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**ADDENDUM 19**

**WESTERN CAPE EDUCATION DEPARTMENT**

**INTERNAL CONTROL FRAMEWORK  
FOR**

**SUPPLY CHAIN MANAGEMENT  
(GOODS AND SERVICES)**

**AND**

**MOVEABLE ASSET MANAGEMENT**

**(Paragraph 13.2 of Provincial Treasury  
Instructions, 2019)**

## **Part 1**

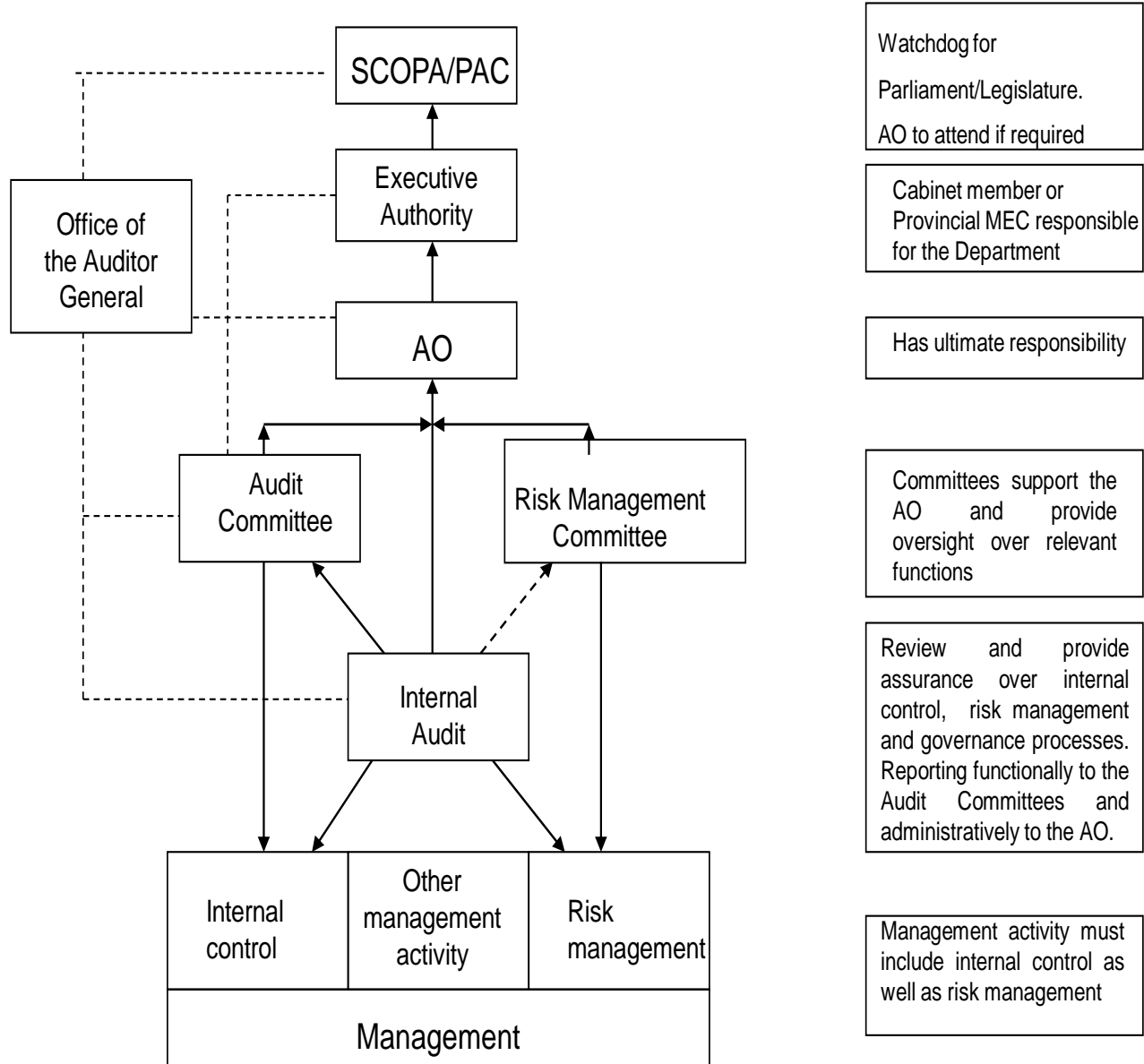
### **INTERNAL CONTROL IN GOVERNMENT**

#### **1.1 The Governance and Control Framework**

The underlying principles of good corporate governance are accountability and responsibility. Accountability comprises the need for effective mechanisms for individuals and groups within an institution to be accountable for their decisions and actions on specific issues, while responsibility is the need for management to set the institution on the right path and the allowance for corrective action and for penalising mismanagement. The structures necessary to deliver these principles of accountability and responsibility are prescribed in the PFMA, the related Treasury Regulations and the Provincial Treasury Instructions. These make it clear that the legislation intends that governance and controls should be seen as part of an integrated framework which itself should complement the reforms in the spheres of financial management, accounting and financial reporting.

The relationship of the various elements in the framework are shown diagrammatically in the following chart, which indicates key governance relationships in the public sector. Despite the various stakeholders in the Governance and Control process, it is clear that management is the cornerstone of the entire internal control system.

