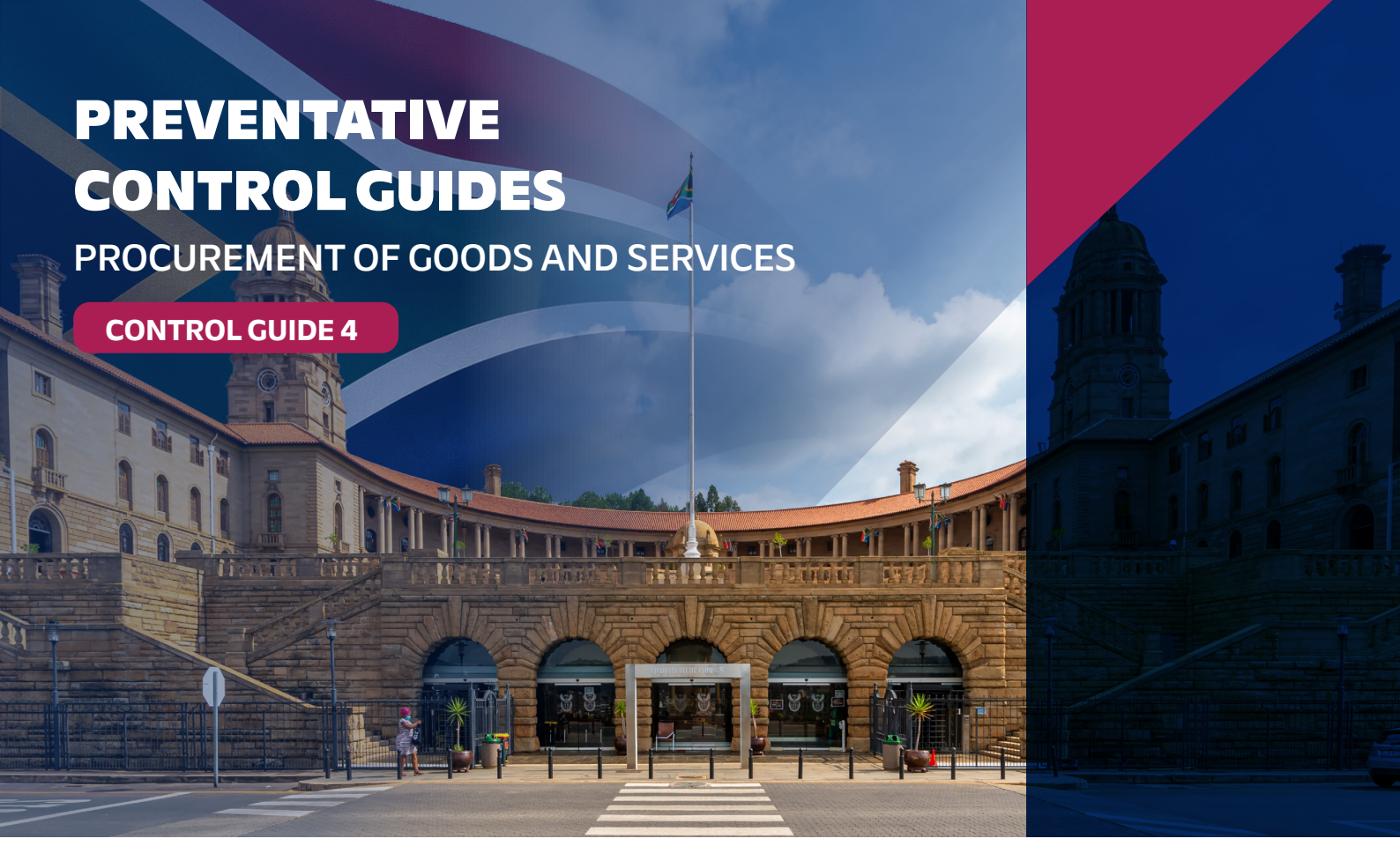
PREVENTATIVE CONTROL GUIDES

PROCUREMENT OF GOODS AND SERVICES

CONTROL GUIDE 4



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AUDITOR-GENERAL SOUTH AFRICA

115 YEARS 1911 - 2026

PREVENTATIVE CONTROL GUIDES

This guide forms part of a series of preventative control guides developed to support a stronger system of accountability. The series of guides provides practical insights to help leadership, management and oversight structures strengthen governance, effectively manage risks and create environments where accountability can thrive.

