



Internal Audit Report

Supply Chain Management
Contract Management and Procurement
September 2016

FINAL REPORT

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In the event of any questions arising from this report please contact Ms. Nelisiwe Bongco nelisiweb@elrc.org.za

Status of our reports

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SECTION A: EXECUTIVE SUMMARY

1. Introduction

- 1.1. As part of the Internal Audit Plan for 2016/17, we have undertaken a review of the Supply Chain Management's Contract Management and Procurement processes. This area was included in the annual plan due to the significance of risks (compliance, operational and financial) associated with this area being high within ELRC's Risk Register and the high number of audit findings identified in the prior audit engagements.
- 1.2. This report is for the use of the Audit Committee and Senior Management. The report summarises the results of the internal audit work and all matters that came to our attention during the review.
- 1.3. Such matters have been discussed with the relevant staff.

2. Background

- 2.1. Supply Chain Management (SCM) have a significant impact on the Council's ability to provide services to the customers and create added value. Its objective is to ensure efficient, effective and uniform planning for and procurement of all goods, services and that procurement processes are in line with the Supply Chain Management policy and procedures and the Preferential Procurement Policy Framework Act. The SCM is responsible for asset and inventory management, contract management, acquisition management, office maintenance and logistics.
- 2.2. Best practice and principles requires that the General Secretary maintains an effective, efficient and transparent system of financial and risk management and internal control. To achieve this, ELLRC has adopted the practices and procedures as contemplated in the PFMA and National Treasury practice notes, guidelines and code of conduct and uses them as a yardstick for measuring best SCM practices and promoting the objective of good financial management.
- 2.3. The SCM unit's overall responsibility is to ensure that the procurement of goods, services and construction works is fair, equitable, transparent, competitive and cost effective in line with all relevant legislation. The SCM unit leads and manages procurement reform, maintains the procurement system and oversees the way in which the Council does business with the private sector.
- 2.4. Furthermore, the SCM unit is responsible for devising and implementing procedures to effectively and efficiently manage the procurement and contract management function, systems and processes. Proper internal controls support compliance with administrative requirements, reduce the risk of fraud, ensure value for money, costly processing errors, and protect the assets of the Council.
- 2.5. The functions of the SCM unit, includes, amongst other things:
 - Formulate and advise on policy and ensure that SCM policies, guidelines, norms, standards and best practice requirements are implemented in an appropriate, consistent and systematic manner;
 - Efficiency of procurement and effectiveness in implementing policies;
 - Ensure transparency through the use of an effective data management system;
 - Establish and maintain a comprehensive database of suppliers, service providers and contractors; and
 - Support end-users in carrying out supply chain management and procurement policies, regulations, instructions and guidelines.
- 2.6. Policies and procedure manuals are in place to assist personnel in following ELRC's requirements in relation to procurement management. The policies and procedures in place includes SCM policy and standard operating procedure manuals and contract management policy.

2.7. It is noted that work is underway to automate the supplier database management processes.

3. Audit Objectives and Scope

3.1. The overall audit objective is to provide assurance on the effectiveness of governance, risk management and controls supporting the ELRC procurement and contracting activities; to confirm that purchases are done economically, efficiently and effectively and the effectiveness and adequacy of system of internal control.

3.2. Our audit considered the following risks relating to the area under review:

- Ineffective management of contracts;
- Compliance related risks;
- Fraud risk;
- Value for money risks;
- Procurement - goods purchased may not meet quality standards or unauthorized prices or terms may be accepted;
- Failure to maintain an accurate and complete supplier database.

3.3. In reviewing the above risks, our audit considered the following areas:

- Follow-up on prior audit issues;
- Contract management process and systems;
- Procurement process (requisition, ordering, processing invoice, open orders; payment certificates, database management);
- Month end procedures; and
- Risk and compliance management.

4. Management Responsibility

4.1. Management is responsible for the establishment and maintenance of effective systems of governance, internal control and risk management to:

- Promote appropriate ethics and values within the department;
- Ensure effective organisational performance management and accountability;
- Communicate risk and control information to appropriate areas in the department;
- Coordinate the activities and communication of information; and
- Safeguard against fraud, misstatement and irregularities.

