

**FRAUDULENT AWARD OF TENDERS AND SOUTH AFRICAN  
GOVERNMENT**

by

**PHUTI FRANS MANAKA**

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SUPERVISOR: PROF. GODWIN EMMANUEL, OYEDOKUN

DATE SUBMITTED: 11 AUGUST 2021

## **DECLARATION**

Student number: 42076439

I, Phuti Frans Manaka, hereby declare that this dissertation entitled: "Fraudulent award of tenders and South African government" for a Master's degree was researched and compiled by myself and is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. I further declare that I submitted the dissertation to originality checking software and that it falls within the accepted requirements for originality.

I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.

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Phuti Frans Manaka

Signed at Pretoria, South Africa, August 2021

## **ACKNOWLEDGEMENTS**

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I also like to take this opportunity to convey my sincere gratitude to my supervisor, Professor Godwin Emmanuel Oyedokun for his guidance, kind supervision, support and encouragement throughout my entire journey.

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Lastly, I would like to express my sincere gratitude to my wife, kids and friends for their support during my journey.

## **ABSTRACT**

The aim of this study was to determine which factors lead to the fraudulent awarding of tenders by the South African government. To that end, the researcher sought to highlight the causes of fraudulent activities occurring within the public procurement system, which go undetected despite existing control measures, and to determine the impact which such fraud has on the economy of the country, and on service delivery to local communities. In this undertaking, a qualitative research approach was adopted. In terms of primary sources, interviews were conducted to gather data, using well-developed guiding questions, with the study population mainly comprising government entities in Gauteng province. The findings revealed that existing control measures in public procurement systems have notable weaknesses. Greed and self-enrichment, a lack of consequence management, political influence in the awarding of tenders, and the high prevalence of corruption in government institutions, appear to be the main causes of fraudulent activities in public entities.

Keywords: control measures, fraudulent activities, public entities, public procurement, South African government, tenders.

## **ISIFINYEZO ESISUKETHE UMONGO WOCWANINGO**

Inhloso yalolu cwaningo bekuwukobona izinto ezibangela ukunikezwa kwamathenda ngendlela yenkwabaniso kahulumeni waseNingizimu Afrika. Mayelana nalokho, umcwaningi ufune ukugqamisa izimbangela zemisebenzi yenkwabaniso eyenzeka kwinqubo ye-procurement kahulumeni, eyenzeka ngendlela engabonakali ngisho noma kukhona izindlela zokulawula ezikhona, kanye nokubheka umphumela wale nkwaniso kumnotho wezwe, kanye nasekuthulweni kwezidingo (kwamasevisi) kwimiphakathi yendawo. Kulo msebenzi, kusetshenziswe inqubo ye-qualitative research. Ngokulandela imithombo yokuqala, kwenziwe ama-interview ukuqokelela ulwazi, ngokusebenzisa imibuzo ehlelwe kahle, nalabo abekucwaningwa ngabo, ikakhulukazi kwizikhungo zikahulumeni weprovinsi yeGauteng. Imiphumela iveze ukuthi izindlela zolawulo ezikhona kwinqubo ye-procurement kahulumeni ziyaxega kakhulu, Umhobholo nokufuna ukuzicebisa, ukuthi kungabi nemiphumela emibi kwabenza ububi, ukungenela kwabezepolitiki ekunikezweni kwamathenda, kanye nezinga eliphezulu lenkwabaniso kwizikhungo zikahulumeni, kubonakala kuyizimbangela ezinkulu zenkwabaniso kwizikhungo zikahulumeni.

Amagama abalulekile: izindlela zolawulo, imisebenzi yenkwabaniso, izikhungo zikahulumeni, inqubo ye-procurement kahulumeni; uhulumeni weNingizimu Afrika, amathenda.

## **KAKARETŠO**

Maikemišetšo a nyakišišo ye e be e le go utolla gore ke mabaka afe ao a dirago gore go be le boradia mo go abeng dithentara ka mmušong wa Afrika Borwa. Ka lebaka leo, monyakišiši o be a nyaka go bontšha seo se hlolago ditiro tša boradia tšeo di diregago ka lenaneong la ditirelo la mmušo, leo le tšwelago pele ntle le go lemogwa le ge go na le magato a taolo, le go utolla khuetšo yeo boradia bjoo bo nago le yona mo ekonoming ya naga, le go kabo ya ditirelo go ditšhaba tša selegae. Nyakišišong ye go šomišitšwe mokgwa wa dinyakišišo wa boleng. Malebana le methopo ye megolo, go dirilwe dipoledišano go hwetša data, go šomišwa dipotšišo tša go hlahla, gomme batho bao ba šomišitšwego mo dinyakišišong ke makala a mmušo a profense ya Gauteng. Dikutollo di bontšhitše gore magato a taolo a gonabjale mo mananeong a ditirelo a na le mafokodi a mantši. Megabaru le go ke khumiša, go se be le taolo ya dipoelo, khuetšo ya dipolotiki mo go abeng dithentara, le ditiragalo tša godimo tša bomenetša mo diinstitūšeneng tša mmušo, di tšwelela go ba tšona di hlolago ditiro tša boradia mo makaleng a setšhaba.

Mantšu a motheo: magato a taolo, mešongwana ya boradia, mmušo wa Afrika Borwa, dithentara.

## **LIST OF ABBREVIATIONS**

**AGSA:** Auditor General of South Africa

**BAC:** Bid Adjudication Committee

**BBBEE:** Broad Based Black Economic Empowerment

**BEC:** Bid Evaluation Committee

**BSC:** Bid Specification Committee

**CFST:** Cross-functional Sourcing Team

**DOA:** Delegation of Authority

**DOI:** Declaration of Interest

**IDP:** Individual Development Plan

**MFMA:** Municipal Finance Management Act

**PFMA:** Public Finance Management Act

**PPE:** Personal Protective Equipment

**PPM:** Procurement Performance Management

**PPPFA:** Preferential Procurement Policy Framework Act

**PRECCA:** Prevention and Combating of Corrupt Activities Act

**TEAR:** Tender Evaluation and Recommendation Report

**TOR:** Terms of Reference

**UNISA:** University of South Africa

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# Chapter 1: Overview of the study

## 1.1 Introduction

According to the World Bank, countries in Africa, Asia, Middle East, Europe and Latin America show similar types of fraudulence, including procurement fraud, collusion, kickbacks, and bribes (The World Bank, 2016). Meanwhile, the Global Fraud Survey conducted by the Association of Certified Fraud Examiner (ACFE, 2014) revealed that corruption cases comprise 36.2% of total government and public administration fraud. The 2020 edition of the global fraud study reported that corruption cases comprise of 42% of total government and public administration fraud, which is 5.8% higher than what was reported in the 2016 edition (ACFE, 2020). In addition, Pring (2015) has noted that there has been an increase in corruption in African countries, such as Nigeria, Ghana, and South Africa.

In addition to this, Dávid-Barrett and Fazekas (2019) conducted an analysis of favoritism towards loyal supporters of political parties in Hungary and UK (United Kingdom). The outcome indicated that there is political influence in the administration of public entities, that promotes favoritism towards loyal supporters of the political parties. The majority of the bidders that win these bids do not have prior track records. Additionally, the tenders are awarded to the suppliers that are related or connected to the political officials. Furthermore, the extensive EU legislative framework in Hungary has some loopholes allowing for nepotism and favoritism in the public procurement system.

Moreover, in the UK, there is no political influence in the administration of public entities. Successful bidders without prior track records are limited to approximately 10% of the public market. Furthermore, some of the bidders benefit from the government change and unfair procurement processes that make the UK public procurement system unfair, and not fully open (Dávid-Barrett and Fazekas, 2019).

Moiseev (2019) assessed the activities of public authorities over the past twenty years in Russia, and discovered that there is a slight increase in corruption in government under Putin. Further to this, political officials benefit from corrupt activities in the public sector, where officials often issue tenders with the express intention of benefitting from those contracts.

In addition, Onyango (2018) researched those factors responsible for rampant fraud and corruption in Kenya, the findings of which were devastating. The elites and their cronies and relatives mostly commit fraudulent activities in Kenya. These are the respected and powerful people in the society, which are top administrators in government, such as departmental heads, cabinet secretaries, heads of corporations, top politicians, and business elites. Moreover, powerful multi-national companies instigate certain fraud and corruption cases. These companies similarly always have powerful connections, which they use to frustrate any fraud cases against them.

Furthermore, Kenyan law enforcement agents are also handicapped in terms of qualifications and integrity required to investigate and prosecute the cases that are of economic crimes in nature. For example, a majority of the police who are the main government investigators do not have the professional skills to detect and investigate common corruption crimes, such as financial misappropriations, which require high qualifications in forensic accounting and auditing, because they only have secondary school certificates. Moreover, lenient punishments by the courts, lack of punishment, or rulings that favour the corrupt, have made fraud and corruption levels in Kenya worse (Onyango, 2018).

Meanwhile, fraud and corruption cases in Kenya also tend to drag on in courts of law for years before they are concluded. In addition, poor employee recruitment and promotion procedures are also responsible for high corruption rates in the country. Nepotism and tribalism in the employment of individuals in public entities has since become commonplace (Onyango, 2018).

The study of Grega, Orviska, Nemeč and Lawson (2019) assessed factors causing inefficiencies in the Slovak public-procurement system, such as excessive bureaucracy in government procurement, including the impact of frequent legislative changes that generates excessive overhead costs. Furthermore, the procurement legislation was amended 35 times over the decade following 2006. Secondly, corruption in public entities results in excessive procurement costs and poor service delivery to the community. Thirdly, absence of open competition in the public market deprives government of the opportunity to save on procurement costs. Lastly, the award of tenders to bidders that offer low prices sometimes affect the quality of goods and/or services that are planned to be delivered or rendered to the community.

Hazarika and Jena (2017) meanwhile report on several issues in the public procurement activities in India, such as lack of transparency, unavailability of sufficient procurement professionals, and widespread irregularities. Furthermore, there is no consistent and transparent public procurement system in place, but rather, merely fragmented rules and procedures. Moreover, less productive firms pay larger bribes to the officials, and bid more aggressively in procurement auctions in Korea, resulting in poor service delivery (Kang, Kim & Kim, 2019).

Furthermore, corruption in procurement is one of the main causes of poor service delivery in the public sector, and the waste of public funds. Abuse of power in procurement, bribery, kickbacks, nepotism, and favouritism, collusion, bid rigging, and misappropriation of public funds rank as the most frequently occurring forms of corruption in procurement in Yemen (Thabit, 2019).

## **1.2 Corruption in the South African Government**

In South Africa, fraud and embezzlement are among the most frequent corrupt activities that occur in the public sector. Furthermore, the state recently opened court cases against Steinhoff and McKinsey. These entities are linked to the Gupta family that is accused of corrupt state contracts, secured through their ties with the previous president, Jacob Zuma. Also, KPMG's reputation was significantly damaged after the entity was linked to Gupta family (Bezuidenhoud & Geldenhuys, 2019).

On the other hand, Engelbrecht (2018) has opined that the reality for the ruling party struggle is that when Jacob Zuma was exposed, the party went on trial. It is reasonably impossible for party members not to have known that large-scale fraud and corruption is practiced. This is due to the seamless relationship between Zuma and the Party.

ENSOR (2018) analysed the case of the 1064 locomotive tender of R54.5 billion that was awarded in March 2014 to South China Rail, North China Rail, General Electric and Bombardier Transportation. The contract was declared unlawful and irregular as it allegedly involved kickbacks and Gupta linked corruption. Also, Quintal (2019) summarised a testimony that former Bosasa COO Angello Agrizzi testifying at the Zondo Commission in March 2019 that Bosasa spent between R4 million and R6 million a month on bribes to help it win lucrative contracts with the Government.

The legal framework for public procurement is entrenched in the Constitution, which is viewed as primary legislation that is significant in procuring goods and services for the public sector in order to fulfil its mandate as provided for in Constitution (Mashaba, 2018). However, corruption in public procurement occurs despite the existence of the above-mentioned legal framework for public procurement.

The criminal justice system in South Africa has over 10 institutions with a mandate to curb public procurement corruption. This has created a criminal justice system that is weak in the sense that it seems to be a mechanism for cadre deployment in influential posts. These cadre deployees act as gatekeepers for high-ranking politicians that are alleged to be involved in public procurement corruption (Mugadza, 2018).

In addition to the criminal justice system, South Africa has put in place administrative measures to curb public procurement corruption by using debarment measures. However, there is no consistency in the application of these measures at all government levels. Although a country has corruption legislation, it does not have a properly defined anti-corruption strategy; and it does not have a single dedicated anti-corruption agency, but instead, has over 10 anti-corruption agencies.

### **1.3 Problem statement**

There are a number of corruption allegations in the tendering system of the South African government that involve senior political officers and/or senior managers. Billions of rands were paid to bidders and/or companies that were fraudulently awarded tenders in public entities. In some instances, bribes were paid to the perpetrators, without being detected by the existing control measures in government organisations.

ENSOR (2018) analysed the case of 1064 locomotive tenders worth R54.5 billion that was awarded in March 2014 to South China Rail, North China Rail, General Electric and Bombardier Transportation, where the tender was declared unlawful and irregular, as it allegedly involved multi-billion rand kickbacks. The R54.5 billion price tag for the locomotive acquisition was an escalation of the original estimated cost of R38.6 billion with allegations of Gupta-linked corruption linked to the way the contracts were awarded.

