

**SECTION 3: FINANCIAL REPORT**  
**ANNUAL FINANCIAL STATEMENTS FOR THE NATIONAL DEPARTMENT OF HEALTH - VOTE 16**  
**FOR THE YEAR ENDED 31 MARCH 2007**

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**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**

**1.1 Important policy decisions and strategic issues facing the department**

- (a) decreasing the burden of disease from both communicable and non-communicable diseases, as well as injuries and trauma;
- (b) ensuring a more targeted recruitment of personnel, especially to under-served areas as well as a more robust retention strategy to create a consistent supply of health professionals, who are properly trained and highly motivated to provide a quality service;
- (c) poverty, unemployment, low education levels, poor transport infrastructure, social cohesion issues. These determinants of health lie outside the health sector, but have a significant impact on health outcomes;
- (d) Poor health infrastructure, coupled with inadequate resources for expanding and upgrading clinics, community health centres and hospitals

This is notwithstanding the progress made with the implementation of the Hospital Revitalization Project.

To address these issues the Department focused on 5 priority areas that were adopted by the National Health Council (NHC) as National Health System (NHS) priorities:

- (a) Development of service transformation plans;
- (b) Strengthening of human resources;
- (c) Strengthening physical infrastructure;
- (d) Improving quality of care;
- (e) Strengthening strategic health programmes (accelerated HIV prevention, implementation of the TB crisis management plan, strengthening MCHW&N by implementing the Reach Every District (RED) Strategy and the recommendations of the Saving Mothers: Third Report on Confidential Enquiries into Maternal Deaths in South Africa 2002-2004).

**1.2 Significant events that have taken place during the year**

- (a) The National Framework for Human Resources for Health was launched in April 2006, which outlined the health sector's strategies for addressing HR related challenges. Subsequently, Provincial DoHs begun to develop their own HR Plans.
- (b) In the Eastern Cape Province, Madikane kaZulu Memorial Hospital was officially opened in September 2006. Lebowakgomo Hospital in Limpopo Province was opened in March 2007. Both these hospitals were part of the hospital revitalization project.
- (c) The National DoH in conjunction with the Department of Science and Technology had co-hosted an IBSA TB Research Workshop, in Cape Town, in November 2006. Three countries, India, Brazil and South Africa participated at this gathering.
- (d) Numerous bi-lateral, tri-lateral and multi-lateral agreements were signed by the Ministry of Health to facilitate co-operation on health issue with other countries. This included an agreement with Iran for Iranian doctors to work in South Africa, of which 24 have already arrived and have been dispatched to the under-served rural areas.
- (e) A revised fee for the dispensing of medicine was published, but challenged by the pharmacists.
- (f) The National Strategic Plan for HIV and AIDS and STI Management was launched by the Deputy President, Honourable P. Mlambo-Ngcuka
- (g) A TB crisis management plan has been launched.

**1.3 Comments on major projects undertaken or completed during the year**

- (a) The transfer of forensic services including mortuaries from the South African Police Services to the Provincial Departments of Health was completed successfully.
- (b) Placement of health professionals in posts across the 9 Provincial Departments of Health was conducted successfully, As from January 2007, 4565 professionals



from 10 health professions commenced with their internship and community service placement. These were 188 Dentists, 469 Pharmacists, 121 Clinical Psychologists, 140 Dieticians, 250 Occupational Therapists, 340 Physiotherapists, 284 Radiographers, 145 Speech, Language and Hearing Therapists, 1230 Doctors and 1398 Medical Interns.

#### 1.4 Spending trends

##### Programme 1: Administration

The Administration programme conducts 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 7,5 million (4.2%) against a budget of R180 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; co-ordinating the national health information system and research prioritisation; 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 here is Medicines Regulatory Affairs and Communicable Diseases.

The programme shows an under expenditure of R 75.2 million (3.5%). Most of the under-expenditure occurred in the Cluster HIV and AIDS.

##### 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 sub-programmes are as follows:

- Non-Communicable Diseases
- Hospital Services
- Health Economics

- Health Information, Evaluation and Research
- PHC, Districts and Development
- Office of Standard Compliance

The programme shows an under expenditure of R 30.3 million (< 1%).

##### Programme 4: Human Resources

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 spend of R 2.9 million (3.2%).

#### 1.5 Virement

The only significant virement which was effected was a move of R 36.6 million to Programme 4 to fund the purchase of software on which the new Health Human Resources System will run. This system augments the current PERSAL system.

