2015/16 Annual Report

OHSC

Office of Health Standards Compliance

Ensuring quality and safety in health care

Contents

PART A: GENERAL INFORMATION

1. GENERAL INFORMATION

REGISTERED NAME:	OFFICE OF HEALTH STANDARDS COMPLIANCE
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EXTERNAL AUDITOR:	Auditor-General of South Africa
BANKERS:	Standard Bank
BOARD SECRETARY:	Jacob Makgolane

2. LIST OF ABBREVIATIONS/ACRONYMS

AGSA	Auditor General of South Africa
ARFC	Audit, Risk and Finance Committee
BBBEE	Broad-Based Black Economic Empowerment
CEC	Certification and Enforcement Committee
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHC	Community Health Centre
DHIS	District Health Information System
HE	Health Establishment
HPCSA	Health Professions Council of South Africa
HRREMCO	Human Resources and Remuneration Committee
LOBS	Line-of-Business Solutions
MEC	Member of Executive Council
MoA	Memorandum of Agreement
MTEF	Medium-Term Expenditure Framework
NCS	National Core Standards
NDoH	National Department of Health
NHA	National Health Act, 2003 (Act No. 61 of 2003)
NHC	National Health Council
NHI	National Health Insurance
NDP	National Development Plan
NPQ	National Policy on Quality in Healthcare
OHSC	Office of Health Standards Compliance
OSC	Office of Standards Compliance
PAIA	Promotion of Access to Information Act, 2000 (Act No. 2 of 2000)
PFMA	Public Finance Management Act, 1999 (Act No.1 of 1999)
PoPI	Protection of Personal Information Act, 2013 (Act No. 4 of 2013)
SANC	South African Nursing Council
SCM	Supply Chain Management
SMME	Small Medium and Micro Enterprises
SOP	Standard Operating Procedures
TR	Treasury Regulations

3. FOREWORD BY THE CHAIRPERSON

Introduction

The Office of Health Standards Compliance (OHSC) operated independently from the National Department of Health (NDoH) for the first time during the 2015/16 financial year. This followed its establishment and inauguration of the OHSC Board by the Minister of Health in January 2014. During its establishment year, while operating under the systems and processes of the NDoH in accordance with a Memorandum of Agreement (MoA) with the department, the OHSC developed its own systems and processes. This positioned the OHSC to start the year under review as an independent entity.

Strategy and performance overview

During the review period, the OHSC developed systems and processes and recruited staff to give full effect to operating as an independent entity. The draft norms and standards and procedural regulations, published during the last quarter of the 2014/15 financial period, highlighted the importance of having procedures, measurement tools and inspectorate skills in place to assess and guide compliance by Health Establishments (HEs). These were incorporated into refined objectives and indicators in the OHSC 2015/16 Annual Performance Plan.

The OHSC exceeded is target of following-up, re-inspecting and progressively enforcing its regulatory powers in 30% of non-compliant HEs with an achievement of 36%. The Office uses a performance indicator to assess compliance and determine corrective action. During the review period, the OHSC had to delay its enforcement action for non-compliance due to a delay in promulgating the regulations that empowers it to do so.

The successful recruitment of staff for the Corporate Service Programme filled 92% of the vacancies as at 31 March 2016, which was 32% above the targeted performance of 60%. Governance and operational policies were developed and Board-approved for implementation, while the Board monitored performance in compliance with legislation and organisational policies.

Strategic relationships

The need for collaboration in the health sector, which is serviced by a variety of professionals and regulatory bodies, emphasises the importance of strategic partnerships with other regulators. This is a primary objective for the OHSC. During the year under review, the Office engaged with the Health Professions Council of South Africa (HPCSA) and South African Nursing Council (SANC), as two of the main sector regulators. The aim is to collaborate in strengthening the sector's regulatory regime and protecting the health and safety of health service users. The Office also signed a number of MoAs with other partners for the secondment of staff with critical skills who assisted the OHSC operationally during the early phase of its operating independence to attain full functionality as a regulator.

Board oversight

Despite the delay in promulgating the regulations that will provide the OHSC with enforcement powers, the Board was pleased with the progress made for promulgation by the Minister. The final draft regulations submitted to the Minister contained public comments from a rigorous public review process and constructive comments from our stakeholders. The Board does not foresee any legal challenges to the final promulgated regulations and looks forward to overseeing and guiding the OHSC in exercising its regulatory powers as directed by the National Health Act, 2003 (as amended).

The year ahead

Once the regulations are promulgated by the Minister, the OHSC will include the private sector in executing its mandate. The 2016/17 Annual Performance Plan makes provision for this with indicators customised for the inspection and re-inspection of private health facilities. A project is underway to develop a system for HEs to submit annual returns, conduct self-assessments and submit the results for analysis and objective review to determine compliance with norms and standards.

Acknowledgements

My heartfelt acknowledgement and thanks goes to the management and staff for their cooperation, hard work and commitment to fulfilling the OHSC mandate during its first year of operating independently. I would also like to express my appreciation to the Minister of Health, Dr Aaron Motsoaledi, MP and Director-General of Health, Ms Malebona Matsoso, for their support to the Board and the OHSC team, through the support functions of the NDoH, as we progressed towards full independent operational capacity. Finally, I thank my fellow Board members, the former interim CEO, Dr Carol Marshall and current acting CEO, Mr Bafana Msibi, who guided the OHSC to where it is today by taking the tough decisions needed for us to deliver the results as contained in this first OHSC Annual Report.

Conclusion

The results presented here have laid the foundation for the future trajectory of this entity. On behalf of the Board, I would like to thank all our stakeholders for their invaluable support in ensuring that the OHSC is well-positioned as an independent entity to promote and protect the rights of the very vulnerable, our patients. Let us stand together to improve the quality of healthcare in South Africa. I look forward to sharing that journey.

Prof Lizo Mazwai
Chairperson
31 July 2016

4. CHIEF EXECUTIVE OFFICER'S OVERVIEW

I am pleased to present the 2015/16 Annual Report for the Office of Health Standards Compliance (OHSC). The Office is mandated to protect and promote the health and safety of healthcare users by inspecting the compliance of HEs with the National Core Standards (NCS) and managing complaints received from users.

This first annual report covers the period from 1 April 2015 to 31 March 2016, a seminal year for the OHSC as it started operating independently from the Department of Health (NDoH) almost a year after its establishment in 2014. During the past year, we implemented the operational systems required to support our key regulatory roles of inspecting HEs to ensure compliance with essential quality and safety standards and investigating complaints of non-compliance.

Standards development

The OHSC has made significant progress in developing the proposed norms, standards and procedures that will regulate the discharge of its legislative mandate in South Africa's public and private HEs. Approximately 700 health workers attended the OHSC road show in seven of the nine provinces in South Africa for guidance and support in implementing the norms and standards to improve the quality of care provided to healthcare users.

Health establishment inspections

The OHSC carried out 627 unannounced inspections during the reporting period, of which 495 were routine and 132 re-inspections. More than half of the HEs inspected failed to meet the required quality and safety standards. This highlighted the lack of patient care within the healthcare system and emphasised the need for quality, patient-centred care to strengthen the healthcare system.

HEs are primarily responsible for providing patients with safe and good quality healthcare. Regulation is not meant to be a substitute for providers who shirk that responsibility. The OHSC is responsible for holding healthcare providers to account for poor quality of care, when identified, and recommending the required improvements.

Stakeholder engagement

The OHSC presented its first comprehensive inspection report to the Minister and the Portfolio Committee on Health in December 2015 and March 2016, respectively. The report highlights areas of risk and enables the OHSC to present the findings to the accountable authorities to implement remedial action.

Complaints management

During the second quarter of the 2015/16 financial year, the OHSC appointed staff on a permanent basis to deal with the complaints-related breaches of the NCS. More than half of the 73 complaints received (42 or 57.5%) related to private sector healthcare and the rest (31 or 42.5%) to public sector healthcare. Due to the pending promulgation of the regulations applicable to specific categories of HEs, the OHSC could not investigate complaints about those in the private sector. Complaints regarding professional conduct were referred to the relevant professional councils, while 19.2% (14/73) of the complaints against the public sector are still being investigated.

Governance and accountability

The OHSC received a government grant of R88.9 million for the 2015/16 financial year through the budget vote of the NDoH. A surplus of R26 million for the financial year ended 31 March 2016 resulted mainly from:

a) Employee compensation

- The Chief Executive Officer and Ombud positions remained vacant for the full 12 months of the reporting period. The OHSC did not have a full staff complement at the beginning of the financial year and recruitment continued throughout the year with some positions filled towards the end of the year, when eight positions remained vacant. As a result, a saving of R13.6 million was realised from the budget for the compensation of employees.

b) Goods and services

- The communication and stakeholder relations strategy was finalised and will be implemented in the next financial year. This resulted in a saving of R1.5 million against funds allocated.
- Additional savings were realised in administrative expenditure such as telephone costs due to the delayed implementation of the call centre, audit fees, computer maintenance and the leasing of office space.

In view of the pending requirement for additional office space and related furniture, fixtures and equipment (FF&E), the OHSC will request National Treasury for a retention of the surplus funds. We focus continually on improving administrative and management systems to limit internal control deficiencies and have developed the requisite policies and procedures for effective supply chain management, as well as establishing the necessary committees to evaluate and adjudicate procurement issues.

The appointment of a Chief Financial Officer, who took office in June 2015, has contributed to stability, eliminated capacity constraints and is ensuring that the OHSC complies with financial and supply chain regulations. I am pleased to report the establishment of the Directorate: Finance and Supply Chain to deal with these matters. There is, however, no room for complacency and this aspect of our operations will continue to receive the required attention.

The Board-appointed Audit, Risk and Finance Committee that worked tirelessly during the past financial year to address the shortcomings in administrative and governance systems, including compliance procedures. The Board has also committed to ensuring that factors such as staff vacancies that contributed to the under-utilisation of funds during the review period are dealt with expeditiously to avoid under-expenditure in future.

Human resource management and development

The senior management vacancies that were not filled during the reporting period constrained our ability to develop and finalise a

range of planned projects. It is important to fill all key vacancies in the year ahead to strengthen the strategic leadership of the organisation. The OHSC did, however, employ 49 staff members to fill core technical and support positions. The unions signed a staff transfer agreement with the NDoH in terms of Section 197 of the Labour Relations Act, 1995 (Act No. 66 of 1995) at the end of March 2016 and 50 employees were on the transfer list, but only 39 employees remained at OHSC as at 31 March 2016. This brought the staff complement at the OHSC to 88 as at 31 March 2016.

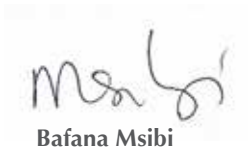
Future plans

The OHSC is growing at a pace and plans are underway to secure sufficient office space to accommodate future growth. We will also establish a toll-free complaints call centre during the forthcoming financial year for direct access by the public and to receive and record complaints.

Appreciation and conclusion

I am confident that at the end of our first year as an operationally independent organisation, we have turned a corner and are well-placed to respond and contribute to the building of a high-quality healthcare delivery system. The milestones we achieved would not have been possible without the counsel and guidance of the Board, commitment and support of the Board committees and the hard work, perseverance and dedication of the staff.

I would also like to express my gratitude to our Board Chairperson, Prof Lizo Mazwai, for the exemplary manner in which he observed the distinction between oversight and management, which is critical for the efficient and effective functioning of any organisation.



Bafana Msibi
Acting Chief Executive Officer
31 July 2016

5. STATEMENT OF RESPONSIBILITY FOR AND CONFIRMATION OF ACCURACY OF THE ANNUAL REPORT

To the best of our knowledge and belief, we confirm that:

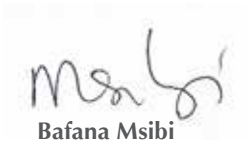
All information and amounts disclosed in this annual report is consistent with the annual financial statements audited by the Auditor-General.

The annual report is complete, accurate and free from any omissions and the annual financial statements have been prepared in accordance the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) that apply to a public entity.

The accounting authority is responsible for the preparation of the annual financial statements and judgements made in this information. The accounting authority is also responsible for establishing and implementing a system of internal controls designed to provide reasonable assurance about the integrity and reliability of the performance and human resources information and the annual financial statements.

The external auditors (Auditor-General of South Africa) were engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, performance information, human resource information and financial affairs of the OHSC for the financial year ended 31 March 2016.



Bafana Msibi
Acting Chief Executive Officer
31 July 2016

Prof Lizo Mazwai
Chairperson
31 July 2016

6. STRATEGIC OVERVIEW

Vision
Safe and quality healthcare for all South Africans.

Mission
We act independently, impartially, fairly and fearlessly on behalf of the people of South Africa in guiding, monitoring and enforcing healthcare safety and quality standards in HEs.

Values
Our values are informed by the South African Constitution and Batho Pele principles:
"Human dignity; freedom and the achievement of equality; and that people must come first."

7. LEGISLATIVE AND OTHER MANDATES

The OHSC was established under the National Health Act, 2003, as amended, to promote and protect the health and safety of the users of health services. The OHSC is regulated under the PFMA, 1999 and listed as a Schedule 3A public entity.

As a public entity and regulator in the health sector, the regulatory role of the OHSC is influenced by the following governing legislation, regulations and national policies:

7.1 Constitution of the Republic of South Africa

The constitutional imperatives enshrined in the Bill of Rights underpin the entire health system, specifically Section 27 of the Constitution, which guarantees everyone the right of access to healthcare services, including reproductive health services and emergency medical treatment. The Constitution further requires the state to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

The regulation of the quality of health services requires all HEs to comply with policy priorities and minimum standards of care. In this manner, the regulation of quality contributes directly to government's progressive realisation of its constitutional obligations.

7.2 The National Health Act, 2003, as amended (Act No. 61 of 2003) (NHA)

The NHA, as amended, re-affirms the constitutional rights of users to access health services and just administrative action. As a result, Section 18 allows any user of health services to lay a complaint about the manner in which he or she was treated at a health establishment. The NHA further obliges members of executive councils (MECs) to establish procedures for dealing with complaints within their areas of jurisdiction. Complaints provide useful feedback on the areas within HEs that do not comply with prescribed standards or pose a threat to the health and safety of users and healthcare staff alike.

The NHA provides the overarching legislative framework for a structured and uniform national healthcare system. The Act highlights the rights and responsibilities of healthcare providers and healthcare users and ensures broader community participation in healthcare delivery from a health facility level up to national level.

Chapter 10 of the NHA, as it relates to the OHSC, was repealed in its entirety (and other minor changes were enacted) through the promulgation of the National Health Amendment Act, 2013 (Act No. 12 of 2013). This replaced the previous provisions that had never been brought into effect with a new independent entity, the OHSC.

The purpose of the Office is reflected in the NHA as that of protecting and promoting the health and safety of users of health services by:

- monitoring and enforcing compliance by HEs with norms and standards prescribed by the Minister in relation to the national health system and
- ensuring that complaints about non-compliance with prescribed norms and standards are considered, investigated and disposed of in a procedurally fair, economical and expeditious manner.