5. Source of Information

5.1. The audit work was conducted on the basis of enquiry with personnel, observation, confirmation and verification of supporting documentation and identified processes.

6. Fraud and Internal Control

6.1. Internal audit work is planned with a reasonable expectation of detecting significant control weaknesses in the specific areas reviewed. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

6.2. Accordingly, our reviews and investigations as internal auditors should not be relied upon solely to disclose fraud, defalcation or other irregularities that may exist.

7. Summary of Findings

7.1. Areas where controls are operating effectively

The following is an example of controls which we have considered are operating effectively, that is, the process is working as defined at the time of our review:

- Policies and procedures are established.

7.2. **Audit findings resolved and cleared before the completion of the audit**

- Inaccuracies were noted on the procurement plan monthly report. The reports compiled for the 2016-17 financial year included contracts completed in the 2015-16 financial year. This has been rectified in the months subsequent May 2016.

7.3. **Areas requiring management corrective action**

We identified certain areas where there is scope for further improvement in the control environment or there are no/inadequate control measures. The matters arising have been discussed with management, to whom we have made recommendations and comment below:

No.	Audit Observation	Assurance on Effectiveness of Internal Controls	Recommendation Grading
1.	Transacting with service provider not registered on the approved supplier database	Limited	Priority 1
2.	Contracts/SLA that are not listed on the contract register	Limited	Priority 1
3.	Maintaining an effective control over payment certificates	Limited	Priority 1
4.	Duplicated purchase order numbers	Limited	Priority 1
5.	Transactions of suppliers with expired Tax Clearance Certificates	Limited	Priority 1
6.	Supplier detailed ledger transactions not appearing on the requisition / purchase order reports	Limited	Priority 1
7.	Supplier database not timely updated	Limited	Priority 1
8.	Errors noted on the contract register	Limited	Priority 1
9.	Inadequate controls over reactivating invalid suppliers to active status	Limited	Priority 1

7.4. **Issues of non-compliance**

It is noted that there is a serious and urgent need for the supply chain management unit to improve its business compliance. While a policies is in place for business processes, there are breaches of compliance with some provisions of the policy and requires management strengthening the monitoring activities. The following relates to issues non-compliance with business policies:

1. Transacting with service provider not registered on the approved supplier database
2. Contracts/SLA that are not listed on the contract register
3. Transactions of suppliers with expired Tax Clearance Certificates
4. Supplier detailed ledger transactions not appearing on the requisition / purchase order reports

8. **Overall Conclusion on Effectiveness and Application of Internal Controls**

Taking account of the issues identified in paragraphs 7 above, the control framework for the contract management and procurement processes, as operated at the time of the audit, provides **Limited Assurance**, that is, the effectiveness of internal controls is generally weak leaving the system open to significant error or abuse.

The SCM internal control system over contract management processes is not monitored. There is no ongoing monitoring activities and separate evaluations. There is no regular management and supervisory activities. This is an attributing factor to the ineffective contract and procurement management processes.

- SCM management and staff should maintain and demonstrate a positive and supportive attitude towards internal controls at all times.
- As evidence of its supportive attitude towards internal controls, management should ensure that audit findings and recommendations are promptly and appropriately resolved.
- It is important to have competent staff to perform the job, otherwise internal controls will also be affected or not implemented. This could affect the systems in the Council, be it financial or organisational systems in general

Comments by management would be noted and the steps taken to rectify deficiencies will be evaluated during the next audit or a follow-up audit.

9. Appendix 1 – Definitions of Assurance Levels and Recommendations

We use the following levels of assurance and recommendations in our audit reports:

Assurance Level	Adequacy of system design	Effectiveness of operating controls
Substantial Assurance:	While a basically sound system of control exists, there is some scope for improvement.	While controls are generally operating effectively, there is some scope for improvement.
Adequate Assurance:	While a generally sound system of control exists, there are weaknesses which put some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited Assurance:	Control is generally weak leaving the system open to significant error or abuse.	Control is generally weak leaving the system open to significant error or abuse.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose, ELRC to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose, ELRC to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

10. Acknowledgement

- 10.1. We are grateful to the Supply Chain Management for their assistance during the course of the audit.
- 10.2. Detailed issues requiring management corrective action are tabled in **Section B** of the report.

