

9th Special  
Edition  
National  
Public Sector  
Supply Chain  
Process Audit  
Convention.

RISK MANAGEMENT IN PUBLIC  
SECTOR SUPPLY CHAINS:  
BEYOND COMPLIANCE

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# Presentation Overview

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- ▶ Introduction
- ▶ Risk Management Concepts
- ▶ Risk Management Process
- ▶ Understanding Risks in Public Sector SCM
- ▶ Public Sector Supply Chain Overview
- ▶ Compliance-Only Thinking
- ▶ Beyond Compliance
- ▶ Compliance-Only vs Beyond Compliance
- ▶ A Strategic Risk Approach: 5 Pillars
- ▶ Mitigation Strategy

# Legislative Mandate

- ▶ **Constitution Section 217**
- ▶ **PFMA (Sections 38 & 45)**
- ▶ **MFMA (Section 62)**
- ▶ **Treasury Regulations**
- ▶ **ISO 31000** – International standard for risk management.
- ▶ **COSO ERM Framework** – Risk integration with performance.
- ▶ **Public Sector Risk Management Framework,**
- ▶ **King IV Report on corporate governance**
- ▶ **SCM Compliance Checklists** — when used with **internal control reviews**, not alone.

# Introduction

## A Call from AGSA to Go Beyond Compliance

**“It is critical that public entities move beyond mere compliance and focus on building strong control environments that support effective risk management and good governance.”**

*— Auditor-General South Africa, PFMA 2022/23 General Report*

# Introduction

## AGSA Findings – PFMA (2023/24)

### **National & Provincial Departments + Public Entities**

#### Non-Compliance on Procurement & Contract Management

- ▶ 79% of departments had SCM-related findings.
- ▶ 52% of public entities had SCM-related findings.
- ▶ 24% of high-impact auditees had material SCM failures.

#### Persistent Risks:

- ▶ Procurement and contract Management is still the most vulnerable area
- ▶ Fraud risk, Financial losses, Weak consequence management
- ▶ Long-Term Weaknesses: Same issues reported over multiple years. Improvements remain limited and inconsistent.

# Introduction

## AGSA Findings – MFMA (2023/24)

### **Municipalities: Supply Chain & Contract Management Risks**

Inadequate Contract Management is Widespread

- ▶ 52% of municipalities (128 out of 257) have inadequate contract management

Top issues:

- ▶ 36% Lack of contract performance measures and monitoring.
- ▶ 16% amended or extended contracts without proper approval.
- ▶ 11% of municipalities had contract deficiencies.
  - Unsigned contracts
  - Contracts not aligned with National Treasury rules
  - Mismatch between tender specs and contract deliverables

