SECTION 5: RESOURCE MANAGEMENT

Figure 1: Status of human resource management controls

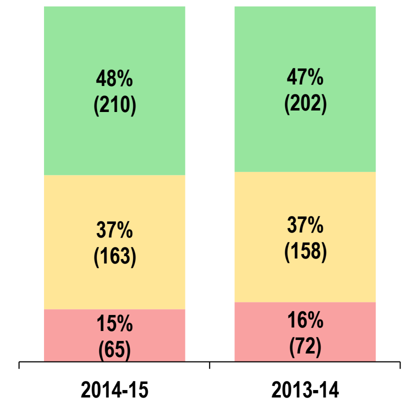


Figure 2: Human resource management controls per type of auditee

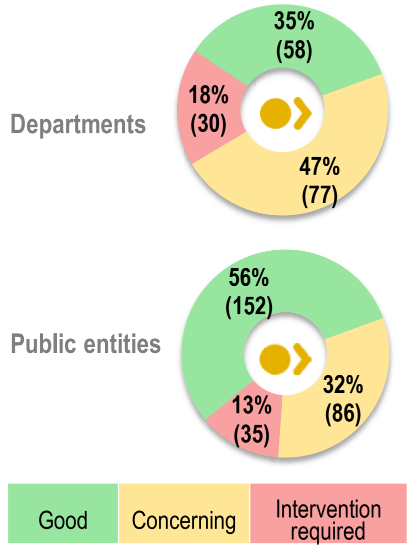


Table 1: Status of human resource management controls in national and provincial government

Portfolio	Auditees with good human resource management controls	Movement
National auditees	54 % (120)	
Eastern Cape	29% (7)	
Free State	28% (5)	
Gauteng	56% (19)	
KwaZulu-Natal	44% (15)	
Limpopo	29% (6)	
Mpumalanga	29% (5)	
Northern Cape	16% (3)	
North West	25% (7)	
Western Cape	100% (23)	

5.1 Human resource management

Human resource (human resource) management is effective if adequate and sufficiently skilled staff are in place and if their performance and productivity are properly managed.

Our audits included an assessment of human resource management that focused on the following areas: ■ human resource planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, and performance management and consequences for transgressions, as these matters have a direct bearing on the quality of auditees' financial and performance reports and compliance by auditees with legislation. Based on the results of these audits we assessed the status of auditees' human resource management controls.

Status of human resource management controls

Figure 1 shows that there has not been an improvement in the status of human resource management since the previous year. This is evident in the number of auditees whose controls we assessed as being 'good' not increasing significantly. There has, however, been some reduction in those auditees whose controls we assessed as 'requiring intervention'.

As figure 2 shows, overall, controls at both departments and public entities did not improve. We assessed the human resource management controls of five national departments (11%) and 25 provincial departments (20%) as requiring intervention. At 50%, provincial public entities still lag behind national public entities (59%) in implementing and maintaining good human resource controls.

The remainder of this section details the outcomes of our audits in the three main areas of vacancies and instability, performance management, and consequences for transgressions, which should be read together with our analysis of root causes of poor audit outcomes analysed in section 6.3.

Figure 3: Vacancies in key positions (departments)

