



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**Report of the Auditor-General of South Africa**  
**on a performance audit of the use of consultants at selected national departments**

**JANUARY 2013**

A blurred, blue-toned photograph of two men in business suits walking in an office hallway. The man on the left is in the foreground, slightly out of focus, holding a folder or papers. The man on the right is further back, also out of focus, looking towards the left. The background shows office doors and a bright light source, creating a professional and busy atmosphere.

# *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

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It is my honour to present the results of a performance audit on the use of consultants, contractors and agencies/outsourced services at selected national departments.

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 controlled to get the best value for money. The termination of consultancy services in the public sector is not advocated, but attention is drawn to those areas where the use of consultants duplicates existing costs incurred, and 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.

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, many weaknesses still exist.

Although some departments experience serious challenges, others demonstrated the ability to succeed in certain areas. The good practices applied, although limited, should be shared with other departments to promote clean administration.



This performance audit report highlights instances of inadequate planning and high turnover of employees in key positions. Inadequate financial and performance management, and ineffective governance systems were also prevalent. These deficiencies adversely affected the economical, effective and efficient use of consultants.

Several of our recent reports highlighted the lack of skilled staff to carry out departmental duties. Aside from consultants providing specialist services to the public sector, this performance audit revealed that their services have often been employed to provide competencies for which departments should have internal staff. However, since these skills were not available internally or departments were not successful in recruiting suitable staff, they relied on consultants to perform these functions. While this issue is concerning, it is not new.

## **ECONOMY**

Consultants were not always appointed in a manner that ensured projects were performed in the most economical manner. At times, competitive procurement processes were not followed. Consultants were also sometimes appointed in areas where internal capacity was available or the establishment of a permanent capacity to perform these functions may have been more cost-effective. Contracts were regularly extended and consultants were paid more than contractually agreed.

## **EFFICIENCY**

Proper cost/benefit analyses were not always performed before consultants were appointed. Project management disciplines that entail meeting project deliverables on time were lacking in various instances. In many cases, milestones and timelines were not set, deliverables were not clear, measurable and specific, and roles and responsibilities were not defined. The actual work performed by consultants was not always properly monitored, which adversely affected the achievement of deliverables.

## **EFFECTIVENESS**

Set objectives were not always met where deliverables were completed late. Furthermore, prolonged processes for the approval of project deliverables raised the risk that such projects could become obsolete or irrelevant. In addition, departments did not always plan in advance to provide financial and other resources necessary to enable the implementation of the deliverables.

The above observations were prevalent in many contracts examined for the period under review as reflected in the table on page 19 of this report.

The recurrence of these issues is cause for concern, particularly in view of the approximate amount of R102 billion spent on consultants by national and provincial government departments in the 2008-09, 2009-10 and 2010-11 financial years. The weaknesses identified are caused largely by the lack of rigorous review processes to ensure that existing laws, regulations and policies are followed. The outcomes of this audit have been shared with the ministers, chairpersons of portfolio committees and management of the audited

departments. The National Assembly House chairperson, the chairpersons of the portfolio committees on Appropriations, Finance and Public Service and Administration, as well as the Department of Public Service and Administration, the Public Service Commission and the National Treasury were informed of the findings in light of their respective supporting and coordinating roles.

National departments responded positively to the report and made a number of commitments. Key among them is the institution of immediate action to address the findings and recommendations in this report. Ministers and chairpersons of portfolio committees welcomed the report as a tool to enhance their oversight activities. Comments made by some chairpersons are included in the report, while others indicated that they would respond after a full report has been tabled.

Comments made by some chairpersons are included in the report. All the chairpersons were supportive of the need to tighten oversight activities around expenditure and delivery. A firm undertaking to engage with portfolio committees on the findings was made. The chair of chairs also undertook to initiate similar engagements with all National Assembly Portfolio Committee chairpersons in 2013.

I am encouraged by the commitments and also undertake to work closely with all the portfolios to create an environment where government programmes can be carried out by using resources economically, efficiently and effectively.

I wish to thank the executive and chairpersons of portfolio committees for taking the time to discuss and to commit to addressing the issues raised in this report. The assistance and support of the staff at the audited departments is also greatly appreciated.



**Auditor-General of South Africa**

**Pretoria**

**January 2013**







**AUDIT SCOPE | KEY AUDIT FINDINGS | OVERVIEW**

# AUDIT SCOPE

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The performance audit on the use of consultants was conducted at eight national departments and covered 124 contracts with an estimated value of R5,5 billion. The audit covered the period 2008-09 to 2010-11. However, in some instances, it included earlier and later periods due to the nature and extent of some contracts with consultants. The contract values were estimated in some instances as not all contracts contained contract values, or were open-ended in terms of time and costs. Where the contract value was not available, the actual payments were used. The departments were selected based on our assessment of possible weaknesses in the use of consultants as identified through other audits, as well as spending trends by departments.

The eight selected national departments are:

- Correctional Services
- Defence
- Environmental Affairs
- Health
- Police
- Rural Development and Land Reform
- Transport
- Water Affairs.

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 to this national audit 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.

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*

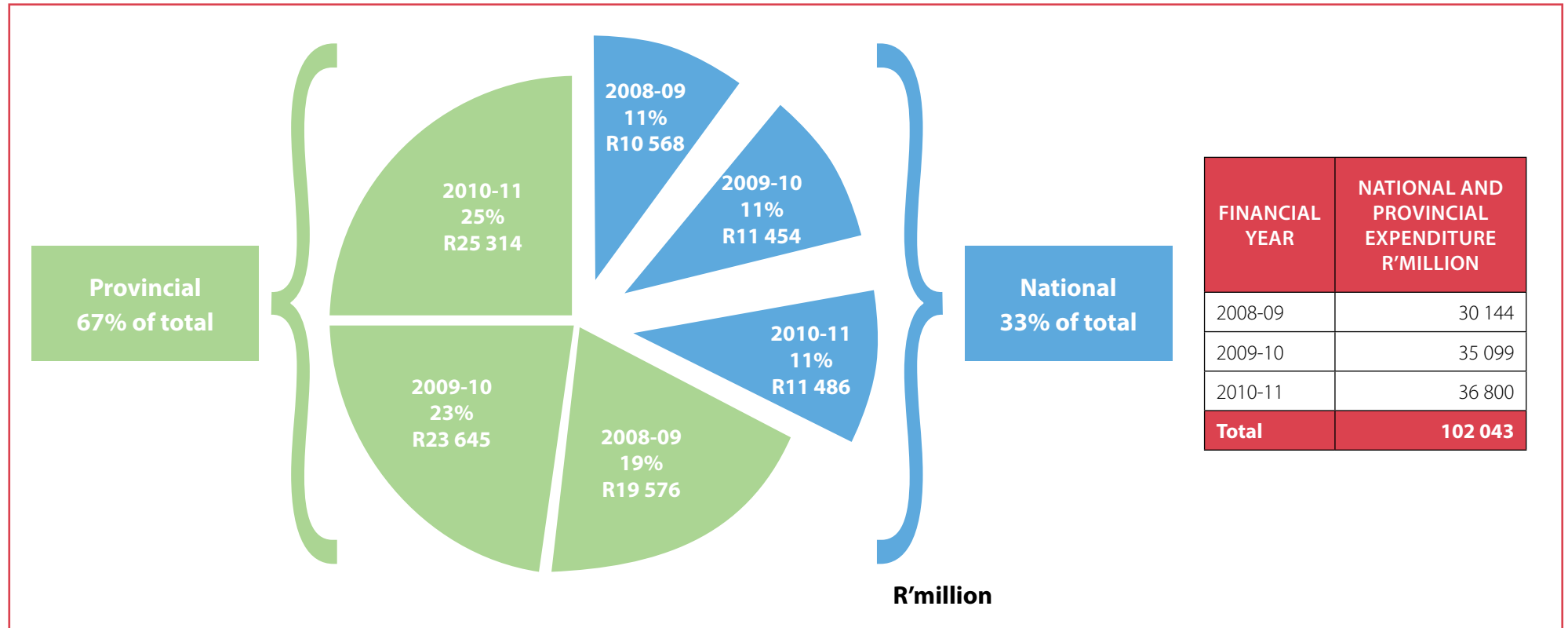
- **AGENCY/OUTSOURCED SERVICES:**

*...the relevant department ordinarily has the capacity and expertise to carry out these services, but for some reasons are not utilising their own staff.*

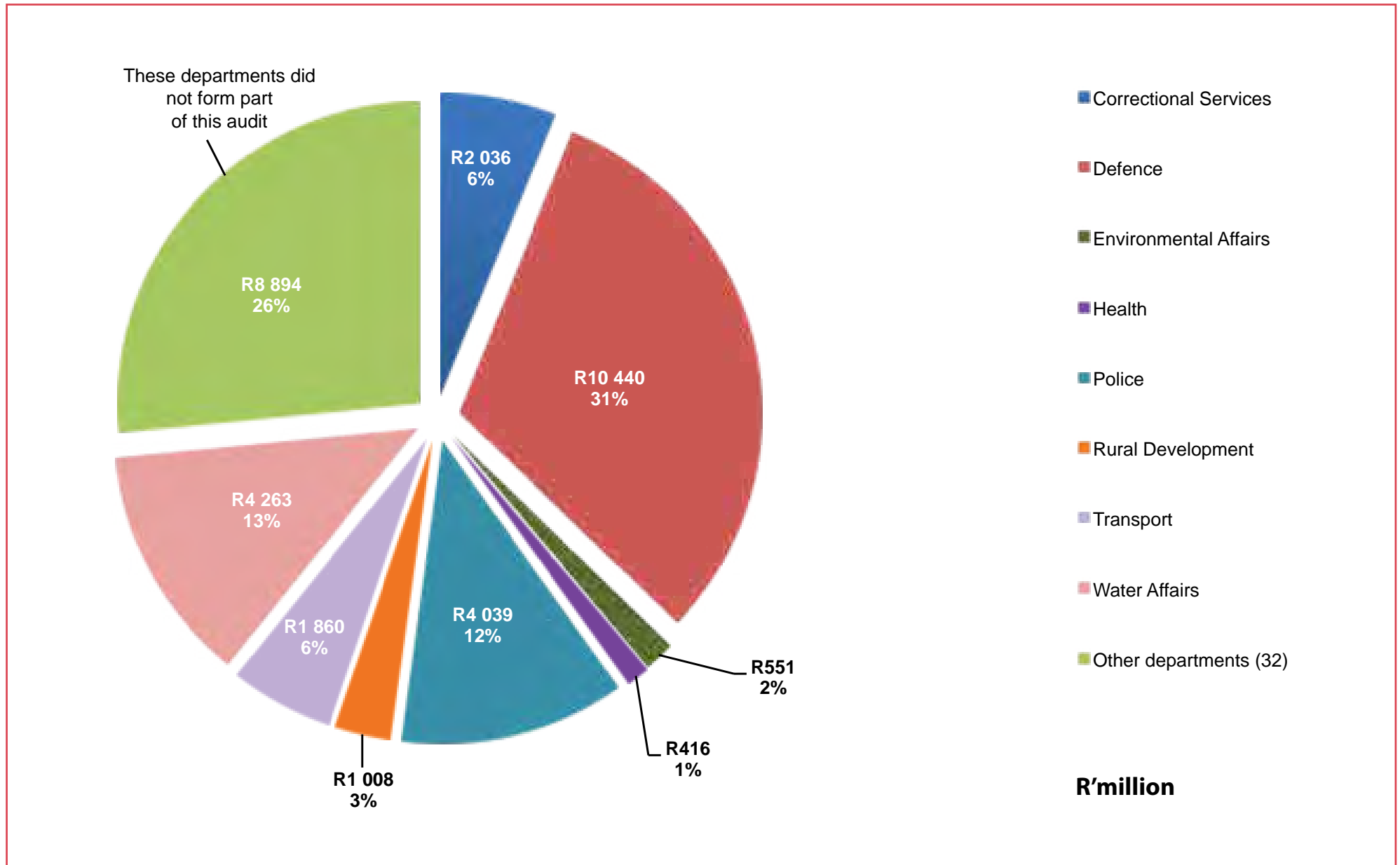
## EXPENDITURE ON CONSULTANTS

The following figures provide an overview of the expenditure on consultants by government departments for the 2008-09 to 2010-11 financial years. They show that provincial expenditure has increased significantly over the past three years, while national departments' expenditure is consistently high.

### Total national vs total provincial expenditure on consultants from 2008-09 to 2010-11






**Total expenditure on consultants by national departments from 2008-09 to 2010-11**



# KEY AUDIT FINDINGS

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

		KEY FINDINGS	REFERENCE TO PARAGRAPHS IN THE CONSOLIDATED FINDINGS
 <p><b>ECONOMY</b></p>	<p><b>Economy</b></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 include the following:</p> <ul style="list-style-type: none"> <li>• A comprehensive needs assessment was not always done before commencing with consultancy projects</li> <li>• At times, a competitive procurement process was not followed and departments did not ensure that consultants complied with all the qualifying criteria before awarding the contract</li> <li>• Contract prices sometimes exceeded prices quoted without documented motivation</li> <li>• Consultants were sometimes appointed due a lack of internal staff capacity or where the creation of permanent capacity may have been more cost-effective</li> </ul>	<p>1.1.1, page 25</p> <p>1.2.1, page 27;</p> <p>1.2.2, page 27</p> <p>1.3.2, page 29</p> <p>2.1, page 29</p>
 <p><b>EFFICIENCY</b></p>	<p><b>Efficiency</b></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 include the following:</p> <ul style="list-style-type: none"> <li>• Expected services, roles, responsibilities and deliverables linked to milestones, timelines and applicable measures were not always clearly specified</li> <li>• Effective oversight and internal controls were not always observed before authorising payments</li> <li>• Instances of inadequate project management and monitoring of consultancy projects by departments</li> </ul>	<p>1.1.2, page 26;</p> <p>1.3.1, page 28</p> <p>4.2, page 34</p> <p>4.1, page 32;</p> <p>5.1, page 34</p>
 <p><b>EFFECTIVENESS</b></p>	<p><b>Effectiveness</b></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 effectiveness of consultants appointed was adversely affected by the following:</p> <ul style="list-style-type: none"> <li>• Planning for the provision of financial and other resources necessary for projects and their implementation not always being done, which sometimes delayed appointment processes and resulted in the late completion of some projects. In some instances, this raised the risk that such projects could become obsolete or irrelevant</li> <li>• Instances of ineffective skills transfer from consultants to departmental staff, where applicable</li> <li>• Sometimes failing to retrospectively analyse projects and related deliverables to determine whether objectives were met and benefits received</li> </ul>	<p>1.1.1, page 25;</p> <p>6.1.1, page 36</p> <p>3.1, page 31</p> <p>4.1, page 32;</p> <p>6.2.1, page 37</p>

# OVERVIEW

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The South African public sector cannot easily dispense with partnering with private sector service providers due largely to numerous human resource and other related challenges. It is in response to these challenges that the need for consultancy services is recognised. When used correctly, consultants can benefit both the public sector and South Africans at large. Using consultants can also provide access to skills that are not cost-effective for an organisation 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 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 their 2001 *Report on the State of the Public Service*, highlighted the use of consultants as a concern. In the report, the Commission stated:

*A great deal of concern has been raised, highlighting the need for consultants to be properly managed. 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.*

Following a cabinet resolution 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 consultancy 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 important in driving South Africa towards its development goals.

Aside from consultants providing specialist services to the public sector, this performance audit revealed that often, consultants have been employed to provide services such as the preparation of financial statements, for which departments should have internal staff. However, since these skills were not available internally or departments were not successful

in recruiting suitable staff, they relied on consultants to perform these functions. While this issue is concerning, it is not new.

Performance audits on the use of consultants by government were conducted in both 1996 and 2002. The main findings of those audits related to the acquisition and appointment processes, the monitoring and control of consultants, the departments' responsibilities to create environments 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. 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.

This performance audit report indicates that, in some instances, 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.







# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY

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Attention to the following focus areas is crucial in ensuring the economical, efficient and effective use of consultants by departments. This performance audit thus centred on key focus areas, which are highlighted in the figures below:



## SUMMARISED AUDIT OUTCOMES

DEPARTMENT	TOTAL EXPENDITURE ON CONSULTANTS (2008-09 TO 2010-11) R	NUMBER OF CONTRACTS AUDITED	BEST AVAILABLE VALUE OF CONTRACTS AUDITED <sup>2</sup> R	NUMBER OF AUDITED CONTRACTS WHERE DEFICIENCIES WERE IDENTIFIED <sup>1</sup>						REFERENCE TO DETAILED REPORT
				PLANNING AND APPOINTMENT PROCESS	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING OF PROJECTS	
Correctional Services	2 036 436 397	27	214 101 981	27	4	4	13	0	7	Page 44
Defence	10 440 133 499	12	1 192 464 067	7	3	1	6	4	0	Page 53
Environmental Affairs	550 578 304	15	57 559 586	14	2	2	2	4	0	Page 59
Health	416 206 460	7	301 609 304	1	0	0	5	0	4	Page 65
Police	4 039 402 995	9	596 496 726	4	0	1	5	3	6	Page 69
Rural Development and Land Reform	1 007 855 279	13	305 401 957	7	5	5	7	9	3	Page 75
Transport	1 860 023 757	16	1 884 052 825 <sup>3</sup>	9	6	0	7	8	3	Page 81
Water Affairs	4 263 219 772	25	953 640 308	17	22	10	17	14	2	Page 87
	<b>24 613 856 463</b>	<b>124</b>	<b>5 505 326 754</b>	<b>86</b>	<b>42</b>	<b>23</b>	<b>62</b>	<b>42</b>	<b>25</b>	

While the table above reflects that some departments experience serious challenges, others demonstrated the ability to succeed in some areas. The good practices applied by departments that have achieved should be shared with other departments to promote clean administration.

<sup>1</sup> Not all the deficiencies identified, as reflected in the table above, are reported on in detail in this report. These deficiencies were, however, included in the management reports to the audited departments

<sup>2</sup> The best available value is the contract values plus the extensions. Where the contract value was not available, the actual payments were used

<sup>3</sup> Includes three high-value long-term contracts of R640m (7 years), R594m (5 years) and R235m (5 years)

## KEY FINDINGS

### Planning and appointment processes

- The descriptions of the expected services and deliverables issued during some tender processes lacked detail, due to incomplete planning. This affected the quality, completeness and comparability of some tender proposals received
- Twenty contracts amounting to R320,4 million were awarded without following a formal competitive bidding process and without properly documenting and motivating the reasons for the deviations
- Some contracts were not signed, while six contracts amounting to R111 million were only signed after the projects commenced. Clear, specific and measurable deliverables, roles and responsibilities were also not always defined and contractually agreed
- Two contracts for which payments of R859 million were made, were open-ended in terms of costs and/or time

### Internal capacity at departments

- In some instances, consultants were appointed in areas where permanent capacity is required. In 63 contracts amounting to R1,9 billion, detailed planning documentation to support the decisions to appoint consultants were not available
- Forty-two consultancy projects valued at R3,065 billion were contracted on the basis that there was a lack of internal capacity and skills at departments

### Training and transfer of skills from consultants to employees

- The transfer of skills was either not included in contracts or ineffective in 23 projects amounting to R1,8 billion. Internal vacancies and staff not being identified or not being made available for training, affected skills transfer in certain instances

### Performance management and monitoring of consultants

- 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 always monitored regularly

### Extension of contracts

- In some areas, internal deficiencies, such as the lack of proper needs analyses and actions to fill vacant posts, led to the extension of contracts or contract periods. Forty-two contracts were extended by over R1,093 billion
- The extensions did not always follow competitive bidding processes, but were sometimes on the basis that the existing consultants had the knowledge and experience within departments

## Closing and finalising projects

- Implementation plans for project deliverables were not always compiled or budgets were not made available to implement these. Changes within certain departments also resulted in deliverables not being used and the risk of these deliverables becoming obsolete arose
- Some projects were not retrospectively analysed as required by the Supply Chain Management Guideline to determine whether the proper processes were followed and the desired objectives achieved

## COMMENTS RECEIVED

The departments and other role players noted the recommendations of the Auditor-General and 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 laws, regulations and policies 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 and based on valid and documented reasons
- Procedures for closing consultancy contracts will be enforced.

### National Treasury

- Guidelines will be reviewed in an attempt to strengthen the process for appointing consultants and Treasury Regulations will be enhanced
- The monitoring of compliance with legal frameworks related 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
- Research will be conducted and appropriate interventions developed by March 2014 to reduce the vacancy rate and improve the recruitment processes
- The annual departmental submission of HR plans will be increased to a 100% compliance to support the HR Planning Strategic Framework for the Public Service by 2014.

## Chairpersons of portfolio committees

The various portfolio committee chairs welcomed the report and the framework provided by the report to assist them in their oversight responsibilities. They also indicated that further support to the committees by the Auditor-General of South Africa is essential to effectively deal with the issues raised in the report.

Although the strategic partnership with consultants is recognised and appreciated, optimising the benefit from this relationship is essential. Consequences for non-performance should therefore be the norm.

Committees will therefore focus on the issues raised in the report through regular interaction with the departments to ensure transparency and accountability.

## CONCLUSION

Government's success in optimising the value and benefits that should be realised through using consultancy services will only be achieved if:

- Proper systems of financial management and controls are established in departments, and adhered to
- Officials and accounting officers are held responsible for the economic, efficient and effective use of resources
- Compliance with legal frameworks and existing laws, regulations and policies is enforced
- Planning for the use of consultants is improved and related laws, regulations and policies are adhered to
- Sufficient internal capacity is created to enable departments to deliver on their mandates

- Training and transfer of skills from the consultant to departmental staff are optimally applied and monitored, where applicable
- The performance of consultants is monitored and managed to ensure contractually agreed deliverables are achieved on time
- Extensions of contracts are only granted in exceptional cases and are based on valid and documented reasons
- Consultancy contracts are properly closed through retrospective analyses where the processes followed and the objectives achieved are evaluated. Management information on outcomes and lessons learnt are documented and used for future appointments.



