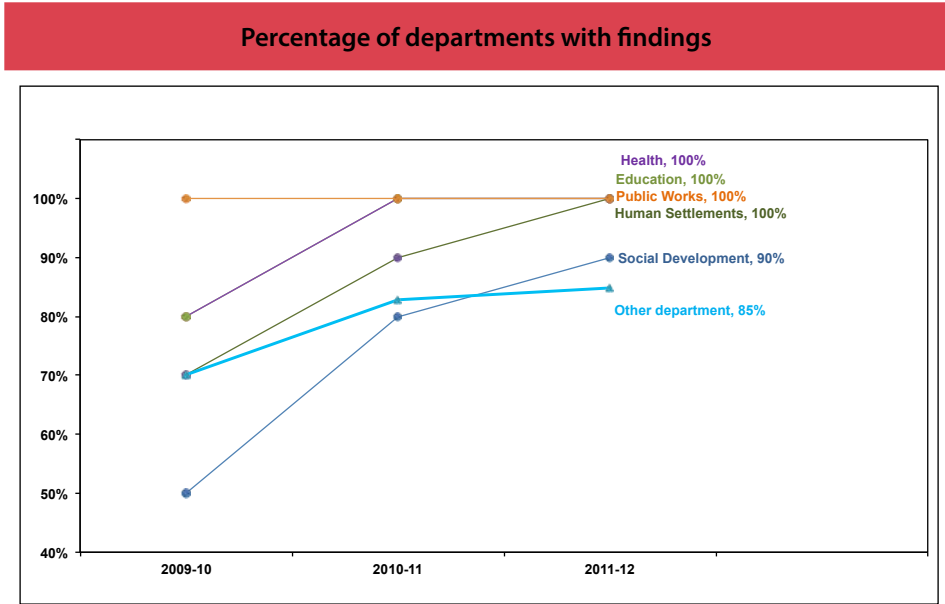


Figure 48: Three-year progress in addressing findings on compliance - Sector departments compared to other departments



Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

The slow progress made over the past three years by sector departments in addressing findings on PDOs and compliance, compared to other departments, is depicted in **figures 47 and 48**. Key findings specifically relating to the sector departments are outlined in the following table.

Table 30: Sector departments' rate of addressing findings on predetermined objectives and compliance with laws and regulations

PDO findings	Summary of PDO findings in the sector departments
Usefulness and reliability of PDO information	<p>Only 24% of the sector departments had no PDO findings, compared to an average of 54% for the other departments.</p> <ul style="list-style-type: none"> Audit findings relating to usefulness were raised at 51% of the sector departments, with 59% of them having findings on the reliability of their reported performance information. No significant progress has been made by the sector departments in addressing control weaknesses identified in the 2010-11 financial year relating to major information systems used by them, which include: EMIS (Education), DHIS and ETR.NET, (Health) and the department of Public Works' WCS and PMIS. Section 3 of part 1 of this report provides details of findings arising from these information systems.
Findings on compliance	Summary of findings on compliance in sector departments
Supply chain management	<p>Limitations on planned audits were experienced due to appropriate documentation not being available at 17 (35%) of the sector departments. Other findings include the following:</p> <ul style="list-style-type: none"> Uncompetitive or unfair procurement processes ranging from 56% to 100% of the departments within the five sectors. Contracts were awarded to employees or state officials at 20 (41%) of the sector departments and awards to close family members of employees at 19 (39%) of them.

Unauthorised, irregular and fruitless and wasteful expenditure	<ul style="list-style-type: none"> The aggregate level of unauthorised expenditure incurred by the sector departments remained at approximately the same level of the prior year: R2,8 billion. Irregular expenditure increased by 14% to R15,8 billion, of which only R8,8 billion was detected by the sector departments themselves and the balance by the AGSA audit. For the year under review the sector departments contributed 69% of the total unauthorised, irregular and fruitless and wasteful expenditure incurred by national and provincial government (totalling R28,4 billion for the 2011-12 financial year).
Other significant findings	<p>Summary of findings on compliance in sector departments</p> <ul style="list-style-type: none"> Seventy-eight per cent of sector departments submitted financial statements for audit that contained material misstatements. Poorly developed internal controls that should prevent, detect and correct errors may in future result in a situation where the nature or extent of required corrections are such that these cannot be made during the audit, resulting in financially qualified audit opinions. The level of findings on Expenditure management and Revenue management have increased further from the high levels of the 2010-11 financial year, with Expenditure management increasing from 51% to 59% and Revenue management increasing from 37% to 47%. The sector departments have not paid sufficient attention to the prior year findings on Human resource management, which increased from 47% to 59% over the 2010-11 financial year. Audit findings raised during the year under review are as follows: management of vacancies (59% of departments), appointment processes (57% of the sector departments) and management of leave, overtime and suspension (55%).

