



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

NORTHERN CAPE

**Report of the Auditor-General of South Africa
on a performance audit of the use of consultants at the Department of Health
of the Northern Cape 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.



AUDITOR - GENERAL
SOUTH AFRICA

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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FOREWORD

FOREWORD

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 Northern Cape 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. Inadequate financial and performance management were also prevalent. These deficiencies adversely affected the economical, efficient and effective use of consultants.

ECONOMY

Internal capacity constraints and high vacancy rates at the department led to the use of consultants. However, strategic planning for the use of consultants was not done. Estimated project costs were not always verified during the project planning phase. At times, competitive procurement processes were not followed and some contracts were open-ended in terms of cost and time.

EFFICIENCY

Consultants' work was not always monitored and evaluated to ensure that projects succeeded in their objectives. Furthermore, the document archiving system was not effectively maintained. Certain information requested by the audit team could not be provided. As a result, some audit procedures necessary to verify management control measures could not be carried out.

EFFECTIVENESS

Contract objectives were, in some instances, not achieved.

The above observations did not conform to the principles of economy, efficiency and effectiveness, as reflected on page 21 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.

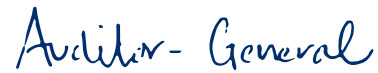
The recurrence of these issues is cause for concern. In the 2008-09 to 2010-11 financial years, the Northern Cape Provincial Government spent R1,16 billion on consultants: R459 million on consulting/professional services, R394 million on contractors and R308 million on agency/outsourced services. The Northern Cape Department of Health spent R548 million on consultants (49% of the total provincial expenditure of R1,16 billion).

The Department of Health also received a disclaimer audit opinion for the 2008-09 to 2010-11 financial years.

The outcomes of this performance audit have been shared with the management of the audited department and provincial executives. 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 Northern Cape Department of Health for their assistance during the audit.



Auditor-General of South Africa

Pretoria

October 2013



AUDIT SCOPE | KEY AUDIT FINDINGS | OVERVIEW

AUDIT SCOPE

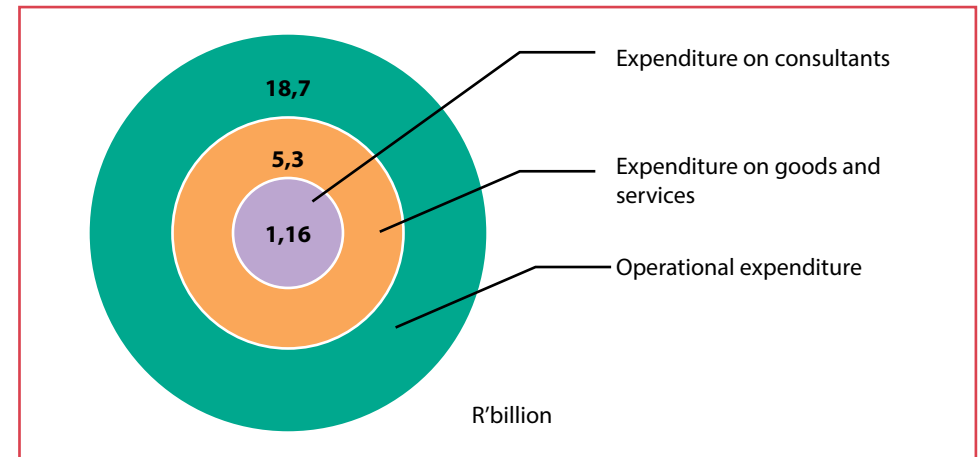
The performance audit on the use of consultants was conducted at the Department of Health of the Northern Cape Provincial Government, and covered six contracts with payments amounting to R132,6 million.

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.

Expenditure on consultants amounted to 6% of the provincial government's operational expenditure and 22% of its expenditure on goods and services.

The Northern Cape Provincial Government incurred operational expenditure¹ of R18,7 billion during the 2008-09 to 2010-11 financial years. Of this amount, its total expenditure on goods and services was R5,3 billion.

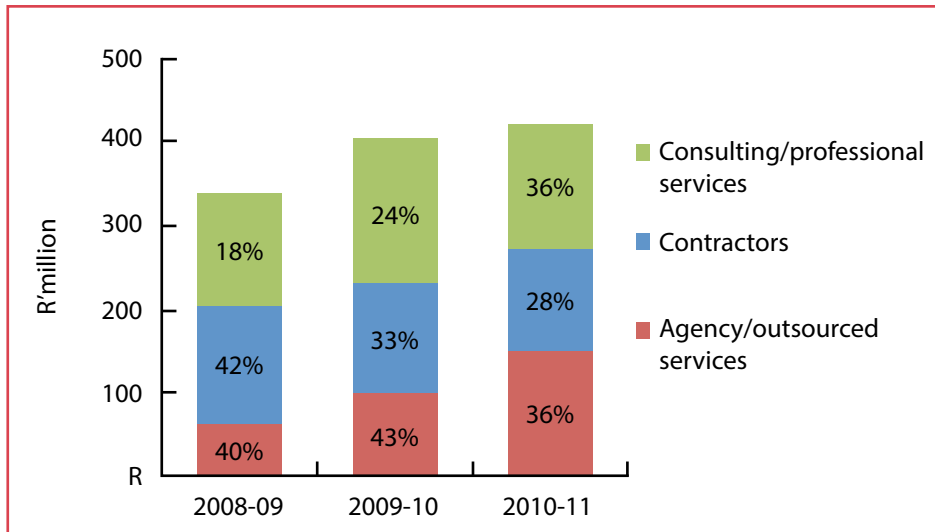
Northern Cape Provincial Government's operational expenditure during 2008-09 to 2010-11



