THE IMPACT THAT SUPPLY CHAIN MANAGEMENT HAS ON FRAUDULENT ACTIVITIES IN THE PUBLIC SECTOR

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Abstract
The paper attempts to examine some issues within the supply chain management of the government of South Africa, in respect of procurement of services and goods intended for public use and to enhance service delivery. Supply chain Management (SCM) is the engagement and enactment of a network of interconnected businesses involved in the provision of productS and service packages required by the end customers in a supply chain. A fraudulent activity is deliberately deceitful, dishonest and deviant behaviour that compromises service delivery and the image of government in the eyes of the public. This paper looks at certain salient features of SCM and outlines three specific cases that indicate the seriousness of SCM violation by government departments in South Africa. The paper does not pretend to capture all of the issues that permeate Supply Chain Management / procurement, but attempts to show the cardinal importance of Supply Chain Management to the development of the country as a whole and the consequences that result from the violation of Supply Chain Management and procurement processes.

Key Words: Supply Chain Management, Procurement, Fraudulent Activities, Service Delivery, Violation, Corruption

INTRODUCTION
Supply Chain Management / Procurement has assumed great significance in South Africa, post 1994 and under the democratic dispensation in South Africa, because the government had to intervene decisively in order to remedy the skewed SCM policies of the apartheid government which favoured the White race group overtly and, had excluded the predominantly Black population (Africans, Indians and Coloureds). The government and private sector procurement of goods and services runs into Billions of Rands yearly and some analysts have placed the amount at nearly 25 percent of the total budget of the country. It is a lucrative business which has been exploited by politicians, the bureaucracy, family friends and relatives including the private sector which wants to be on the right side of government. This has led to new SCM policies having been promulgated by government to favour the previously disadvantaged race groups. The new policies have led to extreme manipulation of the SCM system in the awarding of tenders and the interference by politicians and the government at both the national and provincial levels of government. This situation has led to massive corruption, fraud and misallocation of tenders to preferred candidates and their companies. All of this has been influenced by government and has caused tremendous problems and criticisms from various quarters within and outside
government. The sum total of this has resulted in the economy and its growth being heavily stifled to the detriment of the majority of the population and has led to the poor and non-delivery of services and goods for purposes of development in South Africa. It is against this background that the topic assumes significance in democratic South Africa.

AIMS AND OBJECTIVES
The aim of this research is to understand the impact that Supply Chain Management has on fraudulent activities in the public sector.

The objectives of this research are:

- To determine whether Government’s objectives for the introduction of supply chain management is being achieved?
- To determine whether supply chain management followed a structured sequence of events in the implementation thereof in Government Institutions.
- To determine how National Treasury's intervention affected the impact of supply chain management on fraudulent activities in Public Sector entities (Jacobson, 2007:11).

SIGNIFICANCE OF THE STUDY
The significance of the proposed research pertains to its uniqueness, and relevance in terms of the time of occurrence. Furthermore, the fact that South Africa is the only country where tender boards have been demolished and done away with, in the process of Implementing Supply Chain Management in government institutions whereby, SCM officers or authorities have been given full accountability to manage the funds of their respective institutions (Anonymous, 2007: 4). Fraud and Corruption are tackled and picked up by the respective officers; all these irregular activities are ironed out in accordance with the National Treasury Act of South Africa. The value of this topic is important as it makes employees and individuals in the country aware of all the corruption that occurs within Government entities. It is vital that the managerial authorities deal with these issues, so as to overcome them from being publicized and giving organisations, provincial and national government a bad name and thus tarnishing their reputations.

RESEARCH METHODOLOGY
Fraud and corruption are generally seen as the biggest threats to South Africa’s new democracy. Analysis of media reports, which show extensive coverage of stories on fraud and corruption, appear to confirm and validate this view. The following are some examples of newspaper reports that attempt to provide a sense of coverage of these issues.

From national government through to provincial, local and municipal authorities a culture of corruption and entitlement is widespread and endemic. It is further stated that the auditor -general has identified about 3000 public servants involved in corrupt practices and no action has been taken against these officials. Corrupt and fraudulent activities are a sign of a broken society. (The Star, 2009:47).

In another article, City Press (2009:25) states that the toughest task will be to reform the state tender system, which is serially corrupted. The state is a huge spender in the economy and very quickly civil servants in South Africa have entered into corrupt activities in order to further their aims of greed. According to an article in the Business Day (2009: 11), all public institutions, be it government departments, constitutional bodies or state owned enterprises are directed, controlled and held to account on the basis of applicable legislation, notably the Public Finance Management Act No.1 of 1999 (PFMA).
Referring to an article in the City Press (2012:5), the Dube Trade Port CEO quit due to receiving kickbacks from a member of Worldwide Flight Services South Africa. Dube Trade Port is the flagship development project of the KwaZulu-Natal economic development department. It is a public company wholly funded by the provincial Department of Economic Trade and Development (It also raises its own funding from various trade quarters).