11. Distribution List

Name	Designation	For Action	For Information
Foca C	General Secretary		√
Shadung N	Chief Financial Officer	√	
Molosi F	Senior Manager CBS		√
Moela M	Senior Manager DMS		√
Makofane O	Senior Manager CS		√
Nemavhoini D	Manager ICT		√
Loxton B	Manager Media & Research		√
Baninzi Y	Manager SCM	√	
Milne M	Manager CBS National		√
Mogotsi L	Manager DMS		√
Singh D	Manager CBS Provincial		√
Ndlazi C	Manager CBS Provincial		√
Neewat G	Manager CBS Provincial		√
Sefothhelo R	Manager CBS Provincial		√
Ubisi P	Manager CBS Provincial		√
Thindisa S	Manager CBS Provincial		√
Kediutlwile S	Manager CBS Provincial		√
Monaise W	Acting Manager CBS National		√
Mhlungu N	Acting Manager HR		√

SECTION B: ISSUES REQUIRING MANAGEMENT CORRECTIVE ACTION

1. Transacting with service provider not registered on the approved supplier database

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan (MAP)	Responsibility / Timescale	Internal Audit Comment
<p>Criteria SCM policy: section 8(b) state that ‘‘The Council’s electronic database of suppliers must be utilised for all procurement actions’</p> <p>Sound and best practice requires SCM to compile and maintain a list of prospective accredited suppliers per commodity for the purpose of obtaining quotations for all verbal and written quotations.</p> <p>Accounting Officer or its delegate (THE BUYER) must procure the requirements within the prescribed transaction value by obtaining at least ONE (1) or THREE (3) valid written quotation from ELRC’s supplier database, should no suitable supplier be available on ELRC’s supplier database, quotations may be requested from any other prospective suppliers available (such supplier must still be registered with ELRC’s supplier database before procurement transaction is processed).</p> <p>Observation The audit noted the following: 1.1. There are procurement transactions appearing on the Supplier Detailed Ledger, however the suppliers could not be traced on the supplier database (document provided</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ Lack of effective leadership and commitment to effectively manage and address challenges and control deficiencies and provide guidance to personnel. ▪ Negligence by personnel as this is a recurring finding. ▪ <i>Some of the suppliers were soft blocked and unblocked later as per request. Some suppliers were appearing on invalid sheet as explained below.</i> <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ Non-compliance with business policy - purchasing from suppliers not listed on the approved list of suppliers ▪ Possible fraudulent activities – transacting with suppliers which are not duly approved. ▪ Irregular expenditure due to procedures not properly followed. 	<p>SCM Management should actively drive the implementation of action plans to address audit findings by ensuring that:</p> <ul style="list-style-type: none"> ▪ The unit keeps an accurate and complete supplier database at all times. ▪ All procurement actions are executed in line with the SCM policy to ensure compliance. <p>SCM Manager should diligently perform her supervisory duties to enhance the effectiveness of controls.</p> <p>CFO should enforce consequential management for recurring audit findings.</p>	<p>1</p>	<ul style="list-style-type: none"> • Skynet: agreed. New documents have been requested from the supplier. • Tshimologo: the supplier was soft blocked, but was unblocked when we received a request • Kebakantse: agree, however the supplier appears on invalid sheet, that’s according before a procurement was done. • Faircity: the company is now in Invalid sheet, hence it does not appear on the valid sheet. But by the time of use it was valid. • Booyesen: the company is now in Invalid sheet, hence it does not appear on the valid sheet. But by the time of use it was valid • Courier: we don’t agree, the company is Bex according to book register. 	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion:</p>	<p>Comments provided by the SCM Manager does not address the identified deficiencies and there is no MAP provided to ensure that similar issues will not reoccur and improve the control framework.</p>