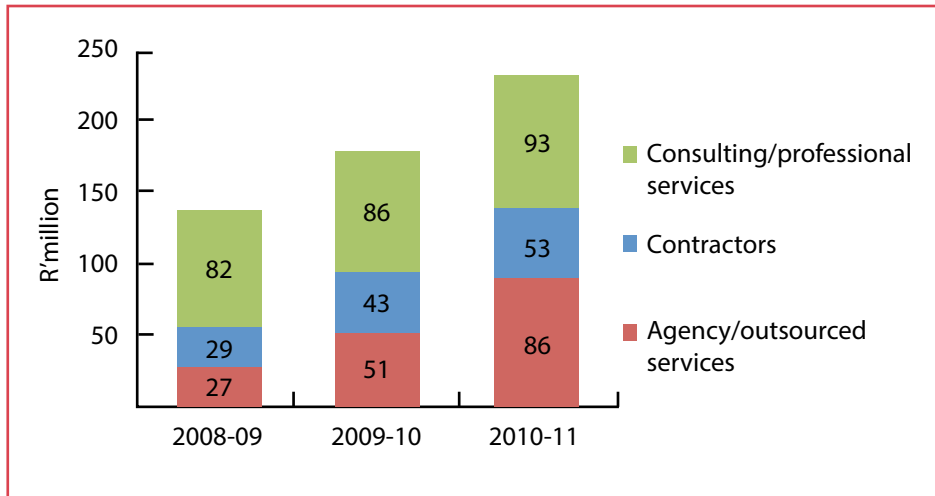
The total expenditure on consultants by the Northern Cape Department of Health amounted to R548 million (49% of the total provincial expenditure of R1,16 billion on consultants) for the three-year period 2008-09 to 2010-11.

¹ Operational expenditure includes compensation of employees, goods and services, and interest and rent on land

