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## **Human resource management and the use of consultants**

## 6.1 Human resource management

Figure 1 shows the status of HR management controls over the past three years.

Figure 1: Status of human resource management controls



At an overall level, the number of municipalities with HR management controls assessed as good was the same as in 2014-15 and those requiring intervention was slightly fewer. The improvements at 13 municipalities were offset by regressions at another 13, of which the majority were in KwaZulu-Natal (eight). These regressions can be attributed to vacant key positions not being filled.

One of the biggest challenges for local government, especially rural municipalities, is to attract and retain qualified and competent persons in all areas of administration. The remainder of this section provides more detail on these challenges.

### Vacancies and stability

In the past two years, the average overall vacancy rate at year-end showed no movement – it was 20% in both 2015-16 and 2014-15. There was a slight regression in the **senior management vacancy rate** – from 19% in 2014-15 to 23% in the current year. This is consistent with our overall observation that the instability and uncertainties in 2015-16 caused by the elections and re-demarcation of municipal boundaries affected the vacancy rates and filling of positions at senior management level.

As part of our audits, we considered the vacancies and resourcing of finance units, as inadequate capacity in these units negatively affects the management, controls and quality of financial reporting. The **average vacancy rate in finance units** at year-end remained the same as in 2014-15 at 17%. In our assessment (based on vacancies and the skills of finance staff), the capacity of the finance units of 115 municipalities (44%) was either concerning or required intervention.

We also considered **vacancies in key positions** at year-end and **stability** in those positions. These key positions include municipal managers, CFOs, heads of SCM units and senior managers responsible for strategic planning and for monitoring and evaluation.

Figures 2, 4 and 6 provide a three-year overview of the number of municipalities where the positions of municipal manager, CFO and head of the SCM unit were vacant at year-end as well as the period that the

positions had been vacant. They further show the average number of months the current incumbents had been in their positions.

**Figure 2: Municipal managers – vacancy and stability**

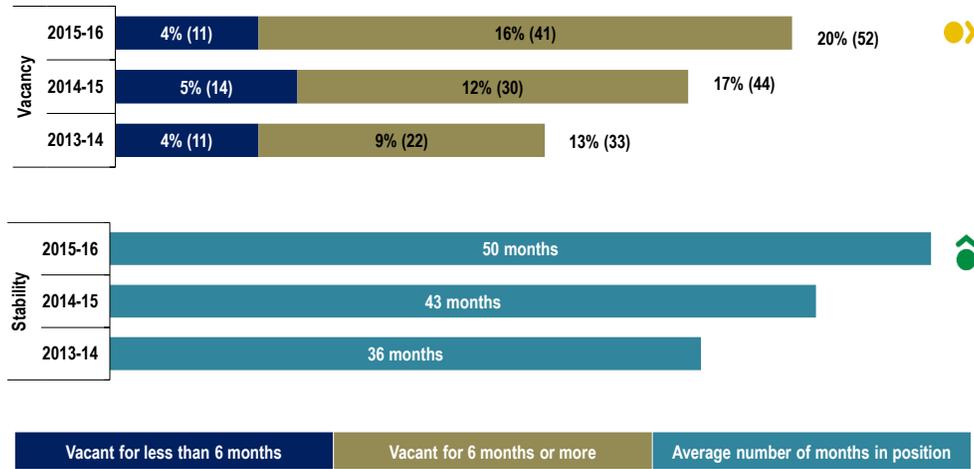
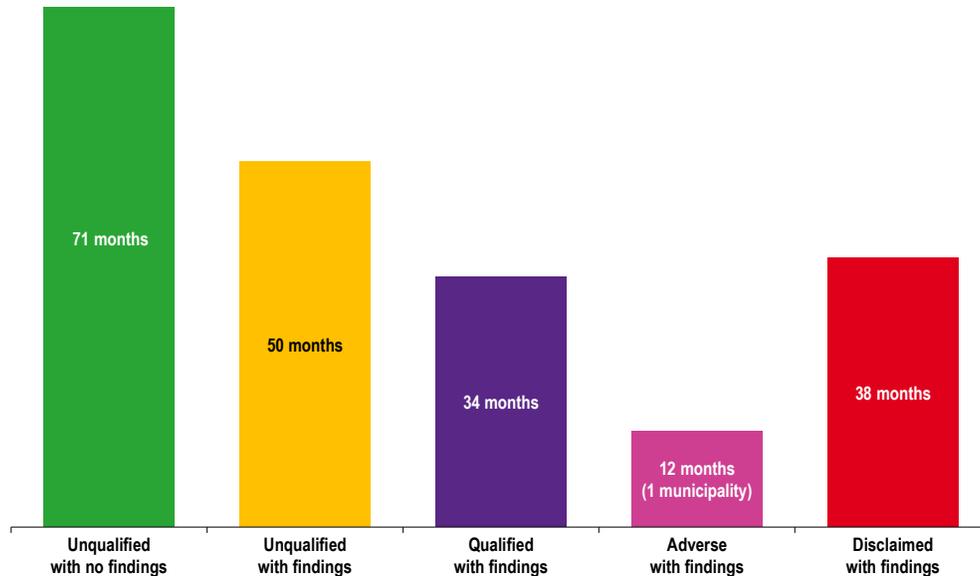


