Report of the Auditor-General of South Africa
on a performance audit of the use of consultants at the Department of Health
of the Mpumalanga Provincial Government

OCTOBER 2013
PERFORMANCE AUDIT

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
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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 Department of Health of the Mpumalanga Provincial Government (the department).

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 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 and high vacancy rates. In addition, while consultants provide specialist services to the public sector, they have often been appointed to provide competencies for which the department should have internal staff. Also prevalent were inadequate financial and performance management, and a lack of training and transfer of skills. These deficiencies adversely affected the economical, efficient and effective use of consultants.
ECONOMY

Internal capacity constraints and high vacancy levels at the department led to the use of consultants, especially for the provision of essential medical services. However, strategic planning for the use of consultants was not done, and the department did not have a strategy and policy on the use of consultants. In most instances, comprehensive needs assessments were not performed. At times, competitive procurement processes were not followed and some contracts were open-ended in terms of cost and time.

EFFICIENCY

Some permanently appointed staff also earned secondary incomes working as contract staff through consultants, without approval. In some instances, the department misinterpreted terms of payment to consultants. Consultants’ work was not always monitored and evaluated. The document archiving system was not adequately maintained.

EFFECTIVENESS

Training and transfer of skills did not occur for some projects. The department did not retrospectively analyse projects to determine whether the desired outcomes were achieved. In some instances, project objectives were not achieved, and deliverables were only partially completed.

The above observations did not conform to the principles of economy, efficiency and effectiveness, as reflected on page 19 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 Mpumalanga Provincial Government spent a total of R5,06 billion on consultants; R1,76 billion on consulting/professional services, R1,89 billion on contractors, and R1,41 billion on agency/outsourced services. The Mpumalanga Department of Health spent R2,23 billion on consultants (44% of the total provincial expenditure of R5,06 billion). The Mpumalanga Department of Health also received a qualified audit opinion for the 2008-09 to 2010-11 financial years.

The outcomes of this audit have been shared with the management of the audited department and the member of the executive council responsible for public health. The department has 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 department.

I wish to thank the staff of the Mpumalanga Department of Health for their assistance during the audit.

Auditor-General of South Africa
Pretoria
October 2013
The performance audit on the use of consultants was conducted at the Department of Health of the Mpumalanga Provincial Government, and covered 11 contracts with estimated payments amounting to R2,41 billion.\(^1\)

Payment amounts were estimated in certain instances, as some payment information could not be provided to the performance auditing team. The department was 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.

The Mpumalanga Provincial Government incurred operational expenditure\(^2\) of R55,18 billion during the 2008-09 to 2010-11 financial years. Of this amount, its total expenditure on goods and services was R14,4 billion.

The total expenditure on consultants by the Department of Health amounted to R2,23 billion (44% of the total provincial expenditure of R5,06 billion on consultants) for the three-year period 2008-09 to 2010-11.

\[^1\] Includes payments up to September 2012
\[^2\] Operational expenditure includes compensation of employees, goods and services, and interest and rent on land

Expenditure on consultants amounted to 9% of the provincial government’s operational expenditure and 35% of its expenditure on goods and services.
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 Mpumalanga Provincial Government for the 2008-09 to 2010-11 financial years.

Total expenditure on consultants per department in the Mpumalanga Provincial Government for 2008-09 to 2010-11

- Health: R 2,226 million
- Agriculture and Rural Development: R 654 million
- Cooperative Government and Traditional Affairs: R 142 million
- Culture, Sport and Recreation: R 40 million
- Economic Development, Environment and Tourism: R 19 million
- Education: R 1208 million
- Human Settlements: R 145 million
- Office of the Premier: R 149 million
- Provincial Legislature: R 77 million
- Provincial Treasury: R 334 million
- Public Works, Roads and Transport: R 43 million
- Safety, Security and Liaison: R 11 million
- Social Development: R 19 million
Below is an overview of the expenditure on consultants by the Mpumalanga Department of Health for the 2008-09 to 2010-11 financial years.

**Total expenditure on consultants at the Mpumalanga Department of Health**

<table>
<thead>
<tr>
<th>Year</th>
<th>Consulting/professional services</th>
<th>Contractors</th>
<th>Agency/outsourced services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>200 R'million</td>
<td>500 R'million</td>
<td>50 R'million</td>
</tr>
<tr>
<td>2009-10</td>
<td>700 R'million</td>
<td>800 R'million</td>
<td>100 R'million</td>
</tr>
<tr>
<td>2010-11</td>
<td>1000 R'million</td>
<td>400 R'million</td>
<td>240 R'million</td>
</tr>
</tbody>
</table>
The table below summarises the key audit findings at the Mpumalanga Department of Health as they relate to the aspects of economy, efficiency and effectiveness.