Total expenditure on consultants by the Northern Cape Provincial Government



Total expenditure on consultants by the Northern Cape Department of Health



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

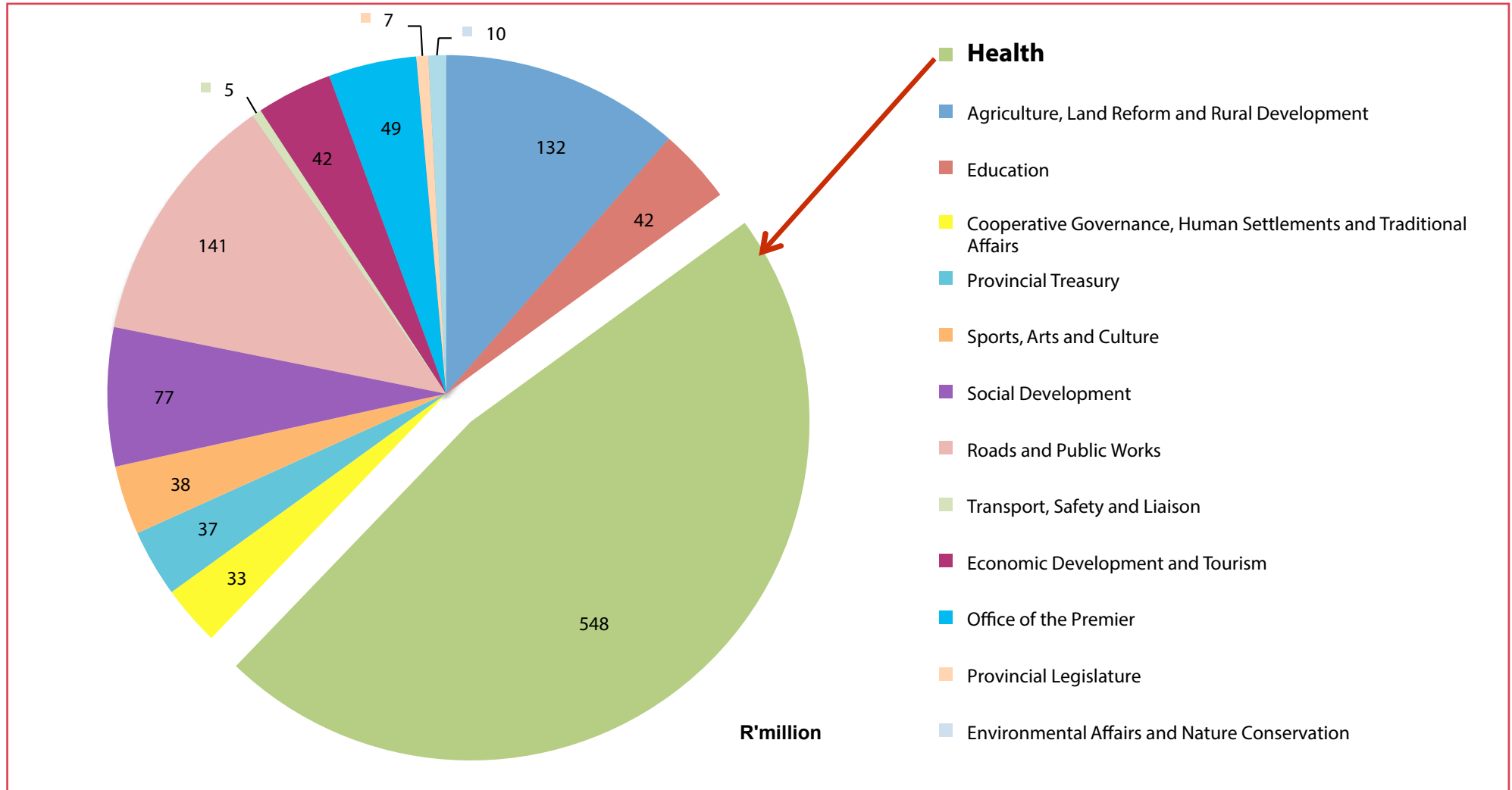
- **AGENCY/OUTSOURCED SERVICES:**

...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

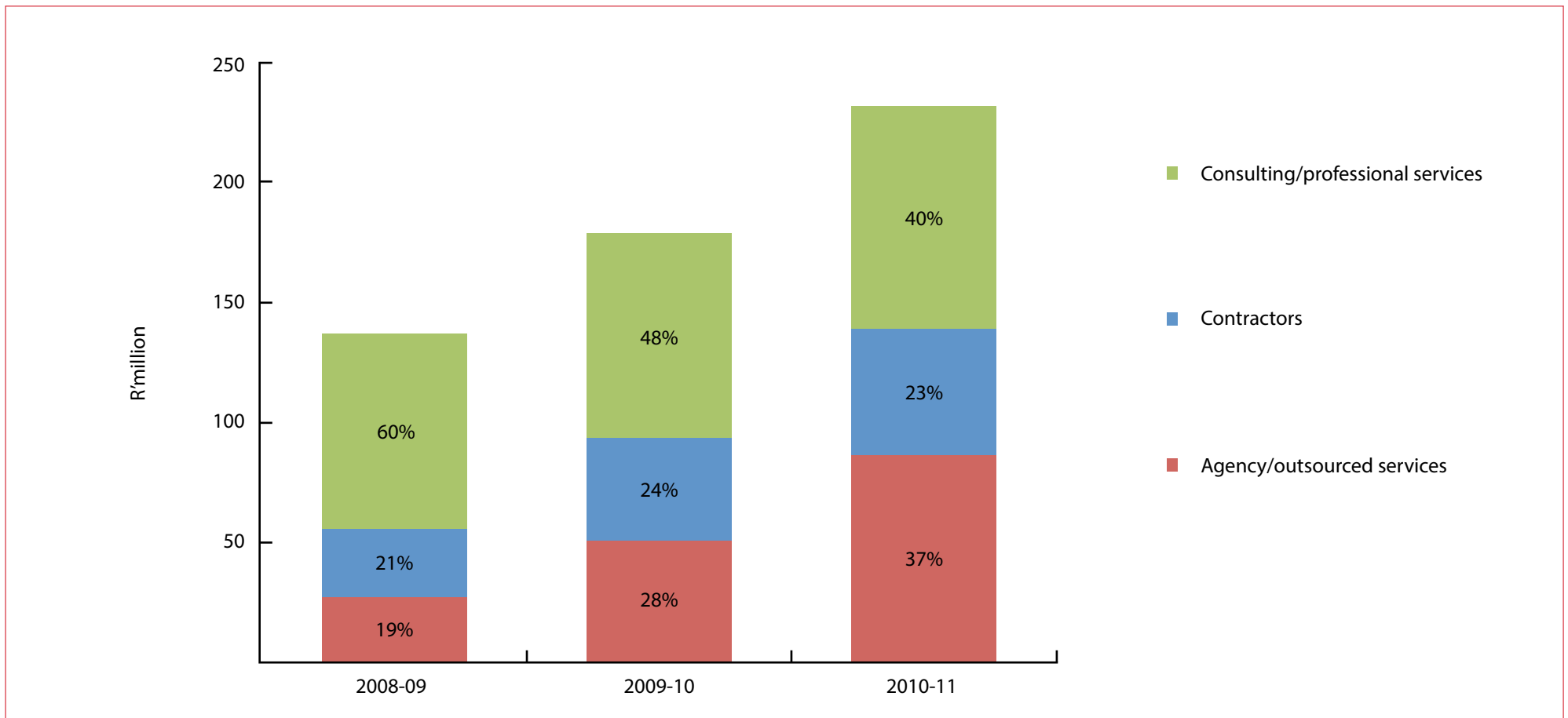
Below is an overview of the expenditure on consultants by the Northern Cape Provincial Government for the 2008-09 to 2010-11 financial years.

