

9.1

Irregular expenditure caused by weaknesses in supply chain management

9.1 Irregular expenditure caused by weaknesses in supply chain management



What is irregular expenditure?

Irregular expenditure is expenditure that was **not incurred in the manner prescribed by legislation**; in other words, somewhere in the process that led to the expenditure, the auditee did not comply with the applicable legislation.

Such expenditure does **not necessarily mean that money had been wasted or that fraud had been committed**. It is an indicator of non-compliance in the process that needs to be investigated by management to determine whether it was an unintended error, negligence or done with the intention to work against the requirements of legislation. Such legislation requires, for example, that procurement should be fair, equitable, transparent, competitive and cost-effective.

Through such **investigation**, it is also determined who is responsible for the non-compliance and what its impact was. Based on the investigation, the next steps are determined. One of the steps can be condonement if the non-compliance had no impact and negligence was not proven. Alternatively, if negligence was proven, the steps can be disciplinary action, recovery of any losses from the implicated officials or even cancelling a contract or reporting it to the police or an investigating authority.

The PFMA is clear that **accounting officers and authorities are responsible** for preventing irregular expenditure. It also stipulates the process to be followed when it does occur, as described above.

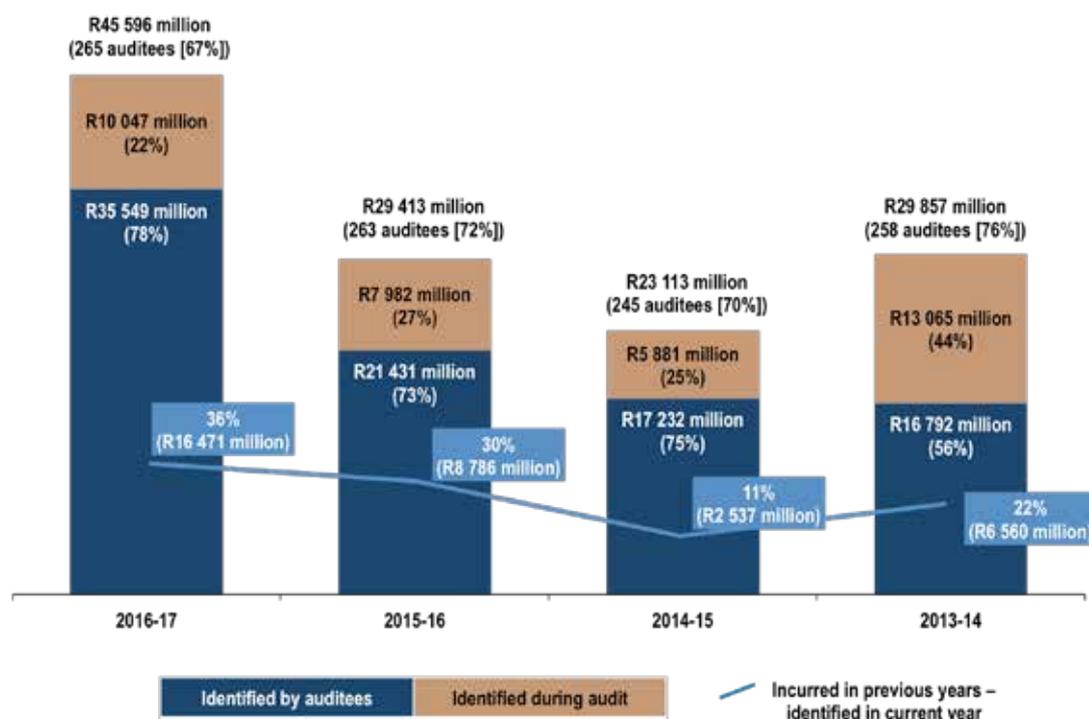
In order to promote transparency and accountability, auditees **must disclose all irregular expenditure identified (whether by the auditee or through the audit process)** in their financial statements together with details on how it was resolved; in other words, how much was investigated, recovered or condoned.

94

Status of irregular expenditure

Figure 1 shows the four-year trend in irregular expenditure based on the amounts disclosed in the financial statements of auditees. It also indicates the percentage of irregular expenditure identified by auditees versus that identified by the audit process as well as the proportion of irregular expenditure disclosed that had been incurred in previous years (blue line).

**Figure 1: Four-year trend in irregular expenditure
(excludes outstanding audits, such as that of Prasa)**



As can be seen in figure 1, **irregular expenditure had increased by 55%** (R16 183 million) from the previous year and by 53% (R15 739 million) from 2013-14. The number of auditees incurring such expenditure had increased to 265. A total of 229 (86%) of these 265 auditees had **also incurred irregular expenditure in the previous year**, of which 177 (67%) had incurred such expenditure for the past four years. **The total irregular expenditure incurred over the past four years was R128 billion.**

The **total irregular expenditure for 2016-17 is even higher** than the R45 596 million shown in figure 1, as the irregular expenditure disclosed by auditees whose audits had been completed before the date of this report (but was not included in the analysis) was R1 091 million. The auditees of which the audits had not been completed also typically incur high irregular expenditure; for example, Prasa disclosed irregular expenditure of R13 971 million in 2015-16. Section 6.2 provides more information on these outstanding audits.

