



Auditing to build public confidence

# MEDIA RELEASE

24 January 2013

## Media release

### **Deputy Auditor-General calls for stricter controls over the use of consultants in the public sector**

**PRETORIA** – The government needs to immediately implement stricter controls to get the best value for money for services provided by external consultants to the public sector, South Africa's Deputy Auditor-General, Kimi Makwetu, said today.

Addressing the media at the release of the Auditor-General of South Africa's (AGSA) performance audit report on the use of consultants at selected national departments, Makwetu said that the partnership between the private and public sectors has become important in driving South Africa towards its development goals; however, the report identifies areas that need to be controlled when engaging in these partnerships to get the best value for money.

#### **What are performance audits?**

Performance audits, in essence, seek to determine whether money was well spent by auditees. These are discretionary audits that do not include an audit opinion. Performance audits are not limited to annual information but can cover more than one financial year and concentrate on whether goods and services were acquired economically, applied efficiently and managed effectively towards achieving the desired goals.

#### **Past performance audits on the use of consultants**

In 1996 and 2002 the AGSA conducted performance audits on the use of consultants by government. The main findings of those audits related to acquisition and appointment processes; the monitoring and control of consultants; the departments' responsibility to

create an environment conducive for consultants to work effectively; and the implementation of deliverables.

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

### **What did the latest performance audit cover?**

The latest AGSA performance audit on the use of consultants, which covers the three financial years 2008-09, 2009-10 and 2010-11, was conducted at eight national departments and included 124 contracts with an estimated value of R5,5 billion.

The departments were selected based on assessments by the AGSA of possible weaknesses in the use of consultants, as identified through other audits, as well as spending trends within departments. The eight departments were Correctional Services, Defence, Environmental Affairs, Health, Rural Development and Land Reform, Police, Transport and Water Affairs.

### **Total expenditure on consultants**

The total expenditure on consultants by the eight audited national departments amounted to R24,6 billion (74% of the total national expenditure of R33,5 billion on consultants) for the three year period 2008-09 to 2010-11. Although 20% of the national departments were selected for audit, they represent 74% of the total expenditure on consultants over the three years.

Similar audits were conducted at the various provinces which spent R68,5 billion on consultants over the three years. Province-specific reports will be tabled in all provincial legislatures before the end of the second quarter of this year.

### **AGSA recommendations on how government can remedy the situation**

Makwetu said the latest report indicates that inadequate planning, the high turnover of employees in key positions, inadequate financial and performance management and ineffective governance arrangements adversely affected the economical, effective and efficient use of consultants. However, he said, the current picture could be turned around if departments have the right systems of control in place.

“The recurrence of findings which were highlighted both in our previous performance audits on consultants and continuously in our annual audits, is cause for concern, particularly in light of the R102 billion spent on consultants by national and provincial government departments in the three financial years (2008-09, 2009-10 and 2010-11) covered by our latest audit.

“In our past reports, we recommended a number of interventions which we felt would greatly enhance the efficiency, effectiveness and economy with which consultants are used by government. Despite commitments and resolutions by various role players to address weaknesses in the use of consultancy services, government was not successful in optimising the value and benefits that should be realised through using consultancy services. In this report, we reemphasise that value will only be achieved if proper systems of financial management and controls are established in departments, if officials and accounting officers are held responsible and if consequences follow significant deviations from regulations and frameworks. Without controls and discipline, a culture of inadequate accountability and a lack of transparency will become embedded,” Makwetu said.

He said although some departments experience serious challenges, others demonstrated the ability to succeed in certain areas, “and the good practices applied, although limited, should be shared, and duplicated by other departments to promote clean administration”.

### **Key findings of the latest performance report**

The report paints a picture of consultants being appointed in areas where permanent employees are required and would have been more cost-effective.

Makwetu said departments lacked skilled staff to fulfil the required functions. Auditors found consultancy projects valued at R3,065 billion which were initiated on the basis that there was a lack of internal capacity and skills at departments.

For 63 contracts amounting to R1,9 billion, detailed planning documentation to support the decisions to appoint consultants was not available.

Internal deficiencies, such as a lack of proper needs analyses and actions to fill vacant posts, led to the extension of contracts or contract periods. For example, 42 contracts were extended by R1,093 billion, while formal bidding processes were not followed for contracts worth R320,4 million. Moreover, reasons for deviations were not properly documented.

For 21 projects valued at approximately R2,4 billion, the contracts and payments were not properly monitored to ensure that the work done met the contractual deliverables and needs of the departments. Compliance with service level agreements was also not monitored regularly.

“In essence, this report shows that when government departments use the services of consultants without proper controls, taxpayers get far less than they pay for. Often the ill-planned use of consultants comes at an exorbitant cost when compared to available alternatives. Also, in certain instances, the goods produced by consultants are not used as intended. This opens the door for duplication and irregularity with no consequences for those responsible, as the same service or goods would again need to be procured,” Makwetu warns.

### **Leaders charged with governance and oversight commit to act**

Makwetu says the AGSA had held feedback meetings with those charged with governance and oversight and “they have committed to take immediate action to remedy the current situation”.

“We engaged extensively with government ministers, their heads of administration, chairpersons of portfolio committees of the audited departments, the National Treasury and chairpersons of transversal oversight committees (SCOPA, Appropriation and Finance). During all these interactions we received solid undertakings that processes for appointing consultants will be enhanced and compliance with related legal frameworks and regulations will be enforced as part of in-year monitoring and oversight activities. Plans are also in place to meet and engage further with the respective portfolio committees as they have a pivotal role in ensuring that the commitments made are indeed implemented.

“As the AGSA, we are buoyed by the commitment to drastically turn around the current state of affairs. When we follow up on these commitments, we look forward to reporting a story of improvement, of how consultants are used constructively and of how they add value to benefit taxpayers,” Makwetu concluded.

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**End.**

## MEDIA NOTES

1. Detailed AGSA recommendations on how government could handle use of consultants are attached in the media pack.

2. **DEFINITIONS:** For the purpose of this report, consultancy/professional services, contractors and agency/outsourced services have been grouped under the broad term *consultants*.

These terms are defined by the Standard Chart of Accounts as follows:

**Consulting/professional services:** Specialist services and skills required for the achievement of a specific objective, with the aim of providing expert and professional advice on a timely and material basis. Skills are not maintained in-house since they are required on a one-off or temporary basis.

**Contractors:** Required to provide services that are of a non-specialised nature and not the core business of the department.

**Agency/outsourced services:** Services where the relevant department ordinarily has the capacity and expertise to render these services, but for some reason is not utilising their own staff.

3. **ABOUT THE AGSA:** The AGSA is the country's supreme audit institution. It is the only institution that, by law, has to audit and report on how government is spending taxpayers' money. This has been the focus of the AGSA since its inception in 1911 – the organisation celebrated its 100-year public sector auditing legacy in 2011.

## ADDITIONAL INFORMATION

### AGSA recommendations on how government could improve the current situation on the use of consultants

#### 1. General

1.1 Departments, especially the accounting officers, members of bid evaluation and bid adjudication committees, human resource directorates and staff involved in appointing and managing consultants and consultancy projects, should critically evaluate their current internal processes and structures. This should be done to determine whether the relevant regulations and guidance are being followed and if value for money is received when making use of consultants.

1.2 Appropriate sanctions should be implemented by management in instances of non-compliance with legislation, regulations and policies.

1.3 The National Treasury and the Department of Public Service and Administration should monitor compliance with relevant legislation, regulations and policies and enforce appropriate action where departments deviate.

1.4 All departments and entities should include extensive coverage of the use of consulting services in their strategic and business plans, which should be intensively reviewed by portfolio committees.

1.5 The accounting officer's report in the annual report should cover the element of accountability by focusing on the extent to which economy, efficiency and effectiveness have been achieved in appointing consultants.

1.6 Specific oversight of the use of consultants should be performed quarterly by committees, including portfolio committees and SCOPA.

#### 2. Planning and appointment

2.1 The types and extent of services to be contracted out should be analysed, taking into account the following:

The long-term objectives and needs of the department, with a view to differentiating between services where permanent capacity is required and services that are of a non-core nature or specialist services required on a one-off or temporary basis, should be considered.

An assessment of the cost of using external capacity versus the cost of creating and filling internal capacity before a decision is taken to use external capacity should also take into account whether or not internal capacity and/or other resources required are available to execute the specific project.