## Framework of Governance and Control



## **1.2 Internal Control**

### **1.2.1 Internal Control Defined**

It is important that there is a clear understanding of what internal control means and why it is so important to aim for the highest standards. In a narrow sense internal control includes all those controls designed to ensure effective financial operations (This is often referred to as internal financial control). Internal control is wider than this, encompassing management, administrative and accounting controls. Internal control helps to provide reasonable assurance that an institution:

- Adheres to laws, regulations and management directives;
- Promotes orderly, economical, efficient and effective operations and achieves planned outcomes;
- Safeguards resources against fraud, waste, abuse and mismanagement;
- Provides quality services in accordance with agreed policies and objectives; and
- Develops and maintains reliable financial and management information and fairly discloses the data through timely reporting.

As can be seen, internal financial control is one component of internal control, albeit an important one. A widely accepted definition of internal control is as follows:

*"Internal Control is defined as the whole system of controls, financial and otherwise, established in order to provide reasonable assurance of efficient and effective public services, reliable financial information and reporting, and compliance with applicable laws and regulations."*

### **1.2.2 Control Environment**

A strong control environment is needed for controls to function adequately. The control environment includes government's approach to matters of governance, transparency and accountability. It encompasses the way it assigns responsibilities e.g. to various institutions of government and how it monitors the control procedures. In short, there needs to be a control culture under which there is an expectation that internal control procedures should be adhered to. The main elements of a strong control environment are set out below:

- a commitment to high levels of integrity and ethical values throughout government institutions;
- an appropriate degree of management oversight and supervision, working alongside appropriate delegation of authority and responsibility, and the establishment of appropriate lines of reporting; and
- commitment to well-trained government employees.

The key features of a strong control environment include:

- a well-defined operating structure and responsibilities e.g. set out in policy statements and standard operating procedures;
- timely, clear and accurate management information e.g. based on regular budget reports from accounting units etc.;
- strong attention to personnel matters such as recruitment, promotion, training and motivation; and
- adequate separation of certain functions e.g. accounting and audit functions.

The sources of information for reviews of the control environment will include:

- organisational charts;
- standard operating procedures;
- policy, programme and budget statements;
- Public Finance Management Act and Treasury Regulations;
- Internal Audit Reports;
- External Audit Reports by the AG;

- Audit Committee Reports;
- SCOPA (or provincial PAC) reports;
- National or provincial departments or public entity reports;
- Management Accounting Reports including Budget Statements; and
- Annual Reports, Annual Financial Statements and audit opinions.

### **1.2.3 Classification of Internal Controls**

In order to understand the wide scope of internal control, the following classification of internal controls is given below, with some examples. Some controls span more than one category but for convenience are allocated to either management, administrative, accounting or IT controls. The table is intended to be indicative of the breadth of internal control and to highlight the fact that it is far wider than just financial control and should therefore be of concern to all managers, from the Accounting Officer/Authority down.

#### **1.2.3.1 Management Controls**

These exist to ensure that the organisation, structure and systems support the policies, plans and objectives of the institutions responsible for the provision of public services and also operate within the laws and regulations. Key management controls include:

- policies and objectives for a service which are clearly stated and backed up with suitable indicators of efficiency and effectiveness, e.g. in policy statements and output budgets;
- organisational structures which facilitate the achievement of policy objectives in an efficient and effective manner, e.g. clearly defined roles and responsibilities of organisational units, specialisation, etc.;
- up-to-date standard operating procedures, which clearly set out working practices, e.g. delegated powers, standing instructions, codes of conduct and ethics, financial rules, etc.; and

- personnel arrangements which support the delivery of policies and objectives, e.g. through good practices of recruitment, training, development and motivation of staff.

### **1.2.3.2 Administrative Controls**

These are in place to ensure that policies and objectives are delivered in an efficient and effective manner and that losses due to waste, theft, error, extravagance or misappropriation etc. are minimised. Key controls include:

- adequate supervision to ensure that e.g. internal checks are performed effectively and that any weakness in internal control is identified and reported to management;
- sound arrangements exist so that senior management in institutions monitor and review operations and performance, e.g. through inspection systems, which focus on outputs and quality of service delivery; monitoring reports, which focus on corrective action; and corrective action taken in practice. Quality inspection units, internal audit and audit committees are means by which institutions can achieve such control. Effective action is taken by an institution to address issues raised by the inspection or audit units; and
- work duties are segregated in such a way that there are clear lines of responsibility and no single individual can carry out all stages of a transaction, e.g. authorising, executing, recording and control over ordering, receiving and paying for goods or services are stages in the system carried out by separate individuals.

### **1.2.3.3 Accounting Controls**

These are required to ensure that resources allocated to institutions are accounted for fully and transparently and documented properly. These controls include:

- sound budgeting and budgetary control systems, e.g. regular reporting on budget versus actual performance;
- adequate authorisation and approval procedures, e.g. of invoices for payment;

- sound accounting arrangements, accurate recording of transactions, reconciliations, control totals, coding systems, exception reports, periodical and annual financial and management accounting statements; and
- physical safeguards are in place to ensure that publicly owned assets are used fully and appropriately for the intended service or purpose, e.g. records of land and buildings, inventories of equipment and vehicles, stores records exist and are kept up-to-date; independent physical checks are carried out regularly; loss of assets, cases of misuse, unused or underutilized assets are reported to the appropriate authorities and effective action taken.

#### **1.2.3.4 Information Technology (IT) controls**

Most institutions operations are heavily reliant on IT systems and it is essential that these operate in a reliable and secure manner. IT controls are not separately identified in the tables in the appendices, but it is extremely important to ensure that there are effective controls within the IT environment.

