

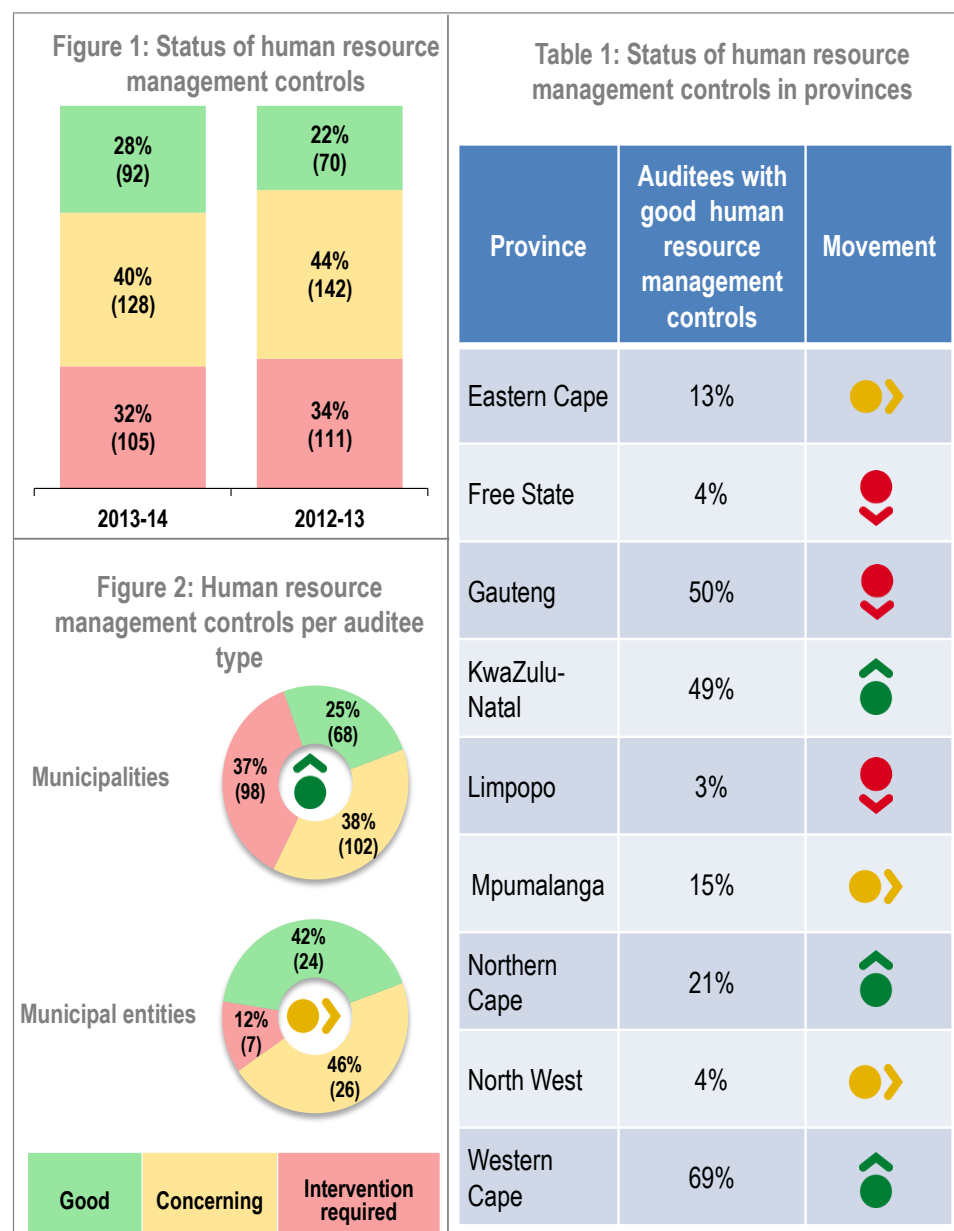
## 5

# The status of resource management

## Back-to-basics:

Build and maintain sound institutional and administrative capabilities, administered and managed by dedicated and skilled personnel at all levels

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## 5.1 Human resource management

HR management is effective if adequate and sufficiently skilled staff members are in place and if their performance and productivity are properly managed.

Our audits included an assessment of HR management that focused on the following areas: ■ HR planning and organisation ■ management of vacancies ■ appointment processes ■ performance management ■ acting positions ■ management of leave, overtime and suspensions.

Our audits further looked at the management of vacancies and stability in key positions, the competencies of key officials, performance management as well as consequences for transgressions, as these matters directly influence the quality of auditees' financial and performance reports and their compliance with legislation.

Based on the results of these audits, we assessed the status of auditees' HR management controls, as further discussed below.

### *Status of human resource management controls*

Figure 1 shows that there has been an improvement in the status of HR management when compared to the previous year, as evidenced by the increase in the number of auditees whose controls we assessed as being 'good', together with a reduction in those whose controls we assessed as 'intervention required'.

Figure 2 shows that this improvement was most evident at municipalities where there was an increase in good controls from 18% to 25%, while municipal entities remained unchanged at 42%.

Table 1 indicates the percentage of auditees in each province with good HR management controls. All provinces still had weaknesses in these controls. The overall improvement was mostly as a result of improvements in KwaZulu-Natal, the Northern Cape and the Western Cape, while there were regressions in three other provinces.

The remainder of this section details the outcomes of our audits in the four main areas of **vacancies and instability**, **competency requirements**, **performance management**, and **consequences for transgressions**.