On the other hand, according to the former Bosasa COO Angello Agrizzi's testimony at Zondo Commission in March 2019, Bosasa spent between R4 million and R6 million on bribes a month to help it win lucrative contracts with the government. He further testified as to how Bosasa covered the costs of ANC rallies and birthday celebrations (Quintal, 2019).

Agrizzi told the Commission that Bosasa had donated between R10 million and R12 million to the ANC's top six leaders. He mentioned names of the senior political officers in the Commission, noting that they received bribes (Quintal, 2019).

Furthermore, misappropriation of public funds in government tenders leads to poor service delivery, a high unemployment rate, a high cost of living, and an unstable macroeconomy. Moreover, corrupt activities occur in the public tendering system at the existence of the current control measures that are put in place, as well as the legal framework for public procurement.

#### **1.4 Research Aim and Objectives**

The aim of this study on the fraudulent awards of tenders in the South African Government is to:

- 1.4.1 identify the control measures that are put in place that govern the award of tenders in public entities and demonstrate their weaknesses;
- 1.4.2 point out loopholes that abet the defrauding of Government through tenders and determine ways that accomplices utilise these to disburse funds beyond government systems without being detected;
- 1.4.3 evaluate what attracts and encourages the accomplices to commit fraud in government tenders and ascertain the impact of fraudulent award of tenders in the economy of a country, and service delivery to the people of South Africa; and
- 1.4.4 establish, develop and recommend additional control measures and processes by which to address the weaknesses of the current situation.

## **1.5 Research design and methodology**

This study was conducted in an appropriate manner following the qualitative research design. In terms of primary sources, interviews were conducted to gather the data utilising a well-developed guiding questions. Babbie and Mouton (2001) mention that the most favourable data-collection methods in qualitative research is observation, interviewing, and documentary source.

The research was based mainly on the South African government entities based in Gauteng Province. The proposed sample size consisted of five government entities. The preferred population for this research were the risk managers, internal auditors, forensic auditors, supply chain compliance managers, and financial managers of the selected entities. A researcher interviewed only one dignitary per entity.

In terms of secondary sources, a researcher gathered data from a recent published articles and journals from AGSA. The researcher utilised the most suitable articles and journals (secondary sources) to the study that were published between the years 2020 and 2021. Furthermore, a researcher utilised Atlas.ti to analyse the data that was gathered and collected. In De Vos, Strydom, Fouché and Delport (2005), data analysis refers to a process of making interpretation and giving specific order to a large quantity of data.

## **1.6 Contribution of the study**

This study demonstrated the weaknesses of the existing control measures in public tendering system and highlighted that which encourages and attracts the accomplices to commit fraud in government tenders. The results also revealed the various ways in which accomplices utilise to defraud tendering system without being detected. Furthermore, this study demonstrated the impact of corruption in government towards service delivery and economy of a country.

The assessed findings will assist to strengthen the control measures in tendering system towards preventing and reducing fraud and corruption in South African government. The results will not only benefit South African government, but will also benefit other countries and private sectors. Other countries and private sectors may use the findings of this study to strengthen their tendering systems. It will also be

beneficial to the academics that have interest in the similar field as a point of reference if they wish to fulfil and further their studies. This study will help in discouraging prospective perpetrators from committing fraud, and involving themselves in corrupt activities in government and other private companies.

The less corruption activities occur in government, the more South Africans will receive better service delivery. Investors like to invest in countries that have minimal corrupt activities in government, which will therefore improve the economy of the country. The study sought to evaluate knowledge required in the government supply chain versus the knowledge that supply chain currently have in place. The researcher made some recommendations on training that should be offered to supply chain officials and finance officials to enrich their knowledge on supply chain prescripts.

## **1.7 Chapter overview**

A summary of subsequent chapters are discussed below:

### **Chapter 2 & 3: Discussion of literature review**

These chapters entail the discussion of the existing studies relating to government tendering system. The existing studies include international and domestic studies relating to fraudulent activities in government. The researcher evaluates and assesses the gaps and recommendations from the existing studies and discusses how the identified gaps linked to this study.

### **Chapter 4: Research methodology**

This chapter deals with the types of methodologies applicable to the research study and the selection of the methodology adopted for this study. The researcher described a proposed sample size, population and the way required data was gathered. This section also discusses suitable software that the researcher utilised to do this study.

### **Chapter 5: Presentation and analysis of data**

This chapter deals with the analysis of the results gathered on this study using tables and confirming that the aim and objectives of the study are met.

## **Chapter 6: Summary, conclusions, and recommendation**

This chapter summarises the findings of the study, illustrates the conclusion, and demonstrates the recommendations to improve the control measures of public procurement systems.

## **Chapter 2 Literature review**

### **2.1 Introduction**

Corruption presents a serious hurdle to economic growth, where it affects the economic growth and direct investments from foreign countries (Hakimi & Hamdi, 2017). It can be said that it is like a pandemic that affects the health of the people across the world. Meanwhile, Gründler and Potrafke (2019) have opined that corruption decreases economic growth of a country, as it prevents efficient production and innovation.

Useche and Reyes (2020) describes corruption as an unethical behaviour that breaks legitimate and socially accepted norms, harming social well-being and leading to the abuse of entrusted power for private gain. Also, David-Barrett, Murray, Polvi and Burge (2020) explain corruption as a complex social phenomenon, which is difficult to detect or measure.

According to Useche and Reyes (2020) corruption is classified in three ways, depending on the sector where it occurs, and the amount of money involved. It is classified as: petty corruption, which is related to insignificant abuse, by low and mid-level public officials; political corruption, which consists of manipulation of rules and policies by political officials in order to sustain wealth and power; and finally, grand corruption, which is committed by senior management of the government manipulating rules and policies of the state.

The general offence of corruption in Republic of South Africa under Prevention and Combating of Corrupt Activities Act No.12 of 2004 (PRECCA) is the offering to give someone in a position of power gratification to act in a certain manner. Gratification refers to money, donation, favour, vote, employment etc. (Justice and Constitutional Development, 2004).

### **2.2 Corruption versus fraud**

Corruption is also defined as the abuse of entrusted power for personal gain (Cuervo-Cazurra, 2016). However, there are two problems with this definition. First, abuse of entrusted power occurs for all kinds of white-collar crime, including fraud and theft.

Secondly, private gain is only one motive for corruption, and is typically found among bribe actors. Fraud constitutes a deliberate deception to secure unlawful gain.

Furthermore, fraud can be described as a misrepresentation of facts with the purpose of causing someone else to do something financially that the person otherwise would not have done. Moreover, fraud can be explained as an intentional deception of a targeted person by misrepresentation or pretense, with the intent of convincing the targeted person to part with something valuable, and with the targeted person parting with the valuables in reliance on the representation, and with the perpetrator intending to keep the valuables from the targeted person (Steinmeier, 2016).

In some instances, senior management often make rational decisions to commit fraud that results with excessive cost that might have been avoided. Sometimes middle management are instructed by senior management to commit fraud (Gottschalk, 2019). In addition, financial fraud is defined according to an explanatory framework of a fraud triangle. A fraud triangle entails a person's incentive and pressure to act unlawfully; the perceived opportunity to commit fraud; and the attitude of the person which is linked to the rationalisation of unlawful act (Steinmeier, 2016).

### **2.3 Procurement fraud in African, Asian and European countries**

According to the World Bank, countries in Africa, Asia, Middle East, Europe and Latin America show similar types of fraudulence, including procurement fraud, collusion, kickbacks, and bribes (The World Bank, 2016). Meanwhile, the Global Fraud Survey conducted by the Association of Certified Fraud Examiner (ACFE, 2014) revealed that corruption cases entail 36.2% of total government and public administration fraud. The 2020 edition of the global fraud study reported that corruption cases comprise of 42% of total government and public administration fraud, which is 5.8% higher than what was reported in the 2016 edition (ACFE, 2020).

In addition, Pring (2015) reports that there has been a recent increase in corruption in African countries, such as Nigeria, Ghana and South Africa. In addition to this, Dávid-Barrett and Fazekas (2019) conducted an analysis of favoritism towards loyal supporters of political parties in Hungary and UK (United Kingdom). The outcome

indicated that there is political influence in the administration of public entities, that promotes favoritism towards loyal supporters of the political parties. The majority of the bidders that win these bids do not have prior track records. Additionally, the tenders are awarded to the suppliers that are related or connected to the political officials. Furthermore, the extensive EU legislative framework in Hungary has some loopholes allowing for nepotism and favoritism in the public procurement system.

Moreover, in the UK, there is no political influence in the administration of public entities. Successful bidders without prior track records are limited to approximately 10% of the public market. On the other hand, some of the bidders benefit from the government change and unfair procurement processes that make the UK public procurement system unfair, and not fully open.

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Furthermore, Kenyan law enforcement agents are also handicapped in terms of qualifications and integrity required to investigate and prosecute the cases that are of economic crimes in nature. For example, a majority of the police who are the main government investigators do not have the professional skills to detect and investigate common corruption crimes, such as financial misappropriations, which require high qualifications in forensic accounting and auditing, because they only have secondary school certificates. Moreover, lenient punishments by the courts, lack of punishment,

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Furthermore, corruption in procurement is one of the main causes of poor service delivery in the public sector, and the waste of public funds. Abuse of power in procurement, bribery, kickbacks, nepotism, and favouritism, collusion, bid rigging, and misappropriation of public funds rank as the most frequently occurring forms of corruption in procurement in Yemen (Thabit, 2019).

## **2.4 Corruption in the South African Government**

In South Africa, fraud and embezzlement are among the most frequent corrupt activities that occur in the public sector. Furthermore, the state recently opened court cases against Steinhoff and McKinsey. These entities are linked to the Gupta family that is accused of corrupt state contracts, secured through their ties with the previous president, Jacob Zuma. Also, KPMG's reputation was significantly damaged after the entity was linked to Gupta family (Bezuidenhoud & Geldenhuys, 2019).

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The legal framework for public procurement is entrenched in the Constitution, which is viewed as primary legislation that is significant in procuring goods and services for the public sector in order to fulfil its mandate as provided for in Constitution (Mashaba, 2018). However, corruption in public procurement occurs despite the existence of the above-mentioned legal framework for public procurement.

The criminal justice system in South Africa has over 10 institutions with a mandate to curb public procurement corruption. This has created a criminal justice system that is weak in the sense that it seems to be a mechanism for cadre deployment in influential posts. These cadre deployees act as gatekeepers for high-ranking politicians that are alleged to be involved in public procurement corruption (Mugadza, 2018).

In addition to the criminal justice system, South Africa has put in place administrative measures to curb public procurement corruption by using debarment measures. However, there is no consistency in the application of these measures at all government levels. Although a country has corruption legislation, it does not have a properly defined anti-corruption strategy; and it does not have a single dedicated

anti-corruption agency, but instead, has over 10 anti-corruption agencies (Mugadza, 2018).

Pillay (2017) has noted that there is existing legislative and regulatory frameworks established to fight against corruption in Brazil and South Africa. However, political interference, and the non-existence of coordination, synergy, and cooperation between various agencies hinders the success of legislative frameworks. The lack of synergy, coordination, and cooperation in particular shows that there is no single coordinating body that plan and implement the strategic and tactical imperatives in the fight against corruption. Moreover, the existence of political interference is a major obstacle.

On the other hand, Pillay and Mantzaris, (2017) posit that corruption in the healthcare system in both South Africa and India is directly related to collusion between the public and the private sectors. In both public and private sectors, collusion between employees and political officials leads to a lack of transparency and fairness regarding the procurement of goods and/or services.

Furthermore, corruption in the healthcare system is a violation of the human rights of the people of a country. Meanwhile, millions of the people lose their lives in India and South Africa due to corruption in the health care system, which occurs mainly through political and business elites that are involved in collusion, fraud, and violation of procurement regulations.

## **2.5 The Public Finance Management Act (PFMA) and the Local Government Municipal Finance Management Act (MFMA)**

The PFMA and MFMA prescribes the regulation of the financial management within the national, provincial, and local government and constitutional institutions (National Treasury, 2017). Furthermore, the PFMA describes entities that must comply with the PFMA regulations, which are mandatory for such entities to adhere to. However, Kanyane (2018) posits that it is important to note that the PFMA and MFMA were simply ad-hoc frameworks not originally meant as a means to deal with the specific issues confronting public entities on a day-to-day basis.

In terms of prescriptions contained in the MFMA, the Act aims to modernise budget and financial management practices by local governments in order to maximise the capacity of local governments to deliver services to their community and customers. The ultimate goal is to establish a sound financial governance framework by clarifying and separating the roles of leaders in local governments such as executive mayor, executive committee, councillors, and government officials (National Treasury, 2017)

Furthermore, the MFMA prescribes the aims of the budgetary reforms in local government. The aim is to ensure that local government budgets and financial management processes are transparent, to ensure local government budgets support the provision of basic services to communities in order to facilitate social and economic development, and to promote a safe and healthy environment in sustainable manner, to ensure that budget is reliable and consistent across municipalities, and that municipalities, provinces, and national government use it properly.