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






Below is an overview of the expenditure on consultants by the Northern Cape Department of Health for the 2008-09 to 2010-11 financial years.

Total expenditure on consultants at the Northern Cape Department of Health



KEY AUDIT FINDINGS

The table below summarises the key audit findings at the Northern Cape Department of Health as they relate to the aspects of economy, efficiency and effectiveness.

		KEY FINDINGS
 <p>ECONOMY</p>	<p>Economy</p> <p>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</p>	<p>Key findings in this regard at the Northern Cape Department of Health include the following:</p> <ul style="list-style-type: none"> • Strategic planning for the use of consultants was not done • Estimated project costs were not always verified during the project planning phase • The scope of the consultants' contracts sometimes changed to include additional work that was not subject to a competitive tendering process • Some contracts were open-ended in terms of costs and time • High vacancy rates sometimes led to the appointment of consultants • Tender criteria, supply chain management practice notes and related guidelines were not always observed
 <p>EFFICIENCY</p>	<p>Efficiency</p> <p>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</p>	<p>Key findings in this regard at the Northern Cape Department of Health include the following:</p> <ul style="list-style-type: none"> • Contracts and payments were not always properly monitored to ensure that deliverables were achieved • The document archiving system was not effectively maintained as some information and documentation requested could not be provided to the audit team
 <p>EFFECTIVENESS</p>	<p>Effectiveness</p> <p>The use of consultants is considered to be effective if the objectives that informed the appointment of consultants or the sourcing of services are met</p>	<p>The effective use of consultants at the Northern Cape Department of Health was adversely affected by the following:</p> <ul style="list-style-type: none"> • The objectives as set out in contracts between the department and consultants not being achieved

OVERVIEW

The Northern Cape 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 Northern Cape 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 lack of skilled staff to carry out departmental duties has been highlighted in several recent reports of the Auditor-General of South Africa.

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 increasingly 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 were appointed to provide core departmental functions. These include the provision of staff nurses 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.



EXECUTIVE SUMMARY

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

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (2007-08 TO 2008-09) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT						EFFECTED		
			CONSULTING/ PROFESSIONAL SERVICES	CONTRACTORS	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
1	Rehabilitation and improvement of mortuary facilities (Page 32)	34 077 995	✓			✓			✓		✓	✓	✓	
2	Nursing agency (Page 33) ²	8 142 674			✓	✓ ²	✓		✓ ²			✓	✓	
3	Hospital information system (Page 33) ²	37 246 865	✓			✓ ²		✓	✓ ²	2	✓ ²	✓	✓	
4	Services relating to communicable diseases and hospital revitalisation (Page 34) ²	38 731 198 ³			✓	✓	✓		✓	✓ ²		✓	✓	
5	State Information Technology Agency (Page 35)	10 001 492	✓			✓			✓			✓	✓	
6	Architect for the mental health facility (Page 35) ⁴	4 407 432	✓			4	4	4	4	4	4			
	Total	132 607 656				5	2	1	5	1	2			

² Some information requested could not be provided for audit purposes, resulting in a limitation of scope

³ Payments made up to 31 March 2010 are included in this amount

⁴ Most information for this project was kept by the Department of Roads and Public Works, who could not provide the information on request, resulting in a limitation of scope

KEY FINDINGS



- Strategic planning for the use of consultants was not done. The department did not always differentiate between services that should be contracted to consultants and services for which internal capacity should be created. This contributed to the increase in the audited department's expenditure on consultants.



- Estimated project costs were not always verified during the project planning phase by technically proficient officials such as a quantity surveyor or an engineer. As a result, the reasonableness of project costs was not verified by the department before payments were made.



- The scope of a consultant's contract was changed to include additional work. However, this was not subject to a competitive bidding process. The additional work was, therefore, not necessarily awarded at the lowest possible cost and in the best interests of the department.



- The department did not have policies and procedures to ensure proper contract management. Therefore, some contracts were open-ended and service level agreements were not signed in time. Some contracts also did not include clear, specific and measurable deliverables and deadlines. This hampered proper monitoring and control over consultants.