Figure 3: Vacancies in key positions (municipalities)

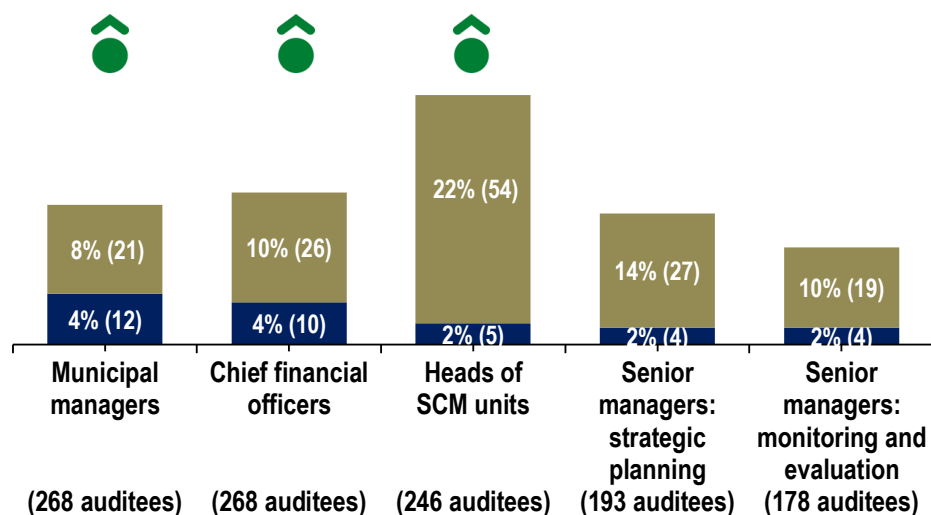


Figure 4: Stability in key positions (municipalities)

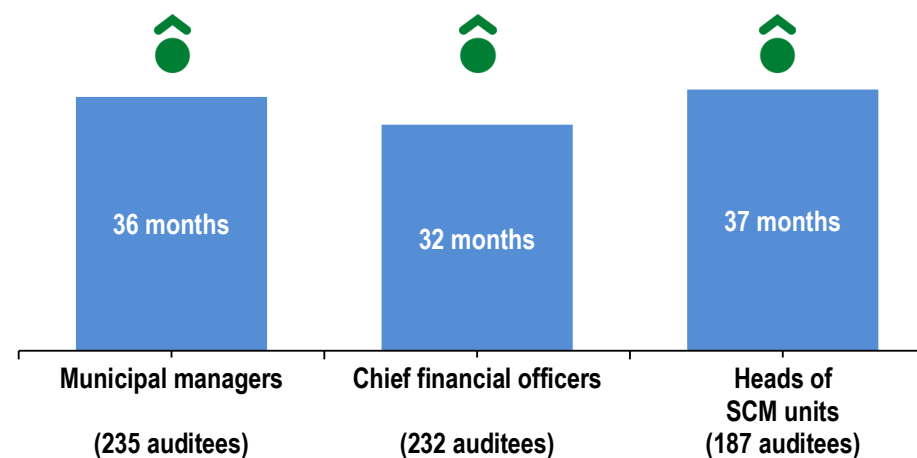


Figure 5: Vacancies in key positions (municipal entities)

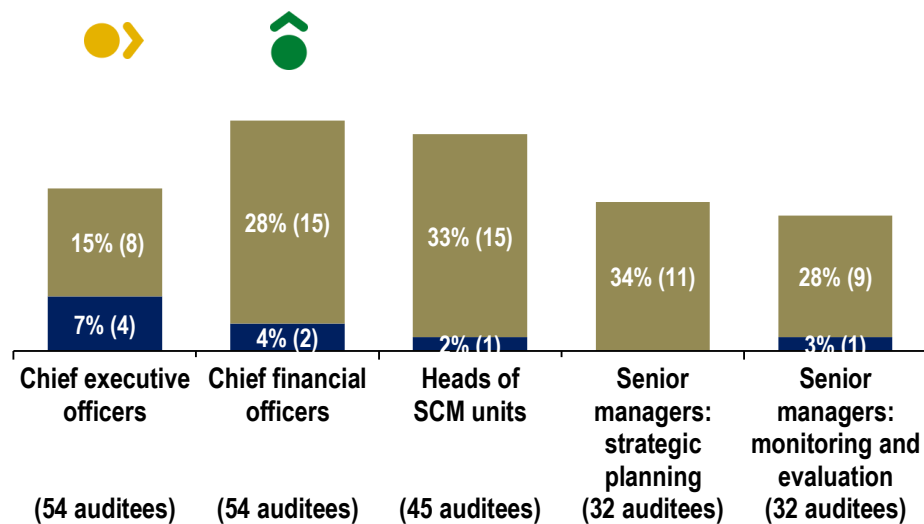
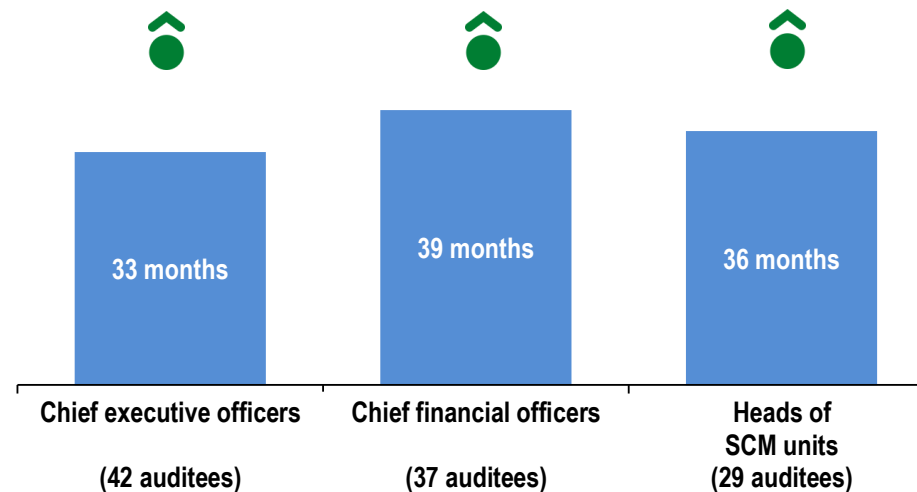


Figure 6: Stability in key positions (municipal entities)



Vacant for less than 6 months

Vacant for more than 6 months

Average number of months in position

## Vacancies and instability

One of the biggest challenges for local government is to attract and retain qualified and competent persons in all areas of administration. The average overall vacancy rate at year-end was 20% (2012-13: 18%), while the vacancy rate at senior management level was 18% (2012-13: 17%).

The most common material finding on the management of vacancies that we reported in the audit report was that acting municipal managers, CFOs and heads of SCM units were appointed for more than six months or that the MEC for local government did not approve an acting period of more than three months (43 municipalities).

We again highlight our concern that acting positions are intended as a short-term solution, as acting individuals are likely to take on less than the full responsibility, functions and powers of the higher position and are less committed to the deliverables due to the temporary nature of the position.

As part of our audits, we considered the vacancies and resourcing of finance units, as inadequate capacity in these units negatively affects the management, controls and quality of financial reporting. The average vacancy rate in finance units at year-end was 17% (18% of municipalities and 16% of municipal entities), a slight increase from the 16% reported in the previous year. The vacancy rate of 86 auditees was higher than 25%. The vacancy rate is not the only indicator of capacity. For example, some auditees had a good occupancy rate but had only a small finance unit in line with their budget. We assessed that the resourcing of 139 auditees (43%) required attention.

We also considered vacancies in key positions at year-end and stability in those positions. These key positions include municipal managers, CEOs, CFOs, heads of SCM units and senior managers responsible for strategic planning as well as monitoring and evaluation.

Figures 3 and 5 show the number of auditees where these key positions were vacant at year-end and also indicate the period that the positions had been vacant. The movement from the previous year is shown, except for the positions relating to strategic planning as well as monitoring and evaluation. Figures 4 and 6 show the average number of months municipal managers, CEOs, CFOs and heads of SCM units had been in their positions. The status of these key positions is discussed in more detail below.

## Accounting officers: municipal managers and chief executive officers

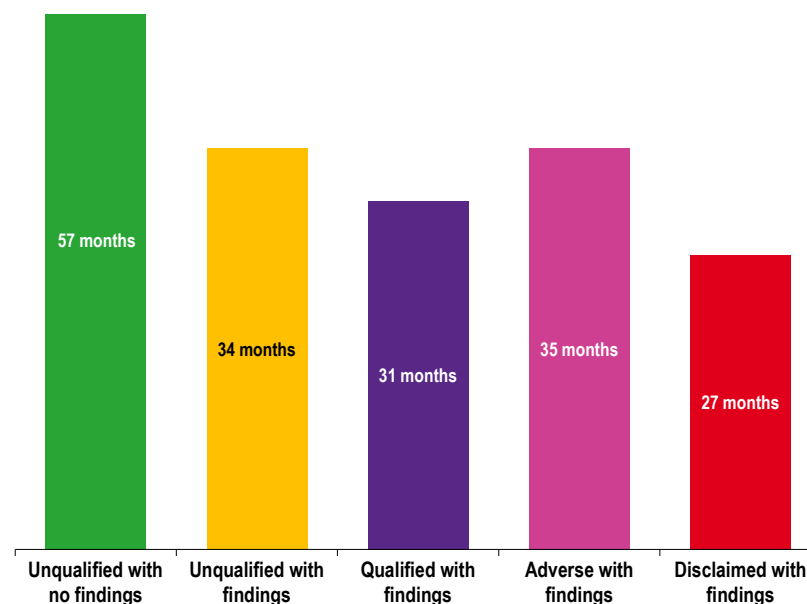
Instability at the level of accounting officer affects the ability of auditees to build and maintain a robust control environment for financial and performance management and weakens the accountability chain.

The **municipal manager** vacancy rate improved from 14% to 12%. All provinces had municipalities without a municipal manager at year-end, with the most being in KwaZulu-Natal (eight) and Limpopo (five). The municipal manager position had been vacant for more than six months at 21 municipalities, 16 of which had been for 12 months or more.

The average of 36 months in the position correlates with the contracted period for municipal managers. Municipal managers at 83 municipalities (31%) had been in the position for three years or more. A total of 12 (5%) of the municipal managers were suspended in the past year, with the most being in the Eastern Cape (six) and Limpopo (four).

Figure 7 below shows that those auditees with increased stability at municipal manager level also had better audit outcomes.

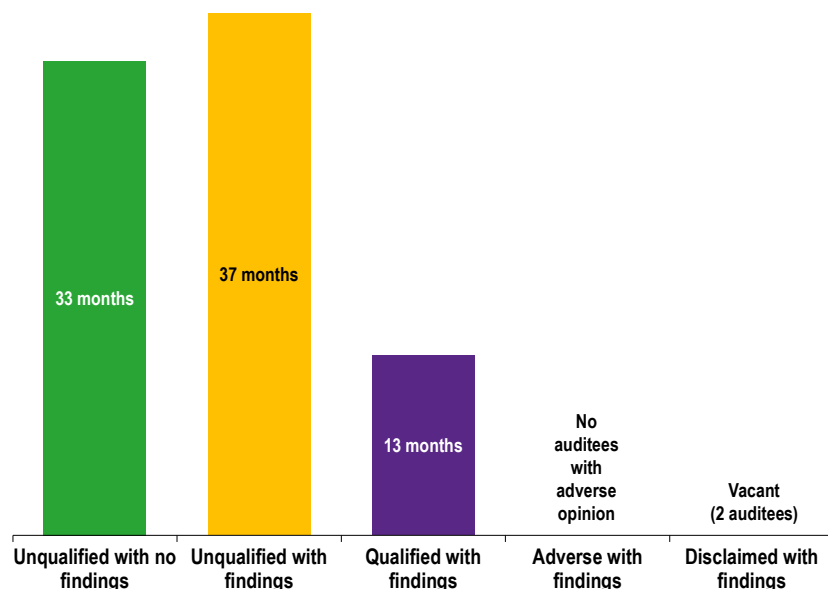
**Figure 7: Municipal managers – average number of months in position (per audit outcome)**



Just more than a fifth of the municipal entities did not have a **CEO** at year-end, the same as in the previous year. Most of these 12 municipal entities were in Gauteng (four) and the Free State (three). The average time in the position was also less than three years. The CEOs at two entities were suspended during the year.

Figure 8 below shows the relationship between stability at CEO level and audit outcomes.