Auditees in KwaZulu-Natal, the Free State, Limpopo and the Eastern Cape were the **main contributors to the significant increase in irregular expenditure from the previous year** as indicated below:

- KwaZulu-Natal – R7 781 million (increased by 218%) (also had the highest amount of irregular expenditure in 2016-17)
- Free State – R3 494 million (increased by 181%)
- Limpopo – R1 545 million (increased by 150%)
- Eastern Cape – R1 136 million (increased by 92%)

The **sectors** with the highest amounts of irregular expenditure were health (R11 777 million), transport (R6 378 million) and education (R6 090 million).

Figure 1 further shows that 64% of the irregular expenditure was as a result of non-compliance in the current year, but that 36% was the result of **acts of non-compliance in previous years**. This is typically due to one of the following scenarios:

1. Payments were made in the current year on a contract that had been irregularly awarded in a previous year – if the non-compliance was not investigated and condoned, the payments on these multi-year contracts will continue to be viewed and disclosed as irregular expenditure.

2. Non-compliance in previous years was only identified in the current year and all the related expenditure (even from the previous years) was disclosed in the current year.

If we determine that an auditee did not fully disclose all of its irregular expenditure in the financial statements, the disclosure is qualified if material. To address such a qualification, auditees typically do a very detailed review of their processes in previous years to identify all the irregular expenditure and correctly disclose it – as per scenario 1 above. In total, R7 562 million (2015-16: R546 million) of the irregular expenditure as shown in figure 1 was as a result of **auditees fully recognising their previous years' irregularities to address these qualifications**. It is encouraging that the full disclosure of irregular expenditure is being addressed, as it improves transparency and accountability.

As detailed earlier on in this section, inadequate action taken by accounting officers and authorities to **prevent irregular expenditure** was one of the most common material findings on compliance. We reported the findings on compliance as material at 89 departments (54%) (2015-16: 86 [52%]) and 60 public entities (26%) (2015-16: 65 [32%]), based on the fact that they incurred irregular expenditure in 2016-17 and the previous year, a recurrence of the transgressions that had caused such expenditure, and our assessment that adequate controls and processes would have prevented it.

Figure 1 also shows that we had identified 22% of the irregular expenditure of 2016-17 during the audit process (a slight improvement from the previous year), which means that some auditees **did not have adequate processes to detect and quantify all irregular expenditure**.

Completeness of irregular expenditure

In 2016-17, 98 auditees (25%) disclosed in their financial statements that they had incurred irregular expenditure, but the **full amount was not known** as it was still being investigated. In 2015-16, 88 auditees (24%) had made this disclosure.

A total of 28 auditees (7%) (2015-16: 29 [8%]) were qualified on the **completeness of the disclosure** of irregular expenditure in their financial statements, both in 2016-17 and 2015-16.

This means that the amount of irregular expenditure for 2016-17 **could have been higher** if the full amounts had been known and disclosed.

What caused these high levels of irregular expenditure?

As part of our audits of SCM in 2016-17, we tested 5 816 contracts (with an approximate value of R119 828 million) and 14 261 quotations (with an approximate value of R2 832 million), referred to as 'awards' in the rest of this report. Refer to section 17 for a description of the scope of our SCM audits.

Although not all non-compliance with SCM legislation results in irregular expenditure, the **high occurrence of irregular expenditure usually correlates with poor SCM practices**. There were slightly more auditees with SCM findings (282) than irregular expenditure in 2016-17, as – typically – SCM findings such as inadequate measures to monitor the performance of contractors would not result in irregular expenditure.

In total, R40 434 million (89%) (2015-16: 89%, R26 079 million) **of the irregular expenditure in 2016-17 was as a result of non-compliance with SCM legislation**. The following were the main areas of SCM non-compliance as disclosed by the auditees in their financial statements, with an indication of the estimated value of such expenditure:

- Procurement without a competitive bidding or quotation process – R14 958 million (37%) (2015-16: 43%, R11 259 million)
- Non-compliance with procurement process requirements – R21 489 million (53%) (2015-16: 50%, R12 968 million)
- Non-compliance with legislation relating to contract management – R3 987 million (10%) (2015-16: 7%, R1 852 million)

(We discuss the typical findings in these areas later on in this section.)

The **significant increase** in irregular expenditure from the previous year can be attributed to the auditees reporting on irregular expenditure to address prior year qualifications, poor consequence management, and inappropriate discretion by management (meaning that the accounting officers used their discretion to appoint targeted suppliers without following a competitive bidding process).

Table 1 shows the auditees that were the **main contributors (53%) to irregular expenditure in 2016-17**. The corresponding figures for 2015-16 are shown in *italics*.