# Risk Management Concepts

**What is a Risk?**



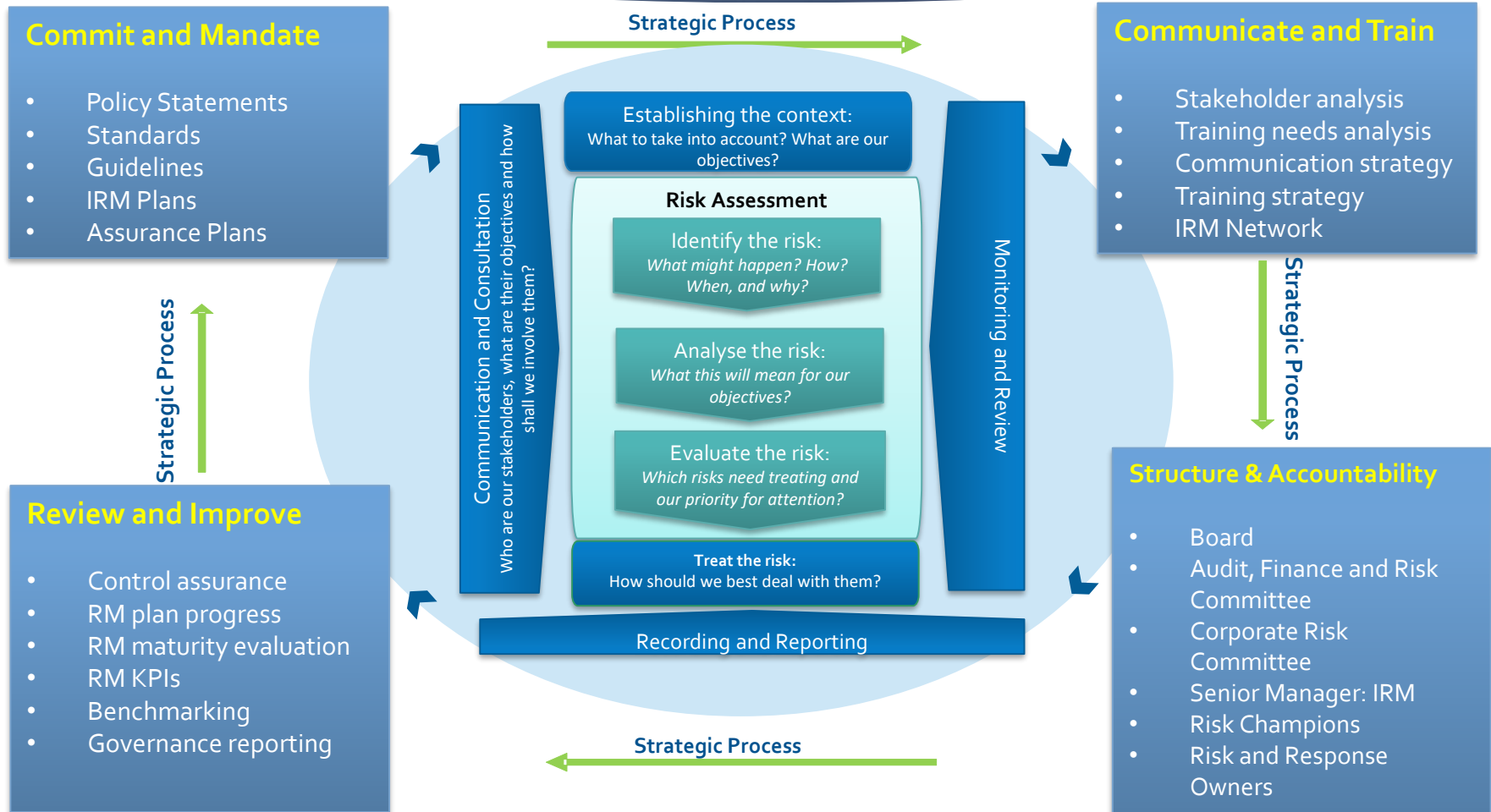
*“Risk is the uncertainty of an event occurring that could have an impact on the achievement of objectives.”*

*Risk management is a systematic process of identifying, assessing, and mitigating risks that could hinder the achievement of objectives.*



**R I S K  
R I S K  
Management**

# Risk Management Process



# Understanding Risks in Public Sector SCM

Risk Category	Examples	Linked Issues / Potential Impacts
<b>Strategic</b>	Political interference, Poor planning & Contract Management, Lack of supplier development Project Redundant	Project delays or cancellations Inefficient resource allocation Increased costs Loss of stakeholder confidence Policy inconsistency
<b>Operational</b>	Late deliveries Poor inventory management Goods/service quality issues, Incomplete infrastructure projects Unqualified suppliers Inefficiencies in the operating system	Contract failures Service delivery disruption Increased operational costs Reduced public satisfaction
<b>Fraud &amp; Corruption</b>	Bid Rigging Collusion, Inflated pricing (Kickbacks) Ghost delivery	Financial losses Legal penalties Loss of public trust Prosecution of officials Increased oversight requirements
<b>Reputational</b>	Media exposes AG findings	Public backlash Reduced funding or partnerships Decline in employee morale Negative media attention
<b>Legal &amp; Regulatory</b>	Non-compliance with PFMA/MFMA, PPPFA, and B-BBEE.	Irregular/wasteful expenditure Fines and sanctions Litigation risk Delays in funding approvals Auditor qualifications