GUIDE 4: PROCUREMENT OF GOODS AND SERVICES

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Ensure proper planning to reduce delivery delays and unnecessary costs
Implement project management to ensure infrastructure is completed timeously, within budget and at required quality
Enable the timely commissioning and utilisation of quality infrastructure

What this guide is about

The importance of public procurement is illustrated by the fact that it has been afforded constitutional status.

Section 217 of the Constitution requires public sector institutions to contract for goods and services in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. To give effect to this requirement, legislation is in place to regulate public procurement, including the Public Finance Management Act and the Municipal Finance Management Act together with their regulations.

Many public sector institutions are not complying with procurement legislation, as evidenced by the prevalence of irregular expenditure across all spheres of government and the Auditor-General of South Africa's (AGSA) findings on procurement. Poor decisions in managing procurement, the abuse of systems and fraud lead to significant financial losses and the inability to deliver on government programmes, thereby affecting our country's citizens directly.

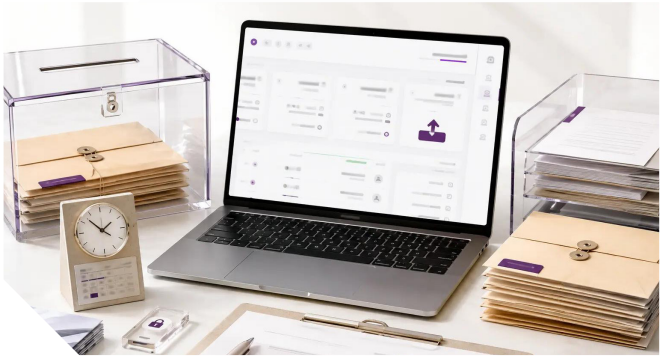
The process of inviting competitive bids, evaluating the bids received and awarding the contracts is well described in legislation and the guidance issued by the National Treasury.

Institutions generally have supply chain management policies and procedures in place and have the required delegation frameworks, structures and committees to enable a controlled process.

However, weaknesses arise when the standard procurement process is not followed or deviations are allowed.

This guide deals with the key preventative controls that should be in place at public sector institutions to reduce risks in the procurement of goods and services.

Oversight structures and executive authorities can use this guide to require assurance from accounting officers and authorities that these preventative controls have been implemented and are working effectively – this is presented as questions to ask the accounting officers and authorities.



Controls accounting officers and authorities should implement

Institutions must have an annual procurement plan, approved by the accounting officers and authorities, which includes detail on all the procurement requiring a competitive bidding process in that year and the timing thereof. Procurement should take place in accordance with the plan and any amendments should be approved by the accounting officers and authorities.

Departments and public entities submit the plans to the relevant treasury by 31 March of each year and progress against the plans is reported on a quarterly basis. Provincial treasuries can also request the plans of municipalities and municipal entities.

Questions oversight structures and executive authorities could ask to obtain assurance

1. Was an annual procurement plan developed?
2. What processes are in place to ensure alignment between the procurement plan, the budget and the annual performance plan?
3. Did the accounting officers and authorities approve the plan and any amendments thereto?
4. How is the plan monitored – who is responsible for monitoring and how are deviations from the plan dealt with?
5. Does procurement take place in accordance with the plan? If not, what actions are being taken to address any non-adherence?
6. If it was found that the institution did not follow a competitive bidding process for contracts (i.e. there were deviations), contracts were extended, variations were done, or projects were delayed or not delivered as a result of poor procurement processes:
   a. Was the procurement included in the procurement plan?
   b. Why did the procurement not take place in accordance with the plan?



Why it is important

Proper planning reduces delivery delays, eradicates recurring contracts and unnecessary extensions, and eliminates the need for emergency procurement. Poor demand and procurement planning results in the inadequate development of specifications, wrong decisions about the items to be procured, and unrealistic cost estimates.

Applicable legislation

Section 38(1)(a)(i) of the Public Finance Management Act states that the accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Section 51(1)(a)(i) of the Public Finance Management Act prescribes similar requirements for an accounting authority of a public entity.

SCM Instruction Note 2 of 2016/17 issued by the National Treasury makes it mandatory for departments and public entities to plan for their procurement.

MFMA Circular No. 62 dated 20 August 2012 provides guidelines on the implementation of demand management and the submission of procurement plans at local government level.

