



### **SECTION 3: FINANCIAL REPORT**

#### **ANNUAL FINANCIAL STATEMENTS FOR THE NATIONAL DEPARTMENT OF HEALTH - VOTE 16**

**For the year ended 31 March 2008**

Report of the Accounting Officer	114
Audit Committee Report	123
Report of the Auditor-General	125
Accounting Policies	130
Appropriation Statement	138
Notes to the Appropriation Statement	146
Statement of Financial Performance	148
Statement of Financial Position	149
Statement of Changes in Net Assets	150
Cash Flow Statement	151
Notes to the Annual Financial Statements	152
Disclosures Notes to the Annual Financial Statements	161
Annexure	170
Annexure 1C	170
Annexure 1F	173
Annexure 1G	174
Annexure 1H	175
Annexure 1J	176
Annexure 1K	177
Annexure 1L	179
Annexure 1M	180
Annexure 1N	181
Annexure 1O	182
Annexure 3A	183
Annexure 3B	184
Annexure 4	185
Annexure 5	186



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

For the year ended 31 March 2008

### 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 more targeted recruitment, 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 Revitalisation Project.

To address these issues the Department focused on five 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; and
- (e) Strengthening strategic health programmes (accelerated HIV prevention, implementation of the TB crisis management plan, strengthening MCHW&N by amongst others 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 Departments of Health began 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 Revitalisation Project.
- (c) Numerous bi-lateral, tri-lateral and multi-lateral agreements were signed by the Ministry of Health to facilitate cooperation on health 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 placed.



- (d) Medicine Pricing Regulations were published, but challenged by the pharmaceutical industry. However, during 2007/08 the Department noted a 20% decrease in the price of medicines that resulted from the introduction of the single exit pricing approach adopted by government.
- (e) The National Strategic Plan for HIV and AIDS and STI Management was launched by the Deputy President, Honourable P. Mlambo-Ngcuka.
- (f) A Strategic Plan for TB for 2007-2011 was developed, published and disseminated to the Provincial Departments of Health for implementation.

### **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) As of January 2007, 4 565 professionals from 10 health professional categories commenced with their internship and community service placements. These were 188 Dentists, 469 Pharmacists, 121 Clinical Psychologists, 140 Dieticians, 250 Occupational Therapists, 340 Physiotherapists, 284 Radiographers, 145 Speech, Language and Hearing Therapists, 1 230 Doctors and 1 398 Medical Interns.
- (c) Professional nurses also commenced with their community service in January 2008.

### **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 R14 million (6.3%) against a budget of R225 million.

The under spending can mainly be ascribed to the delays experienced in the upgrading of the Johannesburg Forensic Chemistry Laboratory and the Civitas Building. Although the funds are committed, the payments could not be made during the year.

#### **Programme 2: Strategic Health Programmes**

Strategic Health Programmes coordinates a range of strategic national health programmes by developing policies, systems, management, funding and monitoring of key programmes. Activities include: coordinating the district health system; coordinating 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 223 million (6.5%).

The under spending can mainly be ascribed to the slow progress on the mortuaries to be built with the Forensic Pathology Services Conditional Grant. Funds earmarked to purchase condoms could not be spent in full due to problems experienced with suppliers. Funds earmarked to NGOs could not be released in full before year-end.



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

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

The five sub-programmes are as follows:

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

The programme shows an under expenditure of R 77 million (< 1%).

The under spending can mainly be ascribed to the non-completion of projects funded through the Hospital Revitalisation Conditional Grant.

### **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 R14 million (19.8%).

The under spending can mainly be ascribed to the vacant post for the Health Attaché in Geneva. The expenditure incurred by the Health attaché in Washington and Botswana respectively was not received through the Foreign Affairs account before the year-end. Office furniture and equipment ordered was not delivered before the year-end. Savings realised on planned activities which could not be executed during the year.

#### **1.5 Virement**

Two significant virements were effected. The first was a move of R14 million from Programme 3 to augment the compensation of employees and Goods and Services in Programme 1.

The additional funds were required to fund salary adjustments which were agreed to by the Bargaining Council.

This virement was approved by the Accounting Officer.

