



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

**WESTERN CAPE**

**Report of the Auditor-General of South Africa  
on a performance audit of the use of consultants at selected departments  
of the Western Cape Provincial Government**

**JANUARY 2014**



# *PERFORMANCE AUDIT*

An independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.



AUDITOR - GENERAL  
SOUTH AFRICA

# *OUR REPUTATION PROMISE/MISSION*

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.

By Authority

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## FOREWORD

# FOREWORD

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I am honoured to present the results of a performance audit on the use of consulting/professional services, contractors and agency/outsourced services at the Department of Health and the Department of Transport and Public Works of the Western Cape Provincial Government (collectively referred to as the departments).

For the purpose of this report, the terms consulting/professional services, contractors and agency/outsourced services have been grouped under the general term “consultants”. The focus areas of this performance audit are applicable to all of these third parties.

In our current environment, the partnership between the private and public sectors has become important in driving South Africa towards its development goals. To optimise the value of this partnership, this report identifies areas that need to be managed to get the best value for money.

The termination of consultancy services in the public sector is not advocated. However, attention is drawn to those areas where 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. A report on the use of consultants at selected national departments, which was tabled in Parliament on 24 January 2013, also paralleled those findings.

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



This performance audit report highlights instances of inadequate planning and vacancies in key positions. Consultants were often appointed to provide competencies for which the departments should have internal staff. Inadequate financial and performance management, and non-adherence to competitive procurement processes were also prevalent. Some deliverables were either not completed or not implemented. These deficiencies adversely affected the economical, efficient and effective use of consultants

## ECONOMY

Internal capacity constraints and high vacancy rates at the departments led to the use of consultants. However, strategic planning for the use of consultants was not always done. Needs assessments were not always performed before consultants were appointed. Robust supply chain management processes were not always followed.

## EFFICIENCY

In many cases, contract administration and control over payments were inadequate. Consultants' work was not always monitored and evaluated to ensure that projects succeeded in their objectives. Consultancy contracts were also regularly extended.

## EFFECTIVENESS

Deliverables were not always implemented or used. In some cases, transfer of skills from consultants to departmental staff was not effective. The departments did not always retrospectively analyse projects to determine whether the desired objectives were achieved.

The above observations did not conform to the principles of economy, efficiency and effectiveness, as reflected on pages 21 to 25 of this report. The weaknesses identified were caused largely by the lack of rigorous review processes to ensure that existing prescripts were followed. These, and issues of inadequate planning and financial and performance management, adversely affected the economical, efficient and effective use of consultants.

The recurrence of these issues is cause for concern. In the 2008-09 to 2010-11 financial years, the Western Cape Provincial Government spent R10,3 billion on consultants; R3,4 billion on consulting/professional services, R5,7 billion on contractors, and R1,2 billion on agency/outsourced services. The audited departments spent R9,2 billion on consultants (89% of the total provincial expenditure of R10,3 billion). Of this amount, the Western Cape

Department of Health spent R4,2 billion and the Western Cape Department of Transport and Public Works R5 billion.

The outcomes of this audit have been shared with the management of the audited departments and provincial executives. The departments have made a number of commitments; key among these is the institution of immediate action to address the findings and recommendations identified in this report.

Key aspects of this report have been integrated into our financial audits to ensure regular monitoring by the departments.

I wish to thank the staff of the Western Cape Department of Health and the Western Cape Department of Transport and Public Works for their assistance during the audit.

*Auditor-General*

**Auditor-General of South Africa**

**Pretoria**

**January 2014**







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

# AUDIT SCOPE

The performance audit on the use of consultants was conducted at two departments of the Western Cape Provincial Government. The two departments were selected for audit, based on our assessment of possible weaknesses in the use of consultants as well as spending trends. The audit covered:

- Eleven consultancy projects with contracts or payments amounting to R625 million at the Department of Health (the contracts with the various nursing agencies were counted as one). The table below reflects the financial years during which the audited consultancy projects were awarded by the Department of Health.

Financial year	Number of consultancy projects			Payments made up to 31 December 2011 R
	Consulting/professional services	Agency/outsourced services	Total	
2005-06	1	1	2	28 321 209
2006-07	0	2	2	589 000 016
2007-08	0	0	0	0
2008-09	3	1	4	5 025 759
2009-10	2	1	3	2 465 807
<b>Total</b>	<b>6</b>	<b>5</b>	<b>11</b>	<b>624 812 791</b>

- Twenty consultancy projects with contracts or payments amounting to R328 million at the Department of Transport and Public Works. The table below reflects the financial years during which the audited consultancy projects were awarded by the Department of Transport and Public Works.

Financial year	Number of consultancy projects			Payments made up to 31 December 2011 R
	Consulting/professional services	Agency/outsourced services	Total	
2005-06	2	0	2	28 240 124
2006-07	7	1	8	132 127 355
2007-08	8	1	9	152 754 663
2008-09	1	0	1	15 125 051
2009-10	0	0	0	0
<b>Total</b>	<b>18</b>	<b>2</b>	<b>20</b>	<b>328 247 193</b>

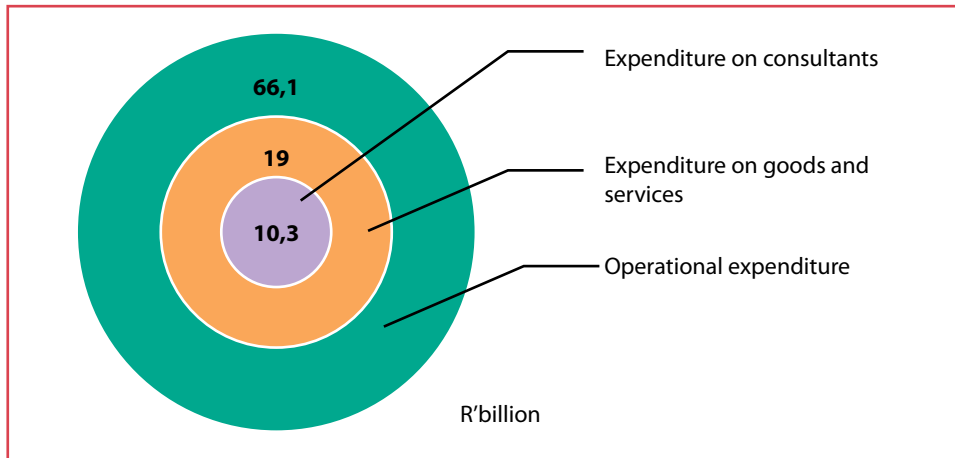
The projects selected for detailed auditing were for consulting/professional services and agency/outsourced services. Contractors were excluded.



The total expenditure on consultants by the two audited provincial departments amounted to R9,2 billion (89% of the total provincial expenditure of R10,3 billion on consultants) for the three-year period 2008-09 to 2010-11

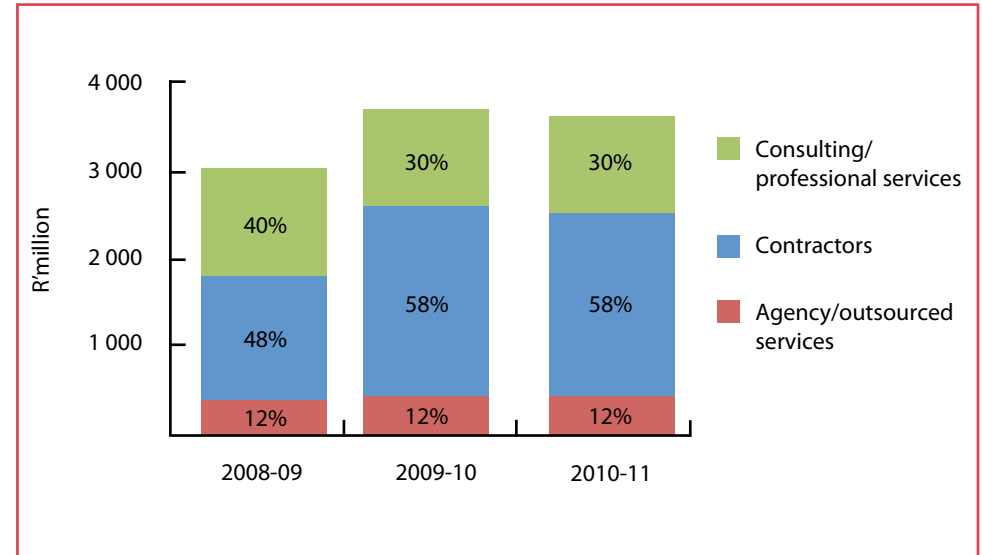
The Western Cape Provincial Government incurred operational expenditure<sup>1</sup> of R66,1 billion during the 2008-09 to 2010-11 financial years. Of this amount, its total expenditure on goods and services was R19 billion.

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

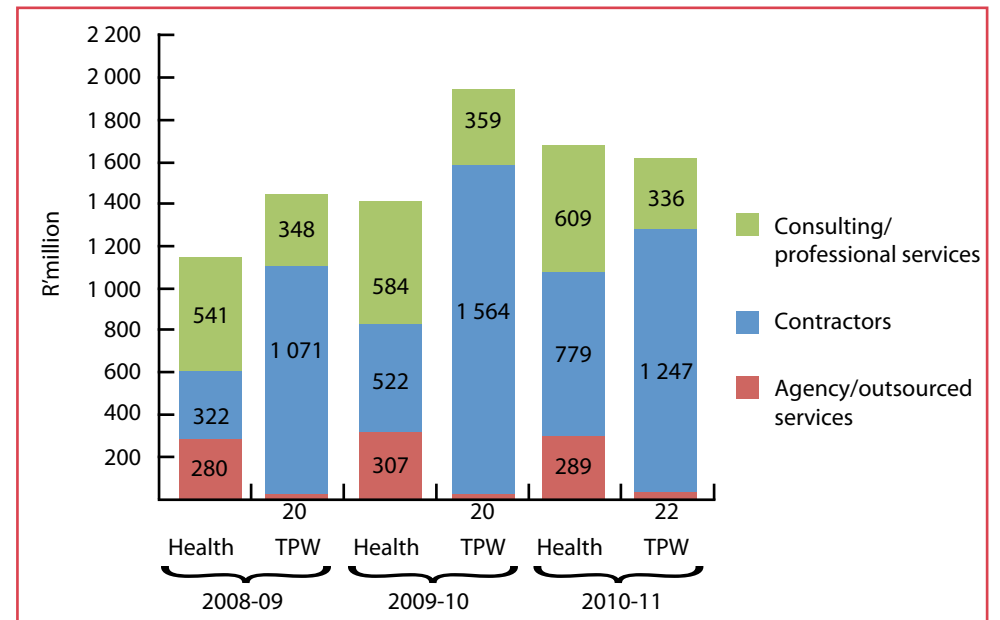


Expenditure on consultants amounted to 16% of the provincial government's operational expenditure and 54% of its expenditure on goods and services. The Western Cape Provincial Government's expenditure on consultants as a percentage of their operational expenditure was the highest of all the provinces for the period under review.

**Total expenditure on consultants by the Western Cape Provincial Government**



**Total expenditure on consultants at the Western Cape Department of Health (Health) and the Department of Transport and Public Works (TPW)**



<sup>1</sup> Operational expenditure includes compensation of employees, goods and services, and interest and rent on land

Audits similar to this provincial audit were conducted nationally and at selected departments of all the other provinces. The report of the audit at selected national departments was tabled in Parliament on 24 January 2013.