**Figure 8: Chief executive officers – average number of months in position (per audit outcome – municipal entities only)**

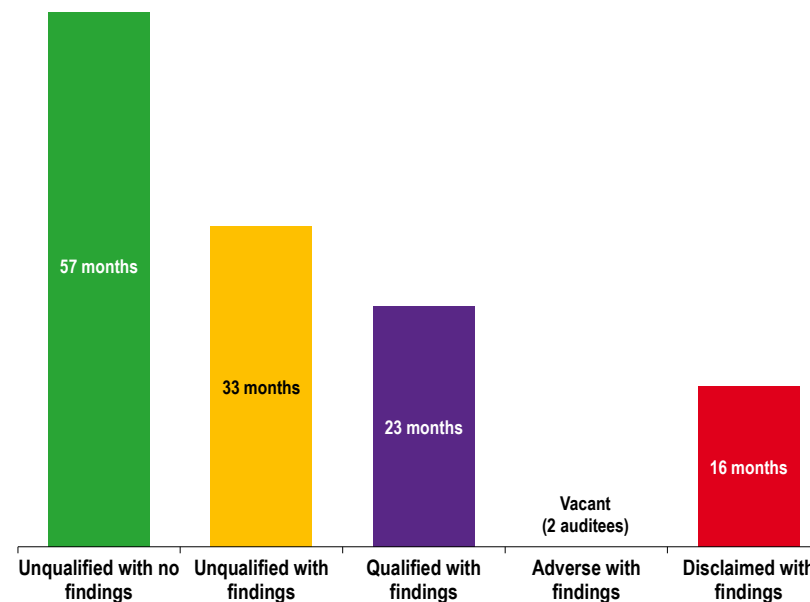


## Chief financial officers

Vacancies and high turnover rates in CFO positions, combined with the high vacancy levels in finance units, prevent auditees from performing proper financial planning, record keeping and financial reporting. This results in financial statements of a poor quality that require many corrections, and negatively affects the implementation of daily and monthly processing and reconciling of transactions.

Figure 9 shows that those auditees with stability in their CFO positions produced better financial statements (based on the outcomes).

**Figure 9: Chief financial officers – average number of months in position (per audit outcome – all auditees)**



The CFO vacancy rate at municipalities improved from 24% to 13%. All provinces had municipalities without a CFO at year-end. Most of these 36 municipalities were in KwaZulu-Natal (11) and the Eastern Cape (seven). The CFO position had been vacant for more than six months at 24 municipalities, 20 of which had been for 12 months or more.

The average of 32 months that CFOs had been in their position is a slight improvement from the 27 months in the previous year, but this position remained the one with the highest turnover rate. The CFOs of only 63 (24%) of the municipalities had been in the position for three years or more. Six of the CFOs were suspended in the past year, with the most being in Limpopo (two) and Mpumalanga (two).

A third of the municipal entities did not have a CFO at year-end – two less than in the previous year. Most of these municipal entities (six) were in the Eastern Cape. The average time that CFOs had spent in their positions at municipal entities (39 months) was longer than at municipalities, while only one CFO was suspended during the year.

## Heads of supply chain management units

The head of the SCM unit plays a significant role in ensuring that controls are in place to enable fair and competitive procurement processes and to prevent the abuse of SCM processes.

The vacancy rate of the heads of SCM units at municipalities improved from 30% to 24%. Countrywide, 22 municipalities did not have a dedicated position for this role and the work in this regard was performed mostly by the CFO. All provinces had municipalities without heads of SCM units at year-end. Most of the 59 municipalities with vacancies were in the Free State (17) and the Eastern Cape (11). These positions had been vacant for more than six months at 51 municipalities, 44 of which had been for 12 months or more.

The average of 37 months that heads of SCM units had been in their positions was an improvement from the 29 months in the previous year. The heads of SCM units of only 66 municipalities (27%) had been in the position for three years or more. Three heads of SCM units were suspended in the past year.

Countrywide, 12 municipal entities did not have a dedicated position for the head of the SCM unit. A total of 36% of the municipal entities with such a position did not have a head of the SCM unit at year-end – two less than in the previous year. Most of the vacancies (seven) were in the Eastern Cape. The average time that heads of SCM units spent in their positions decreased from 38 to 36 months.

## Senior managers: strategic planning as well as monitoring and evaluation

These positions are crucial for effective strategic planning as well as performance management and reporting, and affect the quality of the APRs we report on.

Although not all auditees had a specific position for strategic planning or to perform the monitoring and evaluation function, 193 municipalities (72%) had a senior manager responsible for strategic planning and 178 (66%) for monitoring and evaluation. A total of 32 of the 50 municipal entities (64%) with strategic planning as well as monitoring and evaluation functions had allocated these responsibilities to a senior manager. It is concerning that not all auditees had allocated these very important functions to senior managers to oversee.

Figures 3 and 5 show that there were also prolonged vacancies in these positions at the auditees where they had been established.

## Competency requirements for key officials

The complexities in local government, the challenges experienced and the high expectations of the public demand that key officials at municipalities have the skills, experience and capacity to fulfil their responsibilities and exercise their functions and powers. The changes in financial and performance management requirements for local government have also resulted in a higher level of competency requirements for municipal managers, CFOs, senior managers, SCM officials and other finance officials.

However, the poor audit outcomes, service delivery failures, high demand for consultants and support from national and provincial government demonstrate that the persons appointed in these posts do not always have the required competencies.

The two root causes of this are that personnel who do not have the required competencies are appointed in key positions, and that current employees do not keep up with the changing local government environment through ongoing training and development.

The minimum competency levels of accounting officers, CFOs, senior managers, SCM officials and other finance officials are prescribed by the *Municipal regulations on minimum competency levels* issued by the National Treasury on 15 June 2007. These regulations define the minimum competency levels, taking into account the size and scope of municipalities, and cover proficiency in competency areas, higher education qualifications and work-related experience. For example, the prescribed competency areas involve strategic leadership and management, project management as well as risk and change management, which are all critical for the effective fulfilment of job functions. These competency areas must be assessed for all applicable officials and can only be done by assessors accredited by the Local Government Sector Education Training Authority.

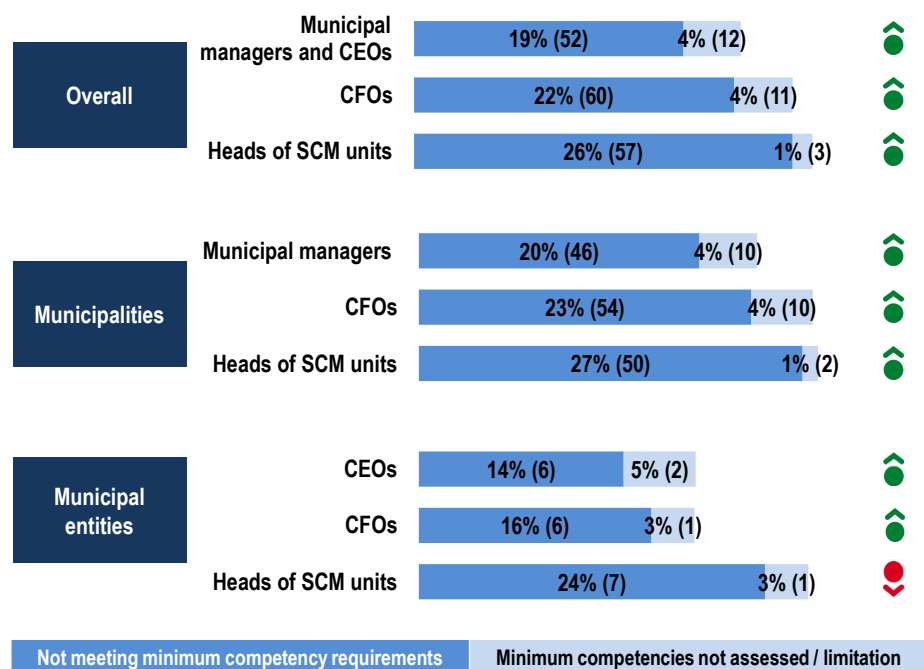
The regulations provided a phasing-in period for staff currently in those positions to obtain the minimum competency levels through academic studies and experience and by addressing any gaps in competencies through training and development. The phasing-in period ended on 1 January 2013 and, as per the regulations, municipal managers, CFOs, heads of SCM units, senior managers, SCM staff and other finance officials who do not meet the minimum competency levels may not continue to fill the positions, which has an impact on the continued employment of these officials. The National Treasury gave municipalities an opportunity to apply by September 2012 for an 18-month extension (until 1 July 2014) to enforce the regulations as a special merit case, based on the circumstances of the municipality. In March 2014, the National Treasury gave municipalities a further extension until 30 September 2015 to adhere to the regulations.

The information on the competencies of key officials that follows is based on auditees' own assessment of the achievement of the competency requirements by their key officials.

At 120 auditees (37%), all of the senior managers had not met the minimum requirements by 30 June 2014. At 135 auditees (42%), all finance officials had not met the requirements. At 14 (4%) and 19 auditees (6%), the competencies of senior managers and finance officials, respectively, were not assessed or we could not audit the assessment as evidence thereof could not be provided.

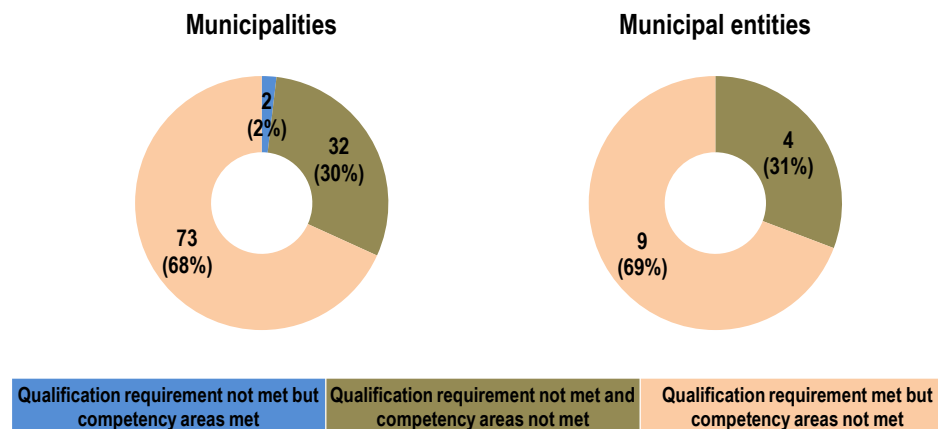
Figure 10 below shows the percentage and number of auditees where key officials did not meet the prescribed minimum competency requirements. It also shows the extent of auditees where the officials' competencies were not assessed by the auditee, as required by legislation, or where we could not obtain evidence of a competency assessment.

**Figure 10: Achievement of competency requirements for key officials**



Although the number of key officials with the required competency level at year-end had increased, many officials in these positions were still not at the required level. Figure 11 demonstrates the gaps in the minimum competency requirements at the auditees where the competencies were assessed and could be audited.

**Figure 11: Gaps in achievement of competency requirements for key officials**



The main reason why key officials had not achieved the required level was that they were not yet at the level of proficiency required in the competency areas applicable to the position. Around 30% of these officials also did not have an appropriate higher education qualification.

The most common material findings on the competencies of key officials reported in the audit reports were that the competencies of all the officials were not assessed (31 municipalities) as well as that auditees did not report to the National Treasury on the progress of obtaining the prescribed minimum competencies (48 municipalities) and/or did not include the information in their annual reports (29 municipalities).

## Performance management

In order to improve the performance and productivity of staff, the leadership should set the correct tone by implementing sound performance management processes and by evaluating and monitoring performance. Where the leadership consistently takes action, it will further demonstrate to all officials that poor performance has consequences.

We assessed the performance management practices of the key positions of municipal manager, CEO, CFO and head of the SCM unit. The following table indicates whether performance agreements were in place and whether measures linked to audit outcomes were included in such agreements:



**Table 2: Performance agreements not in place and measures not linked to audit outcomes**

Position filled at year-end	Performance agreement not in place	Performance measures not linked to audit outcomes
Municipal manager (235)	24 (10%)	28 (13%)
CEO (42)	2 (5%)	4 (10%)
CFO (269)	22 (8%)	31 (13%)
Head of SCM unit (216)	71 (33%)	24 (17%)

The number of key officials with performance agreements had increased. No comparative information is included, as we did not report on the performance measures in the previous year.

The following most common material findings on performance management reported in the audit reports indicate that performance management had not yet been entrenched at all auditees:

- Policies and procedures were not in place to monitor, measure and evaluate staff performance at 34 municipalities (13%) – an improvement from the 47 in 2012-13.
- More than 20% of senior managers did not sign performance agreements for the period at 26 municipalities (10%) – an improvement from the 37 in 2012-13.