<table>
<thead>
<tr>
<th>KEY FINDINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECONOMY</strong></td>
</tr>
<tr>
<td><strong>Economy</strong></td>
</tr>
<tr>
<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>Key findings at the Mpumalanga Department of Health in this regard include the following:</td>
</tr>
<tr>
<td>• Strategic planning for the use of consultants was not done, and the department did not have a strategy and policy on the use of consultants</td>
</tr>
<tr>
<td>• A comprehensive needs assessment was not always done before commencing with consultancy projects</td>
</tr>
<tr>
<td>• Competitive bidding processes were not always followed</td>
</tr>
<tr>
<td>• In some instances, contracts were open-ended in terms of cost and time</td>
</tr>
<tr>
<td>• Internal capacity constraints and high vacancy levels were experienced, which sometimes led to the department appointing consultants to support the continuity of service delivery</td>
</tr>
</tbody>
</table>

| **EFFICIENCY** |
| **Efficiency** |
| 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. |
| Key findings at the Mpumalanga Department of Health in this regard include the following: |
| • Some permanently appointed staff also earned secondary incomes working as contract staff through consultants without approval, resulting in staff working excessive hours |
| • In some instances, the department misinterpreted terms of payment to consultants. This led to payments in excess of the amounts approved |
| • Consultants’ work was not always monitored and evaluated. This led to instances where project objectives were not achieved |
| • The document archiving system was not adequately maintained, which led to some of the information and documentation requested not being provided to the audit team |

| **EFFECTIVENESS** |
| **Effectiveness** |
| The use of consultants is considered to be effective if the objectives that informed the appointment of consultants are met. |
| The effective use of consultants appointed at the Mpumalanga Department of Health was adversely affected by the following: |
| • Training and transfer of skills were sometimes not included in the contract or were not done as required by the contract |
| • Projects were not retrospectively analysed to determine whether the proper processes had been followed and whether the desired outcomes had been achieved |
| • The project objectives were sometimes not achieved, and deliverables only partially completed |
The Mpumalanga 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 Mpumalanga 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 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 have been appointed to provide core departmental functions. These include the provision of medical personnel in hospitals, for which the department should have internal staff. Since these skills were not available internally or the department was not successful in recruiting suitable staff, it 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.

Where consultants are the preferred option to deliver a service or programme, the departments’ capacity to monitor and evaluate projects must be strengthened. This will ensure that all project deliverables and related objectives are achieved. In instances where deficiencies are detected, corrective action must be imposed promptly.

The lack of skilled staff to carry out departmental duties has been highlighted in several recent reports of the Auditor-General of South Africa.
EXECUTIVE SUMMARY
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>NO.</th>
<th>PROJECT</th>
<th>PAYMENT MADE TO CONSULTANT1</th>
<th>CONSULTING/ PROFESSIONAL SERVICES CONTRACTORS</th>
<th>AGENCY/OUTSOURCE SERVICES</th>
<th>PLANNING AND APPOINTMENT</th>
<th>INTERNAL CAPACITY</th>
<th>TRAINING AND TRANSFER OF SKILLS</th>
<th>PERFORMANCE MANAGEMENT AND MONITORING</th>
<th>EXTENSION OF CONTRACTS</th>
<th>CLOSING AND FINALISING PROJECTS2</th>
<th>E AFFECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Procurement, warehousing and distribution of pharmaceuticals (page 30)4</td>
<td>2 302 739 863</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>2</td>
<td>Provision of doctors and other health care professionals (service provider A) (page 31)</td>
<td>35 145 846</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>3</td>
<td>Provision of doctors and other health care professionals (service provider B) (page 31)</td>
<td>20 104 432</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>4</td>
<td>Provision of nursing services (page 32)</td>
<td>8 238 520</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>5</td>
<td>Information technology services (page 33)</td>
<td>24 230 990</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>6</td>
<td>Human resource recruitment services (page 33)</td>
<td>7 179 750</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>7</td>
<td>Audit and evaluation of health care technology (page 34)</td>
<td>6 900 000</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>8</td>
<td>Forensic pathology services (page 35)</td>
<td>3 545 488</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>9</td>
<td>Disposal of medical waste (page 35)7</td>
<td>2 000 000</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td>10</td>
<td>Debt collection services (page 36)</td>
<td>2 214 430</td>
<td>✅</td>
<td></td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
<td>✅</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>2 412 299 319</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1 Includes payments up to September 2012
2 Projects 2, 3 and 4 were not completed at the time of the audit
3 Payment information for the consultant for the periods January 2003 to May 2004 as well as May 2005 to March 2006 was not available
4 Some information requested could not be provided, resulting in a limitation of scope
5 Payment information for the consultancy project was not available. Consultant’s estimate of payments was used
6 This table excludes an 11th project selected for auditing. Sufficient information and payment history could not be provided to audit this project, resulting in a limitation of scope
KEY FINDINGS

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

• Comprehensive needs assessments prior to appointing consultants were sometimes not performed. This affected the outcome 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 verification of estimated project costs.