The contributing programmes were R 7 million from programme 1, R 22 million from programme 3 and R 8 million from within programme 4.

The virement was approved by the accounting officer.

## 2. Services rendered by the Department

### 2.1 Activities

The National Department of Health develops policies and drafts and implements legislation 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 renders a laboratory service to the public through its forensic laboratories. The Radiation Control Unit is responsible for inspections of radiation equipment ensuring that the industry complies with norms and standards.

### 2.2 Tariff policy

The majority of revenue collected by the National Department of Health is derived from applications for registration of medicines. The balance originates from laboratory tests conducted by the forensic laboratories, which are under the control of the Department. These fees are reviewed regularly and recovers cost.

### 2.3 Free Services

The National Department does not provide any free services.

### 2.4 Inventories

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

	R'000
Domestic Consumables	10
Fuel, oil and gas	0
Laboratory consumables	4
Other consumables	0
Parts and other maint. mat	152
Stationery and Printing	901
Medical Supplies	12
<b>Total inventory</b>	<b>1,080</b>

### 3. Capacity constraints

The National Department is faced with a shortage of skills in health. This impacts on policy development as well as the monitoring of health programmes implemented at provincial level. In order to circumvent the problem, health professionals are employed on a 3-year contract and the scarce skills allowance is also used to attract health professionals. A National Human Resource Plan was developed and its main focus is to ensure that adequate human resources are available to deliver on the mandates 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 have 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 R 65,701,291 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 R 25,838,609. Donor funds are mainly used in areas where both the Health Department and the Donor agreed as an area of priority. Funds are received from the European Union for the Public Health Sector Support Programme, Belgium for TB and

HIV and STI prevention, the Global Fund for TB and AIDS and Malaria prevention, and the CDC for HIV and AIDS activities.

### 5. Trading entities and 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 will amount to R 212 million in 2007/08, and total revenue is anticipated to be R 448 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.

#### **National Health Laboratory Services**

The National Health Laboratory Service Act, Act No 37 of 2000 came into effect 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 will amount to R 62 million in 2007/08.

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

The Council for Medical Schemes 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 2006/07 the Department transferred R 15 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. Organisations to whom transfer payments have been made

Ninety-eight percent of the budget of the National Department of Health consists of transfer payments to third parties. Conditional Grants transfer the major grants to provinces to fund specific functions. These are as follows –

National Tertiary Services Grant	R 4,981,149,000
Health Professions Training & Development Grant	R 1,520,180,000
Hospital Revitalization	R 1,527,323,000
Comprehensive HIV and AIDS Plan	R 1,616,214,000
Forensic Pathology Services	R 561,676,000

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 transferred into the primary bank account of the province concerned.

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.

In the National Department of Health none of the funds 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 large institutions like LoveLife and Soul City to a range of smaller NGO's. More details of the institutes funded can be found in **Annexure 1 K** of the Annual Financial Statements.

## 7. Public Private Partnership (PPP)

In terms of the contract the National Department of Health holds 40% of the shares in BioVac Institute Pty Ltd (BioVac). The PPP entered into was concluded on 30 May 2003 and the partnership is valid from 1 April 2003. In exchange for the 40% share the National Department of Health transferred the staff and assets of the Directorate, which housed the State Vaccine Institute to BioVac. The Department foresees no significant future cash flows to the PPP entity. The National Department of Health has no business relations with BioVac, however 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 has an active Risk Management Committee, which reports directly to senior management.

The risk analysis which was done in the previous year has been updated. In terms of fraud prevention the Department re-launched its Fraud Prevention Plan. Both events were followed with a series of workshops with units in the Department to institutionalize risk management and to instil a fraud prevention culture.

The Internal Audit Unit contracted an accounting firm to assist in the internal functions of the unit and to build capacity in the Internal Audit Unit. 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.

The new Audit Committee was active during the financial year and had 2 meetings.

## 9. Discontinued activities / activities to be discontinued

No activities were discontinued during the year under review.

## 10. New / proposed activities

No significant new activities will be initiated in the near future.



## 11. Asset management

### • Progress with regard to capturing assets in the register

- All assets of all the offices (including the outside offices) are captured on the asset register.

### • Establishment of asset management units and asset management teams

- The Sub-directorate: Asset Management functioned effectively during the year under review.
- Consequently to that, Asset Management teams were established to manage the movement of assets as well as to do the annual stock taking.