Planning and appointment processes



- Tender criteria, supply chain management practice notes and related guidelines were not always followed. In addition, consultants who failed to comply with the tender processes were not always disqualified.
- 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.
- Consultants' work was sometimes not comprehensively monitored and evaluated during the contract period. As a result, project objectives were sometimes not achieved.
- Some projects were suspended or discontinued by the department. This resulted in the project objectives not being achieved.

Internal capacity at department

Performance management and monitoring of consultants

Closing and finalising projects

- 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 effectively 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 lack of sufficient and appropriate evidence was also raised previously by the Auditor-General of South Africa. This was raised during the annual financial audits in the 2008-09 to the 2010-11 financial years.



COMMENTS RECEIVED

The department noted the recommendations of the Auditor-General of South Africa. The following feedback was obtained from the department 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.

- The department has discontinued using many consultants. More controls have been applied to the appointment of consultants. Processes have been strengthened and management takes a direct interest in the use of consultants or the outsourcing of services
- The department will provide training to all supply chain managers, including members of the bid evaluation and adjudication committees, to ensure compliance with the supply chain management policies and regulations

- The department has embarked on a concerted effort to maintain effective internal controls and procedures. The following structures were/are being established to enhance internal control:
 - Three independent supply chain management committees were established to ensure the highest level of compliance with the supply chain management process
 - Effective budget management and control systems have been set up to ensure that budgets are approved prior to awarding a contract to a consultant
 - A contract management directorate is in the process of being established. This will ensure compliance with the conditions of the consultants' performance agreements
 - The department is in the process of creating a commitment register where all the commitments will be listed and supported by documentation such as consultancy contracts
- The department's budget shortfalls contributed to the delay in filling vacant posts. The plan is to fill critical posts by making sufficient budgetary provision for these posts
- Documentary evidence is now being preserved for management and audit purposes. The department has established an internal control unit whose responsibility includes controls to safeguard documentation and information. This will enable the timely submission of information requested by the Auditor-General of South Africa
- The department arranged with the Department of Roads and Public Works to strengthen its document retention and archiving processes and to provide the department with all records of projects done on its behalf
- The department has embarked on a process of analysing its service providers to establish whether there are contracts, service delivery agreements and memoranda of understanding in place between the department and its service providers.

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 departments
- Officials and accounting officers 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 departments' strategy and business plans
- Sufficient internal capacity is created to enable departments to deliver on their mandates
- Consultants' performance 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

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 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 Estimated project costs should be verified by technically proficient officials during the project planning phase. This will ensure that the department is in a position to assess the reasonableness of the project costs.

1.4 Where scope changes result in additional costs, the necessary procurement processes should be followed.

1.5 Contracts between the department and consultants should be signed on time. The format and content of the contracts should comply with the prescripts of the National Treasury. Contracts should include:

- Clear, specific and measurable deliverables, timelines and payment conditions
- Clearly defined roles and responsibilities between the department and the consultant.

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

2. INTERNAL CAPACITY

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

3. TRAINING AND TRANSFER OF SKILLS

Where training and transfer of skills form part of the project, the department should 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 payments against actual services rendered.

4.2 Progress meetings should be held regularly and evidence kept. Follow-up actions, where required, should be 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

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 stage and project.

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 actions where departments deviate 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 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 departments in their annual internal audit plan, and perform regular audits in these areas.



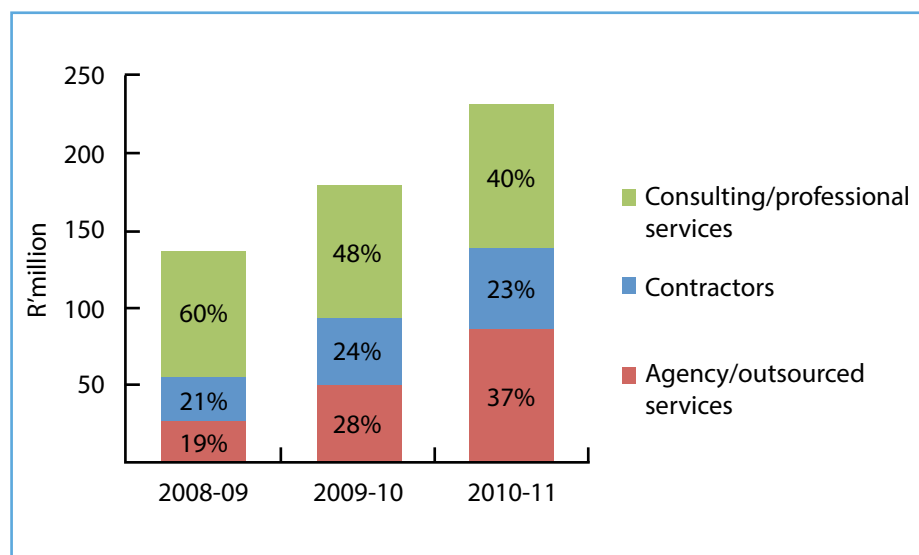
DEPARTMENT OF HEALTH

DEPARTMENT OF HEALTH

Total expenditure on consultants (2008-09 to 2010-11)	R548 million
Number of projects audited	6
Payments for projects audited	R132,6 million
Average vacancy rate (2008-09 to 2010-11)	39,3%

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

Graph 1: Total expenditure on consultants at the Northern Cape Department of Health



A. DEPARTMENTAL FINDINGS

1. 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.

