



**KWAZULU-NATAL**  
PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA



# PROCUREMENT FRAUD AND FORENSIC AUDITING: LESSONS FROM REAL CASES

## 9th Special Edition of The National Public Sector Supply Chain Process Audit Convention

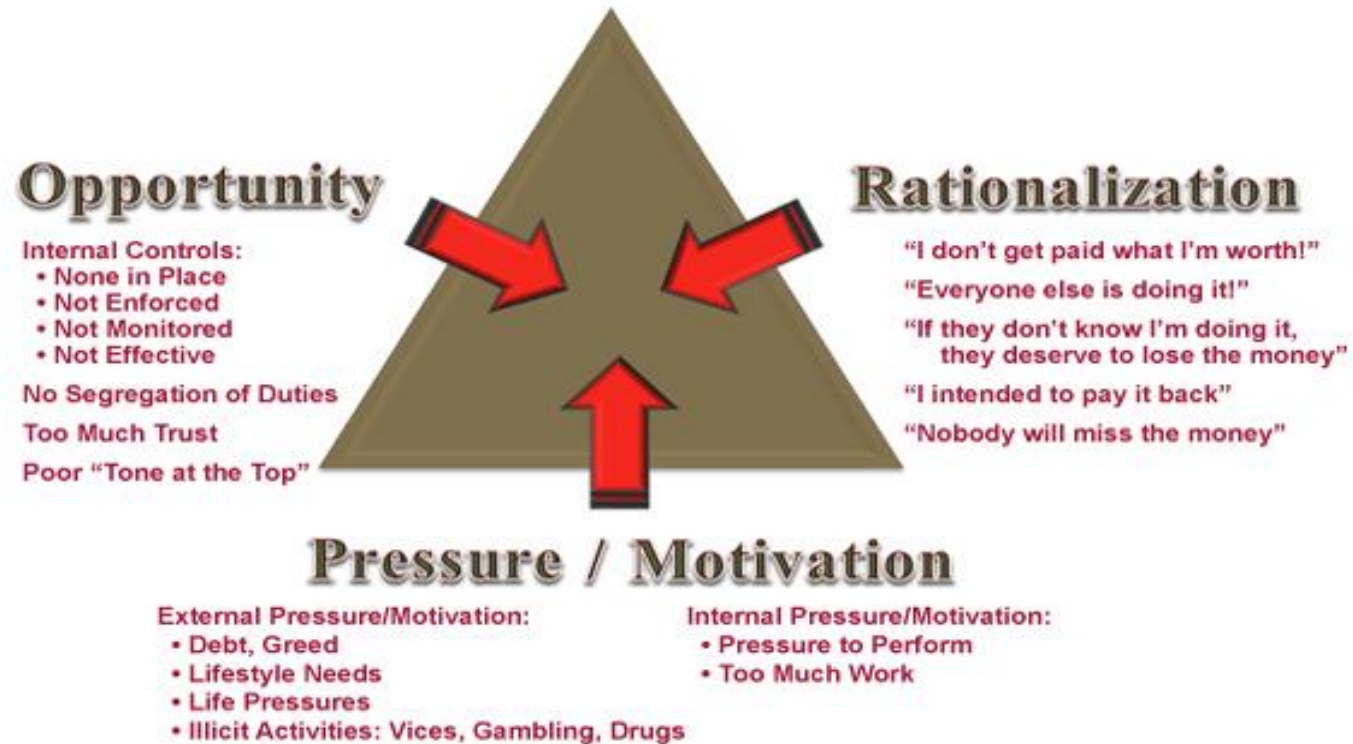
**DATE: 14 August 2025**

# PURPOSE

- Initiate discussion amongst peers and individuals within the investigative and audit space on a crucial area of concern, being SCM, particularly, procurement.
- Identify and discuss key trends and patterns emerging in investigations where SCM is being manipulated, “abused” and/or circumvented to further fraudulent and or corrupt activities.
- A look into types of procurement fraud and procurement fraud schemes.
- Procurement fraud red flags
- How to improve detection and prevention of procurement fraud, corruption and irregularities.
- Investigation and consequence management in respect of procurement fraud.