For the purpose of this report, the Standard Chart of Accounts terminology of consulting/professional services, contractors and agency/outsourced services have been grouped under the general term “consultants”. The Standard Chart of Accounts defines these terms as follows:

- **CONSULTING/PROFESSIONAL SERVICES:**

*...specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house since they are required on a once-off or temporary basis*

- **CONTRACTORS:**

*...required to provide services that are of a non-specialised nature that are not core business of the department*

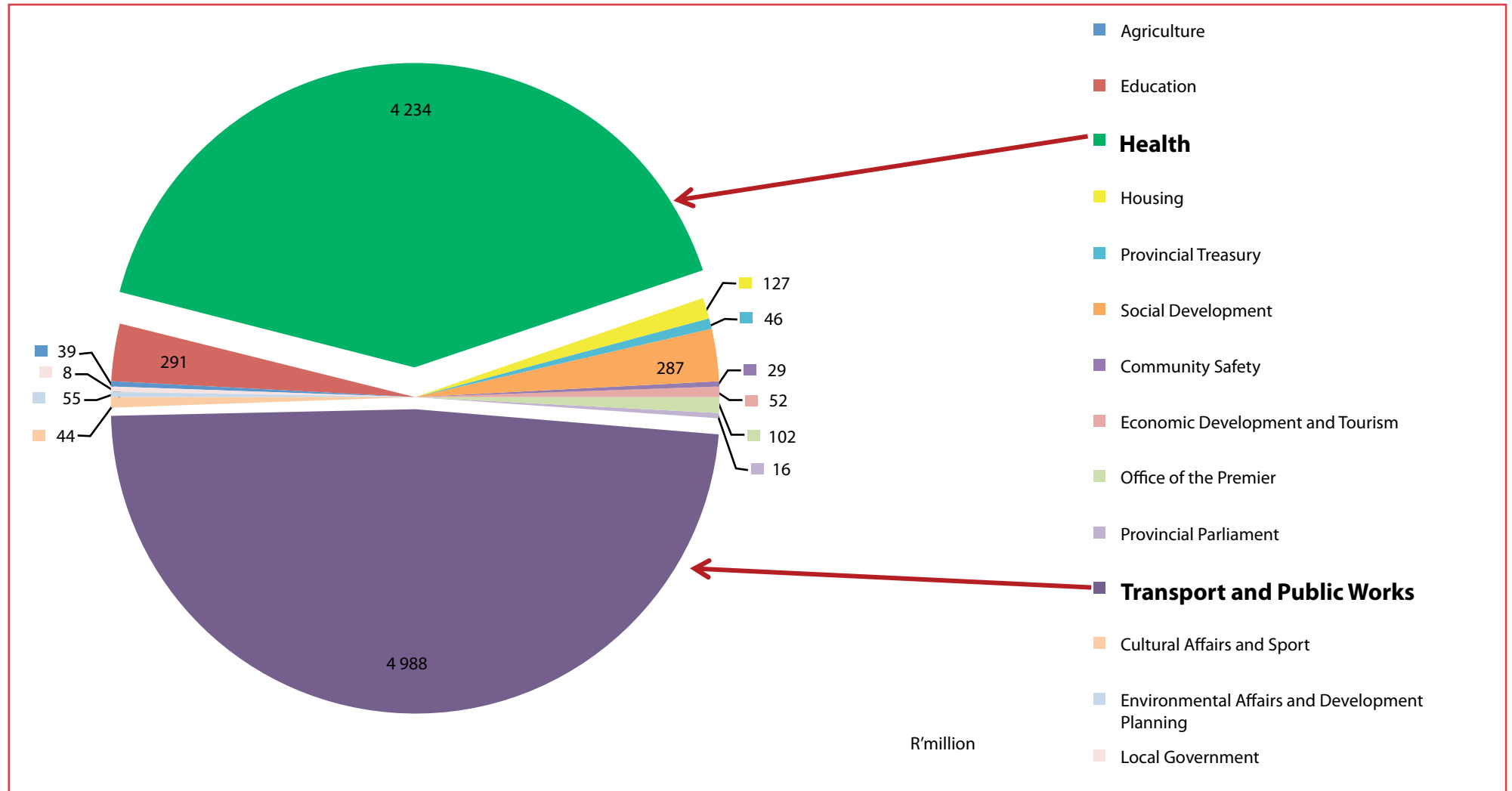
- **AGENCY/OUTSOURCED SERVICES:**

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

## EXPENDITURE ON CONSULTANTS

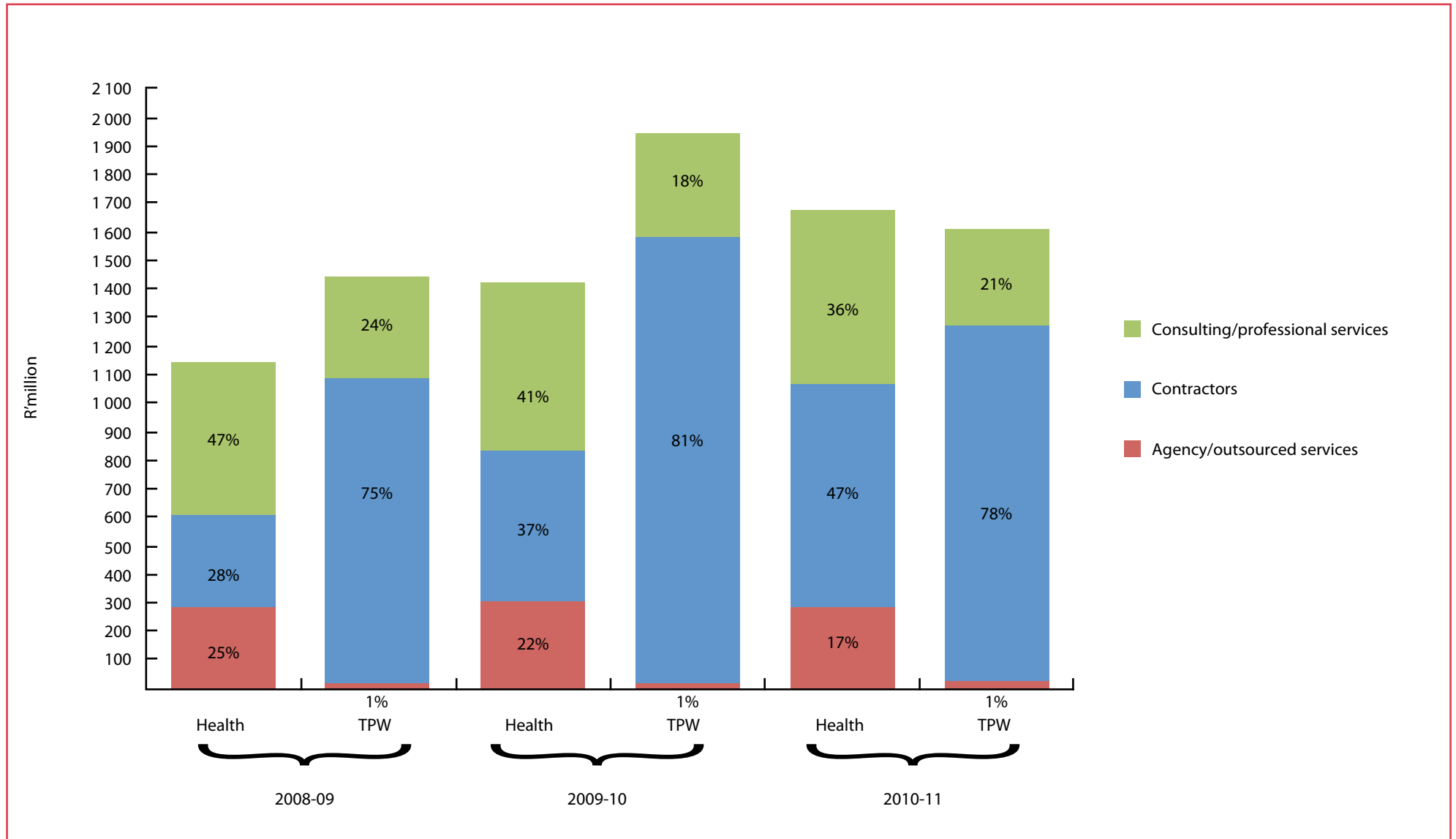
Below is an overview of the expenditure on consultants by the Western Cape Provincial Government for the 2008-09 to 2010-11 financial years.

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






Below is an overview of the expenditure on consultants by the Department of Health and the Department of Transport and Public Works of the Western Cape Provincial Government for the 2008-09 to 2010-11 financial years.

**Total expenditure on consultants at the Western Cape Department of Health and the Department of Transport and Public Works**



# KEY AUDIT FINDINGS

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

		KEY FINDINGS
 <p><b>ECONOMY</b></p>	<p><b>Economy</b> 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 at the Western Cape Department of Health and the Western Cape Department of Transport and Public Works in this regard include the following:</p> <ul style="list-style-type: none"> <li>• Strategic planning for the use of consultants was not always done and the departments did not have a strategy and policy on the use of consultants</li> <li>• In some instances, needs assessments were either not compiled before commencing with consultancy projects, or evidence could not be provided that the assessment had been completed</li> <li>• Competitive bidding processes were not always followed</li> <li>• Officials who appointed consultants through limited bidding processes did not always declare their conflicts of interest</li> <li>• Contracts were sometimes open-ended in terms of time and costs</li> <li>• In some instances, internal capacity constraints and high vacancy levels were experienced. This sometimes led to the departments appointing consultants to support the continuity of service delivery</li> </ul>
 <p><b>EFFICIENCY</b></p>	<p><b>Efficiency</b> 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 at the Western Cape Department of Health and the Western Cape Department of Transport and Public Works in this regard include the following:</p> <ul style="list-style-type: none"> <li>• In many cases, appointment letters and contracts were not issued in time or at all</li> <li>• Terms of reference, including deliverables and time frames, were not always specified</li> <li>• Consultants' work was not always monitored and evaluated. This led to instances where project deliverables were not completed, even though consultants were paid for their services. Penalties were also not instituted for non-delivery</li> <li>• Some consultancy contracts were regularly extended</li> <li>• Financial and administrative controls over payments were sometimes inadequate</li> </ul>
 <p><b>EFFECTIVENESS</b></p>	<p><b>Effectiveness</b> The use of consultants is considered to be effective if the objectives that informed the appointment of consultants are met</p>	<p>The effective use of consultants at the Western Cape Department of Health and the Western Cape Department of Transport and Public Works was adversely affected by the following:</p> <ul style="list-style-type: none"> <li>• Skills were not always transferred from consultants to departmental staff</li> <li>• Some projects were not retrospectively analysed to determine whether the proper processes had been followed and whether the desired objectives had been achieved</li> <li>• In certain instances, the deliverables that were completed by consultants were not implemented or used by the department</li> </ul>



# OVERVIEW

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The Western Cape public sector cannot easily dispense with partnering with the private sector due to the specialised nature of some activities. In addition, departments experienced numerous human resource and other challenges. These challenges are recognised by the Western Cape Provincial Government and, in many instances, necessitate the use of consultants. When used correctly, consultants can be beneficial and provide access to skills that are not cost-effective for a department to build or maintain itself.

While recognising the above benefits, it is necessary to remain mindful of the manner in which consultants are used by the provincial government. Section 195 of the Constitution of the Republic of South Africa of 1996 notes that *the efficient, economic and effective use of resources must be promoted*.



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

The Public Service Commission, in its 2001 *Report on the State of the Public Service*, highlighted the use of consultants as a concern. In the report, the Commission stated:

*The Public Service Commission is of the view that the use of any consultant needs to be justifiable and open to intense scrutiny. This is particularly true when specialist, high cost professional services are utilised or when former state employees are involved.*

In 2001, the Department of Public Service and Administration instructed departments to:

- Undertake an institutional assessment of capacity to absorb outside assistance before tenders are issued
- Prepare sound and realistic tender specifications, which match the ability to implement and sustain the outcomes of projects
- Include skills transfer in the contracts and monitor the delivery thereof
- Undertake regular performance audits of consulting assignments
- Assess the total cost of using consultants in relation to cost-effectiveness before a decision is made to appoint a consultant
- Include information on the use of consultants in the annual report of a department to:

- Provide a more balanced view of personnel expenditure in the public service
- Provide information regarding expenditure on consultants, and the type and value of projects
- Improve the monitoring of government on the use of consultants
- Promote the sharing of learning products in government.

The Department of Public Service and Administration also indicated that a database of reports produced by consultants would be compiled and updated annually, envisaging that it would contribute to:

- The reduction of the number of consultants appointed by different departments to develop virtually the same policies or systems
- Guidance in support of decision-making on the future use of consultants
- Sharing of learning products in the public service.

## **ABOUT THIS REPORT**

This report is presented in an environment where the partnership between the private and public sectors has become important in driving South Africa towards its development goals.

Consultants provide specialist services to the public sector. However, this performance audit revealed that consultants were appointed to provide core departmental functions. These include project management and the provision of nurses, for which the departments

should have internal staff. Since these skills were not available internally or departments were not successful in recruiting suitable staff, they had to rely on consultants to perform these functions. These, and issues of inadequate planning and financial and performance management, adversely affected the economical, efficient and effective use of consultants.

The National Treasury and the Department of Public Service and Administration had issued various guidelines and regulations to improve the overall management and use of consultants.

However, despite these, many weaknesses still exist. The reasons for this include a lack of monitoring and enforcement of compliance. Appropriate action is also not taken against those who contravene existing laws, regulations and policies.