### • Indication of the extent of compliance with the minimum requirements

- The National Department of Health has an Asset Register in which assets of the department are recorded. The assets in National Department of Health are recorded on the LOGIS System as well as the Ezecat System [bar-coding] and consist of the minimum requirements for an Asset Register as stipulated by National Treasury, e.g.:
- Disposals are done according and in compliance with the two above-mentioned systems.

### • Asset Management Reforms

The Department has progressed substantially in completing its Asset Management implementation plan.

## 12. Events after the reporting date

The Department did not apply for any roll overs from National Treasury

## 13. Performance information

Since 2003/04, the National Department of Health has consistently implemented a Quarterly Reporting System (QRS) for monitoring the implementation of its Strategic Plans, as well as the Annual Performance Plans (APPs) of Provincial Departments of Health. This system also serves to identify areas where support is

required and to provide assistants timeously as required.

The National Department of Health analyses quarterly data and compiles summary reports at the end of each quarter, reflecting areas of good progress with the implementation of both National and Provincial Plans, as well as areas needing intervention.

In 2005/06, the National Department of Health and National Treasury agreed on a common tool for monitoring the implementation of APPs of Provinces, with a view to decreasing the reporting burden on Provinces. Provincial Departments of Health forward their quarterly non-financial performance reports directly to the National Department of Health and Provincial Treasury within 45 days of the end of the quarter, signed off by the Head of Department. The National Department of Health verifies the data and conducts a comparative analysis to show trends across quarters and between provinces, and then forwards its report to National Treasury.

The submission rate of Quarterly Reports improved from 5/9 provinces in 2004/05 to 9/9 in 2005/06 and 2006/07. The Summary Reports for all financial years are available on request, as well as reports for the 3 quarters of 2006/07. Data verification for the 4<sup>th</sup> quarter is being completed, and the summary report for the 4<sup>th</sup> quarter is being finalised.

To improve the quality, comprehensiveness and timeliness of quarterly non-financial data, the National Department of Health has implemented the following mechanisms:

- Quarterly data received from provinces are sent to managers in the National Department of Health and provinces for verification to improve its quality;
- Data triangulation with other sources of data is done by the NDOH, comparing data submitted by Provincial Departments of Health to data in the District Health Information System (DHIS);
- Training sessions were conducted on the quarterly reporting system in all nine provinces during 2006/07;
- Two dedicated officials in the National Department of Health focus on ensuring that provinces do submit data timeously;
- A letter from the National Department of Health was sent to the provincial managers responsible for Strategic Planning and Health Information Systems (HIS), requesting



them to work together to ensure timeous reporting of good quality data to the National Department of Health;

- Issues pertaining to the quarterly reports (challenges and good practices) are reported in the Cluster's Quarterly Newsletter to provinces;
- Issues pertaining to the quarterly reports are discussed with programme managers in the National Department of Health and their provincial counterparts during meetings of technical committees;
- Analyses of the quarterly reports are presented to and discussed at management committee meetings in the National Department of Health;
- Analytic reports on the quarterly reports are sent to all senior managers in the National Department of Health; and
- A survey of the capacity of provincial strategic planning and information units was done with a view of making proposals for their strengthening.

A similar process is followed with respect to quarterly reports from Clusters of the National Department of Health – with respect to the implementation of the National Department of Health's Strategic Plan.

#### 14. SCOPA resolutions

Officials of the department appeared before SCOPA on 16<sup>th</sup> February 2007. A fruitful discussion took place in which members raised several issues. To date no specific SCOPA resolutions have been received.

#### 15. 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.

#### 16. Approval

The Annual Financial Statements set out on page 99 to 155 have been approved by the Accounting Officer.



**NAME: T.D. MSELEKU**

**TITLE: DIRECTOR-GENERAL**

**DATE: 31/05/2007**

**AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2007**

**NATIONAL DEPARTMENT OF HEALTH REPORT OF THE AUDIT COMMITTEE**

We are pleased to present our report for the financial year ended 31 March 2007.

**Audit Committee Members and Attendance:**

The audit committee consists of the members listed hereunder and meets 4 times per annum as per its approved terms of reference. During the current year, 2 meetings were held.