# FRAUD TRIANGLE IN INSTITUTIONS

## The Fraud Triangle



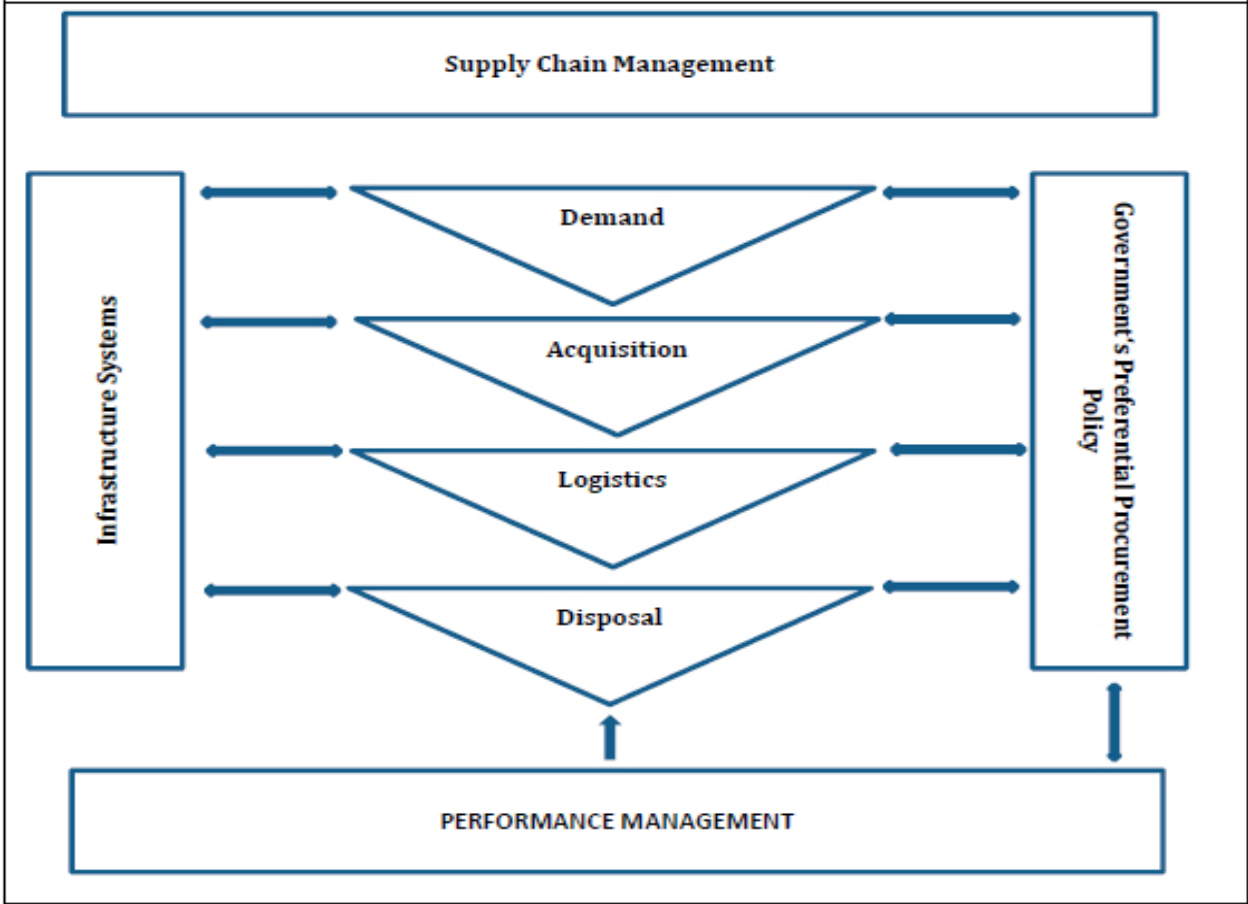
# DEFINITIONS

- **Fraud** - fraud is commonly defined as the unlawful and intentional making of a misrepresentation which causes actual prejudice or which is potentially prejudicial to another.
- **Corruption** - Any person who, directly or indirectly:
  - accepts or agrees or offers to accept any gratification from any other person, whether for the benefit of himself or herself or for the benefit of another person; or
  - gives or agrees or offers to give to any other person any gratification, whether for the benefit of that other person or for the benefit of another person is guilty of the offence of corruption.
- **Maladministration** - The mismanagement of public resources or functions that might have serious implications for an agency and/or the community. Maladministration can arise from negligence or incompetence. It does not have to be intentional.