Figure 2 shows that the **municipal manager** vacancy rate had slightly increased from the previous year. Municipalities in North West (seven), the Western Cape (six) and the Northern Cape (seven) were the main contributors to the increased vacancies, which were mainly caused by contracts that came to an end and the re-demarcation of municipalities.

The average length of time that municipal managers had been in their positions was more than four years in 2015-16, which was an improvement from the previous year. By 2015-16, municipal managers at 100 municipalities (47%) had been in the position for four years or longer – a significant improvement compared to the 70 (32%) in 2014-15.

Figure 3 shows that those municipalities with increased stability at municipal manager level also achieved better audit outcomes.

**Figure 3: Municipal managers – average number of months in position (per audit outcome)**



The employment contracts of the municipal managers come to an end in 2016-17 and it is unlikely that the continuous improvement in stability will be maintained. It is expected that many contracts will not be renewed – especially where the political leadership has changed after the elections.

Figure 4: Chief financial officers – vacancy and stability

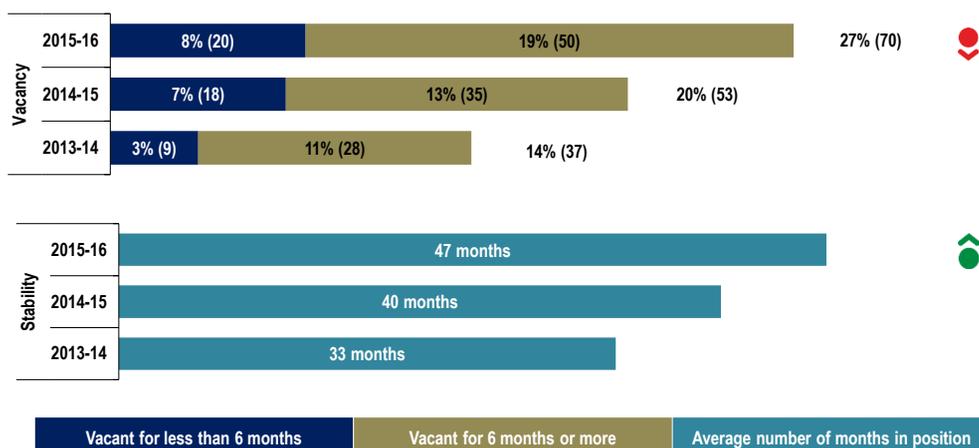
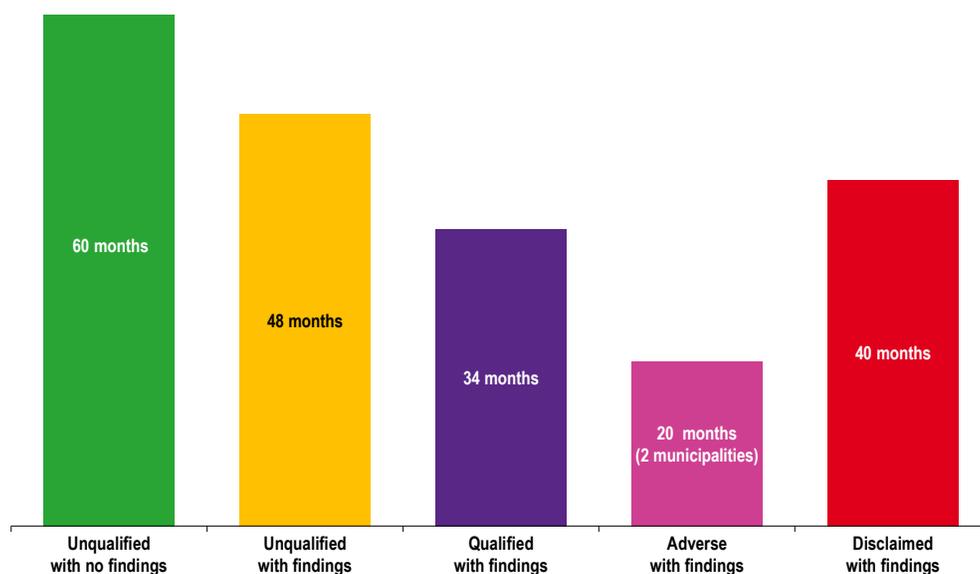


Figure 4 shows that the **CFO** vacancy rate at municipalities had increased from the previous year. Municipalities in Mpumalanga (four), North West (four) and Gauteng (two) were the main contributors to the regression. The regression can in part be attributed to financial constraints at municipalities, resignations due to the re-demarcation of municipalities, inadequate succession planning, and challenges in attracting skilled individuals by rural municipalities.

The average number of months that CFOs had been in their positions had improved from the previous year. By 2015-16, CFOs of 110 municipalities (57%) had been in the position for three years or longer. This is a significant improvement compared to the 84 (40%) in the previous year.

Figure 5 shows that those municipalities with stability in their CFO positions produced better financial statements or audit outcomes (based on the outcomes).

Figure 5: Chief financial officers – average number of months in position (per audit outcome)



Although the employment contracts of most of the CFOs also come to an end in 2016-17, changes in the political leadership should not affect the renewal of the contracts as this is not a political post. However, we foresee that the stability in these positions could be affected at some municipalities.

Figure 6: Heads of supply chain management units – vacancy and stability

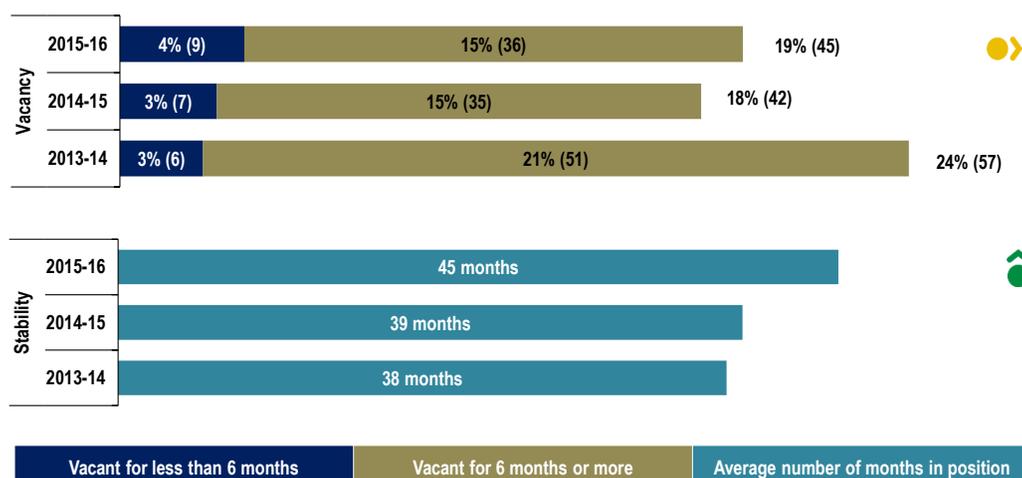


Figure 6 shows that the vacancy rate for **heads of SCM units** at municipalities had slightly regressed since the previous year. In 2015-16, 23 municipalities did not have a dedicated position for this role, with the work being performed mostly by the CFO.

The average number of months that the heads of SCM units had been in their positions had improved since the previous year. By 2015-16, heads of SCM units at 94 municipalities (48%) had been in the position for three years or longer – an improvement compared to the 80 (40%) in 2014-15.

Senior managers responsible for **strategic planning and/or monitoring and evaluation** are crucial for effective strategic planning and performance monitoring as well as credible and reliable performance reports.

Although not all municipalities had a specific position for strategic planning or to perform the monitoring and evaluation function, 211 municipalities (80%) had a senior manager responsible for strategic planning and 196 (75%) for monitoring and evaluation. It is concerning that not all municipalities had allocated these very important functions to senior managers to oversee. The vacancies at year-end in these positions were 14% (30) for senior managers responsible for strategic planning and 14% (27) for those responsible for monitoring and evaluation. This is a slight regression from the 12% (26) and 12% (22) at the end of 2014-15, respectively.

## Competencies and skills

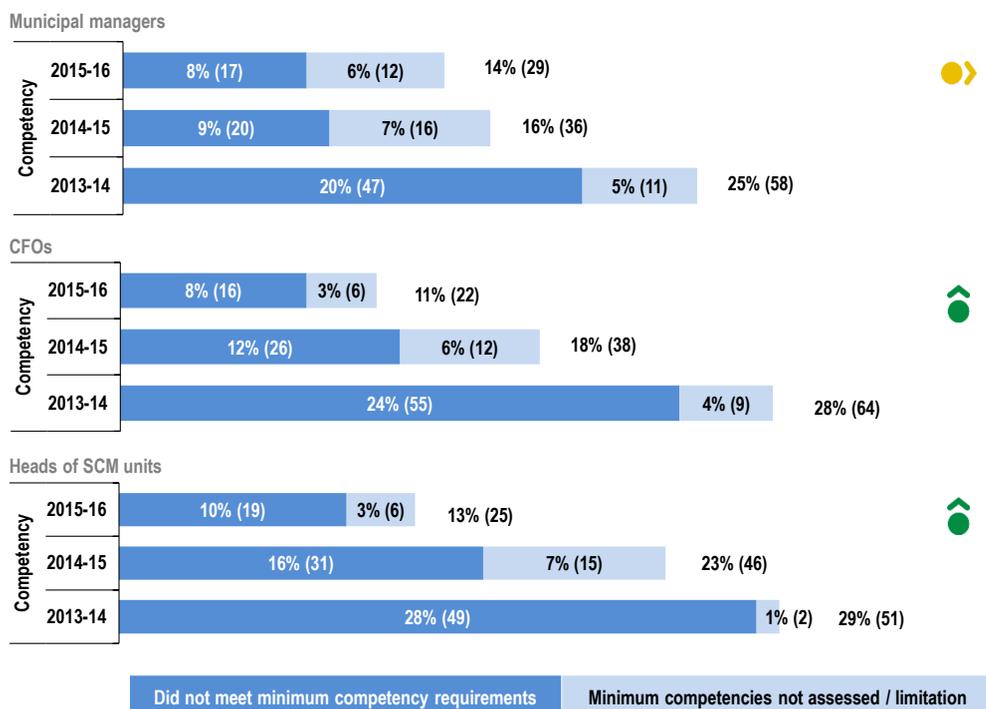
The **minimum competency levels** for accounting officers, CFOs, senior managers, SCM officials and other finance officials are prescribed by the Municipal Regulations on Minimum Competency Levels issued by the National Treasury on 15 June 2007. These regulations define the minimum competency levels, taking into account the size and scope of municipalities, and cover proficiency in competency areas, higher education qualifications and work-related experience.