• Competitive bidding processes were not always followed. The composition of the bid evaluation and the bid adjudication committees did not comply with the supply chain management regulations.
  In certain instances, this adversely affected the economical procurement of services and the achievement of project outcomes.

• In some instances, contracts were open-ended in terms of cost and time due to poor project planning. As a result, there were no limits to the consultants’ budgets and the contracts had no end dates.

• Internal capacity constraints led to the department appointing consultants to support the continuity of service delivery. In some instances, consultants also employed the department’s staff, resulting in personnel working excessive hours.
  This arrangement escalated costs and negatively affected the delivery of public health care.

• The requirement of training and transfer of skills, from consultants to departmental employees, was either not included in contracts or was not met. This led to a dependence on consultants.

• Consultants’ work was sometimes not comprehensively monitored and evaluated during the contract period. The lack of contracts and service level agreements prior to the commencement of the project contributed to the inadequate monitoring.
  Consequently, it could not be determined whether project deliverables were met where consultants were paid for their services.
In some instances, the department misinterpreted terms of payment to consultants. This led to payments in excess of the amounts approved.

The department 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 department 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 adequately 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 following feedback was obtained from the Mpumalanga Department of Health relating to the implementation of measures based on our recommendations. These corrective actions are monitored during the Auditor-General of South Africa’s annual financial audits.

- Proper needs determinations will be done during strategic project planning sessions and will also be included in the departmental strategic plan as from October 2013.
- The department will develop a comprehensive policy on the use of consultants, to be implemented as from December 2013.
- The internal supply chain management policies will be reviewed and, from October 2013, supply chain management practitioners will form part of bid committees to provide appropriate advice during the appointment process.
- The department has approved a contract management policy and a procedure manual. From October 2013, service level agreements need to be concluded and signed within 14 days of appointment letters having been issued. All appointments of consultants are also required to include skills transfer as a deliverable in the terms of reference.
- Contract management officials, together with steering committees, will monitor and evaluate the performance of every contracted service provider as from October 2013.
- As from October 2013, compliance with the Public Finance Management Act in terms of avoidance of fruitless and wasteful expenditure will be monitored to ensure non-recurrence.
- The department strives to fill as many vacancies relating to medical staff as possible by advertising critical posts on a regular basis; however, the recruitment and retention of scarce skills remain a challenge.
- Internal audit is scheduled to investigate the involvement of officials in doing remunerative work outside the department by November 2013, and corrective action will be taken.

This does not refer to the close-out reports compiled by consultants.
• The department has embarked on a process of ensuring that all current bids are being evaluated and scored, based on the evaluation criteria stipulated in the bid specifications
• A contract manager has been appointed to monitor and evaluate compliance with contracts and service level agreements
• Currently, certain officials are subject to disciplinary inquiries with regard to procurement misconduct. The South African Police Service and the South African Revenue Services are also investigating the consultancy project relating to the procurement, warehousing and distribution of pharmaceuticals and surgical sundries.

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 the department
• Officials and the accounting officer are held responsible for the economical, efficient and effective use of resources
• Compliance with regulations and policies is enforced
• Planning for the use of consultants is improved and is part of the department’s strategy and business plans
• Sufficient internal capacity is created to enable the department to deliver on its mandates
• Training and transfer of skills from the consultant to departmental staff are optimally applied and monitored, where applicable
• The performance of consultants is monitored and managed to ensure that deliverables are achieved on time
• Consultancy contracts are properly closed through retrospective analyses, where the processes followed and the objectives achieved are evaluated.
RECOMMENDATIONS
1. **PLANNING AND APPOINTMENT**

1.1 The types and extent of services to be contracted out should be strategically considered, taking into account the following:
   - The long-term objectives and needs of the department
   - The differences between core services and non-core services
   - The cost of contracting out versus the cost of creating and filling internal capacity.