<p>to IA on the 27/07/2016). See Annexure A for details.</p> <p>1.2. Furthermore, IA identified service providers on the requisition and order notes reports however they could not be traced on the list of approved supplier database. See Annexure B for details.</p>			<ul style="list-style-type: none"> • Catering Supreme: we don't agree the company is Mama home cooked meal (Supreme) in the database. • Delta Press: we don't agree the company appears on the database • Roux Van Rooyen: we agree, by the time of updating we thought that the supplier is a panellist. • Lippsy Stationery: the company is now in Invalid sheet, hence it does not appear on the valid sheet. But by the time of use it was valid. • Illkis Events: the supplier appears on invalid sheet. • Mapungubwe Faircity: the company is now in Invalid sheet, hence it does not appear on the valid sheet. But by the time of use it was valid. • Spintelligent: agree, by the time of updating the database the file was lost during the movement, however we have requested new documents from the supplier. 	
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				<ul style="list-style-type: none">• Life Med: The Company is now under the invalid sheet, hence it does not appear on the valid sheet. But by the time of use it was valid.• Xircon Enterprises: agree, the supplier was blocked, but was then unblocked when the need arised.so we fail to update it on the excel spreadsheet after we have unblocked it.		
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2. Contracts/SLA that are not listed on the contract register

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Responsibility /Timescale	Internal Audit Comment
<p>Criteria The Contracts Register is intended to provide a simple tool for keeping track of the Council's contracts and financial commitments with its suppliers. It is designed to promote good procurement practice.</p> <p>In order for Council to effectively monitor contract spend and to ensure continuity of services each Manager, in relation to contracts, shall keep a contracts register setting down details of contracts awarded in the preceding twelve months.</p> <p>Sound and best practice requires regular management and accurate reporting of the Contract Registers to attest to the effectiveness of internal controls.</p> <p>Observation The audit noted that there are contracts which are not reflected on the monthly Contract Registers. This includes,</p> <p>a) Chubb Security (Mpumalanga) b) Logan Govender</p> <ul style="list-style-type: none"> ▪ According to the payment certificate, the service provider was last paid on the 31st May 2016 ▪ However the service provider is not recorded on the April and May contract registers. <p>c) Shereno Printers</p>	<p>Root Cause Lack of an effective leadership to properly monitor the activities of the unit and provide sufficient guidance to personnel.</p> <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ Contract expenditure might not be effectively monitored. ▪ Misstatement of commitments – negative impact on the annual financial statements, possible qualification. ▪ Contract terms and conditions might not be met. 	<ul style="list-style-type: none"> ▪ Management should actively drive the implementation of internal controls by ensuring that: <ul style="list-style-type: none"> - The unit keeps an accurate and complete contract register at all times. - Immediately after a contract is awarded and entered into by both parties, record it on the contract register. - All procurement actions are executed in line with the SCM policy to ensure compliance. ▪ SCM Manager should diligently perform her supervisory duties to enhance the effectiveness of controls. 	<p style="text-align: center;">1</p>	<ul style="list-style-type: none"> ▪ Chubb Security (Mpumalanga): Accept and agree with the finding. This will be corrected, the error happened when the SCM officer was editing the document. ▪ Logan Govender: Disagree with the finding. The contract expired on the 30th June 2015, however the invoices were submitted after the submission of final research report to ELRC. ▪ Shereno Printers: Disagree with the finding. This was not a contract. 	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion:</p>	<p>Management's comment is noted and the finding remains.</p> <p>The action plan does not address the identified weakness and will not improve performance.</p> <p>Logan Govender – comment does not make sense as to why would a contract which expired a year ago and supplier only issue an invoice later. The management comment is an indication of ineffective controls at SCM and it calls for concern.</p> <p>Shereno Printers - The management comment is an indication that personnel does not</p>

<ul style="list-style-type: none"> ▪ This service provider was awarded a contract of R675 000. ▪ The procurement plan report for June reflects the project status as work is still in progress. ▪ However the transaction is not recorded on the Contract Registers for April, May and June. ▪ IA acknowledges that an SBD 7.1 (as prescribed by the National Treasury) was signed as a formal contract. 					<p>even know that in terms of National Treasury Practice Note Number SCM 1 of 3, an SBD 7.1 is a formal contract</p>
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3. Maintaining an effective control over payment certificates