Where consultants are the preferred option to deliver a service or programme, the departments' capacity to monitor and evaluate projects must be strengthened. This will ensure that all project deliverables and related objectives are achieved. In instances where deficiencies are detected, corrective action must be imposed promptly.



A 3D wireframe globe is shown in a grayscale color scheme, with a teal banner at the bottom. The globe is composed of a grid of white lines forming a sphere, and it is set against a dark, blurred background. The teal banner is a solid horizontal bar at the bottom of the page.

## **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 centred on the focus areas presented below:



## SUMMARISED AUDIT OUTCOMES

### DEPARTMENT OF HEALTH

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (UP TO 31 DECEMBER 2011) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT						EFFECTED		
			CONSULTING/PROFESSIONAL SERVICES	CONTRACTORS <sup>2</sup>	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
1	Strategic advice and/or guidance on information communication technology-related matters (Page 39)	2 219 807	✓			✓		✓	✓	✓		✓	✓	✓
2	Professional and financial management services regarding transferred funds (Page 40)	4 454 247			✓	✓	✓		✓			✓	✓	
3	Implementation of asset management (Page 41)	21 950 049	✓		✓				✓			✓	✓	
4	Personnel and Salary Administration System (Persal) user support services (Page 41)	6 371 160			✓	✓	✓	✓		✓		✓	✓	✓
5	Nursing agency services (Page 42)	<sup>3</sup> 588 456 783			✓	✓	✓		✓	✓		✓	✓	
6	Supply a proposal and/or cabinet resolution for the redevelopment of the Tygerberg Hospital <sup>4</sup>	125 086	✓			✓						✓		
7	Assist with the public/private health forum <sup>4</sup>	<sup>5</sup> 132 000	✓			✓						✓		

<sup>2</sup> Contractors were excluded from the sample selection to focus on consultants providing specialist services and skills as well as agency services

<sup>3</sup> The payments for nursing agency services relate to the four year period from 1 April 2007 to 31 March 2011

<sup>4</sup> These findings were not reported separately, but were included in the departmental findings on pages 38 and 39 of this report due to their pervasive nature

<sup>5</sup> Contract value was used as payment information could not be obtained

## DEPARTMENT OF HEALTH

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (UP TO 31 DECEMBER 2011) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT					EFFECTED			
			CONSULTING/PROFESSIONAL SERVICES	CONTRACTORS <sup>2</sup>	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
8	Improvement of priority settings (rationing of care) in the Western Cape <sup>4</sup>	102 600	✓			✓						✓		
9	Project manager for the chronic dispensing unit <sup>4</sup>	5114 000			✓	✓						✓		
10	Bed norms for general and mental health care services <sup>5</sup>	343 826	✓			✓			✓			✓	✓	
11	Registered pharmacist to support the JAC pharmacy system <sup>6</sup>	543 233			✓	✓			✓			✓	✓	
<b>Subtotal: Department of Health</b>		<b>624 812 791</b>				<b>10</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>0</b>			

<sup>2</sup> Contractors were excluded from the sample selection to focus on consultants providing specialist services and skills as well as agency services

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<sup>5</sup> Contract value was used as payment information could not be obtained

<sup>6</sup> Findings are not significant. Therefore, the project was not included in the report

## DEPARTMENT OF TRANSPORT AND PUBLIC WORKS

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (UP TO 31 DECEMBER 2011) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT						EFFECTED		
			CONSULTING/PROFESSIONAL SERVICES	CONTRACTORS <sup>2</sup>	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
12	Overall project management and coordination of various projects of the public transport branch (Page 46)	5 398 977	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓
13	Analysis, training and remediation of the Land Transport Permit System and database (Page 47)	3 169 309	✓			✓		✓	✓		✓	✓	✓	✓
14	Technical evaluation and support with the implementation of the Integrated Fare Management and Intelligent Transport Services systems (Page 48)	6 801 335	✓			✓			✓	✓	✓	✓	✓	✓
15	Integrated Fare Management/Intelligent Transport Services systems and equipment for public transport services (Page 48)	41 834 863			✓	✓				✓	✓	✓	✓	✓
16	Provision of independent project management, financial modelling and procurement advice regarding the Somerset Hospital precinct (Page 49)	4 469 625	✓			✓			✓		✓	✓	✓	✓
17	Business intelligence on key industries in public transport (Page 50)	6 001 855	✓			✓			✓	✓	✓	✓	✓	✓
18	Restructuring of public transport scheduled subsidy services (Page 51)	2 567 879	✓			✓			✓		✓	✓	✓	✓
19	Transport precincts initiatives framework and interchange development criteria for the Philippi rail station (Page 52)	4 846 897	✓			✓			✓		✓	✓	✓	
20	Transformation of the subsidised public transport services in the City of Cape Town (Page 52)	16 686 864	✓			✓			✓	✓	✓	✓	✓	✓

<sup>2</sup> Contractors were excluded from the sample selection to focus on consultants providing specialist services and skills as well as agency services



## DEPARTMENT OF TRANSPORT AND PUBLIC WORKS

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (UP TO 31 DECEMBER 2011) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT						EFFECTED		
			CONSULTING/PROFESSIONAL SERVICES	CONTRACTORS <sup>2</sup>	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
21	Project and programme management support for all departmental 2010 projects (Page 53)	20 836 242	✓			✓			✓			✓	✓	
22	Implementing a high level, integrated and intergovernmental public transport solution (Page 53)	21 116 015	✓			✓			✓			✓	✓	✓
23	Communication, public participation, marketing, branding and event management strategies and activities (consultant 1) (Page 54)	26 350 349	✓			✓			✓		✓	✓	✓	✓
24	Communication, public participation, marketing, branding and event management strategies and activities (consultant 2) (Page 54)	23 796 556	✓			✓			✓		✓	✓	✓	✓
25	Specialist financial management and accounting services (Page 55)	18 462 796	✓			✓		✓	✓			✓	✓	✓
26	Event operations management services in preparation for the FIFA 2010 World Cup™ (Page 56)	80 506 196	✓			✓			✓		✓	✓	✓	✓
27	Specialised information technology skills <sup>7</sup>	8 221 822			✓	✓						✓		
28	Transition and support for the National Land Transport Information System implementation <sup>6</sup>	8 744 545	✓			✓			✓			✓	✓	

<sup>2</sup> Contractors were excluded from the sample selection to focus on consultants providing specialist services and skills as well as agency services

<sup>6</sup> Findings are not significant. Therefore, the project was not included in the report.

<sup>7</sup> These findings were not reported separately, but were included in the departmental findings on pages 44 to 46 of this report due to their pervasive nature

## DEPARTMENT OF TRANSPORT AND PUBLIC WORKS

NO.	PROJECT	PAYMENTS MADE TO CONSULTANT (UP TO 31 DECEMBER 2011) R	CLASSIFICATION			FOCUS AREAS WHERE DEFICIENCIES WERE IDENTIFIED DURING THE AUDIT						EFFECTED		
			CONSULTING/PROFESSIONAL SERVICES	CONTRACTORS <sup>2</sup>	AGENCY/OUTSOURCED SERVICES	PLANNING AND APPOINTMENT	INTERNAL CAPACITY	TRAINING AND TRANSFER OF SKILLS	PERFORMANCE MANAGEMENT AND MONITORING	EXTENSION OF CONTRACTS	CLOSING AND FINALISING PROJECTS	ECONOMY	EFFICIENCY	EFFECTIVENESS
29	Integrated skills development strategy and roll-out plan for road-based public transport <sup>6</sup>	1 756 757	✓			✓						✓		
30	Consulting engineering services on the George Mobility Strategy <sup>7</sup>	11 553 260	✓			✓						✓		
31	Implementation of the Electronic Content Management strategy <sup>6</sup>	15 125 051	✓											
	<b>Subtotal: Department of Transport and Public Works</b>	<b>328 247 193</b>				<b>19</b>	<b>1</b>	<b>3</b>	<b>15</b>	<b>5</b>	<b>11</b>			
	<b>Grand total</b>	<b>953 059 984</b>				<b>29</b>	<b>4</b>	<b>5</b>	<b>20</b>	<b>9</b>	<b>11</b>			

<sup>2</sup> Contractors were excluded from the sample selection to focus on consultants providing specialist services and skills as well as agency services

<sup>6</sup> Findings are not significant. Therefore, the project was not included in the report.

<sup>7</sup> These findings were not reported separately, but were included in the departmental findings on pages 44 to 46 of this report due to their pervasive nature

## KEY FINDINGS



- Strategic planning for the use of consultants was not always done. The audited departments did not have a comprehensive strategy and policy governing the use of consultants.



- Needs assessments prior to appointing consultants were either not done, or evidence could not be provided that assessments had been carried out. As a result, the department did not always determine whether outsourcing was the most cost-effective option in comparison to creating internal capacity.



- In some cases, the requirements of National Treasury and departmental prescripts were not observed. As a result, planning and appointment processes were not followed consistently, including:
  - The completion of terms of reference
  - Competitive bidding processes
  - Reporting the use of limited bidding<sup>8</sup> to the Provincial Treasury and the Auditor-General of South Africa
  - Signing appointment letters and consultancy contracts.



- The Department of Transport and Public Work's supply chain management prescripts did not provide for conflict of interest declarations by officials involved in limited bidding.



- In certain cases, contracts were open-ended in terms of cost and time. This led to cost overruns and extensions of contracts.



- Internal capacity constraints and high vacancy rates sometimes led to the departments appointing consultants to support the continuity of service delivery.



- Some consultants were required to transfer skills. However, in some instances, this requirement was not included in the contract or was not met. This led to a dependence on the consultants.



- Consultants' work was sometimes not comprehensively monitored and evaluated during the contract period. As a result:
  - Deliverables were sometimes not completed
  - In some instances, deliverables were not satisfactory or were late
  - Penalties were not always imposed for incomplete or late delivery.



<sup>8</sup> Limited bidding is the procurement of goods and services without inviting competitive bids



### EFFICIENCY

- Financial and administrative controls over payments to consultants were inadequate at the Department of Transport and Public Works. This led to the following:
  - Invoices were not always supported by documentary evidence
  - Contract values were sometimes exceeded.



### EFFICIENCY

- Contracts and contract periods were sometimes extended due to a lack of capacity and poor project planning. Alternative options were not evaluated prior to extending contracts.



### EFFECTIVENESS

- In some instances, the Department of Transport and Public Works did not implement or use project deliverables. This elevates the risk of these deliverables becoming obsolete or irrelevant.



### EFFECTIVENESS

- The departments did not always retrospectively analyse projects to determine whether the proper processes were followed and whether the desired objectives were achieved. The National Treasury prescribes a retrospective analysis and an assessment at the completion of each project, which should be available for future reference.

## COMMENTS RECEIVED

The following feedback was obtained from the Western Cape Premier and audited departments relating to the audit findings contained in this report:

### Western Cape Premier

While the report claims to cover the three year period 2008-09 to 2010-11, the tables on page 10 reveal that 29 of the 31 contracts audited were awarded before May 2009. In other words, 97% of the contracts audited were awarded by the previous administration. As these were legally binding they could not be terminated when our administration came into government in May 2009. This means that most of the findings contained in this report are not applicable to our administration's use of consultants over the last four years.

Both the departments of Health and Transport and Public Works were approached by the Auditor-General in 2010 to comment on the findings of this exact same audit but for some reason the report is only being published now, three years later. This requires public explanation.

Second, we do not agree with the definition used by the Auditor-General for consultants. The audit has combined contractors, consultants and service providers under the general term "consultants". This means that contracts with service providers who deliver capital infrastructure on the ground like construction companies, architects and engineers are defined as "consultants". So are nurses contracted from nursing agencies. This is open to misinterpretation.

For example, an analysis of the Department of Health's contracts that were audited reveals that 94% of the R624,8 million spent was on nursing agencies (R588,4 million) that provided quality healthcare to public hospital patients in the province. This was because there was a vacancy rate of over 30% for nursing personnel in the department under the previous administration. However, this vacancy rate is now less than 1% due to our government implementing a range of programmes to attract new nurses into the public health sector.

Since coming into government in 2009, our administration has also drastically increased infrastructure delivery in the province. For example, we have built 49 new and replacement schools over the last four years. We have also spent over R2,7 billion on health infrastructure over the last four years including completing 17 primary health facilities, 12 ambulance stations or disaster management centres, eight district hospitals, 13 regional and specialised hospital projects, 21 central hospital projects, five pathology laboratories and the Western Cape Nursing College.

