No.0474 - 2023: Fifth Session, Sixth Legislature

**GAUTENG PROVINCIAL LEGISLATURE**

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**ANNOUNCEMENTS,**

**TABLINGS AND**

**COMMITTEE REPORTS**

**========================**

Tuesday, 05 December 2023

# **ANNOUNCEMENTS**

none

# **TABLINGS**

none

**COMMITTEE REPORTS**

**1. The Chairperson of the Standing Committee on Public Accounts, Hon. S Khanyile, tabled the Committee’s Oversight Report on the Report of the Auditor-General of South Africa to the Gauteng Provincial Legislature on Financial Statements of the Medical Supplies Depot for year ended 31 March 2023, as attached:**

**STANDING COMMITTEE ON PUBLIC ACCOUNTS OVERSIGHT REPORT ON THE REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA TO THE GAUTENG PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS OF MEDICAL SUPPLIES DEPOT FOR THE YEAR ENDED 31 MARCH 2023**

**06 DECEMBER 2023**

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**Acronyms**

AG Auditor-General

BAS Basic Accounting System

CEO Chief Executive Officer

CFO Chief Financial Officer

DSMS Drug Supply Management System

EML Essential Medicines List

GAS Gauteng Audit Services

GDF Gauteng Department of Finance

ICT Information Communications Technology

MSD Medical Supplies Depot

MMDP Middle Management Development Programme

MPL Member of the Provincial Legislature

NT National Treasury

PFMA Public Finance Management Act

PPC Pharmaceutical Procurement Committee

SCM Supply Chain Management

SARS South African Revenue Services

TR Treasury Regulation

1. **INTRODUCTION**

The Standing Committee on Public Accounts (SCOPA) has examined the Report of the Auditor-General of South Africa (AGSA) to the Gauteng Provincial Legislature (GPL) on the financial statements of Medical Supplies Depot (MSD) for the year ended 31 March 2023. This was done as per GPL Rule 178 (2).

The function of SCOPA is to examine the financial statements of the Legislature, all executive organs of the province and other provincial organs of state, including any reports issued by the AGSA on the affairs of GPL, Office of Premier (OoP) and the Departments & Entities of Gauteng Provincial Government (GPG). SCOPA is required to do this on behalf of the Legislature, to ensure accountable utilization of resources and prudent financial management, and to make recommendations to the Legislature.

In the process of examining the financial statements and reports of an organ of state, SCOPA must ensure that they comply with of the Constitution of RSA, the Public Financial Management Act, and the requirements of the Public Audit Act No 5 of 2018. SCOPA must also consider the previous statements and reports of such an organ and report on the degree to which shortcomings have been rectified as required by GPL Rule 178 (3).

1. **PROCESS FOLLOWED**

The Report of the AGSA on the financial statements of Medical Supplies Depot (MSD) for the year ended 31 March 2023, was tabled together with its 2022/23 Annual Report on 31 August 2023. This was done in terms of Sections 188(1) and (2) of the Constitution of the Republic of South Africa, (Act No. 108 of 1996), read with Sections 4, 20, and 21 of the Public Audit Act No 5 of 2018.

The report was referred by the Speaker to SCOPA on 31 August 2023, for consideration, as per Rule 149 read with Rule 233 of the Standing Rules of the GPL.

On Thursday, 19 October 2023, the Committee was briefed by the Auditor-General of South Africa on the audit outcome of Medical Supplies Depot (MSD).

The Committee analysed the report and produced preliminary questions which were sent to the Medical Supplies Depot (MSD) for responses by 26 October 2023.

In the process of SCOPA considering the reports of the AGSA, the following reports were received from the Stakeholders of the Committee on 19 October 2023:

* The report by the Office of the Premier on Gauteng Forensic Unit report on progress made on special focus cases and investigations referred by Departments;
* The report by the MEC for Finance on the Assessment of consolidated AFS and consolidated Audit Outcomes;
* The report by the Office of the Public Service Commission in Gauteng on GPG Departments Public Administration Practices; and
* The report by the Gauteng Office of the Public Protector on Investigations related to Gauteng for the period 2022/23 and outstanding for prior years.

In examining the report and responses by the Medical Supplies Depot (MSD),the Committee resolved to conduct a public hearing with the Entity, which was held on 24 November 2023.

On Friday, 30 November 2023, the Standing Committee on Public Accounts (SCOPA) considered and adopted its Oversight Report on the report of the Auditor-General of South Africa for the Medical Supplies Depot (MSD), for the year ended 31 March 2023.

1. **FINDINGS BY THE AGSA ON THE REPORT**
   1. **Audit Opinion**

The Auditor-General of South Africa issued an unqualified audit opinion on the financial statements of Medical Supplies Depot.

This is an unchanged audit opinion, from that which it received in the last financial year (2021/22), and an unchanged audit opinion from that received in the 2020/21 financial year.

* 1. **Emphasis of Matters**

The AGSA did not identify any findings on the emphasis of matters.

* 1. **Audit Findings**

The AGSA did not identify any findings or significant deficiencies in the following areas of audit.