1.2 A comprehensive strategy and policy governing the use of consultants should be developed and implemented.

1.3 Prior to appointing consultants, needs assessments should be conducted to determine the best option, based on costs and benefits. This should include considerations such as whether internal capacity is available to undertake the specific project.

1.4 Estimated project costs should be verified by technically proficient officials during the project planning phase. This would ensure that the requests for tender are detailed, clear and unambiguous, and that project costs are reasonable.

1.5 Competitive and timely bidding processes should be followed for all appointments.

1.6 Contracts should adhere to the prescripts of the National Treasury. These contracts should be signed on time and should include the following:
   - Clear, specific and measurable deliverables, contract values, timelines, and payment conditions
   - Clearly defined roles and responsibilities between the department and the consultant.

1.7 All supply chain managers, including members from the bid evaluation and bid adjudication committees, should be trained in supply chain management policies and regulations. The supply chain management regulations should be applied in a consistent and fair manner.

2. **INTERNAL CAPACITY**

Management should have a plan and prioritise filling the vacant posts on time, to reduce the reliance on consultants for continued service delivery.

3. **TRAINING AND TRANSFER OF SKILLS**

Contracts should make provision for the training and transfer of skills from consultants to departmental employees where it forms part of the project deliverables. The department should monitor this transfer to 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 the detailed payments against project budgets and compliance with service level agreements.

4.2 Progress meetings should be held regularly and evidence kept. Follow-up actions, where required, should be taken promptly and monitored by the department.

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 PROJECTS

6.1 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 project.

6.2 Prior to the termination of contracts, the department should obtain advice from its legal directorate to prevent unnecessary payments of interest and penalties.

7. LIMITATION OF SCOPE

The department 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 the department deviates 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 department’s 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 the department in its annual internal audit plan, and perform regular audits in these areas.
DEPARTMENT OF HEALTH
A. LIMITATION OF SCOPE

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 for audit purposes to the Auditor-General of South Africa is a contravention of the Public Finance Management Act. This lack of documentation resulted in some audit procedures not being carried out.

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

As a result, for some projects 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.

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**Graph 1: Expenditure on consultants at the Mpumalanga Department of Health**

<table>
<thead>
<tr>
<th>Total expenditure on consultants (2008-09 to 2010-11)</th>
<th>R2.23 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of projects audited</td>
<td>11</td>
</tr>
<tr>
<td>Payments for projects audited(^\text{10})</td>
<td>R2.41 billion</td>
</tr>
<tr>
<td>Average vacancy rate (2008-09 to 2010-11)</td>
<td>42%</td>
</tr>
</tbody>
</table>

Graph 1 provides a breakdown of the expenditure on consultants per category and per financial year.

\(^\text{10}\) Includes payments/estimates from January 2003 up to September 2012
Performance management and monitoring

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

• Whether the department had monitored the services provided by consultants
• Whether the consultant had achieved contract deliverables.

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.

B. DEPARTMENTAL FINDINGS

1. STRATEGY AND POLICY ON THE USE OF CONSULTANTS

1.1 The department did not have a comprehensive strategy and policy governing the use of consultants. As a result, 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.

1.2 The lack of a comprehensive strategy and policy resulted in consultants being appointed on an ad hoc basis, without considering the long-term effects of such appointments. Furthermore, the department’s expenditure on consultants increased by 109%, from R331 million in the 2008-09 financial year to R692 million in the 2010-11 financial year.

2. FORMAL NEEDS ASSESSMENTS

Needs assessments are required by National Treasury prescripts. These prescripts include Supply Chain Management: A Guide for Accounting Officers (SCM guide). 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 the needs assessments not having been done, the following activities did not take place:

• Considering alternatives to ascertain the most efficient and effective solution to address the need
• Identifying critical delivery dates
• Linking the requirement to the budget
• Determining specifications
• Determining whether opportunities existed for the transfer of skills.

3. COMPOSITION OF BID EVALUATION/ADJUDICATION COMMITTEES

The departmental bid evaluation and bid adjudication committees, appointed for the period 1 April 2006 to 31 March 2010, did not include a supply chain management practitioner, as required by the SCM guide.

Although supply chain management staff were present at bid evaluation/adjudication committee meetings, their role was limited to providing secretarial functions. As a result, bid evaluations were not always performed according to supply chain management prescripts.
4. CLOSING AND FINALISING PROJECTS

The department did not review the work of consultants when projects came to an end. Project close-out reports were not prepared due to staff shortages, the lack of a policy on project management, and low awareness that projects have to be formally closed.

