Report of the Auditor-General of South Africa
on a performance audit of the use of consultants at selected departments
of the Gauteng Provincial Government

SEPTEMBER 2013
An independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.
OUR REPUTATION PROMISE/MISSION

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

By Authority
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOREWORD</td>
<td>5</td>
</tr>
<tr>
<td>AUDIT SCOPE</td>
<td>10</td>
</tr>
<tr>
<td>KEY AUDIT FINDINGS</td>
<td>14</td>
</tr>
<tr>
<td>OVERVIEW</td>
<td>15</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>17</td>
</tr>
<tr>
<td>Key findings</td>
<td>21</td>
</tr>
<tr>
<td>Comments received</td>
<td>22</td>
</tr>
<tr>
<td>Conclusion</td>
<td>23</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>25</td>
</tr>
<tr>
<td>DEPARTMENT OF HEALTH</td>
<td>30</td>
</tr>
<tr>
<td>GAUTENG SHARED SERVICE CENTRE</td>
<td>38</td>
</tr>
<tr>
<td>REGULATORY FRAMEWORK</td>
<td>45</td>
</tr>
<tr>
<td>Supply chain management</td>
<td>46</td>
</tr>
<tr>
<td>Standard Chart of Accounts</td>
<td>46</td>
</tr>
<tr>
<td>Public Service Regulations</td>
<td>47</td>
</tr>
<tr>
<td>PERFORMANCE AUDITING</td>
<td>49</td>
</tr>
<tr>
<td>Mandate</td>
<td>50</td>
</tr>
<tr>
<td>Purpose of performance auditing</td>
<td>50</td>
</tr>
<tr>
<td>Advantages of performance auditing</td>
<td>50</td>
</tr>
<tr>
<td>Differences between performance auditing and other types of auditing</td>
<td>51</td>
</tr>
<tr>
<td>Performance audit process</td>
<td>52</td>
</tr>
<tr>
<td>Focus areas and key audit questions</td>
<td>52</td>
</tr>
</tbody>
</table>
FOREWORD
I am honoured to present the results of a performance audit on the use of consulting/professional services, contractors and agency/outsourced services at the Shared Service Centre and the Department of Health of the Gauteng Provincial Government (collectively referred to as the departments).

For the purpose of this report, the terms consulting/professional services, contractors and agency/outsourced services have been grouped under the general term ‘consultants’. The focus areas of this performance audit are applicable to all of these third parties.

In our current environment, the partnership between the private and public sectors has become important in driving South Africa towards its development goals. To optimise the value of this partnership, this report identifies areas that need to be managed to get the best value for money.

The termination of consultancy services in the public sector is not advocated. However, attention is drawn to those areas where the use of consultants duplicates existing costs incurred, and where value for money spent on consultancy services was not secured.

Performance audits on the use of consultants by government were conducted in 1996 and 2002. The main findings of this audit mirror the findings of the two previous audits. A report on the use of consultants at selected national departments, which was tabled in Parliament on 24 January 2013, also paralleled those findings.

The National Treasury and the Department of Public Service and Administration had issued various guidelines and regulations to improve the overall management and use of consultants. However, many weaknesses still exist.

This performance audit report highlights instances of inadequate planning. Inadequate financial and performance management, and a lack of training and transfer of skills were also prevalent. These deficiencies adversely affected the economical, efficient and effective use of consultants.
ECONOMY

Internal capacity constraints and high vacancy rates at the departments led to the use of consultants. However, strategic planning for the use of consultants was not always done and the departments did not have a strategy and policy on the use of consultants. A robust supply chain management process was not always followed.

EFFICIENCY

Consultants’ work was not always monitored and evaluated to ensure that projects succeeded in their objectives. Payments to consultants were not always aligned to the actual services rendered. Consultancy projects were also regularly extended.

EFFECTIVENESS

The departments did not always retrospectively analyse projects to determine whether the desired objectives were achieved. In some instances, deliverables were only partially completed.

The above observations did not conform to the principles of economy, efficiency and effectiveness, as reflected on pages 19 and 20 of this report. The weaknesses identified were caused largely by the lack of rigorous review processes to ensure that existing prescripts were followed. These, and issues of inadequate planning and financial and performance management, adversely affected the economical, efficient and effective use of consultants.

The recurrence of these issues is cause for concern. In the 2008-09 to 2010-11 financial years, the Gauteng Provincial Government spent R14.9 billion on consultants: R6.9 billion on consulting/professional services, R5.3 billion on contractors and R2.7 billion on agency/outourced services. The audited departments spent R5.7 billion on consultants (38% of the total provincial expenditure of R14.9 billion). Of this amount, the Gauteng Shared Service Centre spent R1.1 billion and the Gauteng Department of Health R4.6 billion. The Gauteng Shared Service Centre also received an unqualified audit opinion for the 2008-09 and 2009-10 financial years. The Gauteng Department of Health received a disclaimer audit opinion for the 2008-09 and 2009-10 financial years, and a qualified audit opinion for the 2010-11 financial year.

The outcomes of this audit have been shared with the management of the audited departments and provincial executives. The departments have made a number of commitments; key among these is the institution of immediate action to address the findings and recommendations identified in this report.

Key aspects of this report have been integrated into our financial audits to ensure regular monitoring by the departments.

I wish to thank the staff of the Gauteng Shared Service Centre and the Gauteng Department of Health for their assistance during the audit.

Auditor-General of South Africa
Pretoria
September 2013

1 The Gauteng Shared Service Centre merged with the Gauteng Department of Finance during the 2010-11 financial year. Therefore, no separate audit opinion was issued on the financial statements.
2 The Gauteng Department of Health merged with the Gauteng Department of Social Development for the 2009-10 and 2010-11 financial years.
AUDIT SCOPE | KEY AUDIT FINDINGS | OVERVIEW
The performance audit on the use of consultants was conducted at two departments of the Gauteng Provincial Government and covered 19 contracts with an estimated value of R5,1 billion. Contract values were estimated in some instances, as some contracts could not be provided to the performance auditing team by the Department of Health, or were open-ended in terms of time and cost. Two provincial departments were selected for audit, based on our assessment of possible weaknesses in the use of consultants as identified through other audits, as well as spending trends:

- Gauteng Shared Service Centre (selected due to the importance of the specialised services offered to the provincial government, i.e. an internal support service in terms of human resources, audit, procurement, finance and technological services)
- Department of Health (selected due to having the highest expenditure on consultants in the province).

Expenditure on consultants amounted to 12% of the provincial government’s operational expenditure and 40% of its expenditure on goods and services.

The total expenditure on consultants by the audited provincial departments amounted to R5,7 billion (38% of the total provincial expenditure of R14,9 billion on consultants) for the three-year period 2008-09 to 2010-11.⁴

The Gauteng Provincial Government incurred operational expenditure³ of R121,49 billion during the 2008-09 to 2010-11 financial years. Of this amount, its total expenditure on goods and services was R37,5 billion.
Audits similar to this provincial audit were conducted nationally and at selected departments of all the other provinces. The report of the audit at selected national departments was tabled in Parliament on 24 January 2013.

For the purpose of this report, the Standard Chart of Accounts terminology of consulting/professional services, contractors and agency/outsourced services have been grouped under the general term “consultants”. The Standard Chart of Accounts defines these terms as follows:

- **CONSULTING/PROFESSIONAL SERVICES:**
  
  ...specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house since they are required on a once-off or temporary basis

- **CONTRACTORS:**
  
  ...required to provide services that are of a non-specialised nature that are not core business of the department

- **AGENCY/OUTSOURCED SERVICES:**
  
  ...the relevant department ordinarily has the capacity and expertise to carry out these services, but for some reasons are not utilising their own staff.
EXPENDITURE ON CONSULTANTS

Below is an overview of the expenditure on consultants by the Gauteng Provincial Government for the 2008-09 to 2010-11 financial years.