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria The SCM contract management processes entails compiling and maintaining payment certificates to ensure that all payments are made within the contractual stipulations. These is applicable to all active contracts. The payment certificates are preventative controls to monitor the contract payment terms.</p> <p>Observation The payment certificates for the following contracts/SLAs listed on the Contract Register were not provided for audit purposes: a) Frama (Pty) Ltd b) Uniclox Technology c) Nelson Mandela Metropolitan d) Antphestation e) OS Holdings</p>	<p>Root Cause Lack of an effective leadership to properly monitor the activities of the unit and provide sufficient guidance to personnel.</p> <p>Impact/Risk If the contract payment certificates are not compiled then there is a possibility of overpayment of contracts.</p>	<ul style="list-style-type: none"> ▪ All contract values should be monitored through payment certificates. ▪ Manager should be diligent, pay attention to detail, and know the internal control system to prevent errors from happening or detect and correct errors on time when they occur. ▪ Poor performance should be dealt with in line with the HR processes. ▪ Part of contract management includes ensuring that the contract cost is effectively managed. It is critical to take a closer look for items such as unrecorded liabilities or overpayments. If these items are overlooked, margin may be negatively impacted. 	<p style="text-align: center;">1</p>	<ul style="list-style-type: none"> ▪ Frama: <ul style="list-style-type: none"> •Accept and agree to the finding. •The contract is an old contract, therefore we don't know from where to start. •Secondly we have always been paying an annual fee at post office. ▪ Uniclox Technology: <ul style="list-style-type: none"> •Accept and agree to the finding. •This is because we paid an annual fee and there was no invoice received. ▪ Nelson Mandela Metropolitan: There is a payment certificate for NMMU and it will be provided. ▪ Antphestation: Partly agree in the sense that, we paid an upfront payment. There is still a balance that we must pay. Again we do have a payment certificate. ▪ OS Holdings: <ul style="list-style-type: none"> •Disagree with the finding. •We have not been invoiced, and that we have not paid them yet. 	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion:</p>	<p>Management's comment is noted and the finding remains.</p> <p>Comments provided by the SCM Manager does not address the identified deficiencies and there is no MAP provided to ensure that similar issues will not reoccur and improve the control framework.</p>

4. Duplicated purchase order numbers

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria Using purchase orders as a good control tool requires strong purchase order management business processes.</p> <p>Observation The integrity data test of the requisition / purchase order reports revealed that it contained duplicated purchase order numbers. See Annexure C for details.</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ At the time of creating this order note, the system had an error. ▪ The administrator erroneously typed a wrong order number. ▪ According to the explanation of the administrator, she had pressure having to do so many things at the same time. ▪ Lack of day-to-day monitoring and involvement by leadership in the oversight administration of the department. This includes taking ownership of compliance issues and addressing key control deficiencies. <p>Impact/Risk Possible fraudulent action might be undertaken – financial loss.</p>	<ul style="list-style-type: none"> ▪ Supervisory review controls should be strengthened to timely detect and correct errors. ▪ System should be configured to flag duplicate purchase order numbers to prevent order from being processed. ▪ Leadership needs to enhance their oversight responsibilities to ensure that action is taken against transgressors and that action plans to improve known internal control weaknesses are implemented and monitored. ▪ Develop an internal control checklist as a tool for evaluating the internal control structure and general compliance, while also promoting effective and efficient business practices. The effective utilisation of the checklist will strengthen controls, improve compliance, and eliminate many potential audit comments. 	<p>1</p>	<p>We agree with the finding.</p> <p>The proposed audit recommendations will be implemented accordingly.</p>	<p><i>SCM Officers and SCM Manager</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan addresses weakness and will improve performance.</p> <p>Internal audit will follow-up on action plan.</p>

5. Transactions of suppliers with expired Tax Clearance Certificates

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria It is statutory requirement that organisations must enter into business arrangement with any supplier whose tax obligation are in order or who has made arrangement with SARS to meet any outstanding obligations.</p> <p>Observation 5.1. The audit identified instances whereby ELRC transacted or procured goods/services from suppliers with expired tax clearance certificates. See Annexure D for details. 5.2. Suppliers listed as invalid but they appear on the requisition / purchase order report. See Annexure E for details.</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ Leadership does not exercise oversight responsibility regarding compliance and related internal controls. ▪ Negligence of responsibilities – a recurring issue <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ Non-compliance issue. ▪ The cost incurred on payment of suppliers with expired or without tax clearance certificates is deemed an irregular expenditure. 	<ul style="list-style-type: none"> ▪ Manager should put in place a system of control which will enable sending reminders to suppliers three months before expiry date of TCC. ▪ Failure by suppliers to submit valid TCC on time should result in suppliers being blocked on the system from transacting until such time that valid documents are submitted. ▪ Manager should strengthen monitoring controls with a view to detecting and preventing non-compliance. ▪ All irregular expenditure should be recorded on the maintained register and enforcement steps should be taken against responsible individuals. 	<p>1</p>	<p>We agree with the finding.</p> <p>The proposed audit recommendations will be implemented accordingly.</p>	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan addresses weakness and will improve performance.</p> <p>Internal audit will follow-up on action plan.</p>