# LEGISLATIVE AUTHORITY

- **Section 217 of the Constitution** is the foundational legal basis for SCM in the South African public sector. It mandates that government contracts for goods and services be awarded in a way that is fair, equitable, transparent, competitive, and cost-effective. It also requires that the SCM system provides for the advancement of those disadvantaged by unfair discrimination.
- **The MFMA** provides the legislative framework for municipal financial management, including SCM. Chapter 11: Deals with the oversight of SCM and financial management.
- Section 112 requires municipalities to have an SCM policy that gives effect to the aforementioned Constitutional principles and complies with the MFMA and related regulations.
- Section 111 requires municipalities to have and implement an SCM policy.
- Section 116: Deals with contracts and procurement procedures
- **Municipal Supply Chain Management Regulations (2005)** published in the Government Gazette and provide detailed guidance on how municipalities should implement their SCM policies.
- **Preferential Procurement Policy Framework Act (PPPFA)** which enhances the participation of historically disadvantaged individuals and small, medium and micro enterprises in the public-sector procurement system.
- **Public Procurement Act Act No. 28 of 2024** - published in the Government Gazette on 23 July 2024, seeks to combat corruption, but also reinforce the role of Broad-Based Black Economic Empowerment (BEE) in promoting economic transformation, making BEE compliance even more critical for businesses looking to secure government contracts. Once effective, the Act will address weaknesses in the procurement system that have historically enabled corruption, including during the state capture era.

