

**IMFO AUDIT & RISK INDABA**

***GOOD GOVERNANCE: THE KEY TO SUSTAINABLE SERVICE DELIVERY***

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## **Auditing of Supply Chain in Municipalities**

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## My starting points

1. SCM is a major instrument of service delivery
2. SCM has a direct impact on most elements of operational and capital expenditure
3. SCM poses arguably the highest fraud risk in government institutions



# Reflections on previous presentations

KEY SCM ISSUE	PRESENTER
We must strike a balance between clean audit and service delivery/ financial viability	Louis Miller
There should be strategic spending and strong budgetary performance	Deputy mayor
There should be a right balance between financial audits and performance audits	MEC
Are Auditors focusing on the right issues	Vice president
Poor CAPEX implementation We must identify and cost service delivery backlogs	MEC Krish Kumar
Risk management is the core of achieving objectives	Christopher Whitle
Municipalities fail because of unreliable data with no early warning systems	Presidency
We are reactive in fraud management	Jonathan



# The AG perspective.....

1. Clean Audit =
  - Has the municipality fairly presented its finances
  - Has the municipality accounted correctly on service delivery indicators
  - Has municipality complied with laws and regulations
2. You can have a clean audit in a financially distressed municipality

## **Conclusions:**

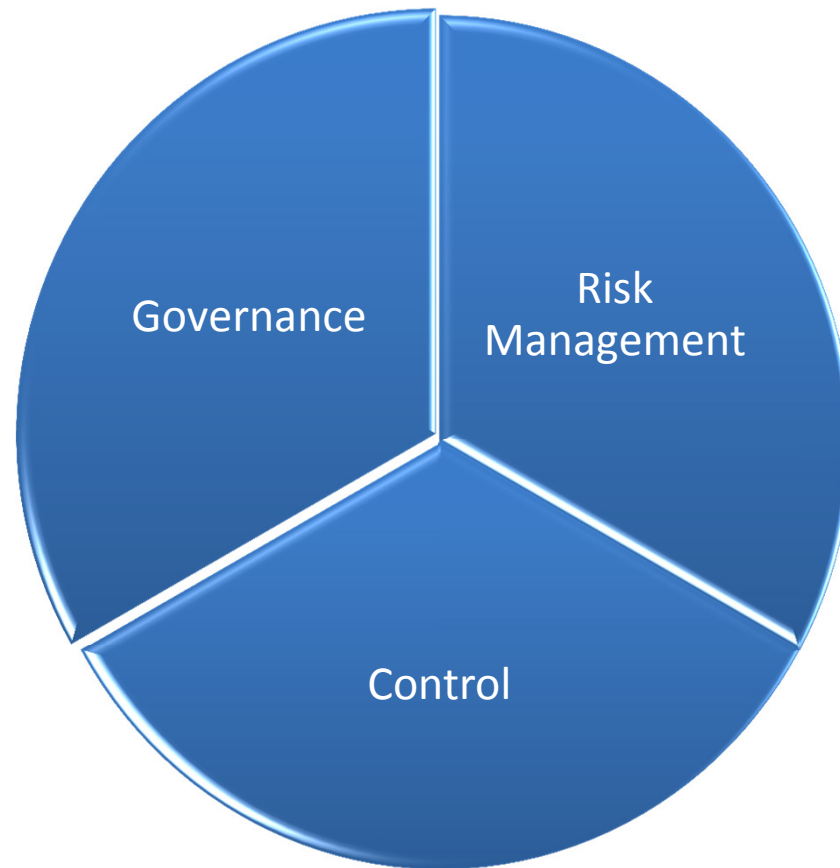
An external audit report is not a yardstick for service delivery performance

A clean audit is not a measure of effective and efficient SCM performance



# The role of internal Audit

To provide assurance and consulting Activity on SCM....



