

# **FINANCIAL MANAGEMENT CONTROLS IN THE SOUTH AFRICAN PUBLIC HOSPITAL SECTOR**

**By**

**ANDREW JONES**

**Supervisor: Ms Penelope Cummins (MA MSc MA)**

50% Research Report

Submitted in partial fulfilment of the degree of:

Master of Commerce in the School of Accountancy

**ABSTRACT**

The focus of this study is the financial management, internal control systems and the effective implementation of internal control systems over annual budgets and the spending in public hospitals in South Africa.

The chief executive officers (CEOs) of public hospitals in South Africa are, in terms of section 36(1) of the Public Finance Management Act (PFMA) of RSA No. 1 of 1999 (as amended), the accounting officers of their respective hospitals. As such they are responsible for the management of the hospital budget.

A three-phase approach was used in this research study, involving firstly: a detailed survey of financial reports and other data in the public domain from 40 hospitals, augmented by a written statement by the Hospital Chief Executive identifying key problem areas; secondly, reviews of 20 Auditor General audit irregularity reports specific to hospitals within the initial sample; and thirdly, site visits and in-depth, semi-structured interviews with the CEO at nine hospitals chosen from the initial sample of 40 hospitals, spread across five provinces.

The findings revealed significant gaps with respect to the processes and controls necessary for accountability, and for providing the transparency of financial decision-making required by the Auditor General. The majority of the sites show overspends in excess of the 2% allowed by the PFMA; this is without including the accruals that exist as at 31 March each year, which only compound the problem further. The study asked whether the hospitals are simply under-funded or are they spending the available and approved funds poorly? It concluded that the effects of serious underfunding are compounded by ineffective management control systems and by fraud.

The study reveals that there is a lack of appropriately skilled finance and IT staff, so there is little useful management information. The financial management control systems at both hospital and provincial level are weak, making it difficult for managers and auditors to prove or to quantify the extent of corruption. Common areas of fraud identified include almost all aspects of procurement and stock control, especially capital goods, pharmacy, laundry services, security services and food services, and also staff overtime and the manipulation of their leave.

The study recommends that management control systems and levels of qualified finance staffing should be improved in hospitals, and also that the Auditor General's department should be strengthened to support more frequent and more rigorous routine audits in hospitals.