# Understanding Risks in Public Sector SCM

Internal Risks	External Risks
Poor planning & forecasting	Supplier failure or default
Fraud, corruption, collusion	Market price volatility
Skills or capacity gaps	Policy/legislative changes
Non-compliance with SCM rules	Pandemics/Natural disasters
Poor contract management	Political interference
Inadequate inventory or asset management	Media exposés / Public backlash
Failure to conduct proper risk assessments	Auditor-General findings
Awarding contracts to unqualified suppliers	Economic downturn or inflation
Incomplete infrastructure due to internal delays	Regulatory changes impacting B-BBEE or PPPFA
Lack of supplier development (internally driven)	Delivery delays caused by third parties

# Public Sector Supply Chain Overview



## DEMAND MANAGEMENT

Proper planning (Needs assessment, procurement plan and budgeting)



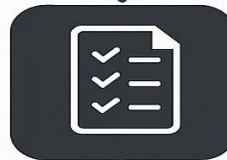
## ACQUISITION MANAGEMENT

Procurement processes



## LOGISTICS MANAGEMENT

Transport, warehousing, and delivery of goods



## CONTRACT MANAGEMENT

Ensuring performance and compliance



## DISPOSAL MANAGEMENT

Ethical and lawful disposal of assets

# Compliance

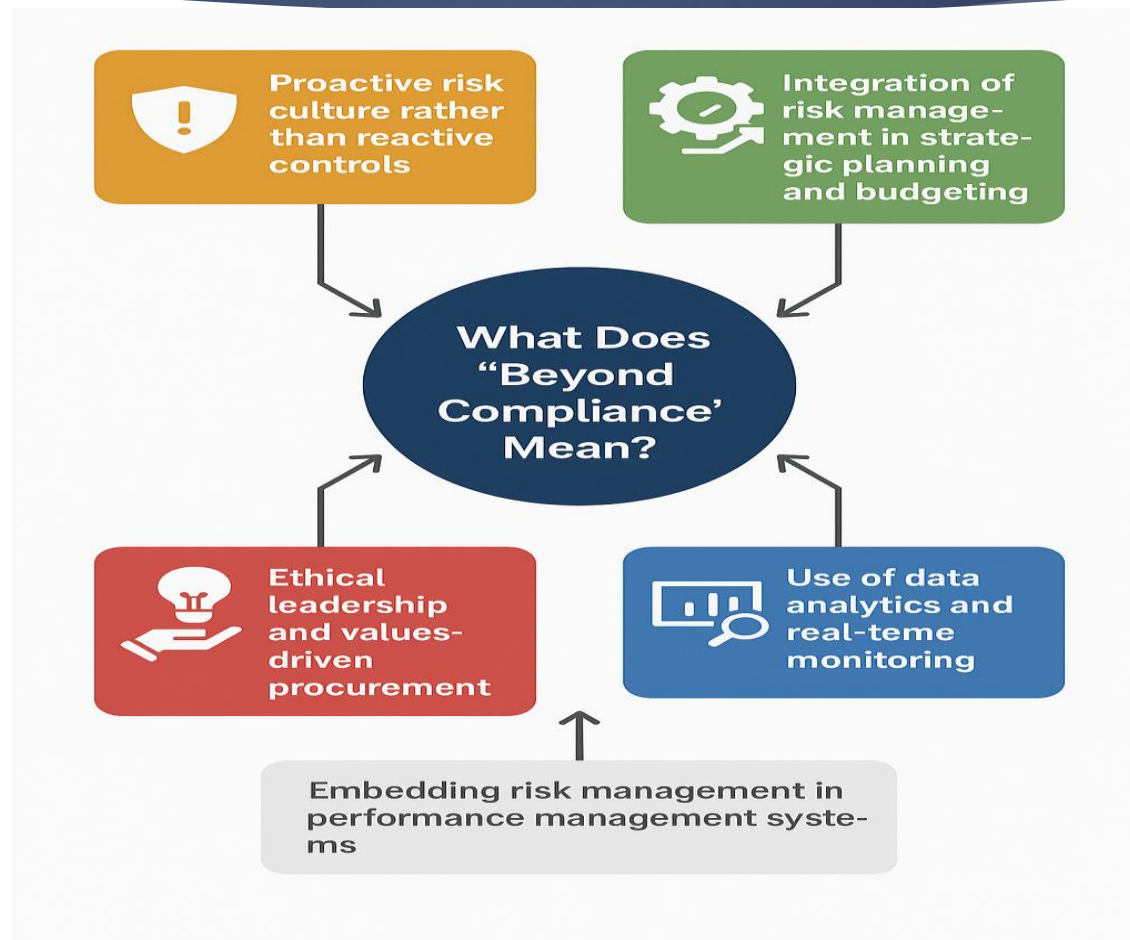


# Compliance-Only Thinking

Compliance means **adhering to rules, laws, and regulations.**

- ▶ Focuses on forms, not functionality.
- ▶ Ignores root causes like skills gaps or lack of ownership.
- ▶ Limits innovation and flexibility.
- ▶ Doesn't prevent recurring audit findings.

# Beyond Compliance



# Beyond Compliance in Action

## Verifying Financial Stability

- ▶ The three-quote system was followed.
- ▶ Procurement rules were technically met.
- ▶ But the project still failed – why?
  - ▶ Because the appointed service provider was not financially stable enough to deliver.
  - ▶ As a result, the process had to be restarted, delaying service delivery and causing reputational risk.

### 💡 **Lesson:**

- ▶ Compliance ≠ Risk Mitigation.