Government enterprises are adopting supply chain management as a platform for broad accountabilities and assurance in dealing with overall aspects of corporate governance and risk management (Business Day: 2009). Some of the risks to be managed in terms of a supply chain management process are fraud and corruption. Fraud and corruption destroy the reputation, profitability and legitimacy of enterprises.

Constant vigilance against fraudulent and corrupt activities mitigates the impact of fraud and corruption on organizational revenues. Organisations develop strategies and measures to ensure that fraud and misconduct do not bring about the incidents similar to the highly publicized corporate scandals of Enron, WorldCom, Xerox, Tyco, and Adelphia (Associated Certified Fraud Examiners: 2004)

The philosophy underlying fraud and corruption management is a mind shift away from reactive fraud investigation to proactive risk assessment, prevention and detection, and deterrence of fraud risk. This philosophy is supported by a program that involves fraud risk governance, fraud risk assessment, fraud prevention and detection, and investigation and corrective action. (Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners: 2007)

In this section, supply chain management, fraud and corruption are discussed in general in order to provide a background relating to where fraud and corruption policies and procedures fit into the entire governance framework. However, the main emphasis of the discussion is fraud and corruption policies and procedures within supply chain management. This discussion takes place towards the end of this article...

This section begins by discussing supply chain management within public entities, then narrows down to fraud and corruption. Policies and procedures form the basis for the management of the organisation and they generally state that their entity subscribes to a culture of zero tolerance to fraud and corruption. Sound ethical behaviour is embodied in the values of the organisation. Policies and procedures provide a framework for combating fraud and corruption and outline the manner in which this should be implemented in organisations.

A brief survey of literature will be conducted and in addition newspaper articles, texts and the internet will be utilized were applicable in order to enhance the paper and add credence to this valuable and important subject.

**SUPPLY CHAIN MANAGEMENT DEFINED**

Supply chain management (SCM) is the oversight of materials, information, and finances as they move in a process from supplier to manufacturer to wholesaler to retailer to consumer. Supply chain management involves coordinating and integrating these flows both within and among companies and government institutions.

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SCM aims to create a consistent framework for achieving good governance and the government’s preferential procurement framework that satisfies the Constitutional requirements of transparency and accountability. The four major objectives of SCM are to:
transform government procurement and provisioning practices into a SCM function;
introduce a systematic approach to the appointment of consultants;
create a common understanding of the preferential procurement policy; and
promote the consistent application of ‘best practices’ throughout government’s supply chain whilst embracing the “value for money” principle.

This Supply Chain Management Policy addresses some of the critical gaps in the old policies of the Department and sets a consistent framework for managing, monitoring and reporting Supply Chain Management activities that provides the basis for the improvement of SCM operations and services.

This policy is aimed at providing a framework to achieve and sustain a strategically focused Supply Chain Management operation. Most importantly this policy complies with the strategic aim of good governance, and establishes a Code of Conduct both for staff of the Department and suppliers to the Department. By monitoring compliance the Department aims to improve financial governance and eliminate fraud and corruption (Department: Public Works Republic of South Africa, 2013).

The impact of fraudulent activities on Supply Chain Management in the public sector is crucial, in respect of the process and flow of SCM, if not adhered it will inadvertently lead to fraud and corruption.

DEFINING FRAUD AND CORRUPTION
There are many definitions of fraud and corruption. These terms are mostly used interchangeably, and one or the other used almost as synonyms. However, a clear distinction should be made between the two concepts, fraud and corruption. The concepts are not synonymous, that is, they do not necessarily have the same meaning (Business Ethics Quarterly: 2000). According to Business Ethics Quarterly (2000) fraud can be defined as an “intentional deception by concealing or misrepresenting information that harms the financial interest of another person(s) and benefits the financial interests of the perpetrator”.