Some of our other major infrastructure projects include the roll-out of our broadband project with the aim of connecting citizens in the province to affordable high speed broadband infrastructure and services, as well as the three city regeneration projects.

This huge investment in infrastructure delivery, aimed at generating economic growth, investment and providing better services to citizens, means we have had to increase our expenditure on service providers like construction companies, engineers and architects over the past few years – all of which the Auditor-General defines as “consultants”.

Our government is committed to service delivery and spending tax payer’s money as efficiently and effectively as possible. Where it makes financial sense, we employ staff to perform the necessary functions, but where it does not we employ consultants, contractors and service providers to ensure we continue delivering services to citizens in the province.

While this report claims to have audited expenditure on consultants up to 2010-11, none of these facts have been taken into account by the Auditor-General. Instead, 31 outdated contracts, 97% of these entered into by the previous administration, are all that was analysed.

It is clear that this report is not a true or fair reflection of the Western Cape Government’s use and management of consultants since coming into power in 2009 and we are extremely concerned about the fact that the Auditor-General has decided to publish this extremely outdated report now.

Since 2009, we have continuously improved our audit outcomes. For the 2012-13 financial year, all provincial departments in the Western Cape Government received unqualified

audits with five departments receiving clean audits. This clearly demonstrates how committed we are to spending taxpayer’s money effectively and efficiently in the interest of service delivery.

Of course we recognise that there is always room for improvement, which is why all provincial departments continuously put systems and programmes in place to ensure sound financial management including improving our overall management and use of consultants.

## Department of Health

A closer analysis of the payments audited reveals that only a small percentage of the expenses covered by this report were for “consultants”, namely people who provide expert or professional advice.

Of the expenditure included in the audit sample, 94% was on nursing agencies which rendered a direct service to patients due to the inability of the department to recruit and retain an optimal nursing workforce at the time. The report indicates a nursing vacancy rate of 30% in 2009, but fails to state that most of the vacant posts were unfunded. Since 2008-09 the department has reduced agencies services in real terms by 23%.

The R4,2 billion spent on consultants between 2008-09 and 2009-10 also includes expenditure on patient laboratory tests, which amounts to R500 million per annum. This service is provided by the National Health Laboratory Services, an organisation created by government for this purpose.

The department wishes to comment on the findings as follows:

- The report mentions an average vacancy rate of 25,3% - This figure was derived using a comparison of the approved establishment on the personnel administration system. Many of the approved posts were not funded. If only the funded posts are taken into account the effective vacancy rate is less than 1%.

- The department disagrees with the finding that it does not have a policy governing the use of consultants. The Accounting Officer's System used by the department adequately caters for the procurement of consultants – used on an ad hoc basis. The Accounting Officer's System does, however, not cater for the planning of consultants.
- The report implies that the department was at fault when it used limited bidding for six of the 11 consultancy projects. Limited bidding is an accepted form of procurement where it is evident that open bidding will not serve the purpose of obtaining the need required. In each of the six cases the department was satisfied that adequate motivation was provided to warrant a limited bidding process. These six projects also account for a minute portion of the total expenditure covered by this report - R1,7 million.

The report also focuses on five specific contracts from pages 39 to 43:

1. Contract B.1: The department concedes that approval for extension was signed late. However, the required service levels were adequately covered by the contract agreement from the start. The consultant was also adequately monitored, although perhaps not formally documented as such.
2. Contract B.2: This was a once off exercise, which was critical for the department at that stage to ensure that the R350 million which the department annually makes available to non-governmental organisations was properly managed and accounted for.
3. Contract B.3: The R1 million relates to the initial project, which was simply the appointment of a project manager. Thereafter the contract was used to implement asset registers of facilities placed on the automated Asset Management System. In the view of the department, the R20 million expenditure was well spent as it ensured the implementation of the Logistical Information System (LOGIS) at approximately 60 health institutions.

4. Contract B.4: The expansion of the contract was duly motivated and approved by the appropriate structure within the department. The contract was extended due to the specific services rendered and programming skills of the contractors to provide speedy and accurate management information on staff expenditure which helped this department to maintain a high level of performance.

In conclusion, the release of the report is very outdated and most of the issues have since been addressed.

The department is of the opinion that the use of consultants, agencies and contractors in this department is justified and is money well spent.

It is also the only provincial health department in the country that has a long standing track record of not being qualified by the Auditor-General in its audit opinions of the financial statements.

## Department of Transport and Public Works

The focus of the audit was on selected consultant projects and not contractors. The expenditure numbers are shown in the tables on page 10 of the report and those that relate to contractors are irrelevant.

The findings in the performance audit management report were drawn into the findings of the regularity audit management report. The findings were further investigated to validate and recommend recovery, condonation, write-off and disciplinary action for each consultancy project. Where relevant, disciplinary action have been taken.

The outcome of the 20 consultancy project investigations (which may contain allegations of both irregular and fruitless and wasteful expenditure) are as follows:

- Nine incidents of irregular expenditure were condoned by the relevant authority
- Two incidents of alleged irregular expenditure are pending
- Eight incidents of alleged irregular expenditure was found to be negative

- One incident of alleged fruitless and wasteful expenditure is pending
- One incident of alleged fruitless and wasteful expenditure was found to be negative
- Three incidents of fruitless and wasteful expenditure for which recovery procedures were instituted
- One project is with the Forensic Investigative Unit for investigation of alleged fraudulent activity
- One project with no findings.
- Consultants' performance is monitored and managed to ensure that deliverables are achieved on time
- Consultancy contracts are properly closed through retrospective analyses, where the process followed and the objectives achieved are evaluated.

Subsequently, corrective measures were instituted to improve governance in the department. The results are evident from the outcomes of the regularity audits since the consultant's audit was conducted, and culminating in a clean audit for the 2012-13 financial year.

## CONCLUSION

Government's success in optimising the value and the benefits of using consultancy services will only be achieved if:

- Proper systems of financial management and controls are established and adhered to in departments
- Officials and accounting officers are held responsible for the economical, efficient and effective use of resources
- Compliance with regulations and policies is enforced
- Planning for the use of consultants is improved and is part of the departments' strategy and business plans
- Sufficient internal capacity is created to enable departments to deliver on their mandates
- Training and transfer of skills from consultants to departmental staff are optimally applied and monitored, where applicable









## **RECOMMENDATIONS**

# RECOMMENDATIONS

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## 1. PLANNING AND APPOINTMENT

- 1.1 The types and extent of services to be contracted out should be strategically considered, taking into account the following:
  - The long-term objectives and needs of the departments
  - The cost of contracting out versus the cost of creating and filling internal capacity.
- 1.2 A comprehensive strategy and policy governing the use of consultants should be developed and implemented.
- 1.3 Prior to appointing consultants, needs assessments should be conducted to determine the best option based on cost and benefits. This should include considerations such as whether internal capacity is available to undertake the specific project.
- 1.4 Requests for tender should be detailed, clear and unambiguous. This will enable bidders to understand the scope and deliverables of the project.
- 1.5 Competitive bidding processes should be followed for new appointments. If an emergency necessitates not following a competitive bidding approach, the reasons should be properly motivated, documented and approved.
- 1.6 All supply chain managers, including members from the bid evaluation and bid adjudication committees, should be trained in supply chain management policies and regulations. The supply chain management regulations should be applied in a consistent and fair manner.

- 1.7 Officials involved in the appointment of consultants through limited bidding processes should complete and sign declarations of financial and related interests. The appointed consultants should also be required to declare their interests.
- 1.8 Procedures should be developed to evaluate the reasonableness of the fees proposed by consultants appointed through a process of limited bidding.
- 1.9 Contracts should comply with the *General Conditions of Contract*, as prescribed by the National Treasury, and should include:
  - Clear, specific and measurable deliverables
  - Clearly defined roles and responsibilities between the department and the consultant.
- 1.10 The departments should ensure that the use of limited bidding for contracts exceeding R1 million is reported to the Provincial Treasury and the Auditor-General of South Africa.

## 2. INTERNAL CAPACITY

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

## 3. TRAINING AND TRANSFER OF SKILLS

- 3.1 Where training and transfer of skills form part of the project, the departments should ensure that the consultant honours its contractual obligations in full.

3.2 Staff should be made available for skills transfer interventions. They should also be evaluated to determine the effectiveness of the skills transfer process, which should be monitored throughout the project.

#### **4. PERFORMANCE MANAGEMENT AND MONITORING**

4.1 Monitoring guidelines and training should be developed for project managers. This will enable the proper monitoring of consultants' work to verify their performance, including the monitoring of:

- Payments against actual services rendered
- Compliance with service level agreements
- Penalties in cases of non-compliance.

4.2 Progress meetings should be held regularly and evidence kept. Corrective actions, where required, should be taken promptly and monitored by the department.

#### **5. EXTENSION OF CONTRACTS**

5.1 The extension of contracts and contract periods should be carefully considered, taking into account the original deliverables and future cost implications.

5.2 Contracts awarded through limited bidding should not be extended.

#### **6. CLOSING AND FINALISING PROJECTS**

6.1 Departments should have implementation plans to ensure that project objectives are achieved.

6.2 The Department of Transport and Public Works should, in cooperation with the City of Cape Town, develop a framework relating to the roles and responsibilities for transport-related functions.

6.3 A retrospective analysis to determine whether the proper processes were followed and whether the desired objectives were achieved should be done at the end of each stage and project.

#### **7. GENERAL**

7.1 The Provincial Treasury should monitor compliance with relevant prescripts. In addition, it should enforce appropriate actions where departments deviate from such prescripts.

7.2 The departments' strategic and business plans should include the planned use of consultancy services. These plans should be intensively reviewed by internal audit and portfolio/audit committees.

7.3 The accounting officer's section in the annual report should cover the element of accountability for the use of consultants. This should focus on the extent to which economy, efficiency and effectiveness have been achieved in appointing consultants.

7.4 Specific oversight on the use of consultants should be performed quarterly by the relevant committees, including portfolio committees and the Provincial Public Accounts Committee.

7.5 Internal audit should include the use of consultants by departments in their annual internal audit plan, and perform regular audits in these areas.





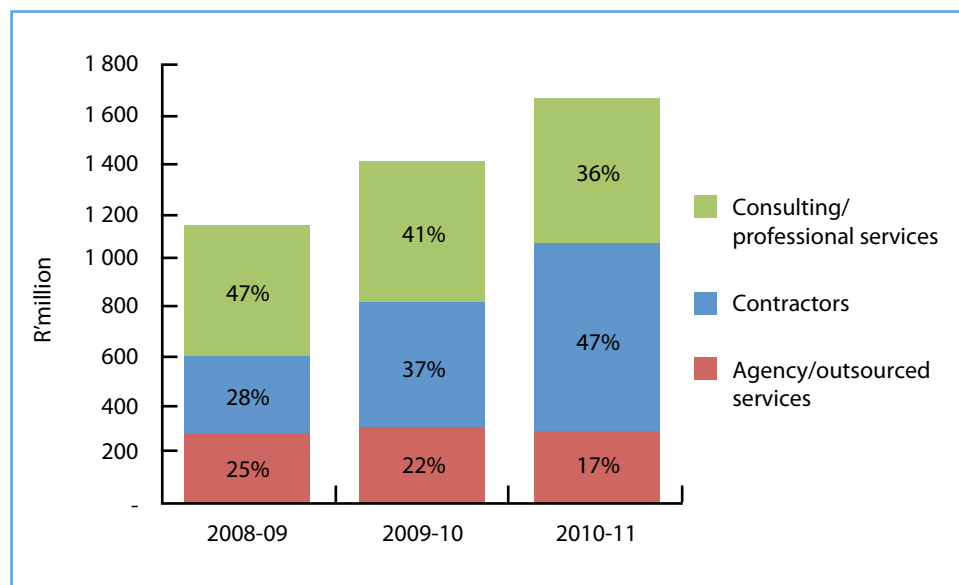
**DEPARTMENT OF HEALTH  
DEPARTMENT OF TRANSPORT AND PUBLIC WORKS**

# DEPARTMENT OF HEALTH

Total expenditure on consultants (2008-09 to 2010-11)	R4 234 million
Number of projects audited	11
Value of payments audited	R625 million
Average vacancy rate (2008-09 to 2010-11)	25,3%

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

**Graph 1: Expenditure on consultants at the Department of Health**



## A. DEPARTMENTAL FINDINGS

### 1. STRATEGY AND POLICY ON THE USE OF CONSULTANTS

The department did not have a comprehensive strategy and policy governing the use of consultants. The department considered its *Accounting Officer's System for Procurement, Supply Chain and Asset Management*<sup>9</sup> document (AOS document) as its strategy and policy to govern the use of consultants at the department. However, the AOS document did not indicate how the department should use consultants to get the best value for money.