- ▶ Going *beyond compliance* would have meant **verifying the financial health** of the service provider **before** the appointment
- ▶ Checking bank and work experience references, outstanding litigation, or
- ▶ Even conducting supplier due diligence.

# Compliance-Only vs Beyond Compliance

Compliance-Only	Beyond Compliance
Follow 3-quote rule for procurement	Verify supplier capacity and past performance, with a feedback loop established between SCM and the end user
Appoint bid committee members	Ensure they are trained, ethical, not conflicted, and properly vetted in terms of experience and financial clearance
Check asset register	Physically verify the condition of assets and usage
Respond to AG findings	Build internal controls to prevent future findings and test them for effectiveness

# A Strategic Risk Approach: 5 Pillars

Pillar	Key Actions & Practices
1. Integrated Planning	<ul style="list-style-type: none"><li>• Align demand plans with risk registers</li><li>• Flag high risk projects early (SCM, finance, project teams)</li><li>• Do not approve plans without mitigation strategies</li></ul>
2. Capacity Building	<ul style="list-style-type: none"><li>• Train officials in risk literacy, not just SCM rules</li><li>• Appoint SCM risk champions</li><li>• Promote a predictive, not reactive, risk culture</li></ul>
3. Technology & Data Use	<ul style="list-style-type: none"><li>• Use ERP systems and dashboards to monitor supplier performance</li><li>• Trigger alerts for late or high-risk suppliers</li><li>• Use GIS for material tracking</li></ul>
4. Ethical Culture & Oversight	<ul style="list-style-type: none"><li>• Promote ethics as daily decision making</li><li>• Enforce real whistle-blower protection</li><li>• Empower internal audit and audit committees to act</li></ul>
5. Partnerships & Collaboration	<ul style="list-style-type: none"><li>• Monthly risk forums across finance, SCM, and internal audit</li><li>• Collaborate with National Treasury, AGSA, SALGA, and civil society</li><li>• Peer learning and provincial support</li></ul>