Table 1: Highest contributors to irregular expenditure

Auditee	Amount (million)	Nature
Transport (KZN)	R3 952 <i>(2015-16: R477)</i>	A significant amount of the irregular expenditure related to a plant-hire contract for which the preference point system had not been applied. In some instances, deviations were approved even though it was not impractical to go through the competitive bidding process. Of this amount, R2 625 million related to prior years as an exercise was conducted to identify irregular expenditure from prior years. Of the R1 327 million relating to the current year, 55% (R727 million) related to plant hire while 23% (R307 million) related to the inappropriate deviation from procurement processes. Some of the payments for plant hire related to provincial roads maintenance grants.
Health (FS)	R3 502 <i>(2015-16: R466)</i>	Of the R3 502 million, R3 201 million (91,4%) was irregular expenditure identified to resolve prior year qualifications, while the remaining R301 million related to current year irregular expenditure. Procurement processes were incorrectly applied, as preference points were incorrectly calculated. In some instances, suppliers were incorrectly disqualified and functionality was not correctly determined. Some of these amounts related to money not spent in terms of conditional grants.
Health (KZN)	R3 025 <i>(2015-16: R2 521)</i>	Of this expenditure, R31 million related to the purchase of mobile units to be used for male circumcision. The full amount was funded from the HIV/Aids conditional grant. Most of this amount related to the prior year (i.e. R1 700 million). Included in this amount was R50,3 million paid to the Independent Development Trust, which acted as the implementing agent.
Human Settlements (KZN)	R2 888 <i>(2015-16: R6)</i>	Most of this amount related to the prior year (i.e. R2 328 million). Of the R560 million relating to the current year, almost 100% related to non-compliance with SCM legislation by municipalities regarding implementing agents on housing projects. Some of the irregular expenditure related to the human settlements development grant.
Roads and Transport (GP)	R2 380 <i>(2015-16: R2 032)</i>	The expenditure resulted from deviations from the competitive bidding process, R2 341 million (98%) of which related to the extension of a bus subsidy.
Health (GP)	R2 051 <i>(2015-16: R828)</i>	Of this expenditure, R597 million related to the extension or modification of contracts without appropriate approval while R491 million related to the procurement of construction contracts, security services as well as various contracts. Overall, 35% (R725 million) related to the payment of employee cost, as the budget for the compensation of employee cost was increased without approval by the provincial treasury.

Auditee	Amount (million)	Nature
Education (EC)	R1 873 (2015-16: R265)	The expenditure resulted from non-compliance across all SCM requirements, deviations from the SCM process as well as non-compliance with PFMA requirements when making transfers and paying subsidies. Most of this expenditure related to the prior year. Of the R784 million relating to the current year, 64% (R468 million) related to infrastructure.
Department of Water and Sanitation	R1 686 (2015-16: R1 711)	A total of R915 million of this expenditure related to non-compliance with SCM legislation by the implementing agent while R431 million related to the regional bulk infrastructure grant, water service infrastructure grant and sanitation contracts. Of this expenditure, R214 million was incurred on the supply, delivery and installation of a desalination plant for the drought-stricken Richards Bay.
Health (MP)	R1 642 (2015-16: R1 920)	The incorrect application of procurement processes, as preference points were incorrectly calculated in the prior year on a medical supplies contract, accounted for 94% of the irregular expenditure. A total of 4% of the irregular expenditure related to non-compliance on the implementing agents' contracts and 2% to the department's own SCM processes. Overall, 16% (R267 million) of the total irregular expenditure related to conditional grants.
Roads Agency Limpopo (LP)	R1 195 (2015-16: R49)	A total of 89% (R1 060 million) related to non-compliance with legislation that was identified in the current year relating to the prior year. The entity investigated and quantified the full extent of the non-compliance and adequately disclosed this amount in the year under review.

These auditees are among those that had **incurred irregular expenditure for the past four years**.

As apparent from table 1, most of the irregular expenditure of the top 10 contributors related to prior years, pointing to auditees performing detailed reviews to address prior year qualifications on irregular expenditure in some instances. We are concerned about the irregular spending of grant money by six of the top 10 contributors.

Implementing agents are increasingly being used to manage and implement projects on behalf of departments. The agents can be government institutions (e.g. the Independent Development Trust), non-governmental organisations or private sector entities. As can be seen in table 1, this was the cause of irregular expenditure by four of the top 10 contributors, Section 3 details findings relating to the management and delivery of key programmes (which include findings on selected grants and implementing agents).

We did not investigate the irregular expenditure, as that is the role of the accounting officer or authority. Through our normal audits, however, we confirmed that **goods and services were received** for R24 609 million (61%) of the R40 434 million in irregular expenditure relating to SCM non-compliance, despite the normal processes governing procurement not having been followed. However, we could not confirm that these goods and services had been procured at the best price and that value was received for the money spent. Our normal audits also confirmed that **goods and services were not received** for R123 million (<1%) of the R40 434 million in irregular expenditure relating to SCM non-compliance. We did not audit the remaining 38%.