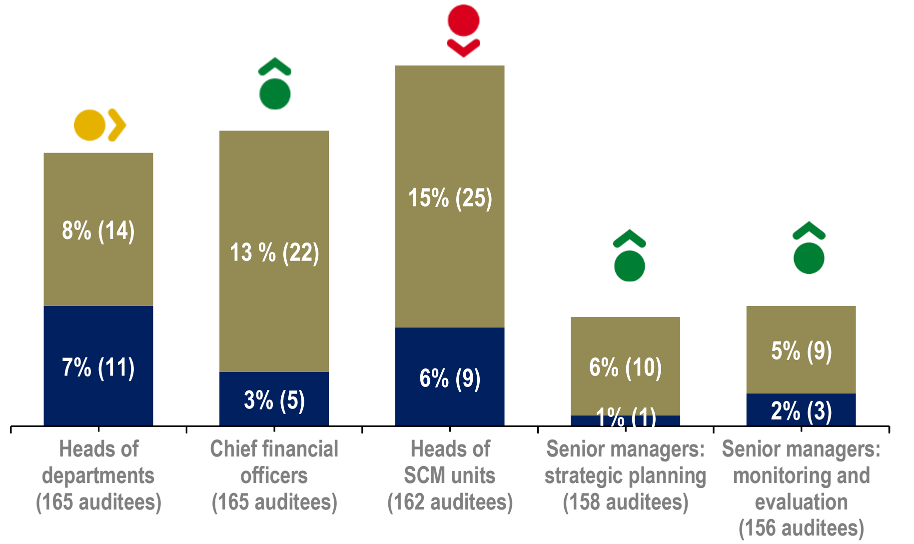


Figure 4: Stability in key positions (departments)

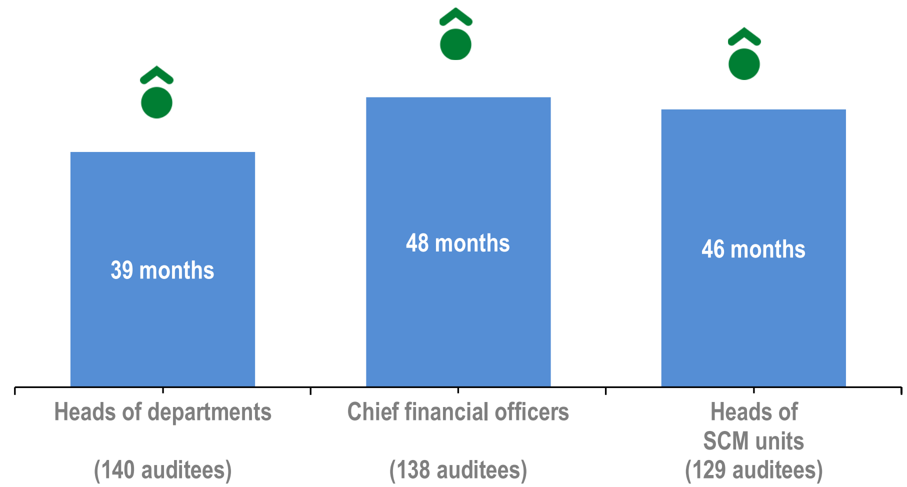


Figure 5: Vacancies in key positions (public entities)