The department was not in a position to plan in advance the following:

- Areas where permanent capacity was required
- Services that would be outsourced to consultants
- Internal capacity to avoid becoming dependent on consultants.

As a result, consultants were appointed on an ad hoc basis and the long-term effects were not considered.

<sup>9</sup> Issued by the department's accounting officer in accordance with Section 38(1)(a)(iii) of the PFMA

## 2. NEEDS ASSESSMENTS

Needs assessments are required by National Treasury prescripts and the department's AOS document. Needs assessments were not conducted by the department before awarding eight consultancy projects to the value of R15 233 304. The department therefore could not:

**Needs assessments not conducted**

- Evaluate the cost implications of using a consultant rather than its own internal resources
- Determine the availability of internal resources with the required skills and experience.

## 3. LIMITED BIDDING

The department followed limited bidding processes to award six (55%) of the 11 consultancy projects audited. Limited bidding is the procurement of goods and services without inviting competitive bids. The department's AOS document indicates that these processes limit openness and must be used responsibly. As limited bidding is not a competitive bidding process, it could not be determined whether these appointments were made in the best interest of the department and/or at the lowest possible cost.

**Six consultancy projects were awarded using limited bidding**

## B. FINDINGS PER PROJECT

### 1. STRATEGIC ADVICE AND/OR GUIDANCE ON INFORMATION AND COMMUNICATION TECHNOLOGY-RELATED MATTERS

The department appointed a consultant to provide strategic advice and/or guidance on information and communication technology-related matters.

The consultant was appointed on 19 June 2009 using a limited bidding process. The contract value for the six-month period was R270 000. The contract was extended by a further 24 months to 30 September 2011. The total actual cost of the project was R2 219 807.

- 1.1 The department signed the contract two-and-a-half months after the consultant commenced work on 1 April 2009. This is contrary to *National Treasury Practice Note Number SCM 3 of 2003* (National Treasury Practice Note 3), which prescribes that all consultancy work should be regulated by a contract.

**Delay in signing contract**
- 1.2 The transfer of skills was not included in the contract as a deliverable. As a result, the department did not require the consultant to transfer skills to the department's staff. However, the nature of this project created conditions where skill transfers could have taken place. This could have reduced the department's reliance on some consultants in the future.
- 1.3 The department could not effectively monitor the consultant's progress as the contract did not contain time frames for the completion of deliverables. As a result, the deliverables were not completed during the original contract period. The contract with the consultant was extended four times, for a further 24 months, to complete outstanding deliverables.



1.4 The department made use of the consultant's services for a period of four months without approval from the accounting officer. Approval to extend the contract for a further 12-month period from 1 April 2010 was only obtained on 21 July 2010. This was nearly four months after the previous contract period had expired. Payments of R251 237 were made to the consultant during this four month period.

**Contract extended without approval**

## 2. PROFESSIONAL AND FINANCIAL MANAGEMENT SERVICES REGARDING TRANSFERRED FUNDS

The department appointed two consultants (a consortium) to provide professional and financial management services. The purpose of the appointment was to ensure that recipients (non-governmental organisations) of transferred funds had effective, efficient and transparent financial management and internal control systems.

The consultants were appointed at a cost of R5 265 584 for a period of two years from 1 July 2008 to 30 June 2010. The actual cost of the project was R4 454 247.

2.1 The appointment process was delayed. The contract was awarded eight-and-a-half months after the closing date of the original tender. The delay was due to the following:

**Appointment process was delayed by eight-and-a-half months**

- The terms of reference<sup>10</sup> (ToR) compiled by the department was not clear on the scope of the project. As a result, the nine tenders received varied from R1,8 million to R21,9 million. The tender process was cancelled and tenders were re-invited after the ToR was amended to be more specific

<sup>10</sup> The terms of reference should define as clearly as possible the objectives, goals and scope of a project. It is necessary to ensure that the project has been properly conceived, that the work is carried out on schedule and that resources will not be wasted

- The evaluation committee did not follow a transparent tender evaluation process. The members of the evaluation committee deliberated and scored each tender proposal as a committee. This is contrary to National Treasury Practice Note 3, which requires that they should have scored each proposal without discussing any aspect of the proposal with any of the other members.

2.2 The consultants were appointed because the internal control section of the department was unable to recruit the necessary skilled staff. At the time the consultants were appointed, only three of the nine posts in the internal control section were filled. This represented a vacancy rate of 67%. The department also did not have an internal audit section.

**Consultants were appointed because of capacity constraints**

2.3 When the deliverables were changed after the first year of the two-year contract, the department did not conclude a revised contract (including a revised contract amount) or service level agreement<sup>11</sup> (SLA) with the consultants. This was contrary to the requirements of the original SLA. The National Treasury's *General Conditions of Contract*<sup>12</sup> also states that *no variation in or modification of the terms of the contract shall be made except by written amendment signed by the parties concerned*. This elevated the risk of the department paying too much for the service.

<sup>11</sup> A service level agreement defines the relationship between two parties. It is signed by the parties in addition to a formal contract

<sup>12</sup> The General Conditions of Contract was issued by National Treasury and should form part of all bid documents. Its purpose is to ensure that clients are familiar with the rights and responsibilities of all parties

### 3. IMPLEMENTATION OF ASSET MANAGEMENT

The department appointed a consultant as a project manager to implement asset management at selected health institutions. The appointment was originally for 27 months from 3 January 2006. The contract value was R1 068 864.

The contract period was extended several times and the number of consultancy staff used was increased. The actual completion date of the contract was 31 March 2010.

- 3.1 The scope of the original contract was expanded on 17 October 2006, without the contract specifying the maximum value and the number of hours to be worked by the consultant. The expanded contract was therefore an open-ended contract<sup>13</sup> in terms of time and cost. An open-ended contract is contrary to National Treasury Practice Note 3, which prescribes that contracts should include the maximum amount of total payments to be made to a consultant.

**Expanded contract was open-ended in terms of time and cost**

- 3.2 The contract was not managed or monitored centrally by the department. This would have assisted to control the cost of the consultancy project. Hospitals and other health institutions did not have to obtain approval from the department before making use of the expanded contract. As a result of both these factors, actual payments to the consultant amounted to R21 950 049 (1 954% more than the original contract value).

**Actual payments exceeded the contract value by 1 954%**

<sup>13</sup> A time-based contract is open-ended if the contract does not specify the maximum amount of total payments to be made to the consultant

### 4. PERSONNEL AND SALARY ADMINISTRATION SYSTEM USER SUPPORT SERVICES

The department made use of a transversal tender contract<sup>14</sup> to use a consultant to perform Personnel and Salary Administration System (Persal) user support services. However, when the transversal tender contract ended on 31 March 2005, the department itself appointed the consultant.

The department considered the consultant's services to be critical and signed a contract with the consultant on 27 July 2005. The contract, which was backdated to 1 May 2005, was for a period of one year. The contract value was R623 589.

The original contract period was subsequently extended until 30 April 2014. The number of consultancy resources was also increased from one to four people.

The total value of payments to the consultant from April 2006<sup>15</sup> to 31 December 2011 was R6 371 160.

- 4.1 The scope of the original contract was extended without the contract specifying the maximum value and the number of hours to be worked by the consultant. The extended contract was therefore an open-ended contract in terms of time and cost. An open-ended contract is contrary to National Treasury Practice Note 3, which prescribes that contracts should include the maximum amount of total payments to be made to a consultant.

**Contract was open-ended in terms of time and cost**

As a result of not placing a limit on the contract value, actual payments to the consultant amounted to at least R6 371 160 (922% more than the original contract value).

<sup>14</sup> A transversal tender is arranged by treasury to procure goods and services that are repetitively required by departments. Any government department may opt to use it to procure goods and services

<sup>15</sup> The expenditure on the project during the 2005-06 financial year could not be obtained

4.2 The extension of the contract was approved although departmental officials raised concerns that it would not be economical and to the best benefit of the department.

4.3 The contract was extended due to the following:

- Capacity constraints in the human resource management directorate
- Skills were not transferred by the consultant to departmental staff. The transfer of skills was not included in the contract as a deliverable. However, the nature of this project created conditions where skill transfers could have taken place.

**Capacity constraints and lack of skills transfer led to the contract extension**

The original contract end-date of 30 April 2006 was extended to 30 April 2014 as the department became dependent on the resources of the consultant.

## 5. NURSING AGENCY SERVICES

The department appointed nursing agencies to assist health institutions in meeting their operational requirements. The nursing agencies were needed due to:

- Vacancies within health institutions
- Replacement staff being required on an ad hoc basis (e.g. during periods of leave).

The department concluded a contract with nine nursing agencies (contract 1) for a period of two years from 1 December 2006. Contract 1 was subsequently extended by 13 months until 31 December 2009.

After contract 1 came to an end on 31 December 2009, the department concluded a (new) contract with 15 nursing agencies (contract 2) for a two-year period from 1 January 2010 to 31 December 2011.

## 5.1 Vacancies of nursing personnel

High levels of vacancies existed for the posts of professional nurses, staff nurses and nursing assistants during the 2007-08, 2008-09 and 2009-10 financial years. Contributing factors to the high vacancy levels included overall shortages in the number of nurses in South Africa<sup>16</sup> as well as delays in the appointment process for nurses.

**Table 1: Vacancy rates for nursing personnel**

NURSING PERSONNEL	VACANCY RATE		
	2007-08	2008-09	2009-10
Professional nurses	30%	36%	34%
Staff nurses	21%	33%	29%
Nursing assistants	15%	31%	24%

Given the high vacancy levels, the department made use of nursing agency personnel to supplement its own nursing capacity. The total expenditure on nursing agencies from 1 April 2007 to 31 December 2011 amounted to R588 456 783.

## 5.2 Delay in concluding nursing agency contract

The department did not commence on time with the process of concluding contract 2. Furthermore, the tender evaluation process for contract 2 took six months, while the standard time period was three months. Therefore, contract 2 was not concluded before contract 1 came to an end on 31 December 2008. This led to contract 1 being extended for 12 months until 31 December 2009. Contract 2 commenced on 1 January 2010.

**Nursing agency contract not concluded on time**

<sup>16</sup> Western Cape Department of Health. 2009, Provincial Nursing Strategy

### 5.3 Delay in concluding SLAs

The department concluded SLAs with 13 of the 15 nursing agencies for contract 2 between 7 September 2010 and 7 February 2011. This despite, contract 2 having come into effect on 1 January 2010. Nursing agencies were, therefore, used without SLAs having been concluded. The delay in the review of the SLA by the legal services division at the Department of the Premier led to it being signed late.

The SLAs would have enabled the department to more effectively act against nursing agencies in cases of poor performance by agency nurses.

### 5.4 No computerised booking and placement system

The department did not have a computerised booking and placement system (computerised system) for agency nurses, even though it was a condition of the bid that nursing agencies had to use the computerised booking and placement system to be procured by the department. A lack of communication between the various role players led to the computerised system not being developed on time. Each hospital had to book and place agency nurses manually, which was labour intensive and inefficient. In addition, the manual system did not allow sufficient control over the agency nurses.

**Delay in developing a computerised booking and placement system for agency nurses**

The computerised system would have provided the following benefits:

- Preventing an agency nurse from being booked if he/she had worked more than 12 hours within the last 24 hours
- Saving time of administrative clerks and nursing managers
- Tracking agency nurses who performed poorly
- Preventing agency nurses from being double-booked

- Controlling whether an agency nurse had the required qualification and experience to work in the required position
- Confirming that agency nurses who arrived for duty were the agency nurses who had been booked
- Assisting health institutions in substituting agency nurses who had cancelled a placement after having been booked.

### 5.5 Management of nursing agencies

5.5.1 Formal action was not taken against nursing agencies that did not meet the requirements of the SLA. Penalties were not instituted for the following reasons:

**Formal action was not taken against nursing agencies that did not meet the SLA requirements**

- The SLA for contract 1 did not contain a specific penalty clause for non-compliance
- The SLA for contract 2 was only concluded between 7 September 2010 and 7 February 2011.