In addition, it is necessary to improve financial governance by clarifying and separating the roles and responsibilities of leaders such as mayors, executive and non-executive councillors. However, Hanabe, Taylor and Raga (2017) argue that the introduction of the budgetary reforms appears to favour the bureaucracy instead of enhancing service delivery to communities.

Section 38 (1) (h) of the PFMA states that the Accounting Officer of the state organ must take the necessary steps to avoid and minimise unauthorised irregular and fruitless and wasteful expenditure, and the losses resulting from criminal conduct, and must take necessary disciplinary steps against any government employee who fails to comply with a provision of the Act.

On other hand, Dlomo (2017) discovered that some of irregular expenditure amounts were recovered from public officials in the national department of public works, and that there was no consequence management or action being taken against the public officials who have not complied with the PFMA prescripts and procurement policies leading to irregular expenditure.

In addition, Fourie (2018) opined that most of the municipalities that do not take action against the municipal officials who have violated the MFMA prescripts leading to irregular expenditure were more susceptible to fraud and corruption.

According to Peter van der Hoek (2017), public procurement is conducted within a decentralised legal framework in South Africa, which is fragmented across government, with thousands of independent procurement sites resulting in very little coordination, integration or interrelatedness in the planning, implementation, monitoring, and evaluation of procurement activity. Meanwhile, the PFMA is intended to empower managers to manage through the decentralisation of powers and responsibilities. It was also pointed out that the status of public procurement in South Africa is characterised by inefficiency, non-compliance, wastage, and increasing levels of public scrutiny and concern.

These occurred in the form of: failure to produce documents evidencing compliance with procurement regulations; awarding of contracts to state employees or their close family members; lack of capacity to bring the regulatory prescripts to bear on procurement activities; poor information on expenditure; lack of appropriate procurement knowledge and skills; poor procurement infrastructure; and ineffective contract management. In addition, inadequate systems of supplier performance and non-verification of suppliers registered on the central suppliers' database are serious weaknesses in the system.

## **2.6 The role of Internal Audit, Audit Committee and Risk Management Committee in the prevention and detection of fraud and corruption.**

S38 (1) (a) (ii) of the PFMA states that accounting officer must ensure that its department has effective internal audit under the guidance of an audit committee complying with instructions and rules prescribed in terms of section 76 and 77 of the PFMA (National Treasury, 2017). Meanwhile, the CFA Institute (2015) describes that the primary goal of the organisation's audit committee is to provide oversight of the financial reporting process, the audit process, the entity's system of controls, and compliance with rules and regulations.

In addition, the National Treasury (2012) has explained that the chairperson of an audit committee must be independent, impartial, be knowledgeable of the criticality of the job, have multi-disciplinary skills such as financial, business, and leadership skills, and

may not be a political official. Audit committees must abide by a formal constitution to ensure their independence and their membership are disclosed in the annual report of the institution.

Also, Laming, Setiawan and Saleh (2019) have shared that the independence of the audit committee assists to reduce fraudulent activities in the organisations. On the other hand, Oroud (2019) discovered that there is significant positive relationship between independence of the audit committee and return on investment, and the effective audit committee and that its contribution to the quality of the entity's financial reporting can minimise financial fraud.

The audit committee work in conjunction with the risk management committee. The risk management committee assists the accounting officer in carrying out his or her accountability for risk management by reviewing the effectiveness of the departmental risk management systems, practices and procedures, and providing recommendations for improvement (North West DPWRT, 2015). Meanwhile, Sunaryo, Astuti and Zuhrohtun (2019) note that the more disclosed information, the less risks of fraud done by the entity and the independent internal audit function in the entity minimises the presence of fraud in financial reporting.

Also, Nasution (2019) has noted that the risk management committee is expected to assist the board of directors in discharging the supervisory function, as an effort to protect stakeholders and achieve the goals of the entity. The study further outline that if risk is mismanaged, it will cause losses for the organisation, and even bankruptcy of number of organisations.

## **2.7 The Preferential Procurement Policy Framework Act**

The PPPFA was enacted to give effect to the provisions of section 217 of the Constitution of the Republic of South Africa, which prescribes that national legislation must be enacted to prescribe a legal framework from which the policy of preferential procurement must be executed. The above-mentioned provision further provides that a state organ must determine and implement its preferred procurement policy, which will exist within the framework of the provision of section 217 of the Constitution.

A preferential point system is adhered to in making procurement decisions. This is done through the principle of 80/20 and 90/10, where 80% or 90% of the total points awarded to a bidder depend on price and 20% or 10% of the points awarded may depend on non-price considerations, like the bidder's rating for broad-based black economic empowerment (BBBEE) (Parliament of Republic of South Africa, 2000).

However, Kaseke (2017) argued that public preferential procurement is utilised mainly so as to achieve social and political goals, where in some instances, officials manage to override the processes.

## **Chapter 3 Literature review continuation**

### **3.1 Introduction**

The aim of this study is to determine factors that cause fraudulent awards of tenders in South African government, outline reasons why fraudulent activities happen in public procurement without being detected, and determine the impact of fraudulent activities in the economy of a country and service delivery to the community. However, literature review is not limited to South African sources. It includes international literature to determine how other countries experience corruption in the public sector. The review focus mainly on literature related to the public sector and excludes literature related to the private sector. The procurement of goods and/or services in public and private sectors is not governed by the same legislations and procurement prescripts hence literature related to the private sector was excluded in this study.

### **3.2 Awarding of contracts**

Section 217 (1) of the Constitution of the Republic of South Africa provides that when a state organ, whether in the national, provincial or local government, or any other institution identified in the national legislation, wants to procure goods or services, that that contract must be in accordance with a system that is fair, equitable, transparent, competitive and cost-effective. However, Mazibuko and Fourie (2017) discovered that officials award contracts to themselves, family members, and friends.

Ngobeni (2016) meanwhile discovered that most of the political leaders including premiers on provincial level do business with the government. It is evident that system of fairness, equality, and competition is often compromised when officials decide to commit fraud on tender awards. Ambe (2016) reached same conclusions to those arrived at by Mazibuko and Fourie, who mentioned above that tenders are awarded to the staff members, relatives, and other state officials, including councillors. The awarding of contracts to the officials' friends and families' compromise the principle of cost-effectiveness. Without fairness, equality, and competition, there is no cost effectiveness.

On the other hand, Mchunu (2018) has pointed out that there is egregious irregular expenditure relating to procurement in the local government, and instances of tenders awarded to close family members of political officials and public servants. The issue of irregular expenditure in this case clearly explains that the municipality would have saved on cost, should the contract have been awarded fairly. Also, Bhorat, Buthelezi, Chipkin, Duma, Mondli, Peter, Qobo and Swilling (2017) outlined that there is political influence towards the awarding of big government tenders in South Africa to Gupta-related companies. The issue of political influence in the awarding of contracts clearly shows that there is no fairness in awarding certain contracts in public sector.

Chilunjika (2018) discovered that in Zimbabwe, tenders in government are awarded to the suppliers who are willing to pay high bribes and disregard qualified suppliers not willing to pay bribes and that undermines the quality of the projects to be executed. Also, Alexander, Ngwane and Runciman (2016) indicated that residents complain that corruption is mostly linked to councillors and/or government officials who receive something in return. Bribes compromise the principle of fairness, competition, equality and cost effectiveness, since it deprive other suppliers' chances to emerge in the market and prove their capabilities.

Rakolobe (2019) outlined that grand and petty corruption is prevalent in Lesotho's public service. The country's leadership often announce their commitment to the fight against corruption. However, there have been several well-publicised grand corruption cases involving high-ranking public officers. For instance, a Senior Official in Ministry of Finance was charged with breaching procurement procedures in awarding a government contract to the relatives and he had awarded the contract without following a tendering process. Moreover, petty corruption is also commonplace in Lesotho, where lower level public servants ask for bribes to discharge their daily tasks. For instance, firms operating in Lesotho often pay bribes or gifts in order to secure government contracts.

According to Bauer (2019), entities controlled by the elite often win the government bids regardless of the quality of the bid in Morocco. In addition, a system of economic patronage in Morocco favours suppliers, relatives, and individuals with close ties to public officials. Elsewhere, Adolphe (2019) has noted that there is lack of effectiveness of the new public procurement law in DRC (Democratic Republic of Congo), due to

significant proportion of public procurement being awarded according to derogatory procedures.

### **3.3 Policies, governance processes and appointment of employees**

Section 217 (3) of the Constitution of the Republic of South Africa provides that national legislation must propose a framework within which the procurement policy referred into the subsection (2) will be implemented. In this regard, the Public Finance Management Act (PFMA) and the Local Government Municipal Finance Management Act (MFMA) were enacted. The PFMA and MFMA prescribe the regulation of the financial management within the national, provincial, and local government and constitutional institutions, which include policies and governance processes in public procurement.

Section 38 (1) (a) (iii) of the PFMA states that accounting officer of an entity, department or constitutional institution must ensure that organisation has and maintains appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. Furthermore, Section 38 (1) (a) (iv) of the PFMA state that accounting officer of an entity, department, or constitutional institution must ensure that organisation has and maintains a system for properly evaluating all major capital projects prior to a final decision on project.

Moreover, section 38 (1) (n) of the PFMA states that accounting officer of an entity, department, or constitutional institution must comply with and ensure compliance by the relevant department, trading entity or constitutional institution, with the provisions of the Act. However, Pooe, Mafini and Makhubele (2015) report that there remains non-compliance of procurement policies and procedures in government organs.

Kanyane and Sausi (2016) reveal that a problem in public sector is the human factor that interferes with the prevailing legislation, supply chain policies, and governance practices in South Africa. Munzhedzi (2016) has pointed out that there is non-adherence to procurement policies in government organs due to political interference, as well as the appointment of inexperienced and unqualified government officials and service providers.

In addition, Deka (2016) has revealed that although supply chain procedures are put in place in specific municipalities, officials choose not to comply with them. This is a sign that some government officials simply do not comply with the above-mentioned provisions prescribed by the legislation frameworks. Mutangili (2019) discovered that senior officials in East Africa (Kenya, Uganda and Tanzania ) disregard existing procurement rules and often cause malpractices in public procurement in East Africa community.

Also, Chikwere, Dzandu and Dza (2019) opined that a majority of the public entities in Ghana do not comply with the public procurement rules and regulations, and no consequence management or action is being taken against the officials who have violated the rules.

Tóth and Fazekas (2018) conducting research in Poland observe that manipulation of public procurement tenders below the regulatory thresholds are found to be connected to the exploitation of the more flexible rules. Meanwhile in Nigeria, Mosaku, Fagbenle and Bamidele (2019) discovered that the main cause of non-compliance with the public procurement Act (2007) in Nigeria is the lack of knowledge of the provisions of the Act, records management, level of professionalism, organisational culture, and media publicity. Kafimbou (2019) writing from Burkina Faso noted that in that context, there are significant challenges in the public procurement system, such as bureaucracy, corruption, fraud, and inefficiency.

In Nigeria, members of a bid evaluation committee sometimes lie when filing the forms of declaration of interest in evaluation meetings, which negatively affects procurement processes of infrastructure projects in federal universities (Abdullahi, Gambo & Mohammad, 2019). In Kenya, Moturi (2018) discovered that Government spends excessively on public procurement due to poor implementation of procurement rules and regulations. In addition, non-compliance with public procurement rules and regulations have been identified as a serious national challenge.

Israel and Kazungu (2019) revealed that SMEs (Small and Medium Sized Enterprises) struggle to compete and grow in public procurement in Tanzania, due to unfair procurement processes, unfavourable legal requirements, non-existence of policy that support SMEs, and the bureaucratic process.

### **3.4 Influence on tender awards**

The influence of political leaders and/or officials in the awarding of government tenders is no longer a clandestine affair. It has been extensively highlighted in the literature of various scholars, as much as it has received coverage across the Fourth Estate. This is not a distinctly South African problem, but rather a broadly global one. It was clearly outlined in the study by Pillay (2016) that political corruption influences the awarding of tenders in the local government.

Also, Beyers (2015) has opined that political influence and corruption in administrative processes exacerbate problems of service delivery at municipal level. Maswanganyi and Nkoana (2016) have noted that there is political interference in the awarding of tenders in public sector. In addition, Mutangili (2019) has shown that political interference, weak governance processes, favouritism, nepotism, misuse of powers in government offices, lack of integrity, and non-enforcement of the law are the main challenges in Kenya.

Mulaudzi and Masenya (2018) assessed a concept of state capture as a threat to democracy, and discovered that the previous president Jacob Zuma has extended his authority and control, by using loyalists to govern all the state organisations to primarily place his personal comforts and interests before that of the public.

On the other hand, Crompton, Fessehaie, Kaziboni and Zengeni (2016) conducted a case study regarding a most popular case of 1064 railway locomotives worth R54.5 billion between China South Rail, China North Rail, Bombardier, General Electric, and Transnet SOC. The findings showed several allegations of corruption on the awarding of tenders that involves board members, executive managers, and political leaders. Omarjee (2019) reported that the estimated total cost for the locomotives had ballooned from R38.6 billion to R54.5 billion. Transnet reported a jump of R15.9 million, which is 41% of the initial cost, as irregular and unlawful expenditure in its 2018/19 financial statements. Meanwhile, Selelo and Manamela (2018) noted that the problem of corruption in South Africa is believed to be pervasive, due to irregular expenditure on procurement processes, which both exacerbate and influence political corruption.

