

30 April 2024

2023/24 Supply Chain Management (SCM) Procurement & Compliance

Internal Audit Report



Swellendam Municipality Internal Audit Services

Audit Ref. 2023/24 – 006

F. Coetzee
CHIEF AUDIT EXECUTIVE
(OVERBERG DISTRICT MUNICIPALITY)

*This Engagement Conforms with the International Standards for the Professional Practice
of Internal Auditing.*

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Ms. E. Wassermann
Director: Financial Services
Swellendam Municipality

Dear Madam,

We have pleasure in submitting our final audit report, presenting internal audit findings and recommendations, contributing to the maturity of the control framework to increase business efficiency and effectiveness in the Supply Chain Management (SCM) processes.

The results of the audit, which is presented to management is aimed at providing assurance that risk treatments covered in the audit, are adequate and effective to contribute to the management of the risks impacting management's objectives.

Please take note that this report has been prepared solely for the management of Swellendam Municipality. We do not accept any responsibility to any third party to whom the contents may be disclosed or who at their own accord may decide to rely on it as the report has not been prepared for, and is not intended for, any other purpose.

We would like to extend our appreciation to the Supply Chain Management Department and all the relevant staff for their assistance during the review and would be pleased to provide you with any further assistance and requests that you have. Please do not hesitate to contact Mr. A Petersen.

INDEPENDENCE

The Internal Audit Activity of the Swellendam Municipality certifies that, we are in all respects independent, and seen as being independent, with regard to the auditing of the Supply Chain Management: Procurement and Compliance.

Yours sincerely,



Mr. F. Coetzee
CHIEF AUDIT EXECUTIVE
Date: 30 April 2024

1. EXECUTIVE SUMMARY

1.1 INTRODUCTION

In accordance with our approved 2023/24 Risk-Based Internal Audit (RBAP), the Internal Audit Department is required to do an audit on the 2023/24 Supply Chain Management: Compliance & Procurement processes.

The objective of the review is to evaluate the adequacy and effectiveness of existing controls and provide reasonable assurance that the governance, risk management and control processes are adequate, appropriate, and operating effectively and efficiently.

1.2 BACKGROUND INFORMATION

The Municipal Finance Management Act (MFMA) Section 112 regarding Supply Chain Management policy to comply with prescribed framework require that, (1) the supply chain management policy of a municipality or municipal entity must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management.

The Swellendam Municipality has an established Supply Chain Management (SCM) department which forms part of the Directorate: Financial Services. The Supply Chain Management Department is responsible to ensure proper systems, policies, procedures and control for demand, acquisition, logistics, assets and disposal management. More specifically the department also:

- Manage demand procedures and render acquisition services;
- Coordinate, control and apply logistics and disposal management practices and procedures and
- Perform contracts, risks and performance management processes.

1.3 PURPOSE, SCOPE AND APPROACH

The overall objective of internal audit is to give the Municipality's management assurance on whether risk treatments are adequate and effective to manage the risks to an acceptable level, resulting in the attainment of the strategic objectives.

The scope will cover the period as from 1 July 2023 – 29 February 2024.

In terms of the criteria that was used, Internal Audit (IA) specifically reviewed the SCM process in terms of the MFMA, SCM Regulation and SCM Policy and the general compliance and Construction Industry Development Board (CIDB) requirements.

Our approach will include:

- Engagement Planning which will include the strategic, risk, previous report, legislative and business process analysis;
- Review of general controls over the supply chain management environment;
- Review all the relevant legislation (MFMA, SCM Regulation) and policies (SCM Policy) relating the procurement and compliance with procurement processes and
- Discussion the observations of finding(s) identified.

Engagement procedures and sampling will be performed in terms of the approved Internal Audit Approach and Methodology

1.4 AUDIT TEAM

Audit Team	Name	Position
Internal Audit Unit of Swellendam Municipality	Mr. Flippie Coetzee	Chief Audit Executive (ODM Review Purpose only)
	Mr. Ashwin Petersen	Senior Internal Auditor
	Mr. Herschelle Swart	Internal Auditor
	Ms. Mariska Vermeulen	Internal Audit: Intern

1.5 MANAGEMENT'S RESPONSIBILITY IN TERMS OF INTERNAL CONTROL

Management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations and processes of Swellendam Municipality in a manner that provides the Council reasonable assurance that those risks are being managed and objectives should be met. Implementing internal controls is a function of management and is an integral part of the overall process of managing operations.

Internal Control	Fraud & Error
Internal Control can be defined as a process effected by management to provide reasonable assurance relating to: - Operational Controls - Internal Financial Controls - Compliance Controls The general purpose of an audit is to provide reasonable assurance about the adequacy and effectiveness of the system of internal control, risk management and governance.	Audit procedures alone, even when carried out with due professional care, does not guarantee that fraud would be detected because of the inherent limitations of an audit. Management's attention is also drawn to the fact that inherent limitations exist in the reliance on internal controls and procedures as errors and lapses in control result from staff carelessness, misunderstanding of instructions, collusion between individuals and management override.