Section 9.3 provides our findings on the poor investigation and follow-up of irregular expenditure and outlines recommendations to improve these processes.

Supply chain management

We have been auditing and reporting on weaknesses in SCM for a number of years and our messages have been consistent on the need to pay urgent and focused attention to improving the SCM processes.

Figure 2 depicts the number of auditees that had SCM findings and those where we have reported material findings on compliance in the audit report since 2013-14.

Figure 3 shows the status of SCM findings at departments and public entities, while table 2 illustrates the progress made with regard to auditees with no findings on SCM.

Figure 2: Status of supply chain management

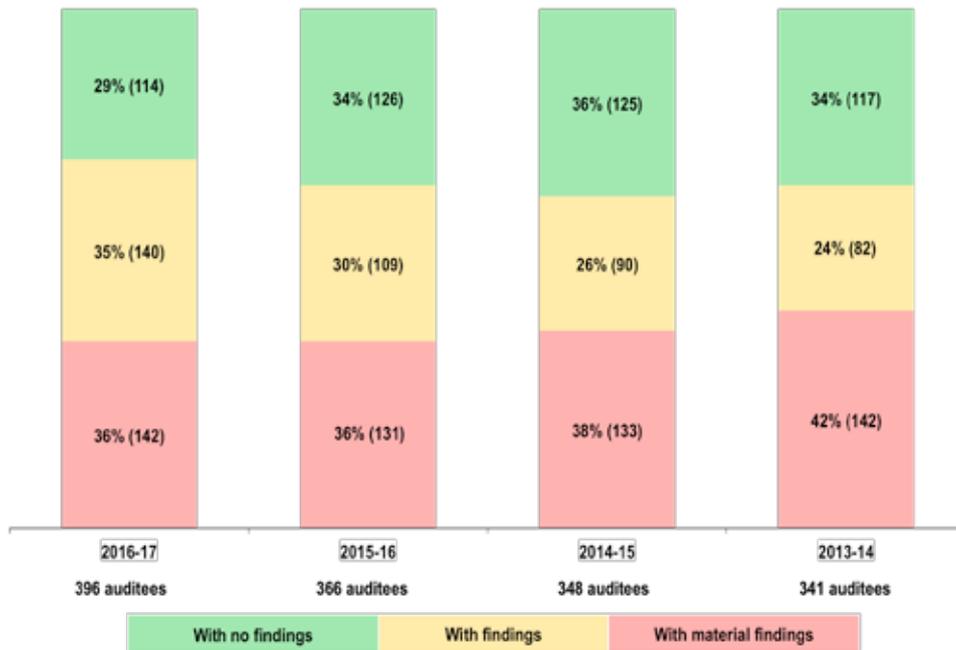


Figure 3: Status of supply chain management – departments and public entities

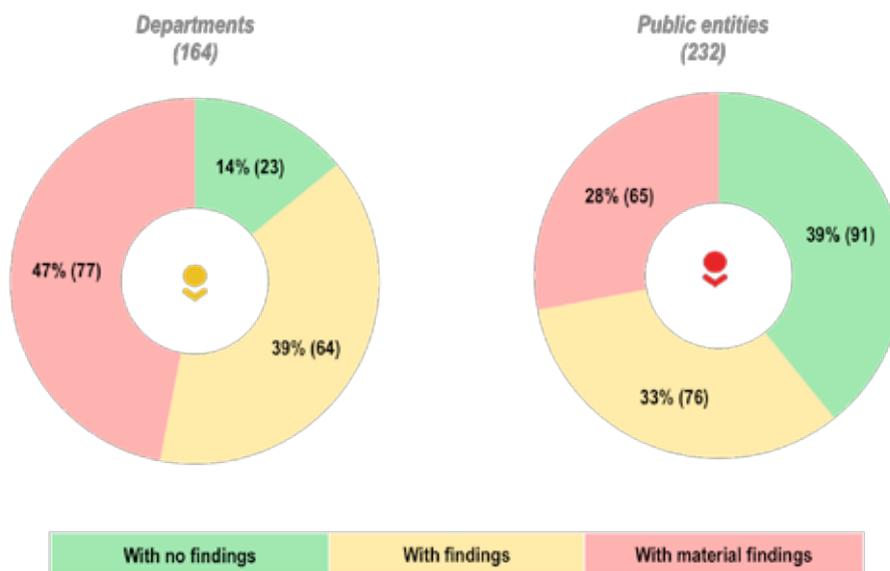


Table 2: Progress made with regard to supply chain management by national and provincial government

Portfolio	Auditees with no findings on supply chain management	
	Number	Movement from 2015-16
National auditees	76 (34%)	
Eastern Cape	4 (19%)	
Free State	1 (6%)	
Gauteng	10 (43%)	
KwaZulu-Natal	4 (17%)	
Limpopo	4 (19%)	
Mpumalanga	2 (12%)	
Northern Cape	1 (8%)	
North West	1 (5%)	
Western Cape	11 (58%)	
Total	114 (29%)	