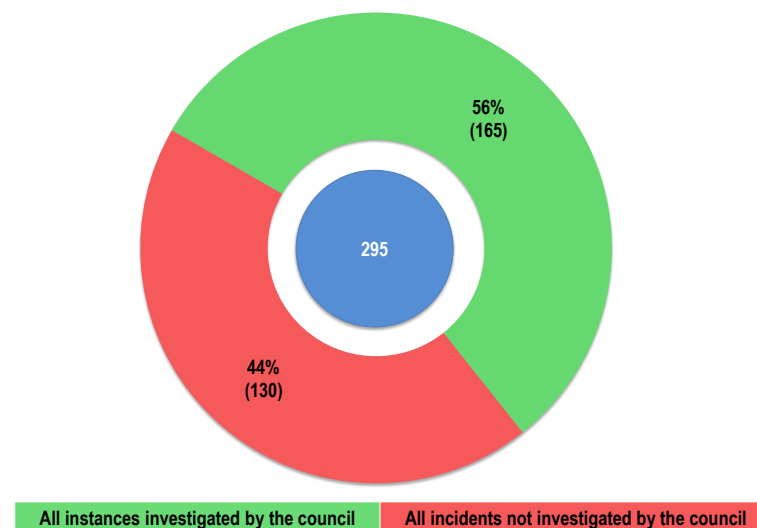
### Consequences for transgressions

The MFMA and its regulations clearly stipulate that matters such as incurring unauthorised, irregular as well as fruitless and wasteful expenditure, the possible abuse of the SCM system (including fraud and improper conduct) and allegations of financial misconduct should be investigated.

As detailed in section 3.2, we reported material non-compliance with legislation on consequence management at 137 (42%) of the auditees, which is slightly more than in the previous year. In sections 3.2.1 to 3.2.3 on **irregular expenditure, fruitless and wasteful expenditure, and unauthorised expenditure**, we reported that many auditees did not comply with the requirement that the council should investigate such expenditure to determine if any official is liable for the expenditure.

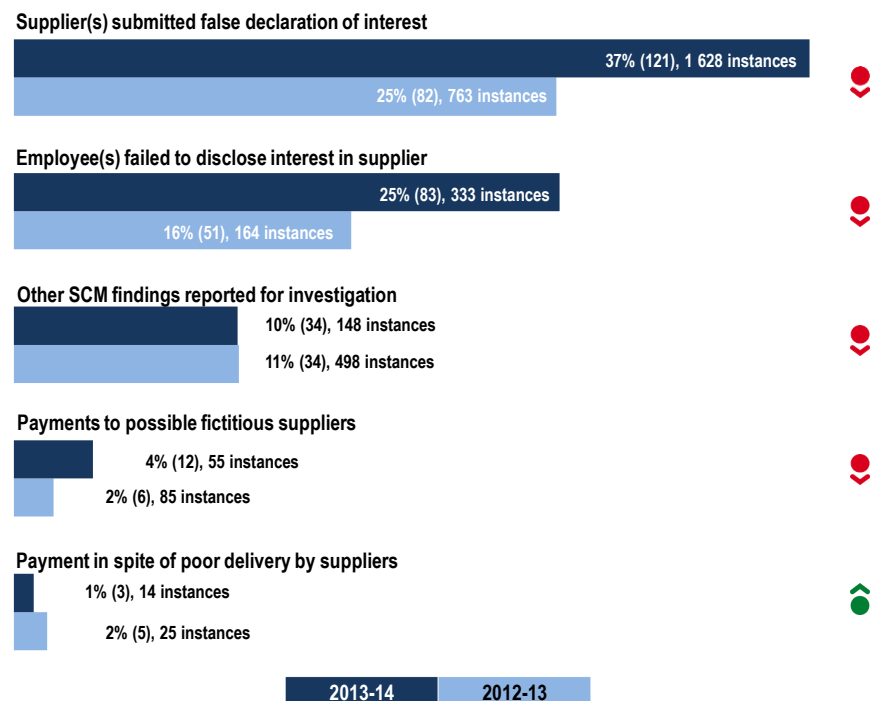
Figure 12 indicates the overall status of council investigations at the 295 auditees that had incurred these types of expenditure in 2012-13. The figure shows that the council did not investigate all of the incidents at 44% of the auditees in 2013-14.

**Figure 12: Investigation of unauthorised, irregular as well as fruitless and wasteful expenditure**



We report all our findings on SCM non-compliance and weaknesses to management for follow-up. If there are indicators of **possible fraud or improper conduct in the SCM processes**, we recommend an investigation by management. In 2012-13, we reported such findings for investigation at 99 auditees. The management of only 12 (12%) of these auditees did not investigate all of the incidents, which is an encouraging sign that action is being taken. However, as shown in figure 13, these findings continued to increase. Furthermore, 87 of the auditees that had such findings in 2012-13 again had similar findings in 2013-14. This means that even though investigations are taking place, it is not yet having the desired impact by discouraging fraud and improper behaviour.

**Figure 13: Supply chain management findings reported to management for investigation**



**Allegations of financial misconduct** were reported at 54 auditees in 2013-14 (816 cases). At 12 auditees, these allegations were either not investigated by management or tabled in the council as required for senior managers.

### Other common human resource findings

Other HR findings we reported to auditees included the following:

- Employees received paid overtime for more than the maximum hours allowed (59 municipalities).
- Written authorisation was not provided in advance for overtime worked (40 municipalities).
- Medical certificates were not always submitted for sick leave (23 municipalities).