The second virement of R28 million took place within the sub-programme, HIV and AIDS. The amount was moved from Goods and Services to Transfer Payments. The under-expenditure came about due to the quality problems that occurred in the supply of condoms. The funds were transferred to Soul City and South African Aids Vaccine Initiative.

The National Treasury approved this virement and increase in the transfer payment.



## 2. Services rendered by the Department

### 2.1 Activities

The National Department of Health is making policies to regulate the public health sector in order to ensure that South Africa does have a health service meeting international requirements and standards. The Department is however rendering 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 which are being done 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
Laboratory consumables	5
Stationery and Printing	17
Medical Supplies	77
Total inventory	99

## 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. In order to circumvent the problem, health professionals are being employed on a three year contract and the scarce skills allowance is also used to attract health professionals. In order to remedy the scarce skills shortage, government embarked on an Occupational Specific Dispensation (OSD) project to significantly improve salaries of Health Professionals.

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 R172 million 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 R98 million. Donor funds are mainly sourced to areas where both the Health Department and the Donor agreed as an area of priority. Funds are being received from European Union for the Public Health Sector Support Programme, Italy, for their support in the strengthening of the South African Health System; Belgium, for TB and HIV and STI prevention; the Global Fund, for TB and AIDS and Malaria prevention; 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 control of the Minister of Science and Technology, advised by the National Council for Innovation. Funding from the Department's vote amounts to R223 million in 2007/08. The Council is successful in attracting research funding from other sources. There is close cooperation 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 Services***

The National Health Laboratory Service Act, 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 Services took over the laboratory services in KwaZulu-Natal during the year under review. The National Health Laboratory Service's major source of funding will be 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 R69 million in 2007/08.

### ***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 2007/08 the Department transferred R3.2 million to the Council.

### ***South African National Aids Trust (SANAT)***

During the period under review the SANAT was dormant. SANAC itself operates as planned with its activities funded by the HIV and AIDS Cluster. SANAC together with senior members of the National Department of Health has drafted a restructuring plan, which has to obtain Cabinet approval.

In view of the process, which needs to be followed it is anticipated that the SANAT will be inactive for the 2008/09 financial year.

### ***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.

The entire financial system of the Compensation Commissioner for Occupational Diseases was re-engineered over the last 18 months.



## 6. Organisations to whom transfer payments have been made

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	R 5 321 206 000
Health Professions Training and Development Grant	R 2 006 223 000
Hospital Revitalisation	R 2 077 292 000
Comprehensive HIV and AIDS Plan	R 1 596 189 000
Forensic Pathology Services	R 551 822 000

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 were monitored by the National Department of Health in terms of the reports submitted by provinces and in terms of the frameworks which had been published in the DORA for 2007/08. 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 utilised 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 entered into was concluded on 30 May 2003 and the partnership is valid from 1 April 2003. In terms of the contracts 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. 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 (four years) at competitive prices. There were no changes to the structure and fund of the PPP during the period under review. National Treasury agreed to a further extension of the PPP arrangement to the end of 2009.



## **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 this up with a series of workshops with units in the Department to institutionalise 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 Audit Committee was active during the financial year and had six meetings. 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.

## **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**

- Asset Management Reforms

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

## **12. Events after the reporting date**

The Department applied for the following rollovers –

- Conditional Grants to the value of R183 million of which R120.6 million was for the Forensic Pathology Services Grant and R63 million for the Hospital Revitalisation Grant, were withheld due to under performance in the provinces.
- Funding of R20 million to cover commitments for the completion of the infra-structure in the Civitas Building.
- Rollover of donor funds of R16 million, which are earmarked to be spent in 2008/09.

## **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 timeously by National and Provincial Departments of Health and thus provide support to National Department of Health Clusters and Provincial Departments of Health where this is required;

The National Department of Health analyses quarterly data and compiles summary reports at the of each quarter, reflecting both 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 common tool for monitoring the implementation of APPs of provinces, with a view to alleviating the reporting burden on provinces. Provincial Departments of Health forward their quarterly non-financial 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 five of the nine provinces in 2004/05 to all nine in 2005/06 and 2006/07. The Summary Reports for all the previous financial years are available on request, as well as reports for the three quarters of 2006/07. Data verification for the fourth quarter is being completed, and the summary report for the fourth quarter will be completed in the next few days.