6. Supplier detailed ledger transactions not appearing on the requisition / purchase order reports

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria Effective control provides for the overall success of crucial organizational functions, which includes establishing the point where at failure is not tolerated, easy integration into existing systems, employee involvement, timely data that identifies priority needs and economic feasibility.</p> <p>The accuracy of control information ensures that it is helpful, solid, credible and dependable. The controls must be straightforward and easy to understand.</p> <p>Observation IA noted instances where transactions appears on the supplier detailed ledger but not the requisition/order register. See Annexure F for details.</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ No order note was issued. ▪ Leadership does not exercise oversight responsibility regarding compliance and related internal controls. ▪ Internal audit recommendations were ignored, management did not take action when previously advised. <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ Failing to comply with audit recommendations or guidance exposes the organisation to greater risks. ▪ Requisition and order might not have been duly authorised, resulting to irregular expenditure. ▪ Possible fraudulent. 	<ul style="list-style-type: none"> ▪ SCM personnel should take the internal audit report recommendations seriously. ▪ Compliance should be enforced and failure should be followed by consequences. 	<p>1</p>	<p>Agree with the finding, however the service was on contractual basis. Each time we were to go to the warehouse, we were sending e-mails to secure appointments. This was not a normal procurement.</p>	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion:</p>	<p>Comments provided by the SCM Manager does not address the identified deficiencies and there is no MAP provided to ensure that similar issues will not reoccur and improve the control framework.</p>

7. Supplier database not timely updated

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria SCM Policy: section 8© state that ‘The Council’s supplier’s electronic database should be maintained and kept accurate by the SCM unit’.</p> <p>The SD list is continuously monitored to ensure its accuracy, validity and completeness at all times.</p> <p>Observation 7.1. The maintenance of the supplier database is not properly executed. The supplier database provided for audit purposes on the 27/07/2016, IA noted transactions of supplier whose TCC has expired but still appears on the list of valid suppliers. See Annexure G for details. 7.2. Subsequent this, IA requested a database for July/August for audit purposes. SCM submitted an updated database version to IA on the 25/08/2016. IA noted that some of the above mentioned transactions of supplier who’s TCC has expired but still appears on the August list of valid suppliers. See Annexure H for details.</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ The SCM Officer would normally wait for a month to update the database. ▪ Poor managerial monitoring controls, leading to errors not detected and corrected. <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ This may lead to transacting with suppliers whose TCC has expired – a noncompliance issue. ▪ High error rate of SCM processes. 	<ul style="list-style-type: none"> ▪ The current state of inefficiencies within the SCM unit requires the Manager to do weekly reviews of activities, instead of monthly reviews. This should happen until there is a satisfactory performance improvement in the department. ▪ Leadership should implement consequential management for poor control managerial actions. 	<p style="text-align: center;">1</p>	<p>Agree with the finding. The database will be updated each time a new file or TCC is received.</p>	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan addresses weakness and will improve performance.</p> <p>Internal audit will follow-up on action plan.</p>

8. Errors noted on the contract register

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria The Contracts Register is intended to provide a simple tool for keeping track of the Council's contracts and financial commitments with its suppliers. It is designed to promote good procurement practice.</p> <p>Effective controls generate accurate data and information. Accurate information is essential for effective managerial decisions. A key factor in the effectiveness of a control system is the quality of the information it receives. Control system information must be accurate and up to date.</p> <p>Observation The review of the Contract Registers for periods April, May and June 2016 indicated that it contains errors, which some of them were previously highlighted. The identified errors includes:</p> <p>8.1. Includes names of people no longer in the employment of the ELRC [Lorna Padayachee, Musa Mahlangu, Jeff Motshakga]</p> <p>8.2. Inconsistency in terms of using people's names or title basis.</p> <p>8.3. Sage Evolution: contract duration is recorded as until the building if complete</p> <p>8.4. Contract value is not stated, e.g. Bula Projects CC; Absolute Perfect Water; Chubb Security.</p>	<p>Root Cause Internal audit recommendations were ignored, management did not take action when previously advised.</p> <p>Impact/Risk</p> <ul style="list-style-type: none"> ▪ Failing to comply with audit recommendations or guidance exposes the organisation to greater risks. ▪ Inaccurate controls would divert management efforts and energies on problems that do not exist or have a low priority and would fail to alert managers to serious problems that do require attention. ▪ Adverse impact on holding people accountable for monitoring of the contract performance. ▪ Contract ownership, management processes and governance mechanisms might not be clear with defined roles and responsibilities at appropriate levels of seniority 	<p>SCM personnel should take the internal audit report recommendations seriously.</p> <p>The SCM Manager should ensure that the contract register is accurate, complete and up to date at all times to ensure the integrity of the reporting information.</p>	<p>1</p>	<p>Accept and agree to the findings:</p> <ul style="list-style-type: none"> ▪ It was advised by the former CFO to write the name of a person signed the contract ▪ As advised by the current CFO, the Sage Evolution was recorded as building ▪ For contract value not showing, this must be a human error. ▪ Full names of the companies not the same, this is because of Officer might have abbreviated, and the reviewer overlooked because we understood the meaning of shortening the supplier names. <p>Going forward, identified errors will be corrected.</p>	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion: <i>Immediately</i></p>	<p>Action plan addresses weakness and will improve performance.</p> <p>Internal audit will follow-up on action plan.</p>

8.5. The full name of the service provider is not the same as it appears on the face of the contract. See Annexure I for details.						
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9. Inadequate controls over reactivating invalid suppliers to active status

Audit Observation	Root Cause / Impact	Audit Recommendation	Priority Level	Management Comment / Action Plan	Timescale / Responsibility	Internal Audit Comment
<p>Criteria Internal controls help prevent errors and irregularities from occurring. If errors or irregularities do occur, internal controls will help ensure they are detected in a timely manner.</p> <p>Transactions should be authorized and approved to help ensure the activity is consistent with departmental or institutional goals and objectives. The important thing is that the person who approves transactions must have the authority to do so and the necessary knowledge to make informed decisions.</p> <p>Observation 9.1. It was noted that there is no formal process for unblocking invalid suppliers to an active status. 9.2. IA has learned that a supplier was unblocked on the database and subsequently provided a business opportunity upon request. The supplier's name is Tshimologo</p>	<p>Root Cause</p> <ul style="list-style-type: none"> ▪ Inadequacy of the SCM guidelines. ▪ Lack of leadership to provide adequate guidance to personnel. <p>Impact/Risk Possible fraudulent activity might occur.</p>	<ul style="list-style-type: none"> ▪ Manager should develop and implement systems of internal controls that will help with the prevention of errors and irregularities from occurring. ▪ Manager needs to enhance her managerial responsibilities to ensure a positive performance of the SCM unit. 	<p>1</p>	<p>Agree with the finding.</p> <p>SOP will be amended to address the issue of blocking and unblocking suppliers.</p>	<p><i>SCM Officer and SCM Manager</i></p> <p>Target date for completion: <i>31/10/2016</i></p>	<p>Action plan addresses weakness and will improve performance.</p> <p>Internal audit will follow-up on action plan.</p>

Annexure A

Supplier Details	Cashbook Payment Date	Amount
Centurion Technologies Support Service	06/07/2016	544,81
Flamingo Casino	24/06/2016	14 637,50
Freedom Square Hotel	01/07/2016	30 710,00
Intcomp	24/05/2016	46 238,40
Skynet Worldwide Express	14/04/2016	762,80
	19/04/2016	1 390,94
	13/05/2016	323,92