In terms of the NHA, the OHSC must:

- **Advise the Minister** on matters relating to norms and standards for the national health system and the review of such norms and standards, or any other matter referred to it by the Minister
- **Inspect and certify** compliance by HEs with prescribed norms and standards, or where appropriate and necessary, withdraw such certification
- **Investigate complaints** about the national health system
- **Monitor indicators of risk** as an early-warning system about serious breaches of norms and standards and report any breaches to the Minister without delay

- **Identify areas and make recommendations for intervention** by a national or provincial department of health or municipal health department, where necessary, to ensure compliance with prescribed norms and standards
- **Recommend quality assurance and management systems** for the national health system to the Minister for approval
- **Keep records** of all OHSC activities.

In addition the OHSC may:

- **Issue guidelines** for the benefit of HEs to implement prescribed norms and standards
- **Publish any information relating to prescribed norms and standards** through the media and, where appropriate, within specific communities
- **Collect or request any information relating to prescribed norms and standards** from HEs and users
- **Liaise with any other regulatory authority** and without limiting the generality of this power, request information from, exchange information with and receive information from any such authority about matters of common interest or a specific complaint or investigation
- **Negotiate cooperative agreements with any regulatory authority** to coordinate and harmonise the exercise of jurisdiction over health norms and standards and ensure the consistent application of the principles of this Act.

7.3 The Protection of Personal Information Act, 2013 (Act No.4 of 2013) (PoPI)

The purpose of the PoPI Act is to ensure that all South African institutions, including the OHSC, conduct themselves in a responsible manner when collecting, processing, storing and sharing personal information by holding them accountable should they abuse or compromise such information in any way.

The PoPI legislation regards personal information as "precious goods" and gives owners of personal information certain rights of protection and the ability to exercise control over:

- when and how the information is shared (requires individual consent)
- the type and extent of information that is shared (must be collected for valid reasons)
- the transparent and accountable use of the data (limited to the purpose) and notification if/when the data is compromised
- who accesses personal information and the right to have personal data removed and/or destroyed
- adequate measures and controls to access personal information and tracking access to prevent unauthorised access
- the storage of personal information (requires adequate measures and controls to safeguard personal information and protect it from theft or being compromised)
- the integrity and continued accuracy of personal information (must be captured correctly and maintained by the institution that/person who accessed it).

7.4 Promotion of Access to Information Act, 2000 (Act No. 2 of 2000) (PAIA)

Section 32(1)(a) of South Africa's Constitution states that everyone has a right to access any information held by the state or another person to protect any rights. The PAIA gives all South Africans the right to access records held by the state, government institutions and private bodies.

The objectives of the PAIA are to:

- ensure that the State promotes a human rights culture and social justice
- encourage openness and establish voluntary and mandatory mechanisms
- establish procedures for the right to access information quickly, effortlessly, cost-effectively and as reasonably as possible
- promote transparency, accountability and effective governance of all public and private bodies by empowering and educating everyone to understand their rights in terms of the PAIA and in relation to public and private bodies
- create an understanding of the functions and operation of public bodies
- encourage the scrutiny of and participation in decision-making by public bodies that affect individual/public rights.

7.5 National Policy on Quality in Healthcare, 2007 (NPQ)

A focus on quality assurance and improvement is not a new concept. The 2001 NPQ was revised in 2007. The policy identifies mechanisms to improve the quality of healthcare in the public and private sectors and highlights the need to involve health professionals, communities, patients and the broader healthcare delivery system (Department of Health) in capacity-building efforts and quality initiatives.

The objectives of the NPQ are to:

- improve access to quality healthcare
- increase patients' participation and the dignity afforded to them
- reduce underlying causes of illness, injury and disability
- expand research on treatments specific to South African needs and the evidence of effectiveness
- ensure appropriate use of services, and
- reduce errors in healthcare.

7.6 National Core Standards for Health Establishments in South Africa (NCS)

The NCS is based on input from numerous stakeholders and extensive field use and forms the basis for the proposed norms and standards that the Minister will prescribe into law through regulations. The standards are aligned with South Africa's existing policy and healthcare context and reflect international best practice and a strong evidence base.

The purpose of the NCS is to:

- develop a common quality care definition for all HEs in South Africa to guide the public, managers and staff at all levels
- establish a benchmark to assess HEs, identify gaps and appraise strengths and
- certify HEs that comply with mandatory standards.

The public health system prioritises the following six critical standards as of most concern to patients:

- Values and attitudes
- Waiting times
- Cleanliness
- Patient and staff safety and security
- Infection prevention and control
- Availability of medicines and supplies.

The Minister of Health published the proposed norms and standards regulations for comment in February 2015 under Sections 90(b) and 90(c) of the NHA, as amended. Constructive comments were incorporated in the draft regulations and submitted to the Minister for final promulgation in the Government Gazette. The prescribed norms and standards will apply to the following categories of HEs:

- Public sector hospitals, as set out in the Government Gazette, No 35101
- Public sector clinics
- Public sector community health centres
- Private sector acute hospitals
- Private sector primary healthcare clinics and centres.

The regulations for norms and standards will also apply to other HE categories in the NHA when the Minister, advised by the OHSC, has issued the related norms and standards. The proposed norms and standards are informed mainly by the NCS, published in 2011, with approval from the NHC. The OHSC has consulted extensively since 2013 to correct errors, clarify ambiguities, ensure measurability and align the framework of domains and sub-domains as areas of risk.

7.7 OHSC proposed procedural regulations

The constructive feedback from the public on the proposed norms and standards regulations under Section 90(b) and (c) of the NHA, published for comment as indicated above, were incorporated in the draft regulations and submitted to the Minister for final promulgation in the Government Gazette. These regulations will guide the exercise of powers conferred on the OHSC and its Board, Chief Executive Officer, Ombud and Inspectors, which they will elaborate on in the form of details, procedures and processes.

The regulations cover the following areas:

- Collection of information from HEs and designation and duties of the person in charge
- Inspectors and inspections including appointment, training, experience and conduct and the inspection approach and process including notice and additional inspections
- Entry and search of premises including prior-consent procedures or the application for a warrant if required
- Processes of certification, renewal and suspension
- Compliance notice and enforcement process, including formal hearing, revocation of certificate, fines or referral to prosecuting authority, appeals and reporting
- Complaints handling, investigation and resolution procedures, lodging of complaints, screening, investigation and reporting and turnaround times
- General provisions about using prescribed forms (listed in Schedule 1).

The proposed procedural regulations are applicable to all categories of HEs as per the NHA.

7.8 National Health Insurance (NHI)

The NHI is based on the principles of universal coverage, equity, right of access to basic healthcare and social solidarity, irrespective of a person's socio-economic status. An effective and well-functioning health quality system with set standards and norms that are implemented effectively is essential for the successful execution of the NHI. The related White Paper (December 2015) and subsequent policy announcements propose that OHSC accreditation of HEs will in future be a prerequisite for accessing NHI funding.

7.9 Batho Pele and the Patient's Rights Charter

Alongside health-specific policies and legislation, the Batho Pele principles govern all public services, including healthcare delivery. The Batho Pele ("People First") initiative encourages service-orientation, excellence and improved delivery among public servants. The eight Batho Pele principles aimed at enhancing public service delivery (Republic of South Africa, 2007) are:

- Regularly consult with customers
- Set service standards
- Increase access to services
- Ensure higher levels of courtesy
- Provide more and better information about services
- Increase openness and transparency about services
- Remedy failures and mistakes
- Give the best possible value for money.

In response, the health sector promulgated the "Patient's Rights Charter", which specifies – as re-iterated in the NCS – that the rights of patients must be respected and upheld, including the right to access basic care and receive respectful, informed and dignified attention in an acceptable and hygienic environment. Patients should be empowered to make informed decisions about their health and complain if they do not receive decent care.

7.10 National Development Plan (NDP)

The NDP Vision 2030 states that a health system with positive health outcomes for the country is possible and will:

- Raise the life expectancy of South Africans to at least 70 years
- Ensure that the under-20s generation is largely free of HIV
- Significantly reduce the burden of disease
- Achieve an infant mortality rate of less than 20 deaths per thousand live births and under-5 mortality rate of less than 30 per thousand.

Priority 2 in the NDP focuses on strengthening the health system and includes the role of the OHSC as the independent entity mandated to promote quality by measuring, benchmarking and accrediting actual performance against quality standards. A specific OHSC focus is on achieving common basic standards in the public and private sectors.

7.11 Other legislation relevant to the delivery of health services

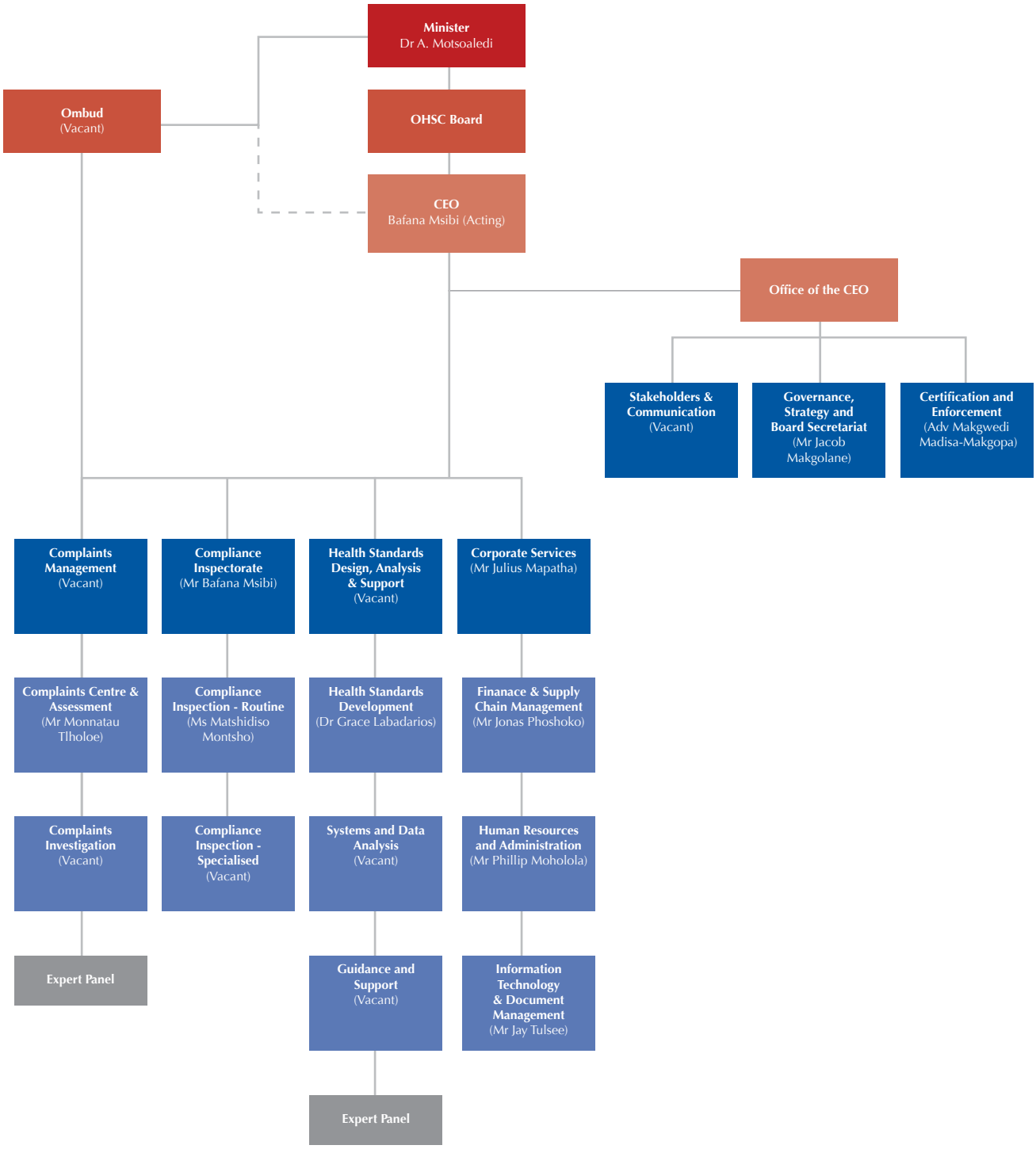
The legislation referred to in the NHA that influences the execution of the OHSC mandate and functions are reflected in the Table 1.

Legislation that influences the OHSC in the fulfilment of its mandate

Medical Schemes Act, 1998 (Act No. 131 of 1998)	Regulates the medical schemes industry to ensure alignment with national health objectives
Medicines and Related Substances Act, 1965 (Act No. 101 of 1965)	Registers medicines and other medicinal products for safety, quality and efficacy and provides pricing transparency
National Health Laboratory Service Act, 2000 (Act No. 37 of 2000)	Acts as a statutory body for laboratory services to the public health sector
Health Professions Act, 1974 (Act No. 56 of 1974)	Regulates the health professions, specifically medical practitioners, dentists, psychologists and other health-related professions, including their community services
Pharmacy Act, 1974 (Act No. 53 of 1974)	Regulates the pharmacy profession, including community service by pharmacists
Nursing Act, 2005 (Act No. 33 of 2005)	Regulates the nursing profession
Allied Health Professions Act, 1982 (Act No. 63 of 1982)	Regulates health practitioners such as chiropractors, homeopaths and others, and for the establishment of a council to regulate these professions.
Dental Technicians Act, 1979 (Act No. 19 of 1979)	Regulates dental technicians and the establishment of a council to regulate the profession
Hazardous Substances Act, 1973 (Act No. 15 of 1973)	Controls hazardous substances, particularly those that emit radiation
Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act No. 54 of 1972)	Regulates foodstuffs, cosmetics and disinfectants and sets quality and safety standards for their sale, manufacturing and importation
Occupational Diseases in Mines and Works Act, 1973 (Act No. 78 of 1973)	Provides for medical examinations of persons suspected of having contracted occupational diseases, especially in mines, and for compensation in respect of those diseases
Human Tissue Act, 1983 (Act No. 65 of 1983)	Administers matters that relate to human tissue

8. ORGANISATIONAL STRUCTURE

Figure 1 OHSC organisational structure



PART B: PERFORMANCE INFORMATION

1. AUDITOR'S REPORT: PREDETERMINED OBJECTIVES

The Auditor-General of South Africa currently performs the certain audit procedures on the OHSC performance information to provide reasonable assurance in the form of an audit conclusion.

The audit conclusion on performance against predetermined objectives is included in the report to management, with material findings reported under the Predetermined Objectives heading in the Report on other legal and regulatory requirements section of the Auditor's Report.

Refer to page 55 of the Report of the Auditors under Part E: Financial Information.

2. SITUATIONAL ANALYSIS

2.1 Service delivery environment

The regulator service delivery environment of the OHSC is influenced by the policy and legislative provisions outlined in Part A of this report, as well as by the actual situation on the ground and responses and initiatives implemented to address challenges and reinforce achievements.