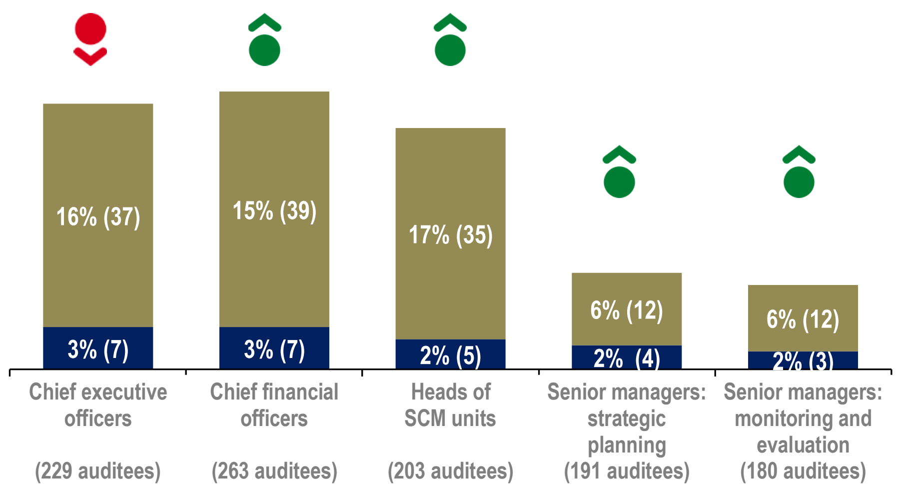
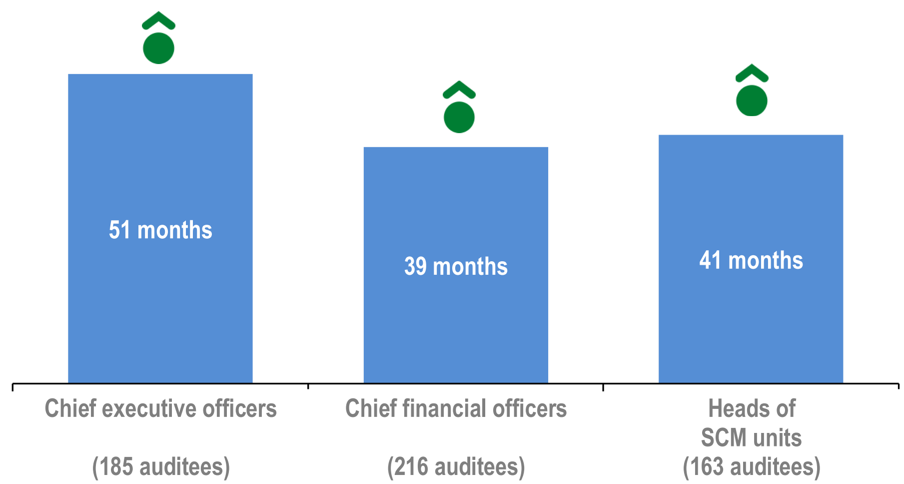


Figure 6: Stability in key positions (public entities)



Vacant for less than 6 months | Vacant for 6 months or more

Average number of months in position

Vacancies and instability

One of the biggest challenges for national and provincial government is to attract and retain qualified and competent persons in all areas of administration. As discussed in the NDP, there is unevenness in capacity that leads to uneven performances in public service. The MTSF includes various actions to address the lack of capacity and sets targets to be achieved.

One of these targets is to have a vacancy rate by 2019 of less than 10% at national and provincial departments. Based on the information published in the annual reports the average overall vacancy rate at year-end for departments was 15% (2013-14: 17%), while the vacancy rate at senior management level was 17% (2013-14: 17%). Across all auditees (including public entities) the average vacancy rate was 16% (2013-14:15%) and 17% (2013-14:15%) for senior management.

As part of our audits, we obtained and analysed data relating to vacancies and resourcing finance units, as inadequate capacity in these units negatively affects the management, controls and quality of financial reporting. We observed that the average vacancy rate in finance units at year-end was 14% (17% of departments and 12% of public entities), a slight increase from the 12% in the previous year. It is a concern that the vacancy rate in finance units of 75 auditees was higher than 25%.

We also assessed vacancies in key positions at year-end and stability in those positions. These key positions include heads of departments/ chief executive officers, chief financial officers, heads of SCM units and senior managers responsible for strategic planning as well as monitoring and evaluation.

Figures 3 and 5 show the number of auditees where these key positions were vacant at year-end and also indicate the period that the positions had been vacant. Figures 4 and 6 show the average number of months that heads of departments, chief executive officers, chief financial officers and heads of SCM units had been in their positions. The status of these key positions is discussed in more detail in the remainder of this section.

Heads of departments and chief executive officers

Instability (i.e. a lack of continuity) at the level of heads of departments and chief executive officers affects the ability of auditees to build and maintain a robust control environment for financial and performance management and weakens the accountability chain.

The **heads of departments'** vacancy rate remained unchanged from the previous year at 15%. All provinces and national auditees, except the Free State, Northern Cape and Western Cape, had vacancies in these positions at year-end, with the most being in national government (eight) and North West (five). The head of department positions had been vacant for more than six months at 14 departments, eight of which had been vacant for 12 months or longer.

