

**TABLE 14.2 – Analysis of consultant appointments using appropriated funds, i.t.o. HDIs**

Project Title	Percentages ownership by HDI Groups	Percentage management by HDI groups	Number of Consultants from HDI groups that work on the project
Layout and translation of pamphlet on down syndrome	100%	100%	1
Clinical Associates Programme	100%	100%	3
Health Technology Acquisition	100%	100%	1

**TABLE 14.3 – Report on consultant appointments using Donor funds**

Project Title	Total number of consultants that worked on the project	Duration: Work days	Donor and Contract value in Rand
Community Health Workers	5	25	200,000
Cost Centre Management accounting implementation at hospitals	1	34	38,990
Cost Centre Management accounting implementation at hospitals	1	29	37,590
Training of Human Resources in the field of Health Information	1	21	ITALIAN CO-OPERATION CLINIC 13,425
HAST Technical Advisor	1	1,920	DFID 556,800
STI Technical advisor	1	365	DFID 786,349

Project Title	Total number of consultants that worked on the project	Duration: Work days	Donor and Contract value in Rand
STI Technical advisor	1	365	PEPFAR 702,000
Clinical Advisor	1	365	300,000
PLWHA-coordinator	2	365	352,099.28
Expansion of TB, HIV, STI prevention, care and support in SA (5 year agreement)	2	365	540,000
PMTCT Trainer	1	365	CDC 105,000
Global Fund Round 5 Country Proposal	1	27 days	69,309
<b>Total number of projects</b>	<b>Total individual consultants</b>	<b>Total duration: Work days</b>	<b>Total contract value in Rand</b>
12	18	4,246	3,671,562.28

**TABLE 14.4** – Analysis of consultant appointments using Donor funds, i.e. HD Is

Project Title	Percentages ownership by HDI Groups	Percentage management by HDI groups	Number of Consultants from HDI groups that work on the
Community Health Workers	100%	100%	5
Training of Human resources in the field of Health Information in SA	0	0	0

# Section 3

## Financial Report

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## REPORT BY THE ACCOUNTING OFFICER TO THE EXECUTIVE AUTHORITY AND PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA.

For the year ended 31 March 2006

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

### 1. General review of state of financial affairs

The National Department of Health manages its health strategies and operations through the activities of its four (4) programmes. Continuous review of health policies are aimed at ensuring a better health for all people in South Africa through a caring and effective national health system based on the primary health care approach. The Department is assessing its information systems and on a continuous basis improving it to ensure that reporting is done in a transparent and accountable manner.

#### Budget

The budget amounts to R9 952 861 000 of which R135 908 000 is allocated to Programme 1: Administration: R1 810 136 000 to Programme 2: Strategic Health Programmes, R7 950 595 000 to Programme 3: Health Service Delivery and R56 222 000 to Programme 4: Human Resources.

The actual expenditure was R9 850 055 000 which represent a 99% expenditure of the budget allocated.

#### Revenue

The Department collected revenue to the value of R 59,924,000.00. The greater part of the revenue originated from fees payable on registration of medicines (97%), the balance is made up of interest recovered and other minor items.

### Programme structure

#### Programme 1: Administration

The Administration programme includes activities of the overall management of the Department. Activities include policy-making by the offices of the Minister, Deputy Minister and Director-General, and the provision of centralised support services, including strategic planning, legal, financial, communication, and human resource services to the Department.

The programme shows an under expenditure of R 7 000 000 (5.15%) against a budget of R136 million.

#### Programme 2: Strategic Health Programmes

Strategic Health Programmes co-ordinates a range of strategic national health programmes by developing policies, systems, management, funding and monitoring of key programmes. Activities include: co-ordinating the district health system; and developing norms and standards. Programmes include maternal, child and women's health and nutrition, administering the national HIV and Aids, STIs and TB programmes; and regulating the procurement of pharmaceutical supplies to ensure that essential drugs are affordable and available. Other programmes included are Medicines Regulatory Affairs and Communicable Diseases.

The programme shows an under expenditure of R 61 million (3.3%). Two clusters in particular were responsible for this under-expenditure. These were: HIV and AIDS and TB: and Pharmaceutical Policy and Planning.

The **HIV and AIDS and TB Cluster** under spent their budget of R 1,557 million by R 45 million (3.0%), this can be traced to -

- (a) A saving against the budget to procure condoms due to the strength of the Rand, which reduced the unit cost of condoms; and
- (b) under spending due to the fact that insufficient space was available to store condoms, which in turn lead to the fact that less condoms, were procured than that which was budgeted for.

