

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE
ON THE FINANCIAL STATEMENTS OF VOTE No. 4: GAUTENG DEPARTMENT OF
HEALTH FOR THE YEAR ENDED 31 MARCH 2010**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Gauteng Department of Health, which comprise the appropriation statement, the statement of financial position as at 31 March 2010, and the 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 information, as set out on pages 198 to 275.

Accounting Officer's responsibility 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). 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No.25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Tangible assets

4. The department could not provide sufficient appropriate audit evidence to support the completeness and existence of tangible assets amounting to R632 299 930 (2009: R93 412 219) as stated in note 33 to the financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all tangible assets were properly recorded and exist. Consequently I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and completeness of tangible assets.
5. The department could not provide sufficient appropriate audit evidence to support the revaluation of R1 or R0 tangible assets in the asset register amounting to R52 825 926 (2009: R52 825 926). Furthermore 977 (2009: 2 170) tangible assets after revaluation were still disclosed at either R1 or R0. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the tangible assets were valued correctly. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of tangible assets.
6. The department as stated in note 33.1 could not provide sufficient appropriate audit evidence to support fixed asset additions amounting to R51 876 398. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all additions were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights and valuation of additions of R51 876 398.

Section 6 Annual Financial Statements

GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT VOTE 4 HEALTH SERVICES

REPORT OF THE AUDITOR-GENERAL for the year ended 31 March 2010

7. Major capital assets to the value of R12 295 357 (2009: R23 640 236) in the financial statements were incorrectly classified as minor assets. There were no satisfactory alternative audit procedures I could perform to obtain reasonable assurance that all major and minor assets were properly recorded. Consequently, I was unable to satisfy myself as to the allocation and valuation of minor and major assets valued at R178 918 (2009: R180 905) and R12 295 357 (2009: R23 640 236), respectively.

Intangible assets

8. The department could not provide sufficient appropriate audit evidence to support intangible assets amounting to R116 871 000 (2009: Nil) as stated in note 34 to the financial statements. There were no satisfactory alternative audit procedures; I could perform to obtain reasonable assurance that intangible assets were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights and ownership, completeness, valuation and allocation of intangible assets.

Departmental revenue and receivables

9. The department was unable to provide sufficient appropriate audit evidence for departmental revenue and receivables totalling R376 205 000 and R1 159 948 000 respectively in note 2 and 26 in the financial statements due to inadequate record keeping, ineffective computerised information systems and failure to update patient fee tariffs. The department's records did not permit the application of alternative audit procedures regarding revenue and receivables. Consequently, I was unable to obtain sufficient appropriate audit evidence I considered necessary to establish the completeness, valuation, existence and rights and ownership of receivables and completeness, accuracy, occurrence and cut off of departmental revenue.

Compensation of employees

10. The department could not provide sufficient appropriate evidence for compensation of employees and I was unable to physically verify some employees. There was no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that compensation of employees was properly recorded. Consequently, I did not obtain all information and audit evidence to satisfy myself as to the occurrence and accuracy of compensation of employees, amounting to R8 692 010 000 (2009: R7 170 036 000) as disclosed in note 4 to the financial statements.

Employee benefits

11. There was no system of controls over all leave records on which I could rely for the purpose of my audit and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that the leave records were valid, accurate and complete. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and rights and obligations of leave entitlement, amounting to R1 221 080 000 (2009: R705 409 000) as disclosed in note 24 to the financial statements.

Housing loan guarantees

12. There was no system of control over housing loan guarantees on which I could rely for the purpose of my audit and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all applicable housing loan guarantees were properly recorded. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and rights and obligations of housing loan guarantees, amounting to R101 338 000 (2009: R60 985 000) as disclosed in note 21.1 to the financial statements.



**GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT
VOTE 4 HEALTH SERVICES
REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2010**

Commitments

13. There was no contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R3 882 883 000 (2009: R7 130 843 000), as stated in note 22 to the financial statements.

