



Conflict of Interest within a coherent
Supply Chain Governance
framework



What is Conflict of Interest?

Tension between multiple competing interests, personal or financial



Conflict of Interest in the supply chain

- The most common cases of conflict of interest occur when:
 - engaging in procurement decisions
 - consulting activities
 - the use of company resources and services
- The below are examples of the most typical situations of conflict of interest

- Giving/Receiving gifts- The giving and receiving of gifts has the possibility to be perceived as a conflict of interest. It is important that individuals who receive gifts that are outside of the boundaries set forth by the company to decline the gift.
- Family/Personal Relationships- The issue of family and personal relationships typically arises as a potential conflict of interest in procurement activities. Questions are typically raised when a corporate buyer selects a family member as a supplier of a good or service for the corporations.
- Investments- If an employee is a buyer for a corporation and is also an investor in a company who is a supplier for goods and services to that same corporation a potential conflict of interest arises. While this may not produce a direct conflict of interest, it is important that employees avoid any situations that may have the appearance of a conflict.
- Use of company resources- In general, it is inappropriate to use company materials, equipment, or services for any non-business related activities.

Who cares in general (in theory)?



Including the Integrated Consolidated Companies Act No. 71 of 2008 with Companies Amendment Act No. 3 of 2011 and Companies Act Regulations

PREVENTION AND COMBATING OF CORRUPT ACTIVITIES ACT 12 OF 2004

[ASSENTED TO 27 APRIL 2004] [DATE OF COMMENCEMENT: 27 APRIL 2004]
(Unless otherwise indicated)

(English text signed by the President)

as amended by

Judicial Matters Amendment Act 66 of 2008

also amended by

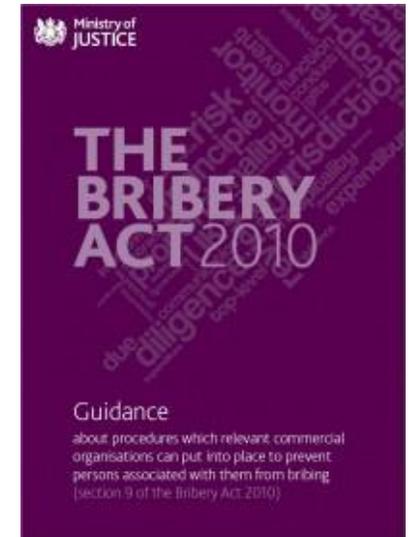
Jurisdiction of Regional Courts Amendment Act 31 of 2008
[with effect from a date to be proclaimed]