Total expenditure on consultants per department in the Gauteng Provincial Government for 2008-09 to 2010-11
Below is an overview of the expenditure on consultants by the Department of Health and the Gauteng Shared Service Centre of the Gauteng Provincial Government for the 2008-09 to 2010-11 financial years.

**Total expenditure on consultants at the Department of Health and the Gauteng Shared Service Centre**
The table below summarises the key audit findings at the Gauteng Department of Health and Gauteng Shared Service Centre as they relate to the aspects of economy, efficiency and effectiveness.

<table>
<thead>
<tr>
<th>KEY AUDIT FINDINGS</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th><strong>ECONOMY</strong></th>
<th><strong>ECONOMY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy</strong></td>
<td>The economical acquisition of consultancy-related resources includes a competitive procurement process for the appointment of consultants and the creation and maintenance of a permanent staff capacity where required</td>
</tr>
<tr>
<td><strong>Key findings</strong></td>
<td>Key findings at the Gauteng Department of Health and Gauteng Shared Service Centre in this regard include the following:</td>
</tr>
<tr>
<td></td>
<td>• Strategic planning for the use of consultants was not always done and the departments did not have a strategy and policy on the use of consultants</td>
</tr>
<tr>
<td></td>
<td>• Competitive bidding processes were not always followed</td>
</tr>
<tr>
<td></td>
<td>• Evaluation criteria were sometimes changed or compiled after the closure of the bids</td>
</tr>
<tr>
<td></td>
<td>• The highest scoring bidder was not always appointed and motivations were not always documented</td>
</tr>
<tr>
<td></td>
<td>• Consultancy contracts were not always in place and terms of reference were not always complete</td>
</tr>
<tr>
<td></td>
<td>• In some instances, a needs assessment was either not compiled before commencing with consultancy projects, or evidence could not be provided that the assessment had been completed</td>
</tr>
<tr>
<td></td>
<td>• Internal capacity constraints and high vacancy levels were experienced, which sometimes led to the departments appointing consultants to support the continuity of service delivery</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EFFICIENCY</strong></th>
<th><strong>EFFICIENCY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Efficiency</strong></td>
<td>The efficient use of consultants requires the achievement of an optimal relationship between the outputs produced by consultants and the resources expended by departments to remunerate these consultants. The management of the process to achieve this relationship is also a key consideration</td>
</tr>
<tr>
<td><strong>Key findings</strong></td>
<td>Key findings at the Gauteng Department of Health and Gauteng Shared Service Centre in this regard include the following:</td>
</tr>
<tr>
<td></td>
<td>• Consultants’ work was not always monitored and evaluated. This led to instances where project objectives were not achieved, even though consultants were paid for their services</td>
</tr>
<tr>
<td></td>
<td>• Some consultancy contracts were regularly extended</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EFFECTIVENESS</strong></th>
<th><strong>EFFECTIVENESS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effectiveness</strong></td>
<td>The use of consultants is considered to be effective if the objectives that informed the appointment of consultants are met</td>
</tr>
<tr>
<td><strong>The effective use of consultants at the Gauteng Department of Health and Gauteng Shared Service Centre was adversely affected by the following:</strong></td>
<td>The effective use of consultants at the Gauteng Department of Health and Gauteng Shared Service Centre was adversely affected by the following:</td>
</tr>
<tr>
<td></td>
<td>• Some projects were not retrospectively analysed to determine whether the proper processes had been followed and whether the desired objectives had been achieved</td>
</tr>
</tbody>
</table>
The Gauteng public sector cannot easily dispense with partnering with the private sector due to the specialised nature of some activities. In addition, departments experienced numerous human resource and other challenges. These challenges are recognised by the Gauteng Provincial Government and, in many instances, necessitate the use of consultants. When used correctly, consultants can be beneficial and provide access to skills that are not cost-effective for a department to build or maintain itself.

While recognising the above benefits, it is necessary to remain mindful of the manner in which consultants are used by the provincial government. Section 195 of the Constitution of the Republic of South Africa of 1996 notes that the efficient, economic and effective use of resources must be promoted.

The Public Service Commission, in its 2001 Report on the State of the Public Service, highlighted the use of consultants as a concern. In the report, the Commission stated:

The Public Service Commission is of the view that the use of any consultant needs to be justifiable and open to intense scrutiny. This is particularly true when specialist, high cost professional services are utilised or when former state employees are involved.

In 2001, the Department of Public Service and Administration instructed departments to:

- Undertake an institutional assessment of capacity to absorb outside assistance before tenders are issued
- Prepare sound and realistic tender specifications, which match the ability to implement and sustain the outcomes of projects
- Include skills transfer in the contracts and monitor the delivery thereof
- Undertake regular performance audits of consulting assignments
- Assess the total cost of using consultants in relation to cost-effectiveness before a decision is made to appoint a consultant
- Include information on the use of consultants in the annual report of a department to:
  - Provide a more balanced view of personnel expenditure in the public service
  - Provide information regarding expenditure on consultants, and the type and value of projects
  - Improve the monitoring of government on the use of consultants
  - Promote the sharing of learning products in government.

The lack of skilled staff to carry out departmental duties has been highlighted in several recent reports of the Auditor-General of South Africa.
The Department of Public Service and Administration also indicated that a database of reports produced by consultants would be compiled and updated annually, envisaging that it would contribute to:

- The reduction of the number of consultants appointed by different departments to develop virtually the same policies or systems
- Guidance in support of decision-making on the future use of consultants
- Sharing of learning products in the public service.

**ABOUT THIS REPORT**

This report is presented in an environment where the partnership between the private and public sectors has become important in driving South Africa towards its development goals.

Consultants provide specialist services to the public sector. However, this performance audit also revealed that consultants were appointed to provide core departmental functions. These include the provision of staff nurses in hospitals, for which the department should have internal staff. Since these skills were not available internally or departments were not successful in recruiting suitable staff, they had to rely on consultants to perform these functions. These, and issues of inadequate planning and financial and performance management, adversely affected the economical, efficient and effective use of consultants.

The National Treasury and the Department of Public Service and Administration had issued various guidelines and regulations to improve the overall management and use of consultants.

However, despite these, many weaknesses still exist. The reasons for this include a lack of monitoring and enforcement of compliance. Appropriate action is also not taken against those who contravene existing laws, regulations and policies.
Attention to the following focus areas is crucial in ensuring the economical, efficient and effective use of consultants by departments. This performance audit centred on the focus areas presented below:
### SUMMARISED AUDIT OUTCOMES

<table>
<thead>
<tr>
<th>GAUTENG DEPARTMENT OF HEALTH</th>
<th>CLASSIFICATION</th>
<th>FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT</th>
<th>E AFFECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO.</td>
<td>PROJECT</td>
<td>BEST AVAILABLE VALUE OF CONTRACT$^5$</td>
<td>CONSULTING/PROFESSIONAL SERVICES</td>
</tr>
<tr>
<td>1</td>
<td>Implementation of an asset management system and asset verification (Page 32)</td>
<td>35 665 958</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Implementation of a smart health card – pilot phase (Page 34)</td>
<td>36 981 597</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Implementation of a local area network (Page 35)</td>
<td>29 713 799</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Nursing agencies (9 agencies) (Page 36)</td>
<td>132 767 336</td>
<td>✓</td>
</tr>
<tr>
<td>5</td>
<td>Building capacity among non-governmental organisations (Page 37)</td>
<td>2 566 518</td>
<td>✓</td>
</tr>
<tr>
<td>Subtotal: Gauteng Department of Health$^6$</td>
<td>237 695 208</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$^5$ The best available value is the contract value plus extensions. Where the contract value was not available, the actual payments were used.