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Figure 1: Auditees assisted by consultants with financial reporting and performance information – 273 (84%)

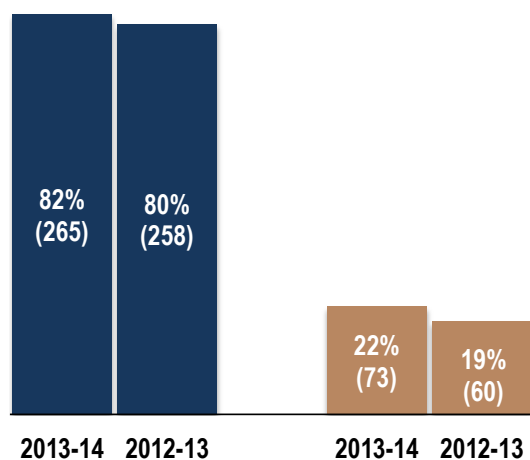


Figure 2: Cost of consultants

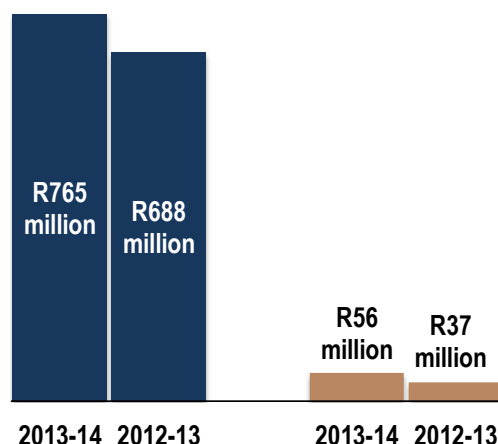


Figure 3: Reasons for use of consultants

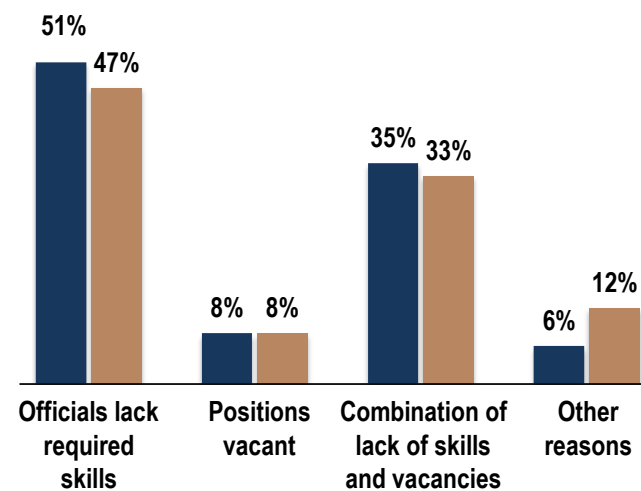


Figure 4: Findings from the audit on the use of consultants at 293 auditees (2012-13: 250 auditees)

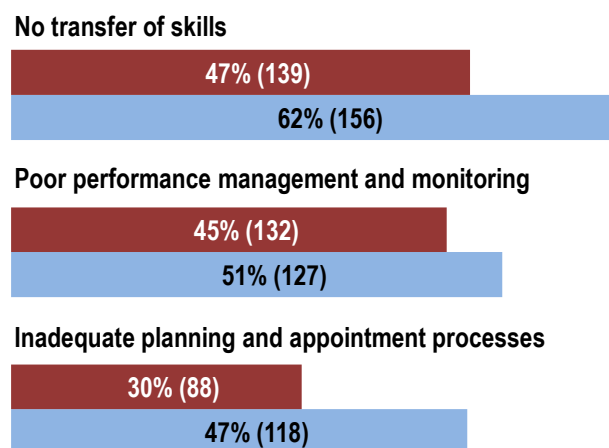


Figure 5: Audit outcomes of auditees assisted by consultants – financial reporting

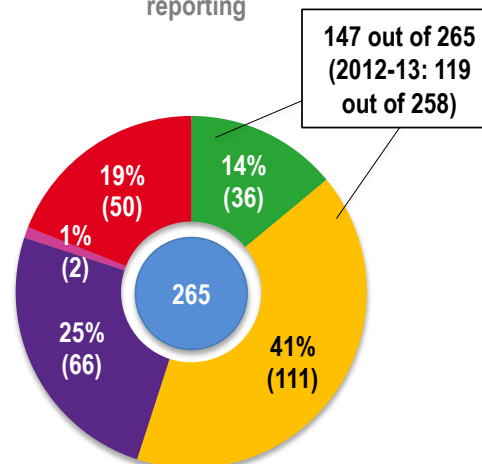
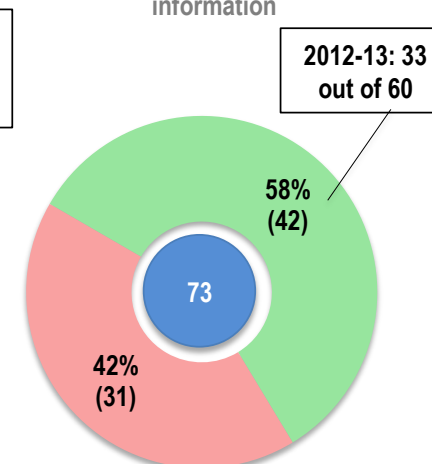


Figure 6: Audit outcomes of auditees assisted by consultants – performance information



Financial reporting

Performance information

2013-14

2012-13

Unqualified with no findings

Unqualified with findings

Qualified with findings

Adverse with findings

Disclaimed with findings

With no findings

With material findings

## 5.2 Effective use of consultants

Local government cannot easily do away with partnering with service providers in the private sector, largely due to the many HR challenges highlighted in section 5.1. We therefore recognise the need for consultancy services in response to these challenges. When used correctly, consultants can benefit both local government and South Africa at large.

While recognising the above benefits, the efficient, economical and effective use of resources must continue to be promoted. Local government spent an estimated R3 151 million on consultancy services in 2013-14, which were intellectual or advisory in nature. The amount was spent on the following areas:

- Financial reporting services – R765 million
- Preparation of performance information – R56 million
- IT services – R433 million
- Other services – R1 898 million (this relates to all other consultancy services that do not relate to financial services, the preparation or review of performance information and/or IT-related services; these include expert valuers such as the consultants (actuaries) contracted by municipalities to value property or defined benefit plans, but exclude expenditure on legal costs and payments to audit committee members)

This includes R94,5 million paid by the provincial treasuries and departments of cooperative governance on behalf of auditees for financial reporting services (R92 million) and the preparation of performance information (R2,5 million).

Our audits included an assessment of the nature and extent of the use of consultants in the areas of financial reporting and performance information as well as the management of these consultants.