Regulations under this Act

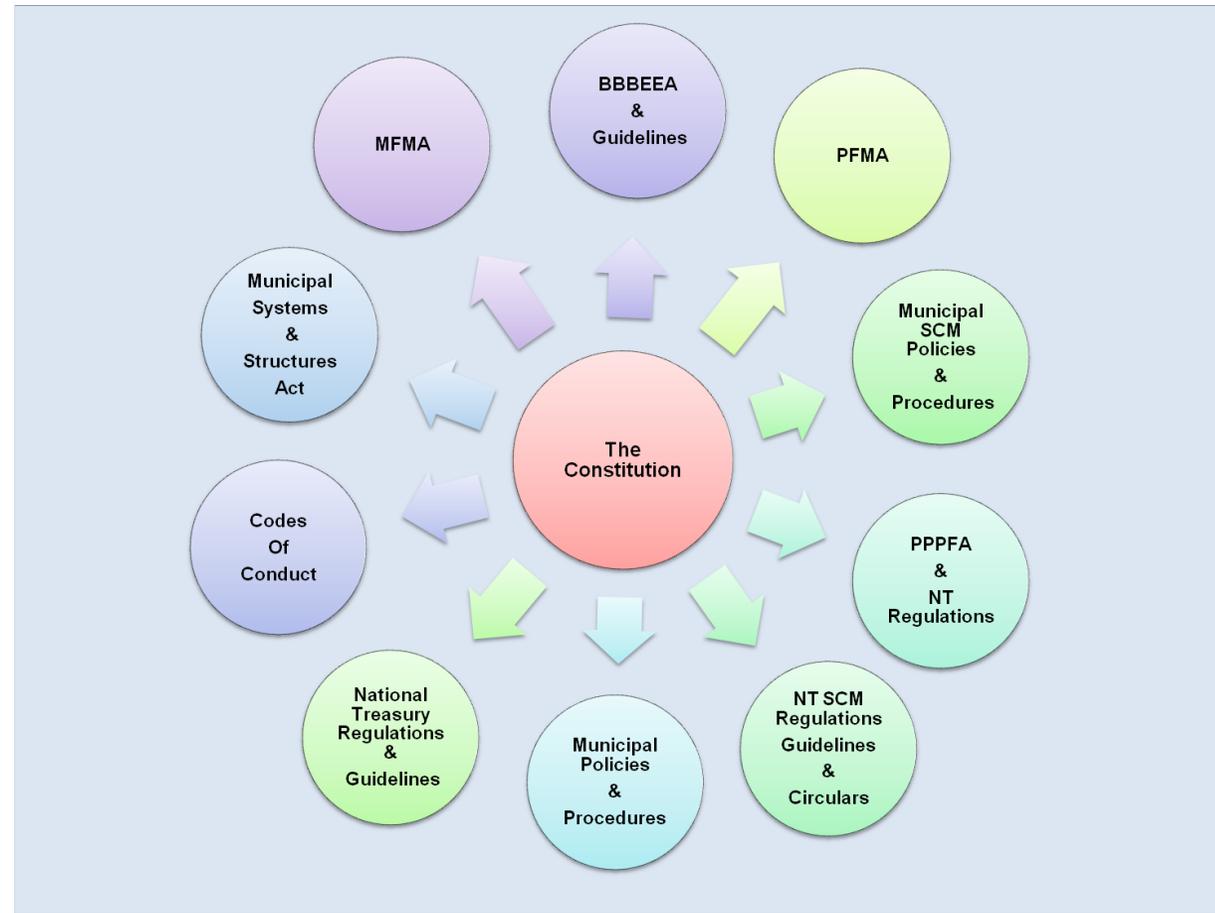
REGISTER OF TENDER DEFAULTERS (GN R194 in GG 27365 of 11 March 2005)

ACT

To provide for the strengthening of measures to prevent and combat corruption and corrupt activities; to provide for the offence of corruption and offences relating to corrupt activities; to provide for investigative measures in respect of corruption and related corrupt activities; to provide for the establishment and endorsement of a Register in order to place certain restrictions on persons and enterprises convicted of corrupt activities relating to tenders and contracts; to place a duty on certain persons holding a position of authority to report certain corrupt transactions; to provide for extraterritorial jurisdiction in respect of the offence of corruption and offences relating to corrupt activities; and to provide for matters connected therewith.



Who cares in the Public Sector (in theory)?



Who cares (in practice)?



and, above all...

Who cares (in practice)?



YOU!

Why should you care?

- Achieve better supply chain results
- Sleep better at night - **proactively** manage your supply chain risk
- Deliver better **value for money** – stretch the organisational budget further by limiting waste
- Enhance the reputation of the public service through improved corporate governance and **service delivery**
- Contribute to **building a better nation**

Economic crime hits supply chain hardest

- South Africa is the “World Champion” of economic crimes:
 - 69% of companies in SA have been impacted by economic crimes vs. 29% globally
 - an increase of 9% from 2011
- **Procurement Fraud** (59%), and **Human Resources Fraud** (42%) are among the leading categories of economic crimes in SA
- **The Vendor Selection Process** is the most targeted by fraudsters
- **Senior and Middle Managers** are the most likely perpetrators, contributing to 71% of all economic crimes in SA
- **Formal Fraud Risk Management Programmes/Tools** are the most effective fraud detection method, but are not implemented by most companies