The absence of close-out reports impaired the following key project management activities:

- Determining whether project deliverables were achieved
- Determining compliance with contractual requirements
- Comparing actual and planned deliverables
- Documenting project results and capturing/sharing lessons learnt
- Presenting final reports
- Implementing project deliverables and outcomes.

C. KEY FINDINGS PER PROJECT

1. PROCUREMENT, WAREHOUSING AND DISTRIBUTION OF PHARMACEUTICALS

A consultant was awarded two consecutive contracts by the department to manage the procurement, warehousing and distribution of pharmaceuticals. The first contract started on 1 January 2003 and the second contract started on 1 April 2006. An estimated R2,3 billion was paid to the consultant over the two contract periods. The amount paid included the cost of the pharmaceuticals.

1.1 In 2008, the department granted an increase in management fees, contrary to the terms of the 2006 contract. The contract stated that the management fee would be fixed at 7,75% of the value of the pharmaceuticals procured over the duration of the contract. However, with effect from 1 November 2008, the department increased the management fee to 8,53% (an increase of 10%).

The department misinterpreted the above management fee approval letter when making payments to the consultant. Consequently, payments since 1 November 2008 were based on a 10% management fee instead of an 8,53% management fee.

As a result of deviating from the contract and misinterpreting the approval letter, the department paid approximately R20 million more than agreed in management fees.

1.2 For the second appointment in 2006, the service level agreement (SLA) was compiled but not signed. This was because senior officials did not follow handover procedures at the time. As a result, the consultant’s deliverables, which included the training of staff, were not adequately monitored and evaluated.

1.3 The 2006 contract was extended four times over a period of 17 months. The contract was first extended on 1 April 2009. This was because the department required the consultant’s expertise to assist with the move to a newly constructed pharmaceutical depot. However, the move to the depot was delayed due to problems with the installation of shelves and furnishings at the depot. This resulted in three further contract extensions.

1.4 The department commissioned a forensic investigation into the performance of the consultant on 12 May 2009. However, the forensic investigation was not concluded by the time the contract with the consultant came to an end on 31 August 2010. The department paid R798 410 for the forensic investigation.
2. PROVISION OF DOCTORS AND OTHER HEALTH CARE PROFESSIONALS

Two consultants provided doctors and other health care professionals\(^\text{11}\) at various hospitals. Payments to these consultants totalled R55 250 278 from February 2008 to September 2012.

2.1 The public health sector had 1 428 vacancies (74%) among permanent medical practitioners in the 2010-11 financial year. This was a result of a lack of funding and the challenge of attracting people with the right skills and experience. Table 1 below shows the average vacancy rate at the department in certain critical medical categories from the 2007-08 to 2010-11 financial years.

Table 1: Vacancy rate in critical medical positions

<table>
<thead>
<tr>
<th>CRITICAL MEDICAL PERSONNEL</th>
<th>AVERAGE VACANCY RATE FOR 2007-08 TO 2010-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical practitioner</td>
<td>61%</td>
</tr>
<tr>
<td>Pharmacist</td>
<td>53%</td>
</tr>
<tr>
<td>Radiographer</td>
<td>63%</td>
</tr>
</tbody>
</table>

2.2 The department did not follow a competitive bidding process for both consultants. The department allowed the individual hospitals to appoint the consultants, without considering the needs of the department or knowing the costs involved. Therefore, it could not be determined whether the appointment was cost-effective and in the best interest of the department.

A comparison between the two consultants during the 2009-10 financial year showed a variation of up to 61% in the hourly rate for the same medical positions and levels of experience, as reflected in table 2.

Table 2: Comparison of hourly rates between consultant A and consultant B

<table>
<thead>
<tr>
<th>JOB TITLE</th>
<th>CONSULTANT A HOURLY RATE</th>
<th>CONSULTANT B HOURLY RATE</th>
<th>% VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Medical Officer</td>
<td>626,46</td>
<td>390,00</td>
<td>61</td>
</tr>
<tr>
<td>Principal Medical Officer</td>
<td>589,61</td>
<td>390,00</td>
<td>51</td>
</tr>
<tr>
<td>Pharmacist</td>
<td>324,29</td>
<td>234,00</td>
<td>39</td>
</tr>
<tr>
<td>Radiographer</td>
<td>213,73</td>
<td>156,00</td>
<td>37</td>
</tr>
</tbody>
</table>

2.3 Consultant A’s contracts with the various hospitals were open-ended in terms of cost and time. This was to provide for the continuity of medical service delivery until the department could address the challenges of staff shortages. The department also made use of Consultant B without a written contractual agreement. As a result, the department could not effectively monitor and evaluate the services rendered by consultant B.