##### **(a) Access controls**

Controls are designed to prevent: -

- Unauthorised changes to programs which process data;
- Access to files which store accounting and financial information and application programs; and
- Access to computer operating systems and system software programs.

User-id's and passwords are to be used to limit access to programs, data files and software applications. Firewalls are to be installed to prevent data corruption from unauthorized external access (Computer hackers).

Controls are designed to manage the operation of the system and to ensure that programmed procedures are applied correctly and consistently during the processing of data.

Computer controls such as scheduling of processing time, execution of programs by competent IT personnel, monitoring and review of the function of hardware, division and rotation of duties and maintenance of



system and manual logs with regular follow-ups by management are to be in place.

**(b) System Software Programs**

Controls are to be designed for programs that do not process data, to ensure that they are installed or developed and maintained in an authorized and effective manner, and that access to system software is limited. This can be achieved through security over system software, database systems, networks and processing by users on personal computers. There are support structures, error correction methods and adequate documentation for the systems in place.

**(C) Business continuity controls**

Controls are designed to ensure the continuity of processing, by preventing system interruption or limiting this to a minimum. Controls that should be in place include physical protection against the elements such as fire, water and power. There are emergency contingency plans and disaster recovery procedures, provision of alternative processing facilities, backups of data files, maintenance of hardware, adequate insurance, cable protection, uninterruptable power supply (UPS), prevention of viruses and personnel controls affecting security and continuity. (The department has a Business Continuity Management System (BCMS) in place to mitigate downtime).

**1.2.3.5 Other IT controls**

These include: -

- Protection of hardware against accidental or deliberate damage: e.g. inventories of computer equipment should be maintained, and equipment should not be located where it is easily accessible to unauthorised persons;

- Security of data held on the IT system to ensure that it is not corrupted either deliberately or in error, e.g. standing payroll data could be fraudulently amended to increase payments;
- Prompt and accurate authorization and input of data to the system e.g. expenditure needs to be coded accurately so that it is properly reflected in subsequent management information;
- Complete and accurate processing of information e.g. the automatic calculation of total cost based upon price and quantity should produce the correct results;
- Accurate and timely output from the system, e.g. expenditure reports should include all relevant codes to ensure that a misleading position is not shown;
- Changes to operating software should be approved, strictly controlled and tested prior to live implementation to ensure that integrity of key systems is maintained, e.g. software for income systems could be amended in a way that would reduce the amount due from certain individuals;
- Adequate back up (periodically copied and stored securely) of data files to allow for proper recovery e.g. copies of software and data should not be kept next to computers as a fire might destroy both the original and backed up information; and
- Ensuring the availability of automated information processing systems during the required operating hours e.g. the source of power for computers should be protected by power conditioning equipment to avoid damage in case of power fluctuations.

#### 1.2.4 Classification of controls

Controls can be classified into the following different types:

- **Preventative:** designed to discourage errors or irregularities from occurring (i.e. processing vouchers only after signatures have been obtained from appropriate personnel), e.g. adequate physical security of assets to prevent losses such as theft or damage;
- **Detective:** designed to find errors or irregularities after they have occurred (i.e. reviewing departmental phone bills for personal calls) e.g. adequate accounting controls whereby errors are highlighted through reconciliation procedures; and
- **Corrective:** e.g. expenditure can only be charged against valid cost codes that have budgets attached to them.

## **Part 2**

### **SELF-ASSESSMENT BY ACCOUNTING OFFICERS**

#### **2.1 Review of Internal Control Arrangements**

Periodically there should be reviews of the control environment to ensure that key arrangements are in place, are up-to-date and are functioning as intended. These reviews could be undertaken by, for example, the following functionaries: -

- The relevant treasuries have central roles in financial management and may investigate systems of internal control of individual institutions periodically in terms of sections 6 and 18 of the PFMA;
- The Auditor-General should undertake periodical test checks of the internal control environment across government with a view to regular reporting on its effectiveness or otherwise to executive authorities, to Legislatures, and to Committees of Parliament or provincial legislatures that are charged with financial oversight, e.g. SCOPA; and
- Parliament, provincial legislatures and committees could seek prompt and effective remedial action from executive authorities when it receives reports of defective internal control arrangements.

#### **2.2 The need for self-assessment**

The reviews mentioned above should be conducted by functionaries outside the institution. However, for the Accounting Officer to fulfill his/her duty to ensure proper financial management and hence promote effective and efficient service delivery, it is necessary that he/she not only understands what internal controls need to be implemented, but also that he/she is aware of the extent to which these controls operate in an effective manner.

The internal control tables set out in the Appendices provide an opportunity for the Accounting Officer to undertake a structured assessment of the *operation* of key risks and internal controls that ought to be in place in the department, starting from the strategic level down to the reporting level for each key process. The Appendices address the transaction life cycles of the following areas:

- Moveable asset management); and
- Supply chain management (goods and services).

### 2.3 Methodology

Each table begins with an analysis of the transaction life cycle of the particular area, then for each cycle, identifies the major risks and the control measures to mitigate these risks.

The control types included in the tables are management, administrative and accounting controls: -

- **Management controls** – these **ensure** that the institution's structure and systems **support** its policies, plans and objectives **and** operates within laws and regulations.
- **Administrative controls** – these **ensure** that policies and objectives are delivered in an efficient and effective manner **and** that losses are minimized.
- **Accounting controls** – these **ensure** that resources allocated are accounted for fully and transparently **and** are properly documented.