Root causes of lack of progress towards clean audits by sector departments

The root causes of the inability of sector departments to produce unqualified financial statements and their slow progress in addressing findings on PDOs and compliance, as detailed in sub-sections 2.2, 2.3 and 2.4 of this general report, can be summarised as follows:

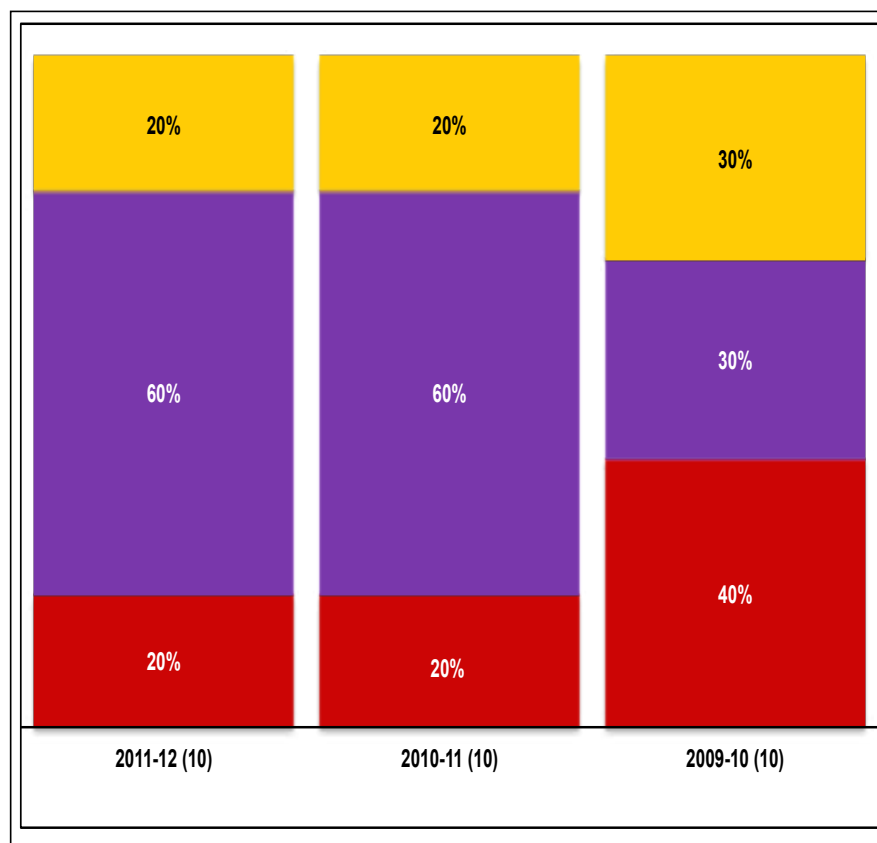
- Instability at leadership level.
- Commitments by the leadership of relevant sector departments and coordinating national departments to intervene and/or support those departments were not honoured.
- Action plans to address prior year audit findings were not adequately designed or properly implemented.
- Sector departments have not filled key vacancies and some posts were filled with officials who do not possess the requisite levels of skills and experience.
- Repeated material audit findings and even serious regression in the audit outcomes in many cases do not attract appropriate consequences for poor performance by the responsible officials.
- Lack of attention to the requirements of performance management frameworks, for example lead to sector targets not being SMART in all instances. Although some sector departments started with the process of aligning the sector indicators and targets to the relevant 12 national outcomes, this process should be further refined to ensure appropriate and relevant targets to achieve the relevant outcomes as well as to ensure good quality service delivery. In this regard the relevant coordinating departments and legislatures must become actively involved in improving the usefulness of PDOs and ensuring that the budgeted programmes are aligned to those objectives. Prior year reported information system deficiencies and limitations to support reporting against PDOs are not being addressed.