<b>Name of Member</b>	<b>Number of Meetings Attended</b>
Ms M Nyathi (Chairperson)	2
Adv. OC Mabaso	1
Mr. M Maliehe	2
Ms G Motau	2

The members of the reconstituted Audit Committee were appointed late in the year, i.e. October 2006. The Committee held its first meeting in December 2006 and the second meeting in February 2007.

**Audit Committee Responsibility**

The Audit Committee reports that it has complied with its responsibilities arising from section 38 (1)(a) of the PFMA and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

**The effectiveness of internal control**

The system of internal control is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements, the

matters of emphasis and management letter of the Auditor-General, it was noted that some significant findings on none compliance with prescribed policies and procedures have been reported, in relation to conditional grants, which largely emanate from Provinces. However, there is still room for improvement. Accordingly, we can report that the system of internal control for the period under review appeared to be efficient and effective, in relation to operating expenses.

**The quality of in year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act**

The Internal Auditors have reviewed the in year management and monthly/quarterly reports. Based on Internal Audit review of in year management and monthly/quarterly reports, the Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting officer and the Department during the year under review.

**The framework of performance information**

The Internal Auditors and the Auditor-General have conducted audits on performance information, and from the reports of the auditors it was noted that there were no significant matters reported. Accordingly, we can report that the framework of performance information for the year under review was satisfactory.

**Evaluation of Financial Statements The Audit Committee has:**

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and the Accounting Officer;
- Reviewed the Auditor-General's management letter and management's response thereto;
- Reviewed changes in the accounting policies and practices;
- Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the annual financial statements be accepted and read together with the report of the Auditor-General.

**Ms Mizeria Nyathi**

**Chairperson of the Audit Committee**

**Date: 12/09/2007**

**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT  
ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF VOTE NO. 16 – NATIONAL DEPARTMENT  
OF HEALTH FOR THE YEAR ENDED 31 MARCH 2007**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the National Department of Health (NDoH) which comprise the statement of financial position as at 31 March 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 99 to 155.

**Responsibility of the Accounting Officer for the financial statements**

2. The Accounting Officer is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting determined by the National Treasury and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA). This responsibility includes:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 647 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.
6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis of accounting**

8. The department's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in note 1 of the accounting policy note to the financial statements.

**Basis for qualified opinion**

9. In terms of Treasury Regulation 10.1 and section 38(1)(d) of the PFMA, the accounting officer of a department must take full responsibility for the recording and safeguarding of assets. National Treasury also requires that the fixed assets as disclosed in notes 29 and 30 to the financial statements be supported by an asset register as prescribed by the National Treasury.

Due to lack of reconciliations between the fixed asset register and the basic accounting system (BAS), I was unable to obtain adequate assurance regarding the negative

adjustment totaling R31 million to the opening balance as per disclosure note 29, as the department did not provide sufficient and appropriate audit evidence for these adjustments.

#### Qualified opinion

10. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the NDoH as at 31 March 2007 and its financial performance 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 note 1 to the financial statements and in the manner required by the PFMA.

#### Emphasis of matters

I draw attention to the following matters:

##### 11. Division of Revenue Act, 2006 (Act No. 2 of 2006) (DoRA)

As disclosed in annexure 1 C to the annual financial statements, payments of R196 million were made in terms of the National Tertiary Services Grant prior to the approval of service level agreements in contravention of the DoRA framework. This was due to lack of monitoring of controls developed to ensure compliance with legislation.

This grant is a schedule 4 grant, which implies that payment cannot be withheld notwithstanding any non-compliance with the DoRA framework. As a result the payment is not considered to be irregular.

##### 12. Transfer payments

Payments to the value of R35 million, as disclosed in annexure 1 K to the annual financial statements, were made to a NGO in contravention of section 2.3 of the National NGO Funding Guidelines. This was due to lack of monitoring controls developed to ensure compliance with NGO funding guidelines.

Delay in finalisation of audit

13. Due to the national public sector strike action during June 2007, the finalisation of the audit for the 2006-07 financial year

was delayed until the date of this report.

#### OTHER MATTERS

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

##### 14. Non-compliance with applicable legislation

Lack of governance

14.1 Amounts transferred as per the DoRA schedule for the Forensic Pathology Services Grant and the Health Professions Training and Development Grant exceeded the amounts approved in the individual business plans by R37 million and R108 million respectively.

The control framework to monitor the conditional grants transferred to provinces did not contain controls to monitor funds that were transferred and spent in excess of amounts in the approved business plans.