The MTSF includes targets to retain head of departments for at least four years by 2019. This target has not been achieved yet, but the improvement from 33 months to 39 months in the current year is encouraging.

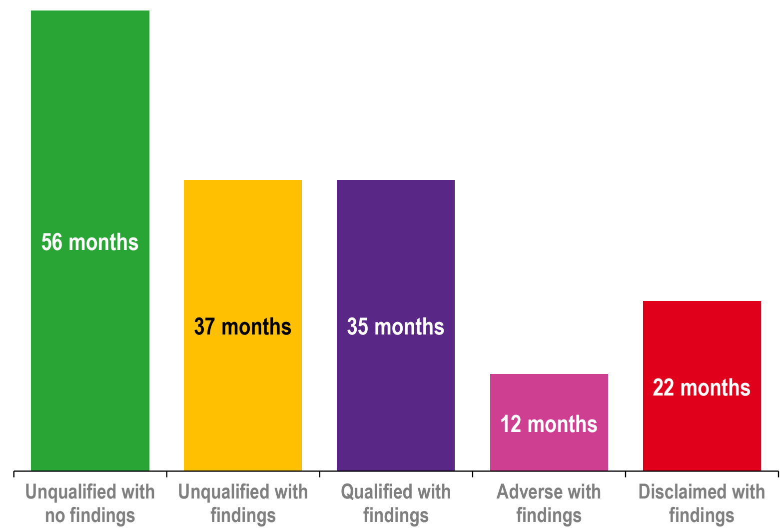
In total, 19% of the public entities did not have a chief executive officer at year-end, a regression when compared to previous year (17%). Most of these 44 public entities were in national government (20), North West (10) and KwaZulu-Natal (five). The average length of time in the position was more than four years, an improvement when compared to previous year, when it stood at 40 months.

Chief financial officers

Vacancies and high turnover rates in **chief financial officer** positions, combined with the high vacancy levels in finance units, prevented auditees from performing proper financial planning, record keeping and financial reporting. This resulted in financial statements of a poor quality that required many corrections, and negatively affected the implementation of daily and monthly processing and reconciling of transactions.

Figure 7 shows that those auditees with stability in their chief financial officer positions produced better financial statements (based on the audit outcomes).

Figure7: Chief financial officers – average number of months in position



The vacancy rate in the position of chief financial officer at departments improved from 20% to 16%, while public entities improved from 28% to18%. At both national level and in all provinces, except the Western Cape, there were auditees without a chief financial officer at year-end. Most of these 73 auditees were in national government (29), North West (14), Limpopo (seven) and Mpumalanga (seven). The chief financial officer position had been vacant for more than six months at 22 departments and 39 public entities.

The average of 48 months that chief financial officers had been in their positions at departments is a slight improvement from the 44 months in the previous year. The average number of months that chief financial officers had been in their positions at public entities also increased from 33 to 39 months. The average length of time in the position for both public entities and departments was more than three years, an improvement on the previous year.

Heads of supply chain management units

The head of the SCM unit plays a significant role in ensuring that controls are in place to enable fair and competitive procurement processes and to prevent the abuse of SCM processes.

The vacancy rate of the heads of SCM units at departments deteriorated from 18% to 21%. Three departments did not have a dedicated position for this role and the work was performed mostly by the chief financial officer. These positions had been vacant for more than six months at 24 departments, 18 of which had been for 12 months or longer.

The average of 46 months that heads of SCM units had been in their positions at departments, was an improvement from the 35 months in the previous year. The heads of SCM units of 52 departments (10%) had been in the position for three years or more.

Countrywide, 64 public entities did not have a dedicated position for the head of the SCM unit. A total of 40 (20%) of the public entities with such a position did not have a head of the SCM unit at year-end. Most of the vacancies were in the national government (14) and North West (13). The average length of time that heads of SCM units remained at public entities improved from 32 to 41 months.