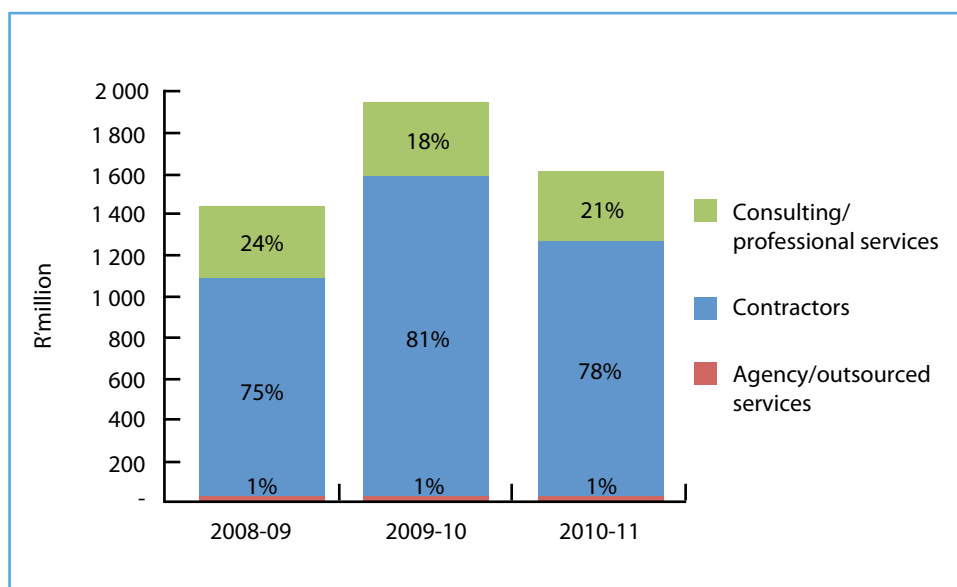
5.5.2 Various cases were identified where nursing agencies did not comply with the SLAs. The following serve as examples:

- Nursing agencies sometimes did not inform the health institutions in time that scheduled nurses were no longer available
- Agency nurses did not always have the required level of qualifications and competence (experience) to fill the positions they were requested for by the health institution
- Some agency nurses arranged for replacements among themselves without approval.

Total expenditure on consultants (2008-09 to 2010-11)	R4 988 million
Number of projects audited	20
Value of payments audited	R328 million
Average vacancy rate (2008-09 to 2010-11)	21,2%

Graph 2 provides a breakdown of the expenditure on consultants per category and per financial year.

**Graph 2: Total expenditure on consultants at the Department of Transport and Public Works**



## A. DEPARTMENTAL FINDINGS

### 1. STRATEGY AND POLICY ON THE USE OF CONSULTANTS

The department did not have a comprehensive strategy and policy governing the use of consultants. It regarded the various national and departmental SCM regulations as policies for the appointment and use of consultants. However, these regulations and policies did not indicate how the department should use consultants to get the best value for money.

The department was not in a position to plan in advance the following:

- Areas where permanent capacity was required
- Services that would be outsourced to consultants
- Internal capacity to avoid becoming dependent on consultants.

As a result, consultants were appointed on an ad hoc basis and the long-term effects were not considered.

## 2. NEEDS ASSESSMENTS

Needs assessments are required by the *Accounting Officer's Supply Chain Management System* document.<sup>17</sup> Needs assessments were not conducted by the department before awarding 16 consultancy projects to the value of R291 108 265. The department therefore could not:

**Needs assessments not conducted**

- Evaluate the cost implications of using a consultant rather than its own internal resources
- Determine the availability of internal resources with the required skills and experience.

## 3. LIMITED BIDDING

3.1 The department followed limited bidding processes to award 13 (65%) of the 20 consultancy projects audited. The total value of the 13 consultancy projects was R200 243 279. The department's *Accounting Officer's Supply Chain Management System* document indicates that these processes limit openness and must be used responsibly. As limited bidding is not a competitive process, it could not be determined whether these appointments were made in the best interests of the departments and at the lowest possible cost.

**13 consultancy projects valued at R200 243 279 were awarded using limited bidding**

3.2 The 13 cases of limited bidding were not referred to the central departmental bid committee when the contract exceeded R250 000. This is a requirement of the department's *Accounting Officer's Supply Chain Management System* document.

<sup>17</sup> Issued by the department's accounting officer in accordance with Section 38(1)(a)(iii) of the Public Finance Management Act (PFMA)

3.3 The department did not report the use of limited bidding where the contract amount was above R1 million. In terms of *National Treasury Practice Note 6*, this should have been reported to the Western Cape Provincial Treasury and the Auditor-General of South Africa (AGSA). Ten consultancy projects to the value of R155,5 million were awarded without reporting the use of limited bidding.

**The use of limited bidding was not reported**

## 4. REASONABLENESS OF CONSULTANCY FEES

The reasonableness of fees proposed by consultants appointed through the use of limited bidding processes, was not evaluated by the department. Therefore, the department did not ensure that consultants were appointed at the appropriate level of remuneration. The department did not have procedures to evaluate consultancy fees for reasonableness.

**The reasonableness of proposed fees not evaluated**

## 5. MAXIMUM CONTRACT VALUES

Maximum contract values and the number of hours to be worked by consultants were not always specified in contracts. The contracts were therefore open-ended in terms of time and cost. Open-ended contracts are contrary to National Treasury Practice Note 3, which prescribes that a contract should include the maximum amount of total payments to be made to a consultant.

**Contracts were open-ended in terms of time and cost**

In the absence of maximum contract values, the department could not determine whether projects were completed at the lowest possible cost.

## 6. DECLARATION OF CONFLICTS OF INTEREST

Officials involved in awarding consultancy projects through the use of limited bidding processes did not declare their conflicts of interest. While this was not a requirement for officials involved in limited bidding processes, it elevates the risk that these officials could have benefited from such appointments. These officials were responsible for the appointment of 12 consultants to the value of R193,4 million.

**Officials involved in limited bidding did not declare their conflicts of interest**

## B. FINDINGS PER PROJECT

### 1. OVERALL PROJECT MANAGEMENT AND COORDINATION OF VARIOUS PROJECTS OF THE PUBLIC TRANSPORT BRANCH

A consultant was appointed from 1 May 2007 for the overall project management and coordination of various transport projects. The appointment was for 12 months and was made using a limited bidding process. The contract was limited to a cost of R2 million, but was subsequently extended until 30 April 2009. The total actual cost of the project was R5 398 977.

1.1 The consultant was appointed to compensate for managerial vacancies in the public transport branch. Some of these vacancies existed for over five years. The reasons for the prolonged vacancy periods included:

- Delays in the process of shortlisting candidates
- The unavailability of interview panel members
- The moratorium on appointments.

As a result, the department became dependent on the consultant.

1.2 The ToR did not contain clear, measurable deliverables and time frames for the completion of deliverables. This was because the department's project manager did not have the required project and contract management skills. As a result, payments to the consultant were not based on deliverables or actual hours worked. Monthly tax invoices were not always supported by a detailed breakdown of the cost per service. The consultant invoiced the department for a standard amount of R165 756 per month during the period May 2007 to December 2008.

1.3 The department did not withhold payments or institute penalties where the consultant did not complete deliverables on time. This was contrary to the payment and penalty clauses of the contract as well as the National Treasury's *General Conditions of Contract*.

1.4 Transfer of skills was not included in the contract as a deliverable. As a result, the consultant was not required to transfer skills to the department's staff. However, the nature of this project created conditions where transfer of project and contract management skills could have taken place. This could have reduced the department's reliance on the consultant.

1.5 The department extended the contract with the consultant to 30 April 2009. The extension was a result of the department's continued lack of capacity. The following shortcomings were identified regarding the extensions:

- The department's *Accounting Officer Delegations* did not allow for the extension of contracts that were awarded through limited bidding processes
- Extension contracts were not signed with the consultant

- During the extension period, the deliverables were expanded to include the development of a procurement strategy for buses. At the request of the department, the consultant appointed a specific sub-consultant<sup>18</sup> to assist with this. This circumvented the department's SCM policies and procedures
- Even though R984 139 was paid for the completed procurement strategy, it was not implemented due to a change in legislation
- The cost of the extension was not limited, resulting in an open-ended extension of the contract. This is contrary to National Treasury Practice Note 3. A total of R3 398 977 was paid to the consultant during the extension period.

**Consultant was requested to appoint a specific sub-consultant**

**Completed deliverable will not be implemented**

1.6 The project was not properly closed and a retrospective analysis was not performed by the department. As a result, the department did not determine whether all the project objectives were achieved.

## 2. ANALYSIS, TRAINING AND REMEDIATION OF THE LAND TRANSPORT PERMIT SYSTEM AND DATABASE

A consultant was appointed for analysis, training and remediation of the Land Transport Permit System and Database at a cost of R3 961 637. The consultant was appointed through a limited bidding process for an estimated period of 12 weeks from 25 April 2007 to 31 July 2007. The actual cost of the project was R3 169 309.

<sup>18</sup> A sub-consultant is an individual or company appointed by the consultant to provide services related to those which the consultant was contracted to provide

2.1 The contract with the consultant was only concluded on 5 July 2007, 10 weeks after the consultant commenced work on the project. This is contrary to National Treasury Practice Note 3, which prescribes that all consultancy work should be regulated by a contract. The delay in the review of the contract documents by the legal services division at the Department of the Premier led to the contract being signed late. The consultant issued two invoices to the department amounting to R937 335 for work performed before signing the contract.

2.2 The contract provided for departmental staff to be trained. However, transfer of skills was hampered by staff not always being available to attend training sessions. The staff gave priority to other departmental duties.

2.3 The contract included a penalty clause which specified that *where the service levels have not been met over the review period, a pro-rata reduction in the fees will be made*. However, the department did not apply the penalty clause when the consultant did not complete deliverables on time. This was as a result of the following:

- Contract management procedures were not documented
- The contract was not specific about the amount or percentage by which fees should be reduced
- The department contributed to some of the delays.

2.4 As the department was not satisfied that the Land Transport Permit System was fully functional, it refused to make a final payment of R792 327 to the consultant. On 28 July 2008, the consultant declared a formal dispute with the department. This resulted in the department not being able to use the work of the consultant. By February 2012, the dispute had still not been resolved.



### 3. TECHNICAL EVALUATION AND SUPPORT WITH THE IMPLEMENTATION OF THE INTEGRATED FARE MANAGEMENT AND INTELLIGENT TRANSPORT SERVICES SYSTEMS

A consultant was appointed through a limited bidding process for 24 months from 26 January 2007. The contract was subsequently extended until 30 July 2009. The consultant was required to provide technical evaluations and support to implement the Integrated Fare Management (IFM) system and the Intelligent Transport Services (ITS) system. The total actual cost of the project was R6 801 335.

- 3.1 The contract was awarded to the consultant based on the skills of a specific member of the consultant's team. The contract did not, however, contain a cancellation clause that allowed the department to cancel the contract if this team member was no longer available. Within one month of the contract being awarded, the specific team member no longer worked for the consultant. However, the department continued to use the consultant to provide the service.
- 3.2 The contract did not contain clear and measurable deliverables. Time frames for achieving deliverables were also not set in the contract. Therefore, the department could not effectively monitor the consultant's progress. As a result, progress was slow during the 13-month period from April 2008 to April 2009. The consultant's progress reports indicated that some deliverables had no progress, while other deliverables were less than 20% complete.
- 3.3 The 24-month contract with the consultant was extended by six months to complete outstanding deliverables. During the extension, the consultant was paid R869 696. The following shortcomings were identified regarding the extensions:
  - The department's *Accounting Officer Delegations* did not allow for the extension of contracts that were awarded through limited bidding processes
  - A motivation for the extension could not be provided

- The cost of the extension was not limited, resulting in an open-ended extension of the contract. This is contrary to National Treasury Practice Note 3.

- 3.4 Some deliverables were still not completed by the consultant after the extension period. This resulted in the consultant being reappointed, at a further cost of R1,5 million, to complete outstanding deliverables.
- 3.5 The project was not properly closed by the department. By February 2012, the department had not performed a retrospective analysis to determine whether the project objectives were achieved. This was because the department did not have the information technology expertise to evaluate this project.
- 3.6 The IFM and ITS systems were designed to monitor the number of tickets sold by transport operators. However, a change in legislation in 2010 required provinces to subsidise transport operators on kilometres travelled and not the number of tickets sold. In effect, this made the IFM and ITS systems redundant and they were not implemented.