Lack of monitoring

14.2 The NDoH has a control framework in place to monitor the conditional grants transferred to the provinces, but did not always adhere to this framework. The following instances of non-compliance were noted:

- Late submission of business plans for specific conditional grants by the provinces.
- Late or non-submission of monthly financial and quarterly performance reports by the provinces.
- Lack of adequate capacity in the NDoH to perform effective monitoring through quarterly visits and physical inspections.
- Inadequate evaluation of information submitted in the provincial reports, which did not enable the timeous identification of potential non-compliance with the conditions attached to these grants.
- Significant inconsistencies in the information supplied in the monthly financial and quarterly performance reports of the provincial departments to the NDoH.

All the above matters were also reported in the 2005-06 audit report.



Value for money

15. The National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 11(2), requires the department to prepare an environmental management plan within one year of the promulgation of this act and at least every four years thereafter. The NDoH did not comply with the NEMA due to lack of a management framework to ensure compliance with the requirements.

SCOPA resolutions

16. A hearing attended by SCOPA and the NDoH was held on 16 February 2007. At the date of finalisation of this report the draft resolutions with regard to the 2005-06 financial year had not been adopted.

#### OTHER REPORTING RESPONSIBILITIES

##### Reporting on performance information

17. I have audited the performance information as set out in pages 10 to 59.

##### Responsibility of the Accounting Officer

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

##### Responsibility of the Auditor-General

19. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007*.

20. In terms of the foregoing, my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

21. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit conclusions reported below.

##### Audit findings

22. I have not observed any matter that requires inclusion in my report.

##### APPRECIATION

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

P Bhana for Auditor-General

Pretoria

30 August 2007



**NATIONAL DEPARTMENT OF HEALTH - VOTE 16  
ACCOUNTING POLICIES  
for the year ended 31 March 2007**

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 2 of 2006.

**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.

**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.

**1.5 Comparative figures - Appropriation Statement**

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

**2. Revenue**

**2.1 Appropriated funds**

Appropriated and adjusted appropriated funds are recognised 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 recognised 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/Provincial Revenue Fund. Amounts owing to the National/Provincial Revenue Fund at the end of the financial year are recognised 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 recognised in the statement of financial position. Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

**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 recognised 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 recognised 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 recognised 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 is recognised 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 recognised 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.

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.

Forex gains are recognised on payment of funds.

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

All cash gifts, donations and sponsorships are paid into the National 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 recognised as revenue when notification of the assistance is received from the National Treasury or when the department directly receives the cash from the donor(s).

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 recognised as expenditure in the statement of financial performance. The value of the

assistance expensed prior to the receipt of the funds is recognized as a receivable in the statement of financial position.

Inappropriately expensed amounts using local and foreign aid assistance and any unutilised amounts are recognised as payables 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 employer's 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 payment is effected on the system.

##### **3.1.1 Short term employee benefits**

Short-term employee benefits comprise of leave entitlements (including 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 disclosure notes to the financial statements. These amounts are not recognised 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 recognised as an expense in the statement of financial performance as a transfer (to households) when the final authorisation 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/Provincial 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 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 for a capital project or an asset of R5 000 or more is purchased. All assets costing less than R5 000 will also be reflected under goods and services.

### 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. If it is not possible to distinguish between payment for the use of land and the fixed structures on it, the whole amount should be recorded under *goods and services*.

### 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.

Forex losses are recognised on payment of funds.

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

### 3.5 Unauthorised expenditure

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

Unauthorised expenditure approved with funding is recognised in the statement of financial performance when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognised 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 recognised 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 recognised 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 recognised 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 when the cash is received.

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 disclosure note 36.

##### **4.5 Loans**

Loans are recognised in the statement of financial position at the nominal amount when cash is paid to the beneficiary. Loan balances are reduced when cash repayments are received from the beneficiary. Amounts that are potentially

irrecoverable are included in disclosure note 36.

#### **4.6 Capital assets**

A capital asset is recorded on receipt of the item at cost. Cost of an asset is defined as the total cost of acquisition. Where the cost cannot be determined accurately, the capital asset may be stated at fair value. Where fair value cannot be determined, the capital asset is included in the asset register at R1.

Projects (of construction/development) running over more than one financial year relating to assets, are only capitalised as assets on completion of the project and at the total cost incurred over the duration of the project.

Disclosure Notes 29 and 30 reflect the total movement in the asset register for the current financial year.

#### **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 and disclosure notes 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.