1.6 INTERNAL AUDIT OPINION

Based on the findings of the independent review and information obtained, Internal Audit is of the opinion that the Municipality's Supply Chain Management department is well-established, structured, and has a functional system that operates within the legislative requirements. However, during the review, internal audit noted some discrepancies which was discussed with management.

Internal Audit is also required to express an opinion on the adequacy and effectiveness on the governance, risk management and control processes of the Supply Chain Management Processes.

Governance: Internal Audit is of the opinion that the Municipality's governance structures which include but are not limited to the SCM policies and procedures, oversight and reporting of SCM activities are adequate and effective to ensure that Supply Chain Management Department is adequately governed.

Risk Management: Internal Audit also confirms that the Supply Chain Management risks are considered during the organisational risk identification processes. In addition, the SCM risks are linked to the strategic objectives of the municipality.

Control Processes: Internal Audit is of the view that the current controls in place are adequate to address the significant risks within the Supply Chain Management Department. However, some discrepancies were noted and a formal audit finding was documented below.

1.7 REPORTING FRAMEWORK

The findings identified have been broadly categorised into:

Rating	Suggested Management Action
Critical	Significant control weaknesses requiring immediate management action
Significant	Control weaknesses that are regarded as serious and require management action within a short period of time
Housekeeping	These control weaknesses do not represent a significant risk to the control environment and can normally be corrected at a minimal cost. The correction of these control weaknesses will have the effect of an improved control environment
Positive	No action needed. Management made progress in control environment

In order to assist management with allocation of resources to address the weaknesses and improve internal control, we have assigned subjective ratings based on the reporting framework above to each of the findings that were raised. These ratings are for guidance purposes only and management must evaluate them in the light of their own experience and risk appetite.

Individual ratings do not necessarily take into account the effect of compensating controls and/or control weaknesses in other areas. Therefore, individual ratings should not be considered in isolation and their effect on other objectives and area also be considered.

2. ROOM FOR IMPROVEMENT

MATTER RAISED	RECOMMENDATIONS	MANAGEMENT COMMENTS	RESPONSIBLE OFFICIAL & DUE DATE
2.1 Inadequate Completion of Documents In several instances inadequate completion of Quotation Requests documentation/ checklists or signing-off on documentation was noted.	The Manager: SCM must ensure that SCM documentation is adequately completed and a completeness check must be performed.	Noted. The municipality core business is service delivery and although some documents are not fully completed this office checks that the necessary authorisation was obtained. This office uses our discretion in order to reduce admin costs. There are however various instances that documents are returned to user departments when this office cannot exercise any discretion.	Responsible Official Manager: SCM Due Date ASAP

3. RE-ASSESSMENT OF KEY RISK

Subsequent to the engagement procedures that were performed, Internal Audit concur with management that the Municipality faces a medium risk exposure relating to Supply Chain Management Procurement and Compliance. This implies that the residual risk is below/within the risk appetite level, but should still be responded to in order to reduce residual risk exposure as controls require some redesign or more emphasis on proper implementation.

Risk	Pre-audit Inherent Risk Rating	Risk Treatment / Current control processes	Post Audit Inherent Risk Rating	Executive Summary Findings	Post Audit Residual Risk Rating
Systems ineffective to manage procurement and contractors	Medium (56)	• Signed Service delivery agreements • Monitoring of contracts (depends on the scope of work) • Performance evaluation register • Dispute resolution mechanism • A panel of attorneys for Litigation	Medium (56)	Not applicable	High (42)

Risk Appetite Statement:

The post audit risk rating of the risk is above the risk appetite of 40 as per the risk appetite statement in the 2023/24 Risk Management Policy. This would mean that the municipality must implement controls to mitigate the risk to an acceptable level.

Furthermore, Internal Audit made recommendations to address the findings which will be incorporated in the risk register under action plans. Once these actions are implemented and followed up on, it would be documented as part of the control environment.

4. DISTRIBUTION LIST

This report has been prepared for the sole and exclusive use of Swellendam Municipality. Therefore, it may not be made available to anyone other than authorized persons within the organization, or relied upon by any third party. No part of this work may be reproduced or transmitted in any form by any means, electronic or mechanical, including photocopying and recording, or by information storage or retrieval system except as permitted, in writing by Swellendam Municipality.

No	Key Strategic Official(s)	Name	To Take Action	Secure Action	For information & oversight
1.	Audit and Performance Committee (APAC)	APAC			✓
2.	Auditor-General of South Africa (ASGA)	AGSA			✓
3.	Accounting Officer	Ms. A. Vorster		✓	✓
4.	Director: Financial Services	Ms. E Wassermann	✓	✓	✓
5.	Director: Corporate Services	VACANT			✓
6.	Director: Community Services	Mr. K Stuurman			✓
7.	Director: Infrastructure Services	VACANT			✓
8.	Performance and Compliance Officer	Mr. Z. Wiese			✓

5. ACCEPTANCE OF INTERNAL AUDIT REPORT

We agree to the audit findings and recommendations made, and hereby accept the abovementioned report.



Mr. B Beyers
Manager Supply Chain Management

Comments:



Ms. E Wasserman
Director: Financial Services

Comments:



Ms. A. Vorster
Municipal Manager

Comments:
