



AUDITOR - GENERAL

4.2 ASSET MANAGEMENT

In last year's report I reported on findings pertaining to asset management and control environment in terms of the audit findings from the table setting out matters of emphasis. This year asset management has become one of the prime areas of focus and the incidence of reporting at national and provincial level is one of the key issues arising from this report which are summarised on page 19. The detail is provided in the portfolio summaries and in annexure 2.1.1.

4.3 CONTROL ENVIRONMENT

A number of issues that could be brought under the area of control environment have already been commented upon in other parts of this report, for example, the issue of internal audit and the other factors discussed under the control issues on pages 17 and 18. This section focuses specifically on the general control environment in terms of the transversal systems for personnel and finance that are operated in an overwhelming number of national and provincial departments.

4.3.1 Information systems audit of the general controls of transversal systems

An IS audit that focused primarily on program change was conducted at the National Treasury for the 2002-03 financial year. The objectives of program change controls are to ensure that all changes to programs are properly authorised and that all authorised changes are completed, tested and properly implemented. The IS audit revealed that significant weaknesses existed within the program change controls, with the result that no reliance could be placed on the control environment as a whole for purposes of determining the appropriate audit approach.

4.3.2 Findings of the information systems audit conducted and the main barriers preventing national and provincial departments from moving to level 3

The weaknesses identified during the above IS audit were so significant that no reliance could be placed on the program change controls implemented by the National Treasury. The effects of the weaknesses identified could be summarised as follows:

- Errors or irregularities occurring during the modification of application programs might remain undetected for long periods of time.



A U D I T O R - G E N E R A L

- Manual control procedures might be dependent on the completeness and accuracy of computer processing. In turn, the effectiveness and consistent operation of transaction-processing controls in computer applications often depend on the effectiveness of the general controls (program change controls in this case).
- Program errors and/or irregularities would ordinarily result in transactions not being processed uniformly and the abuse or manipulation of the system might not be detected timeously.

The table below only contains the reporting paragraphs on BAS and PERSAL as these are considered to be the most significant transversal systems in operation and indicates the main barriers preventing national and provincial departments from moving to level 3.

Table 8. Program change control findings in respect of BAS and PERSAL

Finding	Policies and procedures are not in place (Level 2)	Policies and procedures are in place but are not complied with (Level 3)
PERSAL AND BAS		
- The activities of database administrators (DBAs) were logged but not reviewed. This had the effect that DBAs could perform unauthorised/incorrect activities, which might go undetected. No standards and procedures were in place to monitor the DBA activities.	✓	
PERSAL		
- The procedures and standards in place to ensure that only necessary, authorised and complete changes were made to the source code were on a very high level and did not cover the entire process.	✓	
- Classification and priority codes assigned to program changes at the Change Control Board meetings were not included in the minutes. Classification codes prescribe the route (processes, inclusive of approvals) that the change will follow and priority codes rank the urgency of each change.	✓	
- Formal documented emergency procedures did not exist to ensure that emergency changes made to programs and/or data in the production environment were logged, reviewed and approved by management.	✓	
- Actions could not be traced to individuals, i.e. there were user accounts in use that had not been assigned to specific owners.	✓	



AUDITOR - GENERAL

Finding	Policies and procedures are not in place (Level 2)	Policies and procedures are in place but are not complied with (Level 3)
PERSAL		
- Users were performing incompatible functions, i.e. they could initiate, approve and authorise program changes.		✓
- Controls were not in place to ensure that the software releases would be implemented.	✓	
- The processes with regard to user account management were not always followed, i.e. some users were registered on the system without the necessary documented approvals having been obtained.		✓
- Programmers had access to both the production environment (where the working copy of the program is saved and accessed for use) and the test environment (where program changes are tested for correctness). They were able to transfer programs directly from the test environment to the production environment without adhering to prescribed standards and procedures. This had the effect that unauthorised changes could be made to test and production programs and/or data.		✓
BAS		
- The version control procedures were outdated. This could lead to an incorrect version of the source code being used during processing.	✓	
- The procedures for software releases were outdated, i.e. proper procedures were not in place to ensure that correct versions of programs were in use across all the databases.	✓	
- Policies and procedures were not in place for user account management, i.e. no controls were in place over the registration of users and the allocation of functions. It was therefore possible that users could perform actions that were not commensurate with their responsibilities.	✓	
- Changes to the source code (protected copy of approved program used to update other working copies) were not logged by way of the Procedure for Version Control System or reviewed to ensure that only authorised changes were made to the source code.	✓	
- The network administrators had unrestricted access to the "secure" source code, i.e. the source code could be amended and accountability for such actions could not be determined.	✓	