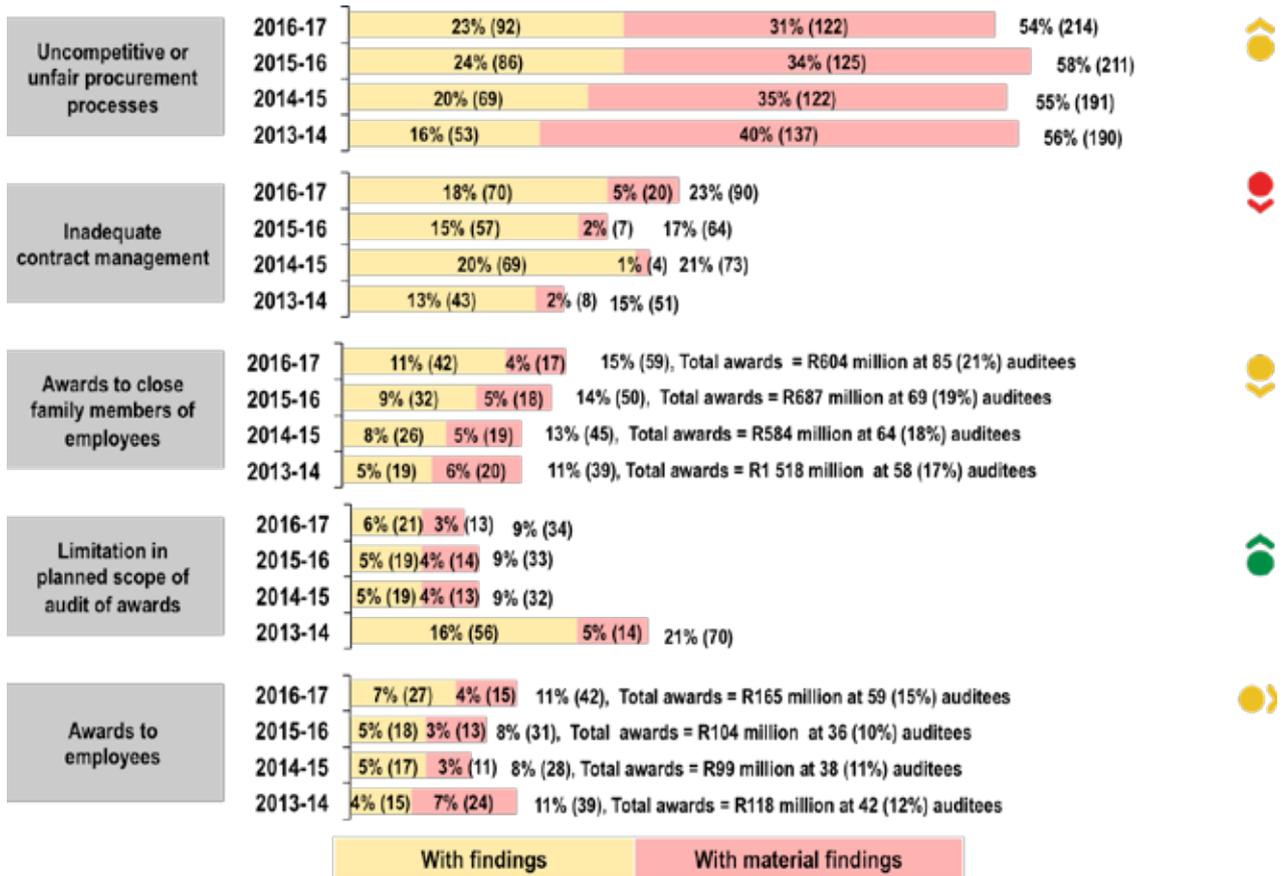
100

Slightly fewer auditees than in the previous year had no SCM findings. There had also been a slight regression in auditees with no SCM findings since 2013-14. National auditees and those in the Free State and KwaZulu-Natal had regressed since the previous year, while those in Limpopo and Mpumalanga had improved. The provinces with the poorest SCM practices were the Northern Cape, North West and the Free State.

Although the percentage of auditees with material findings had improved since 2013-14, it remains concerning that almost half of the departments did not comply materially with SCM legislation in 2016-17. It is also of great concern that the number of public entities with no SCM findings had regressed since the previous year – from 50% to 39%. Although the SCM findings at 35% of the auditees were not material enough to be reported in the audit report, the control weaknesses that allowed the non-compliance to occur should be addressed to prevent a regression in audit outcomes in future.

Figure 4 provides a four-year overview of all the SCM areas in which auditees had findings, the number of auditees where the findings raised were material enough to be reported in the audit report, as well as the extent of awards made to employees and close family members of employees. The movement is shown over the four years.

Figure 4: Findings on supply chain management



The level of total SCM findings (material plus non-material findings) had shown little movement in any of the SCM areas since 2013-14, except for the regression in the area of contract management and a significant reduction in the number of auditees where we experienced limitations in our audits.