Each control type can be preventative, detective or corrective in nature: -

- **Preventative controls** – prevent errors and irregularities and if properly enforced, are usually the most effective type of control. There is an old saying that “prevention is better than cure” and indeed this is true.
- **Detective controls** are designed and implemented to uncover or detect errors and irregularities after they have occurred. Another old saying, which is also

true, is “it is no use closing the stable door after the horse has bolted.” However at least you will have detected that the horse has bolted and closing the stable door will prevent other horses from bolting.

- **Corrective controls** – are also very important and usually operate together with detective controls. It is clearly no use detecting an error or irregularity without correcting the error/irregularity.

To illustrate the operation of the tables, an example is taken from Moveable Asset Management: -

Life cycle stage	Risk	Control	Delegated official	Type of Control			Management assessment
				Mgt	Adm	Acc	
<b>Commissioning and receiving assets</b>	Assets delivered are not as per order	Official receiving assets should only complete and sign a goods received note (GRN) when satisfied that assets match those on order			P		

The ‘P’ indicates that the control is ‘preventative’ (rather than ‘Detective’ or ‘Corrective’), and it is shown in the ‘Adm’ column, because it is of an Administrative nature. It is important to note that two columns are blank (part from the ‘Type of control’ – in this example the control is neither ‘Mgt’ or ‘Acc’), and these are for use by the Accounting Officer.

The first empty column allows identification of the ‘delegated employee’, i.e. the person (or possibly position) to whom the specific responsibility has been **formally** delegated: in this example it might be: ‘Chief Storekeeper, XYZ Depot’.

The final blank column is crucial, as this is where management must indicate the level at which they believe this control is functioning, in accordance with the maturity capability model. This would mean that the assessment would conclude on whether the relevant controls are adequately designed and also whether they are implemented.

In addition to the controls listed above, the following preventative measures should be in place for all processes: -

- Access to resources and records are to be limited to authorised individuals who are accountable for their custody or use (restricted access to GRN and order books);
- Pre-numbered documents (invoices, goods received notes, payment advices, etc.)
- Functioning of controls should always be evidenced / documented. (e.g. signatures as proof of performing the controls);
- Consistent terminology is used on documents;
- Low error environment including trained personnel, pleasant working conditions, minimal noise; and
- Computerised controls can only be relied upon by management and auditors if the general control environment is functioning properly. It is advisable that management should periodically evaluate these controls and prioritise the correction of any problems. Weaknesses or lacks in general controls have a major effect on the functioning of all other computerised controls.

This framework is effective from the date approved by the Accounting Officer and will be reviewed on an annual basis.

**SUPPLY CHAIN MANAGEMENT**  
**(Goods and Services)**

The supply chain management life cycle, associated risks and controls are to be read in conjunction with the: -

- Treasury Regulations, 2005 issued in terms of section 76 of the Public Finance Management Act (PFMA), 1999, specifically regulations 5, 8, 9 and 16A; and
- Chapter 16A of the Provincial Treasury Instructions, 2019 issued in terms of section 18(1)(c) of the Public Finance Management Act (PFMA), 1999.

Goods and services include all goods and services to be used by an institution, but it excludes capital assets (which fall under Moveable Asset Management). Goods to be included in goods and services are for example, petrol, small tools and equipment, stationery, foodstuffs and electricity. Services include payments to hotels, restaurants, transport, communications, banking, consultant fees, market research, staff training, **rental** of buildings, vehicles, equipment, etc.

Goods and services to be used as input into a capital project are excluded from goods and services and must be dealt with under moveable asset management. It is also worthy of note that **all** goods costing less than R5 000 shall be included under goods and services **provided** that such goods and services are not intended as inputs to a capital project. As indicated under Moveable Asset Management, a computer (including the mouse, keyboard and monitor) costing less than



R5 000 shall fall under goods and services provided that the computer is not purchased to provide input to a capital project, in which case it would be classified as a capital asset.

Supply chain management (SCM) is a systematic process that ensures that goods and services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time. It is part of a broader function of managing expenditure on and payments for the goods and services that are involved in delivering services to communities.

In order to achieve service delivery goals effectively, efficiently and economically, managers must ensure that proper controls exist over the entire business process, from planning [determining the demand for goods and services], procuring (through a fair, equitable, transparent, competitive and cost effective system) consistent with both the Provincial Treasury Circular No. 1/2023: Western Cape Government interim arrangements to give effect to the Preferential Procurement Regulations, 2022; and the Broad-Based Black Economic Empowerment Act (Act 53 of 2003)], managing logistics and disposing of goods no longer required. It is imperative that risks associated with these processes are managed at all stages in the cycle.

The Accounting Officer delegates the management of the institution's goods and services to the chief financial officer (CFO). Procurement of goods and services, either by way of quotations or through a bidding process, must be within the threshold values determined by the National Treasury. In the case of procurement through a bidding process, evaluation and adjudication of bids takes place through a bid committee system; with clear bidding procedures and proper approval of bid committee recommendations. An institution may in cases of emergency dispense with the invitation of competitive bids if impractical and may obtain goods or services by means of other options. The supply chain management system of

the institution must, however, provide for a policy in relation to the management and treatment of emergency procurement including the options available to the institution during emergencies.

All role players involved in the management of goods and services must comply with the highest ethical standards in order to promote mutual trust and respect and an environment where business can be conducted with integrity in a fair and reasonable manner.

### **SUPPLY CHAIN MANAGEMENT TRANSACTION LIFE-CYCLE**

Steps 1-9 below represent the life-cycle of supply chain management transactions, from planning for and acquiring the goods and/or services necessary to achieve the WCED's strategic objectives, to monitoring and reviewing the management of goods and services and finally the compilation of financial statements.

The risks and controls to mitigate against risks are detailed for each element in the transaction life cycle, which is as follows:-

1. Institutional arrangements
2. Demand management
3. Acquisition of goods or services
4. Compliance monitoring
5. Contract management
6. Logistics management
7. Disposal management

8. Reporting of supply chain management information
9. Regular assessment of supply chain management performance
10. Financial treatment and disclosure of assets, inventories and disposals

**PART 2****Internal Control Framework for Supply Chain Management (Goods and Services)**

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTING CONTROL	
Institutional arrangements	The structure of the SCM Unit is not sufficient to implement the Accounting Officer's Supply Chain Management System.	<ul style="list-style-type: none"><li>Approved plan exists to align the SCM Unit structure with the proposed generic structure for the office of the CFO.</li></ul>		P			
	Employees within the SCM Unit not fully capacitated to fulfill their responsibilities.	<ul style="list-style-type: none"><li>Approved human resource development plan in accordance with the minimum competency levels prescribed by National/Provincial Treasury.</li><li>Record of attendance of training courses is kept.</li></ul>		P	P		

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Delegation's framework incomplete and outdated resulting in delays in service delivery.	<ul style="list-style-type: none"><li>Delegation's framework is reviewed on an annual basis for completeness and relevance and approved by the relevant authority.</li></ul>			P		
Demand management	Plans to acquire goods or services are not linked to the institution's strategic plan and budget.	<ul style="list-style-type: none"><li>Supply chain strategy exists for at least three (3) years to support expenditure for goods and services included in the strategic plan and budget of the institution.</li><li>Annual procurement plan is scrutinised by a delegated official to ensure that acquisition plans are realistic.</li></ul>		P			
				P			

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Service delivery is interrupted as essential goods or services are not available when required.	<ul style="list-style-type: none"><li>A delegated official reviews the annual procurement plan to confirm that appropriate lead times have been incorporated.</li><li>A bid register exists for each procurement requirement identified in the annual procurement plan to monitor the procurement/acquisition process.</li></ul>		P	P		
Acquisition of goods or services	Goods and services are purchased without authorisation.	<ul style="list-style-type: none"><li>Minutes of bid evaluation/adjudication and bid committee meetings are approved by the relevant chairpersons.</li><li>Approvals for acquisitions are authorised by a delegated official.</li></ul>		P	P		

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Inappropriate supplier is chosen as industry and/or commodity analysis has not been conducted.	<ul style="list-style-type: none"><li>A delegated official conducts an industry and commodity analysis to identify potential suppliers that can deliver value for money as per the Department's operational plan and confirmed by minutes of meetings.</li></ul>			P		
	Goods or services are acquired which were not planned or budgeted for.	<ul style="list-style-type: none"><li>A delegated official verifies the acquisition of goods or services against the annual procurement plan (demand plan) prior to the order being placed.</li><li>If goods or services to be acquired are not included in the annual procurement plan, the purchase must be approved by the Accounting Officer or delegated official prior to the acquisition.</li></ul>		P	P		

	<p>Bid specification submitted by Responsibility Managers are unclear, ambiguous, biased and not properly evaluated.</p>	<ul style="list-style-type: none"> <li>• Bid specifications submitted by the Responsibility Managers are considered and revised by the Specification Committee.</li> <li>• The Bid Committee considers whether the specifications submitted comply with the minimum requirements for specifications.</li> <li>• The deliberations are recorded in the minutes of the committees.</li> <li>• The recommendation of the Bid Committee is submitted to the delegated official for consideration.</li> <li>• Recommendations to invite tenders based on the specifications are approved by the Accounting Officer or delegated official.</li> <li>• There is evidence of an evaluation process (due process).</li> </ul>		<b>P</b>				
	<p>Bids for goods or services may have to be re-advertised.</p>	<ul style="list-style-type: none"> <li>• There is evidence that users indicate clear specifications with reasonable tolerance where applicable.</li> <li>• There is evidence that experts in the relevant</li> </ul>		<b>P</b>				









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TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Manual Order forms can be misused (only applicable to EDO's and the LTSM Project team)	<ul style="list-style-type: none"><li>Unused order books must be kept in a safe.</li><li>The keys to the safe must be assigned to an official in writing.</li><li>These order books must be listed in a register (the series of the order books must be recorded).</li><li>The register must be completed with the issue of each order book.</li><li>Order books in use must also be secured in the safe on a daily basis.</li><li>Order forms completed in error must be cancelled by inserting two diagonal lines across the face with the words cancelled.</li></ul>		P	P   		





TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Abuse of procurement process.	<ul style="list-style-type: none"><li>The duties of officials involved in procurement are properly segregated.</li><li>A fraud prevention plan is regularly updated.</li><li>Investigate allegations of fraud, corruption, improper conduct, failure to comply with documented procedures and etc. made against any role-player.</li></ul>		P	P	P	





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TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
Compliance monitoring	Suppliers paid for goods not received, or goods not ordered, or damaged goods received.	<ul style="list-style-type: none"><li>The creditors' payment function is independent of ordering and receiving of goods.</li><li>Supplier's original invoices are matched with a copy of the order and signed GRN before payment is made.</li><li>Persons approving creditor payments review all documentation supporting the payment.</li></ul>			P	  <	

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Suppliers not paid or paid the incorrect amount.	<ul style="list-style-type: none"> <li>Monthly creditors' reconciliations between supplier's statement and payments to supplier are timeously performed independently of payment, ordering and receiving.</li> <li>Outstanding reconciliation items are regularly followed up to resolve all reconciling items, especially long outstanding reconciling items.</li> <li>Creditors' reconciliations are reviewed on a monthly basis by an independent supervisor.</li> <li>The review of creditors' reconciliation by a supervisor is evidenced by the supervisor's signature on the reconciliation.</li> </ul>				<p>D</p> <p>D</p> <p>D</p> <p>P</p>	

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	The WCED fails to claim discount on timely payments.	<ul style="list-style-type: none"><li>Suppliers' invoices to be addressed to a single point in the institution, then examined on receipt by a delegated official to identify the possibility of obtaining discounts.</li><li>Discounted payments are separated from other payments and are prioritised for payment.</li><li>A delegated official reviews a 40% sample of invoices paid to ensure that discounts have been claimed.</li></ul>		P		P	
					D		

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Late payments.	<ul style="list-style-type: none"><li>Supplier invoices to be addressed to a single point in the institution, then dated on receipt by a delegated official to ensure 30 day payment rule is met.</li><li>Person approving creditor payment should check date stamp of the invoice and the date of the invoice which should be evidenced by a signature if after 30 days.</li><li>Late payments (after 30 days) to be evaluated against creditor clerk's assessment.</li></ul>			P  <		

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
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				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Service providers paid before proof of delivery of service is received.	<ul style="list-style-type: none"><li>Delegated officials adhere to prescripts and supervisors check adherence to policies and procedures (Payment can be made only after service has been rendered).</li><li>Officials approving creditor payments review all documentation supporting the event.</li></ul>		P			
				P			

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
Contract Management	Suppliers/service providers are not performing in terms of contractual requirements.	<ul style="list-style-type: none"><li>Regular reports on performance in terms of the contract or agreements are submitted by Responsibility Managers.</li></ul>			P		
	Contract is not enforceable.	<ul style="list-style-type: none"><li>There is evidence that special conditions of contracts were subjected to a legal review.</li></ul>		D			
	Officials are not aware of institutional period contracts.	<ul style="list-style-type: none"><li>Contracts are recorded in a contract register and there is evidence that information is made available to all relevant officials in the institution.</li></ul>			P		
Logistics Management (Setting stock levels)	The optimum stock levels are not determined	<ul style="list-style-type: none"><li>Minimum and maximum stock levels and lead times are fixed, regularly reviewed and approved by a delegated official.</li></ul>		P	P		
		<ul style="list-style-type: none"><li>Just-in-time stock control.</li></ul>		P			



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTING CONTROL	
Logistics Management (Service provider/ Suppliers performance)	The institution does not obtain value for money (delivery periods, quality, quantity).	<ul style="list-style-type: none"> <li>A delegated official monitors past performance of current service providers/suppliers before authorisation of any new transaction.</li> <li>The process is monitored and evaluated to ensure that the poor performance register is updated and due process is followed.</li> <li>A delegated official activates processes to identify poorly performing suppliers and initiates steps to remove suppliers from the supplier database.</li> </ul>		P			
					D		
					D		

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Suppliers behave unethically.	<ul style="list-style-type: none"><li>A delegated official logs allegations of fraud, reviews complaints and reports to the AO.</li><li>A delegated official confirms that the bid has not been awarded to a supplier listed on National Treasury's Register of Tender Defaulters and/or National Treasury's database - List of Restricted Suppliers.</li></ul>			P   		



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
Logistics Management (Recording)	Expenses for services are incorrectly classified as assets accruals.	<ul style="list-style-type: none"><li>Officials responsible for payments are informed in writing to ensure that the allocation codes are correct when capturing and authorising payments.</li><li>Disciplinary steps for officials failing to adhere to the corrective measures are undertaken.</li></ul>		C		P	
	Goods received are recorded inaccurately (allocation amounts, date of receipt etc.)	<p>An official that is separate from the officials that are tasked with the ordering and receiving of goods, ensures that all entries are recorded timeously and accurately in the inventory/ledger.</p> <p>An official checks the details of goods &amp; services from the invoices to the inventory list and ledger (cost price, classification, date of receipt, etc.)</p>			P	D	

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Completeness of assets.	All responsibility managers are aware that the movement of assets must be recorded and that the relevant forms are completed and submitted.		P			











TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Defective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMENT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
	Payment is not received for goods sold.	<ul style="list-style-type: none"><li>Suitable procedures are in place to ensure that goods sold are properly authorized and that formal documentation is prepared</li><li>A delegated official performs credit checks before completion of a sale.</li><li>Responsibility for the collection of amounts due is independent of sales and invoicing.</li><li>Regular supervisory reviews are undertaken of outstanding debtors in relation to goods sold</li></ul>		P	P	P  D	
	Obsolete/redundant assets are not disposed of within the financial year.	<ul style="list-style-type: none"><li>Disposal committee submit reports in respect of disposals to confirm that disposals were done.</li></ul>		P			



	Non-compliance with policies and procedures.	<ul style="list-style-type: none"> <li>• There is evidence of an annual management review of policies and procedures relating to goods and services to ensure that suitable controls are in place to mitigate risks.</li> <li>• Deviations from policies and procedures are approved by the AO or delegated official.</li> <li>• There is on-going training on policies and procedures related to goods and services.</li> <li>• There is evidence of management review and adoption of action plans arising from internal and/or external audit.</li> <li>• Actions agreed by the Audit Committee are actioned by Management and the results are reported back to the Audit Committee.</li> </ul>		P  C	C  P  C		
	Experience gained (lessons learned) is not taken into account in respect of planning and budgeting of goods and services.	<ul style="list-style-type: none"> <li>• Planning for goods and services is reviewed, annually and approved by the AO or delegated official.</li> <li>• Corrective measures are implemented and</li> </ul>		C  C			

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT
				P=Preventative D=Detective C=Corrective			To be done by Management and linked to maturity capability model
				MANAGEMT CONTROL	ADMIN. CONTROL	ACCOUNTG CONTROL	
		<div>monitored for effectiveness.</div> <ul style="list-style-type: none"><li>Prior experience is considered when planning and budgeting for the procurement of goods and services.</li></ul>		C			
Financial treatment and disclosure of assets, inventories and disposals	Information included in the annual financial statements in relation to SCM is not complete and accurate.	<ul style="list-style-type: none"><li>There is evidence of proper planning process in preparation for the finalisation of financial statements which include:<ul style="list-style-type: none"><li>annual asset count;</li><li>updating and reconciliation of asset register; and</li><li>identification and collection of information on commitments and accruals</li></ul></li></ul>		P			

**MOVEABLE ASSET MANAGEMENT**

The Asset Management transaction life cycle, associated risks and controls are to be read in conjunction with the Asset Management Framework (Version 3.3 April 04) and the Asset Management Guidelines (moveable assets) issued by the Provincial Treasury on 13 February 2008 and the Asset Accounting Policy Guide on the Classification, Recognition and Measurement of Capital Assets issued by the Provincial Treasury on 05 July 2016.

An asset has enduring value and can be tangible (e.g. vehicles, furniture and computer equipment) or intangible (e.g. a licence, trademark or computer software). Assets can also be moveable (e.g. furniture) or immovable (e.g. buildings) and can be classified as current assets (e.g. inventory) or non-current / fixed assets (e.g. machinery, equipment).

Effective and optimal asset management is important in any business environment since assets are usually expensive and have long life spans. This, however, does not mean that only expensive assets with long life spans need to be managed properly. It is imperative that all assets are effectively and efficiently managed in order to optimally achieve the institution's strategic objectives.

Accounting Officers of departments/institutions are responsible for financial and risk management of their respective institutions as well as for the effective and efficient use of their institution's resources (including assets), as required by

Sections 38 and 51 of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999). Sections 38 and 51 of the PFMA further requires of Accounting Officers to safeguard and maintain the assets of their respective institutions.

The Accounting Officer of the Department has other asset management responsibilities in terms of the PFMA and these include:

- Section 27: which requires a department's annual budget to reflect estimates of current and capital expenditure per Vote and per main division and the projected financial implications of that expenditure on future financial years.
- Sections 40 and 55: which requires institutions to keep full and proper records of their financial affairs and that their annual reports and financial statements must fairly reflect the financial position of the institution as well as its financial performance.

Section 42 of the PFMA also requires that when assets of a department are transferred to another department or to other institutions in terms of legislation, the Accounting Officer of the transferring department must draw up an inventory of such assets and provide the Accounting Officer of the receiving department or other institution with substantiating records in relation thereto. The Accounting Officer of both the transferring and receiving department or institution must sign the inventory when the transfer takes place and the transferring Accounting Officer must file a copy of the inventory with the relevant Treasury and the Auditor-General within 14 days of the transfer.

Treasury Regulation 10.1 requires the Accounting Officer to ensure that processes and procedures are in place for effective, efficient, economical and transparent use of their institution's assets (these can be manual or electronic). The Accounting Officer also has full responsibility for ensuring that control systems are in place to ensure the prevention of theft, losses, wastage and misuse of assets and the keeping of stock levels at an optimum and economical level.

From the aforementioned, it is clear that the Accounting Officer is responsible for the proper management of and accounting for assets. The Accounting Officer can delegate his or her responsibilities but cannot abdicate these responsibilities since the Accounting Officer is ultimately accountable for proper and effective asset management.

Responsibilities of other officials are detailed in sections 45 of the PFMA including, inter alia, officials being responsible for the management, including safeguarding of assets within that official's area of control. Officials are also required to ensure that the system of financial management and internal control is carried out within the official's area of responsibility.

The following policies are relevant for the classification of assets:

- Minor assets: these are assets costing less than R5 000 which must be recorded as assets but are to be fully depreciated/written off in the financial year in which they are acquired. Minor assets are dealt with under Goods and Services and must be included under "Current Expenditure" in the income statement and appropriation statement. For example, a computer (including mouse, keyboard and monitor) costing less than R5 000 will fall under Goods and Services **provided** that the computer is not purchased to be used in a capital project, in which case it would be classified as a capital



asset. Despite these assets being of relatively little value, they still need to be effectively managed and controlled.

- Other Assets: these are assets costing more than R5 000 and are dealt with under Asset Management. These assets are depreciated over their useful life using the straight-line method of depreciation, which is simple to calculate and is the most commonly used depreciation method in all businesses worldwide.

### **TRANSACTION LIFE CYCLE**

Steps 1 to 8 set out hereunder represent the transaction life-cycle of assets, from planning to acquiring assets in order to achieve the department's strategic objectives, to monitoring and reviewing the costs and effective use of assets which in turn can provide feedback into the strategic planning process of the department.