The **Cluster Pharmaceutical Policy and Planning** under spent their budget of R 30 million by R9.2million (29.9%) due to the fact that the revised Essential Drug List could not be printed before the end of the financial year.

The reason for this under spending can be attributed to the fact that the implementation of a hospital equipment management system could not be effected.

*The Performance Report for this programme is included in Performance Review Chapter under the heading Programme Performance*

### **Programme 3: Health Service Delivery**

Health Service Delivery supports the delivery of health services, primarily in the provincial and local spheres of government.

The six subprogrammes are as follows:

- Non-Communicable Diseases
- Hospital Services
- Health Economics
- Health Information, Evaluation and Research
- Primary Health Care, District Health and Development
- Office of Standards Compliance

The programme shows an under expenditure of R 11.5million (< 1%) due to under expenditure in the clusters Non Communicable Diseases, Hospital Services.

The **Cluster Non Communicable Diseases** showed an under expenditure of R 6.8 million against a budget of R 201 million as a result of the slow delivery of sophisticated imported equipment for the Forensic Laboratories.

The **Cluster Hospital Services** under spent their personnel budget due to the late filling of posts.

*The Performance Report for this programme is included in Performance Review Chapter under the heading Programme Performance*

### **Programme 4: Human Resources**

The purpose of the Programme is to develop and assist provinces to implement a comprehensive long-term national human resources plan, which will ensure an equitable distribution of health human resources.

The programme shows an under expenditure of R 24.2 million (43%). The under expenditure emanates from the sub-programme, Bargaining Council and International Health Liaison.

The **Bargaining Council and Employment Relations Cluster** under spent its budget by R2.7 million (46.9%). This was due to the fact that funded posts were vacant for the greater part of the financial year.

The **International Health Liaison Cluster** showed an under expenditure of R 21 million (53.2%) mostly due to the strength of the Rand during the course of the financial year.

The budget for this unit includes the membership fee of the WHO. The Department received a discount because we are good and regular payers of our membership fees. The WHO fee is payable in US \$. The strong Rand resulted in a further saving.

*The Performance Report for this programme is included in Performance Review Chapter under the heading Programme Performance*

## **2. Services rendered by the Department**

The National Department of Health develops policies to regulate the public health sector in order to ensure that South Africa does have a health service that meets international requirements and standards. The Department only renders two types of services: a laboratory service to the public through its forensic laborator, and the Radiation Control which includes inspections of radiation equipment end ensures that the industry complies with norms and standards.

The tariffs used by the Department in rendering services are described by the governing set of legislation.

No free services are being rendered by the National Department of Health.

### **3. Capacity constraints**

The National Department is faced with a shortage of skills in the health field in the labour market. This is impacting on policy development as well as the monitoring of health programmes implemented at provincial level. A National Human Resource Plan was developed and its main focus is to ensure that adequate human resources are available to deliver on the mandate of the constitution of the Republic of South Africa and the National Health Act.

The Department is actively participating in the internship programme and through this it is envisaged that some of the vacancies will be filled by employing interns once they've successfully completed their programmes.

### **4. Utilisation of donor funds**

The Department of Health is privileged to have partners from donor organisations. Foreign aid assistance received in cash during the year amounted to R105 634 000 for various projects. These funds have been deposited in the RDP Fund and are drawn by the Department to implement the projects. The expenditure amounted to R50 786 000. Donor funds are mainly sourced to areas where both the Health Department and the Donor agreed as an area of priority. Funds were received from the European Union for the Public Health Sector Support Programme, Belgium for TB and HIV and STI prevention, Global Fund for TB and AIDS and Malaria prevention, CDC for HIV and AIDS activities.

### **5. Public entities**

#### ***Medical Research Council***

The Medical Research Council (MRC) undertakes scientific research on clinical and health systems issues. Core funding is through the Department of Health with the

allocations from government being determined as part of the overall Science vote under the control of the Minister of Science and Technology, advised by the National Council for Innovation. Funding from the Department's vote amounted to R179,3 million in 2005/06, and total revenue is anticipated to be R9 380 366 million, demonstrating the council's success in attracting research funding from other sources. There is close co-operation with the Department of Health in setting research priorities. A critical task is research into a vaccine against the strain of HIV that affects sub-Saharan Africa.