Some documentation requested was not provided

However, the department could not submit this information for audit purposes. Not providing information to the Auditor-General of South Africa (AGSA) for audit purposes is a contravention of the Public Finance Management Act. The 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.

Documentation not provided for audit

The absence of supporting documentation led to management assurance not being provided for four of the six projects audited, as indicated on page 21 of this report. Documentation not provided for audit purposes included:

- Project planning documentation, including needs determinations and cost benefit analyses

- Signed contracts
- Documentation showing the monitoring of the consultants' performance
- Documentation detailing extensions and modifications to the scope of the engagement
- Final reports/documentation regarding the closing of the consulting contract.

The department could not provide assurance that the following management practices were observed over the period of the audit:

Planning and appointment

In some cases, 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.

Performance management and monitoring

In some cases, procedures to verify the following could not be carried out:

- Whether consultants had been monitored
- Whether the department had paid consultants only after it was satisfied that milestones and objectives had been achieved.

Extension of contracts

In some cases, the audit team could not conclude on whether:

- Consultants had achieved the original contract deadlines before an extension was granted
- Work expected from the extension of the contract was part of the original appointment.

Closing and finalising projects

Information required to conclude on whether the services rendered met all the objectives of the department could not be provided in some instances.

The lack of documentation was a result of the department not effectively maintaining its archiving system. Therefore, the department could not prove that it had proper management processes to monitor and previously raised consultants. Furthermore, when staff resigned their positions, a handover of documentation and information did not take place. This led to a lack of accountability and responsibility on the part of the staff taking over the position.

The department also received a disclaimer audit opinion for the 2008-09 to the 2010-11 financial years. The lack of sufficient and appropriate evidence was also previously raised by the Auditor-General of South Africa. This was raised during the annual financial audits in the 2008-09 to the 2010-11 financial years.

2. STRATEGY AND POLICY FOR THE USE OF CONSULTANTS

- 2.1 The department did not have a comprehensive strategy and policy governing the use of consultants. The department's use of consultants increased by 69%, from R136 965 230 in the 2008-09 financial year, to R231 920 478 in the 2010-11 financial year.

Expenditure on consultants increased by 69% over three years

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.

- 2.2 The lack of strategic planning led to the department not analysing the cost-effectiveness of using consultants. The department also did not distinguish between areas where permanent capacity was required and areas where consultants should be used. As a result, consultants were appointed on an ad hoc basis and the long-term effects were not considered.
- 2.3 Consultants performed functions that were essential to the core business of the department. This was because of the high vacancy rates at the department. The average vacancy rate was 39,3% for the 2008-09 to 2010-11 financial years. The department should have had internal capacity to perform these functions. However, no strategic initiatives were taken to reduce the number of vacancies.

B. KEY FINDINGS PER PROJECT

1. REHABILITATION AND IMPROVEMENT OF MORTUARY FACILITIES

A consultant was appointed on 19 March 2007 to rehabilitate and improve the Northern Cape State Mortuary facilities. Total payments to this consultant amounted to R34 077 995 for the 2007-08 and 2008-09 financial years. This included payments for project management and construction work.

At the time of the audit, the project had been suspended due to a legal dispute between the parties. The department could not provide further details regarding the legal dispute.

- 1.1 The department could not provide evidence that the reasonableness of the estimated project costs had been verified during the project planning phase. This should have been done by technically proficient officials, such as quantity surveyors or engineers.

- 1.2 The department gave consultants 12 days to prepare their proposals. National Treasury's *Supply Chain Management (SCM) Practice Note 3 of 2003*, however, prescribes a period of at least four weeks to prepare the tenders. The purpose of prescribing four weeks is to allow consultants sufficient time to compile tender submissions that meet the department's requirements. Although two consultants submitted tenders, one was disqualified as it did not submit all the required tender information.

The nature of the project was not documented as urgent or an emergency. No reasons were documented for the short submission period.

- 1.3 The contract included construction work that was beyond the scope of the project management services described in the tender advertisement and the letter of appointment. The additional work was, therefore, not acquired on a competitive basis. This scope increase also resulted in the consultant being the project manager that certified its own construction work for payment. From the payments audited, the project manager (consultant) certified payments of R1 669 174 to itself. Carrying out both consulting and construction work on the same project contravenes paragraph 5 of SCM Practice Note 3 of 2003.