The Institute of Internal Auditors, the American Institute of Certified Public Accountants and Association of Certified Fraud Examiners (2007: 6) define fraud as “any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain”. Similarly, Deloitte Touches’ Tohmatsu (2003) defines fraud as an inducement action through deceit, dishonest conduct that involves acts or omissions or making false written or oral statements with the objective of obtaining either financial benefits or other benefits from a victim. In the same way, the South African definition in terms of the common law of fence, defines fraud as “the unlawful and intentional making of misrepresentation which causes actual and or potential prejudice to another” (Department of National Treasury: no date)

In line with the other definitions, Wells (2007:1) states that for the purpose of the Corporate Fraud Handbook, occupational fraud and abuse is the use of one’s occupation for personal enrichment through the deliberate misuse or misapplication of the employment organisation’s resources or assets. However, this meaning combines the definition of fraud and corruption. The meaning of corruption is dealt with in an explanation that follows.
Rossouw (1999, in Isa: 2009: 22) defines corruption as “an act of inducement by improper means to violate one’s duty towards ones’ principal resulting in harm to the interest of another party and the financial benefit for the perpetrator”. Safieddine and Atwi (2009: 87) define “corruption as the abuse of power resulting in the reaping of benefits at the expense of the rights of an individual, a group or the whole of society”
Fraudulent activities, that being fraud and corruption, are ongoing concerns within the public sector entity. As discussed above, the definitions of fraud and corruption are explained in detail to give us a better understanding, hence having a crucial impact in the supply chain management sector.

THE DISTINCTION BETWEEN FRAUD AND CORRUPTION

Business Ethics quarterly (2000) states that fraud and corruption are mostly associated with the abuse of public office and are related to public sector and public office bearers. However, fraud is associated with both public entities and the private sector. In a case of fraud, not only public officials are involved, but the employees or people not employed by the organisations can be perpetrators of fraud. Corruption does involve a third-party, while this is not always the case with fraud. Fraud can be perpetrated without the involvement of a third party.

THE MAIN LEGISLATIVE FRAMEWORK THAT IS USED TO ADDRESS FRAUD AND CORRUPTION IN SOUTH AFRICA

According to the Gauteng Provincial Government (no date), the main Acts that address fraud and corruption in South Africa and in particular, the public entities and constitutional institutions are the following:

- The Corruption Act No. 94 of 1992;
- The Prevention and Combating of Corrupt Activities Act ,No. 12 of 2004;
- The Public Finance Management Act , No. 1 of 1999;
- The Promotion of Administrative Justice Act , No. 3 of 200;
- Treasury Regulations ;
- The Protected Disclosure Act , No. 26 of 2000; and
- The Code of conduct for the Public Service.

The Prevention and Combating of Corrupt Activities Act defines corruption as an act or omission, by any person who directly or indirectly accepts or agrees or offers to accept any gratification from any other person, whether for the benefit of himself or herself, or for the benefit of another person or gives, or agrees or offers to give to any other person any gratification.

WHAT IS THE IMPACT OF FRAUD ON SUPPLY CHAIN MANAGEMENT AND PUBLIC SECTOR ORGANISATIONS?

Deloitte Touché Tohmatsu (2003) in a discussion of the impact of fraud suggests that in many instances there is a direct financial loss, lost time spent to rectify the fraud and the creation of a corruption problem. Staff members have to be paid extra wages for additional time worked. The resources that the organisation could be using to achieve its objectives are diverted to the areas they were not initially intended for, this is due to the lack of following the correct protocol i.e. Supply Chain Management process. These resources can either be internal or external. In most cases, the organisational reputation and image can be damaged irreparably. Valuable staff members tend to be demoralized and resort to resigning from the company.

THREE SCM FRAUD AND CORRUPTION CASES
1. The topic situates the subject matter from the actual Supply Chain Management of goods and services and outlines the process involved. An example in order to explain and delineate the topic is, for example, the contractual agreement between Dube Trade Port Corporation, (situated in the city of Durban under the Ethekwini municipality). “It is a section 3C public entity as defined in terms of various statutes of the Republic of South Africa. Worldwide Flight Services (South Africa) is a private company, and is technically an international private entity, which has been contracted to manage the Dube Trade Port Cargo Terminal for a contractual period of five years. Allegations surfaced that the CEO’s of the two companies were involved in corrupt and fraudulent activities to benefit them personally (Jansen, Broughton, and Naidoo, 2012:1)” The allegations were that the CEO of Dube Trade Port was receiving ‘kickbacks’ from the contracts and therefore, selected Worldwide Flight Services (South Africa), as the preferred service provider without following the proper Supply Chain Management processes. Due to these allegations of corruption and fraud and for not following the SCM process, the CEO of Dube Trade Port resigned from his position and Worldwide Flight Service (South Africa’s) contractual agreement, was terminated with immediate effect until further investigations are conducted. This background gives a somewhat in-depth insight of the fraudulent activities that take place within the public sector (Jansen, Broughton, and Naidoo, 2012:1).