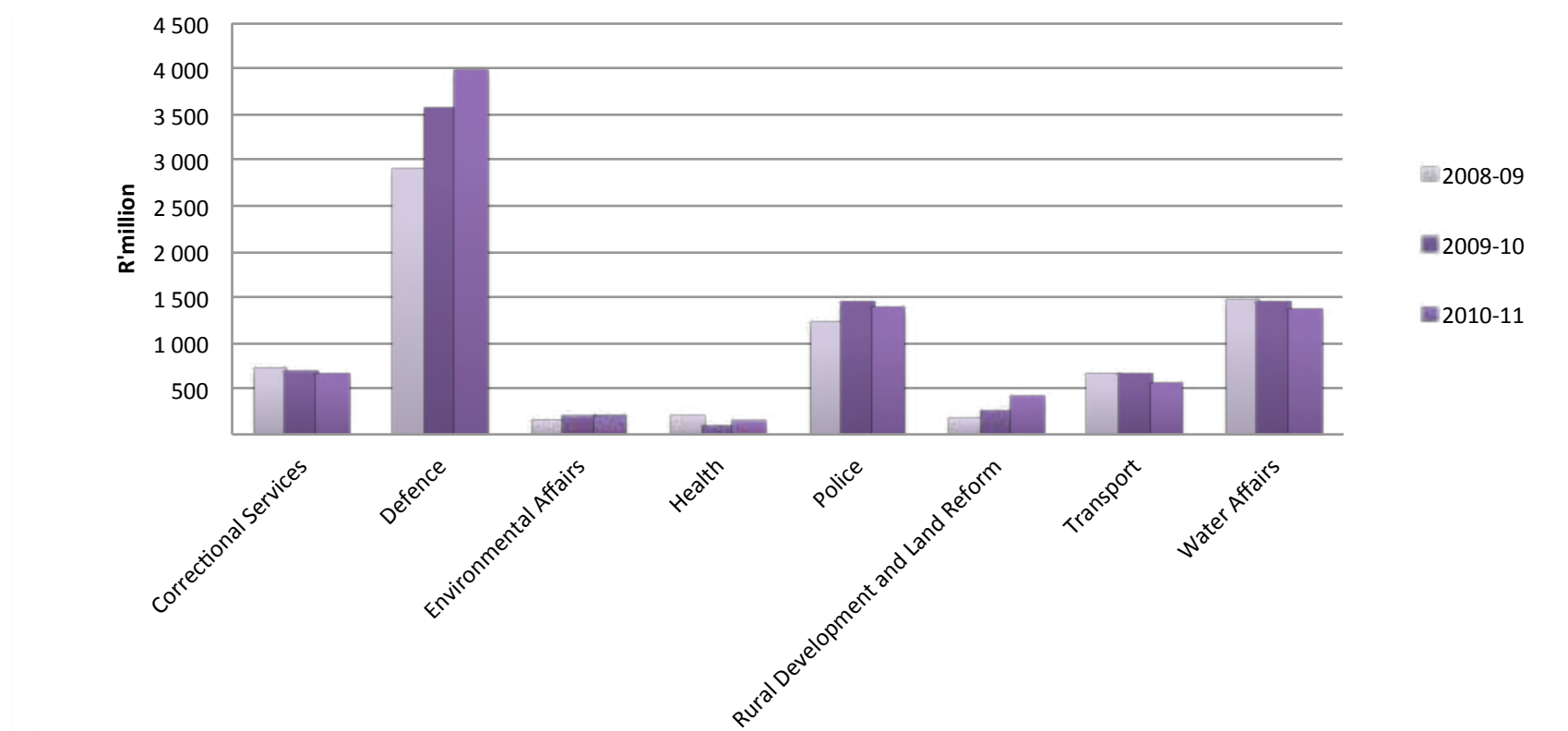
# CONSOLIDATED FINDINGS



# CONSOLIDATED FINDINGS

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

**Graph 1: Expenditure on consultants at national departments included in the audit scope**



## PLANNING AND APPOINTMENT

### 1.1 The planning process

#### 1.1.1 Formal needs assessments, to determine whether a consultancy project would be the most cost-effective and efficient solution, were not always done prior to the processes of appointing consultants



ECONOMY



EFFECTIVENESS

Departmental policies on consultants were in some cases operational and dealt with appointment and management processes, and not with the main purpose and objectives for appointing consultants. As a result, departments did not always initially determine the specific requirements and resources needed to complete a project successfully, which led to instances of departments not using consultants in the most advantageous manner.

The following aspects were not always considered and documented:

- The types and extent of services to be outsourced and whether they were specialised one-off or temporary services, or services that were of a non-specialised nature
- Creation of permanent capacity for services that were needed on a sustainable basis
- The availability and experience of internal resources and an analysis of the cost implications of making use of consultants, to determine if the appointment of the consultant was the most efficient and effective solution to address the need, service delivery and the objectives of the department
- The expected deliverables, the period during which the service would be required and whether sufficient funding was available for the project or implementation of project deliverables
- Whether an opportunity for the transfer of skills to departmental employees existed.



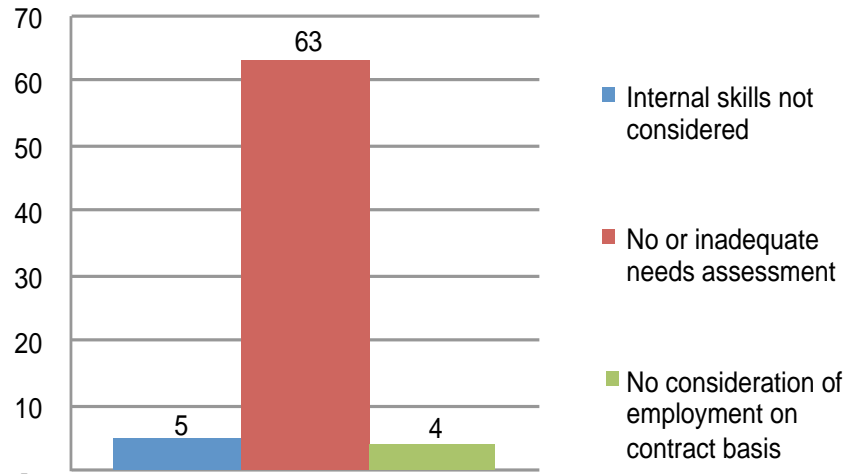
#### Researchable questions

Did departments analyse the cost-effectiveness of permanent capacity versus using a consultancy, while ensuring continuity and service delivery?

Was consideration given to whether the objectives of the department would be better achieved through the appointment of consultants or permanent staff?

Graph 2 provides an illustration of the identified cases<sup>4</sup> where the departments did not plan effectively during the initial planning phase, referred to as demand management.

**Graph 2: Identified cases on planning deficiencies (demand management)**



5 cases with a contractual value of R46 618 856 were identified where internal skills were not considered prior to appointing consultants

- 63 cases were identified where no or inadequate needs assessment/cost benefit analysis was done
- 62 of these cases had a contractual value of R1 900 548 889 (one of the contract values could not be determined)

4 cases with a contractual value of R23 375 641 were identified where the appointment of individuals on a contractual basis was not considered.

<sup>4</sup> A case refers to a consultancy appointment/project/contract

### 1.1.2 Planning prior to issuing requests for tenders/proposals was incomplete and inadequate and descriptions of the expected services and deliverables (terms of references) lacked detail



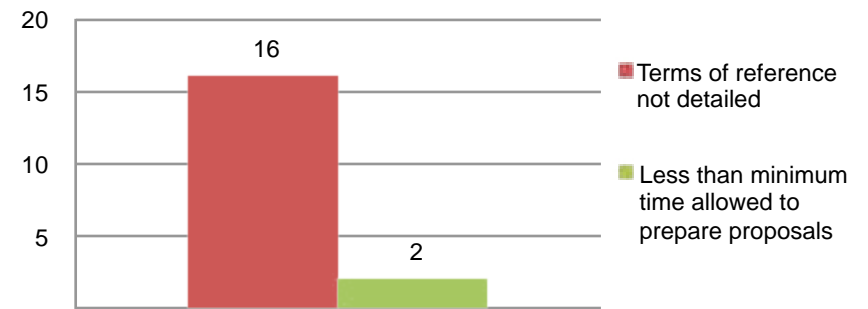
#### EFFICIENCY

Departments did not always properly determine the details and the extent of the work needed, and cost estimates were not properly researched, before sourcing consultants. This resulted in:

- Terms of references being incomplete and not sufficiently detailed. Subsequently changes had to be made to contracts to compensate for the incomplete terms of references
- Consultants not being given enough time to prepare proposals.

Graph 3 provides an illustration of identified cases resulting from departments not doing proper planning prior to appointing a consultant.

**Graph 3: Identified cases on planning deficiencies**



16 cases with a contractual value of R370 471 052 were identified where the terms of reference was incomplete and not sufficiently detailed, e.g. milestones and timelines were not set, deliverables were not clear, measurable and specific, roles and responsibilities were not defined

2 cases with a contractual value of R32 917 759 were identified where consultants were allowed less than the minimum time of four weeks to prepare proposals because of poor planning from the department.

## 1.2 The appointment process

### 1.2.1 Formal competitive bidding processes were not always followed



ECONOMY



EFFICIENCY

Twenty contracts amounting to R320,4 million were awarded where either motivations for not following competitive bidding processes were not documented, or there was a lack of evidence to support documented motivations. Some of the reasons for not following a competitive bidding process included:

- Projects being deemed urgent or emergency cases. However, not all of those projects complied with the definition of being urgent or an emergency. The deemed urgency of the projects was mainly caused by departmental deficiencies such as a lack of oversight and timely planning

#### Researchable question

Were competitive and transparent appointment processes followed?

Were effective recruitment and appointment processes followed to limit the duration of the appointment of consultants?

- Consultants were appointed on the basis that they did previous work at the specific department and were regarded as having the necessary experience and skills.

The absence of competitive bidding processes resulted in departments not providing tender opportunities for other consultants, which may have ensured that the best possible service was provided in the most cost-effective way.

### 1.2.2 Departments did not always ensure that the appointed consultant complied with all the requirements of the tender qualifying criteria



ECONOMY

Consultants were required to have a tax clearance certificate or proof of accreditation with professional bodies or SETAs, but documents containing these details were sometimes not included as part of the tender documents.

In other instances, changes to the composition of the consultancy teams had to be made as the members did not have the required skills and expertise. This was due to a lack of management and control during the appointment processes to ensure that the consultants had all the required competencies and skills needed for all aspects of the projects.

- ▣ *5 cases with a contractual value of R7 827 215 were identified where either no tax clearance certificate was submitted or there was no proof of registration with the required professional body or SETA.*

## 1.3 Contract administration

### 1.3.1 Oversight over contract administration was sometimes inadequate as contracts entered into and terms of references were not always clear and complete



#### EFFICIENCY

Project managers did not always oversee and manage the contracts to make sure that they were concluded in time or concluded at all. Delays in communication and regular follow ups between the project managers and legal divisions contributed to this.

#### Researchable question

Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transferring of skills?

The following are examples:

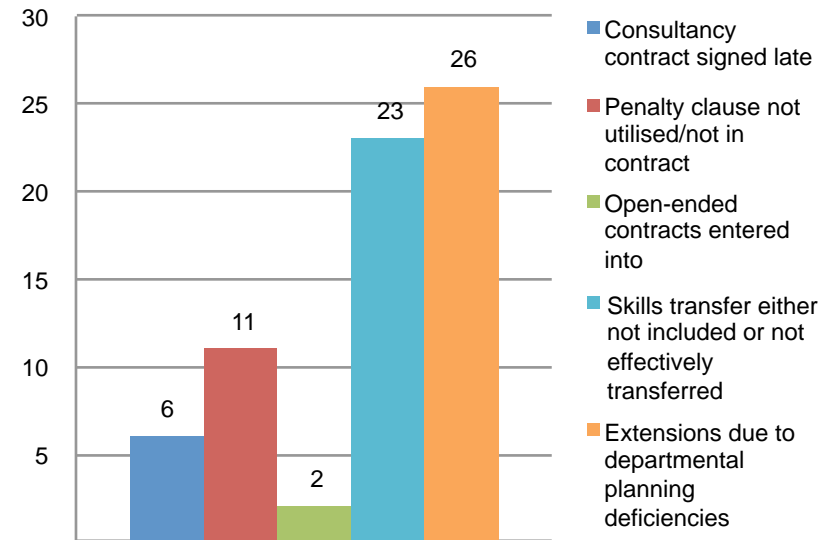
- Proper milestones and timelines were not set; therefore, departments could not effectively monitor the achievement of the deliverables
- Deliverables were not clear, specific and measurable and the respective roles and responsibilities of departmental officials and consultants were not clearly defined. This resulted in changes to the scope of projects, additional costs to the departments and extensions of contracts
- The transfer of skills was not included in contracts where applicable, or the process by which the skills transfer should take place was not documented clearly to enable effective skills transfer
- Contracts were not signed timeously or not signed at all. This posed a legal risk to departments if services were not rendered satisfactorily
- Penalty clauses were either not included in the contract or were included but not

applied, resulting in departments not taking action if projects were not completed on time

- Contracts were open-ended in terms of either cost or time; there was no limit to the consultants' budget or the contract had no end date.

Graph 4 provides an illustration of some deficiencies on contract administration.

**Graph 4: Identified cases on contract administration**



6 cases with a value of R111 549 932 were identified where contracts were signed after the project commenced

11 cases with a value of R114 728 625 were identified where the penalty clause was not enforced

2 cases valued at R859 912 536 were identified where the contracts were open-ended in terms of either cost or time

23 cases with a value of R1 828 615 077 were identified where skills transfer were either not included in the contract or it was not effective

26 cases with a value of R981 803 643 were identified where contracts were extended due to departmental planning deficiencies, including scope changes and additional services.

### 1.3.2 Contract prices were sometimes more than the estimated project costs or the prices quoted on the bid documents, mostly without any documented motivation for the differences



ECONOMY

Departments did not always perform proper estimations of project costs or analyses of market-related costs before compiling the terms of reference. Differences were identified because project estimates were in some cases not calculated based on actual needs, but were limited to the available budget.

There were also instances of inadequate contract management to ensure that the signed contracts agreed with the bid prices. Reasons for the differences were not always documented or referred to the relevant levels for approval.

#### Estimated project costs

- 10 cases were identified where the estimated project costs were on average 81% lower than the contract value. The difference was R18 410 634
- The biggest percentage increase between the estimated amount and the contract value was 288%. (DEAT, A, par 1.1, Table 5, page 60; Amount exceeding estimated amount is R2 883 287)
- The biggest increase between the estimated cost and the contract value was R4 441 809 (DEAT, A, par 1.1, Table 5, page 60)

#### Bid prices

- 4 cases were identified where the bid prices were lower than the contract value. The total difference was R6 434 766.

## INTERNAL CAPACITY

### 2.1 Consultants were appointed due to a lack of capacity and vacancy levels



ECONOMY



EFFICIENCY



EFFECTIVENESS

#### Researchable questions

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?

Were consultants employed in high or critical positions such as CFO, etc?

Were departments making use of consultants because the internal processes to appoint permanent staff were inefficient and ineffective?

Were there consultants employed to monitor the work of other consultants or to compile specifications for tenders for which they then tender?

Vacancy rates caused some departments to use consultants in areas where permanent capacity was required, such as in information technology, financial management and project management.

The lack of capacity was due to, among others, insufficient posts on the staff establishments at certain directorates. Tedious appointment processes to appoint permanent employees also contributed to vacancy levels.

At some departments, positions were frozen due to budget constraints or moratoriums were placed on filling positions.

Some consultants were appointed as project managers. In motivating these appointments, departments indicated that they did not have the necessary capacity or project management skills.

Using consultants as project managers, especially when it is done on a regular basis, affects the retention of institutional experience and knowledge and the successful outcome of the deliverables.

The internal appointment processes and skills shortages were affected by:

- Prolonged appointment processes
  - Substantial delays of up to six months were identified between the interview date and the appointment date. Delaying the appointments may result in the candidates considering alternative employment options
  - Recruitment plans were not always prioritised, which led to consultancy contracts being extended due to a lack of permanently appointed in-house staff. The advertisement of vacant positions was not always prioritised. For example, vacant positions were not advertised for up to nine months
- Lack of or outdated human resource structures and plans, which resulted in insufficient posts on the permanent establishment
  - HR plans were not always approved or were not approved timeously
  - In some instances, there were no fixed and approved human resource structures for officials responsible for the management of projects
  - Delays were sometimes experienced in the finalisation of restructuring processes.

The details of the vacancies for the audited departments at 31 March 2010 and 31 March 2011 are indicated in table 1.

**Table 1: Vacancies<sup>5</sup>**

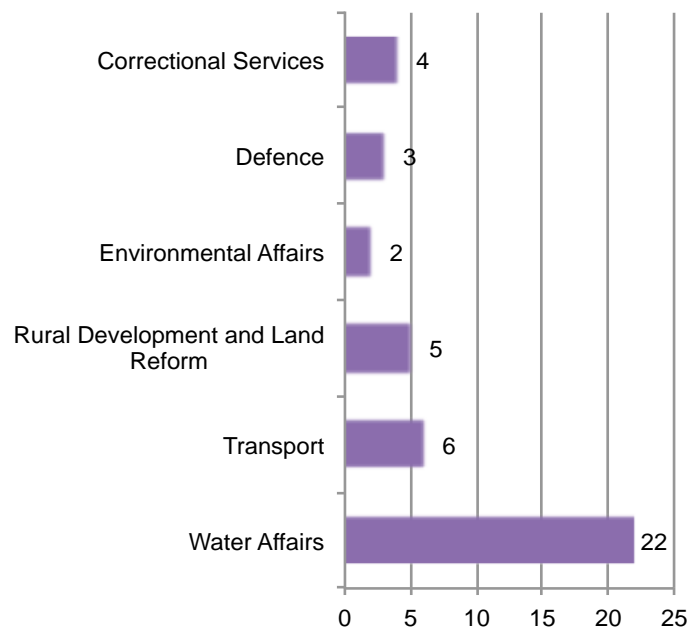
DEPARTMENT	2009-10			2010-11		
	NUMBER OF POSTS	NUMBER OF VACANCIES	VACANCY RATE	NUMBER OF POSTS	NUMBER OF VACANCIES	VACANCY RATE
Correctional Services	46 880	5 895	12,6%	47 336	7 228	15,3%
Defence	87 019	10 207	11,7%	87 329	8 284	9,5%
Environmental Affairs*	1 997	535	26,8%	1 429	485	33,9%
Health	1 715	419	24,4%	1 912	635	33,2%
Police	192 240	2 041	1,1%	195 310	1 418	0,7%
Rural Development and Land Reform	4 890	753	15,4%	5 063	493	9,7%
Transport	677	148	21,9%	677	153	22,6%
Water Affairs*	19 879	9 167	46,1%	9 495	1 464	15,4%
<b>Total</b>	<b>355 297</b>	<b>29 165</b>	<b>8,2%</b>	<b>348 551</b>	<b>20 160</b>	<b>5,8%</b>

\* Number of posts decreased due to changes in the structures of the departments in 2009.

<sup>5</sup>Source: Individual departmental annual reports for the 2009-10 and 2010-11 financial years

Graph 5 indicates the identified cases for which departments motivated the appointment of consultants due to a lack of permanent staff.

**Graph 5: Identified cases where consultants were appointed due to lack of permanent staff**



42 cases with a contract value of R3 065 341 650 were identified where consultancy contracts were entered into due to a lack of staff.

## TRAINING AND TRANSFER OF SKILLS

### 3.1 Skills were not always transferred from consultants to departmental staff or included in the contracts as deliverables



**EFFECTIVENESS**

In some applicable instances, the transfer of skills was not included as a specific deliverable in the contract, while in other instances the transfer of skills was included as a deliverable but was not effective.



**EFFICIENCY**

#### Researchable question

Did the consultant transfer skills efficiently and effectively to departmental staff to enable the staff members to do the work, thereby limiting the duration of the consultancy appointment?

Reasons for ineffective skills transfer or no skills transfer included the following:

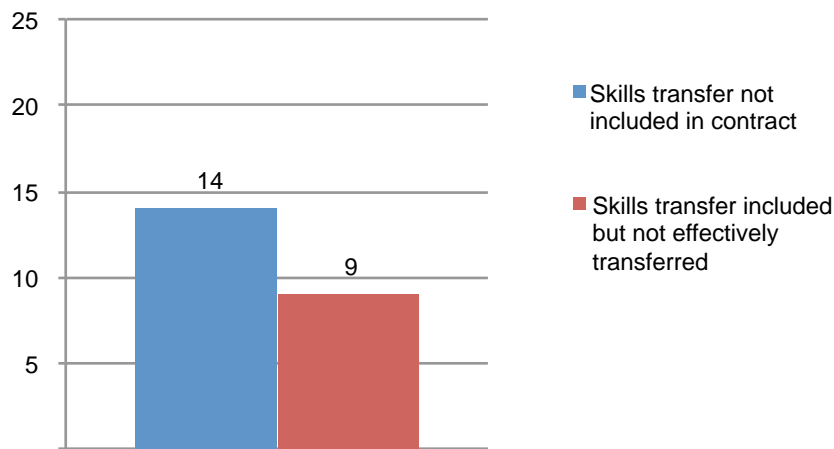
- Some departments' supply chain management policies did not specifically require the transfer of skills, where applicable, although this is a requirement of the *Supply Chain Management Guide* (SCM guide) issued by the National Treasury
- Adequate staff and resources were not always made available by departments to make training possible, or staff to whom skills should have been transferred were not identified
- Plans for permanent capacity did not exist in some instances, therefore departments did not consider it necessary to transfer skills



- Staff attendance at training sessions was not always monitored by departments and, as a result, it could not be determined that all the staff intended to receive training attended the training sessions
- Evaluations were not always done to determine whether the training was effective and whether staff could actually use the necessary skills in the work situation.

As a result of internal staff not having been trained or not being sufficiently trained to perform such services in future, some consultants were in some cases continually appointed. Graph 6 indicates cases where skills transfer was not included as a deliverable in the consultancy contract and where skills transfer was included but was not transferred effectively.

**Graph 6: Identified cases on skills transfer deficiencies**



14 cases valued at R1 406 717 383 were identified where skills transfer was not included in the consultancy contract

The highest payment value where skills transfer were not included as a deliverable was R859 912 536 (DOD, A, par 1, page 53)

9 cases valued at R421 897 694 were identified where skills transfer was included in the contract but was not effective

The highest contract value where skills transfer were included as a deliverable but was not effective was R103 255 778. (DWA, B, par 1.1.3, page 93)

## PERFORMANCE MANAGEMENT AND MONITORING

### 4.1 In certain cases there was a lack of monitoring and evaluation of consultants' work to ensure that the projects succeeded in their objectives



ECONOMY



EFFICIENCY



EFFECTIVENESS

Reasons for a lack of monitoring and evaluation included the following:

- Some contracts did not include detailed milestones or target dates for deliverables
- Departments did not always ensure compliance with the requirements of service level agreements and did not always monitor the progress of work done. In many instances progress reports and progress meetings were a requirement of the service level agreements, but reports were not compiled and minutes of meetings were not kept as evidence
- Officials did not always formally review the work of the consultants. They relied on and accepted the consultants' report as accurate
- In some instances progress reports were signed off without evaluating whether the actual work done by the consultant matched the contractual requirements
- There was no clear indication/distribution of responsibilities between users in some departments. For example, the end-users of some contracts did not monitor the contracts because they considered the task to be the responsibility of another division, such as the supply chain management unit in the department.