Senior managers: strategic planning as well as monitoring and evaluation

Officials in senior positions are crucial for effective strategic planning as well as performance management and reporting, and affect the quality of the APRs placed in the public domain.

Although not all auditees had created a specific position for strategic planning or the monitoring and evaluation function, 349 auditees (79%) had appointed/designated a senior manager responsible for strategic planning and 336 (76%) for monitoring and evaluation. A total of 191 of the 275 public entities (69%) with strategic planning functions had allocated these responsibilities to a senior manager while 179 (65%) with monitoring and evaluation functions had also allocated these responsibilities to a senior manager. It is of concern that not all auditees had allocated these very important functions to senior managers to oversee.

Performance management

To improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes, evaluating and monitoring performance. Further, by leadership consistently taking action it will demonstrate to all officials that poor performance has consequences.

Table 2 provides information on performance agreements concluded by auditees with their senior officials for 2014-15 financial year.

Table 2: Performance agreements not in place and measures not linked to audit outcomes

Position filled at year-end	Performance agreement not in place (where position filled)	Performance measures not linked to audit outcomes (where position filled)
Heads of departments (140)	7 (5%)	21 (15%)
Chief executive officer (185)	29 (16%)	16 (9%)
Chief financial officer (355)	33 (9%)	36 (10%)
Head of SCM unit (292)	26 (9%)	38 (13%)

No comparative information is included in the above table, as we did not report on the performance measures in the previous year.

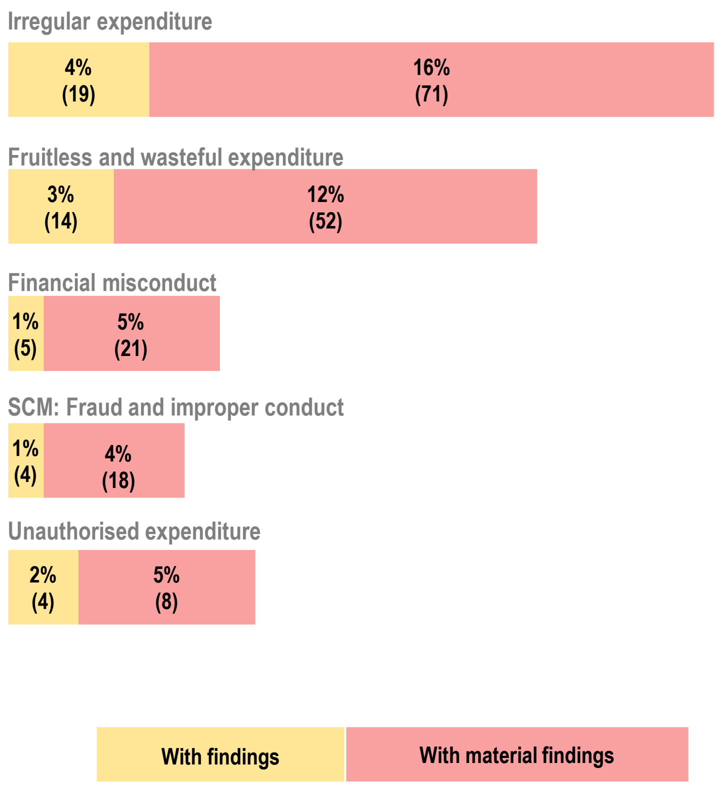
We reported in the audit reports of 38 auditees (2013-14: 35 auditees) that they did not have performance agreements for more than 20% of their senior managers.

Consequences for transgressions

The PFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated and appropriate action taken based on the results of the investigation. The legislation stipulates clear steps to be taken in response to proven or suspected financial misconduct and a responsibility to follow up when such expenditure has been incurred.