Expenditure

14. The department was unable to provide sufficient appropriate audit evidence for expenditure of R129 031 001 (2009: R525 384 189). The department's records did not permit the application of alternative audit procedures regarding expenditure. Consequently, I did not obtain sufficient appropriate audit evidence, I considered necessary to establish the completeness, validity and accuracy of expenditure.
15. The department was unable to provide sufficient appropriate audit evidence to support goods and services (purchases) procured from the Medical Supplies Depot amounting to R2 749 698 000. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all purchases were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of goods and services (purchases) of R2 749 698 000.

Disclaimer of Opinion

16. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Basis of accounting

17. The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as described in accounting policy note 1.1.

Significant uncertainties

18. With reference to note 21.1 to the financial statements, the department was the defendant in lawsuits as a result of the premature termination of consultant contracts as well as numerous claims instituted against the department in respect of civil, medico-legal and emergency medical services. The ultimate outcome of the matters could not be determined.

Unauthorised expenditure

19. The department incurred unauthorised expenditure of R 2 249 115 000 as a result of exceeding the total budgeted amount of the vote.

Irregular expenditure

20. The department incurred irregular expenditure of R455 643 000 (2009: R447 438 469) where prescribed procurement processes were not followed.

Material impairment

21. As disclosed in note 32 to the financial statements, potential irrecoverable debts relating to staff and patient debtors to the amount of R575 377 000 (2009: R529 033 000) were provided for as a result of poor debt collection.



GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT
VOTE 4 HEALTH SERVICES
REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2010

Material under spending of the budget

22. As disclosed in the appropriation statement, the department has materially underspent the budget on Programme 3: Emergency Medical Services, Programme 6: Health Training and Sciences and Programme 8: Health Facilities Management to the amount of R494 978 000. As a consequence, the department did not achieve its objectives of:

- Programme 3: Procuring ambulances and training employees
- Programme 6: Providing training to medical staff
- Programme 8: Completed and commissioned Public Health Facilities, specialised wards, hospitals, clinics, replacement of lifts and laundry equipment.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

23. The supplementary information set out on pages 259 to 275 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. In terms of the PAA of South Africa and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my finding on the report on predetermined objectives, compliance with the PFMA and financial management (internal control).

Findings

Predetermined objectives

Non-compliance with regulatory and reporting requirements

Public Finance Management Act, 1999 (Act No. 1 of 1999)

Lack of effective, efficient and transparent systems and internal controls regarding performance management

25. The department did not maintain an effective, efficient and transparent system and internal controls regarding performance management, which describe and represent how the department's processes of performance planning, monitoring, measurement, review and reporting will be conducted, organised and managed, as required in terms of section 38(1)(a) (i) and (b) of the PFMA.

Reliability of reported information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the department i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.



**GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT
VOTE 4 HEALTH SERVICES
REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2010**

The following audit findings relate to the above criteria:

Reported indicators not reliable when compared to source information

26. For the selected objectives, 50% of the reported indicators were not valid and accurate on the basis of the source information or evidence provided to support the reported targets.

Reported indicators not reliable as inadequate supporting source information was provided

27. For the selected objectives the validity and accuracy of, 30% of the reported targets could not be established as sufficient appropriate audit evidence could not be provided for audit purposes.

Compliance with laws and regulations

Public Finance Management Act, 1999 (Act No. 1 of 1999)

Non-adherence to legislation

28. Contrary to the requirements of section 80(1) (b) the Department of Health has not charged interest on any of the long outstanding departmental receivables reflected within the annual financial statements.

Treasury Regulation 9 of 2005

Non-adherence to legislation

29. Contrary to the requirements of Treasury Regulation 8.2.3 payments due to creditors were not settled within 30 days from receipt of an invoice or, in the case of civil claims, from the date of settlement or court judgement.
30. Contrary to the requirements of Treasury Regulation 3.2 the department did not conduct a risk assessment to identify emerging risks of the institution and as a result the risk strategy and fraud prevention plan was not updated accordingly.