## Researchable questions

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?

Were alternative options considered to ensure that the objectives and business needs were achieved in a timely and cost-effective manner?

Did departments have controls in place to avoid contracts being prolonged?



Instances of inadequate management and monitoring resulted in the following:

- Progress reports not always being used to effectively control the work done by the consultants. The progress reports were either not done or not adequately reviewed. This led to deliverables not being achieved, being achieved late or not being achieved in a satisfactory manner
- Consultants sometimes underperforming and not always being addressed in a timely manner
- Some departments regularly extended contracts due to a lack of monitoring and, in certain cases, projects were prolonged

- Deliverables were sometimes completed late, raising the risk of them becoming obsolete or irrelevant. This was primarily due to a lack of planning, which included incomplete terms of reference; inefficiencies at the department such as the non-availability of meeting venues and departmental personnel to attend the meetings; and a lack of monitoring and monitoring procedures
- Payment deficiencies arose in some departments due to a lack of financial control over project expenditure (refer to paragraph 4.2 for details)
- Departments did not always withhold payments on projects where poor progress was made, and the penalty clauses in the contracts were not applied.

The overall effect of the above was the increase in departmental costs, as well as the non-achievement or partial achievement of the objectives of the consultancy projects.

- ⌘ 21 cases valued at R2 418 420 205 were identified where deficiencies regarding the monitoring of consultants were identified
- ⌘ 6 cases valued at R523 555 409 were identified where no/poor financial control over consultancy projects was exercised
- ⌘ 15 cases valued at R190 602 467 were identified where the deliverables were completed after the deadline
- ⌘ 23 cases valued at R851 183 106 were identified where deliverables were not completed or no proof was available to demonstrate that deliverables were achieved, even though the consultancy project has been closed.

## 4.2 Payment deficiencies were identified during the audit



### EFFICIENCY

Oversight and proper internal controls before authorising payments were lacking. Payments were made without proof that the project managers verified that contractual deliverables were satisfactorily met or rendered.

For example:

- The lack of control over contracts and payments resulted in the departments paying the consultants more than they budgeted for, or contractually agreed
- 📖 *8 cases were identified where payments were made in excess of the contract value. The excess payment totalled R48 404 033*
- 📖 *The highest percentage excess payment was 82% more than the contract value (DCS, A, par 1.6, page 46)*
- 📖 *The highest excess payment was R19 900 000 (DRDLR, A, par 2.3, page 77).*
- Payments were not always made on original invoices, but were sometimes made on faxed invoices from the consultant without receiving original invoices, which increases fraud risks
- The invoices were not detailed and not supported by documentary evidence such as timesheets. For example, from a selection, an amount of R133 588 805 (DOD A, par 1.3, page 54) was paid to a consultant without supporting documentation to substantiate the amounts charged by the consultant
- Consultants were paid in advance, which is prohibited unless required by the contract. For example, an advance payment of R37 100 000 (DOD, A, par 1.3, page 54) was made to a consultant without being stipulated in the contract

- The full contract value or a substantial amount was paid to the consultant prior to project sign-off. For example, the full contract value of R21 107 789 (DCS, A, par 3.4, page 48) was paid to a consultant; however, some project deliverables were still outstanding five years after the deadline of March 2007
- Disbursements were not supported with explanations or evidence. Substantiating evidence was not submitted to prove that the expenditure was actually incurred and that it was valid and correct.

## EXTENSIONS OF CONTRACTS



### 5.1 Consultancy contracts were frequently extended

#### Researchable question

Did departments regularly extend consultants' contracts and did the department consider alternatives before extending a contract?

Did departments have controls in place to avoid contracts being prolonged?

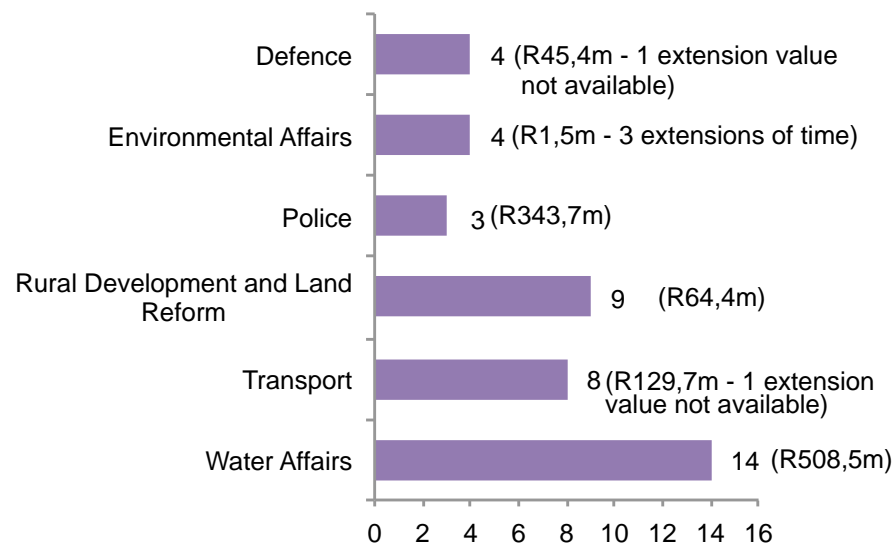
Reasons for the extensions included:

-  **ECONOMY** Project scopes were sometimes changed due to the inadequate planning and development of the terms of reference and scoping of projects. Additional needs were identified during the execution of certain projects. This caused consultants to perform work that was outside the scope of the original project in order to successfully achieve its objectives
-  **EFFICIENCY** Additional unrelated services were added to certain projects

- Departments did not always create an environment conducive to the consultants' successfully achieving their objectives; for example:
  - Proper groundwork, such as determining the extent of the work required from the consultant, was not done to enable the consultant to commence work effectively
  - Communication at the departments was poor, as consultants had to be referred to different people
  - Confirmation and cancellation of meetings was not done timeously and meeting venues were not available
  - Key departmental personnel were unavailable to attend project reporting meetings and/or officials designated to chair project meetings changed frequently
- Deliverables were sometimes not completed on time due to a lack of oversight by some departments
- Departments were dependent on the continued work of consultants due to skills not being transferred and high vacancy rates.

The extensions resulted in additional costs. Graph 7 provides a breakdown of the identified number of contract extensions.

**Graph 7: Number of identified cases on contract extensions**



- ☞ 42 cases were identified where contracts were extended
- ☞ The extension cost of 37 contracts was R1 093 255 453 (2 extension values could not be determined, 3 were time extensions)
- ☞ The contract values were increased by an average of 64% due to extensions
- ☞ The highest percentage that a contract was extended was 1 253% (DWA, A, par 2, Table 13, page 90) (based on the original contract value)
- ☞ The average period of extensions was 16 months (based on the available information from 28 extended contracts)
- ☞ The longest period of a single extension was 5 years. (DOT, A, par 1.3, page 82)

## CLOSING AND FINALISING PROJECTS

### 6.1 Implementation of deliverables

#### 6.1.1 Deliverables from consultancy contracts were not always implemented or considered for implementation in a timely manner



##### EFFECTIVENESS

The non-implementation was caused by the following factors:

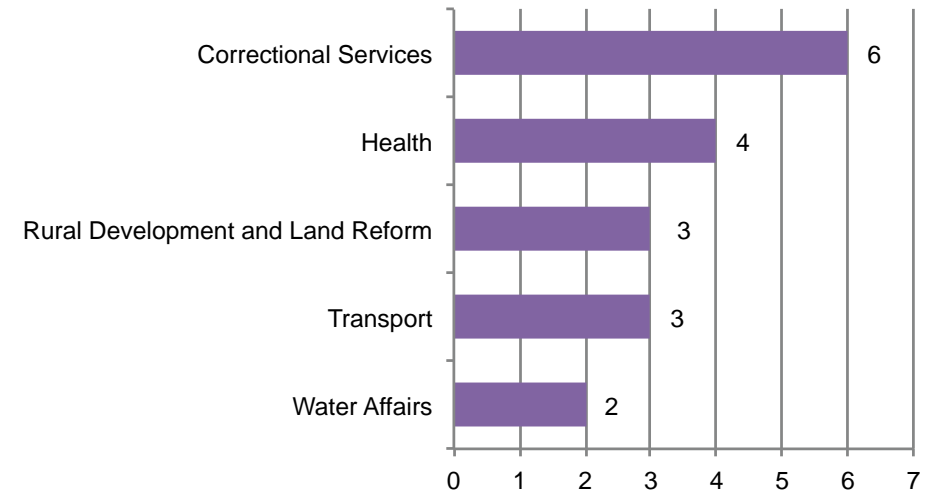
- Changes at leadership level, which affected the continuity or priorities of some projects
- Implementation plans sometimes not being compiled timeously by the consultants and departments to ensure that the deliverables from the projects were implemented
- Departments not always planning in advance to provide the financial and other resources needed to enable the implementation of the deliverables
- Prolonged processes for the approval of project deliverables, resulting in some deliverables becoming obsolete.

Graph 8 indicates the number of identified cases where consultancy deliverables were implemented late or not implemented at all. The estimated value of these 18 projects amounted to R182 million.

#### Researchable question

Did departments close the consultancy properly to ensure that all the deliverables were met, implemented and properly filed?

Graph 8: Number of identified cases on project implementation



- ▣ 18 projects were either implemented late or not implemented at all
- ▣ The value of 16 of these projects was R182 655 489. Two project values could not be determined
- ▣ The longest period that a consultancy project has still not been implemented is approximately 5 years. (DCS, A, par 3.4, page 48)

## 6.2 Management information

### 6.2.1 Departments did not always compile management information on the extent to which consultants were used, to understand the impact and benefits received over time



Chapter 8 of the SCM guide deals with supply chain performance, according to which a monitoring process should undertake a retrospective analysis to determine whether the proper process was followed and if the desired objectives were achieved. It further recommends that at the completion stage of each project, an assessment of the supplier/service provider (including consultants where applicable) be undertaken and that this assessment should be available for future reference.

#### Researchable questions

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 are incorporated in future engagements?

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?



Information complying with chapter 8 was not always compiled by the departments. Due to the absence of this management information:

- Some departments were unable to demonstrate that all the deliverables of consultancy projects were satisfactorily met
- There were instances where there was no evaluation of the supply chain management function and the consultants' performance
- Departments did not always analyse or assess the consultants when the contracts were closed to determine if value for money was obtained. This resulted in some departments not being able to refer to reports when taking future procurement decisions
- Lessons learnt and the outcomes of the consultancy were not always documented and shared with other departments, and could not be used for future appointments.

### SUPPLY CHAIN MANAGEMENT PRACTICE NOTE 3 OF 2003

Non-compliance with *Supply Chain Management Practice Note 3 of 2003* (PN-32003) and the SCM guide were identified. The following are examples of the more common and significant areas:

#### Planning

- Internal skills/resources were not always considered for a project/duty/study prior to appointing consultants (PN 3-2003 par. 1.5; SCM guide par. 5.1.5)
- Departments sometimes appointed consultants and did not consider appointing persons on a contractual basis in terms of the Public Service Act. Persons appointed in a post on the fixed establishment should be appointed on contract in terms of the Public Service Act (PN 3-2003 par 3; SCM guide par. 5.3.1)
- Consultants were sometimes hired for assignments that were in conflict with

their prior or current obligations. For example, consultants hired to prepare an engineering design for an infrastructure project should not be engaged to prepare an independent environmental assessment for the same project. (PN 3-2003 par. 5; SCM guide par. 5.5.1).

## Administration

- The standard form of contract was not always signed by the parties involved (PN 3-2003 par. 1.6; SCM guide par. 5.1.6)
- Where projects included important components for the transfer of skills, the terms of reference did not always indicate the objectives, nature, scope and goals of the training programme. It also did not always include details of trainers and trainees, skills to be transferred, timeframes and monitoring and evaluation arrangements (PN 3-2003 par. 8; SCM guide par. 5.8.1)
- The terms of reference documents were not always detailed and did not always comply with the requirements of PN 3-2003 and the SCM guide (PN 3-2003 par. 9.3.1; SCM guide par. 5.9.3.1; 5.9.3.2).

## Appointment

- Departments did not always use a competitive bidding process to appoint consultants (PN 3-2003 par 4.1; SCM guide par. 5.4.1)
- Departments classified transactions as urgent or emergency cases, but reasons were sometimes not clearly recorded and approved as required. Urgent cases are cases where early delivery is of critical importance and the invitation of competitive bids is either impossible or impractical. A lack of proper planning does not constitute an urgent case (SCM guide par. 4.7.5).

## Tender process

- Tax clearance certificates and proof of registration with controlling authorities and

professional bodies, as required by the requests for proposals, were not always submitted (SCM guide par. 4.8.1)

- Negotiations with consultants were not always documented as evidence that the successful bidder did not receive an unfair opportunity (SCM guide par. 4.12)
- The time allowed for consultants to prepare their proposals was sometimes less than the minimum of four weeks (PN 3-2003 par. 9.4; SCM guide par. 5.9.4.1)
- Bids were not always evaluated on both functionality and price (PN 3-2003 par. 9.5; SCM guide par. 5.9.5.1)
- Contracts were not always awarded to the bidder that scored the highest points and adequate and justifiable reasons for the deviation was not documented (PN 32003 par. 9.5; SCM guide par. 5.9.4.1)
- The tariffs offered by the consultants was not always benchmarked against the Guide on Hourly Fee Rates for Consultants (PN 3-2003 par. 9.5.4; SCM guide par. 5.10.5.6)
- Proposals that did not comply with the important requirements of the Request for Proposal (RFP) were not always rejected. Proposals submitted were not fully responsive and did not include all the supporting documents requested in the RFP (PN 32003 par. 16.3.3; SCM guide par. 5.16.3.3)
- Evaluation criteria originally indicated in the bid documentation were amended or omitted after closing the bid (PN 3-2003 par. 9.5.2; SCM guide par. 5.9.5.2).

## Extensions/modifications

- Modifications to contracts that led to an increase of more than 15% of the original amount of the contract were not always approved by the accounting officer (PN 3-2003 par. 16; SCM guide par. 5.16.1.1.1).



## RECOMMENDATIONS



# RECOMMENDATIONS

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## 1. GENERAL

- 1.1 Departments, especially the accounting officers, members of bid evaluation and bid adjudication committees, human resources 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 if the relevant existing laws, regulations, policies 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 an extensive coverage of the use of consultancy services in the 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 on 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
  - An assessment of the cost of making use of external capacity versus the cost of creating and filling internal capacity before a decision is taken to use external capacity. The assessment should also take into account whether or not internal capacity and/or other resources required are available to perform the specific project.
- 2.2 Proper planning must be done before issuing the requests for tender to ensure that the requests for tender are detailed, clear and unambiguous. This will enable bidders to clearly understand the scope of the project before submitting a tender and 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 hinder 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:

- Updating human resource plans to align departmental needs with existing and projected capacity requirements, as well as funding needed
- The possible impact that the moratoriums 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 deliverables of skills transfers 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 just 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. Cases of special conditions of contract 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 There should be proper contract management and oversight 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 relevant 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 deviations between the planned and actual deliverables and from the existing laws, regulations and policies.
- 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 The extensions of contracts and contract periods should be done only in exceptional cases. Departments should ensure that the original contractual deliverables have been met before extending a contract. Compliance with the relevant laws, regulations and policies should be secured.

## **7. CLOSING AND FINALISING CONSULTANCY PROJECTS**

- 7.1 Departments should actively pursue the timely implementation of contract deliverables. The detailed requirements for implementing the deliverables, such as costs and human and other resources, should be planned and budgeted for in line with an approved implementation plan.
- 7.2 As prescribed by chapter 8 of the *Supply Chain Management Guide*, a retrospective analysis should be done at the completion of each project to determine whether the proper processes were followed and whether the desired objectives were achieved.



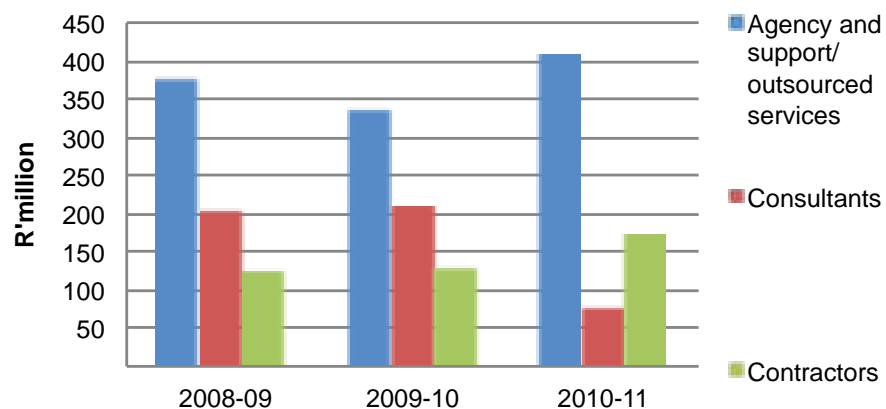
## **DEPARTMENT SPECIFIC FINDINGS**

# DEPARTMENT OF CORRECTIONAL SERVICES

Total expenditure on consultants (2008-09 to 2010-11)	R2,036 billion
Number of projects audited	27
Value of projects audited	R214,1 million
Average vacancy rate (2009-10 to 2010-11)	14%

Graph 09 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 09: Total expenditure per year at Correctional Services**



## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. INFORMATION TECHNOLOGY SERVICES RENDERED BY STATE INFORMATION TECHNOLOGY AGENCY

The department annually contracts the State Information Technology Agency (SITA) to provide information technology requirements. Services are rendered by SITA staff and sub-contractors/consultants outsourced by SITA.

Table 2 provides details of the service level agreements between SITA and the systems development and customer relationship management directorates at the department in the 2007-08 and 2008-09 financial years.

**Table 2: Details of SITA service level agreements**

SERVICE LEVEL AGREEMENTS	FINANCIAL YEAR	DATE SIGNED	CONTRACT AMOUNT
Systems Development Directorate	2007-08	04 May 2007	R18 240 000
	2008-09	21 May 2008	R18 240 000
Customer Relationship Management Directorate	2007-08	31 May 2007	R8 686 446
	2008-09	25 July 2008	R13 000 000

## Cost implications not considered

- 1.1. Cost/benefit analyses were not done to compare the cost of using consultants with the cost of appointing permanent staff. This resulted in increased costs to the department. For example, in the 2007-08 and 2008-09 financial years, the cost of appointing the customer relationship management consultants was R3 550 326 (69%) and R7 401 629 (132%) higher, respectively, than the cost to the department if permanent employees were appointed.

## Capacity and transfer of skills

- 1.2 High vacancy rates in the systems development and customer relationship management directorates resulted in capacity constraints, and the department appointed consultants to provide information technology skills (refer to table 3). This was a result of:
- Posts on the approved staff establishment of the customer relationship management directorate being frozen during the 2007-08 and 2008-09 financial years due to inadequate funding
  - The staff establishment of the systems development directorate being outdated. It was approved before 2004, and not updated since to include positions such as business analysts, system analysts and information technology architects. As these additional permanent posts were not created on the staff establishment, consultants continued to be appointed to provide these services.

**Number of IT consultants increased by 108%; Vacancies in excess of 65%**

The number of IT consultants increased from 51 to 106 (108%) from the 2007-08 to 2008-09 financial year. During those two financial years, the vacancy rates were 65% in the system development directorate and 67% in the customer relationship management directorate. Skills could not be transferred to departmental officials because of the high vacancy rates, and resulted in the department's dependency on consultants (refer to table 3).

**Table 3: System development and customer relationship management directorates staffing**

DIRECTORATE	TOTAL POSTS	FILLED POSTS	VACANT/ FROZEN POSTS	VACANCY RATE	NUMBER OF CONSULTANTS APPOINTED	RATIO CONSULTANTS TO PERMANENT STAFF
2007-08 financial year						
Systems Development	26	9	17	65,38%	38	4:1
Customer Relations Management	33	11	22	66,67%	13	1:1
Total	59	20	39	66,10%	51	
2008-09 financial year						
Systems Development	26	9	17	65,38%	83	9:1
Customer Relations Management	33	11	22	66,67%	23	2:1
Total	59	20	39	66,10%	106	

1.3 The customer relationship management service level agreement did not include the transfer of information technology skills as a deliverable. This omission, along with the vacancies, contributed to skills not being transferred and the department being reliant on the use of consultants to perform these services.

### Consultants managing other consultants

1.4 A lack of internal capacity at the department resulted in IT consultants being appointed as project managers on at least nine projects. These consultants monitored the work of other consultants responsible for the development of information technology systems. This affects institutional knowledge and experience, and the department will have to rely on the consultants to monitor the systems after implementation if internal capacity is not created.

**Consultants appointed to manage other consultants on 9 projects**

A follow up with the department in January 2012, indicated that the department has since appointed the chief deputy commissioner and junior staff to address the lack of internal capacity. Consultants were no longer used to monitor the work performed by other consultants and the department is managing and monitoring the work performed by all consultants.

### Management and monitoring

1.5 Services were rendered and payments amounting to R12 543 378 were made to SITA before the four service level agreements were signed. It is important to sign service level agreements prior to the commencement of services and authorising of payments to ensure that the work done is in line with the department's needs and expectations.

1.6 Payments to SITA were not monitored by the department and were not in accordance with the service level agreement for the systems development directorate. A purchase order with a ceiling price was also not created on the financial system. Consequently, the department made excess payments of R3 562 224 (19,53% more than the contract value) and R14 911 579 (81,75% more than the contract value) in the 2007-08 and 2008-09 financial years, respectively.

**Excess payments of R18,5 million to consultants**

1.7 The SITA service level agreements stipulated that a communication forum be established to:

- Review performance against the service level agreement monthly
- Ensure monitoring via weekly operational meetings.

Evidence of monthly meetings to review the consultants' performance and weekly operational meetings with project managers/leaders could not be provided by the department. Therefore, it could not be established whether the IT consultants complied with the requirements of the service level agreement and whether the department monitored their work.