The regulations provided for a phasing-in period for staff currently in those positions to obtain the minimum competency levels through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period ended on 1 January 2013 and, as per the regulations, municipal managers, CFOs, heads of SCM units, senior managers, SCM staff and other finance officials who failed to meet the minimum competency levels could not continue to fill the positions, which had an impact on the continued employment of these officials. After a number of extensions, the National Treasury granted municipalities a further extension on 3 February 2017, giving municipalities an additional 18 months.

The information on the competencies of key officials that follows is based on municipalities' own assessment of the achievement of the competency requirements by their key officials.

Figure 7 provides a three-year overview of the number of municipalities where key officials had failed to meet the prescribed minimum competency requirements at year-end. It also shows the number of municipalities where the officials' competencies were not assessed by the municipality as required by legislation, or where we could not obtain evidence of a competency assessment.

**Figure 7: Achievement of competency requirements by key officials**



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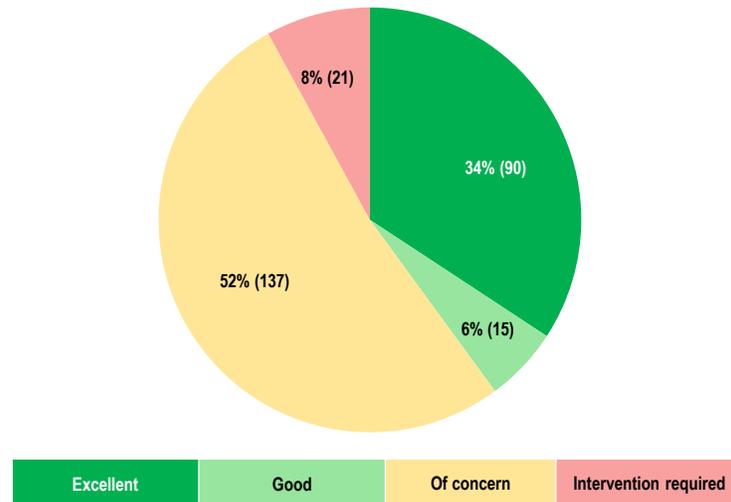
As can be seen in figure 7, there had been an improvement in the number of key officials with the required competency since the previous year, although only slightly so for municipal managers. Only a few officials in these positions were still not at the required level or had not been assessed. The reason for the overall improvement was mainly the appointment of officials with the required minimum competency (in adherence to the legislation) and incumbents obtaining the competencies to avoid their employment being terminated or not having their contracts renewed if they did not meet the minimum competencies.

Considering the reliance municipalities still place on auditors to identify and help with the correction of misstatements (as discussed in section 4.1) and on consultants to assist with financial reporting (as discussed in section 6.2), the question comes up whether **financial management skills** at municipalities still remain a challenge.

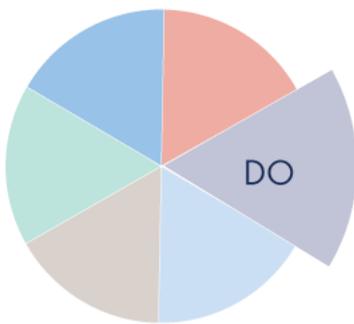
To answer this question, we considered the following criteria: our assessment of the capacity of the finance units, whether the CFO positions were filled, and municipalities' assessment of whether their CFO and financial officials had obtained the required minimum competencies.

Figure 8 shows the outcome of our assessment.

**Figure 8: Financial management capacity**



In our assessment, the financial management skills of 158 municipalities (60%) were either concerning or required intervention. The provinces with the highest percentage of municipalities with problems relating to their financial management skills were North West (82%), Mpumalanga (76%) and the Free State (70%).



Good HR management practices are a foundation for strong internal controls, as vacancies and inadequate skills affect the establishment, execution and monitoring of control activities.

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Annexure 1 lists all auditees and the status of their HR management controls.

## 6.2 Effective use of consultants

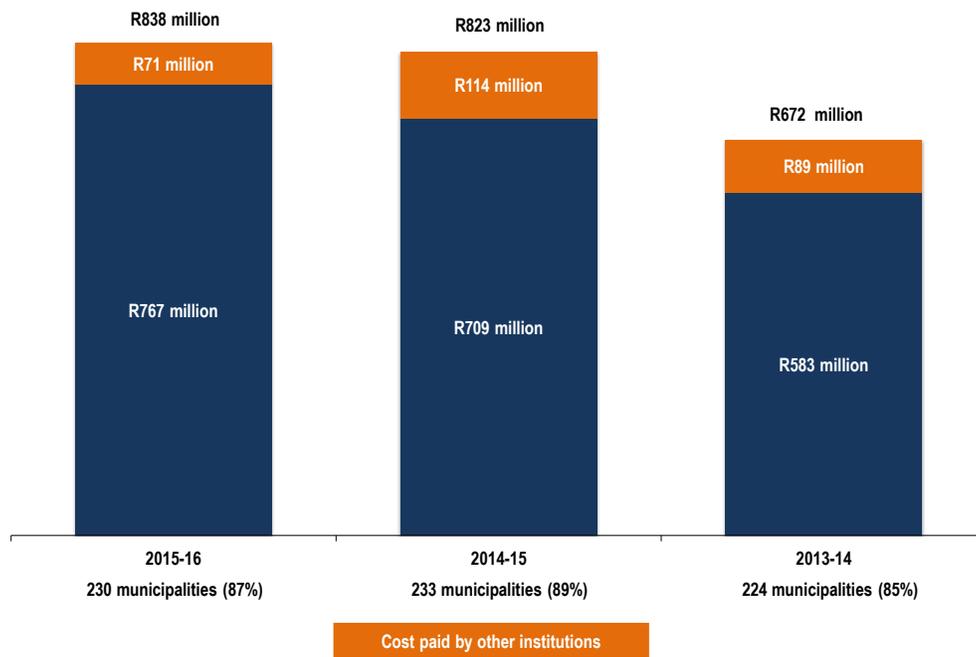
In 2015-16, local government spent an estimated R3 500 million on consultancy services. The amount was spent in the following areas:

- Financial reporting services – R838 million (including R71 million paid by the provincial treasuries and provincial Cogtas on behalf of municipalities)
- Preparation of performance information – R33 million
- IT services – R590 million
- Other services – R2 038 million

### Financial reporting services

Figure 1 shows the number of municipalities that used consultants for financial reporting services and the cost thereof over three years.