Learn more about this control here

National Treasury website:

- SCM Instruction Note 2 of 2016/17: Procurement Plans - Submission and Reporting
- MFMA Circular No. 62 dated 20 August 2012: Supply Chain Management: Enhancing Compliance and Accountability

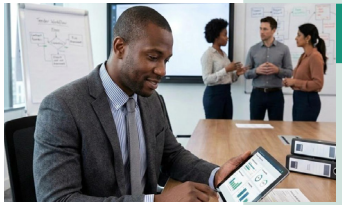
Controls accounting officers and authorities should implement

Institutions should have adequate capacity and the required skills in place. This means that:

- The tasks, roles and resources required for the supply chain management function have been defined and the institution's establishment is reflective of the capacity required.
- The positions of key officials (e.g. the head of the supply chain management unit) are filled and there is a low vacancy rate in the unit.
- The competence and skills requirements for supply chain management officials are defined and recruitment is done in accordance with these requirements. Any competency gaps are identified and addressed through training and/or other development processes.
- The required competence and skills of those officials not in the supply chain management unit but involved in its processes (e.g. members of bid committees) are also clearly defined and any gaps are addressed.
- All officials involved in the supply chain management processes are informed of, and trained on, the latest developments in supply chain management, including all legislation, instructions, practice notes and guidance from the National Treasury as well as any other reforms.

Questions oversight structures and executive authorities could ask to obtain assurance

1. How were the number and type of resources determined for the supply chain management unit? Are these sufficient?
2. Is the position of the head of the supply chain management unit filled? What is the vacancy rate in the unit? What actions are being taken to address vacancies?
3. Were the required competence and skills of every position in the supply chain management unit defined, and on what were these based? What gaps have been identified and how are these being addressed?
4. Were the required competence and skills of non-supply chain management officials involved in supply chain management processes determined? What are the requirements for officials involved in the bid specification, evaluation and adjudication committees? What are the requirements for officials in the different units responsible for procuring goods and services through a quotation process?
5. Is there a specific training curriculum to ensure that officials understand and can apply the supply chain management policy and its processes?
6. How is the training kept up to date with latest developments?
7. How is it ensured that all new supply chain management developments and reforms are communicated within the institution and that those responsible for implementation have been trained?
8. If there were recent changes in supply chain management legislation or new reforms, processes or controls from the National Treasury or provincial treasuries, questions can be asked specifically on how these were disseminated and implemented at the institution.



Why it is important

Adequate capacity and skills ensure that the right decisions are made; correct processes are followed; and sufficient segregation of duties, supervision, review and monitoring are built into the procurement process.

Officials often claim ignorance of legislative requirements or reforms that need to be implemented – continuous updates and training are therefore required for officials to keep up to date with such changes.

Applicable legislation and guidance

Treasury regulation 16A.5.1 (applicable to departments, constitutional institutions and schedule 3A and 3C public entities) states that accounting officers and authorities must ensure that officials implementing the institution's supply chain management system are trained and deployed in accordance with the requirements of the Framework for Minimum Training and Development issued by the National Treasury.

Section 119(1) of the Municipal Finance Management Act states that the accounting officer and all other officials of a municipality or municipal entity involved in the implementation of the supply chain management policy of the municipality or municipal entity must meet the prescribed competency levels.

Municipal supply chain management regulation 8 further states that the training of officials involved in implementing a supply chain management policy should be in accordance with any treasury guidelines on supply chain management training.

Learn more about this control here

National Treasury website:

- Supply Chain Management: A Guide for Accounting Officers of Municipalities and Municipal Entities
- Supply Chain Management: A Guide for Accounting Officers/Authorities — Public Finance Management Act
- Chapter 6 of the Municipal Regulations on Minimum Competency Levels
- Public Service Regulation 74: Institutional Arrangements Regarding Education, Training and Development
- Practice Note Number SCM 5 of 2004: Training of the Supply Chain Management Officials
- Practice Note Number SCM 4 of 2003: Code of Conduct for Supply Chain Management Practitioners
- MFMA Circular No. 47 dated 13 February 2009: Capacity Building and Training