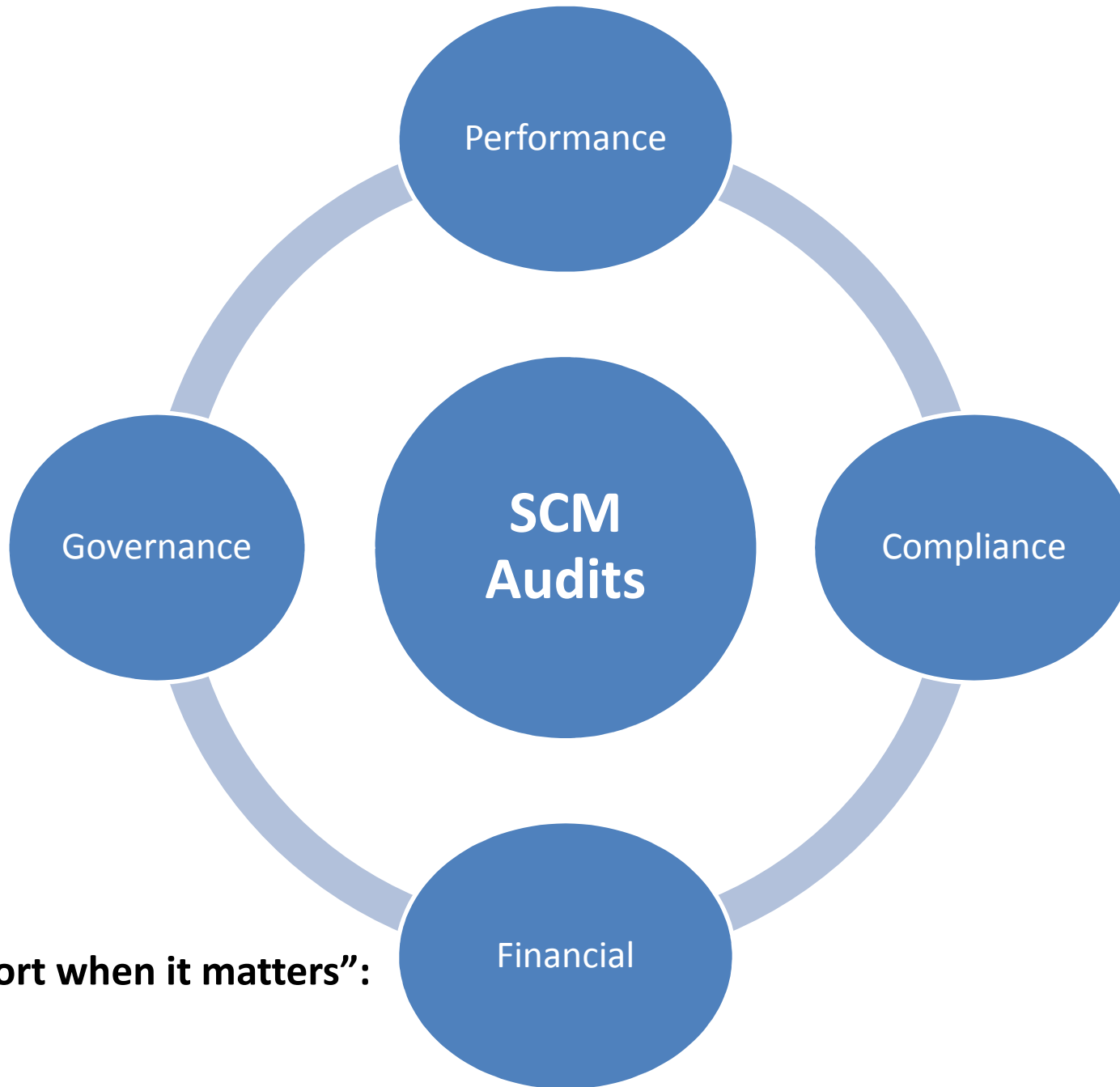
..... Processes within a municipality



## **Are there processes to ensure that:**

1. SCM achieves the broader service delivery mandate of the municipality
2. SCM finance and operational information is reliable and adequate
3. SCM is conducted Efficiently, Economically and Effectively
4. SCM is discharged in compliance with laws, policies and regulations





**“To report when it matters”:**  
*KPMG*



# Governance

- Tone at the top: Tolerance to non performance
- Integrating SCM to performance management
- Adequacy and reliability of SCM/ Service delivery information
- Management of conflicts of interest
- Effectiveness of SCM delegations
- Effectiveness of the SCM structures, including committees
- Management of deviations to set policies, laws, etc
- Management of reported fraud and non - compliance



# Risk Management

- Is SCM integrated in the RM process of the municipality
- Are SCM risks valid, accurate and complete
- Is the proposed RM strategy effective
- Is SCM cost/beneficial
- Is the SCM aspect of the Risk Profile inclusive of fraud risks
- Are the SCM risk management reports adequate and accurate
- Are the risk management structures effective and efficient



# Control

*I suspect Internal Audit is quite expertised in this.....*



- Does the municipality comply with laws and regulations




- Are there adequate and effective segregation of duties



- Is the SCM cycle adequately controlled (Timing and effectiveness)



- Specific focus on Demand and Acquisition management



- Does the municipality adequately and accurately report on irregular, fruitless and wasteful expenditure coming out of SCM



## In conclusion

- Focusing only on compliance adds half the value
- Focusing only on acquisitions is potentially misleading
- Piecemeal reporting can erode value-add

We can contribute to sustainable service delivery through effective Internal Audit

THANK YOU