- 1.4 The contract contained no amount and no expected completion date. It was therefore open-ended in terms of time and cost. It also did not set targets for the duration of the contract to enable the progress of the consultant's work to be monitored. This contravenes paragraph 5.13.2 of the National Treasury's *Supply Chain Management: A Guide for Accounting Officers*. As a result, it could not be determined whether payments were made in line with the provisions of the contract or based on deliverables. Consequently, the department could not effectively budget for the cost of the consultant, as there was no definite cost limit to the contract.

Contract contained no amount or expected completion date

1.5 A lack of oversight and monitoring led to additional costs being incurred by the department. The consultant charged a principal agent's fee of R1 581 660, which was 20% of the total cost of the work to be performed at a mortuary. However, the fee should have been charged according to the *Guideline on Scope of Services and Tariffs*. This is a guideline used to set the fees of persons registered in terms of the Engineering Profession Act. Had the amount claimed been calculated according to the guideline, it would have totalled R263 953. The excess payment of R1 317 707 resulted from the consultant's fees not being reviewed by a technically proficient official from the department. The full extent of these excess payments could not be established, as this overpayment related to only one mortuary. The project included 26 other mortuaries, which did not form part of the audit.

Excess payments of R1 317 707 resulted from a lack of oversight and monitoring

2. NURSING AGENCY

A consultant was appointed to provide nursing and medical services. Total payments made to the consultant for the 2007-08 and 2008-09 financial years amounted to R8 142 674. As at June 2010, the consultant was still providing nursing services to the department on an ongoing basis.

In total, R17 431 074 was paid to five consultants (agencies) that provided nursing and health services during these two financial years.

2.1 A number of nurses employed by the department earned a second income by working for consultants. This is known as moonlighting. This presented a risk of the department providing poor quality nursing services due to nurses' fatigue. No evidence that departmental nursing staff were authorised to accept additional work was available. In terms of the Public Service Act, provincial employees require such approval to perform remunerative work outside of their official duties. The

Seven nurses employed by the department also worked for a nursing agency

department acknowledged that it did not perform the necessary background checks to determine whether the consultant's nurses were already employed by government.

2.2 Management did not implement processes and procedures to monitor consultants. The following monitoring deficiencies occurred:

- The contract detailing the consultant's targets, goals and deliverables could not be provided
- Not all payments had documentation, such as approved timesheets, to support the invoices.

As a result, the audit team could not establish whether the performance of the consultant and payments made were measured against predetermined targets. The risk, therefore, existed that payments were made to the consultant for services that were not satisfactory, or were not delivered at all.

3. HOSPITAL INFORMATION SYSTEM

Consultant A was appointed in August 1999 to supply and install the department's electronic patient record information system. Consultant A subsequently obtained approval from the department to sell its business unit to consultant B. Consultant A then handed over all its rights and obligations to consultant B in February 2002. Total payments by the department to consultant B for the 2007-08 and 2008-09 financial years amounted to R37 246 865.

Consultant B's contract was discontinued because the department was not satisfied with the service provided. No further details could be provided by the department. A third consultant, consultant C, was appointed in March 2010 to replace consultant B.

3.1 Consultant B only signed the service level agreement⁵ (SLA) in July 2004, 29 months after commencing work. No reasons could be obtained for the late signature. The effect on the department's service delivery could not be established because of the limited information available.

SLA signed 29 months after services commenced

3.2 In terms of the SLA, consultant B was required to provide training to the department. No documentation was available to indicate that training had taken place. Therefore, the department relied on the continued use of consultants to manage the hospital information system. Consultant C was appointed to continue the same service.

3.3 The department could not provide evidence that monthly steering committee meetings were held and that weekly and annual reports were submitted, as required by the SLA. Therefore, there was no proof that the department monitored the consultants' work.

4. SERVICES RELATING TO COMMUNICABLE DISEASES AND HOSPITAL REVITALISATION

A consultant was awarded a contract on 23 March 2007 for the provision of high-quality communicable disease services over a period of three years. The contract amount was R21 396 203.

On the same date, another contract was awarded to the same consultant to design the organisational development processes for hospital revitalisation projects, also over a period of three years. This contract's value was R10 994 221.

4.1 The consultant was part of a consortium that tendered for both contracts. However, not all the entities in the consortium submitted the required documentation as per the tender documents. The AGSA investigated the financial affairs of the department and issued a report in January 2010. The report concluded that the consultant should have been disqualified from the tender process for both contracts due to non-compliance with the SCM regulations. The consultant was, however, not disqualified by the department.