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 National Department, comparing data submitted by Provincial Departments of Health to data in the District Health Information System (DHIS);
- 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 by the 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**

The Department appeared before SCOPA on 14 November 2007. A fruitful discussion took place in which members raised several issues. A follow-up meeting to discuss conditional grants took place on 28 May 2008. At this meeting the Accounting Officers of provinces were also present.

#### **15. Acknowledgements**

I wish to express my appreciation to the Minister of Health 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 pages 130 to 186 have been approved by the Accounting Officer.

NAME: Mr. TD Mseleku

TITLE: Director-General: National Health

DATE: 29 May 2008



**AUDIT COMMITTEE REPORT FOR THE FINANCIAL YEAR ENDED  
31 MARCH 2008**

**NATIONAL DEPARTMENT OF HEALTH**

**REPORT OF THE AUDIT COMMITTEE**

We are pleased to present our report for the financial year ended 31 March 2008.

**Audit Committee Members and Attendance:**

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

Name of Member	Types and Number of Meetings Attended		
	Normal	Special	Total Meetings
Ms M Nyathi (Chairperson)	3	2	5
Adv. OC Mabaso	4	1	5
Mr. M Maliehe	4	1	5
Ms. G Motau (Resigned in May 2007)	1	N/A	1
Ms. VLP Malumbete (Appointed in October 2007)	3	N/A	3
Ms. DM Matloa (Appointed in October 2007)	2	N/A	2

**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 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. In the absence of risk management unit, the Internal Audit unit is facilitating the risk assessment for the Department. 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, although there has been improvements, the system of internal control was still not entirely effective as compliance with prescribed policies and procedures were lacking in certain instances.

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

The Audit Committee is not entirely satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the Department during the year under review. The area of concern was adequacy of information submitted.



## 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.

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**Ms M Nyathi**  
**Chairperson of the Audit Committee**  
**Date: 31/07/2008**



## 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 2008

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the accompanying financial statements of the National Department of Health (NDoH) which comprise the appropriation statement, statement of financial position as at 31 March 2008, 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 130 to 186.

#### 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 as set out in accounting policy note 1.1, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control 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) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
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 modified cash basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

### **Basis for qualified opinion**

#### **Tangible assets**

9. I was unable to satisfy myself regarding the existence, accuracy and completeness of the tangible assets' closing balance disclosed in note 29, due to insufficient and inappropriate audit evidence to substantiate:
  - the difference between the asset register and annual financial statements
  - an unsubstantiated amount of R35,4 million that is included in the opening balance of capital assets, relating to an adjustment that was made in the prior year
  - the physical verification of assets, as the asset tracking system that links individual assets to a unique barcode and location was not functional during the year under review.

#### **Accruals**

10. Due to the lack of a system to ensure the completeness of accruals, relating to goods received and services provided, I was unable to obtain adequate assurance regarding the completeness of accruals as disclosed in note 21.

#### **Qualified opinion**

11. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the National Department of Health as at 31 March 2008 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 as set out in accounting policy note 1.1, and in the manner required by the PFMA and the DoRA.

### **EMPHASIS OF MATTER**

I draw attention to the following matter:

#### **Material underspending of the budget**

12. As disclosed in Annexure 1C, there has been significant underspending of conditional grants as at 31 March 2008. A total amount of R343,3 million was not spent by the provinces.

### **OTHER MATTERS**

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

#### **Internal controls**

13. Section 38(1)(a)(i) of the PFMA states that the accounting officer must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the



inefficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Control activities	Monitoring
Capital assets	✓	✓	--
Accruals	✓	--	✓

**Control environment:** establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

**Control activities:** policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

**Monitoring:** covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

## Non-compliance with applicable legislation

### Division of Revenue Act (DoRA)

14. The department has control frameworks in place to monitor the respective conditional grants transferred to the provinces, but did not always adhere to the frameworks. The following instances of non-compliance were noted:
- Lack of adequate capacity in the department to perform effective monitoring through quarterly visits and physical inspections.
  - Inadequate evaluation of information provided in the provincial reports to ensure the timeous identification of potential non-compliance with the conditions attached to these grants.
  - The monitoring by the NDoH was negatively impacted by the following:
    - o Late submission of business plans for specific conditional grants by the provinces, resulting in late submission by the NDoH to the National Treasury.
    - o Late or non-submission of monthly financial and quarterly performance reports by the provinces, resulting in erroneous consolidated reports of the NDoH.
    - o Significant inconsistencies in the information supplied in the monthly financial and quarterly performance reports by the provincial departments to the NDoH.