2.1.1. The quality challenge

Despite major strides in improving access to healthcare services, user perceptions of inadequate access persist. Improving the quality of healthcare, therefore, is a key OHSC objective to address the widespread dissatisfaction and perceived levels of harm among healthcare patients in the public sector, as well as the high cost and persisting inequities still apparent in previously disadvantaged areas and between the public and private sectors.

These concerns were confirmed by the results of a national audit of all public sector healthcare facilities in 2011 and 2012. The audit revealed very low levels of compliance with standards in the six identified priority areas or basic critical requirements. Other identified health sector organisational problems included:

a) Unacceptable poor healthcare quality and unsafe health services
b) High levels of inequality in per capita health expenditure between the public and private sectors
c) A public health system with poor outcomes and a low return on investment due to:
    - An under-resourced and overburdened public health sector
    - A fragmented health system, and
    - Poor leadership and management at the different levels of care
d) A fragmented health information management system characterised by lack of standardisation and poor measurement of outcomes
e) An increase in public discontent and frustration with the health system based on user experiences.

The critical underlying causes were identified as inadequate resources, knowledge, experience and skills among managers and staff and weak accountability mechanisms without consequences/rewards for poor/good care. A semi-federal public system with a multitude of different standards being implemented across the country and a largely unregulated private sector exacerbates the situation.

2.1.2. Health reform efforts and quality implications

The Department of Health is implementing a large number of healthcare reform initiatives in preparation for the NHI and to ensure that the public health sector can deliver on key expectations and requirements, including that of safety and quality. This reinforces the regulatory role of the OHSC as an objective guide for and assessor of performance in HEs.

The NDoH initiatives relevant to the OHSC, during the past year and going forward, include the development of staffing norms for hospitals and clinics; infrastructure rehabilitation and maintenance processes in healthcare establishments; structures and systems review to strengthen governance, oversight and management and recruit hospital managers (and later clinics); better controls in acquiring and using/over-using resources; and a major focus on clinic management and service delivery. These aspects are directly reflected in the National Core Standards and the norms and standards regulations set for promulgation by the Minister. The OHSC is focused, inter alia, on improving the delivery of quality, which is essential for improved compliance and the health and safety of users.

Improving the knowledge and skills of healthcare managers through appropriate formal training, seminars, mentoring, collaboration, health worker motivation and e-learning, as well as operational research and documenting best practice is another key priority for the OHSC and will be a critical success factor in guiding client compliance with norms and standards.

The impact of the socio-political and economic situation in the country on healthcare resourcing is critically important to the work of the OHSC. The office is cognisant of the effect of cost escalations, reduced budget allocations and a decrease in the

levels of quality and safety in the healthcare industry. This was a further reason for the urgent establishment, through the NHA, of external monitoring and regulation to protect patients and users where necessary.

The overall economic situation and funding of public services will also determine when and by how much the OHSC will increase the cost of services rendered in terms of legislative provisions.

2.1.3. Mock inspections and findings

Since 2011, before the establishment of the OHSC, the Office of Standards Compliance (OSC) has undertaken "mock" or training inspections of public sector institutions. Validated inspections at 891 (over 20%) public healthcare establishments by December 2014 had provided sufficient data to analyse sector challenges. The results confirmed significant deficits and variations in the quality of health services, which supported the rationale for establishing a regulator. The challenges included:

- a lack of quality healthcare in clinics, which are a cornerstone of the proposed South African National Health Insurance (NHI) policy
- varying levels of healthcare quality and safety in provinces, where inequities persist
- inefficient supply and support systems at all levels
- a lack of individual (managerial, clinical) responsibility and/or accountability for delivering quality healthcare and treating patients and health service users with respect.

The OHSC has continued with mock inspections at public sector HEs. During the year under review, 495 out of a possible 3 813 (13%) validated mock inspections took place. The results indicated some improvement, presumably also in response to remedial suggestions by OHSC staff during the mock inspections. This is a positive step in the right direction. We applaud cooperation from HEs to improve the quality of care given to users.

2.1.4. Envisaged impact

Delivering quality services in the healthcare sector will improve the outcome of healthcare interventions and support the NHI goal of providing users with universal health coverage. Improved quality implies adherence to defined best practice guidelines through the reliable implementation (at all times, in all places and for all patients) of processes and practices that reduce unintended harm to patients and avoidable mortality and morbidity. Quality healthcare will improve patient care experiences, their choice in healthcare services and the effective and efficient use of healthcare resources by the public.

2.2 Organisational environment

The work culture and location of the OHSC, over which it previously had no direct control, are critical components of creating a work environment that is conducive to executing its mandate effectively. The evolution of the OHSC, from 2006 as a component of the NDoH Cluster: OSC to an independent entity with a Board in early 2014, has taken eight years and created a foundation of experienced inspectors with a deep knowledge and understanding of the entire health system.

We acknowledge the role of the NDoH Cluster: OSC in policy development and legislative preparation for the establishment of the OHSC. Under the oversight of the Board, our transition to becoming an independent regulator is now almost complete.

Our independence has brought with it key strengths and challenges. In the first instance, the work of the OHSC is now documented and more objective and focused, while challenges included creating new structures and systems and meeting public expectations for immediate impact while still in a growth and development phase.

During our first year of operating independently, the OHSC recruited people with the required skills for its compliance inspectorate and complaints management divisions. The Office exceeded its recruitment target of 60% by 32%, with the majority of the staff employed in core business divisions.

Some executive positions remain vacant. This includes the CEO position, which is currently filled by an acting incumbent. Following a second round of interviews, the Board hopes to appoint the CEO early in the 2016/17 financial year.

2.3 Key policy developments and legislative changes

Board approval of OHSC governance and operational policies during the past year enabled management to implement and monitor compliance with the policies and submit quarterly reports to the Board that included reporting on compliance with policies and legislative prescripts.

The proposed norms and standards and procedural regulations published for comment in the last quarter of the 2014/15 financial year were refined to include rigorously reviewed public comments and submitted for final promulgation by the Minister. Under the NHA, as amended, these regulations will empower the OHSC to execute its mandate in the public as well as private health sectors by enforcing compliance with the required norms and standards.

2.4 Strategic outcome-orientated goals

The OHSC has four strategic outcome-orientated goals to fulfil its mandate, as summarised in Table 2.

Table 1 Summary of OHSC strategic outcome-orientated goals

Goal 1: HEs (HEs) comply with quality norms and standards	
Statement	HEs comply with norms and standards for the health and safety of users and provision of quality, compassionate and responsive care
Indicator	Number and % of HEs certified as compliant with quality standards
Achievement	Achievement targeted for 2016/17, following the promulgation of the regulations
Goal 2: Patient and community complaints regarding poor care and situations of concern are heard and responded to	
Statement	The public is protected by ensuring that poor care and situations of concern are heard and responded to
Indicator	Number and % of complaints from users and communities that are responded to within six months
Achievement	45%
Goal 3: The quality and safety of healthcare is progressively improved through effective communication and collaboration between the OHSC and users, providers and other entities	
Statement	The OHSC communicates and works with users, providers and other entities through written agreements to collaborate and share information to enhance quality and compliance
Indicator	Number of public awareness initiatives executed
Achievement	8
Goal 4: The OHSC is an efficient and effective high performing organisation that is responsive and publicly accountable	
Statement	The OHSC is an efficient and effective high-performing organisation that is responsive and publicly accountable
Indicator	Auditor-General's annual findings rating
Achievement	Unqualified audit report

3. PERFORMANCE INFORMATION BY PROGRAMME

3.1 Programme 1: Office of the CEO

Programme purpose: To provide the leadership, communication and regulatory functions required to carry out the mandate and functions of the OHSC as per the legislative requirements.

Table 2 Strategic objectives for the Office of the CEO

Strategic objective 1.4	HEs found to be compliant with prescribed norms and standards are certified
Statement	HEs found on inspection to be compliant with prescribed norms and standards are issued with certificates of compliance within 60 days of inspection
Indicator	System for certification of compliant instructions set up and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System set up and functional
Indicator	% compliant establishments certified by the OHSC within two months of inspection by the OHSC
Baseline (2014/15)	New indicator
Target (2015-20)	100%

Strategic objective 1.5	Enforcement action is effected with respect to persistently non-compliant HEs
Statement	Enforcement action as regulated is taken with respect to persistently non-compliant HEs
Indicator	System and procedures for timely enforcement action set up and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System set up and functional
Indicator	% persistently non-compliant establishments for which regulated actions initiated within 6 months of inspection by the OHSC
Baseline (2014/15)	New indicator
Target (2015-20)	100%

Strategic objective 2.4	Recommendations made by the Ombud are monitored
Statement	Recommendations relating to complaints of non-compliance with prescribed norms and standards are monitored and followed-up by the OHSC
Indicator	System and procedures for communication of and monitoring of Ombud recommendations set up and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System set up and functional
Indicator	% of Ombud recommendations monitored within six months of tabling to OHSC
Baseline (2014/15)	New indicator
Target (2015-20)	80%

Strategic objective 3.1	Public, provider and stakeholder awareness on the roles and powers of OHSC is created
Statement	Activities are carried out to create public awareness on roles and powers of OHSC.
Indicator	Number of media and communication events and campaigns to increase awareness of the OHSC among public, providers and stakeholders carried out annually
Baseline (2014/15)	New indicator
Target (2015-20)	12

Strategic objective 3.3	Memoranda of Agreement (MoAs) to further the mandate and objectives of the OHSC are in place with relevant regulators or other organisations
Statement	MoAs to further mandate and objectives of OHSC relating to improved quality and safety are signed with relevant regulators or other organisations and their implementation is monitored prior to annual ratification
Indicator	Number of MoAs with regulators to protect and promote quality and safety of care in place each year
Baseline (2014/15)	New indicator
Target (2015-20)	10

Strategic objective 3.6	Information relating to compliance with norms and standards is published
Statement	Information relating to compliance with norms and standards is published
Indicator	Number of reports on inspections conducted, recommendations issued, and compliance status of HEs
Baseline (2014/15)	New indicator
Target (2015-20)	5

Table 3 Performance against strategic objectives for the 2015/16 financial year

Strategic objective	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual achievement 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
1.4. HEs found to be compliant with prescribed norms and standards are certified	System for certification of compliant establishments set up and functional	New indicator	System set up and functional	Target not achieved	Draft threshold for compliance proposal developed, awaiting approval	Awaiting promulgation of the norms and standards and regulations
1.5. Enforcement action is effected with respect to persistently non-compliant HEs	System and procedures for timely enforcement action set up and functional	New indicator	System set up and functional	Target not achieved	Draft enforcement policy developed, awaiting approval	Awaiting promulgation of the procedural regulations
2.4. Recommendations made by the Ombud are monitored	System and procedures for communication and monitoring of Ombud recommendations set up and functional	New indicator	System set up and functional	Target not achieved	No achievement	Awaiting the appointment of the Ombud by the Minister
3.1. Public, provider and stakeholder awareness on the roles and powers of OHSC is created	Number of media and communication events and campaigns to increase awareness of the OHSC among public, providers and stakeholders carried out annually	New indicator	4	Conducted 8 media and communication events and campaigns	Target exceeded	These included media statements on identified high risk HEs
3.3. Memoranda of Agreement (MoAs) to further the mandate and objectives of the OHSC are in place with relevant regulators or other organisations	Number of MoAs with regulators to protect and promote quality and safety of care in place each year	New indicator	2	Signed 2 MoAs to second staff to assist the OHSC during its development stage	Target achieved	No deviation
3.6. Information relating to compliance with norms and standards is published	Number of reports on inspections conducted, recommendations issued, and compliance status of HEs	New indicator	2	Issued 2 Inspection Reports	Target achieved	No deviation

Key for Actual Achievement column

Not achieved	Achieved

Achievements

The Office of the CEO exceeded its planned target of creating public awareness about the OHSC. This achievement means that, through media engagements, the public is now aware of the existence and mandate of the OHSC to promote the quality and safety of healthcare users.

Work in progress

Systems to certify compliant HEs will be finalised in the forthcoming period and the Board's Certification and Enforcement Committee agreed to the compliance thresholds on the IT system that require timeous reporting for decisions on the certification of compliant HEs. A draft enforcement policy was developed for Board approval during the first quarter of 2016/17.

The system to determine compliance will be installed once the IT system required for certification reporting has been procured. A system functionality proposal that supports timeous decisions about certification was presented to the Board for approval. No performance is therefore reported under the certification of HEs. The monitoring of Ombud recommendations will commence once the Ombud is appointed.

Challenges

The functionality of systems to certify HEs and enforce measures against non-compliant HEs depends on the promulgation of the regulations, as does the implementation of an enforcement policy aligned with the regulations. The system to escalate complaints awaits the appointment of the Ombud, while MoAs with relevant regulators to further the mandate and objectives of the OHSC will take effect in the new financial year.

Table 4 Performance against allocated budget: Office of the CEO

2015/16			
Programme	**Budget (R)**	**Actual Expenditure (R)**	**(Over)/Under Expenditure (R)**
Office of the CEO	11 048 093	5 874 012	5 174 081
TOTAL	**11 048 093**	**5 874 012**	**5 174 081**

3.2 Programme 2: Corporate Services

Programme purpose: To provide the financial, human resources, IT and administrative support necessary for the OHSC to deliver on its mandate and comply with all relevant legislative requirements.

Table 5 Strategic objectives for Corporate Services

Strategic objective 4.1	A fully functional Office is set-up and suitably staffed in accordance with the mandate and goals of the OHSC
Statement	A functional OHSC is established with a budget and personnel in place to effectively implement the mandate of the Office.
Indicator	% funded staff appointed
Baseline (2014/15)	New indicator
Target (2015-20)	90%

Strategic objective 4.4	Financial management and PFMA requirements are complied with
Statement	The PFMA Procedures for management controls and accountability as per the PFMA are in place.
Indicator	Unqualified audit report without findings
Baseline (2014/15)	New indicator
Target (2015-20)	Unqualified audit report

Strategic objective 4.5	The IT system leverages technology to meet the needs of the OHSC
Statement	Specialised IT system for the OHSC is implemented
Indicator	IT system in place and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System in place and fully functional

Table 6 Performance against strategic objectives for the 2015/16 financial year

Programme 2: Corporate Services

Strategic objective	Performance indicator	Actual achievement 2014/15	Planned target 2015/16	Actual achievement 2015/16	Deviation from planned target to actual achievement for 2015/16	Comment on deviations
4.1. A fully functional Office is set-up and suitably staffed in accordance with the mandate and goals of the OHSC	60% funded staff appointed	New indicator	60%	92%	32%	Target exceeded due to transferring employees from NDoH
4.4. Financial management and PFMA requirements are complied with	Unqualified audit report without findings	New indicator	Unqualified audit report	Unqualified audit report	Target achieved	No deviation
4.5. The IT system leverages technology to meet the needs of the OHSC	IT system in place and functional	New indicator	System in place	Target partially achieved	Implemented accounting, inventory, payroll and asset management systems	NDoH withdrew OHSC IT Line of Business tender in the 2nd quarter

Key for Actual Achievement column

Partially achieved	**Achieved**

Achievements

During the financial year under review, 88 or 92% of the 96 funded posts were filled as at 31 March 2016. This is 32% higher than the set target of 60%.