### 4. INTEGRATED FARE MANAGEMENT/INTELLIGENT TRANSPORT SERVICES SYSTEMS AND EQUIPMENT FOR PUBLIC TRANSPORT SERVICES

The department appointed a consultant to provide the Integrated Fare Management (IFM) and Intelligent Transport Services (ITS) systems. The contract specified the development of the systems and the provision of equipment.

Following a closed tender process<sup>19</sup>, the consultant was appointed for 12 months from 15 February 2007. The contract value was R33 996 259.

The contract was extended twice for a further 18 months until 14 August 2009. The total actual cost of the project was R41 834 863.

<sup>19</sup> In a closed tender process, only pre-qualified or known bidders are requested to submit proposals

4.1 The department extended the contract twice, as the IFM and ITS systems were not commissioned during the original contract period. The extensions were for the delivery of maintenance and support services. The total value of these extensions was R4 245 766.

4.2 The IFM and ITS systems developed by the consultant were not used by the department. The IFM and ITS systems were designed to monitor the number of tickets sold by transport operators. However, a change in legislation in 2010 required provinces to subsidise transport operators on kilometres travelled and not the number of tickets sold. In effect, this made the IFM and ITS systems redundant and they were not implemented.

Forty percent (R13 598 504) of the contract amount was for the supply of equipment to be used with the IFM and ITS systems. However, as these systems were redundant, the equipment was also not used.

The following photographs illustrate the unused equipment installed at the IFM and ITS systems' control room:



*Computer equipment supplied by the consultant remains unused at the IFM and ITS systems' control room (view from the front)*



*Computer equipment supplied by the consultant remains unused at the IFM and ITS systems' control room (view from the back)*

## **5. PROVISION OF INDEPENDENT PROJECT MANAGEMENT, FINANCIAL MODELLING AND PROCUREMENT ADVICE REGARDING THE SOMERSET HOSPITAL PRECINCT**

In February 2007, the Western Cape Provincial Cabinet<sup>20</sup> (Cabinet) resolved that the Somerset Hospital precinct would undergo a disposal process and a development process. As part of the disposal process, a consultant was appointed to provide independent project management, financial modelling and procurement advice.

The consultant was appointed using a limited bidding process for a period of 40 months from 28 March 2007 to 27 July 2010. The estimated value of the contract was R1,5 million. The appointment letter was issued on 3 May 2007. The contract value subsequently increased by R3 million as the department had underestimated the original contract amount. The actual cost of the project was R4 469 625.

<sup>20</sup> The Western Cape Provincial Cabinet is the executive branch of the Western Cape Provincial Government. It consists of selected members of parliament, appointed by the Premier.

- 5.1 The consultant was paid R394 754 for work performed during March and April 2007, prior to the contract being issued on 3 May 2007. This is contrary to National Treasury Practice Note 3, which prescribes that all consultancy work should be regulated by a contract.
- 5.2 The contract did not contain clear and measurable deliverables. Time frames for achieving each deliverable were also not set in the contract. As a result, the department could not effectively monitor the consultant's progress.
- 5.3 A Cabinet decision was taken on 11 December 2008 to discontinue the process regarding the disposal and development of the Somerset Hospital precinct. The Cabinet decision indicated that future redevelopment proposals for the Somerset Hospital precinct had to be part of a broader strategic property development plan and subject to a proper feasibility study. Therefore, the work performed by the consultant at a cost of R4 469 625 was not used.

**Work costing R4 469 625 was not used**

## 6. BUSINESS INTELLIGENCE ON KEY INDUSTRIES IN PUBLIC TRANSPORT

A consultant was appointed for a period of six months on 26 April 2006 to gather business intelligence on key industries in public transport. Two further contracts were subsequently awarded to the same consultant on 13 February 2007 (contract period of 12 months) and 20 August 2008 (contract period of 12 months) to perform the same tasks.

The three contracts covered a total period of 30 months and were awarded using limited bidding processes. The total contract value of all three contracts was R5 314 000. The services of the consultant were terminated on 31 March 2009, after a period of 35 months. The actual cost of the project amounted to R6 001 855.

- 6.1 The department did not effectively maintain its archiving system. As a result, the motivation to use a limited bidding process for the first contract amounting to R640 000 could not be provided by the department.
- 6.2 Contracts were not concluded between the department and the consultant for all three appointments. This is contrary to National Treasury Practice Note 3, which prescribes that all consultancy work should be regulated by a contract. The contracts should have specified at least the deliverables, time frames for the completion of deliverables and payment terms.
- 6.3 The following shortcomings were identified with regard to payments made to the consultant:
- Invoices amounting to R2 100 000 did not include breakdowns of the invoiced amounts
  - The amounts claimed were not supported by documentary evidence
  - Invoices amounting to R1 250 000 were either not certified, or not certified by an appropriate departmental official. This was because the department's project manager was not available and the responsibility for project monitoring had not been delegated to another departmental official.
- 6.4 The consultant did not submit progress reports to the department. No evidence could be obtained that the department regularly monitored the performance of the consultant.
- 6.5 The department did not obtain approval to use the consultant for the period 13 February 2008 to 20 August 2008. A lack of communication and coordination between the head of department and officials from the public transport branch led to delays in approving a new contract. Payments to the consultant for services rendered during this period amounted to R1 595 625.

**Contracts were not concluded for all three appointments**

6.6 The department could not provide evidence that seven of eight deliverables were completed by the consultant. The following are examples of deliverables for which evidence could not be provided:

**No evidence that deliverables were completed**

- Ambassadors' safety guide
- Risk profiling of the public transport infrastructure
- Risk analysis of 2010 public transport projects
- Safety and security plans.

## 7. RESTRUCTURING OF PUBLIC TRANSPORT SCHEDULED SUBSIDY SERVICES

The department appointed a consultant to design and develop a business case to restructure the public transport scheduled subsidy service (subsidy business case). The consultant was appointed using a limited bidding process at a cost of R1 511 000. The contract was for a period of six months from 18 May 2007 to 17 November 2007.

The same consultant was appointed to establish the Public Transport Operating Entity (PTOE). A limited bidding process was again used. During the course of the contract, the name of the deliverable was changed to the Public Transport Operating Trading Entity (PTOTE). The contract cost was R1 800 000 for 12 months, from 1 June 2007 to 31 May 2008.

The actual payments to the consultant for the two contracts amounted to R2 567 879.

7.1 Approval to use a limited bidding process to appoint the consultant for the PTOE contract was obtained on 28 September 2007. This was four months after the

consultant had been appointed. The consultant invoiced the department for R584 535 in respect of work performed during this four-month period.

7.2 Payments for the subsidy business case could not be verified against hourly rates agreed with the consultant as the contract could not be provided for audit purposes.

7.3 The department did not effectively manage the consultant. This contributed to the following shortcomings:

- Some invoices were paid without the department having received progress reports from the consultant
- Progress reports attached to five invoices were not certified by a departmental official as accurate and acceptable.

7.4 The department did not implement the completed subsidy business case, even though R1 480 860 was paid to the consultant. This was because the department did not apply to the National Treasury or the National Department of Transport for funding to implement the subsidy business case. The department could not provide the reasons for not having submitted the application for funding as the project was managed by the former head of the department. Progress had not been communicated to departmental officials.

**Deliverable amounting to R1 480 860 not used**

7.5 The PTOTE was not implemented, even though R1 087 019 was paid to the consultant. This was because the function of subsidised public transport services was no longer a departmental responsibility when the deliverables were completed.

**Deliverable amounting to R1 087 019 not used**

Changes in legislation transferred the function of subsidised public transport services to the City of Cape Town. In effect, this made the establishment of the PTOTE redundant.

## 8. TRANSPORT PRECINCTS INITIATIVES FRAMEWORK<sup>21</sup> AND INTERCHANGE DEVELOPMENT CRITERIA FOR THE PHILIPPI RAIL STATION

A consultant was appointed on 29 June 2007 using a limited bidding process. The consultant provided project management and professional services for the transport precinct's initiative framework and interchange development criteria for the Philippi rail station. The value of the contract was R1 980 693 (contract 1). On 24 July 2008, the consultant was again appointed using a limited bidding process at a cost of R1 980 693 (contract 2) to continue with the project until 24 July 2009. The total actual cost for both contracts was R4 846 897.

- 8.1 The SLA for contract 1 was not signed until after contract 2 was completed. The delay in obtaining input from the legal services division at the Department of the Premier led to the SLA being signed 25 months late.
- 8.2 The consultant was paid R4 846 897 for both contracts, R885 511 (22%) more than the approved contract amounts. The contract amounts were exceeded because the department did not monitor the project cost on a regular basis.
- 8.3 Two invoices for payments amounting to R2 620 258 did not include a breakdown of the fee being billed. As a result, it could not be verified whether payments were valid and in accordance with agreed rates.

**Delay of 25 months in signing SLA**

**Contract amount was exceeded by R885 511**

## 9. TRANSFORMATION OF THE SUBSIDISED PUBLIC TRANSPORT SERVICES IN THE CITY OF CAPE TOWN

Since September 2004, four contracts were awarded to the same consultant for services relating to the transformation of subsidised public transport services. Table 2 details the actual expenditure on the four contracts.

Only contracts 2, 3 and 4 formed part of the scope of this audit. These three contracts were awarded to the consultant without following competitive bidding processes.

**Table 2: Contracts awarded to the consultant**

Contract description	Appointment date	Contract period (months)	Contract amount R	Actual expenditure R
<b>Contract 1:</b> Transformation of the subsidised public transport services in the City of Cape Town	20 September 2004	9	1 590 195	No information available <sup>22</sup>
<b>Contract 2:</b> Detailed design of the transformation	28 July 2005	17	10 928 040	14 168 655 <sup>22</sup>
<b>Contract 3:</b> Infrastructure (bus route stops) for the restructured services	31 October 2007	3 (extended to 31 January 2009)	878 000	1 225 500
<b>Contract 4:</b> Business models for financing public transport	27 February 2008	3	950 000	1 292 709
<b>Total</b>			<b>14 346 235</b>	<b>16 686 864</b>

<sup>21</sup> The aim of this project was to secure effective integration between modes of transport and pedestrians at transport interchanges

<sup>22</sup> The department could not provide the actual expenditure on contracts 1 and 2. The expenditure above is in respect of payments made to the consultant for the period 1 April 2006 to 28 August 2009. As a result, the total value shown does not reflect the total value spent on all the above-mentioned projects awarded to this consultant

9.1 The contracted amount for contract 2 was exceeded by R3 240 615 (30%). This was because the consultant claimed for work performed during an additional nine months after the original 17-month contract came to an end.

**Contract amount exceeded by  
R3 240 615**

9.2 The deliverables of all three contracts were not implemented by the department. This was because the function of subsidised public transport services was no longer a departmental responsibility when the deliverables were completed. Changes in legislation transferred the function of subsidised public transport services to the City of Cape Town. A total of R16 686 864 was paid to the consultant for the deliverables.

**Deliverable costing  
R16 686 864 was not used**

## 10. PROJECT AND PROGRAMME MANAGEMENT SUPPORT FOR ALL DEPARTMENTAL 2010 PROJECTS<sup>23</sup>

The department appointed a consultant to provide project and programme management support for all departmental 2010 projects. The appointment was for three years, from 7 July 2007 to 6 July 2010. The total actual cost of the project as at 31 December 2011 was R20 836 242.

10.1 The department's accounting officer approved the appointment of the consultant using a limited bidding process. Approval was not obtained from the department's SCM unit. The approval of the SCM unit is a requirement in terms of the department's *Accounting Officer Delegations*.

10.2 The accounting officer's approval to use a limited bidding process included a condition that the consultant's appointment should be reviewed annually. However,

evidence could not be obtained that the department annually reviewed and approved the continued use of the consultant.

10.3 A contract was not concluded between the department and consultant. Therefore, the deliverables, time frame for the completion of deliverables and contract value were not specified. This is contrary to National Treasury Practice Note 3, which prescribes that all consultancy work should be regulated by a contract.

10.4 The consultant's actual team composition deviated from its proposal submitted to the department. The consultant used 17 members of its staff that did not form part of the proposal (the consultant's proposal specified 13 members). No evidence could be obtained that the consultant had informed the department after the substitution of its staff. This contravened National Treasury Practice Note 3 which states that *the consultant should propose other staff of at least the same level of qualification for approval by the accounting officer/ authority*. The amounts invoiced for these 17 staff was R2 881 550 (60% of the invoices audited).