* Audit of annual performance report
* Other reports: investigations

There were however findings or significant deficiencies raised on the following, which will be discussed in detail in this report.

* Audit of compliance with legislation
* Audit of internal controls

1. **COMMITTEE FINDINGS AND CONCLUSIONS**

As reported earlier, the Committee engaged the Medical Supplies Depot through preliminary questions that were generated during the analysis of the report of the Auditor-General of South Africa.

The Committee has analysed the responses from the Medical Supplies Depot (MSD) and has determined as indicated in this section areas of findings.

* 1. **PROCUREMENT AND CONTRACT MANAGEMENT**
     1. **Finding by the AGSA**

The AGSA reported that goods and services of a transaction value above R1 000 000 were procured without inviting competitive bids and deviations were approved by the Accounting Officer, but it was practical to invite competitive bids, as required by Treasury Regulation 16A6.1, paragraph 3.3.1 of NTI 02 of 2021/22, paragraph 4.1 of NTI 03 of 2021/22 and TR 16A6.4. Similar non-compliance was also reported in the prior year.

* + 1. **Committee findings**

The Committee noted that:

* The Entity participates in centralized contracts arranged by the Gauteng Department of Health (GDoH) for each facility under its control. The department has since advertised a tender for security and cleaning services, procurement processes are underway;
* The Entity continues to participate in a centralised contract arranged by GDoH for facilities, under its control for waste management until a new contract is awarded; and
* There have been delays in the award of the distribution services contract, however, a new contract has since been awarded.
  1. **IRREGULAR EXPENDITURE**

**4.2.1 Finding by the AGSA**

The AGSA reported that effective and appropriate steps were not taken to prevent irregular expenditure, as disclosed in note 19 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1. The majority of the irregular expenditure was caused by non-compliance with supply chain management regulations on contract extension.

* + 1. **Committee findings**

The Committee noted that the irregular expenditure was as a result of the following:

|  |  |  |
| --- | --- | --- |
| **EXTENSION OF CONTRACTS** |  |  |
| **Services** | **Irregular expenditure** | **Management Response** |
| Medicine Distribution Services | 3,086,090.00 | There has been delays in the awarding of the distribution services contract, however a new contract has since been awarded. |
| Security Services | 3,480,442.95 | The Entity participates in a centralized contract arranged by GDoH for facilities, under its control. The department has since advertised a tender for security services, procurement processes are underway. |
| Cleaning Services | 493,982.92 | The Entity participates in a centralized contract arranged by GDoH for facilities, under its control. The procurement process for a new contract is underway. |
| Waste Management services | 1,928.08 | The Entity participates in a centralized contracts arranged by GDoH for each facility under its control. |
| Nexus report- Forensic investigation | 2,144,620.00 | This amount is an accumulative figure which emanates from the Forensic report. The implementation of consequence management is in progress. |
|  | **9,207,063.95** |  |

* 1. **30 DAYS PAYMENT**
     1. **Finding by the AGSA**

The AGSA reported that payments were not made within 30 days or an agreed period after receipt of an invoice, as required by Treasury Regulations 8.2.3.

* + 1. **Committee finding**

The Committee noted that the powers and delegations of the entity are limited to   
R1 000 000, the procurement of these services exceeds the delegation of the entity, hence the procurement had to be done at GDoH.

* 1. **CONSEQUENCE MANAGEMENT**
     1. **Finding by the AGSA**

The AGSA reported that:

* They were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular and fruitless and wasteful expenditure as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that were not maintained as evidence to support the investigations into irregular and fruitless and wasteful expenditure;
* They were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against the officials who had incurred or permitted irregular expenditure in prior years, as required by section 38(1)(h) (iii) of the PFMA; and lastly
* They were unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against the officials who had incurred or permitted fruitless and wasteful expenditure in prior years, as required by section 38(1)(h)(iii) of the PFMA.
  + 1. **Committee finding**

The Committee noted the Entity only received the Forensic report at the end of 2022 for action, however, the GDoH, labour relations are busy with the implementation of consequence management.

* 1. **INTERNAL CONTROL DEFICIENCIES**

**4.5.1 Finding by the AGSA**

The AGSA reported that;

* The Accounting Officer did not exercise oversight responsibility to investigate identified instances of irregular, fruitless and wasteful expenditure and ensure that consequence management is instituted against liable officials;
* Furthermore, the accounting officer did not take disciplinary steps against liable officials who permitted irregular, fruitless, and wasteful expenditures following the recommendations of the forensic investigation report. This then resulted in non-compliance with the PFMA; and
* The Accounting Officer did not provide adequate oversight responsibility of senior management to ensure compliance with all applicable laws and regulations. Furthermore, the accounting officer did not ensure the effective implementation of action plans to curb repeat findings. As a result, additional instances of non-compliance were reported.

**4.5.2 Committee finding**

The Committee noted that action plans are monitored and reported monthly to Gauteng Provincial Treasury and the Audit Committee as well as the Provincial Risk Management Committee**,** however for the repeat audit findings management could not close those findings due to dependencies to GDoH.