As a new public entity, the OHSC developed and implemented the necessary human resource policies, procedures and systems to ensure compliance with the requisite regulatory frameworks. The Information Technology (IT) platform for the OHSC is largely a greenfields environment. During the year under review, the primary focus was on installing information systems for finance and accounting, procurement, payroll administration and assets and inventory management. The OHSC continued to use the district health information system (DHIS) during the review period for purposes of obtaining HEs data.

Challenges

Inadequate office space for the OHSC, as a fast-expanding organisation, was a major challenge during the past year and became more critical as the number of staff increased. In addition, the scarcity of health professionals with specialised skills led to the re-advertising of some posts but met with no success.

The critical need for IT systems to manage complaints and compliance inspection were not met, as the procurement of both was included in the OHSC Line-of-Business Solutions (LOBS) tender that was cancelled by the NDoH. The request to the department to roll over the funds from the 2014/15 financial year was unsuccessful.

Action plans

In the year ahead, the OHSC will procure sufficient office space to cater for a growing organisation and head hunt specialised health professionals where the traditional recruitment methods are unsuccessful. The implementation of the OHSC Information Communications and Technology (ICT) strategy, which was presented to the Board for approval at the end of the reporting period, includes the management of critical aspects such as infrastructure, digitisation, automation, business intelligence, security and risk, as well as the procurement of systems for complaints management and compliance inspections.

Table 7 Performance against allocated budget: Corporate Services (current and capital)

2015/16			
Programme	**Budget** (R)	**Actual Expenditure** (R)	**(Over)/Under Expenditure** (R)
Corporate Services	25 611 190	23 380 802	2 230 388
TOTAL	**25 611 190**	**23 380 802**	**2 230 388**

3.3 Programme 3: Compliance Inspectorate

Programme purpose: To manage the inspections of HEs in order to assess and encourage compliance with national health system norms and standards as prescribed by the Minister and take measures to ensure such compliance. The Compliance Inspectorate is the core function within the OHSC.

The division inspects all HEs for compliance with the prescribed norms and standards in the NHA, as amended, to ensure that the people of South Africa receive safe and quality healthcare services. The nature, extent and gravity of HE non-compliance inform the need for re-inspection.

Table 8 Strategic objectives for the Compliance Inspectorate

Strategic objective 1.3	Compliance with quality standards in regulated HEs is monitored and inspected at least every 4 years and relevant action is taken
Statement	To ensure acceptable standards of quality and safe healthcare delivery through compliance inspections in public HEs and HEs inspected at least every 4 years and relevant action is taken
Indicator	% of public sector clinics, CHCs and hospitals inspected annually by the OHSC
Baseline (2014/15)	10%
Target (2015-20)	20%
Indicator	% of private sector clinics, CHCs and hospitals inspected annually by the OHSC
Baseline (2014/15)	New indicator
Target (2015-20)	20%

Strategic objective 1.4	Non-compliant HE are subjected to re-inspection or review within 6 months
Statement	Non-compliant HEs are subjected to re-inspection or review within six months
Indicator	% of provisionally non-compliant HEs subjected to re-inspection or review within six months
Baseline (2014/15)	New indicator
Target (2015-20)	60%
Strategic objective 4.3	Inspectors accredited after successfully completing approved training course
Statement	To formally accredit inspectors through staff training and development within the OHSC as part of overall training an staff development function
Indicator	Requirements and procedures for accreditation of inspectors approved by the Board
Baseline (2014/15)	New indicator
Target (2015/20)	Requirements approved
Indicator	No of compliance inspectors accredited as competent
Baseline (2014/15)	New Indicator
Target (2015-20)	60 accredited inspectors

Table 9 Performance against strategic objectives for the 2015/16 financial year

Programme 3: Compliance Inspectorate						
Strategic objective	**Performance indicator**	**Actual achievement 2014/15**	**Planned target 2015/16**	**Actual achievement 2015/16**	**Deviation from planned target to actual achievement for 2015/16**	**Comment on deviations**
1.3. Compliance with quality standards in regulated HEs is monitored and inspected at least every 4 years and relevant action is taken	% of public sector clinics, CHCs and hospitals inspected annually by the OHSC	New indicator	10%	13%	3%	Approved procedures enabled efficiency in conducting inspections
1.4. Non-compliant HE are subjected to re-inspection or review within 6 months	% of provisionally non-compliant HEs subjected to re-inspection or review within six months	New indicator	30%	36%	6%	Approved procedures enabled efficiency in conducting re-inspections
4.3. Inspectors accredited after successfully completing approved training course	Requirements and procedures for accreditation of inspectors approved by the Board	New indicator	Approved procedures for accreditation of inspectors	Approved procedures	Target achieved	Accreditation procedures of inspectors approved by the Board on 29/01/2016

Key for Actual Achievement column

Partially achieved	Achieved

Achievements

The OHSC exceeded its inspection and re-inspection targets by 3% and 6% respectively. The implementation of Standard Operating Procedures (SOPs) supported the well-planned and rigorous inspections. The integrity, reliability and credibility of inspection reports are critical in determining the criteria for re-inspection. The application of quality control processes/ measures, such as intra-team validation and peer review, strengthened these outcomes.

The Board approved the requirements and procedures for the accreditation of inspectors in the fourth quarter of the year under review after extensive OHSC/Board/Certification and Enforcement Committee (CEC) deliberations.

Challenges

The non-promulgation of regulations and inadequate resources made it difficult to exercise powers of enforcement and inspect at least 25% of HEs as mandated by the NHA to achieve 100% coverage by the fourth year. Additional funding is required for additional resources to meet the set targets. The acceptable 70% performance rating for HEs is too high, as most of the inspected HEs scored below that mark. This increased the number of re-inspections significantly and impacted on resources which could have been directed towards routine inspections. The tender for a service provider to train inspectors was re-advertised without success.

Action plans

The OHSC appointed inspectors and senior inspectors to increase the capacity within and number of inspection teams from five to eight to deal with the inclusion of private HEs under the awaited promulgated regulations. The acceptable HE performance level of 70%, below which re-inspection is required, was reduced to 50% and newly appointed inspectors will be trained and accredited.

Table 10 Performance against allocated budget: Compliance Inspectorate

2015/16			
Programme	Budget (R)	Actual Expenditure (R)	(Over)/Under Expenditure (R)
Compliance Inspectorate	34 501 367	30 492 386	4 008 981
TOTAL	**34 501 367**	**30 492 386**	**4 008 981**

3.4 Programme 4: Complaints Management (and Ombud*)

Programme purpose: To consider, investigate and dispose of complaints relating to the non-compliance with prescribed norms and standards in a procedurally fair, economical and expeditious manner. (*Ombud functions have been integrated into strategic objectives and indicators as the Ombud is functionally located within the OHSC [NHA Section 81 (3)(b) as amended] and uses OHSC staff [NHA Section 81 (3)(c) as amended] but funding is ring-fenced).

This division provides independent and objective consideration and investigation to overcome complaints with the intention to add value to and improve the OHSC's operations, as well as achieve the set objectives. Those for the 2015/16 financial year are tabulated in Table 11.

Table 11 Strategic objectives for Complaints Management (and Ombud)

Strategic objective 2.1	An accessible mechanism by which Complaints can be lodged with the OHSC is in place
Statement	An accessible mechanism by which Complaints can be lodged with the OHSC is in place
Indicator	Call centre in place and functional
Baseline (2014/15)	New Indicator
Target (2015-20)	Call centre meeting requirements in place and functional

Strategic objective 2.2	Complaints or concerns regarding non-compliance with norms and standards are effectively managed and disposed of
Statement	Complaints regarding non-compliance with norms and standards are effectively managed and disposed of
Indicator	System for receiving and managing complaints set up and functional
Baseline (2014/15)	New indicator
Target (2015/20)	System in place
Indicator	(%) of complaints lodged with the OHSC managed and resolved within six months
Baseline (2014/15)	New indicator
Target (2015-20)	80%

Strategic objective 2.3	Findings and recommendations relating to complaints of non-compliance with prescribed norms and standards are issued within six months
Statement	Findings and recommendations relating to complaints of non-compliance with prescribed norms and standards are issued within six months
Indicator	System and procedures for investigation of complaints set up
Baseline (2014/15)	New indicator
Target (2015/20)	System set up and functional
Indicator	% investigations closed within six months
Baseline (2014/15)	New indicator
Target (2015-20)	80%

Table 12 Performance against strategic objectives for the 2015/16 financial year

Programme 4: Complaints Management (and Ombud*)						
Strategic objective	**Performance indicator**	**Actual achievement 2014/15**	**Planned target 2015/16**	**Actual achievement 2015/16**	**Deviation from planned target to actual achievement for 2015/16**	**Comment on deviations**
2.1. An accessible mechanism by which complaints can be lodged with the OHSC is in place	Call Centre in place and functional	New indicator	Call centre functional	Target not achieved	N/A	Call Centre procurement delayed by SITA engagements for proposal, which was not supported by NT. OHSC advised to use open tender to test market
2.2. Complaints or concerns regarding non-compliance with norms and standards are effectively managed and disposed of	System for receiving and managing complaints set up and functional	New indicator	System set up	Target partially achieved	Awaiting promulgation of procedural regulations for alignment with developed policy and procedures	Policy and procedures developed and implemented as interim measure pending procedural regulations promulgation
	% complaints lodged with OHSC managed and resolved within 6 months	New indicator	50%	45% Target not achieved	(5%)	Majority of complaints related to private sector Awaiting promulgation of regulations for powers of investigation
2.3. Findings and recommendations relating to complaints of non-compliance with prescribed norms and standards are issued within 6 months	System and procedures for investigation of complaints set up	New indicator	System set up	Target partially achieved	Awaiting promulgation of procedural regulations for alignment with developed policy and procedures	Policies and procedures developed as interim measure and all complaints investigated Severity Assessment Matrix developed as selection criteria for investigation

Key for Actual Achievement column

Not achieved	Partially achieved

The Complaints Management division started operating in the second quarter of the year under review, following the appointments of the Director: Complaints Management and two Assistant Directors between July and October 2015. Activities were focused mainly in the public sector, where HEs cooperated with the OHSC despite the non-promulgation of regulations that empower the OHSC to investigate complaints.

Achievements and challenges

Two of the targets related to the programme's four performance indicators were partly achieved and two not achieved. The underachievement was due mainly to the delays in promulgating the procedural regulations to investigate healthcare norms and standards and establishing a Call Centre. While some progress occurred with setting up the latter, the appointment of a service provider to install the system will be completed only in the first quarter of the new financial year. The majority of complaints received were against private sector HEs but await the promulgation of procedural regulations which will empower the OHSC to investigate and enforce action to remedy non-compliance.

Table 13 Performance against allocated budget: Complaints Management (and Ombud)

2015/16			
Programme	**Budget (R)**	**Actual Expenditure (R)**	**(Over)/Under Expenditure (R)**
Complaints Management (and Ombud)	9 568 318	3 498 872	6 069 446
TOTAL	**9 568 318**	**3 498 872**	**6 069 446**

3.5 Programme 5: Health Standards Design, Analysis and Support

Programme purpose: To provide high-level technical, analytical and educational support to the work of the Office in relation to the development and analysis of norms and standards and support for their dissemination.

The programme is responsible for developing standards for different types of HEs and providing technical support to analysing all information collected by the OHSC.

Table 14 Strategic objectives for Health Standards Design, Analysis and Support

Strategic objective 1.1	All HEs obligated or regulated by prescribed norms and standards are registered annually for purposes of monitoring and inspections
Statement	All HEs obligated by prescribed norms and standards / regulated HEs submit required data for registration annually
Indicator	System for annual registration of regulated HEs set up and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System set up and functional
Indicator	Regulated HEs registered with the OHSC annually
Baseline (2014/15)	New indicator
Target (2015-20)	80%

Strategic objective 1.2	Guidance is provided on compliance with norms and standards for regulated HEs
Statement	National, provincial, district and municipal authorities and hospital groups that have completed the OHSC training of trainers programme
Indicators	% of relevant authorities responsible for support to public HEs that have received guidance to comply with norms and standards
Baseline (2014/15)	New indicator
Target (2015-20)	90%

Strategic objective 1.6	Early warning reports of potential situations of risk from HEs or users are monitored to prioritise inspections
Objective statement	HEs identified as high risk by early warning reports for which appropriate action (reporting, inspection, investigation) was taken within 2 months
Indicator	Surveillance system set up for reporting on indicators of risks to compliance
Baseline (2014/15)	New indicator
Target (2015/20)	System set up and functional
Indicator	% of high risk HEs with action taken within 2 months
Baseline (2014/15)	New
Target (2015-20)	70%

Strategic objective 3.2	Norms and standards for different types of HEs are consulted, developed and/or revised for submission to the Minister for promulgation
Statement	Norms and standards for different types of HEs are consulted, developed and/or revised for submission to the Minister for promulgation
Indicators	System and procedures for selection, development or periodic review of norms and standards for different types of HEs set up and functional
Baseline (2014/15)	New indicator
Target (2015-20)	System set up and functional
Indicators	Norms and standards developed or reviewed annually
Baseline (2014/15)	New indicator
Target (2015-20)	3

Table 15 Performance against strategic objectives for the 2015/16 financial year

Programme 5: Health Standards Design, Analysis and Support						
Strategic objectives	**Performance indicator**	**Actual achievement 2014/15**	**Planned target 2015/16**	**Actual achievement 2015/16**	**Deviation from planned target to actual achievement for 2015/16**	**Comment on deviations**
1.1. All HEs obligated or regulated by prescribed norms and standards are registered annually for purposes of monitoring and inspections	System for annual registration of regulated HEs set up and functional	New indicator	System set up	Target not achieved	System not setup	Developed second draft proposal on submission of annual returns by HEs but not yet approved
1.2. Guidance is provided on compliance with norms and standards for regulated HEs	% of relevant authorities responsible for support to public HEs that have received guidance on compliance with norms and standards	New indicator	40%	89%	49%	Visited 8 relevant authorities (provincial departments of health)
1.6. Early warning reports of potential situations of risk from HEs or users are monitored to prioritise inspections	Surveillance system set up for reporting on indicators of risks to compliance	New indicator	System set up	Target not achieved	System not setup	Draft early-warning system (EWS) testing protocol developed but not yet approved
3.2. Norms and standards for different types of HEs are consulted, developed and/or revised for submission to and promul-gation by the Minister	System and procedures for selection, development or periodic review of norms and standards for different types of HEs set up and functional	New indicator	System set up	Target partially achieved	Awaiting promulgation of regulations by the Minister	Final norms and standards and procedural regulations submitted to the Minister of Health on 07/12/2015 for promulgation Further processing beyond OHSC control

Key for Actual Achievement column

Not achieved	Partially achieved	Achieved

Achievements

Regulations in the form of norms and standards, as well as inspection procedures, are fundamental to guiding the OHSC inspection process. A key milestones during the period under review was the revision of regulations based on stakeholder comments. State law advisors reviewed the revised regulations, which were submitted to the Minister and are awaiting approval and final promulgation in the Government Gazette.