Dated Feb 14

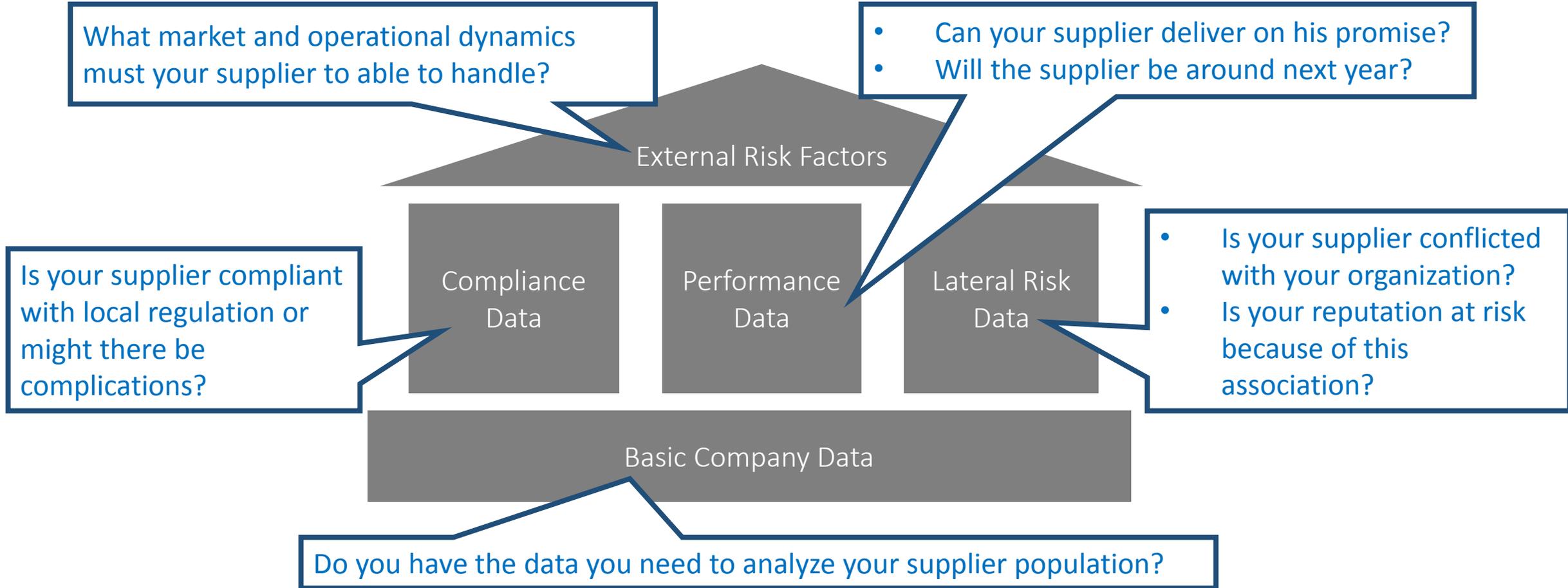
Auditor General findings

- 15 new municipalities and 2 new municipal entities achieved clean audits, on top of the 13 that did so last year (9% of the 319 municipal entities audited)
- 41% of municipal entities achieved “unqualified with findings”, passing the test of “fair representation of financial statements” though questions were raised about proper processes being followed, notably in [supply chain management](#)
- Irregular expenditure for the year under review amounted to R11.6 billion, with R3.6 billion unaccounted for due to lack of supporting documentation
- The major factor contributing to the poor audit outcomes was [non-compliance with relevant laws and regulations](#) (90% of auditees)