Controls accounting officers and authorities should implement

- The institution should have well-established, effective and standardised processes for the procurement of goods and services. Officials should understand how procurement must be done and should be enabled to execute their duties consistently and effectively in a manner that complies with the constitutional pillars of procurement (i.e. fair, equitable, transparent, competitive and cost-effective).
- The starting point is always a supply chain management policy that is comprehensive enough to cover all the typical procurement done by the institution but also deals with non-routine matters such as emergency procurement. The policy should be reviewed and updated regularly to ensure that it remains relevant and covers new risks identified.
- Documented standard operating procedures for all types of procurement in line with the policy are required, with specific responsibilities to enable officials to understand what they are responsible for, including their responsibility for controls and how to perform their functions.
- Automating procurement processes is an effective and proven way of ensuring a consistent and thorough approach in line with the operating procedures. Where automation is not possible, checklists should be developed and applied from the start of the process until the contract is awarded. Such checklists should be kept as an audit trail.
- Standard templates, registers and filing/recording methods also assist officials to work in a fast, efficient and consistent manner.
- Technical support should be available to officials if they are unsure or come across complex issues. Reaching out to the treasuries for support before a decision is made is more effective than seeking their support after a poor decision has already been made.
- Comprehensive and standardised documentation of all procurement activities and events should be implemented and maintained to ensure proper record-keeping of procurement transactions and decisions, while providing a complete audit trail that supports efficient and effective annual audits.

Questions oversight structures and executive authorities could ask to obtain assurance

1. When last was the supply chain management policy reviewed and updated?
2. Does the policy cover all types of procurement and areas of risk, including emergency procurement, using a sole supplier, deviations from the procurement process, unsolicited bids, extensions and variations on contracts?
3. Are there documented standard operating procedures for all types of procurement in line with the policy?
4. Are the responsibilities of officials involved in the procurement process documented, including the controls for which they are responsible? Do they understand what they are responsible for and how to perform their functions? What specific measures are taken to ensure their level of understanding?
5. What tools (e.g. automation, checklists and templates) have been implemented at the institution to enable a consistent and thorough procurement process that reduces the risk of human error?
6. What technical support is available to officials if they are unsure or come across complex issues?
7. If it was found that there were failures in the procurement process of the institution resulting in irregular expenditure:
   a. What do the policy and procedures prescribe on this matter?
   b. Why did the standard procurement process and controls fail?
   c. What actions are being taken to improve the controls?
8. The chair of the audit committee and the head of the internal audit unit can be requested to share their reports and assessments on the effectiveness and standardisation of the procurement process of the institution.



Why it is important

The supply chain management unit, members of committees and officials delegated to make decisions have a multitude of matters to consider and check.

The processes can be quite complex and lengthy, lending itself to human error and the risk of manipulation. Well-established, effective and standardised processes for the procurement of goods and services are therefore necessary.

Applicable legislation

Section 38(1)(a)(iii) of the Public Finance Management Act states that the accounting officer for a department, trading entity or constitutional institution must ensure that it has and maintains an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective. Section 51(1)(a)(iii) of the Public Finance Management Act prescribes similar requirements for the accounting authority of a public entity.

Treasury regulation 16A3.1 stipulates that the accounting officer or authority of an institution to which these regulations apply must develop and implement an effective and efficient supply chain management system in his or her institution for the acquisition of goods and services and the disposal and letting of state assets, including the disposal of goods no longer required.

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



Learn more about this control here

National Treasury website:

- Supply Chain Management: A Guide for Accounting Officers of Municipalities and Municipal Entities
- Supply Chain Management: A Guide for Accounting Officers/Authorities — Public Finance Management Act
- MFMA Circular No. 62 dated 20 August 2012: Supply Chain Management: Enhancing Compliance and Accountability
- Municipal Supply Chain Management Regulations, which are very prescriptive in terms of the procurement processes to follow at local government level

Controls accounting officers and authorities should implement

Even good procurement processes can fail as a result of undue influence in the process or officials not acting in good faith as they have a personal or financial interest in the process.

To safeguard the procurement process against conflicts of interest, the institution should:

- Define clearly (in a policy) what a conflict of interest entails in accordance with the applicable legislation, and ensure awareness and understanding of this across the institution.
- Design and implement processes whereby all officials annually declare their business interests and update the declaration throughout the year as circumstances change. Any official who did not complete such declarations should be identified and charged with misconduct.
- Have a process in place to test whether officials declared all of their interests – this can be done for specific officials with significant influence in the procurement process and on a sample basis for other officials.
- Ensure that business and personal interests of officials that could potentially create a conflict of interest are identified from the declarations made and the required safeguards are put in place to prevent them from having any influence on such a procurement process.
- Require all officials and persons from outside the institution (e.g. experts) who are part of a procurement process to declare whether they might have potential conflicts of interest. This should be standard practice at the meetings of bid specification, evaluation and adjudication committees as well as meetings of the accounting authority (e.g. board of directors) where procurement decisions are made.
- Include independent persons in the evaluation and adjudication committees for high-value procurement to reduce the risk of undue influence or pressure on members to favour certain suppliers. These include risk officers, internal auditors, treasury officials or experts from outside the institution.
- Require all suppliers to declare whether any state official, political office-bearer or any person involved in the procurement process has an interest in the supplier (business or personal) as a prerequisite for accepting their bid.
- Implement standard tests whereby possible conflicts of interest are identified for specific suppliers. This includes checking available information from treasuries on persons employed in the state and publicly available databases such as that of the Companies and Intellectual Property Commission.
- Implement mechanisms for officials, suppliers and other roleplayers to report any undue influence, fraud, unfair processes or other abuses of the system. The mechanisms must be strong in the areas of investigating all complaints/allegations and implementing remedial action.