The OHSC undertook provincial visits to eight of the nine provinces and carried out risk-based inspections at four HEs that were identified through early-warning system (EWS) reports. OHSC inspectors also piloted a facility profile tool intended for use by HEs to submit their annual data. The pilot process helped to refine the tool for a seamless transition when the system is in place and regulations promulgated.

Challenges

The delay in promulgating the regulations also delayed key processes, such as extending guidance and support to the relevant authorities for HEs in the private sector.

The installation of the IT system for the EWS real-time reporting process will be finalised in the new financial year and could not be comprehensively tested. The greenfields nature of the work done by the Health Standards Design, Analysis and Support programme requires staff with scarce high-level technical and analytical skills and despite being re-advertised, key senior management positions remained vacant at the end of the 2015/16 financial year.

Action plans

In the forthcoming financial year, we will fast-track the development of the EWS and the annual data submissions system to ensure a seamless transition once the regulations are promulgated. The relevant authorities will be identified from HE submissions with guidance and support visits scheduled to the relevant authorities. The comprehensive framework for the EWS will also be tested with sample HE data to ensure its readiness for implementation.

Table 16 Performance against allocated budget: Health Standards Design, Analysis and Support

2015/16			
Programme	**Budget (R)**	**Actual Expenditure (R)**	**(Over)/Under Expenditure (R)**
Health Standards Design, Analysis and Support	8 177 033	4 154 647	4 022 386
TOTAL	**8 177 033**	**4 154 647**	**4 022 386**

4 REVENUE COLLECTION

Table 17 Revenue collected for the 2015/16 financial year

2015/16			
Sources of revenue	**Estimate (R)**	**Actual amount collected (R)**	**(Over)/Under collection (R)**
Government grant	88 906 000	88 906 000	-
Interest received	-	194 489	(194 489)
TOTAL	**88 906 000**	**89 100 489**	**(194 489)**

The OHSC received the full transfer of its government grant for the 2015/16 financial year from the NDoH. In addition, an amount of R194 489 in interest was realised through short-term investments held with the OHSC bankers.

5 CAPITAL INVESTMENT

During the 2015/16 financial year, the OHSC leased offices temporarily from the South African Medical Research Council and undertook some refurbishments to make the leased space more suitable to the OHSC requirements. In the long-term, the OHSC will require office space that can accommodate a growing organisation.

Table 18 Capital investment during the 2015/16 financial year

2015/16			
Infrastructure projects	**Budget**	**Actual expenditure**	**(Over)/Under expenditure**
	R	**R**	**R**
Refurbishment of office space	897 200	843 777	53 423
TOTAL	**897 200**	**843 777**	**53 423**

PART C: GOVERNANCE

1 INTRODUCTION

The OHSC is a schedule 3A public entity under the PFMA, 1999, with a Board appointed by the Minister of Health under the NHA, 2003, as amended, and accountable to the Minister in terms of reporting on the operational activities of the entity. In addition to OHSC enabling legislation and the PFMA, 1999, the Board has adopted the King Code of Good Governance in South Africa (King III) principles where these are aligned to the public sector environment in which the entity operates. In executing its responsibility for corporate governance within the OHSC, the Board has put in place governance processes, systems and structures to assist in the control, direction and accountability of the entity.

2 PORTFOLIO COMMITTEE

The OHSC had its first meeting with the Portfolio Committee on Health in April 2015 and presented the first strategic plan (2015-2019) and annual performance plan (2015-2016) to the Committee. The Portfolio Committee supported the establishment of the entity and its mandate to protect and promote the safety and quality of healthcare for patients and users through regulating the compliance of HEs with prescribed norms and standards. The Committee, however, requested that inspections and re-inspections of public sector HEs annually be increased to cover all facilities during the strategic plan period. In response, the OHSC increased resources in the Compliance Inspectorate and exceeded its HE inspection target of 10% by 3% for the period under review.

The OHSC presented the results from the mock inspections conducted during the 2014/15 financial year to the Portfolio Committee on 16 March 2016. The Committee was especially interested in the information that related to the implementation of the NHI.

3 EXECUTIVE AUTHORITY

During the year under review, the OHSC submitted the following reports/returns to the executive authority as required by the PFMA, 1999:

- Quarterly performance information reports and management accounts for the year 2015/16
- 2016/17 Annual Performance Plan and Budget, including the Materiality and Significance Framework developed using the 2015/16 budget, as advised by the NDoH (at the time, the OHSC did not have audited financial statements for prior year to calculate materiality figures for the framework).

The Board presented the first inspections report for the 2014/15 financial year to the Minister on 8 December 2015. The Minister noted the findings in the report, specifically the challenges in the health system and expressed satisfaction with the work of the OHSC and confidence that it will enhance service delivery to healthcare users if HEs implement the suggested remedial interventions.

A review of the performance information reports for the year under review indicated that the entity is ready to move to the next phase of development. The promulgation of the norms and standards and procedural regulations by the Minister will enable the OHSC to implement the progressive performance indicators in the forthcoming financial year. These include HE certification, the inspection and re-inspection of private sector HEs and enforcement action to deal with persistent non-compliance.

These HE interventions and interaction will also help to determine their readiness for the introduction of the NHI.

4 THE ACCOUNTING AUTHORITY/BOARD

The Board of the OHSC

Professor Lizo Mazwai
Chairperson

Professor Laetitia Rispel
Deputy Chairperson

Dr. Zameer Brey
Board Member

Professor Sabiha Essack
Board Member

Mr. Martin Kascus
Board Member

Ms. Josephine Mabotja
Board Member

Professor Stuart Whittaker
Board Member

Dr. Ethelwym Stellenberg
Board Member

Advocate Simon Lebala SC
Board Member

Ms. Thembeka Gwagwa
Board Member

Professor Gert van Zyl
Board Member

Access to quality health care for South Africans reflects the constitutional obligations contained in the Bill of Rights. In carrying out its mandate and function, the OHSC's vision is to contribute to safe and quality health care by reducing avoidable mortality, morbidity and harm within health establishments through reliable and safe health services; and improving the availability, responsiveness and acceptability of health

4.1 Introduction

As the focal point of corporate governance within the OHSC, the Board is responsible for ensuring that the entity's strategic direction is aligned with its mandate and that the entity complies with legislative prescripts, including the PFMA, 1999 and National Treasury Regulations. The Board exercises leadership, enterprise and judgement in directing the OHSC in fulfilling its constitutional mandate and acts in the best interests of the OHSC at all times in a manner imbued with integrity, transparency, accountability and responsibility.

The Board's primary responsibilities include:

- Determining the purpose and values of the OHSC and giving it strategic direction
- Identifying the key risk areas and key performance indicators of the business
- Monitoring the performance of the OHSC against agreed objectives
- Advising the OHSC on significant financial matters and reviewing the performance of the executive management against defined objectives and where applicable, industry standards.

During the review period, the Board continued to provide management with strategic direction to execute the OHSC strategy and implement the operational plans for the strategic programmes. The Board monitored and reviewed the quarterly performance reports in terms of strategic goal achievement and was satisfied with management's progress in executing the entity's strategic plan.

The role of the Board, specifically, is to:

- retain full and effective control over the OHSC and monitor the implementation of the strategic plans and Board-approved financial, environmental and social objectives
- define levels of authority, reserving specific powers to itself and delegating other matters, with the necessary written authority, to the CEO
- regularly monitoring the delegation of authority
- ensure that an appropriate system of policies and procedures is in place and maintained and that suitable governance structures exist for the smooth, efficient and prudent stewardship of the OHSC
- ensure OHSC compliance with all relevant laws and regulations, audit and accounting standards, codes of conduct and best business practice and any other such principles and codes as may be established by the Board from time to time
- regularly review and evaluate business risks to the OHSC and ensure that comprehensive, appropriate internal controls exist to mitigate such risks
- exercise objective judgement about the business affairs of the OHSC, independent from management but with sufficient management information to enable a proper and informed assessment
- identify and monitor all aspects relevant to the business of the OHSC and ensure its responsible conduct towards all relevant stakeholders with a legitimate interest in its affairs.

In giving effect to its role, the Board defined the following key issues to consider in its control and direction of the OHSC:

- The Board assumes ultimate accountability and responsibility for the performance and affairs of the OHSC and therefore effectively represents and promotes the mandate and legitimate interests of the organisation and its stakeholders
- The Board has a responsibility to the broader stakeholders who include, inter alia, the present and potential beneficiaries of OHSC services, clients, suppliers, employees and the wider community, to ensure their continuing benefits from the services of the OHSC
- The Board develops clear definitions of the levels of appropriate materiality or sensitivity to determine the scope and delegation of its authority and ensure that it reserves specific powers and authority for itself as outlined in the enabling Act
- All delegated authority is in writing and evaluated on a regular basis to ensure relevance and effectiveness and alignment with the relevant changes in the OHSC
- The Board manages the potential conflicts of interest of Board members, management and the wider stakeholders and ensures clean, transparent and accountable governance throughout the OHSC at all times
- The Board oversees the values and ethics of the OHSC and ensures that an appropriate corporate code of conduct is in place
- The Board is responsible for ensuring that succession plans are in place for the CEO, executive management and key posts in the OHSC
- The Board ensures that the technology and systems in the OHSC are appropriate for it to run the organisation effectively and competitively through the efficient use of its resources

- The Board manages and protects the financial position of the OHSC with assistance from the Internal Audit function to ensure that:
  - there is strict adherence to the PFMA and National Treasury Regulations
  - the annual financial statements fairly present the business of the entity, contain proper disclosures and conform to the requirements of the National Treasury Regulations
  - appropriate internal controls and regulatory compliance, policies, procedures and processes are in place, and that
  - non-financial aspects relevant to the OHSC are identified and monitored
- The Board implements and maintains an effective organisational risk management framework and ensures that the key risk areas and key performance indicators of the OHSC are identified and monitored
- The Board is satisfied that the OHSC has a sound communication policy and an effective stakeholder management framework and that it communicates regularly, openly and promptly with its staff and all relevant stakeholders, with substance prevailing over form
- The Board reviews the strategic direction of the OHSC and adopts business plans proposed for the achievement of objectives
- The Board reviews processes to ensure that the OHSC complies with key legal obligations
- The Board delegates appropriate authority to the CEO for capital expenditure and reviews investment, capital and funding proposals
- The Board oversees performance against agreed targets and objectives
- The Board provides leadership and vision to enhance value and ensure the long-term sustainability of the OHSC.

4.2 Board Charter

Board activities are undertaken in line with the Board Charter developed in consultation with the executive authority. The Charter identifies the roles and responsibilities of the Board in relation to the interactions with management and sets out the fiduciary duties of the individual Board members and role of the Chairperson of the Board.

The Board Charter further deals with the management of conflicts of interest to ensure that the interests of the OHSC remain paramount in its decision-making process. The Board monitors compliance with the Charter by Board members and deal with issues of conflict in the manner provided for in the Charter.

4.3 Composition of the Board

The Board consists of 12 non-executive Board members appointed by the Minister of Health under Section 79B of the NHA, as amended. The Board was appointed in January 2014 for a three-year term which comes to an end in December 2016. There is diversity in the Board in terms of skills and competencies as prescribed under the NHA.

Table 19 Board members' information and meetings attended during the 2015/16 financial year

Name and designation	Date appointed	Date resigned	Qualification	Area/s of expertise	Board Directorships	Other Committees	Meetings attended
Prof LE Mazwai Chairperson	01/01/2014	n/a	MBChB, FRCS FICA	Medicine Higher Education	St Mary's Private Hospital Board Modern Business Holdings & Sales Affiliate (Pty) Ltd	None	5
Prof LC Rispel Deputy Chairperson	01/01/2014	n/a	BSc (Nursing) BSc Hons (Medical Sciences) Masters (Medicine) PhD	Nursing Medical Sciences Public Sector Management and Higher Education	Telkom Foundation World Federation of Public Health Associations	CEC	5

Name and designation	Date appointed	Date resigned	Qualification	Area/s of expertise	Board Directorships	Other Commi-ttees	Meetings attended
Mr MJ Kuscus Member	01/01/2014	n/a	BA Cur Exec Programme for Leaders in Development	Finance Governance and Compliance	None	ARF Committee	5
Prof SY Essack Member	01/01/2014	n/a	BPharm MPharm PhD	Pharmacy Antibiotic Resistance and Steward-ship	None	HRREMCO	5
Ms KJ Mabotja Member	01/01/2014	n/a	Certified Ethics Officer MA (Econ) BCom (Hons) (Econ) BCom Diploma (General Nursing and Midwifery)	Regulatory Governance Economics Finance	None	ARF Committee	6
Prof GJ van Zyl Member	01/01/2014	n/a	MBChB Magister (Family Medicine) Postgraduate Diplomas in Community Health and Health Administration MBA; PhD	Medicine Community Health Health Professions Education	COHSASA	HRREMCO	4
Ms TT Gwagwa Member	01/01/2014	n/a	BCur, Programme on Leadership for Change	Nursing Labour Relations & Leadership	None	HRREMCO	6
Adv MS Lebala Member	01/01/2014	n/a	Bluris LLB (Hons) LLM	Legal		HRREMCO	1
Dr Z Brey Member	01/01/2014	n/a	MBChB MBA PhD	Health Systems Quality Improvement	SKZM Investments Groote Schuur Hospital Facility Board	ARF Committee	4
Prof S Whittaker Member	01/01/2014	n/a	BSc UED MBChB, FFCH (CM) SA MMed MD	Medicine	None	CEC	4
Prof EL Stellenberg Member	01/01/2014	n/a	BCur (Gen Nursing, Midwifery and Psychology), B Hons (Nursing Education and Community Health Nursing) MCur, DCur. PGD in Nursing Admin, ICU and Psychiatry	Nursing/ Health Services Higher Education Quality Assurance in Health Services	None	CEC	6
Ms V Dubula-Majola Member	01/01/2014	01/10/15	BA (Health Sciences and Social Services) MPhil (HIV/AIDS)	Social Services NGOs	None	CEC	1

4.4 Board Committees

The Board established three sub-committees to assist it in discharging its duties. The sub-committees operate according to the function set out in Board-approved Terms of Reference for each sub-committee.

The table below lists the sub-committees, their members and the number of meetings held during the year under review.

Table 20 Board Sub-Committees, members and meetings for the 2015/16 financial year

Committee	Members	Number of meetings	Number of members
Audit, Risk and Finance Committee (ARF)	M Kuscus (Chairperson) KJ Mabotja Z Brey	4	3
Certification and Enforcement Committee (CEC)	L Rispel (Chairperson) E Stellenberg; S Whittaker V Dubula-Majola (resigned 01/10/2015)	7	3
Human Resource and Remuneration Committee (HRREMCO)	S Essack (Chairperson) T Gwagwa S Lebala G Van Zyl	4	4

4.5 Remuneration of Board members

Board members are remunerated in terms of National Treasury tariffs for office-bearers of certain statutory and other institutions. The OHSC Board is classified under Category A, Sub-category A2 of the National Treasury tariffs. In terms of the Board Remuneration policy, remuneration is approved for meeting preparation of four hours in line with National Treasury hourly tariffs for sub-category A2 entities. The remuneration paid to each Board member for the year under review is included in the Annual Financial Statements under "Related Parties Transactions" (Note 23).