## 2. VIRTUALISATION PROJECT

A consultant was appointed on 26 February 2009 at a contract amount of R11 706 891, to acquire and install a new information technology server and to provide training on this new server.

2.1 The three members of the bid evaluation committee for this project were information technology consultants, appointed through the SITA service level agreements. The

**Bid evaluation committee consisted entirely of consultants**

department was not represented on the bid evaluation committee by either the user directorate or supply chain practitioners. The *Implementation of Supply Chain Management Circular* paragraph 4.1(b) requires supply chain practitioners to form part of the bid evaluation committee to ensure that the correct procurement processes are followed.

2.2 Various inconsistencies were identified with the process of appointing this consultant, including the following:

- Suppliers were sourced from the SITA's pre-approved list of suppliers and a briefing session was held where quotations/proposals were requested from the attendees. The proceedings of this meeting were not minuted and the attendees could not be confirmed
- The department did not issue prospective suppliers (consultants) with a request for quotation detailing the specifications of the tender and the evaluation criteria as required by the Engagement Guidelines, Procedures and Information guideline issued by SITA. The lack of a request for quotation meant that the specifications of the tender, the criteria for evaluation and the deadline for the submission of the proposals could not be determined for the purposes of this audit

- The tender was evaluated only on price. Score sheets were not used for calculating points on functionality, price and preference points in terms of the Preferential Procurement Policy Framework Act
- The bid evaluation committee's recommendation was verbal. The recommendation report required by the supply chain management circular was not compiled
- A bid adjudication committee was not appointed to review the recommendations of the bid evaluation committee
- The proposal submitted by the consultant was signed but the *General Conditions of Contract* that should form part of the agreement as prescribed by the National Treasury did not form part of the proposal signed as an agreement/contract.

The consultant appointed submitted three proposals of R9 325 590, R12 709 633 and R11 706 891 on different dates. However, there was no documented evidence that the final contract amount of R11 706 891 was negotiated as allowed by paragraph 4.12 of the SCM guide.

2.3 According to the SITA consultant who acted as project manager, the deadline for the project was May 2009 and the full contract amount of R11 706 891 was paid on 19 May 2009. However, as at January 2012 the project had not yet been completed and some deliverables were not implemented. This was due to a lack of monitoring and could affect the quality of the deliverables.

**Project still not completed almost three years after deadline, even though full contract amount was paid**



### 3. OPEN VIEW PROJECT

A consultant was appointed to provide a new nationwide network infrastructure. A quotation dated 10 October 2006 was submitted by the consultant for R21 107 789. Table 4 provides a breakdown of the cost.

**Table 4: Breakdown of quotation**

DESCRIPTION OF SERVICES	QUOTATION AMOUNT
Software	R8 592 356
Implementation and training	R12 515 433
Total	R21 107 789

3.1 **Project awarded to same consultant that compiled the project's needs assessment**

The consultant that compiled the needs assessment for the project was subsequently the only service provider requested by the department to submit a quotation for this project. This approach was contrary to paragraph 5 of Practise Note 3 of 2003, which states that a firm that provided consulting services should be disqualified from subsequently providing goods or works or services related to the initial assignment. No evidence could be obtained that the commissioner approved this deviation. In the absence of a competitive bidding process, it could not be established whether the project was conducted at the lowest possible cost for the best possible service. The Open View project formed part of the master information systems plan and there was no specific approval for this project as the commissioner approved the master information systems plan.

3.2 **Only a quotation submitted for project that cost R21 million**

No evidence could be obtained that approval was granted for the deviation from the normal tender process as the consultant only submitted a quotation for this project. A tender process should have been followed for the appointment as the project was valued over R500 000.

3.3 The SCM guide, paragraph 1.6.2.2, requires that a contract that includes the *General Conditions of Contract* as prescribed by the National Treasury, be signed. For the Open View project only a project charter and plan was signed. As a result, the legal requirements of the *General Conditions of Contract* were not covered.

3.4 **Project not implemented almost 5 years after the planned completion date for implementation**

The project charter and plan stated the estimated completion date for implementation as 15 March 2007. The project manager confirmed that some deliverables as stated in the project charter and plan had not been signed off and that the project had not been implemented as at January 2012 – almost five years later. Despite the project not being completed, the full contract amount of R21 107 789 was paid on 2 April 2007. No additional costs have been incurred since.

### 4. DEVELOPMENT OF IMAGE TURNAROUND CAMPAIGN

The primary objective of the department's Image Turnaround Campaign focused on encouraging the acceptance of the department's white paper internally and externally. The department approached the Government Communications and Information System to assist in acquiring the services of a public relations agency to develop the Image Turnaround Campaign. A consultant was appointed on 19 October 2006 at a contract value of R2 880 000.

4.1 The communications directorate did not manage the project adequately to evaluate the progress and the quality of the work done. This resulted in the project being prolonged. The following shortcomings were identified:

- Services were rendered by, and payments made to, the consultant before the contract was signed. Payments of R418 380 were made during the period January 2007 to June 2007 whereas the service level agreement was only signed in July 2007

- The department did not comply with the service level agreement:

**Service level agreement signed late and not monitored effectively**

– The weekly status meetings were not held as required. The first evaluation meeting of the work performed by the consultant was held on 22 February 2008 - 12 months after the work commenced

– Phase one, due for completion on 1 August 2007 was only completed in July 2008 and approved by the department in February 2009

- Contrary to payment arrangements in the service level agreement, 91% (R2 629 046) of the contract value was paid to the consultant by 17 February 2009, although only one of the three phases was completed for which the consultant was entitled to R1 318 980. An overpayment of R1 310 065 was made as at that date

- The invoices submitted lacked details of the services rendered. However, the department certified these invoices for payment without verifying that the services rendered complied with the service level agreement's targets.

## 5. MEDIA MONITORING SERVICES

A contract was awarded to a consultant on 10 August 2006, at an amount of R1 881 000 (R78 375 per month for 24 months), to provide media monitoring, analysis and advisory services for the media services unit of the department. According to the task directive, the consultant also had to provide training to departmental staff and transfer skills within the contract period.

- 5.1 The work performed by the consultant was not monitored and evaluated by the department to ensure compliance with the task directive. This was caused by:

- The department not having effective processes or experienced officials in place to monitor and evaluate consultant projects
- The unavailability of the communications directorate staff to whom weekly and monthly analyses could have been presented.

- 5.2 After the completion of the project, a post-project evaluation was not performed to determine if value for money was received for the services rendered by the consultant. The previously appointed consultant rendered this service at a cost of R11 394,30 per month, which was R66 980,70 per month less than was paid to this consultant. The post-project evaluation analyses are important as they assist the department during future appointments.

## 6. MANAGEMENT DEVELOPMENT TRAINING PROGRAMME

A two-year training contract was awarded to a consultant on 6 July 2007, at a value of R5 287 000. The contract was to train 350 junior managers and 350 middle managers from various regions on the management development programme.

A service provider in Gauteng was appointed to provide training venues, accommodation and meals. The tender was awarded on 14 December 2007, at a value of R14 130 069.

- 6.1 There was no evidence that the department conducted a cost/benefit analysis to determine the differences in costs of having a centralised training project in Gauteng versus training sessions in the regions.

**Cost of training venue, accommodation and meals 267% more than actual training cost**

The cost for training venues, accommodation and meals per official was R20 185,81 while the training cost was R7 552,86 per person. The venue, accommodation and meal costs, which excluded other travelling costs and subsistence allowances, were 267% more than the actual training cost. The department could have saved costs on subsistence and travelling, training venues and accommodation had it done a cost/benefit analysis and conducted decentralised training sessions for the employees in the regions.

## 7. TRAINING INTERVENTIONS

7.1

**114 officials did not attend training and 379 did not pass or submit their portfolios of evidence**

The department did not ensure that the officials identified for training attended all courses and submitted their compulsory portfolios of evidence to ensure the successful completion of the courses. Six training interventions were identified where 114 officials of a scheduled 1 805 did not attend the training, while 379 did not pass or submit their portfolios of evidence. Taking the approximate cost

of training per official for each training intervention into account, an amount of R1 021 530 was not used effectively due to the non-attendance of the 114 officials.

The failure of departmental staff to successfully complete training interventions has both a financial and operational impact as departmental staff will not be able to successfully apply the learning areas.

## B. COMMENTS FROM THE DEPARTMENT

1. The department committed that the following corrective actions will be taken:
  - A new structure will be implemented in the IT directorate to ensure that the department's IT requirements can be supported in full
  - Payments will be made based on the phases of work completed, which will be in line with agreed milestones/deliverables
  - The responsible unit within the department will be required to submit closing and evaluation reports and flag lessons learnt that could be used when considering future possible outsourcing services

- All the recommendations from the finished reports by various consultants will be presented to both the national commissioner and the minister and an action-plan will subsequently be drawn up for implementation by all affected parties. An audit will also look into projects that were never implemented to determine the cost implications and propose corrective measures
  - The department will undertake an audit of existing contracts and determine the progress against the stipulated deliverables and then determine the completion date for each contract
  - Investigations will be undertaken into deviations from the supply chain circular issued by the National Treasury and disciplinary processes will ensue.
2. The department further indicated that the following are in process:
- Frameworks, manuals and processes for inductions, skills transfer and training of IT resources are currently being put in place
  - A new IT project office is being established which will implement project processes and controls. These processes include financial management and payment processes that will ensure that payments are done after work has been completed.
3. The department also implemented the following:
- Monthly service level agreement meetings have been scheduled and are already taking place
  - A separate investigation into the Open View project has been completed. The department is reviewing the report with the intent of taking legal action
  - A process to harmonise the departmental (general) procurement process with the SITA (IT) procurement process is underway and draft guidelines are in place.

## C. COMMENTS FROM THE PORTFOLIO COMMITTEE CHAIRPERSON

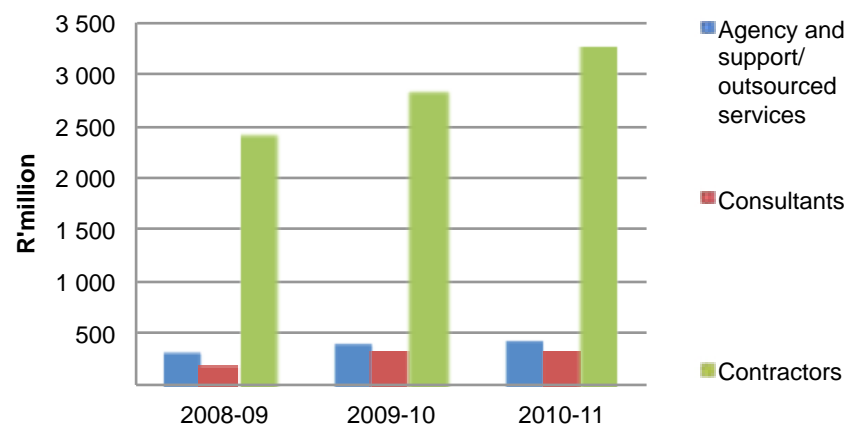
1. The portfolio committee chairperson made the following comments:
- The department employed the same consultants for extended periods without considering whether the objectives and business needs were achieved in the most cost-effective manner
  - A comprehensive strategy and policy to restrict the use of consultants to only high, complex and/or exceptional cases of, and to reduce the department's dependence on consultants are lacking
  - Proper planning that allows for transparent procurement processes and proper contract administration, which includes service level agreements that specify proper milestones, performance targets, monitoring systems, roles and responsibilities, and the transfer of skills, is also deficient.
2. The chairperson indicated that the following should be implemented by the department:
- Service level agreements should be implemented immediately and should form the basis of effective monitoring
  - The department's supply chain management structure should be stabilised and appropriately trained
  - Officials in the department should ensure that the system of financial management and internal control is carried out within their area of responsibility. Effective and appropriate steps should be taken in cases of non-compliance

- The accounting officer and audit committee should monitor the implementation of the commitments made by the department and recommendations made by the Auditor-General in this report.
- 2. The chairperson further indicated that there will be a strong focus on the issues raised in this report, and the role players responsible, when the portfolio committee performs their oversight role.

Total expenditure on consultants (2008-09 to 2010-11)	R10,4 billion
Number of projects audited	12
Value of projects audited	R1,153 billion
Average vacancy rate (2009-10 to 2010-11)	10,6%

Graph 10 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 10: Total expenditure per year at Defence**



## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. SUPPLEMENTING SKILLS IN THE SOUTH AFRICAN AIR FORCE

The department entered into a memorandum of agreement in 1986 to supplement the shortage of skills within the South African Air Force (SAAF). Total payments during the 2007-08 to 2009-10 financial years amounted to R859 912 536.

- 1.1 The policy on alternative service delivery in the Department of Defence states that a full costing for the department to provide the service must be done and the saving must be compared with the full cost of similar services if outsourced.
  - The contract to supplement the shortage of skills within the SAAF was open-ended, and a cost/benefit analysis had not been done since 1986. This was because the department did not have measures to monitor ongoing contracts to ensure compliance with changes in legislation and other guidance material. Reasons could not be provided for the following:

- Contract open-ended and not revised since 1986**

The contract being open-ended and not renewed/revisited since 1986

  - The significant duration of the contract
  - The needs analysis not being conducted, as required in terms of par. 3.1.1 of the SCM guide.

The above resulted in the department not being able to ensure that the services were rendered in the most economical manner for the best possible quality, taking into account service delivery and the long-term impact of the appointment.

- 1.2
- More than 600 supplement staff (consultants)**

The department lacked internal capacity and skills and did not take steps to create permanent capacity, even though more than 600 individuals have supplemented staff within the SAAF to date. None of them were subsequently employed on a permanent basis by the department. The project manager indicated that the department was not able to pay market-related salaries to attract and retain skilled staff for these services. In addition, skills were not transferred because it was not included in the contract.

- 1.3
- R134 million paid without supporting documentation; Prepayments of R37 million**

Deficiencies in the monitoring and management of the contract were also found. The person responsible for monitoring the contract was suspended and the responsibility was not re-allocated, nor was a new person appointed. The following deficiencies were found:

    - Payments of R133 588 805 (only a selection of the R860 million was tested) were made without detailed supporting documentation to substantiate the amounts claimed, or reconciliations being performed to verify the amounts

- Two prepayments of R37 100 000 were made on 25 March 2008. Treasury Regulations prescribe that prepayments should be avoided unless required by the contractual agreement.

## 2. CLEARANCE OF UNEXPLODED ORDINANCE

The department signed a two year contract with a consultant on 22 June 2009 to clear unexploded ordinance (UXO) at a cost of R107 791 240.

- 2.1 A cost/benefit analysis could not be provided due to the weakness in the archiving system. Therefore, it could not be determined if the most cost-effective alternative was used.

- 2.2
- Cost/benefit analysis not provided; No evidence that project was monitored and timeframes met**

There was also a lack of evidence to indicate that the work done was monitored and the agreed timeframes were met. Minutes of meetings were not signed and there was no evidence that the progress reports had been reviewed by the department. There was also no evidence that decisions taken at meetings with the consultant were approved and that actions had been implemented.

- 2.3 The contract was extended from 25 August 2011 to 25 February 2012 for completion. The cost of the extension was R38 607 959.

### 3. DEMILITARISATION OF REDUNDANT AMMUNITION

A five-year contract was signed on 18 December 2006 to demilitarise approximately 32 tons of redundant ammunition. The contract did not specify an amount, nor could it be determined during the audit.

3.1 Evidence that a full costing was done as required by the department's policy could not be provided. A cost/benefit analysis could not be provided due to the weakness in the archiving system. It could thus not be proved that the appointment of the consultant was the best alternative in terms of costs and benefits, such as continuous service delivery.

3.2 The department decided not to follow a competitive bidding process before awarding this five-year contract. The decision was based on the following:

- The specialist skill required to demilitarise the ammunition
- Previous work done by the consultant at the department
- The consultant's promise to invest in South Africa at the completion of the contract.

**Consultant claimed R29,9 million for breach of contract due to non-performance by department**

Since a competitive bidding process was not followed, there was no evidence to indicate that the department achieved the best possible price and quality. However, before the contract was implemented the consultant claimed an amount of R29 866 863 for breach of contract because of non-performance by the department. No further documentation detailing the

reasons for the termination of the contract or breach of contract by the department was provided for auditing. The matter was still pending as at February 2012. The parties have engaged in negotiations to determine the actual costs for which the department should be liable.

### 4. USE OF CONSULTANTS TO CLEAR AUDIT QUALIFICATIONS

4.1

**Lack of skills resulted in the appointment of consultants costing R76,7 million**

Internal staff did not have the necessary expertise to clear audit qualifications and consultants were appointed at a cost of R76 680 000 to assist with this. The contract was for two years, commencing on 10 December 2008. As a cost/benefit analysis was not done, it could not be determined whether the appointment of the consultants was the most cost-effective alternative.

### 5. PROVISION OF GENERAL AND SKILLED LABOURERS

The department entered into two contracts with a consultant in 2006. The contract for the supply of general labourers was valued at R10 961 280. The other contract, for the supply of skilled labourers such as electricians and artisans was valued at R39 485 088. Both contracts were awarded for a period of three years, expiring on 30 November 2009, but were extended from 1 December 2009 to 31 May 2010. Total payments made amounted to R86 634 394. As from 1 November 2010, a new consultant was appointed whose contract was secured through the Alternate Service Delivery process.

5.1

**10 payments totaling R2,4 million were made without being verified**

The department did not effectively monitor contracts. The contracts stipulated the submission of certified weekly timesheets. Due to a lack of effective monitoring, 10 payments totalling R2 356 571 were made without the supporting timesheets as evidence of the actual hours worked.



## 6. MAINTENANCE OF THE LIMPOPO BORDER FENCE

A consultant was appointed to maintain the Limpopo border fence from 1 November 2005 to 31 October 2009. The cost of the contract was R14 607 219, which increased to R17 756 900 due to an extension of nine months.

6.1

**No cost/benefit analysis done despite the department having the expertise for the project**

Although the department had the expertise to perform the function of maintaining the Limpopo border fence, it decided to appoint a consultant, without a cost/benefit analysis being done. The department did not determine whether this was the most cost-effective alternative.

## 7. MAINTENANCE AT 3 MILITARY HOSPITAL

A consultant was appointed for cleaning and maintenance services for a period of three years, from 1 January 2006, at a cost of R7 802 330. At the commencement of the service, the surgeon general submitted a plan to human resources for the establishment of the housekeeping structure, which would allow the hospital to perform this function internally instead of outsourcing it. The surgeon general's intention was to not extend the contract at the end of the three-year period.

7.1

**Non-prioritisation of staff recruitment resulted in extended consultancy contract**

Although the department initially planned to appoint permanent staff at the expiry of the contract, the recruitment of staff was not prioritised and permanent staff was not appointed. After the contract expired on 31 December 2008, it was extended for nine months at a cost of R2 925 874, and from 31 March 2010 the contract was extended monthly because of a lack of internal staff.

7.2 The department did not monitor compliance with the contract. The contract made provision for 72 cleaners, but only 34 cleaners were provided. The consultant was therefore overpaid. In addition, payments amounting to R7 802 330 were made on faxed rather than original invoices.

7.3 The department deviated from its own internal procurement policies in the following instances:

- In terms of the Department of Defence's policy on procurement and sales in respect of commercial goods and services, procured services may not exceed periods of two years, with longer periods to be approved by the relevant approval authority. No evidence of approval to deviate from the policy could be obtained for this three-year contract
- The Department of Defence's policy on procurement and sales in respect of commercial goods and services also states that extensions of contracts are not encouraged as it prevents competition. The extensions were done because of a lack of staff and action by the department to create internal capacity
- The *Management and control of procurement and sales: official and approval authorities, edition 4*, stipulates that any contract that exceeds R500 000 should be procured by means of a competitive bidding process. Competitive bidding processes were not followed for the two extensions.

## 8. CLEANING SERVICES AT 1 MILITARY HOSPITAL

A company was appointed to provide cleaning and limited laundry services at 1 Military Hospital. The contract amounted to R4 320 000 and was effective from 1 September 2008 to 31 August 2009.

8.1

**Vague allocation of responsibilities resulted in contract not being monitored**

The contract and services rendered were not properly monitored by the department. The contract end-users (at 1 Military hospital) did not regard it as their responsibility to monitor the cleaning services rendered. They were of the opinion that the Central Procurement Service Centre had to monitor the services as the contract was concluded by the Central Procurement Service Centre. As a result of the lack of clarity of responsibilities, the control measures requiring the end-user to verify the quality of services received were ineffective. The department did not confirm that the services relating to the payment of R4 320 000 were rendered satisfactorily before making the payments.

## 9. SESSION DOCTORS

The department appointed session doctors in the Thaba Nchu and Botshabelo region and incurred expenditure totalling R920 530 for the 2007-08 and 2008-09 financial years.

9.1 There were deficiencies with respect to the overall management of the services of the session doctors. These included the following:

- Official documentation, such as contracts, could not be submitted for audit purposes
- The session doctors' work was not monitored because the end-users of the contracts did not consider it their duty to monitor consultants. The contract end-users (at 3 Military Hospital) were of the opinion that the Central Procurement Service Centre had to monitor the services rendered as the contract was concluded by the Central Procurement Service Centre. As a result of the lack of clarity of responsibilities, the control measures requiring the end-user to verify the quality of services received was ineffective.

## B. COMMENTS FROM THE DEPARTMENT

1. With reference to the outsourcing of labour contracts to supplement skills in the South African Air Force, the department has implemented the following corrective actions:
  - Notice of termination has been given to the consultant so that the contract can be renewed in order to make the contract compliant to new policy/regulation frameworks. The effective date of the termination of the contract is 1 April 2013
  - A special Technical Career Incentive Pay (TCIP) scheme was implemented in 2003-04 to retain staff. This has resulted in a marked improvement in retention and has contained the dependency on the outsourcing of labour contracts. The TCIP scheme is currently being updated to an Occupational Specific Dispensation, which is expected to improve retention even further
  - For the period of 2007 to 2008, while the monitoring of consultants for the outsourcing of labour was performed, it was not adequately formal and recorded, and thus had to be reconstituted under Operation Clean Audit. Processes for monitoring were subsequently corrected due to the recommendations
  - The timesheets will now be scrutinised on a weekly basis. This will ensure that any erroneous submissions are returned to the end-user for the required corrections
  - The submission of invoices will now also be monitored. Non-compliance reports will be submitted to the labour brokers if any delays are experienced in the invoicing process
  - Prepayments of R37,1 million were for services rendered in April to May 2008. Credits for those months were given on 15 May 2008 and 12 June 2008 respectively to the total amount of R37,1 million. The department followed up and concluded that no member could be held accountable and that no financial misconduct resulted due to the prepayment.