The Risks and Controls to prevent risks are detailed hereafter for each transaction life cycle:

1. Asset planning and budgeting;
2. Acquisition of assets;
3. Recording of assets;
4. Maintenance of assets;
5. Safeguarding of assets;
6. Utilisation of assets;
7. Disposal of assets; and
8. Monitor and evaluate processes to improve asset management.

**PART 4****Internal Control Framework for Moveable Asset Management**

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
Asset planning and budgeting	Asset planning and budgeting is not linked to the department's strategic plan and budget.	<ul style="list-style-type: none"><li>The department has an Asset Strategic plan which devolves from the department's 3-year procurement plan and is linked to the service delivery objectives.</li><li>The implementation of the Asset Strategic plan is monitored and evaluated to ensure that the service delivery objectives are met.</li><li>The Asset Strategic plan is reviewed annually and approved by the Accounting Officer or delegated official.</li></ul>		P			
				P	D		



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
	Inappropriate supplier is chosen as industry and/or commodity analysis has not been conducted.	<ul style="list-style-type: none"><li>A delegated official conducts an industry and commodity analysis to identify potential suppliers that can deliver the goods or services at value for money.</li><li>A delegated official presents the market analysis report to SCM Operations prior to the acquisition of the goods or services.</li><li>A process should be in place to show proof that the industry and commodity analyses have been considered in the acquisition planning phase.</li></ul>			P   P   P		



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT  To be done by Management and linked to the maturity capability model
				P=Preventative D=Detective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
	The asset register does not accurately reflect assets on hand (physical existence).	<ul style="list-style-type: none"><li>Annual physical verification of assets is performed.</li><li>Assets scrapped or disposed of are recorded in the asset register as disposed.</li><li>Physical asset verification is reconciled to the asset register independently of parties writing up the asset register and performing the physical verification.</li><li>Differences between the physical verification and the asset register are independently followed up and necessary adjustments are made after being approved (i.e. adjustments necessary in respect of barcoding assets which have not been barcoded or adjustments to the asset register).</li></ul>			D	P  D  C	



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			To be done by Management and linked to the maturity capability model
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
		the implementation of the annual asset maintenance plan.					





TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT  To be done by Management and linked to the maturity capability model
			Responsibility to be allocated by Management	P=Preventative D=Detective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
		<ul style="list-style-type: none"><li>Disciplinary action is taken against officials responsible for any loss or damage to assets.</li><li>Legal or other appropriate action is taken for the recovery or restoration of assets stolen, lost or vandalized.</li></ul>			C  C		
	Utilisation of assets by unauthorised personnel.	<ul style="list-style-type: none"><li>Assets are allocated to specific officials who are responsible for safeguarding all assets under their control.</li><li>When assets are used by someone other than the official responsible for their safeguarding, this use is to be authorised by the relevant Responsibility Manager.</li></ul>		P  P			

TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL	CONTROL TYPE			MANAGEMENT ASSESSMENT  To be done by Management and linked to the maturity capability model
			Responsibility to be allocated by Management	P=Preventative D=Defective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
Utilisation of assets	Assets are not used for the purpose that they were acquired (or are not used optimally)	<ul style="list-style-type: none"><li>Independent check of utilisation of assets against the approved operational plan and asset register.</li><li>Reasons for the under-utilisation of assets should be investigated and reported to the asset manager for action.</li></ul>		D	C		
	Assets no longer required are not sold.	<ul style="list-style-type: none"><li>Annual management review of assets recorded in the asset register.</li><li>Assets which are surplus to requirements are authorised to be sold or transferred or donated in line with the approved methods of disposal.</li></ul>		D	C		

<b>Disposal of assets</b>	Assets are sold at less than market value.	<ul style="list-style-type: none"> <li>• The responsibility for the sale of assets is independent of ordering and receiving assets.</li> <li>• Advertising on the eProcurement Solution (ePS).</li> <li>• Proof of payment received is placed on file. Suitable procedures are in place, and adhered to, for the sale of assets in accordance with Treasury Regulations.</li> <li>• The minutes of the Disposal Committee and the necessary motivation and approval by the delegated official is placed on file.</li> </ul>			<p>P</p> <p>P</p> <p>P</p> <p>P</p>		
	Payment is not received for assets sold.	<ul style="list-style-type: none"> <li>• Suitable procedures are in place to ensure that assets sold are properly authorised and that formal documentation is prepared</li> </ul>			<p>P</p>		



TRANSACTION	RISKS	CONTROL DETAILS	DELEGATED OFFICIAL  Responsibility to be allocated by Management	CONTROL TYPE			MANAGEMENT ASSESSMENT  To be done by Management and linked to the maturity capability model
				P=Preventative D=Detective C=Corrective			
				MANAGEMENT CONTROL	ADMIN CONTROL	ACCOUNTG CONTROL	
	Assets are scrapped which are still required.	<ul style="list-style-type: none"><li>The Disposal Committee recommends to the delegated official the assets to be scrapped.</li><li>The delegated official approves the disposal by means of dumping at a registered dumping site.</li></ul>		P	P		
	Assets are scrapped which could have been sold.	<ul style="list-style-type: none"><li>The Disposal Committee considers the various methods of disposal and recommends the most appropriate method per case which is then authorised by the delegated official.</li></ul>		P			
Monitoring, reviewing and improving asset management	Risks and controls are not analysed, reviewed and improved.	<ul style="list-style-type: none"><li>A risk assessment of policies and procedures around asset management is reviewed and updated annually.</li></ul>		D			