5 RISK MANAGEMENT

The Board adopted a risk management policy and strategy which are aimed at optimal management of risk for the entity to achieve its vision and mission, principal tasks, key strategic objectives and protect the core values of the organisation.

Under the risk management policy, management conducts regular risk assessments to determine the effectiveness of the risk management strategy and identify new and emerging risks. A strategic risk register was developed and identifies the top ten risks facing the entity. Mitigating controls are continuously being monitored for effectiveness in addressing the risks. Where these are found to be ineffective, new control measures are developed to mitigate risks to acceptable levels.

The Internal Audit function plays an important role when conducting risk based audits to evaluate the effectiveness of management controls in mitigating risks and where gaps are identified, management implements recommended action plans to address the identified gaps.

The Board is ultimately responsible for and assumes ownership of risk management as the accounting authority in line with Section 51 of the PFMA, 1999. In this regard the Board has undertaken the following:

- setting an appetite for risk for the OHSC
- determining the risk-bearing capacity and tolerance level for key risks, which should not exceed the risk appetite
- monitoring and reviewing the extent to which management has established effective risk management in their respective units
- ensuring that management has implemented an ongoing process to identify, assess and manage risks
- forming its own opinion about the effectiveness of the risk management process
- ensuring that the risk management process is formally evaluated on an annual basis, and
- providing guidance and direction to management in respect of risk management.

The Audit, Risk and Finance Committee was established to advise management on the overall system of risk management, especially the mitigation of unacceptable levels of risk. The Committee further advises the Board on risk management and independently monitors the effectiveness of the system of risk management.

The effective risk management process has resulted in improved performance and where controls were found to be ineffective, other controls were developed to address risks at tolerable levels.

6 INTERNAL CONTROL UNIT

Internal control systems were developed to create management and Board confidence in the financial position of the OHSC and ensure the safeguarding of assets (including the security of information) and compliance with applicable laws, regulations and government policy prescripts. Our internal auditors monitor the functioning and effectiveness of the internal control systems and make recommendations to management and the ARF Committee. The ARF Committee reports to the Board regarding the internal control environment within OHSC and, where necessary, the Board adopts recommendations from the Committee to improve the internal control environment.

The internal control systems were designed to provide reasonable, but not absolute, assurance to:

- ensure the integrity and reliability of the financial statements;
- safeguard, verify and maintain accountability of assets;
- detect fraud, potential liability, and losses and material misstatement; and
- compliance with applicable laws and regulations.

The Auditor-General and Internal Audit have considered the internal control systems as part of the annual audit and planned audits, respectively, and identified some deficiencies for which management had to implement an agreed action plan that addresses the deficiencies and report progress with implementation to the ARF Committee to ensure an acceptable audit outcome in the next financial year.

7 INTERNAL AUDIT AND AUDIT, RISK AND FINANCE COMMITTEE

Internal Audit is an outsourced function for a three-year period during which the entity will review its status to determine if the function could be insourced. Internal Audit is important as it provides an independent assurance to the Board about the internal control environment in relation to business operations.

The Internal Audit function operates in terms of the Internal Audit Charter adopted by the Board on the recommendation of the ARF Committee. The Charter set outs the nature, role, responsibility, status and authority of internal auditing within the OHSC and outlines the broad scope of the Internal Audit function. The OHSC recognises that internal auditing is an independent,

objective assurance and consulting activity designed to add value and improve operations through a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes that assist the entity to accomplish its objectives.

Due to the delayed appointment of the Internal Audit function, which was finalised only in the third quarter of the year under review, the internal auditing activities for the year under review were limited and focussed on assisting the OHSC with administrative activities, which included the development of governance policies. Planned audit activities for the year only started in the fourth quarter and included a governance review; supply chain management, human resources and payroll audits. There were no significant findings during these audits and the overall rating indicated the need for some improvements to internal controls in the areas audited.

The Internal Audit function operates under the guidance and support of the ARF Committee. The Committee was established by the Board under the Terms of Reference (Charter) that outline the functions, role and responsibilities of the Committee.

The ARF Committee provides assurance to the Board about the internal control environment in the OHSC, governance, risk management and financials, including budgeting, and is responsible for:

- Reviewing the Internal Audit Charter, including the scope of work undertaken by Internal Audit and the Internal Audit structure and budget
- Ensuring effective coordination between Internal Audit and management, including the implementation, monitoring, evaluation and review of significant findings and recommendations by Internal Audit and management's responses and implementation of action plans
- Reviewing the external auditors' proposed annual audit scope, approach and fees and ensuring proper coordination between external and internal auditors
- Reviewing management requests for the provision of non-audit services to ensure that such services do not impair the independence of the auditors
- Reviewing the adequacy of the internal control environment, including information and communications technology, security and control
- Monitoring the implementation of the risk management framework and reviewing significant changes to the risk profiles of the OHSC
- Providing regular feedback to the Board about the adequacy and effectiveness of risk mitigation and management in the OHSC, including recommendations for improvement
- Appropriately addressing:
  - financial reporting risks, including the risk of fraud
  - internal financial controls, and
  - IT risks as they relate to financial reporting.
- Reviewing whether management has considered legal and compliance risks as part of the OHSC risk assessments and effectiveness of the system for monitoring compliance, including management's investigation and subsequent follow-up
- Obtaining reports from management and the internal auditors and external auditors regarding compliance with all applicable legal and regulatory requirements and acting on them as appropriate
- Reviewing the entity's compliance with the National Treasury Framework for managing programme performance information and reporting systems and acting on them as appropriate
- Evaluating the appropriateness of accounting policies and practices and changes to these, as well as compliance with applicable accounting standards and legal requirements
- Assessing whether the financial statements present a balanced and understandable assessment of the entity's financial position and performance, and whether they are complete and consistent with prescribed accounting and information known to Committee members and stated by management to be accurate
- Reviewing with management and the external auditors the results of the external audit on financial statements, including any significant issues identified and acting on them as appropriate
- Reviewing the annual report and related regulatory reports before release and considering the accuracy and completeness of the information
- Reviewing the "going concern" assumptions.

The Committee did not review the effectiveness of the Internal Audit function for the year under review as the outsourced Internal Auditors were appointed only towards the end of the financial year, which was too late to allow for such an annual review to take place.

Table 21 Audit, Risk and Finance Committee members and meetings attended for the 2015/16 financial year

Name	Qualifications	Internal or external	If internal, position in the public entity	Date appointed	Date resigned	Number of meetings attended
Mr MJ Kuscus	BA Cur Executive Programme for Leaders in Development	External	N/A	04/04/2014	N/A	4
Ms KJ Mabotja	BCom (Hons) (Economics) Masters (Economics)	External	N/A	04/04/2014	N/A	4
Dr Z Brey	MBChB MBA; PhD	External	N/A	04/04/2014	N/A	3

8 COMPLIANCE WITH LAWS AND REGULATIONS

The OHSC is also governed by legislation other than its founding legislation, the NHA, 2003, as amended. As a Schedule 3A public entity, the OHSC is governed by the PFMA, 1999 and National Treasury Regulations published under the PFMA. Legislative compliance is an ongoing activity within OHSC and monitoring of any non-compliance with legislative prescripts and reporting thereof for corrective action is the responsibility of every manager in the OHSC. A PFMA compliance checklist, developed by National Treasury, is used to monitor compliance with the PFMA. The checklist is part of management's reporting responsibilities to the Board through its sub-committees, especially the ARF Committee.

9 FRAUD AND CORRUPTION

The Board has committed itself to combating all forms of fraud and corruption and remaining proactive in the fight against fraud and other "white collar" crimes. During the year under review, the first OHSC Fraud Prevention Plan was developed and workshopped with staff to create awareness and teach employees how to report suspected cases of fraud and corruption. The plan was well received by employees and the Board is confident that they will use the reporting channels, including a fraud hotline in the forthcoming financial year, to report any suspected case of fraud and corruption.

The Fraud Prevention Plan consists of a system of internal controls to prevent and detect fraud and corruption. The system of internal controls includes, among others, creating a fraud awareness culture, developing policies and procedures, implementing a system for segregation of duties in business transactions, internal auditing, on-going risk assessment and a process for reporting and monitoring allegations of fraud and corruption. The Board, through the ARF Committee, regularly monitors and reviews business risk relating to fraud and corruption.

10 MINIMISING CONFLICTS OF INTEREST

The Board has developed a Board Charter and procedures to manage issues of conflicts of interest (perceived, potential or actual) to minimise if not prevent them. On an annual basis, Board members and OHSC employees are required to disclose financial interests, including those of immediate family members. The disclosures are meant to ensure that there is no conflicts of interest when decisions are made by anyone within the OHSC governance structures.

Furthermore, at every OHSC meeting employees and Board members sign a register of declaration of interests in any of the agenda items for discussion to identify any conflict and recuse themselves from the meeting during the discussion of the item of conflict.

11 CODE OF CONDUCT

The Board Charter includes a Code of Conduct for Board members. The Charter sets out, among others, the roles of the Board, Board Chairperson and individual Board members, governance of Board meetings, reporting responsibilities of the Board, communication of Board decisions and a Code of Ethics. The Board Code of Conduct and Ethics is based on the principles of honesty, integrity and ethical leadership and serves as a guide to Board members about protecting OHSC assets and information, as well as managing conflicts of interest.

The OHSC Code of Conduct for employees is premised on the same principles as that of the Board and guides employees in their interaction with one another and the public to ensure that the reputation of the OHSC is protected.

During the year under review, there were no reported cases of breach by Board members or employees of the respective Codes of Conduct and Ethics. Disciplinary steps are taken by the OHSC against any employee who breaches the Code. The Board decides whether a Board member in breach of the Code should be referred to the Minister for appropriate action in terms of the NHA, 2003, as amended.

12. AUDIT, RISK AND FINANCE COMMITTEE REPORT

The Audit, Risk and Finance Committee is pleased to present its report for the financial year ended 31 March 2016.

Audit, Risk and Finance Committee responsibility

During the review period, the ARF Committee complied with its responsibilities in Section 51(1)(a) (ii) of the PFMA and Treasury Regulation 27.1, adopted appropriate formal Terms of Reference as its Charter, regulated its affairs in compliance with the Charter and discharged its responsibilities therein.

The effectiveness of internal control

Our review of the findings of the internal audit function, which was based on the risk assessments conducted in the OHSC, revealed certain weaknesses that were raised with the public entity. A governance review, supply chain management audit and human resources and payroll audit were completed during the past year. Control measures are being implemented to address the areas of concern raised by the internal auditors.

In-year monitoring and quarterly reports

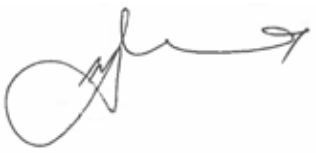
The OHSC submitted quarterly reports to the Executive Authority. The Committee reviewed the reports and recommended them to the Board for approval. The Committee is satisfied with the reported progress by management in implementing the plans for the year and the achievements as at the end of the 2015/16 financial year. The Committee will continue to monitor and review implementation of action plans to ensure that there is improvement from the baseline set in this first year of operations for the entity.

Evaluation of Annual Financial Statements

We reviewed the Annual Financial Statements prepared by the public entity before submission to the external auditors and were satisfied that the statements reflected all the disclosures required in terms of accounting policies and standards. However, the audit of the financial statements uncovered that the statements submitted were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the Public Finance Management Act.

The material misstatements identified by the auditors in the submitted financial statement were a cause for concern but the Committee is satisfied that these were subsequently corrected by management, resulting in an unqualified audit opinion for the financial statements.

This was the first year since the establishment of the OHSC that we have been subjected to an external audit process. The foundation has been laid and moving forward, greater emphasis will be placed on value-for-money considerations and not merely compliance aspects.



Martin Kuscus
Chairperson
Audit, Risk and Finance Committee
31 July 2016

PART D: HUMAN RESOURCE MANAGEMENT

1 INTRODUCTION

The Human Resources Management unit provides support services to the OHSC Board, management and staff and contributes to achieving strategic organisational goals and objectives by creating a productive and creative working environment that enhances organisational effectiveness.

As at 31 March 2016, 88 of the 96 funded posts were filled, which represented a 92% success, 32% higher than the target of 60%. In addition to this, a number of human resource policies and procedures were developed, approved and implemented to derive value from the human capital within the OHSC.

An immediate challenge with the growth in the number of employees during the past year was inadequate and insufficient office space to accommodate the staff. The recruitment of health professionals in certain categories of scarce skills proved a challenge and in some cases led to the unsuccessful re-advertising of vacancies. The posts that remained vacant at financial year-end included the Compliance Inspector: Clinical (Medical Specialist); Chief Executive Officer (CEO); Executive Manager: Health Standards Design, Analysis and Support; Director: Health Standards System and Data Analysis; and Deputy Director: Health Standards Research.

In the year ahead, the OHSC will initiate the necessary arrangements to procure office space that will cater for a growing organisation. The challenges of recruiting health professionals with specialised skills will be addressed by using alternative recruitment processes, such as head hunting, where traditional recruitment methods do not yield the desired results.

2 HUMAN RESOURCE OVERSIGHT STATISTICS

Table 22 Personnel costs by Programme

Programme	Total expenditure for the entity (R)	Personnel expenditure (R)	Personnel expenditure as a % of total expenditure (R)	No. of employees	Average personnel cost per employee (R)
Office of the CEO	5 874 012	3 733 898	6	6	622 316
Corporate Services	18 592 709	6 555 412	10	15	437 027
Compliance Inspectorate	30 492 387	23 266 828	37	55	423 033
Complaints Management and Ombud	3 498 872	3 033 971	5	6	505 662
HSDAS	4 154 647	2 888 816	5	6	481 469
TOTAL	**62 612 627**	**39 478 925**	**63**	**88**	**448 624**

Table 23 Personnel costs by salary band*

Level	Personnel expenditure (R)	% of personnel expenditure to total personnel cost (R)	No. of employees	Average personnel cost per employee (R)
Executive management	2 702 880	7	2	1 351 440
Senior management	5 998 944	15	8	749 868
Professionally qualified and experienced specialists and mid-management	11 843 527	30	20	592 176
Skilled technical and academically qualified workers, junior management and supervisors	14 320 260	36	37	387 034
Semi-skilled and discretionary decision-making	4 613 314	12	21	219 682
Unskilled and defined decision-making	0	0	0	0
TOTAL	**39 478 925**	**100**	**88**	**448 624**

*The personnel costs for executive management include the Interim CEO, Dr Carol Marshall, who was seconded to the OHSC by the NDoH on a contract that expired on 31 July 2015, although she is not counted in the number of employees.

Table 24 Performance rewards for the 2015/16 financial year

Level	Performance rewards (R)	Personnel expenditure (R)	% of performance rewards to total personnel cost (R)
Executive management	0	2 702 880	0
Senior management	44 820	5 998 944	0
Professionally qualified	40 650	11 843 527	0
Skilled	108 024	14 320 260	0
Semi-skilled	25 676	4 613 314	0
Unskilled	0	0	0
TOTAL	**219 170**	**39 478 925**	**0**

Table 25 Training costs for the 2015/16 financial year

Programme	Personnel expenditure (R)	Training expenditure (R)	Training expenditure as a % of personnel cost	No. of employees trained	Average training cost per employee (R)
Training expenditure	39 478 925	834 619	2	60	13 910

Table 26 Employment and vacancies by division

Division	2015/16 No. of employees	2015/16 approved posts	2015/16 employee vacancies	% of vacancies
Office of the CEO	6	8	2	25
Corporate Services	15	16	1	6
Compliance Inspectorate	55	56	1	2
Complaints Management and Ombud	6	8	2	25
HSDAS	6	8	2	25
TOTAL	**88**	**96**	**8**	**8**

Table 27 Employment and vacancies by level

Level	2015/16			
	No. of employees	Approved posts	Vacancies	% of vacancies
Executive management	2	5	3	60
Senior management	8	10	2	20
Professionally qualified and experienced specialists and mid-management	20	22	2	9
Skilled technical and academically qualified workers, junior management and supervisors	37	38	1	3
Semi-skilled and discretionary decision-making	21	21	0	0
Unskilled and defined decision-making	0	0	0	0
TOTAL	**88**	**96**	**8**	**8**

The post of the CEO was advertised during 2015 but as at 31 March 2016 no suitable candidate had been found. The post is being re-advertised and the Board is handling the matter, including a head hunting process, to ensure a speedy conclusion to the process.

Most of the vacancies carried over from the previous financial year, including that of Executive Manager: Health Standards Design, Analysis and Support, will be finalised in the first quarter of the 2016/17 financial year. The appointment of an Ombud is the prerogative of the Minister of Health and we await progress in this regard.

Table 28 Employment changes and staff turnover during the 2015/16 financial year

Level	Employment at beginning of period	Appointments	Terminations	Employment at the end of period
Executive management	2	1	1*	2
Senior management	2	7	1	8
Professionally qualified and experienced specialists and mid- management	7	13	-	20
Skilled technical and academically qualified workers, junior management and supervisors	23	22	8	37
Semi-skilled and discretionary decision- making	10	15	4	21
Unskilled and defined decision-making	-	-	-	-
TOTAL	**44****	**58**	**14**	**88**

*The termination under Executive management relates to the expiry of the secondment contract for the interim CEO on 31 July 2015.
**NDoH transfer list had 50 employees to be transferred to OHSC as at the beginning of the year, but only 44 were transferred and the other 6 remained at NDoH as they had a dispute about their transfer.

Table 29 Reasons for staff leaving

Reason	Number	% of total no. of staff leaving
Death	-	-
Resignation	4	29
Dismissal	-	-
Retirement	-	-
Poor health	-	-
Expiry of contract	1	7
Transfers	9	64
TOTAL	**14**	**100**

The OHSC strives to create a work environment that is conducive to retaining staff. Most of the staff members who resigned did so to pursue careers in other employment sectors.

Labour relations: misconduct and disciplinary action during the review period

During the year under review, no incidences of misconduct were reported and no disciplinary action taken.

Table 30 Equity target and employment equity status: Males, Females and Disabled

Level	MALE							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Executive management	2	2	0	1	0	0	0	0
Senior management	4	4	0	0	1	0	0	0
Professionally qualified	5	6	1	1	0	1	0	0
Skilled	7	8	0	1	0	1	1	1
Semi-skilled	9	9	0	0	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
TOTAL	**27**	**29**	**1**	**3**	**1**	**2**	**1**	**1**
Level	**FEMALE**							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Executive management	0	1	0	0	0	1	0	0
Senior management	2	3	0	1	0	0	1	1
Professionally qualified	12	12	0	0	0	1	2	1
Skilled	28	25	0	1	1	1	0	1
Semi-skilled	12	12	0	0	0	0	0	0
Unskilled	0	0	0	0	0	0	0	0
TOTAL	**54**	**53**	**0**	**2**	**1**	**3**	**3**	**3**

Level	DISABLED STAFF			
	Male		Female	
	Current	Target	Current	Target
Executive management	0	0	0	0
Senior management	0	0	0	0
Professionally qualified	0	0	0	0
Skilled	0	1	0	0
Semi-skilled	0	0	0	1
Unskilled	0	0	0	0
TOTAL	**0**	**1**	**0**	**1**

During the year under review, a rigorous recruitment drive focused on acquiring the required skills to support the organisation in getting off the ground while ensuring that the staff complement was demographically representative. The equity targets indicated above are based on the workforce population distribution, which in turn is based on the Quarterly Labour Force Survey (QLFS) published by Stats SA on the Economically Active Population (EAP).

The new employment equity plan will be finalised in the 2016/17 financial year.

PART E: FINANCIAL INFORMATION

Report of the auditor-general to Parliament on the Office of Health Standards Compliance

Report on the financial statements

Introduction

1. I have audited the financial statements of the Office of Health Standards Compliance set out on pages 59 to 92, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of Health Standards Compliance as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the PFMA.

Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my

tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2016:

   - Programme 3: Compliance Inspectorate on pages 28 to 30
   - Programme 4: Complaints Management and Ombud on pages 30 to 32
   - Programme 5: Health Standards Design, Analysis and Support on pages 32 to 35

9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

11. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected programmes.

Additional matters

12. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected programmes, I draw attention to the following matter:

Achievement of planned targets

13. Refer to the annual performance report on pages 22 to 35 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

14. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Programme 4: Complaints Management and Ombud. As management subsequently corrected the misstatements, I did not identify any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

15. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

16. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (b) of the Public Finance Management Act.

17. Material misstatements of property, plant and equipment, service bonus provision, related parties and the loss on transfer of functions identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

18. One contract with a transaction value above R500 000 was procured without inviting competitive bids, as required by Treasury Regulations 16A6.1. The deviation was approved by the accounting authority even though it was not impractical to invite competitive bids, in contravention of Treasury Regulation 16A6.4.

Internal control

19. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Financial and performance management

20. Management did not adequately review the financial statements and annual performance report for accuracy and completeness prior to submission for audit.

21. Management incorrectly interpreted legislation, resulting in the deviation from procurement processes.

Auditor - General

Pretoria

31 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

Index

The reports and statements set out below comprise the annual financial statements presented to the Parliament of the Republic of South Africa:

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

The Accounting Authority is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Authority to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

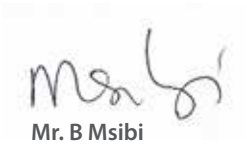
The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Authority acknowledges that it is ultimately responsible for the system of internal financial control established by the entity and places considerable importance on maintaining a strong control environment. To enable the Accounting Authority to meet these responsibilities, it sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

The Accounting Authority is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. The entity is wholly dependent on the NDoH for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the NDoH has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The annual financial statements set out on pages 62 to 92, which have been prepared on the going concern basis, were approved by the Accounting Authority on 28 July 2016 and were signed on its behalf by:



Mr. B Msibi
Acting Chief Executive Officer

Prof. L Mazwai
Chairperson of Board

ACCOUNTING AUTHORITY'S REPORT

The Accounting Authority submits its report for the year ended 31 March 2016.

1. Incorporation

The OHSC is a Schedule 3A Public Finance Management Act (Act1 of 1999) public entity established in terms of the National Health Amendment Act, 12 of 2013. It commenced its operations on 1April 2015 and its Executive Authority is the Minister of Health.

2. Review of activities

Main business and operations

The OHSC's mandate is to protect and promote the health and safety of users of health services by:

- Monitoring and enforcing compliance by health establishments with norms and standards prescribed by the Minister of Health in relation to the national health system; and
- Ensuring consideration, investigation and disposal of complaints relating to non-compliance with prescribed norms and standards in a procedurally fair, economical and expeditious manner.

The operating results for the year were satisfactory given that it was its first year of operation.

The OHSC recorded a surplus of R26 487 862 during its first year of operation.

3. Going concern

We draw attention to the fact that as at 31 March 2016, the entity had an accumulated surplus of R26 487 862 and that the entity's total assets exceed its liabilities by R26 487 862.

The annual financial statements have been prepared on a going concern basis and the Accounting Authority has no reason to believe that the entity will not be a going concern in the foreseeable future.

4. Subsequent events

The members are not aware of any matter or circumstance arising since the end of the financial year that needs to be disclosed in the annual financial statements.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by the National Treasury.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

Figures in Rand	Note(s)	2016
Assets		
Current Assets		
Receivables from exchange transactions	6	63 858
Receivables from non-exchange transactions	7	24 600
Cash and cash equivalents	8	32 149 886
		32 238 344
Non-current assets		
Property, plant and equipment	3	3 693 955
Intangible assets	4	438 934
		4 132 889
Total assets		**36 371 233**
Liabilities		
Current liabilities		
Operating lease liability	5	293 771
Payables from exchange transactions	10	6 100 742
Provisions	9	3 488 858
		9 883 371
Total liabilities		**9 883 371**
Net assets		**26 487 862**
Accumulated surplus		**26 487 862**

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2016
Revenue		
Revenue from exchange transactions		
Interest received	12	194 489
Revenue from non-exchange transactions		
Transfer revenue		
Government grant	13	88 906 000
Total revenue	**11**	**89 100 489**
Expenditure		
Compensation of employees	14	(39 478 925)
Board fees and related costs	31	(1 429 669)
Depreciation and amortisation		(655 203)
General expenses	15	(21 048 831)
Total expenditure		**(62 612 627)**
Surplus for the year		**26 487 862**

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulated surplus	Total net assets
Balance at 1 April 2015	-	-
Changes in net assets		
Surplus for the year	26 514 996	26 514 996
Gains (losses) from transfer of functions between entities under common control (refer to note 20)	(27 134)	(27 134)
Total changes	26 487 862	26 487 862
Balance at 31 March 2016	26 487 862	26 487 862

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

CASH FLOW STATEMENT

Figures in Rand	Note(s)	2016
Cash flows from operating activities		
Receipts		
Grants		88 906 000
Interest received from investment		194 489
		89 100 489
Payments		
Compensation of employees		(37 030 288)
Suppliers		(14 885 775)
Other payments		(1 397 969)
		(53 314 032)
Net cash flows from operating activities	**18**	**35 786 457**
Cash flows from investing activities		
Purchase of property, plant and equipment	3	(3 174 212)
Purchase of intangible assets	4	(462 359)
Net cash flows from investing activities		**(3 636 571)**
Net increase/(decrease) in cash and cash equivalents		**32 149 886**
Cash and cash equivalents at the end of the year	**8**	**32 149 886**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis						
Figures in Rand	**Approved budget**	**Adjustments**	**Final Budget**	**Actual amounts on comparable basis**	**Difference between final budget and actual**	**Reference: Notes 30 & 32**
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest received - investment	-	-	-	194 489	194 489	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	88 906 000	-	88 906 000	88 906 000	-	
Total revenue	**88 906 000**	**-**	**88 906 000**	**89 100 489**	**194 489**	
Expenditure						
Compensation of employees	53 100 362	-	53 100 362	39 478 925	(13 621 437)	
Board fees and related costs	1 056 108	-	1 056 108	1 429 669	373 561	
Depreciation and amortisation	-	-	-	655 203	655 203	
General expenses	30 385 707	-	30 385 707	21 048 831	(9 336 876)	
Total expenditure	**84 542 177**	**-**	**84 542 177**	**62 612 627**	**(21 929 550)**	
Operating surplus	**4 363 823**	**-**	**4 363 823**	**26 487 862**	**(22 124 039)**	

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis						
Figures in Rand	**Approved budget**	**Adjustments**	**Final Budget**	**Actual amounts on comparable basis**	**Difference between final budget and actual**	**Reference: Notes 30 & 32**
Statement of Financial Position						
Assets						
Current Assets	-	-	-	63 858	63 858	
Receivables from exchange transactions						
Receivables from non-exchange transactions	-	-	-	24 600	24 600	
Cash and cash equivalents	-	-	-	32 149 886	32 149 886	
	-	-	-	32 238 344	32 238 344	
Non-current assets						
Property, plant and equipment	155 000	-	155 000	3 693 955	3 538 955	
Intangible assets	4 208 823	-	4 208 823	438 934	(3 769 889)	
	4 363 823	-	4 363 823	4 132 889	(230 934)	
Total assets	**4 363 823**	**-**	**4 363 823**	**36 371 233**	**32 007 410**	
Liabilities						
Current liabilities	-	-	-	293 771	293 771	
Operating lease liability						
Payables from exchange transactions	-	-	-	6 100 741	6 100 741	
Provisions	-	-	-	3 488 859	3 488 859	
	-	-	-	9 883 371	9 883 371	
Total liabilities	**-**	**-**	**-**	**9 883 371**	**9 883 371**	
Net assets	**4 363 823**	**-**	**4 363 823**	**26 487 862**	**22 124 039**	

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 55 (1) (b) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses are not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, is disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the OHSC.

1.2 Going concern assumption

The annual financial statements have been prepared based on a going concern basis and the Accounting Authority has no reason to believe that the entity will not be a going concern in the foreseeable future. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

1.3 Transfer of functions between entities under common control

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the entity recognises the assets transferred and liabilities assumed in a transfer of functions. The assets transferred are recognised at fair value and liabilities assumed are recognised at their carrying values.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in the surplus.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1.4 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. However, no material differences are envisaged.

Effective interest rate

The entity uses an appropriate interest rate taking into account guidance provided in the standard, and applying professional judgement to the specific circumstances to discount future cash flows. The entity used the repo rate to discount future cash flows.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of property, plant and equipment and tangible assets.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the OHSC; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

ACCOUNTING POLICIES

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it is deemed that cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Costs incurred subsequently to add, to replace part of, or service any asset are recognised in the carrying amount of the related asset if the recognition criteria is met. Subsequent to the initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from use of the asset. The gain or loss arising on the disposal of an asset is determined as the difference between the proceeds from the disposal and the carrying value of the assets, and is recognised in the statement of financial performance.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	20 years
Furniture and fixtures	Straight line	10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
Computer equipment	Straight line	5 years
Leasehold improvements	Straight line	Lease period

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Recognition of costs in the carrying amount of an item of intangible asset ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite, is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Where the carrying amount of an item of intangible asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

ACCOUNTING POLICIES

Items of intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal of an asset is determined as the difference between the proceeds from the disposal and the carrying value of the assets, and is recognised in the statement of financial performance.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item life	Useful
Computer software	5 years or license period

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Financial instruments

In the course of the OHSC operations it is exposed to interest rate, credit, liquidity and market risk. The risk management process relating to each of these risks is discussed under the headings below.

Credit risk

Financial assets, which potentially subject the OHSC to the risk of non-performance by the counter-parties and thereby subject to credit concentrations of credit risk, consist mainly cash and cash equivalents and receivables from exchange transactions.