## 11. IMPLEMENTING A HIGH-LEVEL, INTEGRATED AND INTERGOVERNMENTAL PUBLIC TRANSPORT SOLUTION

The department appointed a consultant to develop and support the implementation of a high-level, integrated and intergovernmental public transport solution. The consultant was appointed for 36 months from 1 September 2006 to 31 August 2009, using a limited bidding process. The total cost of the project was R21 116 015.

11.1 Although the contract required the work to be performed based on assignments<sup>24</sup>, this was not done. Assignments were not compiled by the department for work performed to the value of R1 178 201. In addition, assignments for work to the value of R3 301 698 were only compiled after the work had been performed.

<sup>23</sup> Projects to support the hosting of the FIFA 2010 World Cup™

<sup>24</sup> An assignment formally instructs the consultant to perform a specific deliverable. The department used this approach when the specific deliverables were not known when the contract was concluded. The assignment should specify the deliverables, timeframes for the completion of deliverables and the cost

In the absence of assignments with clear deliverables and timeframes, the department could not effectively monitor the consultant's progress and deliverables.

11.2 The department was not always satisfied with the work performed by the consultant. However, penalties were not applied. This was because the contract did not contain a penalty clause and assignments were not compiled by the department as required.

## 12. COMMUNICATION, PUBLIC PARTICIPATION, MARKETING, BRANDING AND EVENT MANAGEMENT STRATEGIES AND ACTIVITIES

The department awarded contracts to two consultants to develop and implement the following deliverables:

- Communication framework and strategy
- Public participation strategy
- Marketing and branding strategies
- Event management strategy and activities
- Corporate memory implementation files for all the above strategies.

The contracts were for a three-year period from 20 February 2007 to 19 February 2010. The total actual payments to the two consultants was R50 146 905.

12.1 The bid evaluation committee did not comply with some aspects of National Treasury Practice Note 3 when evaluating bid proposals. The following are areas of non-compliance:

- The evaluation committee accessed the financial proposals before completing the evaluation of the functional (technical) proposals. They should have completed the functionality evaluations before having access to the financial proposals

**Non-compliance with Practice Note 3**

- The members of the evaluation committee deliberated and scored each tender proposal as a committee rather than individually
- The evaluation committee considered the financial proposals of all the bids. Only the financial proposals of the bids that qualified based on functionality should have been taken into consideration. A minimum qualifying score for functionality was not determined before the evaluation.

12.2 A condition of the contracts was that the two consultants had to compete on a quotation basis for assignments. However, the department took a decision at the start of the contract to allocate all strategic communication initiatives to one consultant, and all event management activities and community activities to the other consultant. Therefore, assignments were not awarded through a competitive quotation system. Assignments could possibly have been completed at a lower cost had competitive quotations been obtained at the start of each assignment. The project manager also did not coordinate the assignments allocated to the two consultants to ensure that their deliverables were aligned and that all the deliverables as per the ToR were achieved.

12.3 The department paid a monthly management fee of R321 429 to one of the consultants in addition to the hours billed by the consultancy staff on the project. No evidence could be obtained that the department accepted the proposal requiring the payment of the monthly management fee. The benefit that the department obtained for the management fee could not be determined. A total of R7 million was paid in management fees to the consultant.

**Benefit of R7 million management fee could not be determined**

12.4 It was a contract condition that the tendered hourly rates should form the basis of pricing and that the rates would remain constant for the duration of the contract period. However, one of the consultants billed hourly rates that exceeded the tendered rates. A review of 10 invoices amounting to R3 378 357 indicated that an overpayment of R892 107 (36%) was made for these 10 invoices.

12.5 Inadequate monitoring of payments contributed to duplicate and overpayments amounting to R630 612. Evidence that the department recovered the duplicate and overpayments was not provided by the department.

**Duplicate payments and overpayments amounting to R630 612**

12.6 The department required one of the consultants to develop the SMARTT<sup>25</sup> brand for the IFM and ITS systems that were being developed. The consultant was also requested to organise the launch of the IFM and ITS systems. Expenditure on the development of the SMARTT brand and launch of the IFM and ITS systems amounted to R9 014 448. However, the IFM and ITS systems were not implemented. Therefore, the SMARTT brand developed by the consultant was not used.

12.7 According to the ToR, the outcome of the contract should have been measured against the following:

- An increase in the community's awareness of public transport activities
- An improvement in the department's profile (reputation)
- An increase in positive media coverage received.

However, the department did not retrospectively evaluate whether the expenditure of R50,15 million contributed to an improvement in community awareness, the department's reputation and positive media coverage.

12.8 The department could also not provide evidence that the various strategies prepared by the two consultants were used and implemented. Some of the strategies had been misplaced and the department was attempting to obtain them from the consultants.

**No evidence that strategies developed by the consultants were used**

<sup>25</sup> The development of the SMARTT brand included, among other aspects, the research and development of the brand, adverts and branding of metered taxi vehicles and the IFM and ITS systems' control room

### 13. SPECIALIST FINANCIAL MANAGEMENT AND ACCOUNTING SERVICES

The department awarded a contract to a consultant to provide specialist financial management and accounting services. A limited bidding process was used to appoint the consultant for a 40-month period from 3 December 2007 to 31 March 2011. No maximum contract amount was agreed with the consultant.

The contract required that services had to be delivered on an assignment basis.

On 20 November 2008, the department agreed that the consultant would also develop financial management micro-structures and related governance tools at a fee of R6 242 167. The department regarded this deliverable as a second assignment in terms of the original contract awarded. The assignment had to be completed by March 2010.

The total actual cost of the contract was R18 462 796.

13.1 The first assignment of the contract was the *Financial Management Improvement Plan* (FMIP). However, while the FMIP contained deliverables and target dates, it did not include the following required information:

- The individual staff or grades of staff to be used by the consultant
- The fee estimate.

13.2 The training that the consultant had to provide to the department's finance officials was not delivered in a structured manner. The following shortcomings were identified:

- A training plan indicating, among others, the training needs and planned training interventions was not developed
- The capabilities of the finance officials were not assessed
- The effectiveness of training initiatives was not assessed.



- 13.3 The second assignment was to develop financial management micro-structures and related governance tools. This assignment did not form part of the scope of the contract. The actual cost of the second assignment was R12 270 495 (66,5% of the actual cost paid to the consultant).
- 13.4 Delays of up to 13 months occurred in completing the deliverables for the second assignment. The delays were, among others, due to:
- The project commencing later than anticipated
  - Changes in the department's top management structure, which required additional consultation to ensure buy-in
  - The department's officials not providing requested information to the consultant on time.
- 13.5 The project was still ongoing when the execution phase of the audit was completed.

#### 14. EVENT OPERATIONS MANAGEMENT SERVICES IN PREPARATION FOR THE FIFA 2010 WORLD CUP™

The department appointed a consultant to perform event operations management services in preparation for the FIFA 2010 World Cup™. It included the development of a provincial transportation plan.

The consultant was appointed for 34 months from 1 January 2008 to 31 October 2010. The contract value was R91 478 282. The actual expenditure on the contract as at 31 December 2011 was R80 506 196.

- 14.1 The consultant used fewer international staff members as part of its team than proposed. The consultant's fee was based on a salary of R119 592 to R183 065 for international staff members and R44 766 for South African staff members. In addition, maternity leave taken by one of the consultant's staff was not taken into account. Despite these changes, the department continued to pay the consultant at the agreed monthly fee. This was because the financial and administrative aspects

of the contract were not monitored, as the department's project manager did not have support staff. Owing to the above, it is estimated that the contract value could have been decreased by R6 450 645. No evidence was provided by the department that the agreed monthly fee was reduced or that this contributed to the actual expenditure being lower than the contract value.

- 14.2 The consultant was required to include transportation requirements for the metropolitan area of the City of Cape Town in the transportation plan. However, this did not fall within the department's responsibility. It was the responsibility of the City of Cape Town as host city. In effect, this materially reduced the scope of work required from the consultant.

Due to the reduction in the scope of work, the department made the consultant's staff available from January 2009 to assist the City of Cape Town. Seven of the consultant's 27 (26%) members were reassigned to the City of Cape Town. However, the department was still responsible for the payment of the consultant's fees.

- 14.3 The department received limited benefit for the amount of R80 506 196 paid to the consultant. The consultant's *After Action Report*, dated 15 August 2010, indicated the following:

**The department received limited benefit for R80 506 196 paid to the consultant**

- Despite having planned to do so, the department did not operate any transportation services of its own during the FIFA 2010 World Cup™
- Limited funding, a lack of clearly defined roles and responsibilities and uncertainty regarding visitor numbers were some of the challenges experienced. Funding for the implementation and operational aspects of the project had not been secured before the consultant was appointed. Subsequent requests for funding to the National Department of Transport were declined.



## 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 Tonic 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 is 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 officers' reform management, engineering services, construction supervision, financial services, procurement services, social and environmental studies and identification, preparation and implementation of projects to complement accounting officers' capabilities in these areas.*

*Consultants should only be engaged when the necessary skills and/or resources to perform a project/duty/study are not available and the accounting officer cannot be reasonably expected either to train or to recruit people in the time available.*

*The relationship between the accounting officer and the consultant should be one of purchaser/provider and not employer/employee. The work undertaken by a consultant should be regulated by a contract. The accounting officer is, however, responsible for monitoring and evaluating contractor performance and outputs against project specifications and targets, and should take remedial action if performance is below standard.*

## STANDARD CHART OF ACCOUNTS

According to the *Standard Chart of Accounts Toning Project Summary Report*, consultants, contractors and agency/outsourced services are categorised as consulting/professional services, contractors and agency/outsourced services.

**Consulting/professional services** refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. It further states that a consultant is a professional person appointed by the department to provide technical and specialist advice or to assist with the design and implementation of specific projects/programmes. The legal status of this person can be an individual, a partnership or a corporation.

**Contractors** are required to provide services that are of a non-specialised nature and that are not core business of the department. It is normally not cost-effective to maintain these skills within the department.

**Agency/outsourced services** refer to services where the relevant department ordinarily has the capacity and expertise to carry out these services, but for some reasons is not utilising its own staff. The reasons might include temporary incapacity or the outsourcing of services to save costs, for example cleaning, security and recruitment.

## PUBLIC SERVICE REGULATIONS

In terms of the *Public Service Regulation (PSR) J.3, Part III: Planning, Work Organisation and Reporting of Chapter 1 of the PSR, 2001*, a consultant means:

*A natural or juristic person or a partnership who or which provides in terms of a specific contract on an ad hoc basis any of the following professional services to a department against remuneration received from any source:*

- *The rendering of expert advice*
- *The drafting of proposals for the execution of specific tasks*
- *The execution of specific tasks which are of a technical or intellectual nature, but exclude 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 following up of performance audits conducted in the public sector.

As required by the *Performance Audit Manual*, sufficient audit evidence was obtained for the findings and illustrative examples contained in this report. These examples have been included to illustrate the consequences and effects of deficient management measures and are not collectively a full reflection of the extent of the 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
	Was proper contract administration provided for, including setting proper milestones, performance targets, monitoring systems, roles and responsibilities and the transfer of skills?	Efficiency

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
<b>Internal capacity at departments</b>	Was there a lack of permanently appointed staff with the necessary skills and experience in the departments, which necessitated the appointment of consultants as a compensating measure?	Economy
	Were consultants employed in high or critical positions such as CFO, etc?	Effectiveness
	Were departments using consultants because the internal processes to appoint permanent staff were inefficient and ineffective?	Efficiency
	Were consultants employed to monitor the work of other consultants or to compile specifications for tenders for which they then tendered?	Efficiency and effectiveness
<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

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
<b>Performance management and monitoring of consultants</b>	Did departments monitor and control the work of the consultant to ensure that the quality of the work performed matched the required deliverables and that it was achieved in the most efficient and cost-effective manner?	Efficiency
	Were alternative options considered to ensure that the objectives and business needs were achieved in a timely and cost-effective manner?	Economy and effectiveness
	Did departments have controls in place to avoid contracts being prolonged?	Economy and efficiency
<b>Extensions of contracts</b>	Did departments regularly extend consultants' contracts and did the department consider alternatives before extending a contract?	Economy and efficiency
	Did departments have controls in place to avoid contracts being prolonged?	Efficiency

FOCUS AREA	KEY AUDIT QUESTIONS	PRINCIPLE ADDRESSED
<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 for performing normal operational functions?</p>	<p>Effectiveness</p> <p>Economy and effectiveness</p> <p>Efficiency</p>

# READER'S NOTES

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# READER'S NOTES

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AUDITOR - GENERAL  
SOUTH AFRICA

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