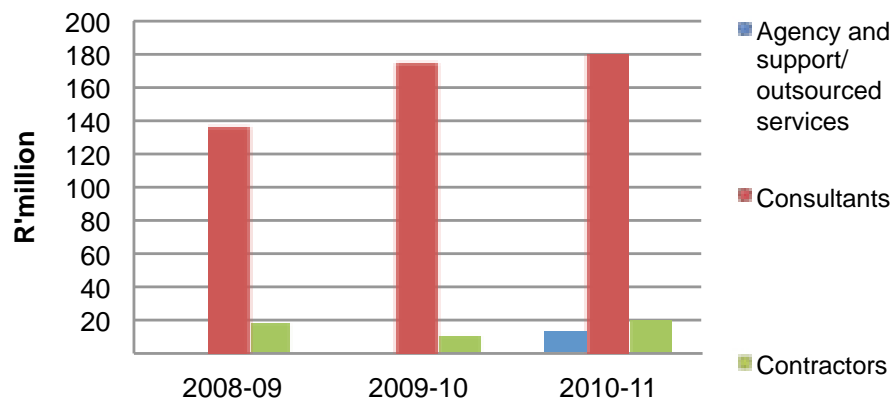
2. With regard to the provision of general and skilled labourers, the following was noted:
  - Prior to the termination of the consultants' contracts, the department was satisfying 242 requirements via contract labour. Through various marketing and recruitment drives, the department has been able to reduce its contract labour requirements to 100. The plan is to further reduce the dependency on contract labour.
3. The department indicated the following with regard to the maintenance contract at 3 Military Hospital:
  - The extension of the contract was a result of the delays in the approval of the new structure. A structural investigation was done through the appropriate departmental procedures and it was hoped that it would be approved in time, before the contract ended, so that all the cleaners' posts could be staffed. The investigation took longer than anticipated and the posts could not be staffed in time; hence, one was compelled to resort to short extensions of the current contract
  - The contract with the service provider was terminated in 2010 and a new cleaning company was appointed until 30 September 2011. From 1 October 2011 the cleaning services has been sourced from in-house capacity at the 3 Military Hospital.
4. To monitor the maintenance contract compliance by the contractors, 1 and 3 Military Hospitals appointed contract managers.
5. For all contracts, documentation and formulation of the cost/benefit analysis will be formalised and filed to ensure that it is available as part of future contracting documentation.
6. No cost/benefit analysis was performed for the use of consultants to clear audit findings because the contracting request was "urgent" in order to clear the audit findings from the Auditor-General. The department also did not have qualified internal capacity to clear the audit findings. As a result of the magnitude of the task

(clearing audit qualification) at hand, which could not be quantified precisely at project inception, an accurate cost benefit analysis could not be done. Nevertheless the CFO (chief financial officer) then applied for condonement to the appropriate committee.

Total expenditure on consultants (2008-09 to 2010-11)	R550,6 million
Number of projects audited	15
Value of projects audited	R57,6 million
Average vacancy rate (2009-10 to 2010-11)	30,35%

Graph 11 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 11: Total expenditure per year at Environmental Affairs**



<sup>6</sup> The audit commenced prior to the announcement on 10 May 2009 that the department will split into the Department of Environmental Affairs and the Department of Tourism. The audit focus was subsequently shifted to the Department of Environmental Affairs

## A. KEY FINDINGS PER FOCUS AREA

### 1. PLANNING AND APPOINTMENT

1.1

**81% increase between estimated project cost and contract cost**

The department did not perform comprehensive needs determinations, including analyses of market-related costs and project estimates, prior to commencing with projects. Estimated project costs were merely limited to the available budget rather than having been based on actual needs. Furthermore, the consultancy contracts sometimes related to unknown fields of work, which also contributed to the inaccurate estimates. As a result, 10 consultants were appointed at materially higher costs than internally estimated. The combined estimated cost for 10 projects was R22,8 million, but the combined contract amount was R41,2 million. The average increase between the estimated cost and the contract cost was 81% per project (refer to table 5).

**Table 5: Analysis of consultants appointed at amounts higher than estimated**

CONSULTANCY PROJECT	ESTIMATED COSTS	CONTRACT AMOUNT	INCREASE	PERCENTAGE INCREASE
Developing the National Framework as contemplated in section 7 of the National Environmental Air Quality Act	R1 000 000	R3 883 287	R2 883 287	<b>288%</b>
Assistance with backlog approval of waste disposal sites	R1 750 000	R4 521 649	R2 771 649	<b>158%</b>
Develop and implement a monitoring and evaluation system	R2 000 000	R4 069 250	R2 069 250	<b>103%</b>
Evaluation of aviation tariffs	R1 200 000	R1 899 378	R699 378	<b>58%</b>
Supply, installation and management of five air quality monitoring stations	R8 000 000	R12 441 809	R4 441 809	<b>56%</b>
Support the development of the Environmental Management Framework	R1 000 000	R1 530 069	R530 069	<b>53%</b>
Stakeholder publication	R960 000	R1 446 546	R486 546	<b>51%</b>

CONSULTANCY PROJECT	ESTIMATED COSTS	CONTRACT AMOUNT	INCREASE	PERCENTAGE INCREASE
Development of the South African Air Quality Information System	R3 422 000	R4 874 800	R1 452 800	<b>42%</b>
Establishment of an inventory assessment of infrastructure and capacity for the development of National Implementation Plans	R3 500 000	R4 538 552	R1 038 552	<b>30%</b>
Study to review the state of transformation in the tourism industry	-	R2 037 294	R2 037 294	
<b>Total</b>	<b>R22 832 000</b>	<b>R41 242 634</b>	<b>R18 410 634</b>	<b>81%</b>

1.2

**Appointment process took an average of 7 months**

Delays were experienced in the process of appointing consultants. The average period for seven consultancy projects amounting to R27 005 444 was 212 days from the initiation process to the appointment date. The average period between the closure of the bid date and the appointment date was 101 days (refer to table 6). These delays created the risk that the initial planning, needs determination and estimated costs might become outdated.

The delays were mainly caused by poorly coordinated planning and activities, as tender and evaluation meetings were frequently cancelled or postponed.

**Table 6: Summary of delays in appointment process**

CONSULTANCY PROJECT	PROJECT INITIATION DATE	TENDER CLOSING DATE	APPOINTMENT LETTER DATE	DAYS FROM INITIATION TO APPOINTMENT LETTER DATE	DAYS FROM CLOSURE TO APPOINTMENT LETTER DATE
Stakeholder publication	13/12/2007	29/02/2008	25/08/2008	256	178
Assistance with backlog approval of waste disposal sites	16/07/2008	05/09/2008	03/02/2009	202	151
Establishment of an inventory assessment of infrastructure and capacity for the development of National Implementation Plans	22/06/2006	10/11/2006	19/03/2007	270	129
Develop and implement a monitoring and evaluation system	17/01/2006	21/04/2006	26/07/2006	190	96
Evaluation of aviation tariffs	28/03/2007	29/06/2007	28/08/2007	153	60
Support the development of the Environmental Management Framework	07/09/2006	16/03/2007	07/05/2007	242	52
PPP transaction advisor	15/11/2006	30/03/2007	08/05/2007	174	39
<b>Average</b>				<b>212</b>	<b>101</b>

Inaccurate cost estimates and delays in the appointment process had adverse consequences on the timing and cost of appointing consultants, as well as the prioritisation of projects within the annual budget.

## B. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. TWO CONSULTANCY CONTRACTS WERE AWARDED WHERE THE TERMS OF REFERENCES WERE NOT COMPLETE

This resulted in additional resource requirements. The total contract values was R6 321 346. The following projects refer:

#### 1.1 Development of South African Air Quality Information System

**Appointed consultant did not have the required skills**

The consultant was appointed as part of the development and implementation of phase one of the South African Air Quality Information System. The contract amount was R4 874 800 over a period of 18 months – from 1 July 2007 to 1 January 2009. The project was carried out in partnership with the South African Weather Service.

1.1.1 The consultant did not have the required technical skills to procure computer equipment for hosting the server for the South African Air Quality Information System and a sub-contractor had to be appointed. Furthermore, the original design model proposed by the sub-contractor was not compatible with the department's system and had to be modified. The lack of skills and the incompatibility of the system stemmed from imprecise specifications in the terms of reference. Consequently, the initial 18-month contract was extended by nine months.

## 1.2 Stakeholder publication

The consultant was appointed on 25 August 2008 for the development, production and marketing of Bojanala, a stakeholder publication which assists the department in engaging with stakeholders on topical issues in the environmental and tourism sector. The contract was valued at R1 446 546 over 36 months, from 1 September 2008 to 31 August 2011.

- 1.2.1 The terms of reference was not clear and specific on the deliverables as it did not indicate the number of Bojanala publications required during the contract period. As part of the tender documentation, the consultant had to compile a production schedule for the development, production and marketing of Bojanala. This schedule provided for fewer publications compared to the previous Bojanala productions. As a result, the Bojanala publication to stakeholders was published quarterly instead of bimonthly. After two publications of Bojanala, the project was put on hold due to the anticipated division of the department into two departments.

## 2. TWO CONSULTANCY CONTRACTS WERE AWARDED BECAUSE PERMANENT STAFF WAS NOT AVAILABLE TO EXECUTE THE PROJECTS

The total cost of these contracts was R14 253 140. The following projects refer:

### 2.1 Assistance with financial services

Consultant appointed since 1999

The consultant was appointed since 1999 in critical positions such as CFO, financial project manager and advisor in the office of the COO. The types of appointment varied between secondment and single source appointments. The estimated remuneration paid to the consultant from 6 December 1999 to 28 July 2010 was R9 731 491.

- 2.1.1 The department did not have internal capacity between 2000 and 2006 as internal project managers were only added to the establishment during 2007. Difficulties were experienced in filling the positions from 2007, which resulted in the recurrent appointment of the consultant. The appointment of the consultant caused a lack of continuity and staff development within the department.
- 2.1.2 The consultant was appointed rather than employing staff on a contractual basis as per the Public Service Act.
- 2.1.3 Skills transfer was not specified in the terms of reference and contract. The department's supply chain management policy also did not specify the transfer of skills to departmental officials as a requirement. This resulted in the recurrent use of/ reliance on the consultant.

### 2.2 Assistance with the backlog in the approval of waste disposal sites

The consultant was appointed to assist with the backlog in the approval of waste disposal sites in South Africa at a cost of R4 521 649. The contract was for a period of one year, commencing on 15 January 2009.

2.2.1

Contract cost of R4,5 million could have been minimised or avoided

In January 2006, a lack of coordination resulted in the licensing function of waste disposal sites being transferred from the Department of Water Affairs, without the associated funding and resources. In 2007, the department initiated the appointment of a service provider to assist with the authorisation of waste disposal sites. However, budget reprioritisation resulted in the services being postponed, causing a backlog. The consultant was appointed in January 2009 to address this backlog in the approval of waste disposal sites. The contract cost of R4 521 649 could have been minimised or avoided had the necessary funding and resources been transferred at the same time as the function was transferred and/or if internal capacity was created.

### 3. PUBLIC PRIVATE PARTNERSHIP TRANSACTION ADVISOR

The consultant was appointed on 8 May 2007 as a Public Private Partnership (PPP) transaction advisor at a cost of R9 million for the procurement of the department's new building. The Department of Public Works and the National Treasury requested a feasibility study to determine the best procurement option for the new building. The feasibility study reflected that implementation through a PPP option offered the best value for money and the transaction advisor was appointed to assist in the procurement and bidding processes.

3.1

**Appointed consultant lacked skills, was not the highest scoring bidder and cost R5 million more**

The bidder with the highest overall score of 76,3 points, was not appointed, resulting in the department incurring additional costs of R5 million (the cost difference between the highest scoring bidder and the appointed consultant, including the variation order). The consortium appointed was the bidder with the highest score for functionality and an overall score of 62,13 points, second to the highest bidder.

Although the consortium was appointed because it was deemed to have had the best technical skills, the following deficiencies occurred:

- The consortium did not have environmental and heritage specialists, as required by the terms of reference. As these services were not included in the initial contract with the consortium, the department had to issue a variation order of R1 500 000 for their costs. Furthermore, these skills are recommended by *National Treasury PPP Practice Note Number 05 of 2004*
- The consortium did not comprehensively address the BEE criteria in their proposal and therefore did not comply with paragraph 6.4.5 of the terms of reference, which sets out the rules of bidding
- A comparison of the actual against the proposed deliverables indicated delays of up to 1 445 days in achieving the proposed deliverables, as reflected in table 7.

**Table 7: Proposed against actual deliverable dates**

DELIVERABLES	PROPOSED DELIVERABLE DATE	ACTUAL DELIVERABLE DATE	DELAY
1	15/07/2007	14/04/2008	273 days
2	16/09/2007	25/11/2009	800 days
3	15/01/2008	In progress as at December 2011	1 445 days
4	10/04/2008	In progress as at December 2011	1 360 days

3.2 Further instances of non-compliance with *National Treasury PPP Practice note numbers 3 and 4 of 2004*, as well as the code of conduct for bid adjudication committees, were identified during the appointment process of the PPP transaction advisor:

- The minimum score for function/technical was set at 30% whereas the recommended minimum requirement is 65%
- The evaluation of bids by the bid evaluation committee was not based on the BEE criteria as set out in the terms of reference communicated to the bidders
- The department did not appoint the National Treasury PPP unit's project advisor as a voting member on the bid evaluation committee
- The departmental adjudication committee did not independently review the tenders and validate the accuracy of the bid evaluation committee's evaluation to ensure the fair, consistent and accurate calculation of scores.



## 4. GREENING PROJECT 2010

The consultant was appointed to support the department with the development of a business plan for the Greening 2010 Programme at a cost of R264 480. The project period was from 30 July 2007 to 15 September 2007.

4.1

**Competitive  
bidding process  
not followed**

A consultant was appointed without following a competitive bidding process. As a result, it could not be determined whether the appointment was made to the best advantage and at the lowest possible cost to the department. The appointment was deemed urgent, as the commitment had not been communicated to the relevant departmental staff in time. However, the key elements of the definition of urgent cases, as defined in the SCM guide were not documented in the request for approval.

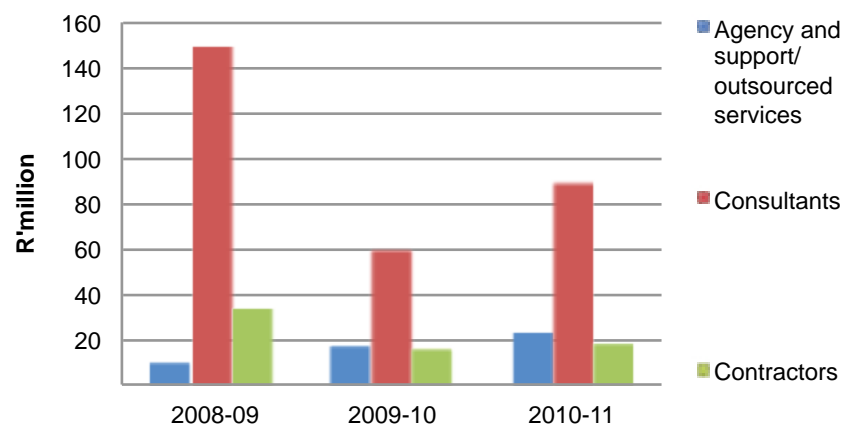
## C. COMMENTS FROM THE DEPARTMENT

1. The appointment of consultants at materially higher amounts than estimated and the significant delays in the appointment process of consultants has been addressed by the responsible officials and the chairperson of the departmental bid adjudication committee.
2. The department will instruct the project managers to link the milestones/deliverables with the progress payment to monitor performance and submit project reports to management.
3. The department has introduced a mechanism of monitoring where close-out reports and questionnaires completed by project managers would have to be submitted. This will enable the department to refer to these documents when future procurement decisions are taken.

Total expenditure on consultants (2008-09 to 2010-11)	R416 million
Number of projects audited	7
Value of projects audited	R301,6 million
Average vacancy rate (2009-10 to 2010-11)	28,8%

Graph 12 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 12: Total expenditure per year at Health**



## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. AUDIT OF PUBLIC SECTOR NURSING COLLEGES

A consultant was appointed at a contract value of R7 862 763 to audit all public sector nursing colleges to provide an indication of the status of these facilities, the programmes offered and capacity levels to develop revitalisation plans.

1.1

**59% vacancy rate resulted in consultancy project not being effectively implemented**

The deliverables of this project could not be effectively implemented due to a lack of permanent staff in the directorate that dealt with this project. As at 31 March 2010, 22 of the 37 (59,46%) positions were not filled in the human resource policy, research and planning directorate. This under-capacity would increase the risk of compromising future departmental initiatives relating to this project. This was attributable to an inadequate human resources plan and the moratorium on filling these posts.

## 2. CONTAINMENT OF WILD POLIOVIRUS INFECTIOUS MATERIAL

The department initiated a project on the laboratory containment of wild poliovirus infectious material in January 2009 at a cost of R896 810. The project had to be completed by 30 November 2009. The project originated from the World Health Assembly, which took action towards global polio eradication. The world will be declared polio free when the World Health Organisation (WHO) global commission for the certification of the eradication of wild poliovirus is satisfied that all regions are absent from wild poliovirus transmission for at least three consecutive years and that laboratories associated with wild poliovirus materials have implemented containment measures.

2.1 The department did not review the work done by the consultant on time, resulting in various deficiencies not being identified in a timely manner. For example:

- The March 2009 report did not address the areas required by the end-user
- The sample of laboratories to be audited was deemed inadequate by the WHO. The WHO indicated that 10%, which is approximately 90 laboratories on the database, should be audited. Since the consultant only made provision for auditing 15 laboratories (83% less than required) the sample had to be expanded.

As a result, the final report was submitted on 18 June 2010 – almost seven months late.

2.2

**Lack of capacity resulted in consultancy project not being effectively maintained**

Due to inadequate resource planning and the moratorium on the filling of vacancies, dedicated posts had not been created for the periodic monitoring and evaluation of these laboratories. The department, therefore, did not create internal capacity to:

- Continuously update the database of biological laboratories
- Monitor new laboratories and the changes in processes at existing laboratories.

## 3. DEVELOPMENT OF A NATIONAL INFECTION PREVENTION AND CONTROL MANUAL

A university was appointed at a cost of R873 411 to develop a comprehensive National Infection Prevention and Control Manual. It was submitted to the department in March 2009.

3.1 The department did not create specialised internal capacity at the time to coordinate and evaluate the results of the draft National Infection and Control Manual rolled out to the relevant stakeholders for vetting and input purposes. This was due to the moratorium on filling vacancies; in this case an infection prevention and control specialist. The department entered into an agreement with a donor agency to appoint an infection prevention and control specialist. The specialist was appointed on 1 April 2010 on a contractual basis.

**Lack of capacity will negatively affect project's objectives**

The objective of the manual is to serve as detailed information to complement the national infection prevention and control policy and strategy and its application at the various hospitals. As specialised internal capacity had not been created to facilitate the future implementation of the content of the manual, it will not be able to attain its objective.

#### 4. SITUATIONAL AND NEEDS ANALYSIS TOWARDS THE DEVELOPMENT OF A NATIONAL CALL CENTRE

A consultant was appointed at a cost of R476 320 to conduct a situational and needs analysis to develop a national call centre.

4.1

**90-day contract was finalised 10 months late**

During the planning of the project, the department did not consider all factors relevant to the timely completion of the project. In particular, the extent and availability of provincial role players were underestimated. This affected the project duration. The contractual timeframe for this project was 90 days from 1 February 2008, but the project was only finalised in February 2009 - 10 months late.

Due to the delays in the project, the impact of the Presidential Hotline, which was established in the meantime, was not taken into account. As a result, the recommendations emanating from the project may have to be revised.

#### 5. NON-GOVERNMENTAL ORGANISATIONS

The department funded three non-governmental organisations (NGOs) with an amount of R291,5 million to provide community based health-related services. Departmental transfer payments to the NGOs for the 2007-08 to 2009-10 financial years are summarised in table 8:

**Table 8: Payments to non-governmental organisations**

FINANCIAL YEAR	TOTAL
2007-08	R85 000 000
2008-09	R85 000 000
2009-10	R121 500 000
<b>Total</b>	<b>R291 500 000</b>

5.1 The department lacked formal and structured processes to verify performance-related statistics and data provided by the entities, and it could not be ascertained whether all relevant data and statistics from the NGOs fairly reflected the actual performance of these entities.

5.2 The department did not have formal guidelines to assess the feasibility of the objectives/targets as set out in the business plans of the NGOs. As a result, it was not clear whether certain objectives/targets could be met. In 2005, the Global Fund terminated funding of approximately US\$ 43 million over a three-year period to one of the three NGOs due to the following similar deficiencies:

- Measurement of performance
- Financial and accounting procedures
- Governance structures.

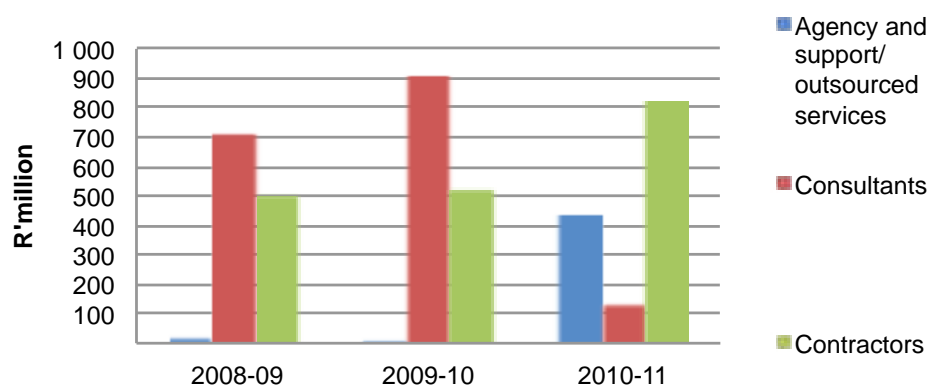
## B. COMMENTS FROM THE DEPARTMENT

1. The department's organisational structure has been reviewed and a new cluster of nursing services has been created, which will, among others, manage and monitor the human resource gaps at nursing colleges.
2. Internal capacity was subsequently created for the containment of wild poliovirus infectious material. The department has to monitor the new laboratories that enter the system and monitor the processes of existing laboratories in terms of handling potentially infectious materials. In order to fulfil the monitoring functions there is a human resource post that has these responsibilities. The post is currently vacant and is in the process of being advertised and filled.
3. The National Infection Prevention and Control Manual has been prepared by the consultant, peer reviewed by academics, reworked by the consultant and submitted to the department in November 2011. Final editing, layout and design will take place within the department with printing due to take place early in 2012. Regarding internal capacity, a post has been evaluated, created and funded. The department is in the process of seeking a suitable candidate in this specialised area.
4. With regard to the needs analysis for a national call centre, the national healthcare worker hotline has been established and its funding was approved by the National Treasury. The call centre will render support to the healthcare workers countrywide on clinical HIV and AIDS issues and challenges. Furthermore, the process for the national call centre is influenced by the tabling in Parliament of the National Health Amendment Bill that aims to establish an external Office of Health Standards Compliance as a national public entity.
5. With regard to NGOs:
  - The department conducts monitoring and support visits to the funded NGOs to monitor progress and relevance of the implemented activities to the agreed upon deliverables
  - The NGO framework and guidelines are being reviewed for alignment with new priorities and therefore business plans are also being revised where applicable. All NGOs submit quarterly reports detailing financial and performance output statistics. The data is analysed to assess the level of compliance with the approved business plan targets. NGOs are given feedback on their reports, especially in instances where the targets are not met. A remedial action plan is then developed and agreed to address gaps.