#### ***National Health Laboratory Service***

The National Health Laboratory Service Act, Act No 37 of 2000 came into operation in May 2001. The entity is now fully operational as the legislated preferred provider of laboratory services to public health facilities. The National Health Laboratory Service's major source of funding is the sale of analytical laboratory services to users such as provincial departments of health, but it continues to receive a transfer from the National Department, which amounted to R60,5 million in 2005/06.

#### ***Medical Schemes Council***

The Medical Schemes Council regulates the private medical scheme industry in terms of the Medical Schemes Act (131 of 1998), and is funded mainly through levies on the industry in terms of the Council for Medical Schemes Levies Act (58 of 2000). During 2005/06 the Department transferred R4,8 million to the Council.

#### ***Trading Entity***

##### ***Mines and Works Compensation Fund***

The Compensation Commissioner for Occupational Diseases is responsible for the payment of benefits to miners and ex-miners who have been certified to be suffering from lung-related diseases because of working conditions. The Mines and Works Compensation Fund derives funding from levies (Mine Account, Works Account, Research Account, State Account) collected from controlled mines and works, as well as appropriations from Parliament. Payments to beneficiaries are made in

terms of the Occupational Diseases in Mines and Works Act (78 of 1973).

## 6. Transfer payments

Ninety-eight percent (98%) of the budget of the National Department of Health consists of transfer payments to third parties. These can be classified as follows –

Conditional Grants - These grants transfer the major conditional grants to provinces to fund specific functions. These are as follows –

National Tertiary Services Grant	- R4 709 386 000
Health Professions Training & Development Grant	- R1 520 180 000
Hospital Revitalization	- R1 105 427 000
Comprehensive HIV and AIDS Plan	- R1 150 108 000
Integrated Nutrition Programme	- R123 392 000
Hospital Management & Quality Improvement	- R150 342 000
Forensic Pathology Services	- R93 606 000

These funds flow to provincial health departments from where spending takes place on items as contained in a pre-approved business plan. More details of the transfers per province are contained in **Annexure 1 C** of the financial statements.

The National Department of Health has no conditional grants to municipalities and can certify that all conditional grant funding, which was transferred, was in fact transferred into the primary bank account of the province concerned.

Monitoring process – the performance of provinces was monitored by the National Department of Health in terms of the reports submitted by provinces. In support of the monitoring process described above officials from the National Department of Health also paid site visits to recipient provinces to verify progress.

Based on the reports received from provinces it transpires the allocations achieved the purpose and outputs in the Act.

In the National Department of Health none of the amounts allocated in terms of the DORA was utilized for administrative purposes. Provincial reports indicated that the transferred funds were applied in terms of the framework and business plan for each of the grants.

Where non-compliance occurred in terms of the Act it was rectified by means of discussion and in some cases delaying transfers.

Public Entities – Transfers are made to the public entities under the auspices of the National Department of Health and have been listed earlier in the report.

Non Governmental Organisations (NGO's) – NGO's range from national NGO's who are delivering services in the field of health and cover diverse institutions from LoveLife to Soul City to a range of smaller NGO's who are active in the field of HIV and AIDS. More details of the institutes funded can be found in **Annexure 1 K** of the Annual Financial Statements.

## 7. Public Private Partnership (PPP)

The PPP enter into with BioVac was concluded on 30 May 2003 and the partnership is valid from 1 April 2003. In terms of the contract the National Department of Health holds 40% of the shares in BioVac Institute Pty Ltd (BioVac). In exchange for the 40% share the National Department of Health transferred the staff and assets of the Directorate, which housed the State Vaccine to the BioVac. The Department foresees no significant future cash flows to the PPP entity. As part of the PPP contracts, BioVac has the right to supply Provincial Health Departments with EPI vaccines from 2004 to 2007 (4 years) at competitive prices. There were no changes to the structure and fund of the PPP during the period under review.

## 8. Corporate Governance Arrangements

The Department is in the process of appointing a new Audit Committee. This process will be finalized by end of August 2006. The Internal Audit Unit is performing audits in terms of the approved audit plan and reports its progress on a continuous basis to the Accounting Officer.

Controls have been introduced to address the shortcomings identified by the Auditor-General on asset management.

An asset bar coding system has been procured and is utilized to generate information to update the asset register.

***Proposed activities for 2006/07 period are as follows:***

The Executive Authority of the Department has approved a new organogram that shall be implemented during the 2006/07 financial year.