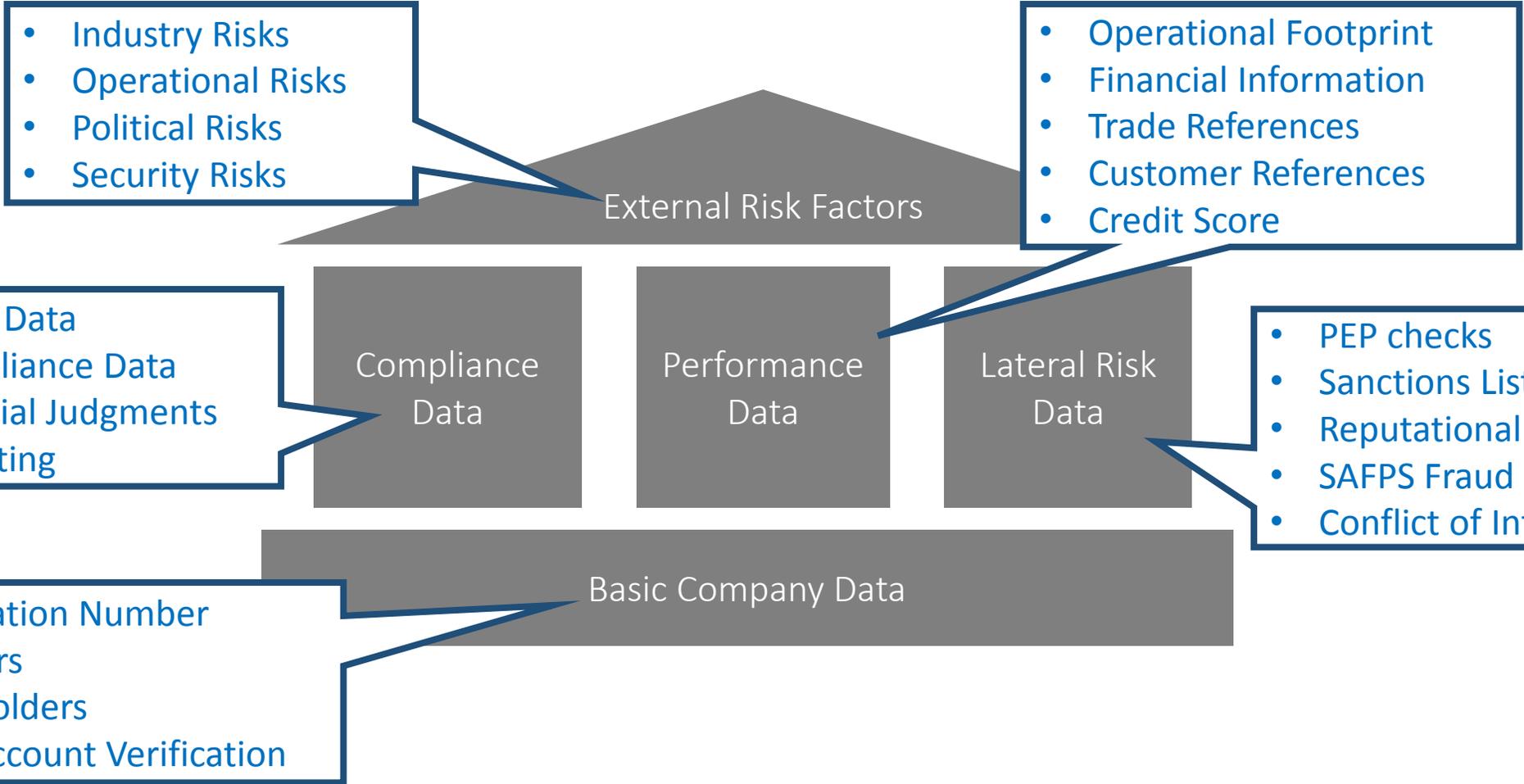
Source: http://c.ymcdn.com/sites/www.iiasa.org.za/resource/collection/BA8203A5-101F-460C-A2EC-1DDEC9FED153/AG_Municipal_Outcomes_2014.pdf

Supply Chain Governance

Risk Management and Governance Framework to protect your supply chain



Assessing supply chain risks



Cumulative Value

Multiple stakeholders benefit from Supply Chain Governance

Department	Value Proposition
Risk & Compliance	<ul style="list-style-type: none">- Provide systematic transparency and processes for the benefit of the board and its directors- More effective and efficient vetting and monitoring of counterparty risk (compliance, performance, lateral)- Build reputation
Procurement	<ul style="list-style-type: none">- Vet vendors proactively before spend has occurred on these contracts- Identify and re-negotiate unfavourable contracts- Identify procurement fraud, vendor collusion, BBBEE fronting, etc.
Operations	<ul style="list-style-type: none">- Profit from increased supply chain effectiveness and sustainability
Human Resources	<ul style="list-style-type: none">- Cross-verify conflicts of interest declarations during on-boarding- Identify disguised employees (PAYE & SITE risk) and ghost employees
Internal Audit	<ul style="list-style-type: none">- Save time and efforts during reactive investigations- Reduce data costs due to on-going monitoring
Finance	<ul style="list-style-type: none">- Protecting cash flows- Avoiding reactive expenses (forensics, lawyers, etc.)

Key Take-Aways

- Supply Chain Governance is a core component of overall corporate governance
- In the Public Sector, it should be firmly entrenched alongside ICT governance and other governance frameworks
- Pro-actively managing supply chain risks is key for achieving a **clean audit!**
- **Compliant behaviour fosters compliant behaviour**