Figure 1: Consultants used for financial reporting

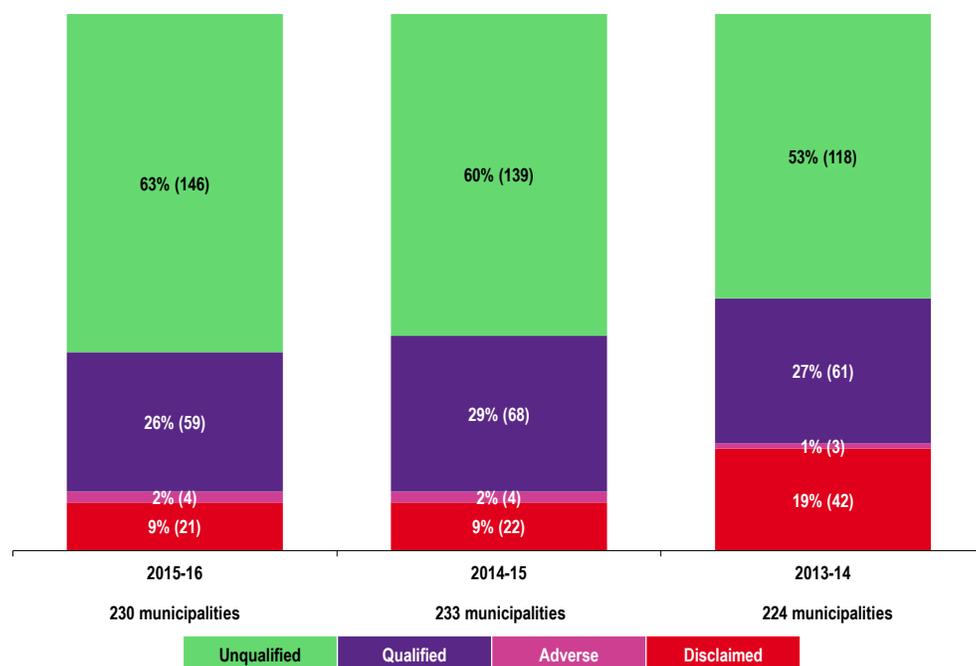


The number of municipalities assisted by consultants had slightly decreased from the previous year and the consultants' costs had increased by only 2%. The use of consultants' services was most common in Limpopo (96% of the municipalities), the Northern Cape (92% of the municipalities) and North West (91% of the municipalities).

The most common reason why consultants were appointed was a lack of skills (60%), a combination of a lack of skills and vacancies (34%), and vacancies only (5%). Of the 230 municipalities assisted in 2015-16, 220 (96%) had also used consultants in 2014-15. A total of 202 municipalities (88%) had used consultants for the past three years.

The audit outcomes of municipalities assisted by consultants since 2013-14 are shown in figure 2.

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



The **audit opinions on the financial statements** of the municipalities assisted by consultants had slightly improved since the previous year. The audit opinions of 162 assisted municipalities (70%) had remained unchanged since the previous year, with 38 (17%) improving and 30 (13%) regressing. Of the 25 municipalities that received an adverse or disclaimed audit opinion in 2015-16, all of them had also used consultants in 2014-15 and 88% had done so since 2013-14.

The audit opinion on the financial statements cannot always be attributed to consultants, as they might not have done work in the specific areas that led to the poor audit opinion. However, we found that at 130 municipalities (57%) (2014-15: 146 [63%]), the financial statements submitted for auditing included **material misstatements** in the areas in which consultants did work, which meant that the misstatements were identified and corrected by the audit process and not by the consultants. This remains a concern regarding the effective use of these consultants.

Our audits also included gathering information on the **reasons why financial reporting consultants were ineffective** at some municipalities. We identified the following reasons:

- Auditee ineffectiveness – 42 municipalities (18%) (2014-15: 46 [20%])
- Poor project management – 34 municipalities (15%) (2014-15: 27 [12%])
- Lack of records and documents – 25 municipalities (11%) (2014-15: 30 [13%])
- Poor delivery by consultants – 15 municipalities (7%) (2014-15: 24 [10%])
- Consultants appointed too late – 14 municipalities (6%) (2014-15: 19 [8%])

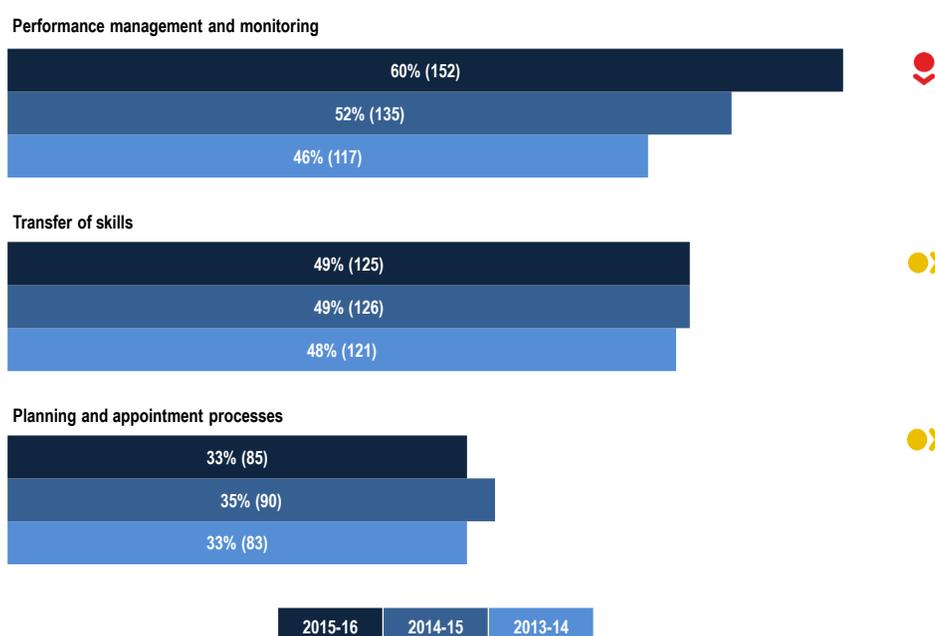
The discussion on the management of consultants provides further insight into the reasons for the ineffective use of consultants.