$^6$ This table excludes seven projects to the value of R1 135 909 012 selected for auditing. However, sufficient information was not available to audit these projects, resulting in a limitation of scope.
<table>
<thead>
<tr>
<th>NO.</th>
<th>PROJECT</th>
<th>BEST AVAILABLE VALUE OF CONTRACT$</th>
<th>CLASSIFICATION</th>
<th>FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT</th>
<th>E AFFECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Consultation/ Professional services contractors</td>
<td>Planning and appointment</td>
<td>Internal capacity</td>
<td>Training and transfer of skills</td>
</tr>
<tr>
<td>6</td>
<td>The Chief Executive Officer (CEO) body shop (five consultants) (Page 39)</td>
<td>61 782 960</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>7</td>
<td>Competency-based assessment (Page 40)</td>
<td>6 828 709</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>8</td>
<td>Gauteng online (GOL) programme (Page 40)</td>
<td>2 500 000 000</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>9</td>
<td>Project and programme management services for the GOL programme (Page 42)</td>
<td>37 862 544</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>10</td>
<td>Contact centre services (Page 42)</td>
<td>1 086 581 482</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>Subtotal: Gauteng Shared Service Centre*</td>
<td>3 693 055 695</td>
<td></td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Grand total</td>
<td>3 930 750 903</td>
<td></td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

$The best available value is the contract value plus extensions. Where the contract value was not available, the actual payments were used

*This table excludes two projects to the value of R21 793 042 selected for auditing. However, these projects were audited under the GOL programme
KEY FINDINGS

ECONOMY

• Strategic planning for the use of consultants was not always done. The audited departments did not have a comprehensive strategy and policy governing the use of consultants. This contributed to the increase in the audited departments’ expenditure on consultants.

• In some cases, the requirements of National Treasury and Gauteng Provincial Government prescripts were not observed. As a result, planning and appointment processes were not followed consistently, including:
  – The completion of terms of reference
  – Following competitive bidding processes
  – The establishment of evaluation criteria before bid closure
  – Appointing the highest scoring bidder or documenting a motivation for not doing so
  – Signing consultancy contracts.

• Needs assessments prior to appointing consultants were either not done, or evidence could not be provided that assessments had been carried out. This affected the outcomes of projects as the following key project disciplines could not be properly executed:
  – The establishment of relevant and accurate project requirements and specifications
  – The determination of critical dates for project deliverables
  – The analyses of project expenditure.

EFFICIENCY

• Consultants’ work was sometimes not comprehensively monitored and evaluated during the contract period. As a result, project objectives were sometimes not achieved, even though consultants were paid for their services.

• Contracts and contract periods were regularly extended due to a lack of capacity and poor project planning. Alternative options were not evaluated prior to extending contracts.

• Internal capacity constraints and high vacancy rates sometimes led to the departments appointing consultants to support the continuity of service delivery.
The departments did not always retrospectively analyse projects to determine whether the proper processes were followed and whether the desired objectives were achieved. The National Treasury prescribes a retrospective analysis and an assessment at the completion of each project, which should be available for future reference.

The Gauteng Department of Health could not provide certain information requested by the audit team. This resulted in some audit procedures not being carried out to verify management control measures.

The department did not effectively maintain its archiving system to ensure that all documents were safely stored and retained. Not providing information to the Auditor-General of South Africa for audit purposes is a contravention of the Public Finance Management Act. The lack of sufficient and appropriate evidence was also raised previously by the Auditor-General of South Africa. This was raised during the annual financial audits in the 2008-09 to the 2010-11 financial years.

The services of some consultants were terminated in the 2009-10 financial year.

A library was established to document all contracts available at the department.

A recruitment plan and post-filling plan have been developed.

Critical positions in finance and human resources have been advertised and shortlisted.

The department has changed the consultant that runs the asset management system. One of the new consultant’s deliverables is capacity building.

Certain contracts have been referred to the Special Investigations Unit.

The Departmental Acquisition Council will follow the process of establishing proper terms of references.

This does not refer to the close-out reports compiled by consultants.

The Gauteng Shared Service Centre merged with the Gauteng Department of Finance during the 2010-11 financial year. These comments were received from the Gauteng Department of Finance.
Gauteng Shared Service Centre

- The department will adopt the Supply Chain Management Policy and its guide to accounting officers and executive authorities as its interim strategy and policy to govern the use of consultants
- The department will develop and adopt a department-specific strategy and policy to govern the use of consultants
- The body shop concept\(^1\) has been abolished and all procurement is undertaken in terms of the supply chain management and associated legislative frameworks
- Criteria for all tender bid evaluations now form a component of tender specifications that are developed and approved before the tender is advertised
- A new project management office was established by the Gauteng Department of Education and Gauteng Department of Finance in October 2010
- The project management office facilitated the completion of the provincial schools’ network by ensuring that the criteria in the service level agreement were met at all times
- The project management office also performs a monitoring and evaluation role
- Educational technologists have been deployed to schools to ensure that all of the Gauteng Online laboratories were fully functional and were being effectively utilised by both educators and learners
- The Gauteng Department of Finance established a governance framework. This was to ensure that sound and effective protocols and communication processes were well documented and agreed upon
- The legal and forensic divisions of the department are investigating certain transgressions.

\(^1\) The term body shop referred to a group of qualified service providers that were pre-selected by the department. They were created in the procurement environment to facilitate service delivery in cases where technical skills were repeatedly needed.

CONCLUSION

Government’s success in optimising the value and the benefits of using consultancy services will only be achieved if:

- Proper systems of financial management and controls are established and adhered to in departments
- Compliance with regulations and policies is enforced
- Planning for the use of consultants is improved and is part of the departments’ strategy and business plans
- Sufficient internal capacity is created to enable departments to deliver on their mandates
- Consultants’ performance is monitored and managed to ensure that deliverables are achieved on time
- Consultancy contracts are properly closed through retrospective analyses where the process followed and the objectives achieved are evaluated.
RECOMMENDATIONS
3. **TRAINING AND TRANSFER OF SKILLS**

Where training and transfer of skills form part of the project, the department should ensure that the consultant honours its contractual obligations in full.

4. **PERFORMANCE MANAGEMENT AND MONITORING**

4.1 Consultants’ work should be monitored properly to verify their performance. This includes monitoring payments against actual services rendered.

4.2 Departments should have project implementation plans and ensure that they enable consultants to achieve their deliverables.

5. **EXTENSION OF CONTRACTS**

The extension of contracts and contract periods should be carefully considered, taking into account the original deliverables and future cost implications.

6. **CLOSING AND FINALISING CONSULTANCY PROJECTS**

A retrospective analysis to determine whether the proper processes were followed and whether the desired objectives were achieved should be done at the end of each stage and project.
7. **LIMITATION OF SCOPE**

The Department of Health should address the lack of proper filing and archiving systems. This will ensure that documentation and information are readily available to support transactions and management decisions.

8. **GENERAL**

8.1 The Provincial Treasury should monitor compliance with relevant prescripts. In addition, it should enforce appropriate action where departments deviate from such prescripts.

8.2 The department’s strategic and business plans should include the planned use of consultancy services. These plans should be intensively reviewed by internal audit and portfolio/audit committees.

8.3 The accounting officer’s section in the annual report should cover the element of accountability for the use of consultants. This should focus on the extent to which economy, efficiency and effectiveness have been achieved in appointing consultants.

8.4 Specific oversight on the use of consultants should be performed quarterly by the relevant committees, including portfolio committees and the Provincial Public Accounts Committee.

8.5 Internal audit should include the use of consultants by departments in their annual internal audit plan, and perform regular audits in these areas.
Graph 1 provides a breakdown of the expenditure on consultants per category and per financial year.