### 9. Events after the reporting date

Inter entity transactions amounts to R5 339 000.

Request for roll-over funds was submitted to National Treasury to secure funds to avoid the expenditure to impact on the 2006/07 budget allocation.

### 10. Inventory balances on hand at year end

Inventory on hand at year end consisted of the following stock items:

	R'000
Domestic Consumables	748
Fuel, oil and gas	40
Laboratory consumables	3 726
Other consumables	132
Parts and other maint mat	354
Stationery and Printing	12 202
Medical Supplies	68 456
Total inventory	85 658

### 11. Acknowledgements

I wish to express my appreciation to the Minister of Health and the Deputy Minister as well as all members of staff for their hard work, loyalty and commitment in pursuing the objectives of National Department of Health.

### 12. SCOPA resolutions

There are no known SCOPA resolutions for the National Department on the 2005 Audit report. The Department did not appear in front of SCOPA on the 2005 Audit report.

### 13. Approval

The Annual Financial Statements set out on pages 164 to 237 have been approved by the Accounting Officer.



Mr. T.D. Mseleku  
Accounting Officer

Date: 2006-07

## 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

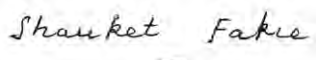
The department was unable to supply the performance information as required by the National Treasury.

### 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



## **NATIONAL DEPARTMENT OF HEALTH VOTE 16**

### **ACCOUNTING POLICIES for the year ended 31 March 2006**

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), and the Treasury Regulations issued in terms of the Act and the Division of Revenue Act, Act 1 of 2005.

#### **1. Presentation of the Financial Statements**

##### **1.1 Basis of preparation**

The Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis 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).

##### **1.2 Presentation currency**

All amounts have been presented in the currency of the South African Rand (R), which is also the functional currency of the department.

##### **1.3 Rounding**

Unless otherwise stated all financial figures have been rounded to the nearest one thousand Rand (R'000).

#### **1.4 Comparative figures**

Prior period comparative information has been presented in the current year's financial statements. Where necessary figures included in the prior period financial statements have been reclassified to ensure that the format in which the information is presented is consistent with the format of the current year's financial statements.

A comparison between actual and budgeted amounts per major classification of expenditure is included in the appropriation statement.

#### **2. Revenue**

##### **2.1 Appropriated funds**

Appropriated funds are recognized in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognized in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the National Revenue Fund, unless approval has been given by the National Treasury to rollover the funds to the subsequent financial year. These rollover funds form part of retained funds in the annual financial statements. Amounts owing to the National Revenue Fund at the end of the financial year are recognized in the statement of financial position.

##### **2.2 Departmental revenue**

All departmental revenue is paid into the National Revenue Fund when received, unless otherwise stated. Amounts owing to the National Revenue Fund at the end of the financial year are recognized in the statement of financial position.

**2.2.1 Tax revenue**

Tax revenue consists of all compulsory unrequited amounts collected by the department in accordance with laws and or regulations (excluding fines, penalties & forfeits).

Tax receipts are recognized in the statement of financial performance when received.

**2.2.2 Sales of goods and services other than capital assets**

The proceeds received from the sale of goods and/or the provision of services is recognized in the statement of financial performance when the cash is received.

**2.2.3 Fines, penalties & forfeits**

Fines, penalties & forfeits are compulsory unrequited amounts, which were imposed by a court or quasi-judicial body and collected by the department. Revenue arising from fines, penalties and forfeits is recognized in the statement of financial performance when the cash is received.

**2.2.4 Interest, dividends and rent on land**

Interest, dividends and rent on land are recognized in the statement of financial performance when the cash is received.

**2.2.5 Sale of capital assets**

The proceeds received on sale of capital assets are recognized in the statement of financial performance when the cash is received.

**2.2.6 Financial transactions in assets and liabilities**

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as revenue in the statement of financial performance on receipt of the funds. Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

Cheques issued in previous accounting periods that expire before being banked are recognised as revenue in the statement of financial performance when the cheque becomes stale. When the cheque is reissued the payment is made from Revenue.

**2.2.7 Gifts, donations and sponsorships (transfers received)**

All cash gifts, donations and sponsorships are paid into the National/Provincial Revenue Fund and recorded as revenue in the statement of financial performance when received. Amounts receivable at the reporting date are disclosed in the disclosure notes to the financial statements. All in-kind gifts, donations and sponsorships are disclosed at fair value in the annexures to the financial statements.