Limitation in planned scope of audit

In 2016-17, we were unable to audit awards to the value of R1 870 million at 34 auditees because the auditees **could not provide us with evidence that awards had been made in accordance with the requirements of SCM legislation**, as the documentation either did not exist or could not be retrieved as a result of poor document management.

Table 3 lists the extent of limitations in national and provincial government over four years.

Table 3: Extent of limitations on planned audits

Portfolio	2016-17		2015-16		2014-15		2013-14		Movement from 2015-16
	Number of auditees	Amount R million							
National auditees	14	303	9	25	12	98	26	1 004	
Eastern Cape	2	2	2	357	0	0	8	68	
Free State	2	1	3	3	3	28	5	6	
Gauteng	2	56	3	183	1	6	4	10	
KwaZulu-Natal	3	929	3	1 239	4	51	4	10	
Limpopo	4	137	4	34	3	83	6	452	
Mpumalanga	0	0	3	17	5	345	4	19	
Northern Cape	3	405	1	81	1	137	4	9	
North West	4	37	5	587	3	536	8	515	
Western Cape	0	0	0	0	0	0	1	0	
Total	34	1 870	33	2 526	32	1 284	70	2 093	

102

While the number of auditees where limitations were experienced in 2016-17 had increased only slightly from the previous year, there was a more visible improvement in the Free State and Mpumalanga. The value of these limitations varied over the four years, as it depended on the value of the relevant contracts awarded in the year.

The auditees with the highest value of awards that we could not audit in 2016-17 were the following:

- Human Settlements (KwaZulu-Natal) – R894 million (2015-16: R1 220 million)
- Cooperative Governance, Human Settlements and Traditional Affairs (Northern Cape) – R360 million (2015-16: R80 million)
- SABC – R193 million (2015-16: amount undeterminable)
- Public Works, Roads and Infrastructure (Limpopo) – R94 million (2015-16: R0)
- Health (Gauteng) – R46 million (2015-16: R166 million)

These limitations had the following impact:

- The procurement processes could not be audited by us, the internal auditors or investigators.
- There was no evidence that auditees had followed a fair, transparent and competitive process for all awards. Should unsuccessful bidders request information on the process, also for possible litigation purposes, it would not be available.
- We could not determine whether these awards were irregular and, as a result, could not determine the true extent of irregular expenditure.
- Our general report, audit reports and management reports did not reflect the true extent of non-compliance with SCM, irregularities and possible fraud.
- Poor record management created an environment in which it was easy to commit and conceal improper or illegal conduct.

Awards to employees and close family members

As depicted in figure 4, awards to the value of R165 million (a total of 459 awards) were made to suppliers in which employees (including political office-bearers) had an interest at 59 auditees (15%) – a slight regression from the 36 auditees (10%) in the previous year. There had also been a slight regression since 2013-14. At five auditees (Mthashana TVET College, Umfolozi TVET College, Parliament of the Republic of South Africa, Northern Cape Provincial Legislature, and Wholesale and Retail Sector Education and Training Authority), awards were made to suppliers in which political office-bearers had an interest. Both directors and members of the accounting authority benefited from this undesirable practice at two auditees each. The value of these awards varied over the four years, as it depended on the value of the relevant contracts awarded in the year.

At 85 auditees (21%), awards to the value of R604 million (a total of 1 017 awards) were made to suppliers in which close family members of employees had an interest – a slight regression from the previous year as well as since 2013-14.

We identify suppliers in which employees or their close family members have an interest through basic data analysis. This analysis has its limitations; for example, we can only test registered companies and we do not have information on all family members, so it is likely that the extent of awards to employees and close family members could be even greater.

There had been little movement in the number of auditees **with findings on awards to suppliers in which employees or their close family members had an interest**. As auditees are not prohibited by current legislation to make such awards, the compliance findings we raised related to employees and suppliers not declaring their financial interests, including the following:

- Suppliers owned or managed by employees of auditees made **false declarations** in awards of R106 million at 12 auditees. Those owned by close family members of employees made false declarations in awards of R178 million at 34 auditees.
- In total, 16 **auditees did not request declarations of interest** as part of the procurement process as required by legislation and as a result did not identify that employees had an interest in awards of R10 million and close family members in awards of R111 million.
- At 31 auditees, **employees failed to declare their own interest** in awards of R54 million either as part of the procurement processes or through annual declarations. At 44 auditees, **employees failed to declare their family members' interest** in awards of R274 million.

These findings were most common in national government (27 auditees) and North West (nine auditees). The sectors that had the most of these findings were health (seven auditees) and education (six auditees).

The possibility of **undue influence** cannot be discounted, especially if the person, including SCM officials, could have influenced the procurement processes for these awards, which could have created opportunities for irregularities.

We again point out that a **failure by suppliers to declare the interest of employees constitutes a fraudulent act**, which should be investigated and dealt with in accordance with legislation. Section 9.3 provides more information on how auditees have dealt with this in the last four years.