A U D I T O R - G E N E R A L

Finding	Policies and procedures are not in place (Level 2)	Policies and procedures are in place but are not complied with (Level 3)
BAS		
- The activities of the librarian (responsible for all program transfers between different stages during development and for secure source code transfers to production) were logged but not reviewed. This had the effect that the librarian could perform unauthorised activities that might go undetected.	✓	
- Change control procedures and standards to ensure that only necessary, authorised and complete changes were made to application programs were not up to date, nor had they been approved.	✓	
- The change request form was not always cross-referenced to the Remedy System (call centre system) as prescribed in the change control procedures. The call reference numbers were not written on the change request forms, with the effect that no audit trail existed of the actual requests.		✓
- Automated change control software was not used to ensure that program documentation was updated as and when changes occurred.	✓	

The findings in the above table suggest that the problems in respect of program change controls mainly relate to policies and procedures that are not in place (level 2 characteristics) or, where the policies and procedures are in place, they are not being adhered to (level 3 characteristics). It follows that if more robust policies and procedures were adopted and adequately enforced, the program change control issues could be resolved.

4.3.3 Implications for departments

The vast majority of national and provincial departments use the BAS and PERSAL systems. The significant weaknesses identified within the program change controls at the National Treasury could potentially have an effect on the integrity of management information used by the management of these departments. The consequences of the supply of incorrect information to management could include inappropriate decisions being taken by management, as well as fraud and errors going undetected. This does not, however, imply that BAS and PERSAL have inadequate controls. It merely means that the inadequate program change controls could have an effect on the effectiveness of the manual and programmed controls within BAS



A U D I T O R - G E N E R A L

and PERSAL. Once the weaknesses within the program change controls have been rectified by the National Treasury, it should be possible to place reliance on these controls from an audit perspective.

4.3.4 Corrective steps taken or actions envisaged to implement functional measures

In its comments dated 25 April 2003, the National Treasury referred to various corrective steps taken and actions envisaged to address the weaknesses identified within the program change control environment. The effectiveness of these steps will be evaluated in due course.

4.4 PROCUREMENT

4.4.1 Justice and Constitutional Development

A performance audit on procurement was completed at the department during the year under review. The following is a summary of the findings:

The department had no management information to ensure that items were procured or utilised in the most economic and efficient manner. Consequently the department did not always have measures in place to:

- Accurately account for the department's procured assets
- Reallocate unutilised assets amongst sub-offices
- Identify sub-offices that had more assets than required
- Identify asset shortages as well as assets that had exceeded their optimal lifespan and needed to be replaced

The department did not always have measures in place to ensure timeous delivery of procured services, inventory and equipment such as:

- Ability to adhere to contractual agreements
- Follow-up on outstanding orders

4.5 HUMAN RESOURCE MANAGEMENT AND CAPACITY

4.5.1 Vacancy rates

In terms of human resource management and capacity, a review of the vacancy rates in national departments was conducted in line with that of the previous year. The table below shows the trend over two years for those departments whose vacancy rate is in excess of 20% for senior management positions.



A U D I T O R - G E N E R A L

Table 9. Vacancy rates above 20% in national departments

Department	Vacancy rates for the 2002-03 financial year	Vacancy rates for the 2001-02 financial year
Arts and Culture	37,0%	36,6%
Department of Public Service and Administration	24,2%	22,3%
Department of Provincial and Local Government	39,3%	13,9%
Foreign Affairs	25,1%	33,3%
Health	20,9%	31,1%
National Treasury	41,0%	12,5%
Public Enterprises	33,0%	32,0%
Public Works	35,7%	33,7%
Science and Technology	66,7%	55,3%
Social Development	49,1%	36,6%

Eleven departments had vacancy rates in excess of 20%. This represents a serious lack of management to execute the functions of government and a serious risk to financial management and service delivery.

4.5.2 Performance audit of the use of consultants

In terms of capacity my office has conducted audits on the use of consultants and some of the key findings are summarised below.

- It was found that alternative ways of addressing needs, such as to train staff and build more capacity, to recruit new employees or to extend working hours and pay overtime, were not always duly considered before allocating projects to consultants.
- Sound procurement principles, such as the comparison of tenders not only on the basis of price but also on functionality by evaluating the workplan, expertise and knowledge of the tenderers, were not always applied. Furthermore, departments did not always adhere to their criteria with regard to the allocation of tenders. Various cases were identified where these and other principles were not followed.
- In some instances consultants were appointed who did not have the required experience or competencies to perform their work effectively. In some cases the competencies of consultants had not been evaluated before the tender was awarded. This resulted in staff having to be withdrawn from their functions to assist the consultants in performing their tasks.



A U D I T O R - G E N E R A L

- Contracts or terms of reference did not always specifically provide for skills transfer, which would alleviate the further need for consultants. Furthermore, the transfer of skills and capacity building were not monitored closely in terms of measurable indicators of achievement, with the result that contracts were extended. The report findings indicated that although tenders would stipulate the transfer of skills, this did not take place due to, amongst others, a lack of departmental capacity, skills and expertise. The following findings are examples in this regard:
 - A tender to the amount of R2,041 million was awarded to a consortium of consultants and consulting engineers for phase 1 of the implementation of the management support programme to assist 33 municipalities with various aspects of capacity building, such as human resources and financial management, at the Eastern Cape Department of Housing, Local Government and Traditional Affairs. A further tender to the amount of R15,056 million was awarded on 21 October 1999 for phases 2 and 3 of the programme. In terms of the programme the consultants employed would assist municipalities to be able to prepare their own financial statements in future. At the municipalities of Kei Road, Peddie, Hankey and Paterson it was reported that staff of the municipality were not involved in the preparation of the financial statements. Consultants would visit the municipalities, collect the information needed and return with the financial statements. Transfer of the necessary skills in the preparation of financial statements did therefore not take place.
 - Although the establishment of the Gauteng Department of Housing and Land Affairs made provision for project management directorates to manage housing delivery projects, the department had appointed consultants as project managers of four housing projects since 1997. According to information received from the department and various tender documents, the consultants were appointed as there was a lack of internal capacity, skills and expertise. However, the consultants were appointed on four different occasions over a period of three years, at a total cost of R10,9 million, without the necessary skills having been transferred or capacity built.
- A detailed description of the services required was not always provided and available resources, the intended outcome or product, expertise required, the timetable for completion as well as the long-



A U D I T O R - G E N E R A L

term implications and risks were not always effectively or completely identified when the specifications of tenders were determined. Consequently several tenders had to be extended, thus not complying with the requirements of transparent, fair and competitive procurement as set out in section 217(1) of the Constitution.

- Departments did not always monitor and verify the performance of consultants, the progress with projects and the extent to which set objectives were achieved before the payment of consultants. Furthermore, *ex post facto* evaluations of the performance and the impact of the work of consultants on service delivery were not made.
- It was also found that departments did not always meet their responsibility to create an environment where consultants could perform their duties effectively, which, amongst others, caused delays.
- Proposals or interventions contained in consultants' reports were not always implemented due to, amongst others, inadequate human or financial resources and a lack of commitment by departments. A lack of computer skills was often responsible for new software programmes not being implemented.

4.5.3 Other performance audits conducted on human resources

The following is a summary of other performance audits conducted in the area of human resources. These are also included in the relevant portfolio summaries.

(a) Correctional Services

Key findings

(i) Prisoners versus staffing levels

- The department was of the opinion that it could effectively perform its duties at a ratio of six prisoners per employee. At 31 March 2003 the total ratio was 7,5 prisoners per employee (including 70 000 prisoners under correctional supervision and 33 672 employees). Assuming the prison population of 254 000 remains unchanged, an additional 8 672 staff would be required in order for the department to maintain its target ratio of six prisoners per employee.



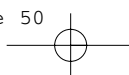
A U D I T O R - G E N E R A L

- On 31 March 2003 there were 1 885 vacant posts, mainly comprising nursing staff, psychologists and information technology staff. The number of vacant posts may impact negatively on the ability of the department to maintain the safe custody of inmates and rehabilitate inmates. My office has noted the actions planned as mentioned in the management report to address the vacancies.
- A direct impact on human resources was the overcrowding of prisons. The prison population has increased at an average annual rate of 6,5 per cent over the past seven years, while the number of personnel and available prison accommodation have increased at an average annual rate of 1,9 per cent and 1,5 per cent respectively during the same period.
- Prisons managed by the department were at 175 per cent capacity at 31 March 2003. Major causes of overcrowding were the excessive number of prisoners awaiting trial and the significant increase in long-term and life sentences due to the introduction of minimum sentences. At 31 March 2003, 31 per cent of unsentenced prisoners were in prison because they could not afford bail.
- Although the Department of Public Service and Administration recommended that the average vacancy period from the time of the closing date for applications to the time of appointment should be between four and six weeks, the actual vacancy period for the department was estimated at between 12 and 24 weeks. This could result in appointments based on invalid application documentation, as certain application documentation is only valid for three months.

(b) Safety and Security

Key findings

- Deficiencies in the decentralisation of the enlistment function, which resulted in appointments contrary to the requirements of the positions filled.
- Salary payments arising from retrospective promotions, in some instances backdated as far as 1995, as a result of arbitration rulings and employee agreements.
- The department lost 37% of 353 cases referred to the arbitration process, which resulted in financial losses.



A U D I T O R - G E N E R A L

(c) Communications**Key findings**

- There was no overall integrated policy in terms of which human resources could be managed and planned.
- Policies for recruitment and leave were not finalised and approved.
- The vacancy rate amongst senior management was 40%, due to, amongst others, no succession planning and no skill retention policy.
- Senior management constituted 21% of all posts in contrast to the norm of 1%.
- 79% of staff employed were not allocated to day-to-day operational activities.
- There was a lack of policies and procedures for the management and utilisation of consultants.
- The lack of proper project management negatively affected service delivery.