\(^{11}\) The term health care professional includes radiographers and pharmacists
2.4 Medical personnel earned a secondary income as they were employed by both the department and the consultants at the same time and at the same hospital – a practice referred to as moonlighting. This presented a risk of the department providing poor quality medical services due to medical practitioners’ fatigue. Hospital records showed that medical personnel worked up to 64 hours on three consecutive days when moonlighting. Departmental medical staff were not authorised to accept additional work. In terms of the Public Service Act, public service officials need such prior approval to perform remunerative work outside of their official duties. The department also did not have measures in place to prevent, detect and manage moonlighting.

2.5 The department paid on average 103% more per hour for contracting its own staff through consultant A, than for paying them overtime. However, departmental medical staff refused to work additional overtime to compensate for staff shortages. This was because the overtime payments were delayed by up to eight or nine months.

Table 3 reflects the differences in the hourly overtime rate of staff working for both the department and consultant A at the same time during the 2008-09 financial year.

Table 3: Comparison of departmental overtime rates to consultant A’s overtime rates

<table>
<thead>
<tr>
<th>JOB TITLE</th>
<th>DEPARTMENTAL HOURLY RATE</th>
<th>CONSULTANT A HOURLY RATE</th>
<th>% VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Medical Officer</td>
<td>444,46</td>
<td>589,61</td>
<td>33</td>
</tr>
<tr>
<td>Principal Medical Officer</td>
<td>329,91</td>
<td>589,61</td>
<td>79</td>
</tr>
<tr>
<td>Pharmacist</td>
<td>154,56</td>
<td>353,77</td>
<td>129</td>
</tr>
<tr>
<td>Radiographer</td>
<td>90,45</td>
<td>243,21</td>
<td>169</td>
</tr>
</tbody>
</table>

2.4 Rates for the same medical positions vary between tables 2 and 3. These variances are due to the level of experience of medical personnel.

3. PROVISION OF NURSING SERVICES

The consultant provided nursing services to health institutions. This was due to existing vacancies on the staff establishment. Payments to the consultant amounted to R8 238 520 from January 2008 to September 2012.

3.1 The consultant was primarily used by the different tuberculosis (TB) hospitals. These hospitals experienced on average 34 vacancies (49%) among nurses for the 2009-10 financial year. The vacancies were a result of applications not being received for positions advertised. This was due to:

- The stigma attached to TB
- A general shortage of nursing staff in Mpumalanga
- An increase in severe forms of TB resulting in fear of working at TB institutions
- Certain TB hospitals being located predominantly in rural areas.
3.2 The department did not follow a competitive bidding process to appoint the consultant. The department allowed the individual hospitals to appoint the consultant, without considering the needs of the department or knowing the costs involved. Therefore, it could not be determined whether the appointment was cost-effective and in the best interest of the department.

3.3 Some nurses were employed both by the department and by the consultant at the same time, and at the same hospital. This led to instances of nurses working excessive hours. The nurses did not have approval to perform remunerative work outside of their official duties. There were no measures or monitoring tools to regulate moonlighting.

4. **INFORMATION TECHNOLOGY SERVICES**

A consultant was appointed on 1 April 2006 to provide information technology (IT) maintenance and support services. The consultant’s last invoice submitted for audit was dated 24 March 2010. Payments to the consultant amounted to R24 230 990.

4.1 The department appointed the consultant without following a competitive bidding process. The State Information Technology Agency (SITA) was responsible for procuring IT services. However, the department contracted the consultant directly, without inviting bids from other preferred suppliers on SITA’s list. Therefore, it could not be determined whether the appointment was cost-effective and in the best interest of the department.

The department commissioned a forensic investigation into the appointment of the consultant. The forensic investigation report in March 2008 concluded that the appointment was contrary to procurement practices. However, the department continued to use the consultant, costing the department R12 569 509 after finalising the forensic investigation.

4.2 The contract with the consultant was open-ended in terms of cost and time. The department believed that an open-ended contract would allow it to retain the services of the consultant beyond SITA’s mandatory appointment period. As a result, there was no cost limit to the contract.

4.3 The audit team could not determine the level of monitoring performed by the department or whether project deliverables were achieved. Deliverables included the training and transfer of skills stipulated in the SLA. This was because the department could not provide evidence that all services were rendered and deliverables monitored.

4.4 The department withheld payments for goods and services invoiced between August 2009 and March 2010, as it was not satisfied with the consultant’s services. The outstanding amount of approximately R3,7 million, which included interest of R318 567, was paid on 3 February 2011. The payment was made by the department based on a sworn statement by its head of IT that services had been delivered.