2.2 Proper planning must be done before issuing the requests for tender to ensure that such requests are detailed, clear and unambiguous. This will enable bidders to clearly understand the scope of the project before submitting a tender and will facilitate a comparison of tenders for deliverables and values.

### **3. Internal capacity**

3.1 Internal vacancies and capacity should be assessed regularly and internal processes that hamper the filling of vacancies should be revised. In this regard, departments should liaise with the Department of Public Service and Administration for support. The assessment of internal capacity should include the following:

Updating human resource plans to align departmental needs with existing and projected capacity requirements, as well as funding needed.

The possible impact that the moratorium on filling vacancies has on service delivery.

Staff retention strategies to retain key staff.

The filling of vacant posts, especially the periods taken to advertise, shortlist, interview and make offers to successful candidates, should be monitored to ensure that these processes are concluded in a timely manner.

The processes of staff recruitment after resignations and prioritising advertisements for vacancies in key positions.

### **4. Training and transfer of skills**

4.1 Contracts must, where possible, provide for the transfer of skills. Project milestones and the deliverable of skills transfer should be agreed upfront. Staff to whom skills will be transferred must be made available and assessed during the course of the project to confirm their understanding of the deliverables. This should be monitored continuously and not only at the end of the project. Where departments do contract consultants to perform a core or key function, action plans should be implemented to create sustainable capacity on a permanent basis.

### **5. Performance management and monitoring**

5.1 Competitive bidding processes should be followed for all appointments. If it is impractical to invite competitive bids, procurement may take place by other means, such as limited bidding. The reasons for deviation from inviting competitive bids must be recorded and approved by the accounting officer as prescribed in the *Supply Chain Management Guide*.

5.2 Departments, especially the bid evaluation and bid adjudication committees, should pay specific attention to compliance with the *Supply Chain Management Guide* and relevant practice notes.



5.3 Contracts should take cognisance of the *General Conditions of Contract*, as prescribed by the National Treasury. Where special conditions of contract apply, these must include the following:

Clear, specific and measurable deliverables to optimise the outcomes of the project and ensure that the department receives value for money.

Clearly defined roles and responsibilities between the department and the consultant to enable effective project management and oversight during the course of the projects.

5.4 Proper contract management and oversight should be performed to prevent differences between the approved bid prices and the signed contract amounts. If changes in the scope of a project necessitate a change in the contract, it should be properly motivated, documented and approved at the appropriate level.

5.5 Contracts and payments should be monitored properly to ensure that the work done meets the contractual deliverables and needs. This includes monitoring compliance with service level agreements, detailed payment advices and supporting evidence.

5.6 Progress meetings should be held regularly and evidence kept of these meetings. Follow-up actions should be taken promptly and monitored by the department where there are differences between the planned and actual deliverables and deviations from the prescripts.

5.7 The periods of consultants' appointments should be managed and monitored closely. Extensions of consultancy contracts should be viewed in light of the importance of the specific need and, if necessary, internal capacity should be created.

## **6. Extensions of contracts**

6.1 Contracts and contract periods should only be extended in exceptional cases. Departments should ensure that the original contractual deliverables have been met before extending a contract. Compliance with the relevant prescripts issued in this regard should be ensured.

## **Government departments and other public sector role players commit to improving the situation**

After noting the AGSA's recommendations, the audited departments and other role players committed, inter alia, to the following:

### **Audited departments**

Greater emphasis will be placed on planning for the use of consultants in areas where capacity of a permanent nature is required. The prescripts issued by the National Treasury and the Department of Public Service and Administration will be adopted and customised.

Compliance with supply chain management practices and contract administration will be ensured.

Sufficient internal capacity will be provided to enable the departments to deliver on their mandates.

Staff development and training through the transfer of skills will be monitored.

The performance of consultants will be monitored to ensure that contractually agreed deliverables are met.

Extension of contracts will only be granted in exceptional cases for valid and documented reasons.

#### **National Treasury**

Guidelines will be reviewed in an attempt to strengthen the process for appointing consultants and Treasury Regulations will be enhanced.

Monitoring of compliance with legal frameworks relating to the appointment, management and use of consultants will be emphasised.

#### **Department of Public Service and Administration**

Information on skills in the public service in relation to job requirements will be provided to contribute towards addressing the skills gap in the public service.

Research will be conducted and appropriate interventions developed by March 2014 to reduce the vacancy rate and improve the recruitment processes.

**End.**