2. The second case that the paper looks at is the expensive case against the Eastern Cape education staff and its appalling bungling and as Carmel Rickard (2013:14) states that “Freedom’s just another word for losing a tender. This case has a historic interplay since the dawn of democracy in South Africa post 1994 and corruption, fraud and violation of tender processes with particular reference to the procurement of textbooks and stationary for school children across the nine provinces of South Africa. This issue has dented the image of the democratic government. Fraud in the region of billions has occurred and not a single politician or for that matter government officials have been charged, in spite of numerous commissions of enquiry instituted by government. The joint ineptness of the Eastern Cape Member of the Executive Council (MEC) could cost the province at least R4 million rands. The other characters implicated are the Superintendent General (SG – HOD) of the Eastern Cape Department of Education and two administrative assistants. In 2010 according to Carmel Rickard (2010: 14) Freedom Stationers from the small town of Tongaat in KwaZulu Natal Province tendered to supply school stationary. A month later the department advertized that it had cancelled the tender. These tenders run into millions of rands. Two bidders including Freedom challenged that decision in court, in the process of discovering a letter, written by the bid committee to the SG, recommending Freedom as one of the group of bidders who should get the tender. Instead of resolving the dispute, however, a series of tragic – comic events followed with, a new raid on the education budget. The SG turned his sights on Freedom questioning how they got the letter. He said according to Rickard (2013) that this was ‘abuse of power, compromising the entire process. He gave the company a deadline to explain, saying that if he did not receive a satisfactory reply, he’d exclude Freedom from consideration.
The strangest thing in this saga is that Freedom met the deadline. The department argued that it had received no correspondence from Freedom and its lawyers. Subsequently the department stated that it received the letters. The irony is the all embracing fact that the department acknowledged receipt of the letters but denied this at first. In court administrative assistant of the department Katikati could not explain an e-mail from herself, sent to the lawyers, acknowledging their letter... eventually it boiled down may be the lawyers sent the letters, maybe they were even received, but Freedom had to prove that the SG himself saw them before taking the decision to exclude Freedom from the tender.

Judge Yusuf Ebrahim found the administrative assistants’ evidence unsatisfactory and said it would be unjust if Freedom had to account for the department’s failure to follow proper office and SCM procedures. Furthermore the SG failed to testify, thus strengthening Freedom’s case. This shows a distinct don’t care attitude by the SG, flouts ethical values, allows the SCM system to be abused and results in very poor government administrative procedures. In reality the SG should resign or be subjected to an internal disciplinary hearing and if found guilty of compromising the department should be made to pay the amounts of money lost and the legal costs. He should also be released of his duties. The judge said that Freedom had not compromised the SCM process (The Star, 2013: 14).

The conclusion was “inescapable” that the SG acted in bad faith when he unreasonably ignored Freedom’s letter of explanation and his decision was made with the “express intention” of excluding Freedom from the tender (Rickard, 2013: 14) This smacks of overt corruption and the extreme flouting of SCM procedures and compromises the procurement and tender processes under a South African democracy. The reality is that it has to be quantified as to how much this ineptness will cost the Eastern Cape Province, its children and their future. This is not the first case within South Africa’s education departments. Many cases of tender fraud have occurred without the necessary remedial action been taken. Incompetency and corruption on the contrary is rewarded by government. South African government services does, not display accountability. It flouts constitutional democracy, negates the rule of law and pays lip service to service delivery and, negates the aspirations of the poor and stymies economic growth and development.

3. The third case involves violation of tender and SCM processes within the Gauteng Province of South Africa’s Department of Health. Baldwin Ndaba (2013:2) reports that the “Gauteng Health Department cannot account for R12 billion rands and that audit results highlight irregular spending and gross mismanagement. That steps were not taken recover all de3bts due and that there was gross violation of the tender and SCM processes.

The Gauteng Department of Health has failed to account for more than R12 billion rands of its budget – nearly half the R26 billion rands budget allocated by its provincial government. According to Baldwin Ndaba (2013:2) “this was revealed by the Auditor – General (A-G) when he tabled his Public Finance Management Act (PFMA) audit outcomes for the department for the 2012 /2013 financial year before the provincial standing committee on public accounts (Scopa).
The health department was listed as the worst department. The A-G found that the then accounting officer failed to take effective steps to prevent:

- Irregular expenditure of more than R5.7 billion rands; and
- Fruitless and wasteful expenditure of more than R408 million rands;
- The department overspent more than 324 million rands to acquire goods and services (The report does not specify).
- The R5.7 billion rands in irregular expenditure are made up of numerous payments including a single payment of R1.5 billion rands indicating the flouting of SCM principles and procedures.
- Other irregular expenditure identified was R270 million rands on month to month security contracts without following proper supply chain management regulations.
- R825 million rands on unsolicited tender bids and R120 million rands on infrastructure irregularities and R160 million rands on non compliance to deviations from the SCM regulations.