### *Consultants used for financial and performance management services*

#### **Extent of use and cost of consultants**

As shown in figure 1, 273 auditees (84%) (2012-13: 263 [81%]) were assisted by consultants for either financial reporting services or the preparation of performance information, or both these areas. Financial reporting services included preparing financial statements, maintaining the fixed asset register, performing bank reconciliations, and preparing other monthly and annual financial reports. The preparation of performance information included the preparation of performance plans, reports and records.

Figure 2 shows that the estimated cost of consultancy services in these two areas was R821 million, which includes the amounts spent by treasuries and departments of cooperative governance. The number of auditees using consultants and the cost thereof increased slightly from the previous year.

The use of consultants for financial reporting was most common in the Free State (100% of auditees), Limpopo (91% of auditees) and North West (88% of auditees), while 66% of the auditees in the Western Cape and 37% of the auditees in the Free State used consultants for performance reporting.

### **Reasons for the use of consultants**

Figure 3 shows the reasons indicated by auditees for their continued use of consultants for financial reporting services and the preparation of performance information. As in previous years, vacancies in the positions that should perform these duties were not the most common reason. The positions were filled but at just over half of the auditees, consultants were contracted to alleviate the skills gap.

### **Audit outcomes of assisted auditees**

The audit outcomes of auditees that used consultants are shown in figures 5 and 6, which indicate that 55% of the assisted auditees received financially unqualified audit opinions – a significant improvement from the 46% in 2012-13. Similarly, 58% avoided material findings on the quality of their APRs – an improvement from the 55% in 2012-13.

Of the 265 auditees assisted with financial reporting, 188 (71%) had also previously used consultants. Overall, 28 (15%) of these auditees repeatedly assisted by consultants received a disclaimed opinion in 2013-14 (at a cost of R101 million).

Poor audit outcomes cannot necessarily be attributed to the quality of work performed by consultants. Consultants at 102 auditees (38%) performed work for the auditee in the areas that were qualified in the financial statements (2012-13: 116 [45%]), while we reported material findings on the performance areas for which consultants were responsible at 31 auditees (42%) (2012-13: 27 [45%]). This improvement shows that consultants are being used more effectively by auditees.

We assessed that poor delivery by consultants was the reason for a lack of improvement in the audit outcomes at only 12% (2012-13: 11%) of these auditees and in performance information at only 3% (2012-13: 0%).

The following were the main reasons why consultants at some auditees were not effective:

- The records and documents the consultants needed to perform their work were not available at 13% of the auditees assisted with financial reporting services (2012-13: 25%), and at 12% of the auditees assisted with the preparation of performance information (2012-13: 27%). This included complete and accurate accounts to prepare the financial statements as well as supporting evidence for amounts in the financial statements or service delivery achievements in the APR.
- Poor project management by auditees and other auditee inefficiencies resulted in inadequate delivery by the consultants at 9% of the auditees assisted with financial reporting services (2012-13: 7%) and 12% of the auditees assisted with the preparation of performance information (2012-13: 7%).
- Consultants were appointed too late to have a positive impact on the audit outcomes (8% relating to financial reporting [2012-13: 4%] and 1% relating to performance information [2012-13: 3%]).

### *Improvement in management of consultants*

Our audits included an assessment of the management of consultants at 293 of the auditees that used consultancy services, but not limited to financial and performance reporting. We identified weaknesses in the management of consultants at 184 (63%) of these auditees, which is a significant improvement from the 197 (79%) in 2012-13. Figure 4 shows the number of these auditees that had findings on the focus areas of the audits.

The following were our key findings on **planning and appointment processes**, which reflect a pleasing improvement from 2012-13 at an overall level:

- As with all other procurement, consultants should be contracted based on a needs assessment. Such assessment should consider cost, the type and extent of service, the deliverables as well whether internal capacity exists and whether there is an opportunity to transfer skills. At 55 auditees (19%), consultants were appointed without conducting a needs assessment, while the needs assessment performed was inadequate at 17 auditees (6%). This is an improvement from 2012-13 when no needs assessment was done at 27% of the auditees and the needs assessment was inadequate at 10% of the auditees.
- The procurement processes followed to appoint consultants at 12 auditees (4%) did not comply with the legislated SCM processes, which is a significant improvement of 15% from the previous year (47 auditees [19%]).
- As part of the bidding process, there should be terms of reference that clearly define what will be required from the consultant and that state the

required experience and qualifications. At 28 auditees (10%), consultants were appointed without such terms of reference, compared to 32 auditees (13%) in 2012-13.

We identified major shortcomings in the **management and monitoring of the performance** of consultants, while recognising that there has been an overall improvement in this area since 2012-13. The measures to monitor the performance of consultants were either not defined or not implemented at 90 auditees (31%), which is an improvement from the 103 auditees (41%) in 2012-13. At 70 auditees (24%) where the contract performance measures and methods were monitored, the monitoring proved to be inadequate as it failed to detect the underperformance of consultants. This is an improvement from the 50 auditees (20%) in 2012-13. Of greater concern was the payment of consultants without signed contracts at 30 auditees (10%), although there was an improvement from the 39 auditees (16%) in 2012-13.

Although the most common reason for appointing consultants was a lack of skills, we found that the contracts at 81 auditees (28%) did not include any conditions or objectives in terms of the **transfer of skills** from the consultants to the employees. At 181 auditees (62%), the transfer of skills was a requirement but we could not obtain evidence that skills had been transferred. This is partly because the measures to monitor the transfer of skills were not always implemented (86 auditees [29%]). This is a notable improvement from 2012-13 when contracts at 99 auditees (40%) did not include conditions or objectives in terms of the transfer of skills, and we could not obtain evidence for the transfer of skills at 93 auditees (37%) where this was a requirement.

In addition to poor project management, the root cause of these findings was a lack of policies or strategies on the use of consultants, identified at 57 auditees (19%). This is an improvement from the 95 auditees (38%) in 2012-13. A policy or strategy should be in place to define the main purpose and objectives of appointing consultants, including measures to prevent over-reliance on consultants.

Mayors, councils as well as national and provincial role players should pay attention to the management of consultants to ensure that this expensive resource is procured economically and used effectively and efficiently.