- Daily processing of information and monthly reconciling routines have not yet been established.

The drivers of internal controls (leadership, financial and performance management and governance) for sector departments have generally regressed since the previous financial year.

HEALTH

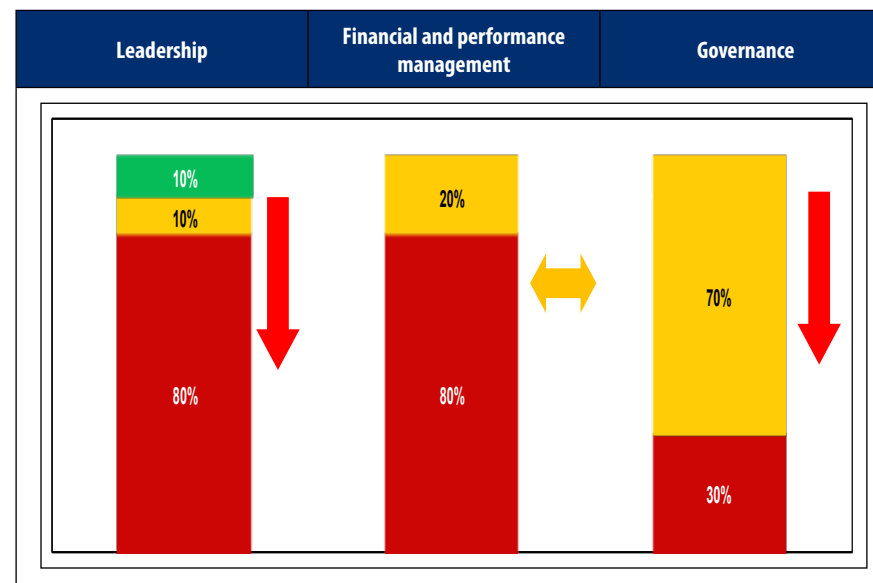
14



5 risk areas



Key controls



Root causes risk

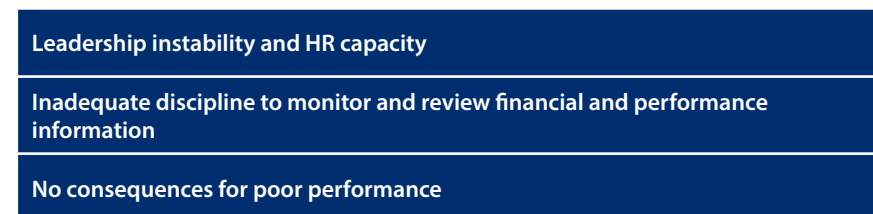


Table 37: Significant aspects of the audit outcomes

Province	Audit outcomes 2011-12	PDO findings	Compliance findings	Audit outcomes 2010-11	PDO findings	Compliance findings	Trend
National Health	Financially unqualified with findings			Qualified			↑
Eastern Cape	Qualified			Qualified			↔
Free State	Qualified			Qualified			↔
Gauteng	Qualified			Qualified			↔
KwaZulu-Natal	Qualified			Qualified			↔
Limpopo	Disclaimer			Disclaimer			↔
Mpumalanga	Qualified			Qualified			↔
Northern Cape	Disclaimer			Disclaimer			↔
North West	Qualified			Financially unqualified with findings			↓
Western Cape	Financially unqualified with findings			Financially unqualified with findings			↔

Legend	Finding	Improvement	↑	Unchanged	↔	Regression	↓
--------	---------	-------------	---	-----------	---	------------	---

The health sector reflect one improvement, with the National Department of Health improving from a qualification to financially unqualified with findings, and one regression as the North West department of Health regressed from financially unqualified with finding to a qualification on assets. Two departments (Limpopo and Northern Cape) received repeat disclaimers, while the remaining five provincial departments all had repeat qualifications. The audit outcomes for the current year are a concern due to the inability of the sector to demonstrate improvement. This is mainly as a result of leadership instability, inadequate discipline to monitor and review daily activities and staff not being held accountable for poor performance.