Total expenditure on consultants (2008-09 to 2010-11)	R4,039 billion
Number of projects audited	9
Value of projects audited	R596 million <sup>7</sup>
Average vacancy rate (2009-10 to 2010-11)	0,9%

Graph 13 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 13: Total expenditure per year at Police**



<sup>7</sup> This value is the best estimate of the audited projects since their inception

## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. DEVELOPMENT AND MAINTENANCE OF A FIREARM CONTROL SYSTEM

The department's SCM function for Information and Communication Technology acquisition was outsourced to SITA. SITA's procurement policy and procedures therefore had to be followed and SITA's Supplier Selection Authority (SSA) recommended that the tender be awarded at a cost of R102 557 796 for the core solution. After negotiations, the consultant for the development and maintenance of a Firearm Control System was appointed. The contract was signed on 30 September 2004 for an amount of R92 849 822 relating to the core solution.

1.1

**Four addendums gave rise to a total contract value of R412 542 779**

According to the contract, the parties agreed to amendments in the bill of material, project schedule, business process and technical gap as a result of changes to the business process and technical specifications provided for in the tender. The contract further stipulated that any further amendments or variations to the contract be recorded, planned, scoped, costed and approved by the Department of Police, and additional costs for the rendering of additional services must be agreed in writing and signed by both parties.

The head of information and systems management, as the delegated official, signed four addendums that gave rise to a total contract price of R412 542 779.

1.2

**Project not completed 70 months after the original contract handover date**

As at 31 March 2012, the department had paid the consultant R341 621 116 for contractual items. However, the Firearm Control System was still not completed 70 months after the system was to be handed to the department on 5 July 2006. According to the completion plan submitted by the consultant, dated 7 September 2012, an estimated 80% of the core solution was completed. However, the contract had been placed on hold since 30 August 2012 pending an internal investigation.

1.3

Despite the fact that the request for tender required the service provider to transfer skills to SITA staff, the department did not include a skills development plan in the contract. A skills development plan would have ensured that SITA resources were adequately equipped to maintain the system after its development and implementation.

## 2. REFURBISHMENT OF 200 NYALA VEHICLES

In February 2008, the department identified 200 Nyala vehicles to be refurbished before the end of February 2010 (before the 2010 FIFA Soccer World Cup). Two consultants were appointed at an estimated cost of R79 537 771. The first consultant (consultant A) was allocated 160 Nyala vehicles, to be refurbished at an estimated cost of R61 250 963, and the second consultant (consultant B) was allocated the remaining 40 Nyala vehicles at an estimated cost of R18 286 808. However, the total payments made to the consultants over the duration of the contract amounted to R176 753 043.

2.1

**The department underestimated the cost during the needs assessment**

During the needs assessment before appointing the consultants, the department underestimated the cost to refurbish these specialised armoured vehicles. The department had not refurbished any Nyala vehicles in the past, nor did the department have the required expertise and skills to perform accurate assessments and estimates.

As accurate budget and cost estimates could not be compiled, payments made to the two consultants were 122% higher than the original estimated contract value of R79 573 771. The department approved detailed quotations for each Nyala vehicle as per the contract specifications. However, in some instances the consultant effected repairs prior to the submission of the detailed quotation.

2.2 The cost increase resulted from the following:

- Both consultants' contracts were based on hourly rates and price per item, and did not include maximum contract values
- The Nyala vehicles were in worse condition than projected when they were collected and received from the respective provinces.

Furthermore, the Bid Adjudication Committee mentioned that the contract value was estimated and that it was impossible to determine the correct contract value. The Bid Adjudication Committee further indicated that R90 million was available for the contract and that more funds would be made available as required.

2.3 Consultant A and consultant B charged a project handling fee/markup of 15% and 30% respectively when subcontractors were used. The lack of contractual clarity on this matter resulted in an inconsistent application, where one consultant charged double the handling fee of the other. This resulted in an amount of R1 791 802 being levied and paid by the department as project handling fees/markup on the 19 Nyala vehicles tested.

2.4 The project deliverables were not met on time. The collective appointment was supposed to ensure that all the Nyala vehicles were delivered by 28 February 2010. However, 44 (22%) of the refurbished Nyala vehicles were delivered after the contracted delivery date.

**22% of the Nyala vehicles were delivered after the contracted delivery date**

**Table 9: Late delivery of refurbished Nyala vehicles**

SERVICE PROVIDER	ALLOCATED NYALA VEHICLES	NUMBER OF NYALA VEHICLES LATE	% LATE DELIVERY
Consultant A	160	20	13
Consultant B	40	24	60
Total Nyala vehicles delivered late	200	44	22

2.5 Consultant B did not request for an extension of the deadline despite 60% of the allocated Nyala vehicles being delivered late. The reasons for the delay included the following:

- Collection of the Nyala vehicles by the department in the provinces were delayed due to a lack of transport
- Inexperienced artisan personnel at the department increased internal costs and poor turnaround times
- Negotiations for competitive prices with subcontractors
- Many delays were caused by modifications and a dispute between the main and subcontractor about the workplace.

Of the 24 Nyala vehicles delivered late by consultant B, seven were delivered before the completion of the 2010 FIFA Soccer World Cup on 11 July 2010 and 17 were delivered after the FIFA World Cup, of which the last four were accepted by the department on 17 February 2011.

2.6 Consultant A requested that the department amend the agreed delivery date of 28 February 2010. The department did not approve the extension because it would place the preparations for the 2010 FIFA Soccer World Cup in jeopardy and hamper service delivery. Despite this, 20 Nyala vehicles (13%) were delivered after the contracted delivery date by consultant A.

2.7 No penalties were imposed on the consultants for the late delivery of the refurbished Nyala vehicles despite the conditions of the contract providing for penalties in instances of late delivery. The department also did not document the reasons for not imposing penalties, resulting in the auditors being unable to quantify the penalties taking into account all relevant factors.



2.8 The department did not comply with the conditions of the warranty on the refurbished Nyala vehicles, which prescribed services at 5 000km intervals and specified that they should be done by an authorised dealer/accredited technician. Of the Nyala vehicles refurbished by consultant A, 10 were inspected during the audit. Six were not serviced according to the conditions of the warranty during the warranty period. A total of seven Nyala vehicles were not serviced according to the department's policies subsequent to refurbishment. Of the Nyala vehicles refurbished by consultant B, nine were inspected during the audit. Three of the nine had had their odometers exchanged during refurbishment. Therefore, it could not be determined whether the three Nyala vehicles were serviced subsequent to refurbishment as required.

### 3. ADULT BASIC EDUCATION AND TRAINING

The department appointed a consultant (consultant C) on 18 October 2006 to provide services on the Adult Basic Education and Training (ABET) project for departmental staff at an average cost of R3 453 per learner over three years. Payments of R1 484 115 were made to consultant C. The contract was ceded to another consultant (consultant D) on 7 September 2007. This contract was subsequently cancelled on 30 October 2007 and a third consultant (consultant E) was appointed on 17 November 2008 for three years at an average cost of R4 132 per learner. Actual payments to consultant E during the contract period amounted to R10 240 119.

3.1 Discrepancies were found with the appointment of consultant C (consultant C was in partnership with consultant D):

- Consultant D's separate individual bid was disqualified during the bid evaluation process because it did not fully comply with the special conditions and the specifications
- Consultant D's tax clearance certificate was not submitted as part of the partnership's bid documentation

- The company and the VAT registration numbers were not consultant C's – they belonged to one of the other companies in consultant C's group of companies.

Terms of contract amended without written agreement

A discrepancy with regards to the interpretation of the contract arose during the second year of the contract as consultant C insisted that the department had included nine sites in the tender document, whereas the department had indicated the nine provinces of South Africa. Because its delivery method was computer based, consultant C believed that it would not be cost-effective to install information technology infrastructure at all the venues rather than at only the nine sites it had understood to be contained in the tender document. The contract was ceded to consultant D on 7 September 2007, notwithstanding elimination of consultant D's bid during the bidding process. Consultant D was unable to comply with the scope of the service and the contract was cancelled on 30 October 2007.

Consequently, the process of providing ABET learnership within the department was delayed by a year before consultant E was appointed on 17 November 2008.

3.2 The terms of consultant E's contract were amended. However, the amendment was not agreed in writing by all the parties concerned. This amendment arose because the payment modalities of the contract was based on a tariff per learner and not a total contract price.

Furthermore, consultant E was incorrectly paid according to the next year's rates for seven months during the first and second year, resulting in payments of R647 444, contrary to the contract conditions. This was because the department and the supplier agreed, without documenting the amendment, that the contract would run across financial years, ultimately running for 29 months and not the three years agreed in the contract.

## 4. INTERNAL AUDIT SERVICES

The department co-sourced the internal audit function and appointed a consultant on 4 December 2002 for a period of three years at a cost of R29,3 million. The contract cost increased by R17 273 088 due to an extension. The consultant was again appointed on 19 April 2007 to continue their services for another three-years at a cost of R33 894 000, which was extended at a cost of R6 778 800. However, the total payments over the duration of the two contracts amounted to R77 million instead of the contracted R87 million.

4.1 Some of the contractual obligations relating to formal training initiatives to the department's audit staff were not achieved for the three-year contract period from 2007. This was as a result of, amongst others, the difficulty experienced with scheduling due to the underestimation of the workload.

4.2 The department did not create an environment conducive to the consultants and internal audit staff performing their duties effectively. A lack of equipment, specifically laptops, within the internal audit division resulted in two or three members in a team sharing laptops. As the department used a software package to document their internal audit work, the lack of laptops hindered the provision of training by the consultants and the completion of work by internal audit staff appointed by the department.

The lack of laptops resulted in voluntary overtime being worked by internal audit staff to meet deadlines. The shortage of laptops for internal auditors varied from 42% in 2008, to 17% in 2009 and 61% in 2010.

A formal request for laptops for the new appointees was submitted on 2 April 2009. The equipment ordered was only delivered on 27 August 2010, 513 days after the request was submitted.

## B. KEY FINDINGS PER FOCUS AREA

### 1. CLOSING THE PROJECT

The department did not perform a retrospective analysis or assessment of the consultants' performance when a contract was closed to determine if value for money was obtained as per the SCM guide. This analysis was not done, when the contracts with the consultants who refurbished the Nyala vehicles and those who provided the internal audit function and Adult Basic Education and Training function were closed. This resulted in the department not being able to refer to reports when future services are needed.

## C. COMMENTS FROM THE DEPARTMENT

1. The department indicated that it is in the process of evaluating the outstanding Firearm Control System deliverables. A number of options are being considered for the completion of the system.
2. The department committed to the following:
  - A basket selection process was followed to determine the estimated value of the contract in view of the complexity of the specialised vehicle repairs. The same selection process, with a more representative basket will be used for determining the estimated expenditure of future similar contracts
  - Contracts and contractual obligations will be monitored more closely to ensure compliance thereto and decisions with regards to penalties will be documented
  - The bidders provided a price per component that included all prices such as handling fees, delivery charges etc. In other contracts of a similar nature established after this contract, provision has been made for a specific indication for the handling/markup fee
  - A project was registered for the armoured vehicles that will focus on the development of a strategy for the allocation, use, maintenance, refurbishment and disposal of the vehicles. The department's system was enhanced to provide for a timeous notification process to ensure compliance with the manufacturers' service intervals.
3. Contractual arrangements will be in writing so as to avoid confusion.
4. The department's internal audit section did not have the capacity or the skills to render internal audit services. Therefore the internal audit service function was co-sourced with a consultant. Without the consultant, no quality internal audit services would have been rendered. The consultant added value to the department.

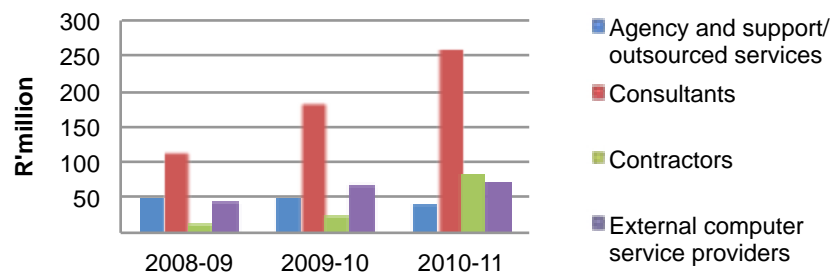
Since the contract with the consultant lapsed, internal auditors were appointed. With a current staff complement of 204 internal auditors, there will most probably never again be a need for co-sourcing or outsourcing as the internal audit function is now well established.

# DEPARTMENT OF RURAL DEVELOPMENT AND LAND REFORM

<b>Total expenditure on consultants (2008-09 to 2010-11)</b>	<b>R1,008 billion</b>
<b>Number of projects audited</b>	<b>13</b>
<b>Value of projects audited</b>	<b>R305,4 million</b>
<b>Average vacancy rate (2009-10 to 2010-11)</b>	<b>12,55%</b>

Graph 14<sup>8</sup> provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 14: Total expenditure per year at Rural Development and Land Reform**



<sup>8</sup>To be comparative, the graph for the 2010-11 consultants' expenditure excludes R26,3 million which related to the Comprehensive Rural Development Programme. The department only included this expenditure as consultant expenditure in the 2010-11 financial statements. Furthermore, external computer service providers were included as information technology consultants were used.

## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. SKILLS AUDIT AND HUMAN RESOURCES RE-ENGINEERING PROJECT

Two consultants were appointed in 2005 when the department embarked on a comprehensive review of the organisational structure.

- A consultant was appointed on 14 December 2005 at a cost of R8 759 000 to conduct a re-engineering process, which included the alignment of the organisational establishment and the development of an integrated human resource plan
- On 15 December 2005, another consultant was appointed to do a skills audit and the contract value was R11 176 077.

1.1

**Project not coordinated due to turnover of managers at the department**

The two consultants were appointed simultaneously, although the execution of the skills audit was dependent on the outcome of the re-engineering process. The turnover of senior staff managing the project resulted in the project not being coordinated. This further resulted in the following:

- The close-out report on the re-engineering project was completed in February 2007, seven months after the due date of July 2006
- The skills audit project was delayed for 12 months, mostly as it was dependent on the outcome of the re-engineering project.

1.2

**Consultancy  
project took 5  
years to complete**

The human resource plan was developed during the re-engineering project in 2007, but changes at the leadership level and the review and re-alignment of the organisational structure to the new mandates of the department delayed its approval. The human resource plan was only approved on 9 September 2011. This impacted on the staff structures

and the organogram as during the re-engineering and skills audit process, no new positions were approved unless specifically prioritised. It took approximately five years to complete the project after the close-out report on the re-engineering project was received.

- 1.3 Invoices amounting to R11 781 281 (selection from consultancies for the skills audit and re-engineering projects) were authorised for payment, but the invoices were not detailed and did not have supporting detail or documentation for disbursements. The following apply per project:

### Re-engineering project:

- Disbursement costs amounting to R871 132 were claimed at the agreed flat rate of 10% of the billed fees per invoice, but detail/evidence of the expenditure incurred was not included
- Invoices of R7 888 057 for professional fees were signed off and paid without evidence of progress monitored.

### Skill audit project:

- Disbursement costs amounting to R671 862 were claimed at the agreed rate of 12% of the billed fees per invoice, but detail/evidence of the expenditure incurred was not included
- Invoices amounting to R2 350 230 were signed off and paid although the description of services rendered were not detailed as per the approved project plan. Therefore, the progress invoiced could not be verified with the milestones achieved.

## 2. OUTSOURCING HUMAN RESOURCES RECRUITMENT

The department outsourced the human resources recruitment process from November 2006 to November 2008. The estimated activity-based cost projection was approved at R28,8 million. The contract was extended in November 2008 for one year at a cost of R21,7 million.

- 2.1 According to an internal memorandum, the department outsourced the human resources recruitment process because of the following:

- A lack of capacity at the human resources directorate
- Slow and lengthy recruitment processes
- The unavailability of interviewing panels
- Interviews being postponed
- Unclear policy regarding the application method and running time of advertisements and the compilation of submissions.

2.2 The service level agreement was only signed in November 2007, a year after the consultant commenced its services. This was due to a lack of contract administration to ensure that contracts were signed prior to consultants commencing with a project. During the period that the service level agreement was not signed, the department would not have been able to manage requirements and other deliverables as stipulated in the service level agreement.

2.3

**Project expenditure escalated by R19,9 million**

The expenditure incurred over the initial two years of the contract escalated to R48,7 million, which was R19,9 million more than the contract value of R28,8 million. This escalation was because there was no limit on the unit cost for activities over the duration of the contract.

2.4 The cost implications of notifying unsuccessful candidates were not properly evaluated at the commencement of the contract. During the contract period, comprehensive feedback was provided to all unsuccessful applicants. However, after the contract ended in November 2009, feedback to unsuccessful applicants by the department was limited.

### 3. VALUATION SERVICES

The average annual expenditure for valuation services over the 2007-08 to 2009-10 financial years was R25,9 million. All property valuation services for land restitution and land reform were contracted to consultants.

3.1 Management information was not compiled on the cost of valuation of properties. Without this, management was not in a position to evaluate the differences in cost for the valuations<sup>9</sup> or the valuation values<sup>10</sup> for properties and to provide guidelines to ensure consistency. The following variances were noted during the audit:

<sup>9</sup> The amount paid to the consultant/valuator for the service of valuing a property.

<sup>10</sup> The value that is placed on a property by the consultant/valuator.

- The purchase price of properties varied from the valuation values as determined by the valuers. In instances, the purchase prices varied between 50% less and 21% more than the valuation values of the properties. Reasons for these were not documented or analysed for management information purposes
- The valuers' cost incurred varied between 0,001% and 1,54% of the properties' valuation value. Management information on valuation cost incurred was not compiled and standardised.

### 4. DEVELOPMENT OF STATE LAND LEASING DEBTOR SYSTEM

In 2001, the department began a feasibility study to develop a State Land Leasing Debtor System. In compliance with the SITA legislation, the department contracted SITA to develop the system.

4.1 The department cited a lack of progress by the SITA to develop the system and appointed a consultant in December 2006 at a cost of R3 503 676 to develop a spatial and financial module.

4.2

**Complete system not in place despite need being identified in 2001, and consultants being appointed for full system development**

Although the consultant compiled a plan at the commencement of the project for the development of the software, it did not include the information technology infrastructure requirements. The required information technology infrastructure was therefore not available, which delayed the implementation of the system. Other challenges that delayed the complete implementation of the system included:

- Problems with network access
- The population of leases at the regions

- Findings from an internal audit on the development of the system.

Although the department identified the need for the system in 2001, the department does not currently have a system for the financial module of lease management as the implementation of the financial module was abandoned on 30 April 2011. The department cited the incompatibility of the financial and spatial modules to address the financial reporting requirements, which changed after the development of the system. Maintenance, hosting and licence fees paid for the period from February 2008 to April 2011 for the financial module amounted to R1 879 233.

## 5. INFORMATION AND COMMUNICATION TECHNOLOGY SUPPORT SERVICES

A consultant was appointed for information and communication technology support services on 15 August 2006, for 24 months at a contract value of R27 273 700.

5.1 For this contract the following was noted:

- Alternatives were not considered to address the need. For example, an analysis of the cost of appointing permanent staff versus the benefit associated with a consultancy was not performed to determine if it would be more effective to appoint people in a permanent capacity
- Five orders for project managers were subsequently issued and payments totalling R3 258 793 were made. No contracts detailing the objectives, responsibilities and deliverables were found for these project management services
- **Extension cost  
67% more  
than original  
bid price**

 This contract was extended three times, from October 2008 until March 2010, at a cost of R34 200 000. At the last extension, the cost per month was R1,9 million, 67% more than the initial bid price of R1 136 403 per month. The extensions were required as internal capacity was not established to perform

these services and the procurement process for the next contract was not concluded at the lapse of the consultant's contract period.

## 6. ESTABLISHMENT OF A PROJECT MANAGEMENT OFFICE

In 2007 the department appointed a consultant at an amount of R1 401 744 to establish a project management office.

6.1 The following were noted in respect of this appointment:

- The appointment was made at a rate of R580 per hour, while a bid from another consultant for R500 per hour was received. Reasons for the lower bid not being considered were not documented. Based on the estimated 2 120 hours needed for the project, the department paid an additional R169 600. Moreover, the R580 per hour charged by the consultant was R60 per hour more than the prescribed SITA rate for this service, which was R520 per hour
- Subsequently, additional consultants were required. These consultants were from the same consultancy firm as the project management office consultant and were also interviewed by this consultant. This resulted in the evaluation process not being independent and objective. Nine additional orders were issued for the additional consultants and payments of R5 850 021 were made
- Of the nine orders for additional consultants, three were for project administrators performing general project administration, including compiling minutes, keeping records and providing assistance as per the timesheets substantiating payments. Cost alternatives, such as appointing permanent staff or deploying other internal administrative staff to address the need, were not considered.

## 7. DEVELOPMENT OF CLAIM VALIDATION AND MONITORING SYSTEM

The department appointed a service provider in October 2006 at a cost of R4 313 304, to develop a claim validation and monitoring system. Another service provider was appointed for quality assurance testing at an amount of R2 274 300. The project was scheduled to start in November 2006, with a planned completion date of 30 April 2007.

7.1

**Incomplete project  
plan cost an  
additional  
R5,8 million**

The department signed-off the project plan and charter in February 2007. However, the project plan was incomplete, and required additional resources of R5 817 416 to mitigate the risk of not being able to implement the system. No terms of references were found for the additional resources, which emanated from the lack of contract administration.

7.2

The contract for quality assurance testing of the claim validation and monitoring system was time-based rather than a fixed price. Due to the delay in the development of the system, the time-based contract had to be extended. The cost for the same service was therefore increased by R1 433 141, which was 63% of the original contract amount of R2 274 300.

## B. COMMENTS FROM THE DEPARTMENT

### 1. FOR HUMAN RESOURCE RELATED MATTERS

- The changes at the leadership level and the review and alignment of the organisational structure to the new mandates of the department in 2009, delayed the approval of the human resource plan. The human resource plan has since been approved and the organisational structure is re-aligned to the new mandate of the department
- During the period under review, the department had a high vacancy rate and there was an urgent need to fill the posts to improve capacity for service delivery. The department is now using the DPSA accredited service providers to conduct competency assessments, the South African Qualification Authority to verify educational qualifications and advertising agencies to place advertisement in the newspapers. The internal security directorate is dealing with pre-employment screening.

### 2. VALUATION SERVICES

The department is busy with the policy review for rural development and land reform and the recommendation on management information is noted.

The department has undertaken a project that is aimed at analysing the use of valuers in the department. The purpose of the project is to identify gaps in the system and propose improvements. The department has already started implementing some of the preliminary recommendations that have emerged from the project. This includes creating a standard terms of reference for the valuation of different farms, which will make it easier to do cost comparisons and create an audit trail for the decision not to use the valuation report as a basis for the offer made to purchase.



### 3. INFORMATION TECHNOLOGY RELATED FINDINGS

For information technology services, the department has decided to build its own capacity on all skills levels instead of relying on service providers. The following strategies will be implemented in the new financial year.

- Replacing certain external service providers with internal staff
- A learnership programme to complement the existing internship programme
- Approve a new structure which will have more people than the current structure to enable managing the existing service providers better
- Strengthening the information and communication technology governance structure.

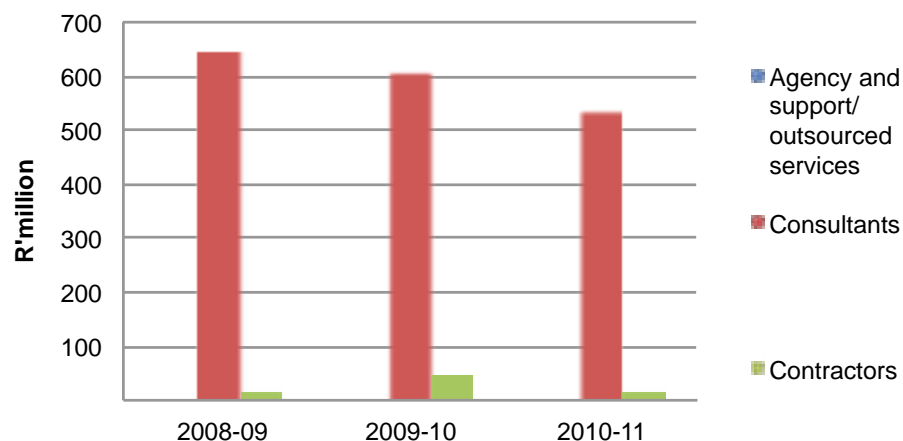
### 4. GENERAL

The department has created the enterprise portfolio management office, which aims to strengthen and support service delivery initiatives. This includes the prioritisation of high impact programmes and projects, and a turnaround strategy which is aimed at improving governance, management information and ensuring adherence to enterprise-wide project management principles.

Total expenditure on consultants (2008-09 to 2010-11)	R1,86 billion
Number of projects audited	16
Value of projects audited	R1,884 billion <sup>11</sup>
Average vacancy rate (2009-10 to 2010-11)	22,25%

Graph 15 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 15: Total expenditure per year at Transport**



<sup>11</sup> Includes three high-value long-term contracts of R640m (7 years), R594m (5 years) and R235m (5 years)

## A. KEY FINDINGS PER CONSULTANT/PROJECT

### 1. DEVELOPMENT OF ENATIS

A consultant (consortium) was appointed on a five-year contract to develop the Electronic National Traffic Information System (eNaTIS). The contract expired on 31 May 2007 and amounted to R594 million. Of the R594 million, R94,6 million was for the software development of the eNaTIS system.

Schedule 15 to the contract provided for the development of a transfer management plan, which was necessary to make provision for the orderly transfer of eNaTIS and services from the consultant to the state or third party provider. The former director-general invoked the transfer management provisions in May 2007.

1.1

**No transfer management plan on the eNaTIS and related services to the department after 5 years**

The consultant accepted responsibility for the transfer management plan in May 2007, but did not provide it. According to the contract, the transfer management period could be similar to the original contract period, in which case it should have been finalised by April 2012.

In the absence of a documented transfer management plan it was not possible to determine how the department envisaged transferring eNaTIS and services to the department/state by April 2012.

The department did not have the internal capacity to take over the management and maintenance of eNaTIS.

1.2

**R936,2 million was paid to the consultant over four years, which included services not in the contract**

The consultant was paid for additional services which did not form part of the contract. After the contract expired on 31 May 2007, it was agreed that the consultant would continue operating on a monthly basis. According to a legal opinion obtained by the department, dated 27 May 2011, the department was only obliged to pay for software maintenance during the transfer management period.

However, from 1 June 2007 costs unrelated to software maintenance were paid to the consultant. Payments to the consultant aggregated to R936,2 million for the period June 2007 to March 2011:

- R574 775 635 was paid between June 2007 and April 2010, which included R269 041 676 for additional services (refer to table 10 for a breakdown of this amount)
- R361 417 169 was paid between May 2010 and March 2011, which included payments for third party suppliers (a breakdown of this amount was not available).

**Table 10: Payments to consultant for the period June 2007 to April 2010**

CATEGORY	AMOUNT
Hardware and network maintenance	R84 221 619
Hardware resources	R15 646 968
Network resources	R20 088 149
Software	R305 733 959
Services on quotation basis	R72 145 886
Change notes <sup>12</sup>	R76 939 054
<b>Total</b>	<b>R574 775 635</b>

1.3 The consultant requested an extension of the contract for five years in April 2010.

**Five-year extension requested**

The Road Traffic Management Corporation were of the opinion that the contract should be re-advertised and that the rates charged by the consultant were high. The department, however, adhered to the consultant's request without a competitive bidding process being followed.

The department initiated a process of withdrawing the extension of the eNaTIS contract, but as at February 2012, the extension was still in place.

1.4 Following the audit, the department obtained a legal opinion on this matter. A number of similar aspects were raised by the legal advisor, for example:

- The legal advisor also requested a copy of the transfer management plan or an indication in the department's records of why it was not pursued
- The extension in May 2010 should have been subjected to a competitive procurement process

<sup>12</sup> A change note is an additional software development request and/or a request to change an existing approved software development

- In terms of the State Information Technology Act, 1998 (Act No. 88 of 1998), the department was obliged to buy information technology goods and services only through the State Information Technology Agency. The department did not have the power to procure information technology goods and services other than through the State Information Technology Agency.

## 2. TAXI RECAPITALISATION PROJECT

The department appointed a consultant in 2006 to develop, establish and manage the Scrapping Administration Agency in order to implement and manage the scrapping of old taxi vehicles. The contract amount was R639 928 000.

- 2.1 The department did not properly plan the Taxi Recapitalisation Project as the scrapping allowance and amount of taxis to be scrapped were not adequately considered during the project planning phase. The following are examples:

- The R50 000 scrapping allowance did not take inflation into account for the estimated 100 000 taxis. This amount was subsequently amended to include inflation
- Although data from eNaTIS was used to estimate the number of taxis, this data was understated and the number of taxis increased from 100 000 to 135 894.

**Deficient planning resulted in an increased budget of R2,1 billion**

The inadequate planning affected the estimated costs for the project. The extra taxis to be scrapped to meet the scrapping targets resulted in an additional budget of R2,1 billion, an increase of 29% on the original estimate of R7,5 billion. Detailed and accurate planning is important to enable the department to accurately project costs.

- 2.2 The service level agreement stated that the processed and sorted scrap metal shall be disposed of and the proceeds be utilised to benefit members of the taxi industry through a trust. The proceeds shall accrue to the contractor, who shall account for all such amounts to the department on a quarterly basis.

**Scrap metal proceeds could not be accounted for**

The quarterly reports could not be provided for audit purposes, and it could not be determined during the audit how the consultant's progress was monitored in the absence of such reports or what happened to the proceeds of the scrap metal.

## 3. MARITIME POLLUTION PREVENTION RESPONSE AND SERVICES

A five-year contract with a service provider to supply maritime pollution prevention response and service on the South African coastline, which amounted to R235 014 687, expired on 31 August 2008.

3.1

**Poor planning resulted in 3 extensions over 21 months costing R98 million**

The contract was subsequently extended three times over a period of 21 months, at a total cost of R98 248 061 by May 2010. Inefficient planning affected the various extensions, for example:

- For the first extension, the tender procedures and new terms of reference for the new contract were not finalised in time. The contract was extended three days before it was due to expire on 31 August 2008. A quorum was not present when the departmental bid committee met three days before the contract expired, due to the short notice period
- For the second extension, the advertisement period was inadequate and bidders did not have sufficient time to prepare tender documentation. A three-month extension was approved to allow bidders sufficient time to prepare bid documents
- For the third extension, concerns were raised relating to the objectivity of two of the evaluation committee members and the chairperson requested a legal opinion. In addition, the technical evaluation report was not detailed enough and had to be improved.

## 4. EVENTS MANAGEMENT PROJECT

The department appointed a consultant for an amount of R45 731 821 to manage the 2007 October Transport Month, two conferences, and promotions for the 2007 and 2008 Arrive Alive campaigns.

4.1

**Departmental staff changed project scope without approval**

The scope of the project was changed internally by a staff member without approval. Two more events were added to the scope of the consultant's work. The two additional events cost R4 322 626.

## 5. MANAGEMENT OF OCTOBER TRANSPORT MONTH

A consultant was appointed to manage the 2008 October Transport Month at a cost of R14 332 871.

5.1

The appointment was made only five days before the start of the project. The late appointment was because another consultant was appointed on this project without a competitive bidding process being followed. As a competitive bidding process had not been followed, that contract was cancelled 13 days before the start of the October Transport Month.

5.2

**Consultant had an unfair advantage over other bidders**

In addition, the following were found with respect to the consultant that was ultimately appointed:

- The consultant compiled the detailed strategies and framework for the 2008 October Transport Month project and, therefore, a conflict of interest arose due to its access to information on the project before bids were invited. This gave the consultant an advantage over other bidders
- Only 11 days of the minimum period of four weeks were granted to consultants to submit their proposals. The four week period is prescribed to allow bidders sufficient time to prepare their bid documents in order to meet the expectations and requirements of the department
- The consultant had already been notified of the appointment three days before the bid evaluation process was finalised and approved by the director-general.

## 6. FORMULATION OF NATIONAL AIRPORTS DEVELOPMENT PLAN

A consultant was appointed on 30 October 2007 to formulate a National Airports Development Plan at a cost of R10 165 100.

6.1

The appointment was made because the department lacked adequate staff and the available personnel did not have the skill and time to develop the deliverable. However, the project manager could not indicate how reliance on consultants will be decreased in the unit, especially since a plan to transfer and develop skills in the unit and the recruitment drive to attract and retain staff were not formalised.

6.2

**Project still not completed over 3 years after the deadline**

The project was not completed in time. The contract was signed on 30 October 2007 with a deadline of 30 October 2008. However, services were added to the scope of the project and the National Airports Development Plan was delivered to the department in March 2009. Stakeholder consultations were not conducted timeously to finalise the

plan for Cabinet approval because:

- The plan was only internally finalised in April 2010, 13 months after it was provided to the department
- The funding for the stakeholder consultation had not yet been approved.

This created the risk of the deliverable or parts thereof becoming outdated.

As at February 2012, the project was not yet completed.

## 7. FORMULATION OF NATIONAL TRANSPORT MASTER PLAN

The department appointed consultants to compile a National Transport Master Plan, which should focus on all modes of transport up to the year 2050. The cost of the project was R55 961 302.

7.1

**Lack of capacity  
cause reliance on  
consultants**

There were insufficient positions on the staff establishment for the implementation, monitoring and editing of the National Transport Master Plan. The plan was completed in April 2010 and requires updating at least every five years until 2050 due to various changes such as population growth. The current structure provides for seven temporary positions; however, the National Transport Master Plan team indicated that a structure of approximately 16 positions is needed, which increased the risk of reliance on consultants.

## B. COMMENTS FROM THE DEPARTMENT

1. The department indicated the following with regards to the eNaTIS contract:
  - National Treasury approved a fully capacitated trading entity from where the management and operation of eNaTIS will be performed and all services provided by the consultant will be transferred to the trading entity. The department is in the process of establishing the trading entity
  - The department appointed consultants to assist with negotiations with the service provider to facilitate the transfer of services to the department or another service provider or both, based on the legal advice received
  - A determination would be done on whether there is a need for further software development or only maintenance of the current software.
2. For the taxi recapitalisation project the department indicated the following:
  - A departmental official was appointed as a representative on the board of trustees for the taxi scrapping trust fund to oversee proceeds and expenditure of the trust
  - Submission of quarterly reports will be enforced by the withholding of payments to the service provider.
3. Legal action was taken against the project manager responsible for the events management project and the person was dismissed for failure to properly manage the contract. A summons for R2 908 563 will also be issued against the consultant for incorrectly charging the department handling fees.
4. With regard to the formulation of the National Airports Development Plan, the strategic plan for 2012-13 to 2014-15 proposes to broaden stakeholder consultation, with a final review in 2012-13 and Cabinet approval and implementation in 2013-14.

5. With regards to the formulation of the National Transport Master Plan, an organisational chart for the chief directorate: macro sector planning was drafted. A directorate: master planning, implementation and review was created to develop, implement and review the National Transport Master Plan.
  6. The department will consider execution and finalisation of the following projects based on its priorities and availability of funding:
    - Stakeholder consultations on the National Airport Development Plan
    - National railway safety policy will be concluded through the finalisation of parliamentary processes
    - Capacity for monitoring the implementation of National Transport Master Plan by stakeholders will be created.
- Long-term career planning should be incorporated into the human resource plans
  - The department should have their own specialists to identify areas where consultants are needed, to properly plan for the use of consultants and to monitor the work performed by these consultants.

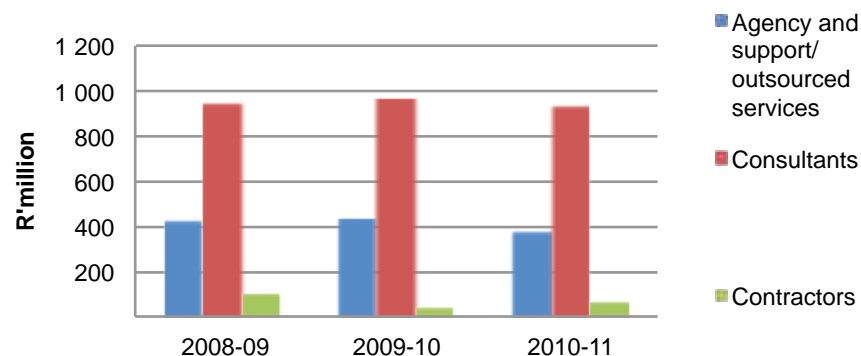
## **C. COMMENTS FROM THE PORTFOLIO COMMITTEE CHAIRPERSON**

1. The portfolio committee chairperson made the following comments:
  - The department's reliance on consultants is, to a large extent, the result of people with existing skills not being used in the correct roles and/or positions
  - The departmental structures also do not always support the department in executing its mandate without the involvement of consultants to perform core functions.
2. The chairperson further indicated that the following should be implemented by the department:
  - Human resource planning should have short-, medium- and long-term objectives to ensure a sustainable workforce

<b>Total expenditure on consultants (2008-09 to 2010-11)</b>	<b>R4,263 billion</b>
<b>Number of projects audited</b>	<b>25</b>
<b>Value of projects audited</b>	<b>R953,6 million<sup>13</sup></b>
<b>Average vacancy rate (2009-10 to 2010-11)</b>	<b>30,7%<sup>14</sup></b>

Graph 16 provides a breakdown of the consultant expenditure per category and per financial year.

**Graph 16: Total expenditure per year at Water Affairs**



<sup>13</sup> Includes a project on the implementation of a strategy relating to the Working on Fire programme where the contract value was R385 236 000 – this amount includes payments in respect of the Expanded Public Works Programme

<sup>14</sup> Vacancy rates decreased from 46,1% to 15,4% due to the departmental changes after the 2009 election. The Forestry directorate moved to the Department of Agriculture, Forestry and Fisheries

## A. KEY FINDINGS PER FOCUS AREA

### 1. LACK OF PERMANENT STAFF

1.1

**Lack of capacity resulted in 64% consultancy projects being core services**

The average vacancy rate increased from the 2007-08 to the 2009-10 financial year and some consultants were appointed to perform core functions due to a lack of capacity. The department did not conduct cost/benefit analyses to determine the impact of appointing consultants compared to creating/filling internal capacity. In the absence of a cost/benefit analysis, there

was a risk that the appointment of consultants was not the most economical and beneficial decision. Table 11 provides a breakdown of the vacancies for the three financial years 2007-08 to 2009-10 as reported in the department's annual reports.



**Table 11: Vacancy rates from 2007-08 to 2009-10**

FINANCIAL YEAR	NUMBER OF POSTS	NUMBER OF POSTS FILLED	VACANCY RATE
2007-08	15 752	12 631	20%
2008-09	16 806	12 276	27%
2009-10	19 879	10 712	46%

1.2 The audit identified a number of projects that formed part of the core functions of the department, but which were outsourced to consultants. Outsourcing core functions on a regular basis creates a risk to the department as it affects business continuity and the institutional knowledge required to deliver on the department's mandate.

In the 2007-08 financial year 143 projects were outsourced, 19 (13%) of which were for core services. In the 2008-09 financial year, this increased as 32 (33%) of the 98 projects outsourced were for core services. Graph 17 illustrates these estimated comparisons between core-function projects and total projects.

**Graph 17: Comparison between total projects and core function projects outsourced**

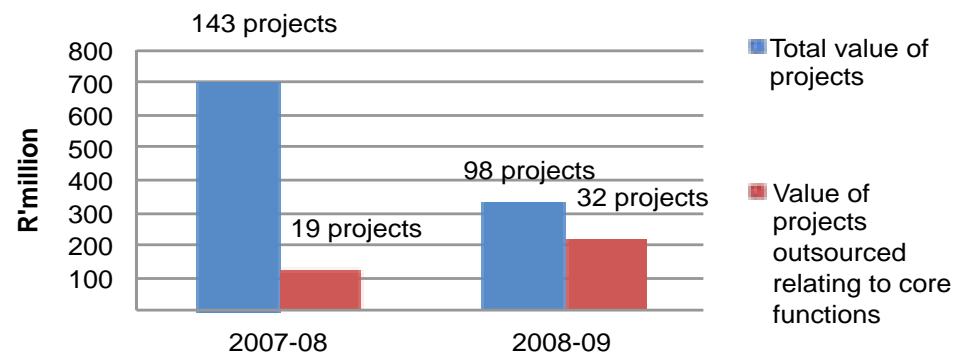


Table 12 provides an overview of the audited projects that were outsourced to consultants because the department lacked capacity and skills. It is further classified between core and non-core functions.<sup>15</sup>

**Table 12: Audited projects outsourced due to lack of capacity and skills**

PROJECTS OUTSOURCED DUE TO A LACK OF SKILLS/ CAPACITY	TOTAL PROJECT VALUE	PERCENTAGE OF PROJECT COST	NUMBER OF PROJECTS	PERCENTAGE OF PROJECTS
Projects that involved core functions	R444 509 367	47%	14	64%
Projects that involved non-core functions	R492 474 742	53%	8	36%
<b>Total</b>	<b>R936 984 109</b>	<b>100%</b>	<b>22</b>	<b>100%</b>

<sup>15</sup> The differentiation between core and non-core functions was not always clear.

## 2. EXTENSION OF CONTRACTS

14 projects  
contained 46  
variation orders  
costing  
R508,5 million

Contracts were regularly extended by means of variation orders. A total of 46 variation orders amounting to R508 466 259 were approved for 14 (56%) of the 25 projects included in the audit (refer to table 13). The variation orders were, on average, 141% of the original contract value.

Of the 14 extended contracts, 11 cases were identified where additional scope was added to the contract or where the terms of references were incomplete and resulted in variation orders amounting to R255 292 985 (refer to table 13). As the additional work was not subject to competitive bidding, it could not be ensured that the project extensions were done in the most economical manner. It is imperative that a thorough needs analysis and assessment of the project deliverables be conducted prior to the commencement of the projects to ensure that the contract requirements are complete upon appointment of the consultants.

The variation orders were caused by the following:

- Departmental deficiencies
  - There were delays with the restructuring process and the filling of vacancies
  - The department did not have sufficient capacity and skilled personnel, and used consultants to perform certain functions
  - The department did not plan properly to enable the consultants to achieve the desired objectives
  - Delays were experienced in the recruitment of staff to take over functions from the consultants
- Changes in project scope
  - The department did not create a conducive environment for the consultant to effectively achieve its deliverables
  - Skills were not always transferred due to a lack of departmental personnel, despite it being a requirement of the terms of reference
  - Terms of references were drafted up to eight months before the consultants were appointed. Information was therefore outdated, which contributed to the changes in scope
  - Additional services were added and, in some cases, bore no relation to the original scope
  - Needs were identified during the execution of the original project scope. These needs were then added to the project scope
- Incomplete terms of references
  - Consultants performed work necessary for the successful achievement of the deliverables that was outside the scope of work. This was caused by the incomplete terms of references
  - The project needs assessment and planning were inadequate, which resulted in incomplete terms of references. As a result, the extent to which services were required from the consultants was not determined in advance and additional work had to be done by the consultants to achieve the deliverables.