<table>
<thead>
<tr>
<th>Category</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting/professional services</td>
<td>62%</td>
<td>57%</td>
<td>62%</td>
</tr>
<tr>
<td>Contractors</td>
<td>11%</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>Agency/outsourced services</td>
<td>27%</td>
<td>26%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Total expenditure on consultants (2008-09 to 2010-11) R4.6 billion

Number of projects audited 12

Value of projects audited R1.4 billion

Average vacancy rate (2008-09 to 2010-11) 20.9%

A significant amount of information and documentation was requested several times from the department. This documentation was considered necessary to demonstrate that management measures were in place. However, the department could not submit this information for audit purposes. Not providing information to the Auditor-General of South Africa (AGSA) for audit purposes is a contravention of the Public Finance Management Act. The lack of documentation resulted in some audit procedures not being carried out.

The issue of outstanding information/documentation was escalated to the department at various levels.

As a result, for some contracts the following areas could not be audited due to the absence of supporting documentation:

**Planning and appointment**

The audit team could not determine whether:

- The department had followed a competitive procurement process in appointing consultants
- Needs and cost benefit analyses were conducted prior to appointing consultants.
Internal capacity

Documentation was required to determine whether the department had permanent staff with the necessary skills and experience to minimise the need for appointing consultants.

Training and transfer of skills

Information was necessary to determine whether skills were transferred efficiently and effectively to staff.

Performance management and monitoring

The procedures to verify the following could not be carried out:

• Whether consultants had been monitored
• Whether the department had paid consultants only after it was satisfied that milestones and objectives had been achieved.

Extension of contracts

The audit team could not conclude on whether:

• Consultants had achieved the original contract deadlines before an extension was granted
• Work expected from the extension of the contract was part of the original appointment.

Closing and finalising projects

The information was required to conclude on whether the services rendered met all the objectives of the department.

The lack of documentation was a result of the department not effectively maintaining the archiving system. Therefore, the department could not prove that it had proper management processes to monitor and manage consultants. Furthermore, when staff resigned their positions, a handover of documentation and information did not take place. This led to a lack of accountability and responsibility on the part of the staff taking over the position.

The department also received a disclaimer audit opinion for the 2008-09 to 2009-10 financial years, and a qualified audit opinion for the 2010-11 financial year.14 The lack of sufficient and appropriate evidence was also raised previously by the Auditor-General of South Africa. This was raised during the annual financial audits in the 2008-09 to the 2010-11 financial years.

2. STRATEGY AND POLICY FOR THE USE OF CONSULTANTS

The department did not have a comprehensive strategy and policy governing the use of consultants. The department’s use of consultants increased by 15.3%, from R1.3 billion in the 2007-08 financial year to R1.5 billion in the 2008-09 financial year. This was due to the department not having a permanent head of department and a chief financial officer. These departmental executives would ensure that formal strategies and policies were in place and followed.

The department was not in a position to plan in advance the following:

• Services that would be outsourced to consultants
• Internal capacity to avoid becoming dependent on consultants.

14 The Department of Health and the Department of Social Development were one department for the 2009-10 to 2010-11 financial years.
3. **NEEDS ASSESSMENTS**

Needs assessments are required by National Treasury and Gauteng Provincial Government prescripts. These prescripts included *Supply Chain Management: A Guide for Accounting Officers* (SCM guide), issued by the National Treasury, and the *Gauteng Provincial Government Supply Chain Management Manual* (GPG SCM manual). Needs assessments are required by the SCM guide as the first phase of the supply chain management (SCM) process. During this phase, it is determined whether there is a real need for goods and services prior to appointing a consultant. As a result of not performing the needs assessments, the following activities did not take place:

- Determining future needs
- Identifying critical delivery dates
- Specifying the frequency of the need
- Linking the requirement to the budget
- Performing an expenditure analysis
- Determining specifications
- Performing a commodity analysis/checking for alternatives
- Performing an industry analysis.

4. **APPROVED HUMAN RESOURCE PLAN**

The human resource (HR) plan enables the department to manage vacancies and the use of consultants.

The department could not submit for auditing purposes an approved HR plan for the 2007-08 financial year. As a result, there was no evidence of a formal strategy to address the vacancies and other HR challenges for this period. This strategy would have limited the use of consultants.

<table>
<thead>
<tr>
<th>Table 1: Vacancies in the 2007-08 and 2008-09 financial years</th>
</tr>
</thead>
<tbody>
<tr>
<td>DETAIL</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>Number of posts</td>
</tr>
<tr>
<td>Number of posts filled</td>
</tr>
<tr>
<td>Vacant posts</td>
</tr>
<tr>
<td>Vacancy rate</td>
</tr>
</tbody>
</table>

B. **KEY FINDINGS PER PROJECT**

1. **IMPLEMENTATION OF AN ASSET MANAGEMENT SYSTEM AND ASSET VERIFICATION**

A consultant was appointed by the department to implement the Bar Coded Asset Audit (BAUD) fixed asset register. The contract began in 1999 and was, because of various extensions, still active in 2010. The consultant was paid an estimated R36 million up to the 2008-09 financial year. The contract was further extended in the 2009-10 financial year at a contract value of R804 546. Various services, including the following, had been provided to the department:

- Keeping the BAUD system operational and assisting the department’s resources to operate the system and maintain the register
- General operational asset management support
- Physical asset verification.

1.1 The 1999 contract between the department and the consultant could not be provided. This was due to the department not effectively maintaining its archiving system. Consequently, it was not possible to determine the initial duration of the contract and the contract amount.

**No contract to substantiate R16 million payment to consultant**
An amount of R15 830 567 (excluding value added tax (VAT)) had been paid to the consultant as at 23 October 2002.

1.2 The department extended the services of the consultant from the 2003-04 to the 2008-09 financial years. However, the relevant extended contracts could not be provided for some of the financial years.

The extension costs amounted to R19 835 391 up to the 2008-09 financial year. A complete list of payments to the consultant could not be provided for audit purposes. Therefore, various source documents had to be used to estimate the cost of extensions, for instance, documents supplied by the Departmental Acquisition Council (DAC). The source documents are reflected in table 2.

### Table 2: Estimates of the cost of contract extensions

<table>
<thead>
<tr>
<th>FINANCIAL YEAR</th>
<th>SOURCE DOCUMENT</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>Budget spreadsheet</td>
<td>R1 949 717</td>
</tr>
<tr>
<td>2004-05</td>
<td>DAC submission</td>
<td>R2 104 200</td>
</tr>
<tr>
<td>2005-06</td>
<td>DAC approval</td>
<td>R1 208 562</td>
</tr>
<tr>
<td>2006-07</td>
<td>DAC approval</td>
<td>R8 000 000</td>
</tr>
<tr>
<td>2007-08</td>
<td>Service level agreement</td>
<td>R3 219 588</td>
</tr>
<tr>
<td>2008-09</td>
<td>DAC submission</td>
<td>R3 353 324</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>R19 835 391</strong></td>
</tr>
</tbody>
</table>

The department did not consider the long-term cost implications of appointing consultants versus permanent staff. The reasons for the extensions include the following:

- Internal capacity constraints at the department
- The department did not address asset register deficiencies on time
- The asset management directorate had not been included in the compilation of the asset management project plan
- Roles and responsibilities for particular areas of the plan had not been assigned to specific staff members.

1.3 Tender documents for the initial appointment of the consultant could not be provided for audit purposes. Therefore it could not be determined whether a competitive bidding process had been followed. The department also did not request alternative proposals through a competitive bidding process when services were extended from the 2003-04 to the 2009-10 financial years.

These extensions were for, among others, asset verification, asset register reconciliations, clearing of audit queries and training on technical/accounting skills. Thus, the department could not ensure that the service was rendered at the lowest possible price and in its best interest.

In addition, the GPG SCM manual states that an approved extension: *... may be extended for a maximum of two years. However, the market must again be tested before the extension period has expired.*

The department based the reasons for not following a competitive bidding process on the following:

- The consultant’s work was a continuation of previous asset verification work at the department
Moreover, payments to the consultant were increased by 184% (2007-08) and 135% (2008-09), despite the deliverables not having been met. The services of this consultant were terminated in 2010, and another consultant was appointed to provide and operate a new asset management system.

2. IMPLEMENTATION OF A SMART HEALTH CARD – PILOT PHASE

The department contracted the consultant to implement a smart health card solution to facilitate the transformation of health care service delivery in the Gauteng province. The implementation of the smart health card solution was piloted to establish methodologies that would be used in the main project roll-out. A project charter\(^\text{17}\) for the pilot phase was signed between the consultant and the department on 1 April 2008 for an amount of R36 981 597.

2.1 A formal contract was not signed between the department and the consultant. The project was stopped during the pilot phase on 10 February 2009 to allow the department and the consultant to formalise a contract before continuing the project. The contract had not been signed prior to this, as the department did not have a strong SCM structure to ensure adherence to SCM processes and regulations.

2.2 Although the consultant was appointed through a competitive bidding process and approved by the DAC, the terms of reference\(^\text{18}\) (ToR) were not complete. Furthermore, the department was not able to demonstrate that a needs assessment had been conducted. The following were some of the items not included in the ToR:

- Timeframes linked to various tasks, including milestones

16 A service level agreement is negotiated between two parties and details the nature, quality, and scope of the service to be provided

17 A project charter is a document which outlines the scope and project objectives, and identifies the main stakeholders

18 The terms of reference should define as clearly as possible the objectives, goals and scope of a project. It is necessary to ensure that the project has been properly conceived, that the work is carried out on schedule and that resources will not be wasted
The invoices did not contain evidence that they were approved for payment or that the services were actually rendered to the department. As a result, it could not be determined whether the consultant’s work was valid and satisfactory.

3. IMPLEMENTATION OF A LOCAL AREA NETWORK

A consultant was appointed to implement a local area network (LAN) at 134 health facilities. The contract period was from 6 December 2007 until 28 February 2008, and was valued at R29 713 799.

3.1 During the bid evaluation process, bids are scored using points based on functionality and price. The contract should be awarded to the bidder that scored the highest points. The Preferential Procurement Regulations issued by the minister of finance allows a contract to be awarded to a bidder that did not score the highest points, provided there are reasonable and justifiable grounds to do so.

The bid for the implementation of the LAN was not awarded to the bidder with the highest number of points. Eight bids were evaluated, as documented in the DAC submission. The total points allocated to each of the three highest scoring bidders evaluated are shown below.

Table 3: The total points from the DAC submission

<table>
<thead>
<tr>
<th>CONSULTANT</th>
<th>TOTAL POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant A</td>
<td>77,5</td>
</tr>
<tr>
<td>Consultant B</td>
<td>76,9</td>
</tr>
<tr>
<td>Consultant C (appointed)</td>
<td>60,6</td>
</tr>
</tbody>
</table>
The DAC submission justified awarding the contract to consultant C, based mainly on the functionality of the product. However, the consultant selected was scored third for functionality, as shown in the table below.

<table>
<thead>
<tr>
<th>CONSULTANT</th>
<th>FUNCTIONAL POINTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultant B</td>
<td>47,4</td>
</tr>
<tr>
<td>Consultant A</td>
<td>44,2</td>
</tr>
<tr>
<td>Consultant C (appointed)</td>
<td>38,4</td>
</tr>
</tbody>
</table>

4. NURSING AGENCIES

The department did not have sufficient permanent nursing staff with the necessary skills and experience. Nursing services are classified as an essential service. The department therefore identified a need to supplement existing nursing staff due to the vacancies shown in table 5. Consequently, nursing staff were obtained from nursing agencies.

<table>
<thead>
<tr>
<th>FINANCIAL YEAR</th>
<th>PROFESSIONAL NURSES</th>
<th>STAFF NURSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>37,3%</td>
<td>29,6%</td>
</tr>
<tr>
<td>2008-09</td>
<td>34,0%</td>
<td>26,0%</td>
</tr>
<tr>
<td>2009-10</td>
<td>15,0%</td>
<td>11,0%</td>
</tr>
<tr>
<td>2010-11</td>
<td>18,0%</td>
<td>13,0%</td>
</tr>
</tbody>
</table>

An essential service refers to a service which, if interrupted, would endanger or inconvenience the life or health of people.
The nursing agencies had originally signed SLAs for a period of two years. However, the department extended the services of the nursing agencies 12 times over a period of three years and six months (between 1 May 2005 and 31 October 2008). The department could not provide SLAs for these extensions. Documentation showing management had considered reasons for extensions prior to their approval, could not be provided for audit purposes.

5. **BUILDING CAPACITY AMONG NON-GOVERNMENTAL ORGANISATIONS**

The consultant was appointed to build capacity among non-governmental organisations. This included:

- Organisational, financial and project management
- Service delivery
- Networking and sustainability
- Information management and report writing.

The department awarded the contract to the consultant for an amount of R2 566 518 for a period of three years, from 1 July 2006 to 30 June 2009.

The contract was not specific about the tasks that the department required the consultant to perform. This was because the department did not have dedicated staff to ensure that procurement processes and regulations were followed.

Consequently, as at 29 February 2008, the department had paid the consultant R2 052 187. Payment was made without monitoring and evaluating the consultant’s performance and deliverables, as there were no objectives set in the contract.

6. **INADEQUATE MANAGEMENT INFORMATION ON THE USE OF CONSULTANTS**

The department submitted a list of consultants used for the 2007-08 and 2008-09 financial years. However, this list was incomplete and differed from information on consultants in the department’s annual reports for these financial years.

This was due to the department’s archiving system not effectively maintaining and storing documents.

<table>
<thead>
<tr>
<th>Table 6: Differences on the consultant expenditure reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>DESCRIPTION</td>
</tr>
<tr>
<td>Consultant expenditure as per the financial statements</td>
</tr>
<tr>
<td>Consultant expenditure as per the list provided by the department</td>
</tr>
<tr>
<td>Difference</td>
</tr>
</tbody>
</table>

The list was meant to be used to select contracts for this performance audit. As a result of not obtaining a complete list, alternative methods had to be used to select contracts for the audit. Examples of these alternative methods included discussions with the relevant AGSA financial audit team, and an inspection of the DAC minutes.

The department was unable to monitor consultants used and the amounts paid. In addition, there was a lack of controls to ensure that all transactions with consultants were recorded and classified.
A. STRATEGY AND POLICY ON THE USE OF CONSULTANTS

The department did not have a comprehensive strategy and policy governing the use of consultants. The use of consultants at the department was governed by the SCM guide and the GPG SCM manual.

In the absence of a strategy and policy on the use of consultants, the department’s expenditure on consultants exceeded the department’s employee costs. This was for the 2008-09 and 2009-10 financial years, as shown in the table below.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Consultant Expenditure</th>
<th>Expenditure on Permanent Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>R475 427 000</td>
<td>R330 389 000</td>
</tr>
<tr>
<td>2009-10</td>
<td>R667 679 000</td>
<td>R381 516 000</td>
</tr>
<tr>
<td>Total</td>
<td>R1 143 106 000</td>
<td>R711 905 000</td>
</tr>
</tbody>
</table>

Consultants were employed to provide core departmental functions for which the department should have had internal staff.

---

20 Some projects used more than one consultant
21 This amount exceeds total expenditure on consultants (2008-09 to 2009-10), as it consists of the best available value of the project and includes amounts outside the 2008-09 to 2009-10 financial years
22 The Gauteng Shared Service Centre (GSSC) merged with the Gauteng Department of Finance, during the 2010-11 financial year, hence no figures are shown for the 2010-11 financial year
B. KEY FINDINGS PER PROJECT

1. THE CHIEF EXECUTIVE OFFICER (CEO) BODY SHOP

The CEO body shop was created in the procurement environment to facilitate service delivery in cases where technical skills were regularly needed. Each body shop consisted of a group of qualified service providers pre-selected by the department. The CEO body shop was established and approved by the DAC on 21 November 2006. This approval was valid for a period of three years and was budgeted at an estimated cost not exceeding R200 million.

Five of the 16 consultants from the CEO body shop, valued at R61.8 million for the 2007-08 and 2008-09 financial years, were included in the audit. The paragraphs below detail the key findings relating to the CEO body shop.

1.1 There was no evidence of a formal needs assessment by the department before establishing the CEO body shop. Management did not consider the need for consultants prior to the tender. Therefore, there was no indication that the department took the issues stated in the GPG SCM manual, section 2.1.1, into consideration. These include:
- Determining future needs
- Identifying critical delivery dates
- Specifying the frequency of the need
- Linking the requirement to the budget

1.2 The department did not comply with its rules governing the body shop. The rules require a rotational mechanism of sourcing suppliers (also required by National Treasury’s Practice Note SCM 3 of 2003). No evidence could be provided that the department had complied with these criteria.

1.3 The department evaluated bids/proposals based on functionality and price. The ratio between functionality and price used to evaluate a bid/proposal should be disclosed in the bid documents.

The request for proposals indicated that the points would be divided into 10 points for historically disadvantaged individuals, 50 points for price and 40 points for functionality. However, the evaluation criteria were changed after the closure of the bids for the CEO body shop. The DAC submission indicated that price points were not used to recommend or eliminate bidders.

The DAC submission noted that, as all the bidders quoted differently, it was not practical to compare the bidders’ prices. As a result, management did not use the price points in the evaluation process, which was a contravention of the National Treasury SCM guide.
The SCM guide states that bids should only be evaluated in terms of the criteria stated in the bid documents. Amending the evaluation criteria after the bids should not be allowed, as this would jeopardise the fairness of the system.

2. COMPETENCY-BASED ASSESSMENT

A consultant was appointed to conduct a competency-based assessment to assess the department’s skills capacity and training required to address gaps identified. The consultant was appointed in August 2008 at a cost of R6 828 709.

2.1 The consultant did not meet all the contract deliverables. The consultant completed 692 (59%) of the 1 172 competency-based assessments and was paid R6 173 328, which constituted 90.4% of the contract value. This was due to the department not supervising the required attendance of staff for the assessments. As a result, the following challenges were experienced in conducting the competency assessment:

- Some staff scheduled for assessments did not attend on the expected dates
- Staff signed the attendance register in the morning but did not do the assessment
- Staff left the office early and were not prepared to stay to complete the assessment, which contributed to backlogs
- Managers called staff away from the assessment to attend to urgent job requirements and the assessments were abandoned
- Assessment sessions started late due to staff arriving late
- Attendees were not in the scheduled list of staff
- Staff claimed not to be aware of the competency assessment
- Staff expressed opinions on the complexity of the concepts and the irrelevance of the exercises to their daily duties
- Senior management did not attend, even when confirmed on the schedule in a reasonable time slot.

Consultants also experienced challenges with the availability of boardrooms and breakaway rooms. As a result, the objective of the consultancy project was not achieved, even though the department paid the consultant R6 173 328.

2.2 There was no evidence that the department evaluated the work performed by the consultant to determine whether the work was in line with the contract. As at July 2010, evidence could not be provided that the results of the assessment were implemented. The report was intended to enable the department to assess its skills capacity and training required to address gaps identified. The approval process was put on hold until the department had decided on a management structure to adopt the consultant’s report.

3. GAUTENG ONLINE (GOL) PROGRAMME

The GOL programme was initiated in 2001. The pilot programme was initially implemented at the Gauteng Department of Education (GDE). The Gauteng Premier transferred the GOL programme from the GDE to the GSSC from 1 April 2007. The GSSC then advertised the tender to implement the GOL programme on 31 August 2007. The consultant was appointed as a service provider in December 2007 for a period of five years at an estimated contract value of R2.5 billion.

The consultant was appointed to deliver on the GOL programme objectives, which were to:

- Provide every learner in public schools with an e-mail address
- Provide every learner in public schools with free internet access
- Implement a technology-enabled learning environment
3.1 Evaluation criteria for the implementation of the GOL programme were only reviewed and finalised after the bid closed. The bid closed on 21 September 2007, while the criteria were only finalised on 31 October 2007. The department was of the opinion that only the type of point system, e.g. either the 90/10 or the 80/20 rule, needed to be stated in the bid documents.

As the evaluation criteria were not finalised, the evaluation of bids was not fair and did not comply with the SCM guide. Paragraph 4.11 of this guide states that bids should only be evaluated in terms of the criteria stated in the bid documents. Amending the evaluation criteria after the bids should not be allowed, as this would jeopardise the fairness of the system.

3.2 The agreement between the parties specifies that the project implementation plan should be developed and annexed to the agreement on/before 15 March 2008. However, at the time of the audit, the plan had not been agreed between the consultant and the department. As a result, deliverables were delayed and the consultant implemented the GOL programme without proper guidance or a signed implementation plan. By 31 January 2010, the department had paid the consultant R552.8 million.

A significant number of contract deliverables were not met by the consultant as at September 2009, despite the deadline being 31 March 2009. The September 2009 monitoring report Gauteng Online Report – Contractual Deviations by Programme Management Office indicated the extent of the outstanding milestones.

### Table 8: Milestones not met

<table>
<thead>
<tr>
<th>MILESTONES</th>
<th>DELIVERABLES NOT MET</th>
<th>PERCENTAGE COMPLETED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conversion of 405 new classrooms into computer laboratories</td>
<td>322 outstanding</td>
<td>20%</td>
</tr>
<tr>
<td>Construction of 420 new laboratories</td>
<td>420 outstanding</td>
<td>0%</td>
</tr>
<tr>
<td>Learner tool management</td>
<td>All outstanding</td>
<td>0%</td>
</tr>
<tr>
<td>Installation of printers</td>
<td>All outstanding</td>
<td>0%</td>
</tr>
<tr>
<td>Technology refresh of 1 200 existing schools</td>
<td>1 113 outstanding</td>
<td>7%</td>
</tr>
<tr>
<td>Construction of 121 Local Service Nodes (LSNs)</td>
<td>71 outstanding</td>
<td>41%</td>
</tr>
<tr>
<td>Infrastructure renovations and repairs in the 1 200 existing schools</td>
<td>1 200 outstanding</td>
<td>0%</td>
</tr>
<tr>
<td>2 200 Orientation and advanced training sessions</td>
<td>2 184 outstanding</td>
<td>1%</td>
</tr>
<tr>
<td>12 Mobile iLabs (Buses)</td>
<td>5 outstanding</td>
<td>58%</td>
</tr>
</tbody>
</table>

3.3 The management information compiled by the consultant on schools was inaccurate. The department relied on this information and did not have measures to ensure that reports were valid, accurate and complete. The performance audit team visited 20 schools in February 2010 and noted the following:

- Internet connectivity schedules were incorrect. Twelve of the 20 schools visited (60%) were not connected to the internet for up to a period of one month, although they were reported as having an internet connection. The lack of connectivity was due to the process of changing satellite providers. Consequently, the objective of providing every learner in public schools with free internet access was not achieved.
- Training was not provided as required in terms of the project implementation.
agreement between the consultant and the department. Eight of the 20 schools visited (40%) did not receive training. The GOL laboratories provided computer hardware and software as well as access to a network and the internet. However, the laboratories were not used by schools as teachers were awaiting training on the use of the computers to teach the learners.

- The department provided a schedule indicating schools where project deliverables were implemented in full. As a result of not monitoring the project effectively, deviations from this schedule were found at six of the 20 schools visited (30%). For example, the schedule indicated that a school had a security door. However, a site visit indicated that this door had not been installed.

4. PROJECT AND PROGRAMME MANAGEMENT SERVICES FOR THE GOL PROGRAMME

A consultant worked on projects for the CEO body shop. This consultant was also awarded a separate contract to the value of R22 522 752 on 6 May 2007. This contract, which ended on 31 March 2009, was to render project and programme management services for the GOL programme.