The most significant qualification areas for the sector are capital assets, other disclosure notes and unauthorised, irregular and fruitless and wasteful expenditure. Seven departments were qualified on assets due to asset registers being inadequately maintained and reconciled on a monthly basis. There is a general lack of appropriate systems in the health sector to properly record and account for other disclosure items. Six departments were qualified on other disclosure notes. The qualifications on other disclosure items stemmed primarily from poor internal controls, a lack of reconciling this information monthly and a lack of understanding/knowledge on the part of staff responsible for compiling the required information. Five departments were qualified on irregular expenditure for failing to maintain adequate records to disclose irregular expenditure incurred. The health sector incurred irregular expenditure to the amount of R8,2 billion for the 2011-12 year, which represents an increase of R2,4 billion compared to the 2010-11 year.

The reporting on predetermined objectives (PDO) remains a challenge for the sector. Except for the Western Cape provincial department, all departments had findings on predetermined objectives. Mpumalanga and Northern Cape had new findings on presentation because material variances were not explained. Four departments (Eastern Cape, Northern Cape, North West and Gauteng) failed to include targets that were measurable, specific and time bound. Limpopo addressed the prior year finding on usefulness, while targets were found to be specific and measurable. All nine departments had repeat findings on reported information not being reliable. Good progress was made by the national department as they had developed guidance for the provinces in respect of the collection, recording

and monitoring of reported information. These guidelines have, however, not been fully implemented and complied with during the year under review.

All 10 departments had findings on compliance. The majority of them related to expenditure management (9 departments), procurement management (9), human resource management (8) and material correction to the annual financial statements (8). The national department resolved most of the findings from the previous year except for some in the area of human resource management and transfer payments. The non-compliance in the health sector is as a result of inadequate discipline to monitor and review daily activities and failure to hold staff accountable for non-compliance with laws and regulations.

Based on the commitment made by the Minister of Health during 2011-12, the national department is in the process of developing norms and standards that will, amongst others, guide the provincial departments in terms of organisational structures per province and minimum qualifications/requirements for specific positions.

Findings relevant to key service delivery aspects in the health sector

For the year under review, the focus was on the following service delivery aspects within the health sector:

- Division of Revenue Act – Comprehensive HIV and Aids grant
- Division of Revenue Act – Hospital revitalisation grant and health infrastructure grant
- Medical waste
- Emergency medical services

Division of Revenue Act – Comprehensive HIV and Aids grant

Service delivery objective: The overall purpose of this grant is to enable the health sector to develop an effective response to HIV and Aids and support the implementation of the national operational plan for comprehensive HIV and Aids treatment and care. The total grant allocation for 2011-12 amounted to R7,5 billion and the highest allocations were made to KwaZulu-Natal (25%), Gauteng (21%) and Eastern Cape (12%) with these provinces receiving 59% of the total grant.

Table 38: Division of Revenue Act – Comprehensive HIV and Aids grant

No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Weaknesses exist in design and implementation of health information systems (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	7	7	7
2	Data used to prepare quarterly reports for ART interventions was either not supported by evidence or supporting documentation was not available (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	7	6

Conclusion: Significant weaknesses were identified in relation to the systems and associated internal controls in place to report reliable data. It is essential that an appropriate information system exists to monitor and measure the performance of the grant. Reliable data will also assist in the planning and budgeting process to ensure that resources are allocated economically and effectively to the key focus areas of the comprehensive HIV and Aids grant.

Recommendation: The national department must take the lead to design suitable processes and internal controls to support the reporting of reliable information at each of the provinces.

Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

Service delivery objective: The purpose of these grants is to provide funding to enable provinces to plan, modernise, rationalise and transform the infrastructure, health technology, monitoring and evaluation of hospital management and to improve quality of care in line with national policy objectives. The total grant allocation for the two grants amounted to R6, 4 billion.

Table 39: Division of Revenue Act – Hospital revitalisation grant and infrastructure grant

No.	Findings	Provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Poor performance of contractors has delayed the completion of projects	0	4	4	7
2	Poor performance of contractors has resulted in additional costs to the department	0	4	4	6
3	New/upgraded hospitals or clinics underutilised/ not utilised (EC, FS, GP, MP, NC)	5	6	*	*
4	Additional costs incurred to correct substandard work (EC, FS, GP, NC)	1	4	*	*
5	Infrastructure needs not correctly identified/ prioritised as a result of inappropriate information used during needs determination process and/or original needs determination documentation not provided for audit (FS, GP, KZN, NC)	4	2	*	*
6	Project implementation plans did not include all deliverables (FS, MP)	2	3	2	*
7	Data used to prepare monthly and quarterly reports not supported by evidence	0	3	8	5

Conclusion: A proper needs analysis was not always performed and inadequate planning and budgeting for staff and equipment resulted in some facilities being underutilised. Poor planning impacted on the planned level of service delivery at the newly built/refurbished facilities. During the year under review the national department appointed the necessary staff, including engineers, to oversee and monitor all hospital revitalisation and infrastructure projects in the provinces. This will enhance the controls that are in place to ensure that resources are being effectively utilised.

Recommendation: It is recommended that the needs analysis (planning) and budget be done in a coordinated process by staff who have the necessary expertise and that monthly progress reports be provided to the national and provincial leadership to identify and act on deviations.

Medical waste

Service delivery objective: The audit of medical waste focused on the handling, storage and disposal of medical waste and on establishing whether reasonable measures have been put in place for the appropriate management of medical waste and compliance with relevant legislation.

Table 40: Findings on medical waste

No.	Findings	Number of provinces affected		
		2011-12	2010-11	2009-10
1	Medical waste was not appropriately disposed of (EC, FS, GP, KZN, LP, MP, NC)	7	7	6
2	Expired medicines not appropriately dealt with and disposed of (EC, FS, GP, KZN, LP, MP, NC, NW, WC)	9	8	5
3	Access control to the collection areas of medical waste as well as the medical waste storage site was not adequate (EC, FS, GP, LP, MP, NC)	6	8	6

Conclusion: The above findings represent significant non-compliance with the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), potentially impacting on the health of the community and risking damage to the environment. The findings are primarily the result of a lack of effective control over the disposal of medical waste and expired medicines in provinces. They can also be attributed to a lack of effective oversight at a leadership level.

Recommendation: It is recommended that appropriate action be taken by the leadership of the provincial departments of health to implement adequate internal controls to ensure compliance with NEMA. It is further recommended that the responsible officials be held accountable for non-compliance with NEMA.

Emergency medical services

Service delivery objective: The aim of this programme is to render pre-hospital emergency medical services, including inter-hospital transfers, medical rescue and planned patient transport.

Table 41: Findings on emergency medical services

No.	Findings	Number of provinces affected			
		2011-12	2010-11	2009-10	2008-09
1	Slow response time (EC, FS, GP, KZN, MP, NC, NW)	7	7	6	8
2	Ambulances and rescue vehicles not available (EC, FS, GP, KZN, MP, NC, NW)	7	6	7	7
3	Communication centre, ambulance and rescue staff not available (EC, FS, MP, NC, NW)	5	5	6	8
4	Ambulance staff not appropriately trained and qualified (MP, NC)	2	4	3	9
5	Inadequate availability of communication centre staff (FS, GP, MP, NC)	4	2		

Conclusion: No progress was made in addressing the prior year findings. The slow response time identified in seven provinces is mainly due to the unavailability of ambulances, rescue vehicles and staff.

Recommendation: Leadership at the provincial departments should review the current status of emergency medical services in their respective provinces relating to the availability of vehicles and staff. Based on the outcome of the review an action plan to address the above should be developed and monitored on a regular basis.

overview of full report



Message from
the
Auditor-
General

12

Slow progress towards clean
audits with more regressions than
improvements
(Part 1)

38



117 auditees achieved clean audits
(Part 1)

39



Some progress
made towards
improving the
reliability and
usefulness of
service
delivery reporting
(Part 1)

69



Continuing
high level
of non-
compliance
with laws
and
regulations
(Part 1)

79



High levels of unauthorised,
irregular as well as fruitless and
wasteful expenditure
(Part 1)

91

Auditees' internal control systems are not improving (Part 1)

106



HR and IT management needs further attention (Part 1)

115



Executive leadership, coordinating institutions and legislative oversight should strengthen their contributions (Part 1)

138



Indications of financial health issues at some departments and public entities (Part 1)

168

Audit outcomes of ministerial portfolios and commitments made for improvement (Part 2)

178



Audit outcomes and weaknesses in implementation of key national programmes in Health, Human Settlements, Education, Social Development and Public Works sectors (Part 3)

428



The audit outcomes of 3 provinces regress (Part 4)

470

Visit our website,
www.agsa.co.za,
to view the complete
Consolidated general report on the 2011-12 national and provincial audit outcomes.

RP07/2013
ISBN: 978-0-621-41523-0