Although there is no legislation that prohibits making awards to suppliers in which state officials have an interest, the **amended Public Service Regulations prohibit employees of departments from doing business with the state** from 1 August 2016. The regulations allowed employees that were doing business with the state on 1 August 2016 time until February 2017 to stop the business or resign as an employee.

In the first year of auditing this specific regulation, we found the following at 44 departments:

- Overall, 698 employees at 24 departments took **no action in this transitional period and continued doing business with the state**. Of these employees, 32 were doing business with the department that employs them (at five departments, awards to the value of R16 million were

secured) and 666 were doing business with other organs of state (at 21 departments, awards to the value of R120 million were secured).

- In addition, 649 employees at 32 departments **secured new awards after 1 August 2016**, even though it is prohibited. Of these employees, 132 found new business with the department that employs them (at 15 departments, awards to the value of R18 million were secured) and 517 with other organs of state (at 23 departments, awards to the value of R108 million were secured).

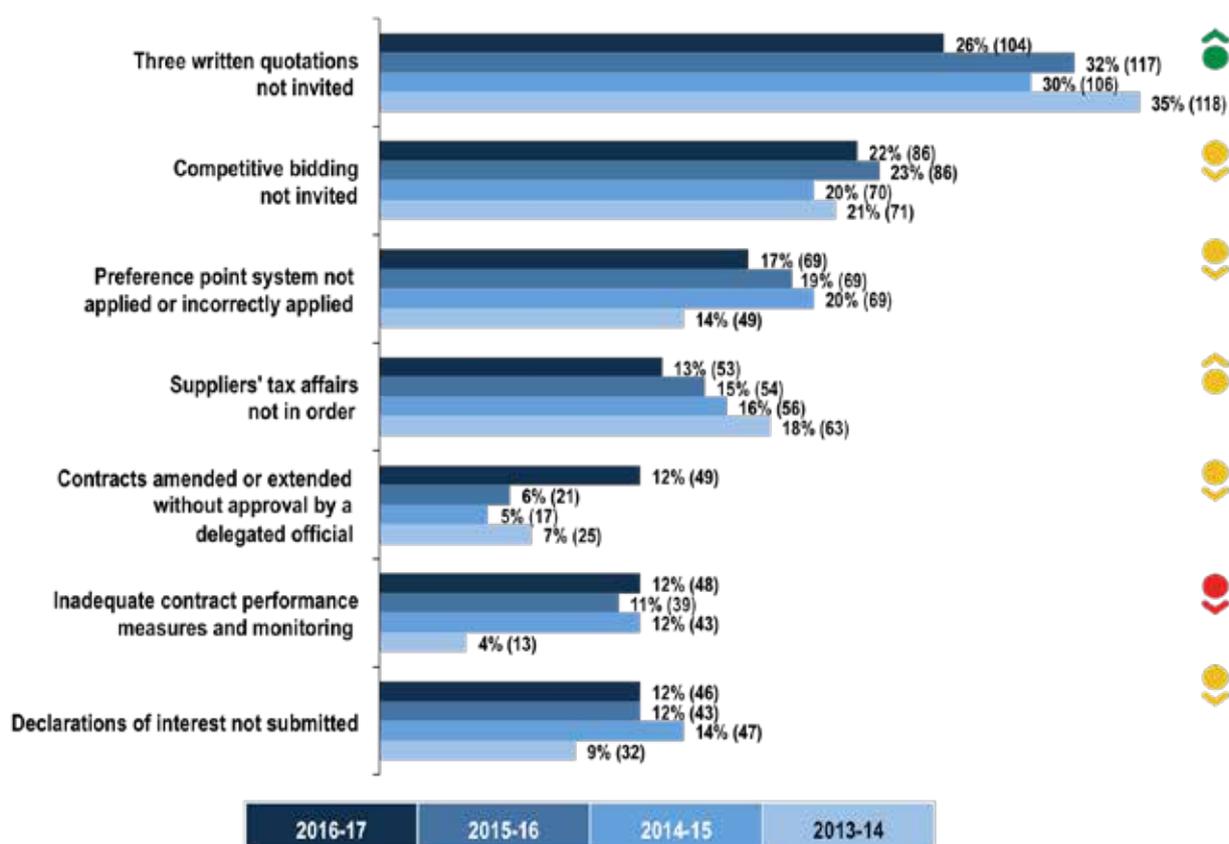
These findings were most common in national government (12 departments) and North West (eight departments). The sectors that had the most of these findings were education (seven auditees) and public works (three auditees).

The onus of complying with these regulations is on the employees of departments, but departments have a responsibility to enable and monitor such compliance. Based on the findings in just the first six months of implementation, it seems that this responsibility is not being given the attention it deserves.

Procurement processes and contract management

Figure 5 provides a four-year overview of the most common findings on procurement processes and contract management – all of which have a potential negative financial impact. All, except the findings on inadequate performance measures, lead to irregular expenditure. The movement is shown over four years.