As part of our audits we tested whether the legislated steps were taken by auditees in 2014-15 to address the previous year's unauthorised, irregular as well as fruitless and wasteful expenditure and the allegations and reports of possible abuse of the SCM system and financial misconduct. Figure 8 depicts the extent of the non-compliance that we reported per type of transgression – "material findings" means that the non-compliance was so significant that we reported it in the audit reports of those entities while "with findings" means there was non-compliance but to a lesser degree (not material).

Figure 8: Transgressions for which there was inadequate consequence management



We report all our findings on compliance in SCM and weaknesses for management to follow up. Where indicators of possible fraud or improper conduct in the SCM processes are found, we recommend an investigation by management.

In 2013-14, we reported such findings for investigation at 76 auditees. Figure 8 shows that the management of only 20 (5%) of these auditees did not investigate all the incidents, which is an encouraging sign that action is being taken. However, these findings continued to increase as highlighted in figure 9. Furthermore, 58 auditees that had such findings in 2013-14 had similar findings in 2014-15. This means that even though investigations are taking place, it is not yet having the desired impact of discouraging fraud and improper behaviour.

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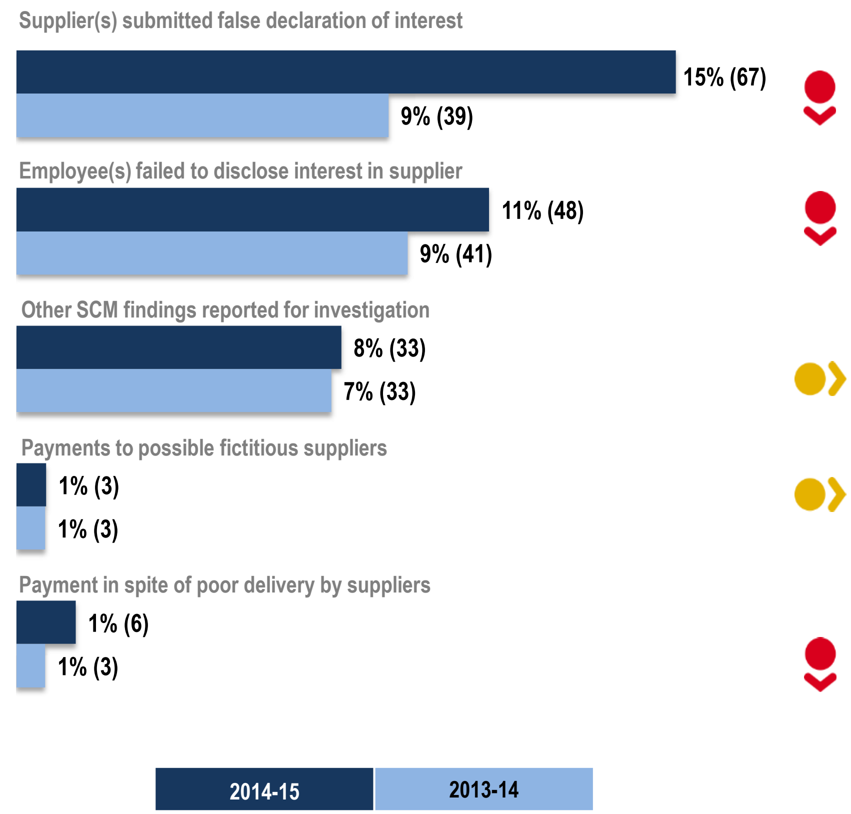
Figure 9: Supply chain management findings reported to management for investigation



Other common human resource findings

We reported other human resource findings to auditees, which include the following:

- A verification process for new appointments did not always take place at 46 auditees (2013-14: 57) and at 24 of the auditees (2013-14: 27), the verification process did not include all prescribed verifications.
- Forty auditees (2013-14: 36) did not have a human resource plan, which must be based on their strategic plan. The achievement of some of these auditees' service delivery objectives are therefore at risk.

