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Subject: Information on Corporate Services Restructuring

The Ad Hoc Committee on Auditor-General met on the 29 November 2005 to consider the Budget and Strategic Plan of the Auditor-General 2006/07.

The following is an extract from the report tabled in the National Assembly pertaining to the Corporate Services restructuring model implemented by the Auditor-General:

"This year's budget was mainly driven by the major shifts in corporate restructuring. The new Corporate Services will consist of five business unit's viz. Strategy, Governance, Special and Strategic Projects, Operational, Transactional Management, and the Reputation and Stakeholder Management Unit. The key cost drivers will be a large increase of appropriately qualified staff at senior levels and a significant reduction of staff at a general administrative level. The budget for corporate services will increase from R57, 8 million that was budgeted for the previous year to R88, 6 million for the present year. Contract work will only be done under special circumstances in this unit. The restructuring will only be completed by November 2007"

Comment 3. The Committee congratulates the OAG on this timely and much-needed initiative, which if successful, will considerably improve the quality of service delivery from the OAG by relieving senior executives of non-core responsibilities, enhancing corporate governance, and fine-tuning strategic planning and project management. The committee looks forward to regular progress reports and the completion of the process by November 2007.¹

The restructuring of the Corporate Services aims to accomplish:

- An efficient and cost-effective capacity
- A responsive output-based capability
- Streamlined and enhanced processes

¹ Report of the Ad Hoc Committee on the Auditor-General on the Budget and Strategic Plan of the Auditor-General 2006/2007

The Corporate Service model consists of five business units:²

1. The Strategy Unit is responsible for:

- Identifying needs and conducting feasibility studies
- Conceptualising and developing business cases
- Planning and initiating strategic interventions
- Providing guidance on the implementation and roll-out of projects
- Focusing on scanning the environment in which the Auditor-General operates and identifying areas for strategic consideration by the Auditor-General

2. The Governance Unit focuses on:

- Ensuring compliance with good governance practices, particularly in the areas of risk management, internal controls and legislation
- Enabling quality decision-making by providing an effective corporate secretariat function
- Managing the established quality assurance framework for the audit business units
- Developing and managing an effective quality assurance framework for Corporate Services

3. The Special and Strategic Projects Unit is responsible for:

- Providing detailed, cross-functional research for all service lines
- Providing audit standards-setting capabilities
- Designing and developing products and services
- Providing full programme management support, ranging from piloting and training to change management, to ensure a high level of acceptance by users

4. The Operational and Transactional Management Unit is responsible for:

- Implementing and delivering new projects, programmes or initiatives developed in the Special and Strategic Projects Unit
- Maintaining and improving current transactional processes and functions for greater efficiency

5. The Reputation and Stakeholder Management Unit is responsible for:

- Monitoring and coordinating reputation and stakeholder satisfaction requirements and projects

² Taken from pg 10 – 12 of the Budget and Strategic Plan of the Auditor-General for 2006/2007

- Providing capability for reputation and stakeholder satisfaction analysis, testing and assurance
- Providing an integral strategy, a coordinated approach, and needs analysis to reputation and stakeholder relationship management
- Providing communication products, services and tools to enable reputation and stakeholder relationship management
- Providing capability for centralised reporting on the strategic planning and performance of the Auditor-General
- Developing and coordinating a knowledge management culture for the Auditor-General

The restructuring of the Corporate Services model was intended to be managed by a structured transitional plan consisting of three major phases.³

- The first phase dealt with the selection and appointment of employees. This phase was to be completed by November 2005.

The goal was to:

1. reappoint all current staff in the most appropriate positions
2. recruit additional specialists where required.

- The second phase involved the rollout period that began in November 2005 to be concluded at the end of March 2006 at which the reporting criteria for management information will have been established.

The goal was to:

1. establish a baseline to deliver the required management reporting methods,
2. establish a quality assurance process
3. establish baseline benchmarks

- The third phase aims to address all the long-term capacity issues by November 2007.

The goal is to:

1. complete the full transition from the current method and means of operations to an integrated service delivery model addressing issues of people and processes as the key cost drivers.

The last period, from April 2006-November 2007, focuses on the development and/or enhancement of key processes where its success is partially determined by the sustained ability of those processes to improve

³ Taken from pg 12 - 13 of the Budget and Strategic Plan of the Auditor-General for 2006/2007

performance and service delivery, utilising the abovementioned benchmarks as markers. The human resource gap will be addressed in individualised competency development plans.

How and against what will the Corporate Service be benchmarked?

The criteria to benchmark capacities and capabilities have been determined independently. This criterion focuses on people and processes necessary to deliver on the expanded mandate as a specialised advisory service in support of the Auditor-General.