Quashie (2019) examined the procurement irregularities in Ghana district assemblies and the outcome that in all district assemblies, there is: political interference in procurement processes; poor contracts management; absence of the use of e-procurement system; use of single-source procurement method without proper approval; and the appointment of unskilled procurement personnel.

In a study assessing procurement and competition in Swedish local government, Broms, Dahlström and Fazekas (2017) opined that there is a manipulation of public procurement processes to benefit a mere few individuals such as political officials of the ruling party, instead of the community, when political competition is not effective. In addition, ineffective political competition has a negative impact on the public procurement system. When a new ruling party comes to power, political interference in the awarding of contracts becomes manageable.

Also, Mishiya, Cumberlege and Buys (2019) note that political officials have influence in the awarding of government contracts in South Africa. Meanwhile, Toukan (2017) discovered that government officials receive huge bribes, kickbacks, and other payoffs from bidders that bid for large construction contracts. Bidders often want to offer a bribe to senior officials when bidding for a multi-million tender. A bidder may convince the official to include the entity in the shortlist of qualified suppliers while unfairly eliminating other potential bidding suppliers. Also, a corrupt official may provide a bidder with inside information that would lend competitive advantage. Furthermore, a bidder may bribe the official to draft job specifications that will give supplier opportunity to win the contract. A bidder may collude with the official to manipulate the evaluation criteria to favour a specific bidder. Finally, the bidder that wins the contract may collude with the official to deviate from initial agreed terms, such as regarding the type and quality of a material to be used to fulfil a contract deliverable.

Mokoena (2018) identified issues that impact the effectiveness and efficiency of public sector procurement in South Africa, which include a lack of clarification of roles and duties of the political officials and other staff members. Further to this, Baltrunaite, Giorgiantonio, Mocetti and Orlando (2018) note that the share of contracts awarded to politically connected firms increases, while the labour productivity of the winning firm decreases. This suggests a potential misallocation of public resources in Italy.

According to Baltrunaite (2020) implementation of policy that govern corporate donations minimised cases of political favouritism in the awarding of government contracts in Lithuania.

### **3.5 Training offered to the employees**

The best cost-effective way to minimise fraud losses is to implement prevention measures to prevent fraud from occurring. There is checklist that is developed to assist organisations in testing the effectiveness of their prevention measures for potential fraudulent activities. Ongoing anti-fraud training provided to all employees of the organisation is one of the measures that appear on the list (ACFE, 2016). However, Pooe, Mafini and Makhubele (2015) discovered that there is no effective schedule training aimed at procurement officers in some of South Africa's municipalities. ACFE, (2020) reported that fraud awareness training improves cultivation of tips through reporting platforms.

Also, Adow, Edabu and Kimamo (2017) opined that poor implementation of professional training in supply chain functions and the non-existence of continuous ethics training in supply chain units hinders supply chain officials in government entities in effectively discharging their duties in Kenya.

In Nigeria, Mosaku, Fagbenle and Bamidele (2019) recommended that Government implement continuous training on interpretation and implementation of procurement Act to all supply chain officials and other involved officials in Nigeria. The training will enable officials to understand the provisions of the Act much better, and to comply with these provisions when executing their duties.

The study of Picho (2017) established that employees' experience, professional qualifications, skills and level of education influence procurement performance in some of the institutions in Uganda. In the context of human capital competence, the Ugandan government ought to pay attention to technical skills of its officials through recruitment, exposure to conferences and seminars, and in-house training.

Also, Mokoena (2018) opined that supply chain management officials sometimes lack the knowledge and skills to effectively manage challenges that they experience when procuring goods and/or services. The implementation of regular training to all supply chain officials and other affected parties was also recommended.

Furthermore, procurement officials and other affected parties in government offices in Kenya ought to be knowledgeable about the current regulatory framework regarding procurement practices in Kenya, or Public Procurement and Asset Disposal Act (PPADA) of 2015 (Okoth, 2019).

### **3.6 Inadequate/Insufficient controls in government tendering system**

S38 (1) (a) (i) of the PFMA states that Accounting Officer ought to ensure that internal controls and risk management systems are properly implemented and run effectively and efficiently in the government organs. In addition, the audit committee must ensure that entity operate in accordance with good governance, and comply with all required standards, such as accounting and auditing standards (National Treasury, 2017).

Effective control measures reduce the risk of assets loss, ensure that information is complete and accurate as planned, that annual financial reports are reliable, and the business operates in compliance with the provisions of applicable laws and regulations. Also, effective control measures protect organisations by preventing occurrence of unintentional errors and intentional fraud that may harm the business and discover minor errors timeously, before they become huge errors (AICPA, 2017).

However, Bizana, Naude and Ambe (2015) opined that unfair irregular practices and insufficient internal controls in place are the main contributors of failing municipalities to provide good services to the communities. Meanwhile, Huang (2019) discovered that a lack of internal controls in the awarding and administration of large contracts tenders, negligence in performing the background checks, and verification of financial performance with suppliers allows suppliers to de-fraud the entities.

Ismail, Hasan, Clark and Sadique (2018) report that in Malaysia, some of the government organs do not apply system of job rotation to procurement officials, and that senior managers override controls to defraud the organisation. Some service providers established systems of red flags to prevent corruption. However, those

systems appeared to be superficial, and were circumvented by senior executives, who created and authorised bribes to government officials (Binions, 2018). High-ranking officials are reportedly involved in corruption, especially in awarding contracts to favourable companies in exchange for bribes. Also, Nakawooya (2018) discovered that in Uganda, some municipalities do not use open tender system, which gives all bidders the opportunity to bid and compete, but only send the tender invitations to specific suppliers. The system promotes favouritism, nepotism, and misappropriation of funds, which lead to poor service delivery to the public.

Meanwhile, Ibrahim, Yusoff and Koling (2018) opined that fictitious financial statements and abuse of authority are amongst the patterns that public officials follow to do corruption in the public sector in Indonesia. In addition, one of the factors that cause occurrence of corruption in Indonesia government is a weak legal system.

Alaro (2018) has noted that procurement-planning controls are effective in detecting fraud and enhancing transparency in the ministries in Kenya. However, monitoring and evaluating committees are not effective in internal control roles at the majority of the ministries in Kenya. In Trinidad and Tobago, the major issue was contract monitoring and regulation irregularities in public procurement (Paria, 2018).

Also, France (2019) discovered that senior government officials such as ministers and former prime ministers have been implicated in embezzlement schemes on road construction projects, as well as on the modernisation of the Bishkek Heat and Power Plant in Kyrgyzstan. Millions of dollars were misappropriated, due to opaque procurement processes, and insufficient control systems.

### **3.7 Gaps on the findings of literature review**

Based on the review of the above literature, certain research gaps present themselves that scholars might approach in order to enrich knowledge in public procurement environment. It was clearly pointed out that contracts, especially high value tenders, are awarded to friends, families of the political officials and political leaders and to themselves in government organs. On this point, the studies did not illustrate in detail how the officials manage to award the contracts to family members, friends, and themselves without being detected by existing internal controls.

Some institutions do not apply system of segregation of duties and job rotation in supply chain divisions. The outcome did not highlight in details how segregation of duties and job rotation ought to have been applied in the procurement departments of those entities. There is also the issue of the appointment of unqualified and inexperienced officials, and a lack of training that contribute significantly towards fraudulent activities in the public sector.

The studies did not specify the qualifications and experience that officials acquired in order to conclude that they are unqualified and inexperienced. In some instances, tenders or contracts are awarded only to services providers that are willing to pay bribes to the officials, but the findings do not explain in detail how officials determine which service providers are willing to pay such bribes, although it is well known that some of the service providers confront officials and offer bribes in return of contracts. Of course, officials can collude with a friend or family member or a person that official know and receive a 'kickback' in exchange for the awarding of a contract, but the studies did not explain in detail how officials determine which service providers are willing to pay bribe.

Factors causing the occurrence of corruption or inefficiency in public procurement were properly discussed, but depend on several variables, including: country of operation; procurement legal frameworks of the given country; and institutions selected on the sample. As a result, factors causing occurrence of corruption in public procurement may differ, or partially differ, from various scholars, depending on their samples.

Some of the studies mentioned that there is a non-adherence to procurement policies and procedures in government structures by the officials due to political influence or appointment of inexperienced officials, where some of the officials decide not to adhere to them. Not all the studies discussed in detail which procurement policies and procedures were not adhered to by officials.

Most of the literature discussed the impact of corruption on service delivery for the citizens of the country, from local government level, health sector, the construction sector etc. The impact on service delivery varied from sector to sector, and country to country. For this reason, the impact of corruption on the service delivery to the citizens depends on sectors that are included in the sample, and the country in which the study

is based. Researchers can discover different impacts depending on which sectors are included in the sample, and the country in which the study is based.

## **Chapter 4: Research design and methodology**

### **4.1 Introduction**

This study aims to determine factors that cause the fraudulent award of tenders in South African government, and highlight the causes of occurrence of fraudulent activities in public procurement system, without been detected by the existing control measures, as well as to determine the impact of fraudulent activities in the economy of a country and service delivery to the community. In the preceding chapters, a thorough literature review was undertaken to gain the knowledge and understanding that would provide answers to the research questions. Based on information gathered from the literature review, this chapter describes the way in which the research has been approached and conducted.

### **4.2 Research design**

This study adopted a qualitative research design. Creswell (2014) alluded to the fact that the research design is regarded as a type of enquiry within three research approaches, namely, a qualitative, quantitative, and mixed methodology, that directs the path of the study. It was further described as strategies of the scholar's exploration relating to research problems. Meanwhile, Gray (2014) posited that the research design describes a systematic plan that the researcher adopts to collect, measure, and analyse the data gathered from the various sources and participants.

The results of this research were in the form of words and simple numbers. Hence, the researcher utilised self-developed guiding questions to gather data from the respondents. The usage of guiding questions was more advantageous, allowing the scholar to clarify issues to the respondents, and asking follow up questions. However, the disadvantage was that the researcher was using Microsoft Teams to conduct interviews, which resulted in additional cost of data.

### **4.3 Research method**

According to Newman, Ridenour, and Benz (1998), a qualitative approach is used when observing and interpreting reality so as to develop a theory that will explain what was experienced. Meanwhile, a quantitative approach is used when an individual commences with a theory and tests for confirmation or disconfirmation of that theory or hypothesis. Furthermore, quantitative research involves studies that follow statistical evaluation and analyses to attain their findings. The critical features entails a formal and systematic measurement, and the application of statistical principles. Qualitative research refers to studies that do not follow statistical evaluation and analyses to attain their findings. Qualitative research refers to studies that involve interviews and observations without a formal measurement (Marczyk, DeMatteo & Festinger, 2005). In addition, Mackenzie and Knipe (2006) have noted that the purpose of paradigm is to determine the aim, objectives, and expectations for the research. A paradigm is a stepping stone that enables researchers to select methods, methodology, literature, or research design to be utilised in their studies.

On the other hand, Thanh and Thanh (2015) reveal that with an interpretative paradigm, unlike a positivist paradigm, the main purpose of the researcher is to gather more detailed and thorough information. In such case, using quantitative research that describes findings in numbers and measures instead of words is likely to be unproductive. It is unlikely that the scholar will gather detailed and thorough information through statistical sources that are frequently used in quantitative methods. Also, one of the reasons why qualitative data is both detailed and thorough is that scholars often capture it with better understanding. For this reason, the researcher chose a qualitative methodology for this study. The study followed an interpretative approach and was advantageous to the researcher, since in nature this study involved interviews and observations without formal measurement.

### **4.4 Area of study**

This study focused on the South African government organs based in Gauteng Province, which involve more the supply chain management and finance sections that comprise of the provisioning and the procurement of goods and/or services in the government organs.

## 4.5 Population and sampling

### 4.5.1 Population

The population of this study consists of five (5) delegates in South African government entities based in Gauteng Province. The researcher considered subject matter experts who have necessary skills, qualifications, and better understanding in control environment, risk management, compliance, audit, forensic, and financial management relating to procurement of goods and/or services in the public sector. The occupations of the respondents are depicted on Table 4.1.1, who have necessary skills, qualifications, and better understanding of controls and processes in the organisation. Hence, the researcher selected the population that consisted of various dignitaries in South African government organs based in Gauteng Province. Bhattacharjee (2012) describes the population as the total quantity of a given case that is the subject of a study that consists of people, events, objects, etc.

**Table 4.1.1: The Population of the study**

<b>Designation</b>	<b>Entity Name</b>	<b>Total Number</b>
Compliance Manager: Supply Chain Management	Entity A	1
Risk Manager	Entity B	1
Senior Manager: Forensic Audit	Entity C	1
Internal Audit Manager	Entity D	1
Senior Manager: Financial Management	Entity E	1
<b>Total</b>		<b>5</b>

Source: Interview Schedule 2021

### 4.5.2 Sampling Methods

The study utilised purposive sampling to identify respondents. It was based on the fact that the study adopts a qualitative study approach dealing with specific government organs. Sampling is an intentional selection of the subsets from the population to

obtain relevant knowledge that is a true representation of the whole (Bhattacharjee, 2012).

#### **4.5.3 Purposive sampling**

A sample of five (5) respondents was purposively selected from more than fifty respondents out of more than thirty organs in Gauteng Province, based on the researcher's understanding that they are the holders of the required information. Existing knowledge of other public entities/organs in South Africa and other countries through literature review was assessed to give a researcher a direction of existing challenges concerning public procurement, service delivery, and economic impact.

According to Rai and Thapa (2015), a purposive sample is a random subset from a larger population, and is designed to serve a very specific need or purpose. Brink (1996) notes that purposive sampling refers to the selection of respondents who are knowledgeable about the problem statement based on their involvement and experience of the situation.

#### **4.6 Data collection technique**

In this study, the researcher followed a qualitative approach as a data collection technique. The primary data was collected through interviews while secondary data was collected through journals and articles.

##### **4.6.1 Primary data/ interviews**

Primary data entails data that was collected first-hand, as opposed to data that already existed when the research began (Babbie & Mouton, 2001). McMillan and Schumacher (2010) describe interviews as a data collection method according to which the interviewer asks questions directly from an interviewee.

Data collection was done in the form of an interview, with key stakeholders who provided important information to determine factors that cause fraudulent award of tenders in South African government, highlighting the causes of occurrence of fraudulent activities in public procurement system, without being detected by the existing control measures; and determining the impact of fraudulent activities in the

economy of a country, along with service delivery to the community. The type of interviews conducted in this study were semi-structured interviews.

According to McMillan and Schumacher (2010), semi-structured interviews are described as interviews that consist of questions that allow a person to open-ended responses. De Vos, Strydom, Fouché, and Delporte, (2005) have noted that semi-structured interviews provide enhanced flexibility between the interviewer and the interviewee, where the interviewer can follow up on aspects that emerge during an interview session.

The researcher collected data primarily in the form of semi-structured interviews, using an interview guide consisting of open-ended questions, with various dignitaries of five government organs in Gauteng Province. The interview guide provided a list of thirty-seven interview questions that were addressed to the respondents.

In this study, interview questions were divided into five themes. The first theme was biographical data, and second entailed controls put in place to prevent and combat corruption on the public tendering system. The third theme focused on factors that cause fraudulent award of tenders in South African government; the fourth theme concentrated on reasons why fraudulent activities happen in public procurement without being detected; and the last theme mainly addressed the impact of fraudulent activities on the economy of a country and service delivery to the community.

#### **4.6.2 Secondary data**

Secondary data is described as a strategy that is not interactive in obtaining qualitative data with less or no reciprocity between the scholar and the participant (McMillan & Schumacher, 2010). However, Bless, Higson-Smith, and Sithole (2014) have argued that secondary data is a data collection method that is less reactive than interactive strategies, in the sense that the researcher does not extract the evidence.

The researcher utilised different official documents that included government legislation, journals, and articles from AGSA (Auditors General of South Africa), which presented up-to-date information on various aspects regarding the fraudulent award of tenders in South African government. The researcher also assessed and evaluated

field notes gathered during interviews with the respondents and compiled findings and conclusions based on such listed documents.

#### **4.7 Data analysis and thematic techniques**

Creswell (2009) notes that the data analysis process involves making sense out of the text and image data. This involves getting deeper into understanding and representing the data, and interpretation of the greater meaning of data. According to McMillan and Schumacher (2010), qualitative data analysis refers to active inductive process of organising the data into categories and identifying patterns amongst these categories.

The data analysis followed the qualitative interpretation of the semi-structured interviews conducted with various dignitaries of five public entities. The questions were open-ended so as to provide more information to determine factors that cause fraudulent awards of tenders in South African government, highlight the causes of occurrence of fraudulent activities in public procurement system without been detected by the existing control measures, and determine the impact of fraudulent activities on the economy of a country and service delivery to the community.

The data analysis was based on the participants' personal experiences that they gained during the intervention process. Meanwhile, data analysis was done through thematic analysis (grouping it into themes). Also, Creswell (2009) opined that the scholar must use coding to generate a small number of themes or categories. However, these themes appear in the section detailing the major findings of the study. Furthermore, the researcher utilised Atlas.ti to analyse the data that was gathered and collected in this study, presenting findings as discussion in sequential order of themes in this study.

Furthermore, this study followed a thematic approach when conducting data analysis and included:

- i. biographical data;
- ii. controls put in place to prevent and combat corruption in the public tendering system;
- iii. factors that cause fraudulent award of tenders in South African government;

- iv. reasons why fraudulent activities happen in public procurement without being detected; and
- v. the impact of fraudulent activities in the economy of a country and service delivery to the community.

#### **4.8 Reliability and validity of results**

Validity and reliability are the only two standardised instruments that can be used to ensure some degree of credibility and dependability in the findings in a qualitative research study.

##### **4.8.1 Validity**

Maree (2014) has noted that validity of an instrument describes the extent to which it measures what it is expected to measure. The scholar sought assistance from the supervisor to vet the list of interview questions for their appropriateness to the research aim and objectives.

##### **4.8.2 Reliability**

Maree (2014) describes reliability in the study as the extent to which a particular measuring instrument can be consistent in its findings when administered to different subjects of the same population. Also, the researcher asked to follow up questions during interviews to ensure the reliability of the data.

#### **4.9 Ethical considerations**

This section discusses ethical considerations. According to Flick (2006), research has been considered as an ethical concern on a broader platform to the extent that different countries developed codes of ethics and formulated ethics committees. The main objective of the exercise was to protect the interests of the participants in the study, so as to avoid issues that may arise from poor data management. The respondents participated voluntarily in this study, following the principles of informed consent.

McMillan and Schumacher (2010) assert that where all participants are required to sign the consent form, this indicates the understanding of the research, the purpose

of the study, their choice of participating in the study, and choice to withdraw from participating. The researcher ensured voluntary participation by making sure that none of the respondents were compelled or coerced to participate, and that they were informed of their rights to discontinue at any stage of the study.

Bless, Higson-Smith, and Kagee (2007) posited that the researcher must take some time to explain to all participants what the study entails, and what is required of them in terms of participation. The researcher asked each participant to sign an informed consent form in order to confirm that they indeed understood what was explained to them. Consent forms were prepared in duplicate and participants who accepted to take part in the study signed both. The researcher gave a copy to the participant and kept the original form. This study did not violate the rights of any individual, as integrity, objectivity and ethical standards were upheld through this study. All the participants of this research gave their consent under oath and the researcher assured them of confidentiality.

O'Leary (2010) notes that ethics refer to the rules of behaviour that assists in knowing what is acceptable within a profession. Ethics in conducting research differs across different professional codes, disciplines and/or institutions, but there are generally accepted guidelines. For this study, permission was obtained from the ethics committee of the Faculty of Commerce, the University of South Africa, to research the fraudulent award of tenders in the South African government. Thereafter, this letter was used to approach the five various government organs to obtain permission to research those organs. The scholar confirmed and guaranteed confidentiality by not revealing the identity of the participants with anybody except the supervisor.

The researcher was honest with the participants about the aspect of the study. The scholar informed all participants that the purpose and aim of the study are to determine factors that cause fraudulent awards of tenders in South African government; highlight the causes of occurrence of fraudulent activities in public procurement system without been detected by the existing control measures; and determine the impact of fraudulent activities in the economy of a country and service delivery to the community.

Furthermore, the researcher explained to the participants that the results of the study would assist the government to address the controls weakness in the public procurement; factors that cause fraudulent activities in public procurement; and the

impact of service delivery to the community and economy of the country. The researcher did not hide the true nature of the study from the participants

#### **4.10 Conclusion**

This chapter entails all the processes that the researcher followed to conduct the research. It shows a logical sequence that connects data to the identified research questions. Based on the discussion of literature review relating to corruption/fraud that occurs in public procurement across the world discussed in chapters Two and Three. The research methodology was then further discussed, which detailed the population and sampling, as well as how data were collected and analysed. Lastly, the ethical issues relating to this study were considered, and robustly discussed. Chapter 5 briefly presents the outcomes of the research study, analyses, and interpretation of the research.

## Chapter 5: Data presentation, analysis, and interpretation

### 5.1 Introduction

This study sought to determine factors that cause fraudulent award of tenders in the South African government; highlight the causes of occurrence of fraudulent activities in public procurement system without been detected by the existing control measures; and determine the impact of fraudulent activities in the economy of a country and service delivery to the community. This chapter presents both primary and secondary data gathered through interviews, journals, and articles, respectively. The researcher interviewed five delegates from five different government entities in Gauteng Province as depicted below:

**Table 5.1: Occupations of the respondents**

<b>Entity A</b>	<b>Entity B</b>	<b>Entity C</b>	<b>Entity D</b>	<b>Entity E</b>
Compliance Manager: Supply Chain Management	Risk Manager	Senior Manager: Forensic Audit	Internal Audit Manager	Senior Manager: Financial Management

Source: Interview Schedule 2021

The interview guide provided a list of thirty-seven interview questions that were addressed to the above-mentioned delegates. The interview guide was divided into five themes as depicted below:

- i. biographical data;
- ii. controls put in place to prevent and combat corruption in the public tendering system;
- iii. factors that cause fraudulent award of tenders in South African government,
- iv. the fourth theme concentrated on reasons why fraudulent activities happen in public procurement without being detected; and

- vi. the impact of fraudulent activities in the economy of a country and service delivery to the community.

## **5.2 Discussion of interviews**

The officials were all in a good position to make informed responses that were useful in determining factors that cause fraudulent award of tenders in the South African government, outline reasons why fraudulent activities happen in public procurement without been detected, and determine the impact of fraudulent activities in the economy of a country and service delivery to the community. The interview questions were divided into five sections. Section A of the interview questions concerns the biographical data so as to gain knowledge of the participants in aspects such as occupation, marital status, and age. Section B concerns the controls put in place to prevent and combat corruption in the public tendering system. Section C deals with factors that cause fraudulent award of tenders in the South African government. While section D concerns the reasons why fraudulent activities happen in public procurement without detection. On the other hand, the last section (section E) deals with the impact of fraudulent activities on the economy of a country and service delivery to the community.

### **Section A**

The interview schedule provided questions that dealt with the biographical data, such as occupation, marital status, and age of the participants. The researcher collected data from various delegates from five different South African government entities based in Gauteng Province as depicted in Table 5.1.

#### **5.2.1 Biographical data**

##### **Occupation**

The first question dealt with the occupation of the respondents. The schedule had two occupation boxes which are Risk Manager and Other. Respondents were required to mark an appropriate box with an X. The participants who are not Risk Managers were required to specify their occupations under the occupation of others. The researcher interviewed only one participant per entity out of the sample of five entities.

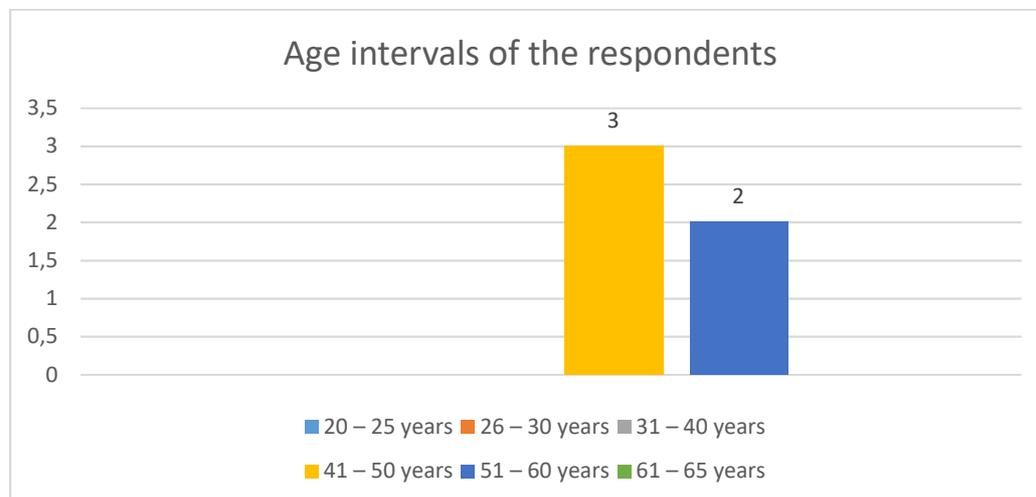
## Marital status

Respondents were requested to declare their marital status by marking an appropriate box with an X. All five participants responded that they were married.

## Age

The interview schedule provided a question that dealt with the age of the participants and the respondents were required to mark an appropriate box with an X. Three respondents are between the ages of 41-50, and two respondents are between the ages between 51 and sixty. Detailed information is illustrated in Figure 5.1.

**Figure 5.1: Age intervals in which participants fall under**



## Section B

This section deals with the controls put in place to prevent and combat corruption in the public tendering system.

### 5.2.2 Pre-tender stage

All participants were requested to illustrate control measures that are put in place during the pre-tender issue, their weaknesses, and what senior management does to address those weaknesses.

All five entities have similar controls during the pre-tender stage. All participants responded that before the supply chain department issued a tender to the market, the end-user must have: an approved budget; approved business plans; and a delegation of authority to request the supply chain department to procure goods and/or services.

The annual budget must be approved by the relevant committee. The business plans are developed by various departments (end users) based on the approved budget by the relevant committee.

Meanwhile, the supply chain department established procurement plans based on approved budget and business plans. The entities have a procurement policy in place that is based on PFMA, MFMA, treasury regulations, and other procurement prescripts. All procurement of goods and/or services must comply with the policy.

The tender pack or documents are being reviewed by the independent persons, such as internal audit, before a tender is issued to the market. Senior management established the Bid Specification Committee (BSC) to deal with the terms of reference (ToR). All Terms of Reference (ToR) must serve before the Bid Specifications Committee, who must critique them, provide input, and ensure that they meet the minimum requirements. The duties of the Bid Specification Committee are to ensure fairness and transparency of the process. BSC consists of senior management from different units or functionalities.

Entities allocated delegation of authority to various committees or officials to approve the go-to-market. In Entity A, a dignitary with a relevant delegation of authority authorises the go-to-market as soon as the terms of reference are validated, and recommendation for approval is made by BSC. Meanwhile, approval to go out on tender is approved by the chairperson of Bid Specification Committee (BSC) in entities B and C after a recommendation for approval is made by the BSC.

On the other hand, all Terms of Reference that have been finalised by the Bid Specifications Committee must then serve before the Bid Adjudication Committee (BAC) for verification, so as to ensure that there is a need to go out on tender in entity D and E. This consists of senior management from different units and includes legal and internal audits for consulting. The chairperson of the BAC has a delegation of authority to authorise the go-to-market after a recommendation for approval is made by the BAC in entity D. In entity E, a director-general has a delegation of authority to authorise the go-to-market as soon as the terms of reference are validated and recommendation for approval is made by BAC. All members of the BSC and BAC committee must sign a declaration of interest (DOI) before they partake in every meeting. The signed declaration of interests is then filed safely by the chairperson of

the meeting. Table 5.2 illustrates a list of controls during a pre-tender stage in all five entities.

**Table 5.2: Pre-tender controls implemented in government entities**

<b>Controls</b>
Procurement Policy
Approved budget
Approved procurement plans and business plans
Bid Specification Committee/Cross-Functional Sourcing Team
Bid Adjudication Committee
Probity audits
A signed declaration of interest (DOI)
End-user with DOA request goods and/or services
Dignitaries with relevant delegations of authority approve to go to market.

Source: Interview Schedule 2021

Entities have various weaknesses of controls during pre-tender stages, except for two weaknesses that have similarities. In all entities, emergency procurement is a challenge, as it does not follow proper procurement processes, and the approval is granted by the accounting officer, where, as a result, there is the possibility of collusion. Entity D and E responded that members of BSC and BAC committees are not always knowledgeable about the actual services required by the functions and that pose the risk of collusion. Other weaknesses are illustrated in detail in Table 5.3.

**Table 5.3: Weaknesses of controls during pre-tender stage per entity**

<b>Weaknesses</b>	<b>Entity Name</b>

Duplication of members in various or more than one committee e.g. BSC and BAC have same member/s (no segregation of duties). Emergency procurement does not follow proper tender procedures and approval is granted by the accounting officer.	Entity B
Misrepresentation of facts in terms of procurement events - underestimated in terms of rand value (goods parcelling). Emergency procurement does not follow proper tender procedures and approval is granted by the accounting officer.	Entity A
A probity audit is not conducted all the time. Emergency procurement does not follow proper tender procedures and approval is granted by the accounting officer.	Entity C
The project manager may have a specific supplier on hand and tailor specification to suit that supplier that BSC & BAC may not pick up that specification is tailored to suit a specific supplier. Lack of knowledge by tender (BSC and BAC) committee members about the actual service required. Emergency procurement does not follow proper tender procedures and approval is granted by the accounting officer.	Entity D
Sometimes the ToR is not properly done and there is always the possibility of collusion. Members of the BSC may not be clear as to what is expected of them. Emergency procurement does not follow proper tender procedures and approval is granted by the accounting officer.	Entity E

Source: Interview Schedule 2021

Management in Entity A is in the process of implementing centralised demand management. Centralised demand management refers to the centralisation of supply chain functions in an entity. The entity can see holistically and benefits in terms of price savings. Meanwhile, management in Entity B recommends segregation of duties amongst committee members but it happens only sometimes. On the other hand, Entity C is currently working on establishing a process establishing probity audit across the board. Entity D introduced involvement of internal audit to review the process and

issue a report to the accounting officer. In addition, staff members are sent for training on the responsibilities of the bid committees. The supply chain management unit supports the BAC and the BSC in ensuring that the ToR is compliant with Entity E.

### **5.2.3 Submission of tender bids by suppliers**

All participants were requested to illustrate control measures that are put in place during the submission of tender bids by suppliers, their weaknesses, and what senior management does to address those weaknesses.

In Entity A, bid/tender documents per bidder are sealed. Tender boxes are locked, and opened on specific closing days and specific times. A senior official and two junior officials will together open the tender box and collect tender documents. Each page of a bid document will be stamped with a bidding number by the above-mentioned officials and they also fill in the attendance register and DOI (declaration of interest). The tender office would request authority to embark on a procurement event from the tender owner (contract manager).

The supply chain unit will then keep the submitted documents safe until the evaluation stage. On the other hand, in Entity B, documents remain sealed until the closing date in the locked tender. The bid evaluation committee must open or quorate to open the tender box (someone from supply chain unit, legal, functions/end-user to quorate). They stamped all documents received from suppliers and they also fill in the attendance register and DOI (declaration of interest). The supply chain unit will then file the submitted documents until evaluation. Meanwhile, Entity C follows a similar process with Entity B.

Furthermore, an advert in Entity D specifies the closing date of bid and submission venue and the advert also specifies that bidders are invited to come on closing dates. Suppliers will submit their bids into a locked tender box. On closing dates and time, all the bids are taken out by the supply chain team in the presence of internal audit team member/s. Bids will then be taken to the boardroom and the supply chain will announce the number of bids and the prices quoted per bidders in the presence of bidders. The documents are taken to the locked room /storeroom of tender documents.

Moreover, all bid documents must be put in the locked tender box situated at the reception by the bidders themselves in Entity E. The tender box is under lock and key all the time, and is only opened after the tenders have closed. The tender box is only opened by authorised supply chain management staff in the presence of a staff member from security services. All tender documents taken out of the box are recorded on a register and both supply chain management and security services must sign the register. All tender bids submitted after the closure are not accepted.

All entities follow similar controls, such as submitting sealed bids in a closed tender box; opening of tender boxes at the specific closing date at specific times by more than one employee; and all employees opening the tender boxes sign attendance register and DOI. No bids are accepted after the closing date and time. All bid documents are then locked in a safe area after they are taken out of the locked tender boxes. The only difference is that each entity has a various team that open tender boxes at closing dates, and Entity D have additional control, which is to take all the bids to the boardroom and announce the number of bids and the prices quoted per bidder in the presence of all bidders, before they can be stored in a safe area.

There is a shortage of resources to comply with the policy and process prescripts and that is the only weakness of existing controls in Entity A. Meanwhile, in Entity B, when the committee does not quorate, then documents are left in the tender boxes, delaying the processes. Legal always advise the business to bypass the process if possible. Cameras are not operational around areas of tender boxes in Entity C. Respondents from Entities D and E responded that there are no weaknesses in their controls.

The senior procurement manager oversees the whole process (from tender box to stamping of documents) so as to manage the issue of shortage of resources that Entity A experience during the collection of documents in the tender boxes on the closing dates. Senior management must always approve the deviations if there is any deviation, so as to avoid delays in procurement of goods in Entity B. On the other hand, security-related issues are being attended to in Entity C. There is no management interventions in entities D and E, since there are no weaknesses in their control measures.

#### **5.2.4 Bid evaluation stage**

All participants were requested to illustrate control measures that are put in place during the bid evaluation stage, their weaknesses, and what senior management does to address those weaknesses.

Declaration of interest is signed off on by evaluators in all entities before participating in the evaluation meeting. Attendance registers for all evaluation meetings are kept in a file and apply to all entities. In addition, each entity has an evaluation matrix that is aligned to the tender specification that is utilised during the evaluation of the tender. In all entities, each member of the evaluation committee signs an individual score sheet as well as a consolidated score sheet, and the chairperson will then draw the composite/recommendation, and present this to BAC. Entity A implemented a process where each evaluation must be assessed by three subject matter experts and each stage must be reviewed by an independent person such as internal audit, internal control team, or member of BAC. Evaluation stages comprise of admin and substantive responsiveness, local content if applicable, technical, price evaluation.

The tender evaluation and recommendation report is signed off by a dignitary with a relevant delegation of authority and submit to BAC to review and approve. All communication with the bidders goes through the acquisition council secretariat office as mandated by the evaluation committee. All responses from the bidders must be stamped by the secretariat and send to the facilitator or chairperson of the evaluation committee of that particular evaluation stage.

Meanwhile, Entity B mandated evaluation committee/s to contact suppliers if additional information is required, and they nominate supply chain unit to contact suppliers. When information is required from one bidder, all other bidders are copied on all the communications. Entities B and C appointed several bid evaluation committees according to procurement requirements and where needed management (evaluation committees) can request subject matter experts to also join the committee on an advisory basis. All evaluation meetings in Entity C are recorded.

Evaluation committees in Entity D comprise of five members or subject matter experts from various units excluding supply chain unit, legal, and internal audit. The chairperson of the committee comes from the different unit from that of the end-user. Supply chain management, internal audit, and legal are part of the committee. Supply chain management advice with supply chain management prescripts and internal audit

and legal are there mainly for consulting. Entity E has similar control measures with Entity D.

Entities A and B responded that there are no weaknesses in the existing control measures during the evaluation phases. Entity C declared that it does not always verify declarations made before commencing with the evaluations, subject matter experts are not always vetted, and meetings recordings are not fully protected. The main concern of the participant in Entity D is the objectivity of the members, that is, if they favour a specific bidder, they can recommend the appointment of a bidder that offer higher prices than others. In addition, lack of knowledge of committee members, such as submission of financials, and some of the members not being able to interpret the financials. Respondent in Entity E reported that there may be gaps in scoring by the members of the evaluation committee.

Entity C is currently working on fully digitalisation evaluation processes. Where there are large variations, members of the BEC (Bid Evaluation Committee) must explain themselves in writing in Entity E, and no management intervention in entities A, B, and D.

### **5.2.5 Bid adjudication stage**

All participants were requested to illustrate control measures that are put in place during the bid adjudication stage, their weaknesses, and what senior management does to address those weaknesses.

BAC in all entities scrutinise Tender Evaluation and Recommendation report (TEAR) and confirm the legitimacy of documentation and due quality assurance. In other entities, bidders are referred to by symbols/bidder number, and not by name. The independent adjudication committee (BAC) adjudicates over bids, thoroughly scrutinises them, and approves and rejects the recommendation. It consists of various subject matter experts. Legal does the vetting of the contract. Independent personnel such as the internal audit committee or internal controls team review the process before the letter of award is issued to the supplier. Dignitaries with a relevant delegation of authority sign off the contract or letter of award. A successful bidder is informed in writing, and no work should commence without a signed agreement.

The respondent in Entity B noted that the adjudication committee has the mandate to deviate from the recommended bidder by the evaluation committee. Meanwhile, service providers sometimes deliver goods or render services before the contract is signed in Entity A. On the other hand, a participant in Entity C stated that the secretariat personnel has an opportunity to unlawfully amend evaluation resolution. BAC can overlook the evaluation deficiencies. In Entity D, other dignitaries have a mandate to reject the recommended bidder and approve the appointment of a different bidder. Bidders sometimes do not stick to the agreement in Entity E.

Entity A implemented a condonation process for goods or services delivered/ rendered before the agreement. The entity request permission from the national treasury to regularise the spending under the condonation process. Consequence management is applied to the affected officials during the condonation process. There are no management interventions in entities B and D. However, Entity C is currently working on fully digitalised evaluation and adjudication processes. Management in Entity E encourages personnel to avoid deviating from the contract agreements.

## **5.2.6 Contract management stage**

All participants were requested to illustrate control measures that are put in place during the contract management stage, their weaknesses, and what senior management does to address those weaknesses.

In all entities, the contract life cycle is managed by contract management policy. Contract delivery is measured against the agreed deliverables such as timeframe, quality, quantity, etc. as per contract terms and conditions. For every contract there is a signed level agreement. It is managed by various functions depending on the entity, and whether the service provider fails to deliver according to agreed terms, the service provider will be penalised accordingly, with the assistance of the Legal Department. All milestone payments must be approved by the responsible senior manager or dignitaries. Payment requests must be accompanied by proof that the service provider has delivered as agreed.

Respondents from all five entities claim that sometimes there is failure to enforce contract terms and conditions, where, as a result, processes or projects are delayed.

On the other hand, Entity E mentioned that there is always a possibility of collusion, which is not easy to detect, and address and payments may be improperly approved. The issue of collusion was also highlighted in Entity C.

Entities A and B schedule contract management meetings with suppliers to manage the non-performance of the suppliers. Meanwhile, Entity C has implemented ethics and corruption awareness programmes. Senior management react well when internal auditors and external auditors pick up findings during the audit in entities D and E.

### 5.2.7 Training and job rotation section

All participants were requested to illustrate whether their entities have sufficient skilled and qualified supply chain officials, as well as to substantiate their answers if they do not have sufficiently skilled and qualified supply chain officials. Table 5.4 illustrates responses in detail.

**Table 5.4 Skills level for supply chain officials**

<b>Entity name</b>	<b>Skilled and qualified supply chain officials</b>	<b>Justifications</b>
Entity A	No	<ul style="list-style-type: none"> <li>• Lack of skill metrics</li> <li>• No succession planning</li> <li>• No structured functional training in the supply chain unit</li> </ul>
Entity B	Yes	<ul style="list-style-type: none"> <li>• The entity has skilled and qualified supply chain officials but has limited staff.</li> </ul>
Entity C	Yes	<ul style="list-style-type: none"> <li>• The entity has sufficient skilled and qualified supply chain officials.</li> </ul>
Entity D	No	<ul style="list-style-type: none"> <li>• Failure to implement the departmental supply chain management policies</li> <li>• Internal audit recommended in many reports to bring more skilled and qualified officials in the supply chain but nothing was done.</li> </ul>

Entity E	No	<ul style="list-style-type: none"> <li>• There are vacant positions that need to be filled.</li> <li>• Not everyone working in the supply chain unit has the relevant qualifications and experience in supply chain management.</li> </ul>
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Source: Interview Schedule 2021

All participants were requested to illustrate whether their entities provide mandatory supply chain training or short courses, and whether or not they apply for job rotation in their supply chain units. They were also asked to provide details to substantiate their answers in such case that entities do not provide mandatory supply chain training or short courses, and if they do not apply for job rotation in their supply chain units. They were also asked to explain how officials are identified for training, and how often the organisations offer training. Table 5.5 below clearly depicts the responses of the participants in detail.

**Table 5.5 Application of job rotation system and training arrangement for supply chain officials**

Entity name	Job rotation	Mandatory supply chain training or a short course	Justifications
Entity A	No	Yes	<ul style="list-style-type: none"> <li>• The entity operates with specialists than generalists hence job rotation system is not implemented.</li> <li>• When there is new legislation or changes in legislation then all officials are trained for such legislation.</li> </ul>
Entity B	No	No	<ul style="list-style-type: none"> <li>• The entity does not apply for job rotation but planning to apply it in the future.</li> <li>• They are always short courses available for the supply chain.</li> </ul>

			<ul style="list-style-type: none"> <li>• Management encourages employees to attend training, however, they cannot compel officials to undertake study.</li> </ul>
Entity C	Yes	Yes	<ul style="list-style-type: none"> <li>• The organ applies a job rotation system in the supply chain unit.</li> <li>• Management utilises performance management appraisals to identify training requirements and needs.</li> <li>• All officials identified that lack certain skills during performance appraisals are then sent for training.</li> </ul>
Entity D	No	Yes	<ul style="list-style-type: none"> <li>• The job rotation system is not implemented in the supply chain unit.</li> <li>• The organisation is planning to apply it in the future.</li> <li>• Training is offered as and when is required or necessary to all senior management and supply chain officials.</li> </ul>
Entity E	Yes	No	<ul style="list-style-type: none"> <li>• The job rotation system is implemented in the supply chain unit.</li> <li>• Training is not offered to supply chain officials in this entity.</li> </ul>

Source: Interview Schedule 2021

All participants were requested to illustrate if all supply chain officials are well-trained in public procurement legal frameworks, such as PFMA, MFMA, PPPFA, PPM, and others, and were also asked to substantiate their answers if supply chain officials are not well-trained in public

procurement legal frameworks. In addition, respondents were asked to illustrate if procurement officials were aware of the annual budget for training and individual development plan, and to explain whether they make use of both the training budget and individual development plan. If employees are not informed about training budget and IDP, then it is a question as to why they are not informed about the training budget and IDP. Table 5.6 summarised the responses from the respondents properly.

**Table 5.6 Training in public procurement legal frameworks and training budget and individual development plan awareness**

<b>Entity Name</b>	<b>Trained in public procurement legal frameworks such as PFMA, MFMA, PPPFA, PPM, and others</b>	<b>Aware of the annual budget for training and individual development plan</b>	<b>Justifications</b>
Entity A	No	Yes	<ul style="list-style-type: none"> <li>• Employees know specific sections of the legislation, but not holistically, or in context.</li> <li>• Employees are aware of the budget and IDP, but there is poor execution of agreed upon development plans.</li> </ul>
Entity B	No	Yes	<ul style="list-style-type: none"> <li>• Employees are not well-trained in public procurement legal frameworks.</li> <li>• Officials make use of training budget and IDP, but the challenge emerges when they decide to study another course that differs from those that are stipulated on the ID.</li> </ul>

			<ul style="list-style-type: none"> <li>• The human resource department makes it difficult for the employees as the policy allow employees to only study courses that are stipulated on the IDP.</li> </ul>
Entity C	Yes	Yes	<ul style="list-style-type: none"> <li>• Employees are well-trained in public procurement legal frameworks.</li> <li>• Officials make use of the training budget and IDP.</li> </ul>
Entity D	No	Yes	<ul style="list-style-type: none"> <li>• Officials are not well trained in all procurement processes.</li> <li>• They only know sections that are affecting their jobs.</li> <li>• Some of them utilise the budget and IDP.</li> </ul>
Entity E	No	Yes	<ul style="list-style-type: none"> <li>• Not everyone who works in the supply chain deals with procurement so they are not well-trained in public procurement legal frameworks.</li> <li>• Officials make use of the training budget and IDP.</li> </ul>

Source: Interview Schedule 2021

## Section C

### 5.2.8 Causes of fraudulent activities in public entities

This section deals with the causes of fraudulent activities in the public tendering system. All respondents were asked to explain what they think encourages or attracts individuals to commit fraud in the public procurement system; how individuals (perpetrators) defraud the public procurement system; and what their organisations do to address those issues. Table 5.7 below summarises the explanations from the respondents.

**Table 5.7 Fraud in the public procurement system**

<b>Entity Name</b>	<b>What encourages or attracts individuals to commit fraud in the public procurement system (tender award)</b>	<b>How do individuals (perpetrators) defraud the public procurement system</b>	<b>What does the entity/organ do to address issues raised</b>
Entity A	Greed and self-enrichment	Collusion between external and internal parties. Price collusion (price-fixing) by external parties	Reactive consequence management. Supplier restrictions from doing business with government entities. Recovery of funds spent through corrupt means through legal.
Entity B	Lack of consequence management. Lack of oversight of what employees are doing.	Collusion with suppliers. Members sometimes lie when filing DOI during the bid evaluation process.	There is a forensic audit that investigates any fraudulent issue when there is a tip-off.

Entity C	The country has a high prevalence of corruption in government institutions.	They manipulate the system through loopholes.	There is a forensic investigation division that deals with matters of fraud and corruption.
Entity D	<p>Opportunity- a person sees an opportunity to commit fraud then they will commit (when controls are weak). This comes from the pressure that the individuals find themselves in e.g. financial constrain</p> <p>Rationalisation – some feel that they earn less and when other people are committing fraud, this gives them licence to also commit fraud.</p> <p>Lack of consequence management to individuals who commit fraud.</p>	<p>Kickbacks.</p> <p>Javelin throwing – awarding tenders to companies that are associated with them (senior management).</p> <p>Senior management can channel funds to those companies so that when they get fired, they can go and work at those companies.</p>	<p>The entity implemented a disclosure procedure. Employees must disclose their businesses outside the entity. They must obtain approval before running the business outside the entity from the accounting officer. Employees are not allowed to do business with the state or government.</p> <p>The forensic department is implemented to investigate cases when they are reported. They report the findings to the head of the Internal audit who</p>

			then report to the accounting officer. If an investigation is involving an accounting officer then can be reported to the board or audit committee or minister.
Entity E	They commit fraud to compete with others, either friends or relatives, who live a particular lifestyle. They also see others committing fraud in the public sector and they also do it.	They collude with service providers. Management colludes with each other.	Management conduct fraud awareness campaign.  The entity has implemented an effective whistleblower policy.  Anonymous reports are taken seriously in this organisation.

Source: Interview Schedule 2021

### 5.2.9 Whistleblower principle

All respondents were asked if their organs have an effective whistleblower mechanism or anonymous fraud hotline, and whether the officials know about it, or makes use of it. All respondents responded that their entities have implemented a whistleblower mechanism or anonymous fraud hotline, and that the employees make use of the platform. Table 5.8 depicts the summary of the responses.

#### **Table 5.8 Effective utilisation of whistleblower mechanism or anonymous fraud hotline.**

Entity name	Effective whistleblower mechanism or anonymous fraud hotline	Justifications
Entity A	Yes	<ul style="list-style-type: none"> <li>• Officials know about the fraud hotline and sometimes they utilise it.</li> <li>• The details are on tender documents as well.</li> <li>• Employees that are willing to report possible fraudulent activities are protected since they utilise anonymous fraud hotline, and the entity takes anonymous reports seriously.</li> </ul>
Entity B	Yes	<ul style="list-style-type: none"> <li>• Employees are aware of the mechanism and they make use of it. Details are displayed everywhere on the premises and it's get communicated through social media and email.</li> <li>• Employees that are willing to report possible fraudulent activities are protected since they utilise anonymous fraud hotline, and the entity takes anonymous reports seriously.</li> </ul>
Entity C	Yes	<ul style="list-style-type: none"> <li>• Employees are aware of the mechanism and they utilise it.</li> <li>• Employees that are willing to report possible fraudulent activities are protected since they utilise anonymous fraud</li> </ul>

		hotline, and the entity takes anonymous reports seriously.
Entity D	Yes	<ul style="list-style-type: none"> <li>• Employees are aware of the mechanism and they utilise it.</li> <li>• Employees that are willing to report possible fraudulent activities are protected since they utilise anonymous fraud hotline, and the entity takes anonymous reports seriously.</li> </ul>
Entity E	Yes	<ul style="list-style-type: none"> <li>• Employees are aware of the mechanism and they utilise it.</li> <li>• Employees that are willing to report possible fraudulent activities are protected since they utilise anonymous fraud hotline, and the entity takes anonymous reports seriously.</li> </ul>

Source: Interview Schedule 2021

## Section D

### 5.2.10 Occurrence of fraudulent activities in the existence of detection control measures

This section deals with the occurrence of fraudulent activities in the existence of detection control measures. All respondents were asked to explain how individuals (perpetrators) manage to defraud the entire public procurement system without being detected by existing control measures, as well as how their organisations deal with those involved with fraudulent activities in public procurement should they be detected. All respondents alluded to the fact that disciplinary and criminal actions are taken against corrupt officials and suppliers. All five entities have various weaknesses in their control measures, however, the collusion of role players applies to all entities. Table 5.9 below highlights detailed responses.

**Table 5.9 Success of fraudulent activities in the existence of control measures**

Entity Name	How do the individuals (perpetrators) manage to defraud the entire public procurement system without being detected by existing control measures	How does the organ or entity deal with those involved with fraudulent activities in public procurement should they be detected?
Entity A	Misrepresentation of facts not identified and prevented by gateway reviews.	<ul style="list-style-type: none"> <li>• Reactive consequence management.</li> <li>• Supplier restrictions from doing business with government entities. Recovery of funds spent through corrupt means via Legal.</li> </ul>
Entity B	Collusion with suppliers. Members of the committees sometimes lie when filing DOI during the bid evaluation process. Members of the evaluation committee sometimes collude.	<ul style="list-style-type: none"> <li>• Criminal cases are opened with the police and forensic team do recommendations where necessary.</li> <li>• Forensic team report to the accounting officer and the reporting manager of the affected employees.</li> <li>• If it affects the accounting officer, then the forensic team reports the matter to the council.</li> </ul>
Entity C	Fraud detection control measures are limited.	<ul style="list-style-type: none"> <li>• Disciplinary actions, civil actions, and criminal actions are taken against corrupt employees.</li> </ul>
Entity D	Kickbacks. Javelin throwing – awarding tenders to companies that are associated with them (senior management). Senior management can channel funds to those companies so that	<ul style="list-style-type: none"> <li>• Follow disciplinary process which can lead to dismissal and also criminal cases where SAPS (South African Police Services) can be involved.</li> </ul>

	when they are dismissed, they can go and work at those companies.	<ul style="list-style-type: none"> <li>The forensic team investigates cases to assist with information during the disciplinary process.</li> </ul>
Entity E	Collusion amongst role players	<ul style="list-style-type: none"> <li>Disciplinary actions are taken against corrupt officials and cases are reported to the police.</li> </ul>

Source: Interview Schedule 2021

## Section E

### 5.2.11 Impact of fraudulent activities in government tenders to service delivery and economy of a country

This section concerns the impact of fraudulent activities in government tenders to service delivery to the citizens and economy of a country. All participants were asked to illustrate how the above-mentioned fraudulent activities affect service delivery to the community or citizens of the country and their impact on the economy of a country. Respondents of all five entities indicated that fraudulent activities result in poor service delivery to the community. In addition, they highlighted that fraudulent activities compromise economic growth, as investors often do not invest in a country that is led by corrupt administrators. Detailed analysis is outlined in Table 5.10.

**Table 5.10 Impact of service delivery and economy of a country**

<b>Entity name</b>	<b>How do the above-mentioned fraudulent activities affect service delivery to the community or citizens of the country</b>	<b>What impact do the above-mentioned fraudulent activities in public procurement have on the economy of a country</b>
Entity A	Exceed budget allocation and fail to deliver on other critical projects.	Compromise the growth of the economy. Enrich only a few individuals.

	<p>The collapse in service delivery to the community.</p> <p>Compromise of health and safety of the community.</p> <p>Loss of faith in government administration.</p>	
Entity B	<p>No service delivery in some instances.</p> <p>Sometimes sub-standards service delivery or poor service delivery.</p>	<p>Compromise community not to have access of basic service deliveries</p> <p>Enrich only a few individuals.</p> <p>Compromise a country to reduce poverty.</p>
Entity C	<p>Service delivery becomes of poor quality.</p>	<p>Negatively affects the image of the country.</p> <p>It creates a huge risk for the country to the international monetary market.</p>
Entity D	<p>Delay or non-provision of service delivery to the community.</p> <p>Inadequate service delivery to the community.</p> <p>It affects the reputation of the organisation.</p>	<p>This leads to a high unemployment rate.</p>
Entity E	<p>The impact on service delivery is significant.</p>	<p>Investors will be reluctant to invest in a country that is run by a corrupt public service.</p>

Source: Interview Schedule 2021

### 5.3 Discussion of secondary data

This section concerns the recent data that the researcher gathered from journals and articles from AGSA (Auditor General of South Africa) relating to deficiencies of tender processes in government entities that lead to fraudulent activities.

The Auditor General reported various deficiencies in the procurement and contract management processes of the relief package allocated in response to the corona virus (Maluleke, 2020). Some of the contracts in both health and education sectors were awarded to specific bidders, or groups of bidders, without following competitive processes, or the necessary approval for such deviations was not granted. Furthermore, contracts were awarded to suppliers that have issues with their tax affairs, causing financial loss to the South African Revenue Services (SARS).

The awarding of tenders of PPE across the country was not treated in a fair and equitable manner. Some bidders were disqualified, based on reasons such as bidders not complying with tax clearance certificates, declarations of interests, registration as companies and small businesses, and their status as local manufacturers, while others were not disqualified. Meanwhile, auditors failed to obtain sufficient evidence or substance to justify the decisions made to disqualify some of the suppliers or to favour specific suppliers. The audit also revealed contracts that were awarded to bidders who do not have records or history of providing PPE, bidders working in a different industry, and bidders registered just before contracts were awarded.

The National Treasury determined the specifications and market-related prices for PPE items. The National Treasury made it a requirement through instruction notes for government entities to purchase the specified PPE at or below market-related prices. In instances where entities do not have a choice but to purchase at a higher price, necessary approval procedures must be followed. Some of the suppliers that quoted at high prices were given contracts without following approval processes, while others were not. In addition, some bidders delivered PPE that did not meet the required specifications, or items that were not contracted for. They also under-delivered goods and/or services, or delivered late. Despite this, the bidders claimed their payments, and were paid by most of the entities.

Poor contract management and significant deficiencies in three-way match systems further exposed the health and education sectors to financial loss and resulted in health workers and schools receiving compromised services. Infield hospitals and

control measures were not always exercised over the payment process, which resulted in instances of overpayment, as well as payment for goods and services not received, or lying outside the contract. AGSA recommended that these contracts be investigated, as such circumstances can be a red flag for fraud or abuse of the supply chain management process.

Makwetu (2020) reported material irregularities relating to municipalities in the AGSA audit report for the financial year 2018/19. The nature of material irregularities included: payment for goods or services not received of R11 418 843; unfair procurement leading to overpricing of R1 231 644; and assets not safeguarded resulting in theft/vandalism of R11 849 379.

The AGSA audit has been highlighting failure in municipalities to establish the systems, processes, and controls constitutional and the Municipal Finance Management Act (MFMA) requirements as the norm. On the other hand, some irregular expenditures are not being dealt with, and there is a lack of action on potential fraud and corruption. The local government continues to disregard the findings and recommendations of AGSA. The public (citizens) of the country did not receive services as expected; they also received compromised services in instances of poor quality goods or services rendered. Service providers inflated their revenues, due to the overpricing of goods or services to the municipalities. All of the above happened as a result of non-compliance in procurement.

Material Irregularity described as non-compliance with or contravention of legislation, fraud, theft, or a breach of a fiduciary duty identified during a scheduled audit under Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resources, or substantial harm to a public sector institution or the general public. Irregular expenditure refers to expenditure where there was non-compliance with legislation that ultimately lead to payment.

Maluleke (2021) reported material irregularities relating to all government entities excluding local governments (provincial and national level) in the AGSA audit report for the financial year 2019/20. The nature of material irregularities was non-compliance in procurement processes resulting in: overpricing of goods and services procured of approximately R983 million; appointed service providers not delivering goods and/or services of R2.221 billion; and payment for goods or services not received or of poor

quality approximately R1.447 billion. In addition, invoices or claims not paid on time resulting in estimated interest or penalties of R151 million were also reported. The AGSA notified accounting officers of a total estimated financial loss of R6.851 billion.

The public (citizens) of the country did not receive services as expected, they also received compromised services in instances of poor quality goods or services rendered. Service providers inflated their revenues due to the over-pricing of goods or services to government entities. All the above happened as a result of non-compliance in procurement processes.

The audit report further states that if accounting officers and authorities, supported by their political leadership, adhere to their legislated responsibilities, and take necessary actions when notified of material irregularity, the AGSA would not have to use remedial power to deal with the situation. The AGSA has been empowered to enforce consequence management, good governance, and accountability by accounting officers and authorities without fear, favour, or prejudice.

## **Chapter 6: Summary, conclusions, and recommendations**

### **6.1 Introduction**

This chapter summarises the findings of the study, illustrates the conclusion, and demonstrates the recommendations to improve the control measures of public procurement systems.

### **6.2 Summary**

#### **6.2.1 Weaknesses of control measures**

This study was conducted to determine factors that cause fraudulent award of tenders in the South African government; highlight the causes of occurrence of fraudulent activities in public procurement system without been detected by the existing control measures; and determine the impact of fraudulent activities in the economy of a country and service delivery to the community. The researcher interviewed five delegates from five different government entities in Gauteng Province of South Africa.

This study revealed that public entities have sufficient control measures that are put in place in public tendering system as discussed in Chapter 5, however, those control measures have several weaknesses. There is no evidence of segregation of duties amongst BSC and BAC committee members in some of the entities. Emergency procurement does not seems to follow normal procurement procedures. Probity audits are not done consistently, and ToR is sometimes not properly done. Lack of knowledge of committee members was also highlighted, where Picho (2017) revealed the same results, namely that a lack of knowledge influences procurement performance. Misrepresentation of facts in terms of procurement events (goods parceling) is also a challenge in other entities, where the study of Tóth and Fazekas (2018) reached same the conclusion, namely that regulatory thresholds are found to be connected to the exploitation of the more flexible rules.

In some instances, project managers can tailor bid specifications to suit specific suppliers. Toukan (2017) posited that service providers may induce the official to

customise project specifications to fit a given entity's proposal. Subject matter experts are not always vetted; verification of declarations is not always done before commencing with the evaluations; and meetings recordings are not fully protected in some of the entities. Also, Kafimbou (2019) discovered the inefficiency of the procurement process to be one of the challenges in public procurement system. Sometimes, members of evaluating committee recommend expensive bidder and use experience and relationship to motivate. The study of Israel and Kazungu (2019) also identified a lack of fairness in public procurement to be one of the key challenges that hinders SMEs to access public procurement opportunities. The scores of the members of evaluating committees are sometimes misaligned, and have some gaps in other entities. Alaro (2018) arrived at the same results, finding that evaluating committees are not effective in internal control roles at the majority public entities.

The adjudication committee in other entities has the mandate to deviate from the recommended bidder by the evaluation committee. Meanwhile, service providers sometimes deliver goods or render services before the contract is signed. The secretariat personnel has an opportunity to unlawfully amend evaluation resolution. Mutangili (2019) came to the same conclusion, namely that weak governance processes, favouritism, misuse of powers in government offices, lack of integrity, and non-enforcement of the law constitute the main challenges in public procurement system. Other dignitaries have a mandate to reject the recommended bidder and approve the appointment of a different bidder. Deka (2016) observed that although supply chain procedures are put in place in public entities, officials sometimes decide to disobey them.

There is failure to enforce contract terms and conditions and as result processes or projects are delayed. A study by Quashie (2019) also indicated that poor contracts management contributes towards procurement irregularities. Payments may be improperly approved, and issues of collusion amongst the employees and/or amongst employees and service providers was also highlighted.

There is lack of skilled and qualified supply chain officials and job rotation system is not implemented in other entities. Mokoena (2018) also noted that supply chain management officials usually do not have the necessary skills to manage the

intricacies of the procurement processes. In addition to this, Ismail, Hasan, Clark and Sadique (2018) reported that some government organs do not apply system of job rotation to the procurement officials and as a results senior managers manage to override controls to defraud the organisation.

Training is offered by the majority of the entities, however, is not effective. Adow, Edabu and Kimamo (2017) also emphasised the lack of continuous training on implementation of best procurement practices hinders the procurement staff in public sector organisations to effectively execute procurement procedures. The supply chain officials are not well-trained in public procurement legal frameworks such as PFMA, MFMA, PPPFA, PPM, and others in the majority of the entities.

### **6.2.2 Causes of fraudulent activities in public entities**

This study revealed that causes of fraudulent activities in public entities are due to greed and self-enrichment; lack of consequence management; lack of oversight of what employees are doing; high prevalence of corruption in government institutions; competition with others who live particular lifestyle; and a fraud triangle. The studies of Dlomo (2017) and Fourie (2018) reveal that there is poor consequence management when it comes to officials who are involved with corrupt activities.

The perpetrators defraud the public procurement system through collusion between external and internal parties (role players); price collusion (price-fixing) by external parties; members sometimes lie when filing DOI during the bid evaluation process; kickbacks; spear throwing; collusion within management; limited fraud detection control measures; misrepresentation of facts not identified and prevented by gateway reviews; and manipulation of the system through loopholes.

Thabit (2019) also noted that abuse of power in procurement, bribery, kickbacks, nepotism and favouritism, collusion, bid rigging, and misuse of public funds are some of the various manifestation of the corruption in procurement. Meanwhile, Abdullahi, Gambo and Mohammad (2019) revealed that conflict of interest factors at the tender and bid evaluation stages to be identified as the major unethical practices that affect procurement processes. All respondents responded that their entities have

implemented a whistleblower mechanism, or anonymous fraud hotline and the employees make use of the platform. The literature also revealed that there is political interference/influence in award of tenders in public procurement system (Pillay, 2017; (Maswanganyi & Nkoana, 2016; Selelo & Manamela, 2018) .

It also revealed that tenders are awarded to the service providers that pay bribes or kickbacks to the officials (Alexander, Ngwane & Runciman, 2016; Quintal, 2019) and tenders are also awarded to the officials and/or their relatives (Ambe, 2016; Ngobeni, 2016; Mazibuko & Fourie, 2017).

### **6.2.3 Impact of service delivery and economy of a country**

This study revealed that fraudulent activities result in poor service delivery to the community, and compromise economic growth, as investors often do not invest in a country that is led by corrupt administrators. Furthermore, the results revealed that the above-mentioned activities lead to a high unemployment rate, compromise a country to reduce poverty, and enrich only a few individuals.

### **6.3 Conclusions**

It is concluded that control measures in public procurement systems have certain weaknesses, where perpetrators take advantage of those weaknesses to undertake corrupt activities. The above-mentioned corrupt activities result in poor service delivery to the community, and compromise economic growth, as investors often do not invest in a country that is led by corrupt administrators. Greed and self-enrichment; lack of consequence management; lack of oversight of what employees are doing; high prevalence of corruption in government institutions; competition with others who live particular lifestyle; and fraud triangle seem to be the main causes of fraudulent activities in public entities. Political influence on tender awards and awarding of tenders to officials, relatives and friends exist in public procurement system. This study was only limited to five South African government entities that are based in Gauteng Province. The researcher also gathered data from the recent published journals and

articles from AGSA. The findings cannot be generalised to all public entities in South Africa.

## **6.4 Recommendations**

Based on the findings and conclusion drawn from the study, the following recommendations were made:

- 6.4.1 implement job rotation system to be mandatory to all government employees from middle management upwards in public entities;
- 6.4.2 implement mandatory training to all supply chain and finance officials in public sector;
- 6.4.3 remove delegation of authorities that were given to individuals for approval of tenders and give them only to the committees;
- 6.4.4 implement annual workshops to all supply chain and finance officials on critical sections of PFMA, MFMA, PPPFA, PPM, and other procurement prescripts;
- 6.4.5 strengthen the control measures that will prevent and/or minimise collusion between role players;
- 6.4.6 improve the way due diligence or background check is performed to the bidders;
- 6.4.7 appoint sufficient qualified and skilled supply chain officials;
- 6.4.8 apply consequence management consistently to all the employees that are involved in corrupt activities and make employees accountable for their actions;
- 6.4.9 implement frequent ethics workshops or program to all political officials, and government employees from middle management upwards;
- 6.4.10 enforcement of mandatory leave to all government employees;
- 6.4.11 enforcement of continuous audit of bid evaluation and bid adjudication processes;
- 6.4.12 implement frequent workshops to discuss anti-fraud policy to all government employees;
- 6.4.13 implement anti-fraud policy to all government entities that do not have it in place; and

6.4.14 enforcement of continuous fraud risk assessment on tendering system in the public sector.

## **6.5 Future research**

This study was limited to five South African government entities based in Gauteng Province. Future studies should be conducted on procurement events in private sector and also in public entities in other provinces.

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