The OHSC manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by the National Treasury through the approval of the investment policy in terms of Treasury Regulations.

Market risk

The OHSC is exposed to fluctuations in the employment market, for example, sudden increases in events, unemployment and changes in the wage rates. No significant event occurred during the year that the OHSC is aware of.

Liquidity risk

The OHSC manages liquidity risk through proper management of working capital, capital expenditure and actual expenditure vs. forecasted cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

Fair values

The OHSC's financial instruments consists mainly of cash and cash equivalents. No financial instrument was carried at an amount in excess of its fair value and fair values could be measured for all financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments.

- Investments

Investments consists of short-term deposits invested in registered commercial banks, and are measured at fair value. Interest on investments calculated using the effective interest method is recognised in the statement of financial performance as revenue from exchange transactions.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred or when substantially all risks and reward of ownership have been transferred.

- Cash and cash equivalents

Cash and cash equivalents is made up of cash on hand, cash held at banks and deposits with banks. The carrying amount of cash and cash equivalents approximates fair values.

- Other receivables from exchange transactions

The carrying amount of other receivables from exchange transactions approximates fair values due to the relatively short-term maturity of these financial assets.

- Trade and other receivables

Trade receivables are recognised as financial assets; loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus/ (deficit) when there is an objective believe that the asset is impaired. Significant financial difficulties of the debtor, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured for all debtors with indication of impairment. Impairments are determined based on the risk profile of each debtor. Amounts that are receivable within 12 months from the reporting date are classified as current. The carrying amount of an asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within the operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised as recoveries in the statement of financial performance.

ACCOUNTING POLICIES

1.7 Financial instruments (continued)

- Trade and other payables

Financial liabilities consist of payables and borrowings. They are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method, which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting. The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognises the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1.7 Financial instruments (continued)

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Taxation

The OHSC is exempt from income tax in terms of section 10(1) of the Income Tax Act No 58 of 1962.

1.9 Leases

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

ACCOUNTING POLICIES

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

Defined contribution plans

Payments for defined contribution retirement plans are charged as an expense as they become due. Payments made to industry managed (or state plans) retirement benefit schemes are dealt with as defined contributions plans when the entity's obligation under the scheme is equivalent to those arising in a defined contribution retirement benefit plan.

1.11 Provisions and contingencies

Provisions are recognised when:

- the OHSC has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the OHSC settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 22.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

1.13 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the OHSC and revenue can be reliably measured. Revenue is measured at fair value of the consideration receivable on an accrual basis. Revenue includes investments and non-operating income exclusive of value added taxation, rebates and discounts

Interest received

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Borrowing costs are recognised as an expense in the period in which they are incurred.

ACCOUNTING POLICIES

1.16 Unauthorised expenditure

Unauthorised expenditure is defined as:

- overspending of a program or a main division within a program; and
- expenditure not in accordance with the purpose of a program or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end is recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements is updated with the amount condoned.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

ACCOUNTING POLICIES

1.19 Budget information

Entities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2015-04-01 to 2016-03-31.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 30 & 32.

1.20 Related parties

The entity operates in an economic sector currently dominated by entities directly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations

2.1 Standards and Interpretations issued and effective

Standards/ Interpretation:	Effective Date:	Expected Impact:
GRAP 18: Segment reporting	1 April 2015	Statement is not relevant to the OHSC.
GRAP 105: Transfer of functions between entities under common control	1 April 2015	Statement is relevant to the OHSC
GRAP 106: Transfer of functions between entities not under common control	1 April 2015	Statement is not relevant to the OHSC
GRAP 107: Mergers	1 April 2015	Statement is not relevant to the OHSC
Directive 11: Changes in measurement bases following the initial adoption of standard of GRAP	1 April 2015	No impact on the current financial statements

2.2 Standards and interpretations issued, but not yet effective

Standards/ Interpretation:	Effective Date:	Expected Impact:
GRAP 20: Related party disclosures	Not yet effective	The OHSC has disclosed related party transactions
GRAP 32: Service concession arrangements: Grantor	Not yet effective	Statement is not relevant to the OHSC
GRAP 108: Statutory receivables	Not yet effective	No statutory receivables were received
GRAP 109: Accounting by principals and agents	Not yet effective	Statement is not relevant to the OHSC

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

3. Property, plant and equipment

	2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	775 933	(151 915)	624 018
Furniture and fixtures	1 207 898	(76 529)	1 131 369
Computer equipment	1 498 125	(281 969)	1 216 156
Leasehold improvements	843 777	(121 365)	722 412
Total	**4 325 733**	**(631 778)**	**3 693 955**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Additions through transfer of functions (Refer to Note 15)	Depreciation	Total
Office equipment	-	590 421	185 511	(151 914)	624 018
Furniture and fixtures	-	656 263	551 635	(76 529)	1 131 369
Computer equipment	-	1 083 751	414 374	(281 969)	1 216 156
Leasehold improvements	-	843 777	-	(121 365)	722 412
	-	**3 174 212**	**1 151 520**	**(631 777)**	**3 693 955**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

4. Intangible assets

	2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Computer software	462 359	(23 425)	438 934

Reconciliation of intangible assets - 2016

	Opening balance			
Computer software	-	462 359	(23 425)	438 934

5. Operating lease liability

Current liabilities	293 771
	293 771

Office space which contains 10% escalation per annum has resulted in the difference between the actual payments and the straight-lined amount which resulted in the difference as the liability.

6. Receivables from exchange transactions

Deposits	62 050
Prepaid expenses	1 808
	63 858

7. Receivables from non-exchange transactions

Staff related receivables	24 600
	24 600

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	9 953 765
Cash on hand	1 632
Short-term investment	22 194 489
	32 149 886

9. Provisions

Reconciliation of provisions

	Opening Balance	Additions	Total
Provision for performance bonuses	-	796 506	796 506
Provision for leave	1 178 655	398 576	1 577 231
Provision for 13th cheque	-	1 115 121	1 115 121
	1 178 655	**2 310 203**	**3 488 858**

10. Payables from exchange transactions

Trade payables	5 346 528
Other accrued expenses	754 214
	6 100 742

11. Revenue

Interest received on investment	194 489
Government grant	88 906 000
	89 100 489

12. Investment revenue

Interest revenue

Bank	194 489

Interest from Standard Bank investment account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

13. Government grants and subsidies

Operating grants

Government grant	88 906 000

14. Compensation of employees

Basic salaries	27 385 147
Service and performance bonus paid	1 872 819
Medical aid -employer contribution	1 203 571
UIF - employer contribution	38 944
Provision for 13th cheque	1 115 121
Accrued leave provision	534 780
Pension - employer contribution	3 481 124
Other non-pensionable allowances	2 923 030
Bargain council	3 372
Salary accrual	124 511
Provision for performance bonuses	796 506
	39 478 925

15. General expenses

Advertising	1 194 149
Audit costs (refer to note 16)	814 872
Bank charges	57 331
Cleaning services	65 411
Consulting and professional fees	6 283 119
Inventory and other consumables	178 469
IT maintenance and support	79 308
Marketing and publication costs	236 392
Staff relocation	49 412
Printing and stationery	467 749
Telephone communication costs	623 211
Training and skills development	834 619
Travel, subsistence and accommodation	7 861 008
Office utensils	167 814
Water and electricity	184 648
Penalty and interest	5 884

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

15. General expenses (continued)

Catering services	289 810
Operating lease costs	1 416 204
Gains/(loss) from transfer of functions (refer to note 20)	27 134
Venues and facilities	212 287
	21 048 831

16. Audit costs

Internal audit	459 905
External audit	354 967
	814 872

17. Operating lease commitments

17.1 Operating lease liability - Office space

Escalation rate	10%

Future minimum lease payments

Up to one year	1 123 274
Within two years to five years	-
	1 123 274

The OHSC has an outstanding commitment in respect of lease of office space with the South African Medical Research Council. The lease agreement was entered into for a period of two (2) years effective from 01 March 2015.

16.2 Operating lease liability - Photocopying machines

Escalation rate	8%

Future minimum lease payments

Up to 1 year	76 695
2 - 5 years	122 633
	199 328

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

18. Cash generated from operations

Surplus	26 487 862
Adjusted for:	
Depreciation and amortization	655 203
Movements in operating lease assets and accruals	293 771
Increase in provisions	2 310 203
Adjustment for gain (loss) from transfer of functions included in the surplus	27 134
Changes in working capital:	
Receivables from exchange transactions	(62 050)
Receivables from non-exchange transactions	(26 410)
Payables from exchange transactions	6 100 743
	35 786 457

19. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	63 858	63 858
Other receivables from non-exchange transactions	24 600	24 600
Cash and cash equivalents	32 149 886	32 149 886
	32 238 344	**32 238 344**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	**6 394 514**	**6 394 514**

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

20. Transfer of functions between entities under common control

Value of the assets acquired and liabilities assumed

Nature of transfer

Entities involved in the transfer of functions were the NDoH (transferor) and the OHSC (acquirer). The functions relating to the monitoring and enforcing compliance by health establishments with the health norms and standards were transferred to the OHSC. The transfer was in terms of the National Health Amendment Act 12 of 2013. The transfer became effective from 01 April 2015.

Value of the assets acquired and liabilities assumed

Assets acquired	
Property plant and equipment	1 151 521
Liabilities assumed	
Provision for leave	1 178 655
Difference between the assets and liabilities transferred	**27 134**

21. Commitments

The following capital commitments were made by year-end, but the services would be rendered after the end of the financial year

Approved expenditure

Capital expenditure	**267 430**

22. Contingencies

No provision for contingencies has been made as at 31 March 2016.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

23. Related parties

The OHSC has a related party relationship with the NDoH as the Executive Authority of the entity. It further has a related party transaction with Medical Research Council of South Africa through the lease of office space. The OHSC and the Medical Research Council of South Africa report under the same Executive Authority.

Related party transactions

Grant received

National Department of Heath	**88 906 000**

Reimbursement

National Department of Health	31 072 341
	31 072 341

Outstanding balance owed to:

National Department of Health	3 296 271
	3 296 271

Medical Research Council of South Africa

Rental of office space	1 671 734
Leasehold improvements	843 777
Computer equipment (switches for the server)	315 194
	2 830 705

Related party transactions

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

23. Related parties (continued)

Non-executive members	Board fees	Reimbursements	Total
Prof. L Mazwai (Chairperson of the board)	104 601	40 084	144 685
Prof. S Essack	59 055	4 685	63 740
Dr. Z Brey	63 282	549	63 831
Prof. L Rispel (Deputy Chairperson of the board)	75 476	1 931	77 407
Mr. Martin Kuscus	80 010	7 293	87 303
Ms Mabotja	83 820	3 364	87 184
Prof. S Whittaker	75 438	-	75 438
Dr. E Stellenberg	111 633	5 905	117 538
Adv. S Lebala SC	15 240	992	16 232
Ms. T Gwangwa	48 006	20 925	68 931
Prof. G van Zyl	29 718	100	29 818
	746 279	**85 828**	**832 107**

Executive managers	Basic salary	Pension fund	Non-pensionable allowances and other payments	Service bonus	Reimbursements	Total
Mr. Msibi (Acting Chief Executive Officer)	733 657	90 228	498 924	57 642	8 215	1 388 666
Dr. Carol Marshall (Interim Chief Executive Officer) **	244 720	14 989	124 795	66 376	-	450 880
Mr. J Mapatha (Chief Financial Officer) ***	589 210	79 267	149 621	39 377	5 859	863 334
Subtotal	**1 567 587**	**184 484**	**773 340**	**163 395**	**14 074**	**2 702 880**

* Appointed as Acting Chief Executive Officer from 1 August 2015

** From 1 April 2015 to 31 July 2015

*** Appointed on 8 June 2015

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

24. Risk management

Financial risk management

The OHSC's activities expose it to a variety of financial risks: market risk (interest rate risk, credit risk and liquidity risk).

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 31 March 2016	Less than 1 year	Between 1and 2 years	Between 2and 5 years	Over 5 years
Current liabilities	9 883 371	-	-	-

Credit risk

Credit risk consists mainly of cash deposits and cash equivalents. The OHSC only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party

Interest rate risk

By the end of the financial, the OHSC had significant cash invested in a short term investment account. The OHSC generally adopts an approach ensuring that its exposure to changes in interest rate is on a floating rate basis. The OHSC does not have any interest-bearing borrowings and as a result there is no adverse exposure relating to interest rate movements in borrowings

25. Going concern

The annual financial statements have been prepared on a going concern basis and the Accounting Authority has no reason to believe that the entity will not be a going concern in the foreseeable future.

This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

26. Events after the reporting date

The Accounting Authority is not aware of any matter or circumstance arising since the end of the financial year that needs to be disclosed in the annual financial statements.

27. Unauthorised expenditure

No unauthorised expenditure was incurred during the financial year.

28. Fruitless and wasteful expenditure

Penalty and interest	**5 884**

The penalty and interest was incurred as a result of late payment to SARS.

29. Irregular expenditure

Add: Irregular Expenditure - current year	**1 963 263**

The OHSC was listed in accordance with the PFMA as a Schedule 3A public entity in May 2014. The NDoH requested the OHSC to move out of their office space as soon as possible, and this required the OHSC to find alternative office space on a temporary basis until a long term arrangement was made. The office that was immediately available was found at the South African Medical Research Council, and the OHSC entered into a lease for this office space for a period of one year. The decision was taken and approved by the accounting authority of the OHSC.

30. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	26 487 862
Adjusted for:	
(Over)/ under collection of revenue	(194 489)
Over/ (under) budget expenditure	(21 929 550)
Net surplus per approved budget	**4 363 823**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016

31. Board fees and related costs

Board fees and reimbursements	832 107
Other expenses	597 562
	1 429 669

32. Budget differences

Material differences between budget and actual amounts

Compensation of employees

- The Board commenced with the process for the appointment of the CEO, and by year end, this process was not yet concluded, hence the position of the CEO remained vacant.
- The Ombud is appointed by the Minister of Health, and by year end this process was not yet concluded. This also applies to the staff members in the office of the Ombud.
- At the start of the financial year, the OHSC did not have the full staff complement, and the recruitment process continued throughout the financial year with some savings realized from the budget of the positions which were filled later in the year.

Goods and services

- The communications and stakeholder relations strategy was finalised in the latter part of the financial year and will be implemented in the new financial year.
- The process for the procurement of the call centre, which will assist in complaints management, will be finalised in the new financial year.
- Additional savings were realised in administrative expenditure such as telephone costs due to delayed implementation of the call centre, audit fees, computer maintenance as well as leasing of office space.

Capital expenditure

- The budget for intangible assets largely related to software for the server infrastructure, which the OHSC did not have, as it utilised the server infrastructure provided by the South African Medical Research Council. The budget was utilised to procure computer equipment and furniture for the OHSC, whilst ensuring that the expenditure remained within the budget.

Telephone:
012 339 8699

Physical address:
The Office of Health Standards Compliance,
Medical Research Council Building,
1 Soutpansberg Road,
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RP265/2016
ISBN: 978-0-621-44819-1