This process will enable Corporate Services to develop limited input benchmarks whilst all outputs and processes will be benchmarked against international standards.

The effect of the implementation of the Corporate Service restructuring model:

1. Cost in respect of people and process

- The 2005/2006 personnel budget for Corporate Services included **203** employees at a cost of **R 57 850 703.00** and made additional provision for the appointment of **41** new employees at a cost of **R 11 504 451.00**.
- The 2006/2007 personnel budget for Corporate Services made additional provision for the appointment of **9** new employees at a cost of **R 19 281 882.00**.

An amount of **R 88 637 036.00** was allocated for the Corporate Services Restructuring, according to the budget for 2006/2007.

The Corporate Services staff compliment of **253** represents **14, 2%** of the total staff compliment of the Auditor-General and cost **22, 4%** of the total staff cost.

In addition to the above staff compliment of **253** the budget projection for 2006/2007 was increased by total **9** or **3, 6%** employees bring the total to **262**. This resulted in the salary cost increasing by an added **R29 281 882** amounting to a total of **33%** of the total staff cost at the Auditor-General.

2. Contract work

The total cost of contract work for Corporate Services for 2006/2007 was **R 8 100 000.00**. This represents a **2, 4 %** increase (**R 1 600 000.00**) from 2005/2006.

The following principles were applied with regard to the budget for contract work in Corporate Services:

- Where objectivity and independence is required to ensure credibility. In cases such as stakeholder satisfaction surveys or quality control.

- Where highly specialised skills are required, non-existent at the Auditor-General

The Committee met on 17 November 2006 to consider the Annual Report of the Auditor General 2005/06.

The following is a collection of comments made by the Committee on the Corporate Service restructuring model implemented by the Auditor-General:

1. The inadequate information on the Corporate Service restructuring.

The following is the extract to which the above comment was made:

“The attainment of the business process objectives, which are closely linked to the risk management strategy as reflected above, is dependent to a large extent on the effectiveness of the corporate services unit. This is the unit whose restructuring during the year under review was aimed at developing a service delivery model that would:

- *Establish a reliable administrative and technological platform;*
- *Facilitate ongoing scanning of the environment within which the organisation is operating;*
- *Establish the ability to apply relevant benchmarking of acceptable norms and standards; and*
- *Provide value-adding solutions to the rest of the business.*

The restructured teams then began work to on a comprehensive transitional plan to address the areas of strategy, strategic development and tools, product and process quality with quality measures and assurance mechanisms, people development, organisational culture, and governance. For the next year, the transitional plan projects will be prioritised based on the effectiveness requirement of the business

processes.

2. The failure to provide performance indicators and objectives to evaluate the progress made with the implementation of the Corporate Service restructuring model;

3. The material influence the increase of funds allocated for the Corporate Service restructuring has on the budget of Auditor-General;

4. The Committee reaffirmed that it is not concerned with the manner in which the Corporate Service restructuring model is implemented but rather the appropriateness, timeliness and quality of the product it delivers.

The following was the response by the Auditor-General:

The Corporate Service restructuring model needs to be viewed in two forms:

⁴ Taken from pg 28 of the Annual Report of the Auditor-General 2005/2006

- i) How the Office of the Auditor-General is performing since the last report that was tabled with the Ad Hoc Committee. This provided for a period of two years to fully implement the Corporate Service restructuring model. This period ends in November 2007.
- ii) What efficiencies and benefits have been accomplished with the implementation of the Corporate Service restructuring model? The focus needs to be on continued sustained reporting on the milestones set.

The following were the initial milestones set:

1. To clearly define the management information templates by the end March 2006. The Office of the Auditor-General continues to struggle with establishing these templates.
2. A revised strategy and tactic plan to recover from the set back had been developed to ensure the Office of the Auditor-General does not compromise on the timelines set for November 2007 to obtain stability in Corporate Services.
3. To establish a benchmark that will confirm information to be inline with other best practices. The purpose of this exercise is to ensure that resources are committed optimally.
4. To establish a quality criterion that will ensure information received from Corporate Services is credible and appropriate for proper decision taking.

These milestones have not been achieved.

The Committee requested a more comprehensive report in the future and the following additional information:

1. the proposed framework for reporting on the Corporate Service restructuring model;
2. a progress report on the Corporate Service restructuring;
3. the framework for measuring stakeholder satisfaction; and
4. the revised strategic and tactical plan to define the management information templates.

(At present none of the above request has been satisfied)

Financial Summary

The Committee requested an explanation for the R 20 million deficit incurred for 2005-2006.

The following reasons were given for the deficit:

- i) Additional costs were incurred around the Corporate Service restructuring model and associated cost to improve the efficiency and credibility of the Office of the Auditor-General.