Figure 5: Most common findings on procurement processes and contract management



The most common findings for the past four years related to **deviations from the prescribed procurement processes**. Three written quotations or competitive bids were not invited to enable the selection of a supplier based on a competitive and fair process. Although such deviations are allowed, we found that it had often not been approved; or, if approved, the deviation was not reasonable or justified. This points to the inappropriate use of management discretion in the procurement process. In some instances, the accounting officers used their discretion to appoint targeted suppliers without ensuring compliance with legislation.



The following are examples of such inappropriate discretion:

Public Works and Roads in North West deviated from the prescribed procurement processes and participated in a contract arranged by another organ of state, which is allowed by legislation. However, this contract was awarded by a municipality for its water programme, while the department used the consulting engineers for its road programme. The department also added a clause to the contract to use the consultant for any other work they may deem necessary and then awarded a further contract of R103 million to the same supplier in terms of this clause for the rehabilitation of flood-damaged roads. Payments were made on this contract without any service having been rendered by the date of payment.

The Department of Water and Sanitation appointed an implementing agent, as instructed by a ministerial directive, on a multi-year infrastructure project. The latter then proceeded to award a contract of R94 million without following proper procurement processes, stating the reason for the deviation as an emergency due to the unavailability of water and the drought experienced. However, subsequent to the initial emergency being addressed, this basis of emergency procurement continued to be utilised as a reason to add additional multi-year infrastructure projects, increasing the related projects to current expenditure of R2,2 billion, with future additional commitments of R10,8 billion. Had the additional projects been appropriately planned for, the emergency basis would not have been used to deviate from procurement processes.

In North West, the awards for various cluster security contracts were not made to the bidders recommended by the departmental bid adjudication committee. The accounting officer of Health deviated by appointing various other security companies that had not been recommended. His motivation was that preference should be given to local suppliers to be in line with the province's objective of VTSD (promoting business in villages, townships and small *dorpië's*) and that some suppliers would not have the resources to provide services for all the clusters recommended by the bid adjudication committee. None of these reasons could be substantiated with evidence.

In the Eastern Cape, a printing tender of R125 million was awarded where the bid specifications were restricted through the inclusion of criteria related to the turnover and location of the printer, which effectively excluded all other printing companies that wanted to tender.

There had been an **improvement in the quotation processes** since the previous year and over the four-year period, which could be a sign of processes maturing and in particular as a result of the introduction of the central supplier database. However, the performance measures and monitoring of contracts are not showing improvement and we are concerned that the number of auditees where contracts were amended or extended without approval had doubled from the previous year. **Contract management is an area of poor control** that directly affects the delivery by the supplier and ultimately the success of government projects.

The Preferential Procurement Regulations make provision for the **promotion of local production and content**. These regulations are aimed at supporting socio-economic transformation. In 2015-16, we reported non-compliance with the regulations at 20 auditees and committed to increase our audit focus on this important government initiative. In 2016-17, we identified procurement in the designated sectors and **tested 91 contracts (with an approximate value of R1 068 million) and 1 788 quotations (with an approximate value of R99 million)** to determine whether it took place in accordance with the legislative requirements of procuring certain commodities from local producers.

Table 4 shows the extent of our findings in 2016-17.

Table 4: Local content findings

Portfolio	Total auditees where local content was tested	With findings	With material findings	Total local content findings
National auditees	38	9	9	18 (47%)
Eastern Cape	7	1	0	1 (14%)
Free State	2	1	0	1 (50%)
Gauteng	3	0	0	0 (0%)
KwaZulu-Natal	6	0	3	3 (50%)
Limpopo	7	3	1	4 (57%)
Mpumalanga	10	0	5	5 (50%)
Northern Cape	3	0	2	2 (67%)
North West	2	0	1	1 (50%)
Western Cape	13	4	0	4 (31%)
Total	91	18 (20%)	21 (23%)	39 (43%)

106

The 43% of auditees that did not comply with the requirements demonstrated a **lack of understanding and awareness** of the requirements and even a disregard for them, which could result in government not achieving the objectives of this initiative.

The SCM weaknesses require immediate and focused action to ensure that the principles of fairness, transparency, completeness, equity and cost-effectiveness in procurement processes are consistently applied, and to address the very high amounts of irregular expenditure incurred annually.



We propose the following recommendations to improve SCM, which will also reduce the irregular expenditure incurred:

- Strengthen the **SCM control environment** by appointing suitably skilled and qualified heads of SCM units where vacancies exist and conduct regular training to improve skills (**DO**).
- Focus on **preventing irregular expenditure and non-compliance** – this should be a key performance measure in senior officials' contracts (**DO**).
- Implement **SCM compliance checklists** to supplement policies and procedures (**DO**).
- Submit **regular reports** to management and governance structures on compliance with key legislation (**CHECK**).
- A **less tolerant approach** by all parties, including those charged with governance and oversight, will result in accountability and consequences being enforced against those who intentionally fail to comply with legislation (**CHECK**).
- Institute **corrective or disciplinary** action for misconduct (**ACT**).



On our website, annexure 1 shows the auditees that had incurred irregular expenditure, while annexure 2 lists those with findings on SCM.