5. **HUMAN RESOURCE RECRUITMENT SERVICES**

The Public Service Coordination Bargaining Council issued a directive on 5 July 2007 to fill all vacant posts in the public service by 30 June 2008. However, the department did not plan the implementation of the directive in time. A consultant was appointed on 24 April 2008 to process job applications that would alleviate the significant shortage of staff. The shortage of personnel in critical positions was also
pointed out in findings related to projects 2 and 3 of this report. A total of R7 179 750 was paid to the consultant.

5.1 The department did not apply the evaluation criteria set out in the request for quotes (RFQ). The capability of the consultants to deliver the service required was not considered. The department could not provide a reason for this, as the senior official dealing with the matter had resigned.

5.2 The contract was open-ended in terms of cost. This was because:

- Personnel data available at the time was not clear, which meant that the number of vacant personnel posts to be filled could not be determined
- The RFQ did not specify the number of posts that had to be filled
- The RFQ did not clarify the consultant’s fee structure for each job application processed.

As a result, the consultant was paid over R7 million without the department seeing a significant reduction in their vacancy rates. Vacancy rates decreased from 40% at the time of the consultant’s appointment to 36% as at June 2008.

5.3 The appointment of the consultant did not meet the objective of filling or significantly reducing the number of vacant positions. Skills were also not transferred to staff, as required in the RFQ. The department stopped supplying job applications to the consultant during June 2008, as it was not satisfied with its services. However, as the department had acted in breach of contract, it had to pay R700 000 to the consultant in an out-of-court settlement.

6. AUDIT AND EVALUATION OF HEALTH CARE TECHNOLOGY

A consultant was appointed to audit and evaluate health care technology at all government health institutions. The contract was effective from 1 April 2007, at a contract price of R6 900 000.

6.1 The consultant’s ability to deliver the service was not considered when evaluating the bids. A project deliverable required in the bid specifications was omitted from the consultant’s bid proposal. The omission of the deliverable was not detected by the department’s bid evaluation committee. This was because the bid specification did not include criteria on evaluating ability.

6.2 The bid document included a requirement for the training of the department’s technicians. However, it did not detail the objective, nature and scope of the skills transfer. An SLA clarifying this deliverable was not concluded. Evidence supporting the provision of training and transfer of skills could also not be provided, as the training was informal and not assessed. Furthermore, the training provided was not effective, as:

- Technicians to be trained were not under the direct control of the directorate of health technology
- Technicians could not attend training due to work commitments in their respective units
- There was a shortage of technicians because funds were used to appoint other staff.
6.3 The consultant compiled a database of medical equipment as part of the project deliverables. However, the database was subsequently not maintained by the department, as facility managers did not monitor whether the records were kept up to date. This led to a negative financial audit opinion on movable assets in the 2011-12 financial year, as some health care assets could not be verified.

7. FORENSIC PATHOLOGY SERVICES

A consultant was appointed on a quotation basis to provide forensic pathology services in certain areas of Mpumalanga. This consultant was to supplement the forensic pathology services provided to the entire province, as the department’s tender process had not selected enough service providers to do so. The consultant was used from 1 April 2007 to 31 March 2012, and was paid a total of R3 545 488.

7.1 The department did not compile a comprehensive needs assessment to motivate the number of post mortem examination storage compartments requested in the bid specifications. The bid document required service providers to have at least 40 to 50 storage compartments. Ten (56%) of the bids received did not meet this criterion and were rejected, including this consultant’s bid.

7.2 Despite not meeting the storage compartment criterion, the consultant was appointed every six months based on quotations. While this practice is allowed, in this instance it increased the average rates of forensic pathology services by 73% when compared to the consultant’s initial bid proposal.

Table 4 contains examples of a number of forensic pathology service items that were affected by the increase in rates.

Table 4: Examples of the rates contained in the bid proposal and quotation

<table>
<thead>
<tr>
<th>FORENSIC PATHOLOGY SERVICE ITEM</th>
<th>AVERAGE RATE ON THE BID PROPOSAL R</th>
<th>AVERAGE RATE ON THE QUOTATION R</th>
<th>% INCREASE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation of corpses – per case</td>
<td>228,00</td>
<td>399,00</td>
<td>75</td>
</tr>
<tr>
<td>Transportation of corpses after hours – per case</td>
<td>346,56</td>
<td>564,30</td>
<td>63</td>
</tr>
<tr>
<td>Post-mortem examination held on the premises – per case</td>
<td>114,00</td>
<td>285,00</td>
<td>150</td>
</tr>
</tbody>
</table>

It would have been more cost-effective for the department to have contracted the consultant based on the consultant’s initial bid proposal.