# AGSA PFMA 2023/24 Report

## Risk - Quality of spend and overspending

14



R10,34 bn

**Fruitless and wasteful expenditure** over five years

### Financial losses due to:

- 1 **Poor payment practices**
- 2 **Unfair and uneconomical procurement practices**
- 3 **Inadequate needs analyses and project management**
- 4 **No/limited benefit received from money spent**
- 5 **Fraud**

### Overspending of budgets over 5 years



### Financial health – 2023-24

- 1 **150 (41%)** auditees with deficits – **R69,33 bn**
- 2 **21 (10%)** public entities with going concern uncertainty
- 3 **106 (71%)** departments with cash shortfalls – **R38,68 bn**
- 4 **R105,57 bn** owed for claims made against departments  
**R64,39 bn (61%)** owed by provincial departments of health
- 5 **R470,3 bn** financial guarantees to state-owned enterprises  
**R433 bn** government exposure

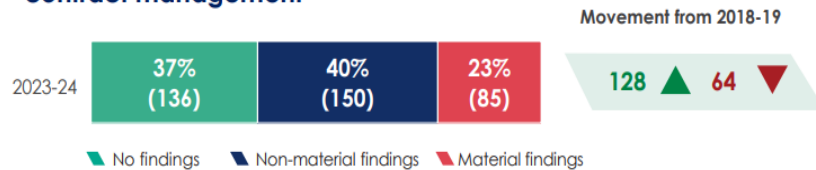


# AGSA PFMA 2023/24 Report

## Risk - weaknesses in procurement and contract management

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### Findings on compliance with legislation on procurement and contract management



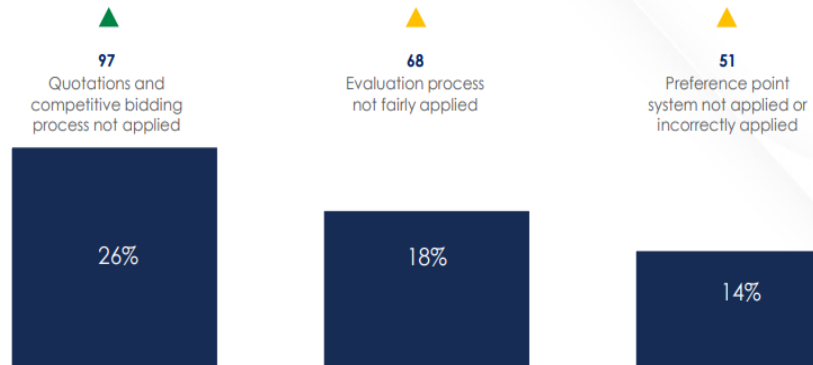
### Impact

- Financial losses which reduces funds for service delivery
  - Market prices not tested adequately → higher prices paid
  - Contractors not monitored adequately → increased costs
- Contractors appointed that cannot deliver – delayed projects and quality issues
- Negative impact on suppliers and government socio-economic objectives
- Reduced transparency and accountability (limitations)

### 2023-24 areas of findings

Uncompetitive and unfair procurement processes	210 auditees (57%) ▼
Contract management non-compliance	77 auditees (21%) ▲
Awards to suppliers owned or managed by employees	84 awards R32 million ▲
Awards to suppliers owned or managed by close family members of employees	173 awards R121 million ▲
Irregular expenditure related to SCM	R43,49 billion ▲

### Top findings – uncompetitive and unfair procurement process



Movement from 2018-19

▲ Improvement    ► Unchanged    ▲ Slight improvement    ▼ Slight regression    ▼ Regression



# AGSA PFMA 2023/24 Report

## Risk – infrastructure delivery and maintenance

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### Infrastructure project life cycle



### What we found

- Findings on infrastructure projects – 86% of 143 audited
- Poor maintenance
- Nature of findings:
  - Project **delays** – 64%
  - **Poor-quality** construction work – 25%
  - **Not put into use** after completion – 8%