**Table 13: Extent and underlying cause<sup>16</sup> of approved variation orders**

PROJECT	ORIGINAL CONTRACT VALUE	VARIATION ORDERS (TOTAL)	TOTAL CONTRACT COST (ORIGINAL COST + VARIATION ORDERS)	VARIATION ORDERS AS % OF ORIGINAL CONTRACT VALUE	NUMBER OF VARIATION ORDERS	PERIOD OF EXTENSION (MONTHS)	REASONS/CAUSES FOR VARIATION ORDERS		
							DEPARTMENTAL DEFICIENCIES	CHANGE IN SCOPE/ ADDITIONAL SERVICES	INCOMPLETE TERMS OF REFERENCES
Provision of financial managers for the implementation of the accrual-based accounting system*	R10 909 197	R92 346 581	R103 255 778	847%	3	29	R92 346 581		
Provision of SAP power users on the implementation of the accrual-based accounting system*	R6 963 840	R87 227 033	R94 190 873	1 253%	11	27	R74 308 825	R12 918 208	
Provision of specialists for the SAP implementation (1)*	R11 755 200	R29 511 708	R41 266 908	251%	9	13	R29 511 708		
Provision of specialists for the SAP implementation (2)*	R5 909 760	R3 400 000	R9 309 760	58%	1	6	R3 400 000		
Provision of fixed asset experts to supplement the fixed asset unit*	R14 999 040	R49 487 943	R64 486 983	330%	5	16	R44 606 160	R132 000	R4 749 783
Improvement of revenue management function of the Water Trading Entity*	R25 688 997	R24 200 000	R49 888 997	94%	2	7			R24 200 000
Improvement of operational efficiency of the Water Trading Entity*	R47 714 496	R8 000 000	R55 714 496	17%	1	Not applicable		R8 000 000	
Facilitation and support to the National Sanitation Programme unit*	R7 690 000	R4 700 000	R12 390 000	61%	2	Not available		R4 700 000	
Assistance at National Sanitation Programme unit*	R4 000 000	R2 700 000	R6 700 000	68%	2	8		R2 700 000	

<sup>16</sup> In some cases the amounts that are classified as underlying root causes for the variation orders are not the exact figures. Some of the amounts should be divided between more than one cause, but the division could not be calculated and the full amount was put under the most significant cause for the variation order

PROJECT	ORIGINAL CONTRACT VALUE	VARIATION ORDERS (TOTAL)	TOTAL CONTRACT COST (ORIGINAL COST + VARIATION ORDERS)	VARIATION ORDERS AS % OF ORIGINAL CONTRACT VALUE	NUMBER OF VARIATION ORDERS	PERIOD OF EXTENSION (MONTHS)	REASONS/CAUSES FOR VARIATION ORDERS		
							DEPARTMENTAL DEFICIENCIES	CHANGE IN SCOPE/ ADDITIONAL SERVICES	INCOMPLETE TERMS OF REFERENCES
Implementation of strategy relating to the Working on Fire programme*	R194 200 000	R191 036 000	R385 236 000	98%	2	12		R191 036 000	
Aligning the human resources directorate*	R16 192 896	R9 000 000	R25 192 896	56%	1	6	R9 000 000		
Preparation of the bid to host the sixth World Water Forum in 2012*	R256 500	R2 205 564	R2 462 064	860%	3	5			R2 205 564
Provision of deployment and support of the drinking water quality management system	R2 800 000	R2 723 200	R5 523 200	97%	3	Not available			R2 723 200
Assistance with development of water reconciliation strategies*	R12 082 505	R1 928 230	R14 010 735	16%	1	Not applicable			R1 928 230
<b>Total</b>	<b>R361 162 431</b>	<b>R508 466 259</b>	<b>R869 628 690</b>	<b>141%</b>	<b>46</b>		<b>R253 173 274</b>	<b>R219 486 208</b>	<b>R35 806 777</b>

\*The department motivated the appointment on the basis that internal skills and resources were not available to perform the task.

### 3. DIFFERENCES IN PRICE

Inadequate contract management and monitoring of 3 projects cost R7,2 million

Three contracts were identified where the bid price and the contract price differed. No reasons for the differences were documented. The price differences totalled R7,2 million and were caused by inadequate contract management and monitoring. The following contracts refer:

- Assistance at National Sanitation Programme unit: R690 000 increase from bid price to contract price. The contract price was further incorrectly increased by R2 000 000 when a variation order was issued
- Implementation of a strategy relating to the Working on Fire programme: R2 200 000 increase from bid price to contract price
- Research relating to the Working for Water Programme: The project consisted of three individual consultancy contracts which were concluded at R2 323 210 more than the aggregated amount of the individual contracts.

## B. KEY FINDINGS PER CONSULTANT/PROJECT

Different consultants were appointed to work on projects of a similar nature. The risk of appointing different consultants on similar projects was that the overall costs and departmental objectives were not considered and could have led to different priorities and outcomes. Paragraphs 1 to 3 provide examples of such instances:

### 1. FIVE CONSULTANCY CONTRACTS WERE AWARDED TO IMPLEMENT THE ACCRUAL-BASED ACCOUNTING SYSTEM, WHICH INCLUDES SAP IMPLEMENTATION AND TRAINING

The total cost for these consultants was R250 023 319. The details are provided below.

#### 1.1 Provision of financial managers to implement the accrual-based accounting system

A consultant was appointed to provide financial managers to implement an accrual-based accounting system. The contract was approved in March 2006 for R10 909 197 and was scheduled to conclude in March 2007. The total cost of the contract increased to R103 255 778 due to variation orders. The contract ended on 31 August 2009.

1.1.1

Actual project expenditure could not be determined

The actual expenditure incurred on this specific project could not be determined because project expenditure was not reconciled and monitored. In response to the auditor's request for an expenditure report, the department reported that a disbursement report could be drawn for the consultant, but the expenditure for this specific project would not be separately reflected as the consultant may have done work on other projects as well. Consequently, the actual amount spent on the project could not be confirmed.

1.1.2 According to a quotation for 15 consultants for the third variation order, the average cost paid for these additional consultants was R111 408 per consultant per month excluding disbursements and VAT. Information regarding how much would have been paid for permanent staff on a comparative basis was not available.

1.1.3 Although included in the terms of reference as a deliverable, the transfer of skills was not effective. Delays in the internal restructuring process led to delays in the recruitment process and resulted in a general lack of skilled departmental resources. Consequently, skills could not be transferred.

## 1.2 Provision of SAP power users to implement the accrual-based accounting system

A consultant provided SAP power users to support and train departmental personnel with the implementation of the accrual-based accounting system. The original contract was R6 963 840, but subsequently increased to R94 190 873 due to variation orders. The contract was approved on 4 August 2006 and was scheduled to conclude on 1 March 2007. The internal request for approval stated that skills transfer was one of the primary objectives in appointing the consultant.

1.2.1 **11 extensions caused by a lack of capacity to be trained to take over the function**

Skills to perform the accounting function on the accrual-based accounting system were only transferred to a limited number of staff members, despite this being one of the primary objectives at the commencement of the project. The limited capacity available for training was a contributing factor to the contract being extended eleven times. As a result of the limited training, departmental officials could not effectively take over the function from the power users at the end of the contract and the department remained reliant on the use of consultants.

## 1.3 Two contracts for the provision of specialists for the SAP implementation

Two consultants were consecutively awarded contracts to provide six documentation and training specialists to continue the SAP implementation. Both contracts were approved on the basis that the department did not have the necessary skills and knowledge to perform the tasks.

- The first appointment was approved on 3 February 2006, with a contract value of R11 755 200 and was due to expire on 31 August 2006. The cost increased to R41 266 908 due to variation orders
- The second appointment was approved on 30 November 2007, with a contract value of R5 909 760 and was scheduled to conclude in October 2008. The cost increased to R9 309 760 due to variation orders.

1.3.1 The first consultant's contract value was increased with nine variation orders. Motivations for the variation orders included planning deficiencies by the department to achieve the desired objectives; and delays in finalising the restructuring process and the filling of vacancies. The last variation order had a quotation of R3 800 924 for an extension of two months, which revealed that the average cost per consultant per month was R86 385 inclusive of VAT. Information regarding how much would have been paid for permanent staff on a comparative basis was not available.

1.3.2 **Second consultant appointed due to lack of capacity to be trained to take over the function**

The department was in the process of recruiting officials to undergo training as SAP trainers and to take over the function from the first consultant. However, a second consultant was appointed to provide the same service despite the department's initial intention to appoint its own super users to provide this service at a reduced cost.

This was due to departmental planning deficiencies in creating permanent internal capacity. It was further indicated that a fourth cycle of training was needed to cover the retraining of staff as well as the training of new recruits due to new developments and enhancements on the system.

- 1.3.3 SAP trainer skills were not transferred because the department did not recruit officials to undergo training to take over the function from the consultants. The absence of the skills transfer contributed to the variation orders and to the appointment of the second consultant. This resulted in the continued use of consultants at additional cost to the department.

The lack of skills availability/transfer ultimately resulted in the two consultants being appointed to provide the same service at different times.

## 1.4 Provide change management resources for the SAP project office

A consultant was appointed on 23 November 2007 by the department for the provision of change management resources for the SAP project office at a cost of R2 000 000.

## 2. FOUR CONSULTANCY CONTRACTS WERE AWARDED TO ASSIST THE FIXED ASSET UNIT

The total cost for these contracts was R77 438 492. The details are provided below.

### 2.1 Three contracts for the provision of fixed asset experts to supplement the fixed asset unit

Three contracts were awarded to two consultants to provide fixed asset experts to supplement the fixed asset unit at a total cost of R67 986 692.

- The first consultant was appointed to provide fixed asset experts to supplement the departmental fixed asset units in the daily management of fixed assets. The contract was approved on 14 August 2006 for R14 999 040 while the bid amount was R13 777 484, and was to conclude on 31 March 2008. The cost increased to R64 486 983 due to variation orders
- The second consultant was appointed in September 2006 for R2 850 000 to conduct a full verification of departmental moveable fixed assets; to roll out the latest version of the BAUD software (a bar coded asset audit system); and to manage the asset register on the BAUD system. This consultant was re-appointed in February 2008 on a three month contract at a cost of R649 709.

2.1.1 During the contract period, asset management skills were not transferred due to capacity limitations. Consequently, the use of consultants could not be limited both during the tenure of the contract and for future asset management requirements.

2.1.2

**Department did not support the consultant in effectively achieving deliverables**

The consultant encountered challenges during the project due to a lack of support from the department. Some deliverables could not be achieved efficiently, and some not at all. The challenges cited in the consultant's close-out report and listed below could have been avoided had effective planning and monitoring taken place:

- A constant change in managers at the department affected the process negatively
- There was a lack of supporting documentation from the department and some assets could not be found. The submission of source documentation by the department was delayed
- There were system challenges with the department's accounting software, which resulted in material differences between the asset register balance and the trial balance

- Some deliverables were not achieved as they were dependent on human resources and the overall budgeting process of the department
- Departmental personnel did not have access to the asset management software and all updating activities on the register were done by another consultant. This resulted in the use of registers compiled on Excel for the asset management.

2.1.3 There were cost differences between the consultant's close-out report and the departmental expenditure report. The approved project value and variation orders amounted to R63 265 427 (calculated at the proposed bid amount of R13 777 484 and variation orders of R49 487 943), but according to the consultant's report the total cost was R70 921 953. The expenditure report submitted by the department indicated the total cost as R67 467 707. The differences of R7 656 526 and R4 202 280 could not be substantiated.

2.1.4

**Two consultants appointed concurrently to manage assets**

The consultants were appointed concurrently to manage assets. The department did not provide adequate clarification of the roles of the consultants, which caused confusion and resulted in two different asset registers being presented to the auditors during the 2006-07 financial year. This led to negative audit opinions on the

Main Account and the Water Trading Entity.

## 2.2 Two individual consultants to provide assistance on fixed assets

**No competitive bidding process**  
**No cost/benefit analysis**  
**No skills transfer**

Two individual consultants were appointed to provide assistance in the fixed asset unit on findings raised by the Auditor-General in the regularity audit report for the 2007-08 financial year. These findings related to property, plant and equipment, buildings and other fixed structures. Table 14 provides details of the appointments.

**Table 14: Details of appointed consultants**

CONSULTANT	APPOINTMENT PERIOD	PAY-RATE	ACTUAL PAID DURING 2009-10	AVERAGE HOURS WORKED PER MONTH
Consultant 1	17 February 2009 – 16 February 2012	R560 per hour	R1 240 820 (12 months)	185
Consultant 2	1 July 2009 – 30 June 2012	R850 per hour	R1 428 607 (9 months)	187

2.2.1 The consultants were appointed to assist in the office of the CFO and on the Water Trading Entity and regional offices, without following competitive tender procedures. As competitive bidding processes were not followed it could not be determined if these appointments were the most cost-effective alternative.



2.2.2 In addition, the department did not conduct a cost/benefit analysis on the cost of appointing consultants versus the cost of appointing employees.

2.2.3 The contracts of the two consultants did not make provision for the transfer of knowledge and skills. As a result, skills were not formally transferred to internal staff to avoid similar issues being raised in future audit reports.

### 3. TWO CONSULTANCY CONTRACTS WERE AWARDED TO ADDRESS AND MONITOR OPERATIONAL ISSUES AT THE WATER TRADING ENTITY

Functional and monitoring deficiencies by Water Trading Entity personnel were cited as reasons for these two projects. The total cost for these contracts was R97 603 493. The details are provided below.

3.1 **Deliverables not completed but full contract amount of R49,9 million paid** A consultant was appointed to provide for the re-engineering and re-organisation of the revenue management function, including billing operations and management, accounts administration and debt collection. The contract was approved on 4 May 2007, with a value of R25 688 997 over 12 months. This increased to R49 888 997 as the department issued variation orders.

It underestimated the work to be done and included additional work to the contract, such as finalising organisational structures and implementing business processes. The initial contract was extended to 31 December 2008.

Despite certain deliverables such as the development of appropriate structures and the implementation of business processes not being completed, the full contract value was paid by the department.

3.2 Another consultant was appointed to improve the operational efficiency of the Water Trading Entity, including incorrect billing, unauthorised debit and credit notes, a lack of maintenance of customer accounts and unallocated deposits. The contract was approved on 10 October 2008 for R47 714 496 and was scheduled for completion on 12 October 2010. Incomplete planning by the department led to incomplete terms of references. Inefficiencies in other workstreams to be addressed by the consultant, such as asset management, financial accounting, management accounting and supply chain management were also added to the scope. This necessitated the consultant replacing team members with others that had broader skills. As a result, hourly rates increased for 17 consultants by an average of 38%, with the rates of two consultants increasing by 75% - from R830 per hour as per the contract to R1 450 per hour. The approval of the rate adjustment was done after the contract had already been awarded. This approach did not ensure that the procurement was transparent and cost-effective.

3.3 **Primary objective of consultant's appointment not met** Skills to improve the operational efficiency of the Water Trading Entity were not transferred despite this being a primary objective of appointing the second consultant. The consultant's close-out report for the re-engineering and re-organisation of the revenue management function indicated that the development of appropriate structures for personnel to receive training during the efficiency drive was not achieved. This was due to time and budgetary constraints. As a result, permanent staff members were not available to receive training.

3.4

**Additional unrelated services awarded to consultant by means of extension of contract**

The second consultant was furthermore assigned to perform a forensic investigation focusing on construction units and fixed assets. This assignment was awarded by means of an extension (variation order) to the existing contract. This variation order was approved on 15 January 2010 at a cost of R8 000 000. As it was not subject to competitive bidding, there was no

assurance that this new service was procured in the most economical manner. Furthermore, this consultant had previously provided the department with fixed asset experts to supplement the fixed asset unit in the daily management of fixed assets (including construction). Therefore, the forensic audit assignment could be in conflict with its previous project as it would be investigating its own work.

#### **4. TWO CONTRACTS FOR THE CLEARANCE OF SUSPENSE/ CONTROL ACCOUNTS**

The consultant was appointed to clear the suspense/control accounts of subsistence and travelling advances and salary reversals for both the Main Account and the Water Trading Entity within the period March 2007 to June 2007. Two contracts were awarded to the consultant for the same service, but for different financial years.

- The first contract was approved on 20 April 2007 at a cost of R1 900 000 for 24 months
- The second contract was approved on 1 February 2008 at a cost of R1 498 019 for seven months.

4.1 On the first contract, the consultant did not clear the suspense accounts in the timeframe specified. Despite the non-completion of the deliverables, the department signed a second contract with the consultant.

4.2 The terms of reference did not include the transfer of skills as a deliverable, even though the department did not have the skills. Thus, the department did not create its own internal capacity to clear suspense accounts in future and the department relied on the use of the consultant. The reliance is confirmed by the consultant being appointed a second time to perform the same function.

4.3 On the second contract, the consultant requested a variation order, but this was not approved by the department. R1 315 789, which is 88% of the contract value, was paid to the consultant although only 48% of the work was done. The department did not monitor the consultant's work regularly to ensure progress. A lack of cooperation by the department and the non-availability of files resulted in the project not being completed. The project manager indicated that the incomplete portion of the work was done by departmental personnel.

**2nd contract signed with consultant despite 1st contract's deliverables not being completed**

## 5. ALIGNING THE HUMAN RESOURCES DIRECTORATE

The consultant was appointed to strategically align the human resources directorate, perform competency assessments and draft human resource plans and policies. The contract was for R16 192 896 and was scheduled to conclude in September 2008. The cost increased to R25 192 896 due to a variation order.

5.1

**Lack of skills transfer resulted in reliance on the consultant**

Skills could not be transferred to departmental staff due to inadequate human resource management. This was caused by the lack of a proper competency assessment to determine the degree of, and time needed for, skills transfer by the consultant. This was despite part of the reason for the contract extension being to ensure the correct level of skills transfer. As a result, departmental officials were unable to effectively take over the function of the consultant and the department remained reliant on the consultant's services.

## 6. DEVELOPMENT OF WATER SECTOR REGULATORY FRAMEWORK

The consultant was appointed to develop a water sector regulatory framework to cover the regulation of the entire water value chain and all the institutions involved in the management of both raw and potable water. The contract of R5 500 000 was approved on 28 May 2008 for ten months, to conclude in April 2009.

6.1

**Bids were not comparable due to incomplete terms of references**

The terms of reference was incomplete, which impacted on the estimated cost as well as the values of the bid proposals. Although the bid evaluation committee noted that the complexity of the activities and amounts were underestimated, and informed the departmental control committee of the incompleteness of the terms of reference, the terms of reference was not revised and put to tender again.

This resulted in bids not being comparable. For example, the budgeted cost was R3 500 000, but the contract amount was R5 500 000. The values of the other bidders ranged between R692 755 and R1 376 980.

6.2

The water sector regulatory framework had not been approved by the department 16 months after being submitted. Reasons for not approving the document could not be provided. An amount of R5 300 000 was paid for the service. Late approval of the document might result in the framework becoming obsolete, which would make the related cost fruitless.

## 7. JOB EVALUATION

The consultant was appointed to conduct and enhance job evaluation for the department. The contract was approved on 24 October 2008 for R3 132 999 over six months and was scheduled to conclude on 31 March 2009.

7.1

**Department did not support the consultant to effectively achieve deliverables**

The consultant finalised only five of the 83 job deliverables at the end of the six-month contract because of challenges experienced with the department. The contract value was R3 132 999, and R53 720 was paid to consultant when the project was terminated by the consultant. According to the consultant's close out report, the following were some of the challenges experienced:

- The department requested a change in the approach to the project, but the consultant could not do so as it would have deviated from the prescribed method of conducting job evaluations in the public service
- Poor planning by the department to identify posts to be evaluated
- Confirmation and cancellation of meetings were not done on time by the department

- Communication channels of the department were contrary to the initial arrangements
- The department did not safeguard documentation provided by the consultant.

## C. COMMENTS FROM THE DEPARTMENT

1. The departmental bid adjudication committee was reconstituted and this committee is playing a much stronger role on the evaluation of bids for the provision of services to the department with a particular focus on the supply chain processes followed, and the sufficiency of the terms of reference for the appointed professional service providers. They have also focused on the issue of variation orders and compliance with the delegations. All variation orders referred to in the report were approved in accordance with the procurement procedures and within the parameters of departmental delegations, except in four cases to the value of R16,2 million which constituted irregular expenditure and were disclosed in the financial statements for the Water Trading Entity.
2. The department embarked on a recruitment drive where 624 posts were advertised in order to reduce the vacancy rate (from 15,75% to 11%) and it was reported that substantial progress has been made with the filling of 22 vacant senior management posts. A further 213 posts were advertised in November 2011. The department also absorbed engineers, scientists and technicians who have completed their training programmes in the department's Learning Academy. The department further indicated that with the increased capacity it will certainly be able to address the concerns raised in the report.

3. The minister of water affairs has appointed a business process review committee which will also, in the course of their review of the work of the department, address many of the issues raised in the report, particularly with regard to capacity and the skills gap currently being experienced. Some of the key focus areas of the business process review committee that will address these matters are: strategic planning; organisational design, human resources and job creation; financial management and the Water Trading Entity. Through these processes, they are also reviewing the department's current level of reliance on the use of professional service providers to supplement capacity.





# REGULATORY FRAMEWORK

# REGULATORY FRAMEWORK

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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 agencies/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 one-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/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 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 are not utilising their 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 is of a technical or intellectual nature, but excludes an employee of a department.*







# PERFORMANCE AUDITING

# PERFORMANCE AUDITING

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## 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, analysis 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 some 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.

## **DIFFERENCE 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 follow 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
<b>Planning and appointment process</b>	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
<b>Internal capacity at departments</b>	Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transfer of skills?	Efficiency
	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 tender?	Efficiency and effectiveness

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
<b>Training and transfer of skills from consultants to employees</b>	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
<b>Performance management and monitoring of consultants</b>	<p>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?</p> <p>Were alternative options considered to ensure that the objectives and business needs were achieved in a timely and cost-effective manner?</p> <p>Did departments have controls in place to avoid contracts being prolonged?</p>	<p>Efficiency</p> <p>Economy and effectiveness</p> <p>Economy and efficiency</p>
<b>Extensions of contracts</b>	<p>Did departments regularly extend consultants' contracts and did the department consider alternatives before extending a contract?</p> <p>Did departments have controls in place to avoid contracts being prolonged?</p>	<p>Economy and efficiency</p> <p>Efficiency</p>
<b>Closing and finalising projects</b>	<p>Did departments close the consultancy properly to ensure that all the deliverables were met, implemented and properly filed?</p> <p>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?</p> <p>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?</p>	<p>Effectiveness</p> <p>Economy and effectiveness</p> <p>Efficiency</p>



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