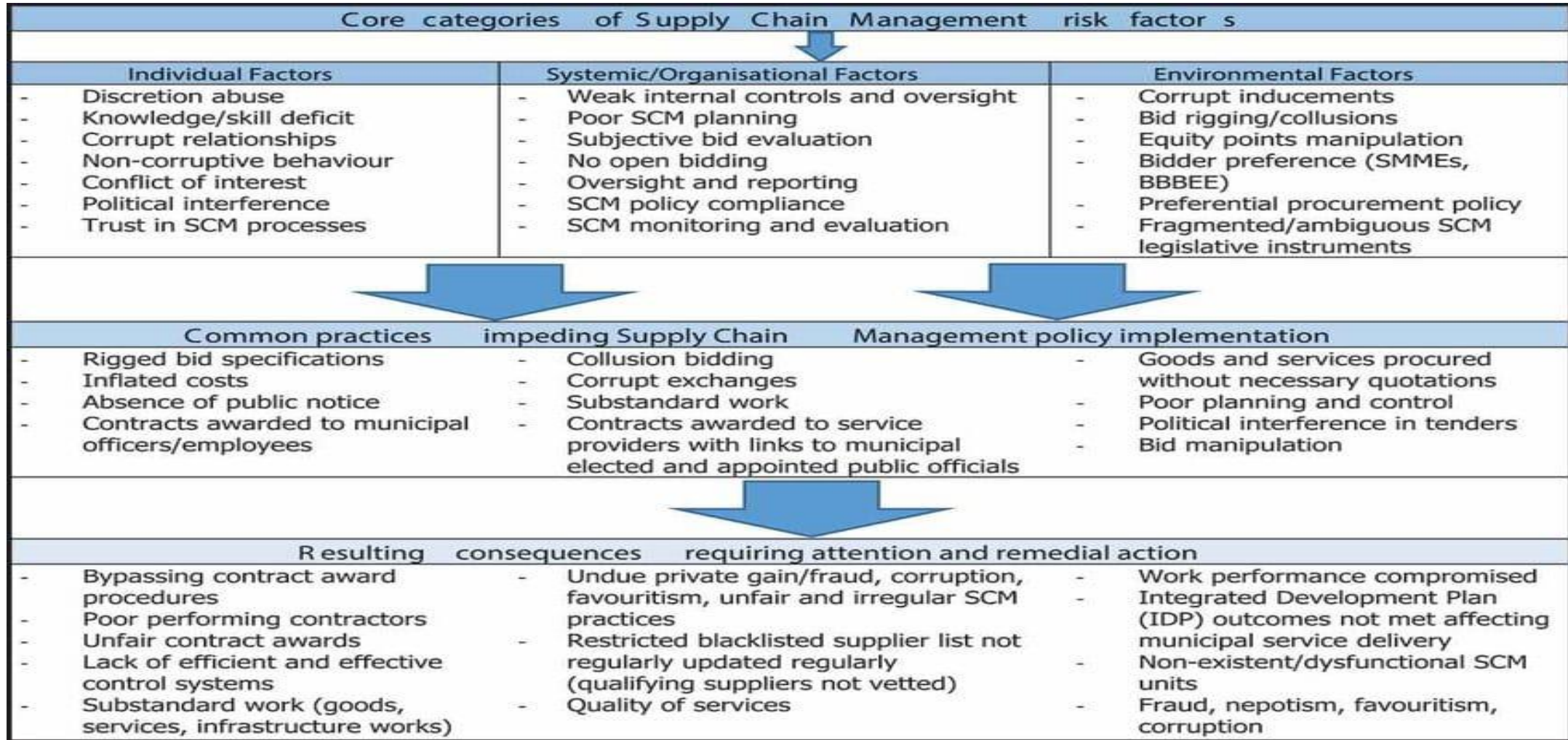
# SCM MODEL/FRAMEWORK



**FIGURE 1: Supply chain management model for government entities**

Source: National Treasury 2003:Internet

# IDENTIFIED RISKS IN SCM



## SOME NOTED TRENDS IDENTIFIED THROUGH INVESTIGATION

- Overuse and abuse of regulation 36
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- Irregular and anti-competitive practices in respect of the use of panels
- Severe underquoting;
- Overpricing and inflation of costs;
- Incompetent consultants and contractors, with no enforcement of contracts and penalties;
- Specifications are poor and inadequate and tailored for the “provider”

# PROPOSED IMPROVEMENTS

## Strengthening Transparency and Accountability:

- **Increased Visibility:** Implement systems that provide real-time tracking of goods and services throughout the supply chain. This includes tracking inventory, orders, and deliveries.
- **Supplier Performance Management:** Establish clear performance metrics for suppliers and regularly monitor their adherence to agreed-upon standards.
- **Code of Conduct:** Develop and enforce a code of conduct for both public officials and suppliers to prevent corruption and unethical practices.
- **Dispute Resolution:** Implement a transparent and efficient dispute resolution mechanism to address issues that may arise.
- **Implement consequence management consistently**

## Enhancing Supplier Relationships:

- **Relationship Building:** Foster strong, mutually beneficial relationships with reliable suppliers through open communication and collaboration.
- **Strategic Partnerships:** Identify and develop strategic partnerships with suppliers to ensure a steady supply of essential goods and services.
- **Fair Competition:** Promote open and fair competition among suppliers to drive innovation and value for money.

## Promoting Skills Development:

- **Training and Development:** Invest in training and skills development programs for municipal staff involved in supply chain management to enhance their expertise and efficiency.
- **Knowledge Sharing:** Facilitate knowledge sharing and best practice exchange among municipalities to improve overall SCM performance.
- **Specialized Skills:** Develop specialized skills in areas like risk management, contract management, and logistics to address specific challenges within the supply chain.

## Strengthening Compliance and Oversight:

- **Adherence to Regulations:** Ensure strict adherence to supply chain management regulations and policies to prevent corruption and ensure value for money.
- **Oversight Mechanisms:** Establish robust oversight mechanisms, including internal and external audits, to monitor compliance and identify areas for improvement.
- **National Treasury Involvement:** Engage National Treasury in providing support and guidance to municipalities on SCM matters
- **Clear Fraud Prevention Plans and effective and impactful Risk Management**



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# THANK YOU

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