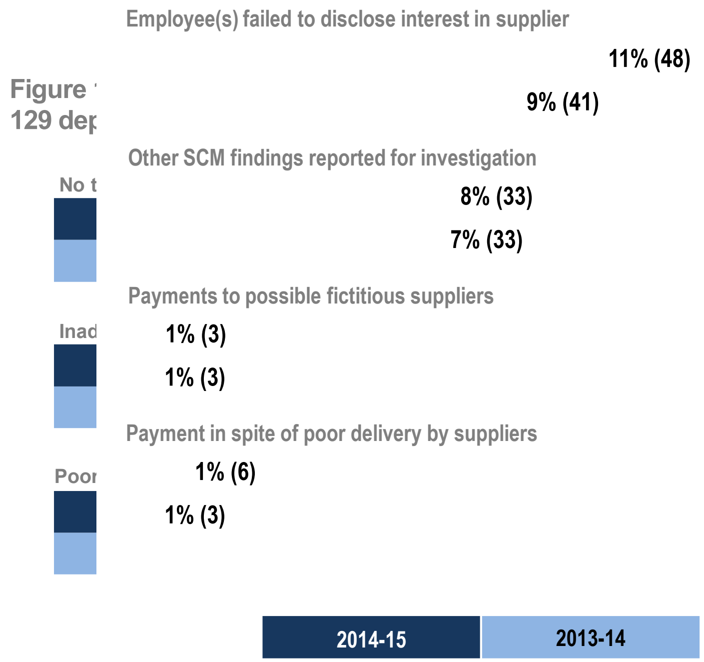
5.2 Effective use of consultants by departments

National and provincial departments spent an estimated total of R8,539 billion (2013-14: R11,602 billion) on consultancy services in 2014-15 to supplement their human resources. Consultancy services are services of an intellectual or advisory nature. The amount was spent in the following areas:

- Financial reporting service – R500 million (2013-14: R555 million)
- Preparation of performance information – R62 million (2013-14: R25 million)
- IT services – R2 134 million (2013-14: R846 million)
- Other services – R5 843 million (2013-14: R10 176 million) (this relates to all other consultancy services that do not relate to financial services, the preparation or review of performance information and/or IT-related services; these include expert valuators such as the consultants [actuaries] contracted by departments to value property or defined benefit plans, but exclude expenditure on legal costs and payments to audit committee members).

Findings on management of consultants

Our audits included an assessment of the management of consultants at 129 departments (2013-14: 123 departments). The assessments were based on the requirements set out in a practice note issued by the National Treasury in 2003, which regulates the appointment and management of consultants at departments. Figure 1 shows the number of departments that had findings in the focus areas of the audit. In total, 56 of the departments (43%) assisted by consultants had findings on their management of consultants compared to 47 departments (38%) in 2013-14.



Although the most common reason given by departments for appointing consultants was a lack of skills, we found that the contracts at 20 departments (16%) did not include any conditions or objectives for the transfer of skills from the consultants to the employees. This is an indication that transfer of skills was not considered part of the bidding process. Where such a requirement was included, the measures to monitor the transfer of skills were not always implemented. This occurred at 17 departments (13%), which is an improvement from 2013-14 when contracts at 23 departments (19%) did not include conditions or objectives for the transfer of skills, and we could not obtain evidence of the measures to monitor the transfer of skills at 21 departments (17%).

We identified shortcomings in the **management and monitoring of the performance** of consultants, while recognising that there has been an overall improvement in this area since 2013-14. The work of consultants was monitored by staff who were not sufficiently experienced or senior to ensure effective contract management at 18 departments (14%). At nine departments (7%), material misstatements/findings were identified on the work of consultants. Of greater concern was the payment of consultants without signed contracts at nine departments (7%).

The following were our key findings on the **planning and appointment processes**, which reflect a regression from 2013-14 at an overall level:

- As with all other procurement, consultants should be contracted based on a needs assessment. Such an assessment should consider cost, type and extent of service, the deliverables, whether internal capacity exists and/or whether there is an opportunity for the transfer of skills. At 14 departments (11%) the consultants were appointed without conducting a needs assessment and at five (4%) the needs assessments performed were inadequate. This is an improvement from 2013-14 when no needs assessment was done at 15% of the departments but a regression in the number of departments where the needs assessment was inadequate (3%).

- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and that states the required experience and qualifications. At nine departments (7%) the consultants were appointed without terms of reference, while at seven (5%) the terms of reference were inadequate compared to nine (7%) and six (5%) of departments respectively in 2013-14.

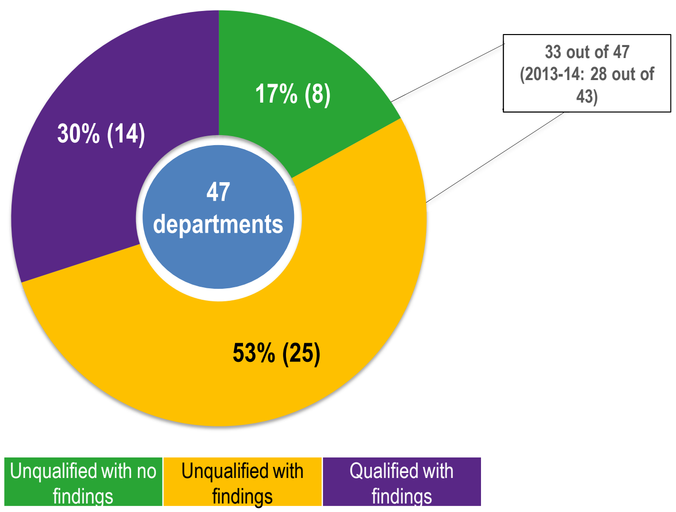
In addition to poor project management, the root cause of these findings was the lack of policies or strategies on the use of consultants as identified at 11 departments (9%). This is a regression from the eight departments (7%) in 2013-14. A policy or strategy should define the main purpose and objectives of appointing consultants and should include measures to prevent over-reliance on consultants.

While the cost of assistance by consultants declined, 111 of the 129 assisted departments also employed the services of consultants in 2013-14.

Although there are departments that do not manage their consultants effectively, the majority of departments that we audited did comply with the requirements set in the National Treasury practice note.

Consultants used for financial reporting services

Figure 2: Audit outcomes of auditees assisted by consultants – financial reporting



As shown in figure 2, a total of 47 departments (28%) (2013-14: 43 [26%]) were assisted by consultants for financial reporting services, at a cost of R500 million (2013-14: R555 million). Financial reporting services included, for example, preparing financial statements, maintaining the fixed asset register, performing bank reconciliations and preparing other monthly and annual financial reports.

More than 80% of the cost of consultants was incurred by 10 departments: the national Department of Arts and Culture, National Treasury and two provincial treasuries, four provincial departments of public works, one provincial health department and the Department of Defence

The most common reasons given by departments for appointing consultants for financial reporting were a lack of skills (47%), vacancies (9%) or a combination of the two (45%).

The audit outcomes of the departments that used consultants show that 70% of their financial statements were financially unqualified. Of the 47 assisted departments, eight (17%) received an improved opinion, (2013-14: seven [17%]), 22 (47%) were again financially unqualified, while 19 (40%) had not been assisted during 2013-14. Twenty-six departments (55%) have now been assisted for the past two years, which underscores the concern raised regarding skills transfer, the management of vacancies and skills retention/acquisition. Good audit outcomes cannot always be attributed directly to the work of the consultants, but consultants do make a positive contribution to the quality of financial statements submitted for auditing.

Of the 47 departments assisted by consultants for financial reporting services, 29 departments had no material misstatements in their financial statements submitted for auditing. Eighteen departments had material misstatements, five of which had repeat findings.

In our assessment, the main reasons for the limited impact of consultants on the audit outcomes were poor project management by departments and consultants being appointed too late in the audit year for their work to make a difference to the outcomes.