8. DISPOSAL OF MEDICAL WASTE

The department appointed the consultant on 26 July 2007 to dispose of approximately 120 tonnes of medical waste.

8.1 The following deficiencies were noted in the appointment process:

- The bid evaluation committee consisted of only two members, instead of three, as required
- The bid evaluation and bid adjudication committees misinterpreted the pricing structure submitted by the consultant in its bid proposal.

13 Storage compartments are refrigerated units where cadavers are preserved
This led to the appointment of the consultant at a total contract price of R198 018 (including VAT). However, the bid quoted a price per tonne (including VAT), based on the type of medical waste to be disposed of, and not a total contract price.

According to the bid evaluation committee report, the eight other bids (89%) were disqualified because they did not meet the criteria or were incomplete. However, as no formal score sheets were prepared by the bid evaluation committee, it could not be determined whether the appointment was cost-effective and in the best interest of the department.

8.2 Inefficient management of the contract resulted in expenditure not being monitored. The department could not provide the actual cost of the project. However, according to the consultant, it was paid approximately R2 million. No formal approval was obtained for the payment of approximately R1.8 million in excess of the contract price.

9. **DEBT COLLECTION SERVICES**

A consultant was appointed on 1 July 2006 to recover outstanding debt. The consultant was paid R2 214 430 until 30 November 2012, when the contract came to an end. Over the period of the contract, the department handed over R59,03 million of debt, of which R9,58 million was recovered.

9.1 The appointment process was prolonged. It took the department eight months to appoint the consultant after the project had been approved in October 2005. This was due to ineffective communication processes within the department. As a result, the consultant could only start collecting debt during October 2006, almost one year after the project had been approved.

14 A **handover** is where the consultant is provided with the list of debtors to collect debt on behalf of the department.

9.2 The contract was extended three times due to poor project planning. This resulted in the initial 36-month contract being active for 77 months, pending the approval and advertisement of a new tender for this project. The consultant recovered only R3 022 646 (32% of the total debt recovered) during the 41-month extension period. Graph 2 provides the efficiency rate of debt recovered during the initial contract period and the subsequent contract extensions.

9.3 The debt management division did not evaluate the performance of the consultant. The following contributed to the lack of monitoring:

- An SLA was signed on 13 November 2006 – four and a half months after the contract had come into effect.
- A steering committee was not established, as required by the SLA.
- The SLA did not make provision for incentives or penalties for the collection or non-collection of debt.

The department was therefore not able to detect the inefficiencies of the consultant or determine whether objectives were met. The contract came to an end on 30 November 2012, with a total recovery rate of 16%.
REGULATORY FRAMEWORK
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 (Supply Chain Management Guide), February 2004, Chapter 5, and National Treasury Practice Note Number SCM 3 of 2003, December 2003 (Practice Note 3), 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 officers’ 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 one-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 reasons 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 specific tasks which are of a technical or intellectual nature, but excludes an employee of a department.
PERFORMANCE AUDITING
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>
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 the 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? Was consideration given to whether the objectives of the department would be better achieved through the appointment of consultants or permanent staff?</td>
<td>Economy</td>
</tr>
<tr>
<td></td>
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<td>Effectiveness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>KEY AUDIT QUESTIONS</th>
<th>PRINCIPLE ADDRESSED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal capacity at departments</td>
<td>Were competitive and transparent appointment processes followed? Were effective recruitment and appointment processes followed to limit the duration of consultants’ appointments? Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transfer of skills?</td>
<td>Economy</td>
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<td>Were consultants employed in high or critical positions such as CFO, etc? Were departments using consultants because the internal processes to appoint permanent staff were inefficient and ineffective?</td>
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<tr>
<td>Training and transfer of skills from consultants to employees</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>Performance management and monitoring of consultants</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>Extensions of contracts</td>
<td>Did departments regularly extend consultants' contracts and did the department consider alternatives before extending a contract?</td>
<td>Economy and efficiency</td>
</tr>
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<td>Did departments have controls in place to avoid contracts being prolonged?</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?</td>
<td>Effectiveness</td>
</tr>
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<td></td>
<td>Did departments compare the 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?</td>
<td>Economy and effectiveness</td>
</tr>
<tr>
<td></td>
<td>Were consultancy reports provided at the closing of the project to provide information on consultants appointed to supplement or replace existing capacity for performing normal operational functions?</td>
<td>Efficiency</td>
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</tbody>
</table>
READER’S NOTES