Division of Revenue Act, 1999

Non-adherence to legislation

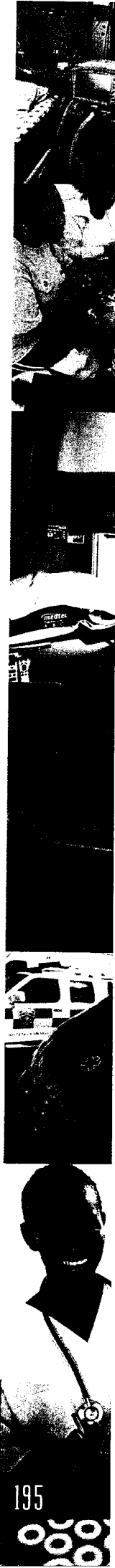
31. Contrary to the requirements of the DoRA framework 2009 published in Government Gazette No 32142, dated 17 April 2009, signed monthly and quarterly reports were not always submitted within the prescribed time frames.
32. Contrary to the requirements of the DoRA framework 2009 published in Government Gazette No 32142, dated 17 April 2009, Project Implementation Plans were not submitted within the prescribed timeframes.

Gauteng Health Care Waste Management Regulations 2004, Schedule 9

33. Contrary to the requirements the department did not comply with regulations relating to the collection, management and disposal of medical waste.

Hospital Ordinance No. 14 of 1958, and the White Paper for the Transformation of Health Systems in South Africa

34. Contrary to the requirements, Hospital Boards did not function as intended.



Annual Financial Statements

GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT
VOTE 4 HEALTH SERVICES

REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2010

INTERNAL CONTROL

35. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the PFMA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

• Leadership

- The accounting officer did not adequately exercise oversight responsibility over reporting and compliance with laws and regulations and internal control as reported under paragraph 28 to 34.
- An effective organisational structure that places people with appropriate skills is not established.
- Actions were not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.
- Control weaknesses were not analysed, and appropriate follow-up actions were not taken that address root causes.
- Internal and external audit findings were not addressed.
- SCOPA resolutions were not substantially implemented.

• Financial and performance management

- Management and staff did not fulfil their duties and responsibilities.
- The financial statements and performance information were subject to material amendments resulting from the audit.
- The financial statements and performance information were not reviewed for completeness and accuracy prior to submission for audit.
- Requested information was not available and supplied without any significant delay.
- General information technology controls were not designed to maintain the integrity of the information systems and the security of the data.
- Manual or automated controls were not designed to ensure that the transactions occurred, are authorised, and were completely and accurately processed.
- Systems were not appropriate to facilitate the preparation of the financial statements and performance reports.

• Governance

- The risk of material misstatement due to fraud was not considered.
- Internal controls were not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

OTHER REPORTS

• Investigations

36. The department currently has investigations in progress relating to procurement irregularities, fraud, theft, abuse of state property, human resources and negligence. The investigations were still ongoing at the reporting date.

• Performance audits

37. A performance audit was conducted on the department's use of consultants during the year under review. The audit is currently in the reporting phase and the findings will be reported in a separate report.

38. A performance audit was conducted on the infrastructure delivery process at the department during the year under review. The audit is currently in the reporting phase and the findings will be reported in a separate report.



GAUTENG DEPARTMENT OF HEALTH AND SOCIAL DEVELOPMENT
VOTE 4 HEALTH SERVICES
REPORT OF THE AUDITOR-GENERAL
for the year ended 31 March 2010

• **Special audits**

39. As requested by the Gauteng Standing Committee on Public Accounts, an engagement was conducted during the year under review concerning the ex post facto approvals and deviations in the supply chain management made by the Gauteng Department of Health. The report covered the period April 2007 to March 2008 and was issued on 14 May 2010.

40. An investigation was conducted into the appointment of a consultant at the Gauteng Department of Health. A separate report was tabled in November 2009.

Auditor-General

Johannesburg

31 July 2010



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