Questions oversight structures and executive authorities could ask to obtain assurance

1. What percentage of officials of the institution completed their annual declaration of interest? What steps are being taken to address the outstanding declarations?
2. What process is followed to verify whether officials declared all of their interests? What have been the general findings from the verification process?
3. Were any business or personal interests identified that could potentially create a conflict of interest? What safeguards were put in place to prevent officials with such interests from having any influence on a related procurement process?
4. Is the declaration of conflicts of interest in procurement processes a standard practice? How has it been implemented and has it proven to be successful?
5. Explain the membership of the bid specification, evaluation and adjudication committees as defined in the supply chain management policy as well as the terms of reference of the committees. How are the members safeguarded from undue influence or pressure to favour certain suppliers, or prevented from doing so themselves?
6. Are prospective suppliers required to declare whether any state official, political office-bearer or any person involved in the procurement process has an interest in the supplier (business or personal) as a prerequisite for accepting their bid? How is 100% compliance with this requirement ensured?
7. What actions are taken to check whether suppliers declared all interests; in other words, how is the validity of their declarations verified?
8. What mechanisms are in place for officials, suppliers and other roleplayers to report any undue influence, fraud, unfair processes or other abuses of the system? Request reports on the number of allegations/complaints reported, the steps taken to investigate and deal with them, and the timelines involved. Where the complaint was found to be valid, what was done to remedy the matter?
9. If it was found that there were unfair or uncompetitive procurement processes at the institution as a result of conflicts of interest:

   a. Which preventative control failed?

   b. What actions are being taken to improve the control?



Why it is important

Undue influence in the procurement process and the favouring of certain suppliers to the exclusion of others increase the risk of suppliers being awarded contracts on which they then cannot deliver and institutions paying too much for goods and services, resulting in value for money not being obtained and projects failing. The procurement process should therefore be safeguarded against conflicts of interest to prevent fraud and the abuse of the supply chain management system.

Applicable legislation

Section 50(1)(b) of the Public Finance Management Act (applicable to all public entities) states that an accounting authority must act with fidelity, honesty, integrity and in the best interest of the public entity in managing the financial affairs of the public entity.

Treasury regulation 16A.8.1 (applicable to departments, constitutional institutions and schedule 3A and 3C public entities) states that all officials and other roleplayers in a supply chain management system must comply with the highest ethical standards. Treasury regulation 16A.8.3(a) further states that a supply chain management official or other roleplayer must recognise and disclose any conflict of interest that may arise.

Section 117 of the Municipal Finance Management Act explicitly states that councillors are prohibited from serving on municipal tender committees, while section 118 of the Municipal Finance Management Act further prohibits interference with the supply chain management system, including amending or tampering with any tender, quotation, contract or bid after submission.

Section 112(1)(j) of the Municipal Finance Management Act requires the compulsory disclosure of any conflicts of interest that prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders.

Learn more about this control here

National Treasury website:

- General Procurement Guidelines
- Supply Chain Management: A Guide for Accounting Officers of Municipalities and Municipal Entities
- Supply Chain Management: A Guide for Accounting Officers/Authorities — Public Finance Management Act
- Practice Note Number SCM 4 of 2003: Code of Conduct for Supply Chain Management Practitioners
- PFMA SCM Instruction No. 3 of 2021/22: Declaration of Interest: Amendment and Augmentation of Standard Bidding Document (SBD 4)
- MFMA Circular No. 62 dated 20 August 2012: Supply Chain Management: Enhancing Compliance and Accountability
- PFMA SCM Instruction No. 3 of 2021/22: Enhancing Compliance Monitoring and Improving Transparency and Accountability in Supply Chain Management
- Municipal Supply Chain Management Regulations 44, 45, and 46

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