**2.3 Local and foreign aid assistance**

Local and foreign aid assistance is recognized in the financial records when notification of the donation is received from the National Treasury or when the department directly receives the cash from the donor(s). The total cash amounts received during the year is reflected in the statement of financial performance as revenue.

All in-kind local and foreign aid assistance are disclosed at fair value in the annexures to the annual financial statements

The cash payments made during the year relating to local and foreign aid assistance projects are recognized as expenditure in the statement of financial performance. A receivable is recognized in the statement of financial position to the value of the amounts expensed prior to the receipt of the funds.

A payable is raised in the statement of financial position where amounts have been inappropriately expensed using local and foreign aid assistance; unutilized amounts are recognized in the statement of financial position.

### 3. Expenditure

#### 3.1 Compensation of employees

Salaries and wages comprise payments to employees. Salaries and wages are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). Capitalised compensation forms part of the expenditure for capital assets in the statement of financial performance.

All other payments are classified as current expense.

Social contributions include the entities' contribution to social insurance schemes paid on behalf of the employee. Social contributions are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system.

##### 3.1.1 Short term employee benefits

Short-term employee benefits comprise of leave entitlements (capped leave), thirteenth cheques and performance bonuses. The cost of short-term employee benefits is expensed as salaries and wages in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the notes to the financial statements. These amounts are not recognized in the statement of financial performance.

##### 3.1.2 Long-term employee benefits

###### 3.1.2.1 Termination benefits

Termination benefits such as severance packages are recognized as an expense in the statement of financial performance as a transfer when the final authorization for payment is effected on the system (by no later than 31 March of each year).

###### 3.1.2.2 Post employment retirement benefits

The department provides retirement benefits (pension benefits) for certain of its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year). No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of the employer department.

The department provides medical benefits for certain of its employees. Employer contributions to the medical funds are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year).

#### 3.2 Goods and services

Payments made for goods and/or services are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). The expense is classified as capital if the goods and services were used on a capital project.

#### 3.3 Interest and rent on land

Interest and rental payments are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). This item excludes rental for the use of buildings or other fixed structures.

#### 3.4 Financial transactions in assets and liabilities

Debts are written off when identified as irrecoverable. Debts written-off are limited to the amount of savings and/or underspending of appropriated funds. The write off occurs at year-end or when funds are available. No provision is made for irrecoverable amounts but amounts are disclosed as a disclosure note.

All other losses are recognised when authorisation has been granted for the recognition thereof.

### 3.5 Unauthorized expenditure

When discovered unauthorized expenditure is recognized as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

Unauthorized expenditure approved with funding is recognized in the statement of financial performance when the unauthorized expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognized as expenditure, subject to availability of savings, in the statement of financial performance on the date of approval.

### 3.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is recognized as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

### 3.7 Irregular expenditure

Irregular expenditure is recognized as expenditure in the statement of financial performance. If the relevant authority does not condone the expenditure it is treated as an asset until it is recovered or written off as irrecoverable.

### 3.8 Transfers and subsidies

Transfers and subsidies are recognised as an expense when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

### 3.9 Expenditure for capital assets

Payments made for capital assets are recognised as an expense in the statement of financial performance when

the final authorisation for payment is effected on the system (by no later than 31 March of each year).

## 4. Assets

### 4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

### 4.2 Prepayments and advances

Amounts prepaid or advanced are recognized in the statement of financial position when the payments are made.

### 4.3 Receivables

Receivables included in the statement of financial position arise from cash payments made that are recoverable from another party.

Revenue receivable not yet collected is included in the disclosure notes. Amounts that are potentially irrecoverable are included in the disclosure notes.

### 4.4 Investments

Capitalised investments are shown at cost in the statement of financial position. Any cash flows such as dividends received or proceeds from the sale of the investment are recognised in the statement of financial performance.

Investments are tested for an impairment loss whenever events or changes in circumstances indicate that the investment may be impaired. Any impairment loss is included in the disclosure notes.

#### 4.5 Loans

Loans are recognized in the statement of financial position at the nominal amount. Amounts that are potentially irrecoverable are included in the disclosure notes.

#### 4.6 Inventory

Inventories on hand at the reporting date are disclosed at cost in the disclosure notes.

#### 4.7 Asset Registers

Assets are recorded in an asset register, at cost, on receipt of the item. Cost of an asset is defined as the total cost of acquisition. Assets procured in previous financial periods, may be stated at fair value, where determinable, or R1, in instances where the original cost of acquisition or fair value cannot be established. No revaluation or impairment of assets is currently recognised in the asset register. Projects (of construction/development) running over more than one financial year relating to assets, are only brought into the asset register on completion of the project and at the total cost incurred over the duration of the project.

Annexure 4 and 5 of the disclosure notes, reflect the total movement in the asset register of assets with a cost equal to and exceeding R5 000 (therefore capital assets only) for the current financial year. The movement is reflected at the cost as recorded in the asset register and not the carrying value, as depreciation is not recognized in the financial statements under the modified cash basis of accounting. The opening balance reflected on Annexure 4 and 5 will include items procured in prior accounting periods and the closing balance will represent the total cost of the register for capital assets on hand.

### 5. Liabilities

#### 5.1 Payables

Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are recognised at historical cost in the statement of financial position.

#### 5.2 Lease commitments

Lease commitments represent amounts owing from the reporting date to the end of the lease contract. These commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

Operating and finance lease commitments are expensed when the payments are made. Assets acquired in terms of finance lease agreements are disclosed in the annexures to the financial statements.

#### 5.3 Accruals

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

#### 5.4 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department; or

A contingent liability is a present obligation that arises from past events but is not recognised because:

- It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are included in the disclosure notes.

## 5.5 Commitments

Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

## 6. Net Assets

### 6.1 Capitalisation reserve

The capitalisation reserve comprises of financial assets and/or liabilities originating in a prior reporting period but which are recognised in the statement of financial position for the first time in the current reporting period. Amounts are transferred to the National Revenue Fund on disposal, repayment or recovery of such amounts.

### 6.2 Recoverable revenue

Amounts are recognised as recoverable revenue when a payment made and recognised in a previous financial year becomes recoverable from a debtor.

## 7. Related party transactions

Related parties are departments that control or significantly influence the department in making financial and operating decisions. Specific information with regards to related party transactions is included in the disclosure notes.

## 8. Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.

Compensation paid to key management personnel including their family members where relevant, is included in the disclosure notes.

## 9. Public private partnerships

A public private partnership (PPP) is a commercial transaction between the department and a private party in terms of which the private party:

- Performs an institutional function on behalf of the institution; and/or
- acquires the use of state property for its own commercial purposes; and
- assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
- receives a benefit for performing the institutional function or from utilizing the state property, either by way of:
  - consideration to be paid by the department which derives from a Revenue Fund;
  - charges fees to be collected by the private party from users or customers of a service provided to them; or
  - a combination of such consideration and such charges or fees.

A description of the PPP arrangement, the contract fees and current and capital expenditure relating to the PPP arrangement is included in the disclosure notes.

**National Department of Health - Vote 16**  
**Appropriation Statement**

for the year ended 31 March 2006

Appropriation per Programme	2005/06						2004/05		
	Adjusted Appropriation (R'000)	Shifting of Funds (R'000)	Virement (R'000)	Final Appropriation (R'000)	Actual Expenditure (R'000)	Variance (R'000)	Expenditure as % of final appropriation %	Final Appropriation (R'000)	Actual Expenditure (R'000)
<b>1. Administration</b>									
Current payment	122,926	-	-43	122,883	117,624	5,259	95.7	107,254	104,680
Transfers and subsidies	416	-	208	624	591	33	94.7	178	502
Expenditure for capital assets	12,305	-	96	12,401	10,614	1,787	85.6	14,742	10,799
<b>2. Strategic Health Programmes</b>									
Current payment	418,724	-	-31,117	387,607	330,464	57,143	85.3	445,687	368,044
Transfers and subsidies	1,388,859	-	23,075	1,411,934	1,409,584	2,350	99.8	1,015,456	959,753
Expenditure for capital assets	4,985	-	5,610	10,595	9,530	1,065	89.9	7,467	4,163
<b>3. Health Service Delivery</b>									
Current payment	116,455	-	-23,479	92,976	88,431	4,545	95.1	109,365	93,649
Transfers and subsidies	7,811,253	-	31,896	7,843,149	7,842,492	657	100.0	7,056,328	6,796,976
Expenditure for capital assets	19,403	-	-4,933	14,470	8,701	5,769	60.1	15,487	11,110
<b>4. Human Resources</b>									
Current payment	56,601	-	-737	55,864	31,706	24,158	56.8	45,561	37,066

