

TO: COUNCIL

Title of Report	Cloghereen Internal Audit Report
Portfolio Manager	Mr Xola Lingani (Chief Audit Executive)
Persons/Bodies Consulted	LSO CFO VP: Operations AERMCoC
Date	07 September 2022
Purpose	To provide an Update on the investigation on the renovations at Cloghereen.
Background	AERMCoC requested a report on the Cloghereen Matter

1. DISCUSSION

1.1 Purpose

To provide an Update on the investigation on the renovations at Cloghereen.

1.2 Proposed solution

Council to note the report.

Management to take actions against implicated officials.

1.3 Brief discussion

Internal Audit received a formal request to review governance and compliance to UNISA policies around the upgrades at the UNISA Cloghereen residence during January 2021 and January 2022.

The following was obtained from management as a summary of expenses and purchase orders rated to the renovations. These reports formed the basis of the Purchase orders selection that was investigated.



Cloghereen%20Renovation%20Report%20

A high-level review was conducted by Internal Audit in January 2022. This report revealed instances of inflated purchase orders and initiated an investigation into the individual purchase orders. In this review issues were identified regarding 6 Purchase orders totalling over R1,7 million.

Internal Audit therefore initiated an investigation on a further 12 purchase orders (of 1162 308, 57) adding up to a total value of reviewed purchase orders of over R2,7 Million.

In June 2022, AERMCoC requested that the report be provided directly to AERMCoC. The report was presented to AERMCoC at the meeting of 19 August 2022 duly noted and the following was indicated as additional corrections:

- The list of individuals who approved and or were the buyers to be added in the report
- A summary report be prepared by the CAE for council which must consolidate both the initial governance and compliance report plus the Investigations report.

1.4 Brief conclusions in the report:

- The inflated purchase orders are listed in both the initial high-level review and the detailed investigation report
- List of individuals/official who approved the Purchase orders are contained in the annexures of the report
- Management must take actions against officials who authorised inflated purchase orders.
- The total value of identified non-compliant purchase orders is over R1 million.
- The total value of items deemed to be over 15% of market value is over R700 thousand.
- The council approved SCM policies provide details instruction on the controls to be complied to in order to prevent this occurrence.
- Management must act against official who authorised non-compliant purchase orders (e.g., where quotations were not sources as per policy).
- Management must act against officials who did not apply the principles of market related pricing as per the council approved SCM policy.
- Management must act against official contravene the SCM policy prescripts around tender/purchase order splitting.

1.5 Subsequent action by management since our reporting

Internal Audit investigations team met with the CFO (Mr KM Ramukumba) and VP: Operations & Estates (Mr Motebele) on 22 August 2022 to give further details regarding expected consequences management against the implicated officials.

The full list of implicated employees has been provided to the respective VP's.

Management committed to begin the disciplinary process against implicated officials and provide an update to AERMCoC in the 4th quarter meeting.

LSO is currently reviewing the report to determine and issue a formal opinion on whether the items are reportable as per PRECCA (Prevention of corrupt practices act).

1.6 Major risk requiring immediate management action & Monitoring

Over Pricing risk

Criteria

- Paragraph 5.1.6 (a) The SCM standard operating procedures as approved by council specify the responsibility of demand management for *“Conducting an industry or market analysis of the goods, works or services to be obtained. This includes the determination of a reasonable price for the required goods, works or services”*.
- Paragraph 36.1 of SCM policy specifies that *“All prices will be negotiated upon approval of the tender. A letter of acceptance of the negotiated price will be issued once the negotiation has been concluded.”*

Internal Audit conclusion and recommendation

The above 2 elements of the SCM policy require specific focus to ensure value for money and comparative market pricing. This is mainly the expertise of the SCM buyers and at in some cases the requester and therefore, requires regular market benchmarking of goods and services as a preventative measure for over pricing.

Furthermore, due to the specific nature of the compliance requirements already in the council approved policies to address this issue. Council and Management have provided the adequate policy direction and instruction on the controls required.

Therefore, to address this risk going forward, it will be a matter of continuous monitoring and enforcement of employee discipline in cases where these specific policy stipulations are not adhered.

Non-compliance risk

Criteria

Paragraph 20 of the SCM policy as approved by council specifies *“Requisition values may not be split in order to avoid the threshold as per the list below. Any such splitting may lead to disciplinary action.”*

This paragraph of the SCM policy also provides a table with details on how many quotations to obtain for what values in procurement.

Internal Audit conclusion and recommendation

The total cost of the renovations was above the R2 million. Ordinarily this would have meant that the renovations themselves would have needed an open tender process as per the policy.

However, the project was split into many purchase orders thereby resulting in multiple purchase orders. All of the purchase orders were therefore below the delegated threshold of a review requirement by VC(P1) or a VP (P2). This level of management would not

have had sight of the Purchase orders as the oracle system is programmed in accordance with the delegations. Many of these purchase orders were also below the threshold of a review by and Executive Director (P3). Preventative compliance review before approval by senior executives was therefore limited.

However, Council and Management have provided the adequate policy direction and instruction on the controls required for all employees.

Therefore, to address this risk going forward, it will also be a matter of continuous monitoring and enforcement of employee discipline in cases where these specific policy stipulations are not adhered.

2. ATTACHMENTS



Report on
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REVIEW REPORT OF
EVALUATION OF PRIC

APPROVAL BY CHIEF AUDIT EXECUTIVE



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Signature: Portfolio Manager