### What caused this?

- **Inadequate monitoring** of infrastructure project by project managers
- Limited **accountability for non-performance** by contractors and professional service providers
- **Lack of integration** between government institutions when planning and executing projects
- Failure to conduct proper **needs assessment and feasibility study**
- **Ineffective procurement processes** and lack of due diligence to ensure appointment of contractors with proven track record
- **Inadequate monitoring and enforcement** by infrastructure-related regulatory bodies
- **Inadequate budgeting and prioritisation of** preventive maintenance

### Impact

- Delayed delivery
- Increased costs and financial losses
- Harm to public



# AGSA PFMA 2023/24 Report

## Recommendations to new administration

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Activate accountability ecosystem to address root causes

**Culture of no accountability and consequences**

**Ineffective resource management**

**Inadequate intergovernmental planning, coordination and support**

We recommend prioritisation and focus by executive authorities and oversight son

- 1** Intergovernmental and institutional planning for delivery on medium term development plan
- 2** Key delivery enablers:
  - Modernisation and integration of government systems
  - Professionalisation of public sector
  - Infrastructure

- 3** Institutional capacity and effective governance for transparent reporting and accountability
- 4** Optimising material irregularity process as an oversight tool

- 5** Areas of significant risk:
  - Quality of spend and overspending
  - Appointment and management of contractors and suppliers
  - Cyber security vulnerabilities
  - Lack of accountability and consequence

Continued strengthening of **committee processes and capacity** - fundamental for effective oversight



# AGSA MFMA 2023/24 Report

## Risk – financial management

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### What we found



**Unfunded budgets** – 113 municipalities (44%)  
For 3 consecutive years – 86 municipalities (76%)



**Unauthorised expenditure** – R31,79bn  
99% related to overspending



**Total deficit** – R11,29 bn, 90 municipalities (39%)



**Revenue losses** – consumers **not billed**, debt **not collected**, **distribution losses** and **inadequate indigent management** processes



**123 days** to collect amounts due



Wrote off / impaired **R50,96bn** in debt due to them



**Arrears (including interest) owed to Eskom and water boards** R55,4bn and R21,24bn



**Not complying** with conditions of **Eskom debt-relief programme** – 84% of participating municipalities



**Grants not spent in accordance** with Dora – 19 municipalities

### Financial losses due to:

1

Poor payment practices

2

Unfair/uncompetitive procurement processes

3

No/limited benefit received from money spent

4

Weaknesses in management of projects

5

Fraud committed by officials

6

Water losses (R14,93 billion) and electricity losses (R22,36 billion)

**R5,27bn**

fruitless and wasteful expenditure  
(2022-23: **R7,47bn**)

### Impact

- Indicators of **financial strain** – **78%** of municipalities assessed
- **Going concern uncertainties** at 20% of municipalities – **73%** of these for **3 or more years**
- Average of **286 days to pay creditors**
- **Interest and penalties of R14,58 billion** incurred since 2021-22
- Insufficient spending on **repairs and maintenance** resulting in **infrastructure deterioration**



# AGSA MFMA 2023/24 Report

## Risk – infrastructure delivery and maintenance

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### Infrastructure project delivery process



### What we found

Findings on infrastructure projects – 87(77%) of 113 audited

- Nature of findings:
  - Project **delays** – 59(52%)
  - Poor-quality** construction work – 19(17%)
  - Significant **overspending** – 9(8%)
  - Not put into use for **intended purpose** / not used **optimally** – 7(6%)

### Inadequate maintenance of municipal infrastructure

### What caused this?

- Inadequate monitoring** of infrastructure projects by project management units
- Significant **vacancies** in key infrastructure positions
- Ineffective procurement processes** and lack of due diligence to ensure appointment of contractors with proven track record
- Limited **accountability for non-performance** by contractors and professional service providers
- Inadequate budgeting and prioritisation of** preventive maintenance
- Lack of **performance agreements** and **standard operating procedures** for staff in project management unit