4.2 The vacancy rate in the communicable diseases unit was 79% for the 2007-08 to 2008-09 financial years. Only 25 of 119 positions on the establishment were filled by 2008-09. This led to the department appointing the consultant to address these vacancies. Payments made to the consultant exceeded the salaries paid to permanent staff⁶ in the unit by R253 814 per month. Over the period audited, consultants were paid R5 837 722 more than the salaries paid to permanent staff.

Vacancy rate was 79%

4.3 The total value of the two contracts was R32 390 424. However, total payments up to 31 March 2010 amounted to R38 731 198. This was due to contracts not being controlled and monitored at the department. Supporting documentation for the difference of R6 340 774 could not be provided.

Supporting documentation for excess payments amounting to R6 340 774 could not be provided

4.4 After the contract ended on 30 April 2010, the consultant continued to provide services relating to communicable diseases on a monthly basis. However, a new contract for the monthly services and relevant supporting documentation could not be provided for audit purposes.

⁵ A service level agreement defines the relationship between two parties. It is signed by the parties in addition to a formal contract

⁶ The calculation for permanent staff was made using the maximum gross salary packages as per the Salaries and Benefits in the Public Service booklet for 2008-09

5. STATE INFORMATION TECHNOLOGY AGENCY (SITA)

SITA was appointed to provide services related to the Government Common Core Network (GCCN). Payments during the 2007-08 to 2008-09 financial years amounted to R10 001 492.

- 5.1 The SLA between the department and SITA, which was effective from 1 April 2007 to 31 March 2010, was not signed by either party.
- 5.2 The SLA included a clause for penalties should SITA not achieve the service levels stipulated in the agreement. However, no documentation could be provided to indicate whether or how the actual performance of SITA was measured by the department.

6. ARCHITECT FOR THE MENTAL HEALTH FACILITY

A consultant was appointed as architect for the mental health facility in Kimberley. Total payments to the consultant for the 2007-08 to 2008-09 financial years amounted to R4 407 432.

Much of the information for the consultant was kept by the Department of Roads and Public Works, who acted as the implementing agent on some projects. This information could not be provided for audit purposes. An SLA to formalise the relationship between the Department of Health and the Department of Roads and Public Works on this project was only signed in February 2010.

At the time of the audit, work on the mental health facility project had been suspended pending the outcome of legal action. This was due to non-performance by building contractors on the project.



REGULATORY FRAMEWORK

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 are 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 officer's 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 agency/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 once-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 and 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 reason 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

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, analyses 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 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.

ASPECT	PERFORMANCE AUDITING	REGULARITY AUDITING
Purpose	Assess whether the performance of the audited entity meets the three Es (economy, efficiency and effectiveness)	Assess financial statements, financial management and whether the accounts are true and fair
Starting point	Presumed problems	Done on an annual basis
Focus	The performance of the organisation/programme and its activities	The accounting and financial management systems
Academic base	Interdisciplinary (economics, political science, engineering, health, education, etc)	Accounting and financial management

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 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:

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
Planning and appointment process	Did departments analyse the cost-effectiveness of permanent capacity versus using a consultancy, while ensuring continuity and service delivery?	Economy
	Was consideration given to whether the objectives of the department would be better achieved through the appointment of consultants or permanent staff?	Effectiveness
	Were competitive and transparent appointment processes followed?	Economy
	Were effective recruitment and appointment processes followed to limit the duration of consultants' appointments?	Efficiency
	Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transfer of skills?	Efficiency

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
Internal capacity at departments	Was there a lack of permanently appointed staff with the necessary skills and experience in the departments, which necessitated the appointment of consultants as a compensating measure?	Economy
	Were consultants employed in high or critical positions such as CFO, etc?	Effectiveness
	Were departments using consultants because the internal processes to appoint permanent staff were inefficient and ineffective?	Efficiency
	Were consultants employed to monitor the work of other consultants or to compile specifications for tenders, for which they then tendered?	Efficiency and effectiveness
Training and transfer of skills from consultants to employees	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?	Efficiency and effectiveness
Performance management and monitoring of consultants	Did departments monitor and control the work of the consultant to ensure that the quality of the work performed matched the required deliverables and that it was achieved in the most efficient and cost-effective manner?	Efficiency
	Were alternative options considered to ensure that the objectives and business needs were achieved in a timely and cost-effective manner?	Economy and effectiveness
	Did departments have controls in place to avoid contracts being prolonged?	Economy and efficiency
Extensions of contracts	Did departments regularly extend consultants' contracts and did the department consider alternatives before extending a contract?	Economy and efficiency
	Did departments have controls in place to avoid contracts being prolonged?	Efficiency

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
Closing and finalising projects	Did departments close the consultancy properly to ensure that all the deliverables were met, implemented and properly filed?	Effectiveness
	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?	Economy and effectiveness
	Were consultancy reports provided at the closing of the project to provide information on consultants appointed to supplement or replace existing capacity to perform normal operational functions?	Efficiency

READER'S NOTES

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