1. **CULTURE SHIFT TO SUSTAIN AUDIT OUTCOMES AND SERVICE DELIVERY**

The Committee raises the following concerns with which the AGSA has also concurred:

To maintain the credibility of annual financial statements, the Medical Supplies Depot (MSD) requires an integrated financial reporting system that will enable MSD to track and monitor open orders and direct deliveries made by suppliers to the health facilities due to the high volume of transactions that transpire within the financial year.

The manual processes are susceptible to human errors which will negatively impact credibility of annual financial statements if intervention is not provided.

The MSD continues to struggle to ensure compliance with applicable key laws and regulations which resulted in a stagnation of the audit outcomes.

The MSD did not investigate instances of irregular and fruitless and wasteful expenditure to ensure that liable officials are held accountable for transgressions.

The delays in conducting investigations and taking disciplinary steps against liable officials negatively affect the culture of accountability for wrongdoing. In addition material non-compliance was reported relating to MSD’s inability to pay suppliers within 30 days.

1. **COMMITTEE CONCERN**
   1. The Committee is concerned by the continuous non-compliance with applicable legislation and Treasury Regulations by officials of the Entity, in that these findings are recurring from previous financial years.
2. **COMMITTEE RECOMMENDATIONS**
   1. That the Entity must provide the Committee with a report detailing the effectiveness of the measures put in place to monitor compliance with the applicable treasury regulations to identify and prevent non-compliance by 30 April 2024.
   2. That the GDoH must submit its plan to investigate the irregular expenditure by 30 April 2024 and progress in the implementation of this plan continuing up until the end of June 2024.
   3. That the Entity should enforce appropriate controls to ensure that invoices are paid within 30 days as required by Treasury Regulation 8.2.3. and provide the Committee with a progress report detailing the effectiveness of controls put in place to address the payment of service providers and cash flow management by 30 April 2024.
   4. That the Entity provides the Committee with a quarterly progress report detailing its adherence and compliance to the requirements of all applicable legislation to ensure that effective measures are implemented to prevent irregular expenditure as required by Section 38(1)(h)(iii) of the PFMA by 30 April 2024 and thereafter every quarter continuing up until the end of June 2024.
   5. That the Entity must provide the Committee with a progress report detailing the status of the investigation on fruitless and wasteful expenditure and possible write-off by 30 April 2024 and every quarter continuing up until the end of June 2024.
   6. That the Entity provides the Committee with a progress report by 30 April 2024 on the effectiveness of measures put in place to address poor leadership in the Entity and thereafter, every quarter continuing up until the end of June 2024.
   7. That the Entity must develop and implement a plan to improve the audit outcomes in the financial and performance management, as well as the status of compliance, thereby ensuring good governance and administration of public funds and provide the Committee with a report by 30 April 2024.
   8. That the Entity fill key vacancies that existed during the period under review, which created instability within the Entity and compromised the overall internal control environment.
3. **CONCLUSION**

In conclusion, the Committee managed to establish the issues that contributed to the Auditor-General of South Africa issuing an unqualified audit opinion on the financial statements of the Office of the Medical Supplies Depot on issues raised under emphasis of matters.

1. **ACKNOWLEDGEMENTS**

I would like to thank the following Members: MJ Kanyane; RJ Kekana; BP Mncube; MJ Modise; DP Malema; A De Lange; P Atkinson; AW Cilliers; AM Randall; and P Mdlankomo for their diligent deliberations during this process.

I would also like to express my appreciation to the MEC of Finance, J Mamabolo and officials of the Gauteng Provincial Treasury; the Gauteng Business Unit Leader of the Office of Auditor-General South Africa (AGSA), Mr. Dumisani Cebekhulu and his team; MEC Nomantu Nkomo-Ralehoko and officials of GDOH; Group Committee Co-ordinator, Monica Vaas for tabling the report; Senior Committee Co-ordinators, Simon Magolego, and Mompati Gaonnwe; Committee Co-ordinator, Catherine Thobejane; Committee Researchers, Bongi Dlamini and Lerato Mofokeng; Administrative Assistants, Sizakele Mthembu Media Officer, Pfano Bulasigobo; Senior Information Officer, Jacky Letsoalo; Legal & Procedural Advisor, Winnie Ngubane; Service Officer, Lithemba Simon, PPP Lerato Bodman and the Hansard Operator, Raksha Singh without whom this process would not have been successfully completed.

1. **ADOPTION OF THE REPORT**

After due deliberations, the Standing Committee on Public Accounts (SCOPA) unanimously adopted its report on the Report of the Auditor-General of South Africa to the Gauteng Provincial Legislature on the financial statements of Medical Supplies Depot for the year ended 31 March 2022.

In terms of Standing Rule 117 (2)(c) read together with Rule 164, the Committee presents to this House the above-mentioned report for consideration and adoption.

**Mr Sochayile Khanyile (MPL)**

**Chairperson: Standing Committee on Public Accounts**