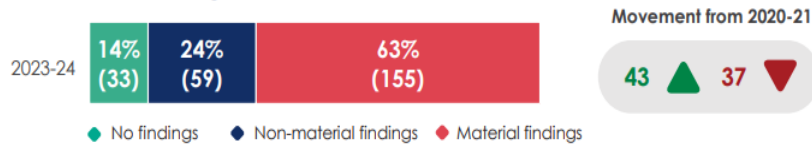
### Impact

- Delayed delivery of basic services to residents
- Increased costs and financial losses due to poor quality of spend
- Harm to public

# AGSA MFMA 2023/24 Report

## Risk – weaknesses in procurement and contract management

### Findings on compliance with legislation on procurement and contract management



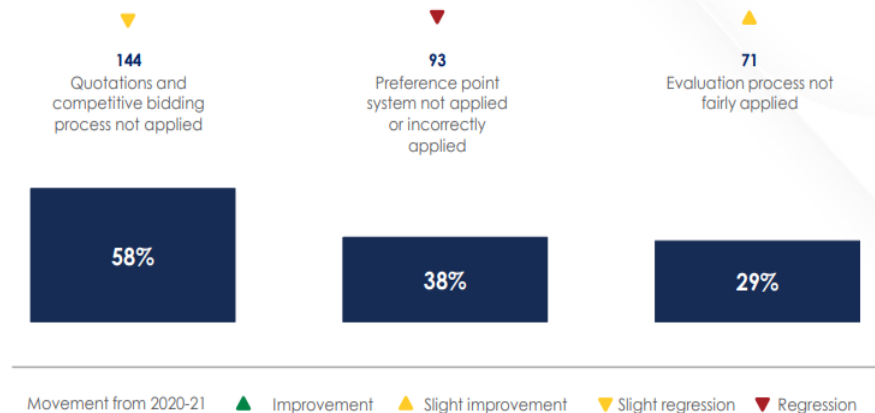
### 2023-24 areas of findings

<b>Uncompetitive and unfair procurement processes</b>	187 municipalities (76%)	▲
<b>Contract management non-compliance</b>	128 municipalities (52%)	▼
<b>Limitation of scope</b>	33 municipalities (13%)	▲
<b>Awards to suppliers owned or managed by close family members / associates of employees / councillors</b>	67 municipalities (27%) 423 awards R1,33 billion (R12,94 million not disclosed in financial statements - 9 municipalities)	▼
<b>Prohibited awards to providers who are in service of other state institutions</b>	73 municipalities (30%) 462 awards R285,36 million	▼
<b>Prohibited awards to suppliers owned or managed by employees / councillors</b>	12 municipalities (5%) 40 awards R1,68 million	▲
<b>Irregular expenditure related to SCM</b>	R28,59 billion	▼