## Management of consultants

We identified weaknesses in the management of consultants at 178 (70%) of the municipalities that used consultancy services (not limited to financial reporting services) – a regression from the 166 municipalities (64%) in the previous year.

Figure 3 shows the number of municipalities that had findings in the different focus areas of the audit on consultants since 2013-14.

**Figure 3: Findings arising from the audit on the use of consultants**



There had been little movement from the previous year in any of the focus areas, except the municipalities with findings on performance management and monitoring processes that had regressed since the previous year.

The following were our key findings on **performance management and monitoring**:

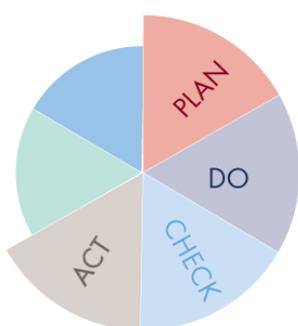
- The measures to monitor contract performance and delivery were not defined and/or implemented – 82 municipalities (32%) (2014-15: 86 [33%]).
- No evaluation was performed to determine whether the consultancy services rendered met the initial project objectives, needs and deliverables – 36 municipalities (14%) (2014-15: 41 [16%]).
- The measures to monitor delivery on the consultancy project were inadequate, as they failed to detect underperformance by consultants – 33 municipalities (13%) (2014-15: 41 [16%]).
- The contract of the consultant did not stipulate the terms and conditions for the termination of the contract in the case of non- or underperformance – 28 municipalities (11%) (2014-15: 28 [11%]).

The following were our key findings on the **transfer of skills**:

- The transfer of skills was a requirement of the contract but no evidence could be provided that skills had been transferred or that training had taken place – 101 municipalities (40%) (2014-15: 99 [38%]).
- The measures to monitor the transfer of skills in accordance with the contract were not implemented – 80 municipalities (31%) (2014-15: 78 [30%]).
- The requirements for the transfer of skills were not included in the terms of reference – 65 municipalities (26%) (2014-15: 66 [26%]).
- The employees to be trained were not identified or available to attend the training programme – 64 municipalities (25%) (2014-15: 65 [25%]).
- Conditions or clauses relating to the transfer of skills were not included in the contract – 63 municipalities (25%) (2014-15: 81 [31%]).

The following were our key findings on **planning and appointment processes**:

- Consultants were appointed without conducting a needs assessment – 65 municipalities (26%) (2014-15: 59 [23%]).
- Consultants were appointed without any terms of reference – 34 municipalities (13%) (2014-15: 30 [12%]).
- The terms of reference were inadequate – 19 municipalities (7%) (2014-15: 23 [9%]).



Mayors, councils as well as national and provincial role players should pay attention to the management of consultants to ensure that this expensive resource is procured economically and used effectively and efficiently. Having clear targets for consultants to achieve (**PLAN**), allowing them adequate time to perform the required functions for which they were appointed (**DO**), monitoring the achievement of the targets (**CHECK**), and addressing any lack of performance timeously (**ACT**) will have the desired result.