### Public Finance Management Act (PFMA)

15. Section 38(1)(k) of the PFMA stipulates that the accounting officer must enforce compliance with any prescribed conditions if the department gives financial assistance to any entity or person. Conditions for transfer payments to non-government organisations (NGOs) are prescribed in the National NGO Funding Guidelines and contained in service level agreements (SLAs).

Transfer payments to the value of R156 million as disclosed in Annexure 1K to the annual financial statements were made to various NGOs. Funds were transferred to NGOs:

- prior to the approval of SLAs in contravention of the National NGO Funding Guidelines
- without the approval of SLAs in contravention of the National NGO Funding Guidelines
- despite the NGOs' non-submission of audited financial statements of the previous year and quarterly performance reports.



- despite the NDoH not adhering to stipulations in the respective SLAs, as follows:
    - o Limited visits and reviews
    - o Lack of or limited evaluation of audited financial statements by the NDoH
    - o Lack of or limited evaluation of quarterly performance reports.
16. The accounting officer has not complied with the stipulations of section 38(1)(d) of the PFMA in that the NDoH has not maintained an asset register to record minor assets enabling the safeguarding and maintenance of these assets.

**National Environmental Management Act (NEMA)**

17. Schedule 2 of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) lists the Department of Health as a national department that exercises functions that involve the management of the environment. According to section 11(2), the department is required to prepare an environmental management plan within one year of the promulgation of the Act, and at least every four years thereafter.

In addition, section 16(1)(b) stipulates that every organ of state must report annually within four months of the end of its financial year on the implementation of its adopted environmental management plan or environmental implementation plan to the Director-General and the Committee. The NDoH did not comply with requirements of NEMA, as an environmental management plan was not prepared.

**Matters of governance**

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

Matter of governance	Yes	No
<b>Audit committee</b>		
• The department had an audit committee in operation throughout the financial year.	✓	
• The audit committee operates in accordance with approved, written terms of reference.	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 3.1.10.	✓	
<b>Internal audit</b>		
• The department had an internal audit function in operation throughout the financial year.	✓	
• The internal audit function operates in terms of an approved internal audit plan.	✓	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 3.2.	✓	
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines (section 40 of the PFMA for departments).	✓	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.	✓	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
• The prior year's external audit recommendations have been substantially implemented.	✓	
• SCOPA resolutions have been substantially implemented.	✓	



## OTHER REPORTING RESPONSIBILITIES

### REPORT ON PERFORMANCE INFORMATION

19. I have reviewed the performance information as set out on pages 9 to 85.

#### Responsibility of the accounting officer for the performance information

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

#### Responsibility of the Auditor-General

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

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

#### Audit findings (performance information)

23. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

## OTHER REPORTS

### Performance audits

24. I conducted a performance audit at the Forensic Chemistry Laboratories of the NDoH and will be issuing a separate report.

## APPRECIATION

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

*Auditor-General*

Pretoria

31 July 2008





**NATIONAL DEPARTMENT OF HEALTH - VOTE 16**  
**ACCOUNTING POLICIES**  
**For the year ended 31 March 2008**

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, 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, 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 Revenue Fund. Amounts owing to the National 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 and 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 and forfeits**

Fines, penalties and 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 recognised 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<sup>1</sup>.

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.

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<sup>1</sup> This accounting policy is only relevant where the Department elects to capitalise the compensation paid to employees involved on capital projects.



### **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.

#### **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.



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 in a previous financial year becomes recoverable from a debtor in the current financial year.

### **7. Related party transactions**

Related parties are Departments that control or significantly influence entities 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 utilising the state property, either by way of:
  - o consideration to be paid by the Department which derives from a Revenue Fund;
  - o charges fees to be collected by the private party from users or customers of a service provided to them; or
  - o 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.