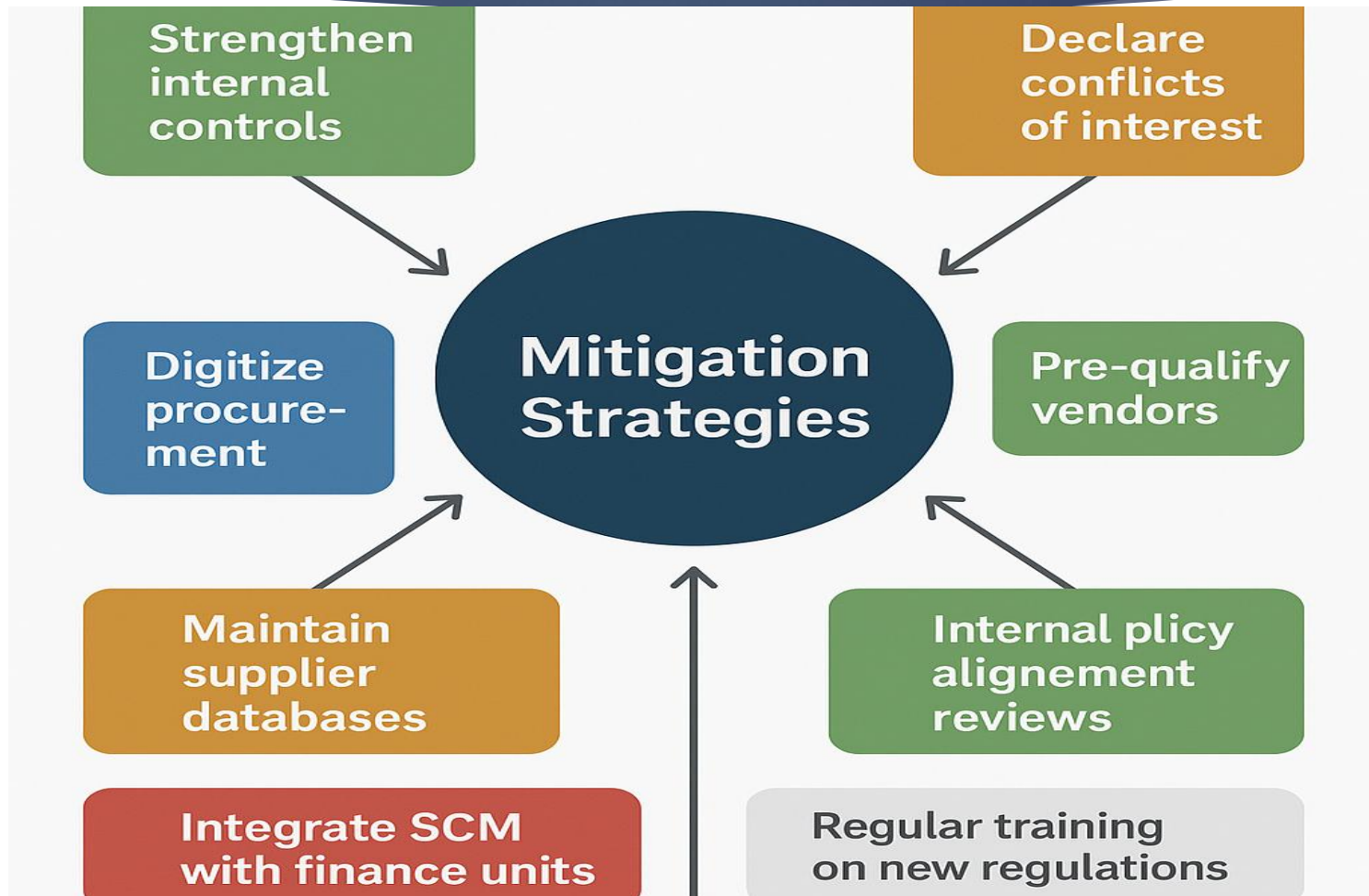
### Impact

- Financial losses which reduce funds for service delivery
  - Market prices not tested adequately → higher prices paid
  - Contractors not monitored adequately → increased costs
  - Unfair procurement resulting in litigations → increased costs
- Contractors appointed that cannot deliver → delayed projects, quality issues and increased costs
- Negative impact on suppliers and government socio-economic objectives
- Reduced transparency and accountability (limitations)

### Top findings – uncompetitive and unfair procurement process



# Mitigation Strategy



# Conclusion

- ▶ **Compliance is only the foundation**; real protection lies in risk-based thinking.
- ▶ **Public sector SCM must evolve** from reactive to proactive.
- ▶ **Risk management is everyone's responsibility**, not just Risk & internal Audit Units.
- ▶ **Practical steps** like supplier due diligence, financial checks, and contract oversight go a long way.
- ▶ **Clean audits** begin with **well-managed risks**

*Let's move from ticking boxes to making an impact, one informed decision at a time*



**THANK  
YOU!**