The department extended the consultancy contract without considering alternatives or testing the market before the contract extension period expired. The consultancy contract was extended at a further cost of R15 339 792, which was 68% of the original contract value.

The consultant’s contract for the GOL project expired on 31 March 2009. Approval for the extension by an additional 12 months, which included additional work, was granted without following a transparent, competitive and equitable process. As a result, it could not be ascertained whether the consultant rendered services at the lowest possible cost and the best possible quality.

There were 16 pre-selected service providers in the CEO body shop. However, a contract with a total value of R37 862 544 was awarded to one consultant. This constituted 18.9% of the R200 million approved for the CEO body shop. The reason was that, at the time of awarding and extending the contract, the department did not have rules governing the body shop. These rules would have required a rotational mechanism of sourcing suppliers. However, such rules were only established in May 2008, 18 months after the CEO body shop was established and approved by the DAC on 21 November 2006.

5. CONTACT CENTRE SERVICES

During April 2007, the DAC approved a deviation from normal procurement procedures to outsource the contact centre. The centre was outsourced to a consortium for a period of five years, with an estimated value of R1,1 billion. The reason for the deviation was that a request for proposal process would have resulted in the project not meeting the expected timelines.

5.1 In a letter dated 19 August 2009, the department listed various areas where the consortium did not meet the agreed contract objectives and deliverables. The following are examples:

- Failure to demonstrate meaningful expansion of the contact centre to create additional seat capacity capable of being sold to third parties.
- Failure to actively engage third-party clients, sell additional seats to those third parties, and ensure that the contact centre operates at full capacity.

The consultant had agreed that it would sell additional/unused seats to third parties to ensure the contact centre operated at full capacity. The consultant would then provide the department with a 2.5% refund on the revenue made from the sale of these additional/unused seats. As the consortium did not achieve the objectives and deliverables listed above, the department did not receive the expected refund.

The contact centre is a strategic initiative of the province aimed at improving service delivery and facilitating citizens’ access to government information and services. For example, drivers and learners licence bookings, Gautrain public information line and police complaints line.

25
5.2 The department subsequently cancelled the contract on 31 May 2010, at a termination cost of R279 million. No reason for the termination was included in the settlement agreement. This was in addition to the payments made to the consultant for the 2007-08 and 2008-09 financial years. These payments amounted to an estimated R219 million.
While the Constitution of the Republic of South Africa of 1996 makes provision for the procurement of services by the public sector, various laws, regulations and policies, documents and guidance material pertaining to consultants have been issued over the past 10 years. Among these are:

- **Supply Chain Management: A Guide for Accounting Officers** (February 2004) and **National Treasury Practice Note Number SCM 3 of 2003** (December 2003), issued by the National Treasury
- **Standard Chart of Accounts Toning Project Summary Report** (21 December 2007), issued by the National Treasury
- **Public Service Regulations** (2001), issued by the Department of Public Service and Administration
- **Guide on Hourly Fee Rates for Consultants** (annual publication), issued by the Department of Public Service and Administration
- **Use of Consultants in the Public Service** (September 2001), issued by the Department of Public Service and Administration
- **A guide to managing consultants** (2001), issued by the Parliamentary Support Programme.

**SUPPLY CHAIN MANAGEMENT**

In **Supply Chain Management: A Guide for Accounting Officers**, February 2004, Chapter 5, and **National Treasury practice note SCM 3 of 2003**, the following is stated with regard to consultants:

- The term consultant includes, among others, consulting firms, engineering firms, construction managers, management firms, procurement agents, inspection agents, auditors, other multinational organisations, investment and merchant banks, universities, research agencies, government agencies, non-governmental organisations (NGOs) and individuals.

Accounting officers may use these organisations as consultants to assist in a wide range of activities such as policy advice, accounting officer’s reform management, engineering services, construction supervision, financial services, procurement services, social and environmental studies and identification, preparation and implementation of projects to complement accounting officers’ capabilities in these areas.

Consultants should only be engaged when the necessary skills and/or resources to perform a project/duty/study are not available and the accounting officer cannot be reasonably expected either to train or to recruit people in the time available.

The relationship between the accounting officer and the consultant should be one of purchaser/provider and not employer/employee. The work undertaken by a consultant should be regulated by a contract. The accounting officer is, however, responsible for monitoring and evaluating contractor performance and outputs against project specifications and targets, and should take remedial action if performance is below standard.

**STANDARD CHART OF ACCOUNTS**

According to the **Standard Chart of Accounts Toning Project Summary Report**, consultants, contractors and agencies/outsourced services are categorised as consulting/professional services, contractors and agency/outsourced services.
**Consulting/professional services** refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. It further states that a consultant is a professional person appointed by the department to provide technical and specialist advice or to assist with the design and implementation of specific projects/programmes. The legal status of this person can be an individual, a partnership or a corporation.

**Contractors** are required to provide services that are of a non-specialised nature and that are not core business of the department. It is normally not cost-effective to maintain these skills within the department.

**Agency/outsourced services** refer to services where the relevant department ordinarily has the capacity and expertise to carry out these services, but for some reason is not utilising its own staff. The reasons might include temporary incapacity or the outsourcing of services to save costs, for example cleaning, security and recruitment.

### PUBLIC SERVICE REGULATIONS

In terms of the *Public Service Regulation* (PSR) J.3, Part III: Planning, Work Organisation and Reporting of Chapter 1 of the PSR, 2001, a consultant means:

*A natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad hoc basis any of the following professional services to a department against remuneration received from any source:*

- The rendering of expert advice
- The drafting of proposals for the execution of specific tasks
- The execution of a specific task which is of a technical or intellectual nature, but excludes an employee of a department.
MANDATE

This performance audit was conducted in accordance with the mandate conferred by section 188(4) of the Constitution of the Republic of South Africa, 1996, read in conjunction with sections 5(3) and 20(3) of the Public Audit Act, 2004.

While it is not within the Auditor-General’s mandate to question policy, the Auditor-General does assess the effects of policy (in terms of the principles of economy, efficiency and effectiveness) and the overall management measures that lead to policy decisions.

PURPOSE OF PERFORMANCE AUDITING

Performance auditing is an independent, objective and reliable examination of whether government undertakings, programmes, systems, activities or organisations are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance auditing seeks to provide new information, analysis or insights and, where appropriate, recommendations. Subject matter is not limited to specific programmes, entities or funds but can include topics related to service delivery, value for money or effects of regulations. Performance auditing places special focus on citizens. The primary questions being asked are whether government is “doing the right thing” and doing this “in the right and least expensive way”.

The reports generated through the performance auditing process inform parliament and other institutions charged with oversight of the extent to which audited entities:

- Procure resources of the right quality in the right quantities at the right time and place at the lowest cost (economy)
- Achieve the optimal relationship between the output of goods, services or other results and the resources used to produce them (efficiency)
- Achieve policy objectives, operational goals and other intended effects (effectiveness).

ADVANTAGES OF PERFORMANCE AUDITING

Performance auditing benefits government by:

- Promoting good governance, accountability and transparency
- Creating mechanisms for change and improvement
- Contributing to learning and change and serving as a basis for decision-making.

Promoting good governance, accountability and transparency

Performance auditing assists those charged with governance and oversight to improve their performance. This is done by examining whether decisions by the legislature or executive authorities are efficiently and effectively implemented, and whether citizens have received value for money. It provides constructive incentives for the responsible authorities concerned to take appropriate action.

Performance auditing affords taxpayers, financiers, ordinary citizens, and the media an insight into the management and outcomes of different government activities. It contributes in a direct way to providing useful information to the citizen, while also serving as a basis for governmental learning and improvement.
Creating mechanisms for change and improvement

In the private sector, a company’s success can be assessed by its ability to generate a profit. A company that does not continually improve will ultimately be forced to leave the market. There is no similar mechanism in the public sector. While it is possible to reorganise activities in the public sector, and even close some agencies, even the most unsuccessful key ministry will keep some necessary functions.