The Accounting Officer did not take effective action the A-G said and no recovery of debt was undertaken. He further said that there was insufficient appropriate audit evidence for departmental revenue amounting to R506 939 000 disclosed by the department. There was inadequate record keeping and ineffective computerized information systems. The Auditor General’ key findings were:

- An overall leadership, financial and performance – and governance management of the department, the A-G noted.
- No formal code of ethics, many instances of management override, and numerous cases of fraud and theft.
- The Accounting Officer flouted documented policies and procedures to guide the effectiveness of the operations of the department.
- An action plan was developed to address internal and external audit findings. However, it was not implemented timorously and therefore key prior findings recurred.
- The Accounting Officer did not approve an IT governance framework that supports and enables the business, delivers value and improves performance.
- Poor record keeping made it impossible to ensure data information was accessible and available to support financial and performance – reporting.
- The SCM processes were overtly abused and had collapsed. (Ndaba, 2013:2)

The figure below clearly depicts and shows the misuse of R12 billion rands by the Gauteng Department of Health within the Provincial Government of Gauteng Province. This is only the tip of the iceberg within the context of the country and is having devastating effects upon development and growth. The misallocation of tenders, tender abuse, corruption and fraud within the country’s SCM system has now become endemic and probably reached a point of no return.

It becomes crucial and vital that government intervenes decisively in order to put a stop to this state of affairs or allow corruption and fraud to be embedded as part of the South African business landscape, aided and abetted by corrupt politicians and the government bureaucracy. South African SCM is in a state of disrepair and totally manipulated by the ruling political party. It is in a stage of “corruption maturity” and there does not seem to be the political will or for that matter the political willingness to deal with SCM abuse.
In the final analysis South Africa has become a model of under – performance. Government is unable to demonstrate the required leadership and this has resulted in great pessimism in terms of the country’s longer – term outlook. The economy’s growth, due to corruption and poor service delivery and the lack of productivity indicates that the economic growth and investment potential is not what it used to be. South Africa risks falling into a low – growth trap and therefore pragmatic reform is needed urgently. Without this urgent reform South Africa will slide into a precipice of no return. This will damage the advancement to true democracy and it would have done the historically marginalized population no good. It would lead to greater fraud and corruption, greater unemployment, a lack of investor confidence resulting in the further collapse of its currency, the Rand. It will allow for the predatory elite to consolidate power on its terms resulting in the destruction of the country from the perspectives of stymied growth, economic collapse and increased crime and corruption.

**HEALTH BUDGET MISUSE**

**R12 billion**

- Nearly half the R26 bn budget was allocated by the provincial government
- Irregular expenditure: more than R5.7bn
- More than R324m overspent to acquire goods and services
- Other irregular expenditure R270m
- R825m on unsolicited tender bids

**WHAT R12BN CAN BUY**

- Two years’ worth of treatments for the 1.9 million public sector patients on ARV’s.
- A year of kidney dialysis treatments for 60 000 people.
- About 340 000 ICU beds.
• 3000 lodox full body X-ray machines

Source and graphics: The Star, September 16, 2013

These three cases are only the tip of the iceberg but exemplify the reality that there is massive fraud, misallocation of funds, and the breach of the law. It also points to the fact that the flouting of SCM processes have become the order of the day in South Africa and that fraud, corruption and the violation of the law in the SCM chain has now become endemic. All of this compromises the government of the day and further compromises South Africa on the international stage and makes the country a poor destination for investment. In addition it compromises growth, development and hampers service delivery which leads to massive strikes and protests by the population at large.

CONCLUSION

In conclusion, the above depicts the impact fraudulent activities have on Supply Chain Management in the public sector and, its various entities in South Africa. It is crucial that measures and proper methods and procedures are put into place and appropriately implemented, in order to avoid fraud and corruption within organizations. Higher levels of management need to make sure that to avoid the above irregularities; protocol is followed in terms of the Public Finance Management Act (PFMA) and other legislative Acts, in order to adhere to the Supply Chain Management process. Failure to deal adequately with Supply Chain Management issues can only have devastating effects upon the economy of the country and can serve to hinder economic growth and development. It can no doubt tarnish the reputation of South Africa as an emerging market and thus stifle investment.

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