Annexure B

Date	Requisition No.	Supplier Details	Order Note No.
04/04/2016	228-2016	Skynet	PP000059
08/04/2016	243-2016	Tshimologo	PP00006
11/04/2016	244-2016	Kebakantse	PR00063
13/04/2016	255-2016	Faircity	PO000083
13/04/2016	256-2016	Booyesen	PO000084
20/04/2016	263-2016	Courier	PR000069
22/04/2016	269-2016	Catering Supreme	PP000072
06/05/2016	293-2016	Delta Press	PR000078
06/05/2016	294-2016	Roux Van Rooyen	PR000079
18/05/2016	317-2016	Lippys Stationery	PO000104
19/05/2016	325-2016	Illkis Events	PO000105
25/05/2016	338-2016	Mapungubwe Faircity	PO000110
09/06/2016	386-2016	Spintelligent	PP000108
08/06/2016	389-2016	Life Med	PD000115
10/06/2016	392-2016	Xircon Enterprises	PP00010

Annexure C

Date	Requisition No.	Supplier Details	Order Note No.
26/05/2016	341-2016	The Gravy Bowl	PP000092
26/05/2016	345-2016	Makro	PP000092
06/06/2016	378-2016	K&V Aircomfort	PO000119
21/06/2016	408-2016	Makro	PO000119
07/07/2016	463-2016	SAGE Pastel	PD000132
11/07/2016	466-2016	Impunde	PD000132

Annexure D

Supplier Details	TCC Expiry Date	Invoice Received After Expiry Date
Wilru Transport (Pty) Ltd	11/05/2016	31/05/2016 – IN003199, IN003200
Vodacom Service Provider co. (Pty) Ltd	22/02/2014	
Apple Print and Packaging	27/02/2016	28/04/2016 – 3851
Avis Rent A Car	23/04/2015	
Kebakantse	02/03/2016	22/04/2016 – KST-12 15/06/2016 - KST-16

Annexure E

Supplier Details			Requisition and Purchase Order Report			
Name	TCC Date	Expiry	Date	No.	Order Note	Order Date
Ilkis events	08-Mar		19-May	325-2016	PO000105	20-May
Lippy's In Touch Stationers	08-Apr		18-May	317-2016	PO000104	19-May

Annexure F

Supplier Details	Date	Description	Amount
Wilru Transport	14/04/2016	Monthly storage / move of assets	15, 105
	20/05/2016	Collect assets from storage	1, 995
	10/06/2016	Storage-3199 &3200	14, 706

Annexure G

Supplier Details	TCC Expiry Date
Absolutely Perfect Water	20/07/2016
Bex	22/07/2016
Business Optimization Trading Institute	22/07/2016
Chubb Electronic Security	04/06/2016
Faircity Mapungubwe	28/06/2016
Food D-Vine Catering	03/06/2016
Formax Stationery and Media (Pty) Ltd	16/07/2016
Human Communications (Pty) Ltd	06/07/2016
Emerald Safari Resort	01/06/2016
Faircity Mapungubwe	28/06/2016
Europcar	09/07/2016
Jelly Fish Catering	11/06/2017
Kebakantse	02/03/2016
K-Line Foods	08/06/2016

Annexure H

Supplier Details	TCC Expiry Date
Bex	22/07/2016
Chubb Electronic Security	04/06/2016
Formax Stationery and Media (Pty) Ltd	16/07/2016
Human Communications (Pty) Ltd	06/07/2016
Jelly Fish Catering	11/06/2017
K-Line Foods	08/06/2016

Annexure I

Name as it appears on the Contract Register	Name as it appears on the Supplier Database	Name as it appears on the Contract Document
Pronto IT	Pronto IT Solutions	Pronto IT Solutions
Business Presentation Products	BIS Business Presentation Products	BIS Business Presentation Products (Pty) Ltd
Ngubane and Company	Ngubane and Co	Ngubane and Company (JHB) Inc.
Pro-Shield	Proshield Guarding Services	Proshield Guarding Services
Antphestation Solutions	Antphestation	Antphestation Solutions
Meltwater	Meltwater South Africa	Meltwater South Africa (Pty) Ltd
Sage Evolution	Sage Pastel	Sage South Africa (Pty) Ltd
Servest	Servest (Pty) Ltd	Servest (Pty) Ltd
Studio 3	Studio 3 Design House	Studio 3 Architects International (Pty) Ltd