This requires the public sector to create different mechanisms to measure results and ensure continual improvements in government entities. Performance budgeting, management and reporting are commonly used as such a mechanism. Performance auditing plays a role in highlighting problems and promoting change.

Contributing to learning and change and serving as a basis for decision-making

Performance auditors are not a part of the system they audit, which makes it easier to objectively listen to the views and knowledge of different stakeholders at different levels of the public administration. This enables performance auditors to impart new knowledge and understanding to stakeholders. Such new knowledge promotes learning and change.

As resources are scarce, the efficient and effective achievement of objectives is emphasised. Decisions need to be made on how to prioritise different programmes and ministries. Performance auditing serves as a basis for decisions on how to prioritise and make better use of available resources.

Differences between performance auditing and other types of auditing

The three recognised types of government auditing are:
- Financial auditing
- Performance auditing
- Compliance auditing.

The concept of regularity auditing covers both financial and compliance auditing. Performance auditing may include dimensions of compliance, but not as an end in itself. In performance auditing, compliance with rules and regulations is a tool to assess the performance of the audited entity.

The main differences between regularity auditing and performance auditing are highlighted below.

<table>
<thead>
<tr>
<th>ASPECT</th>
<th>PERFORMANCE AUDITING</th>
<th>REGULARITY AUDITING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Assess whether the performance of the audited entity meets the three Es (economy, efficiency and effectiveness)</td>
<td>Assess financial statements, financial management and whether the accounts are true and fair</td>
</tr>
<tr>
<td>Starting point</td>
<td>Presumed problems</td>
<td>Done on an annual basis</td>
</tr>
<tr>
<td>Focus</td>
<td>The performance of the organisation/programme and its activities</td>
<td>The accounting and financial management systems</td>
</tr>
<tr>
<td>Academic base</td>
<td>Interdisciplinary (economics, political science, engineering, health, education, etc)</td>
<td>Accounting and financial management</td>
</tr>
</tbody>
</table>

Creating mechanisms for change and improvement

In the private sector, a company’s success can be assessed by its ability to generate a profit. A company that does not continually improve will ultimately be forced to leave the market. There is no similar mechanism in the public sector. While it is possible to reorganise activities in the public sector, and even close some agencies, even the most unsuccessful key ministry will keep some necessary functions.

This requires the public sector to create different mechanisms to measure results and ensure continual improvements in government entities. Performance budgeting, management and reporting are commonly used as such a mechanism. Performance auditing plays a role in highlighting problems and promoting change.

Contributing to learning and change and serving as a basis for decision-making

Performance auditors are not a part of the system they audit, which makes it easier to objectively listen to the views and knowledge of different stakeholders at different levels of the public administration. This enables performance auditors to impart new knowledge and understanding to stakeholders. Such new knowledge promotes learning and change.

As resources are scarce, the efficient and effective achievement of objectives is emphasised. Decisions need to be made on how to prioritise different programmes and ministries. Performance auditing serves as a basis for decisions on how to prioritise and make better use of available resources.

Differences between performance auditing and other types of auditing

The three recognised types of government auditing are:
- Financial auditing
- Performance auditing
- Compliance auditing.

The concept of regularity auditing covers both financial and compliance auditing. Performance auditing may include dimensions of compliance, but not as an end in itself. In performance auditing, compliance with rules and regulations is a tool to assess the performance of the audited entity.

The main differences between regularity auditing and performance auditing are highlighted below.

<table>
<thead>
<tr>
<th>ASPECT</th>
<th>PERFORMANCE AUDITING</th>
<th>REGULARITY AUDITING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>Assess whether the performance of the audited entity meets the three Es (economy, efficiency and effectiveness)</td>
<td>Assess financial statements, financial management and whether the accounts are true and fair</td>
</tr>
<tr>
<td>Starting point</td>
<td>Presumed problems</td>
<td>Done on an annual basis</td>
</tr>
<tr>
<td>Focus</td>
<td>The performance of the organisation/programme and its activities</td>
<td>The accounting and financial management systems</td>
</tr>
<tr>
<td>Academic base</td>
<td>Interdisciplinary (economics, political science, engineering, health, education, etc)</td>
<td>Accounting and financial management</td>
</tr>
</tbody>
</table>
PERFORMANCE AUDIT PROCESS

The audit process was standardised and guided by the Performance Audit Manual of 2008, which sets out the policies, standards and guidelines for the planning, execution, reporting and following up of performance audits conducted in the public sector.

As required by the Performance Audit Manual, sufficient audit evidence was obtained for the findings and illustrative examples contained in this report. These examples have been included to illustrate the consequences and effects of deficient management measures and are not collectively a full reflection of the extent of audit work conducted at entities.

The Auditor-General of South Africa expects that the deficiencies highlighted and the recommendations made in this regard will give rise to sustained corrective action by the management of audited entities.

FOCUS AREAS AND KEY AUDIT QUESTIONS

The performance audit on the use of consultants sought to answer the following key questions:

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>KEY AUDIT QUESTIONS</th>
<th>PRINCIPLE ADDRESSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning and appointment process</td>
<td>Did departments analyse the cost-effectiveness of permanent capacity versus using a consultancy, while ensuring continuity and service delivery?</td>
<td>Economy</td>
</tr>
<tr>
<td></td>
<td>Was consideration given to whether the objectives of the department would be better achieved through the appointment of consultants or permanent staff?</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td>Were competitive and transparent appointment processes followed?</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Were effective recruitment and appointment processes followed to limit the duration of consultants’ appointments?</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transfer of skills?</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Internal capacity at departments</td>
<td>Was there a lack of permanently appointed staff with the necessary skills and experience in the departments, which necessitated the appointment of consultants as a compensating measure?</td>
<td>Economy</td>
</tr>
<tr>
<td></td>
<td>Were consultants employed in high or critical positions such as chief financial officer, etc?</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td>Were departments using consultants because the internal processes to appoint permanent staff were inefficient and ineffective?</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>Were consultants employed to monitor the work of other consultants or to compile specifications for tenders, for which they then tendered?</td>
<td>Efficiency and effectiveness</td>
</tr>
<tr>
<td>FOCUS AREA</td>
<td>KEY AUDIT QUESTIONS</td>
<td>PRINCIPLE ADDRESSED</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Training and transfer of skills from consultants to employees</td>
<td>Did the consultant transfer skills efficiently and effectively to departmental staff to enable the staff to do the work, thereby limiting the duration of the consultancy appointment?</td>
<td>Efficiency and effectiveness</td>
</tr>
<tr>
<td>Performance management and monitoring of consultants</td>
<td>Did departments monitor and control the work of the consultant to ensure that the quality of the work performed matched the required deliverables and that it was achieved in the most efficient and cost-effective manner? Were alternative options considered to ensure that the objectives and business needs were achieved in a timely and cost-effective manner? Did departments have controls in place to avoid contracts being prolonged?</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economy and effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economy and efficiency</td>
</tr>
<tr>
<td>Extensions of contracts</td>
<td>Did departments regularly extend consultants’ contracts and did the department consider alternatives before extending a contract? Did departments have controls in place to avoid contracts being prolonged?</td>
<td>Economy and efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficiency</td>
</tr>
<tr>
<td>Closing and finalising projects</td>
<td>Did departments close the consultancy properly to ensure that all the deliverables were met, implemented and properly filed? Did departments compare consultants’ services rendered with the product delivered to ensure that the project was economically concluded, that the department obtained value for its money and that lessons learnt were incorporated in future engagements? Were consultancy reports provided at the closing of the project to provide information on consultants appointed to supplement or replace existing capacity to perform normal operational functions?</td>
<td>Effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economy and effectiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Efficiency</td>
</tr>
</tbody>
</table>