



**STRATHMORE BUSINESS SCHOOL**  
**BACHELOR OF SCIENCE IN SUPPLY CHAIN & OPERATIONS MANAGEMENT**  
**END OF SEMESTER EXAMINATION**  
**SCM 4102: SUPPLY CHAIN AUDITING & RISK MANAGEMENT**

**DATE:** Thursday, 27 July 2023

**TIME:** 2 Hours

**Instructions**

1. Answer **QUESTION ONE** and any other **TWO** Questions.
2. Marks will be awarded on the basis of clear exposition of your ideas, precision in the use of language and the validity of your logic.

**QUESTION ONE (30 MARKS)**

Read the case study below and respond to the accompanying questions.

**Case study: Procure to pay.**

Company XYZ is a manufacturing company, established in 1989, that produces various types of alcoholic and non-alcoholic beverages. It employs 100 permanent staff members and 150 casual labourers. The company has recently undergone some structural changes and has merged several departments to form a new Supply Chain Department. The Supply Chain Department includes functions such as procurement of local and imported materials, production, inventory management and logistics. Due to the restructuring, the Supply Chain Department is headed by the previously named Production Manager who has not had any previous experience in procurement but has managed the Production Department successfully over the last few years.

Additionally, to improve efficiencies within the company, it has recently implemented a new ERP system that has greatly facilitated the functioning and integration of key processes notably supply-chain and finance.

Raw material C was running low in the storage area at the warehouse and another order was needed urgently i.e. within the next 2 days. Without it, production would have to stop as Raw Material C was a critical ingredient in the manufacturing process of a highly demanded branded beverage. As procurement is a centralised function, a request for purchase was sent to the buyers in the Procurement Division. One of the buyers mentioned that he knew a relative that supplies Raw Material C at a very cheap price, and so he proceeded to obtain a quote from his relative. As this particular supplier was not in the database, the buyer asked the IT Administrator to create a new account in order to generate the purchase order based on the price that was quoted to him. The purchase order was approved by the Finance Manager and the Supply Chain Manager, which was then sent to the supplier.

Raw Material C was delivered 2 days after the purchase order had been sent, however since the Production Division needed the materials urgently, the Supply Chain Manager decided that the goods would be accepted without the mandatory quality assurance inspection. Goods were received by the receiving agents at the warehouse area. The receiving agent confirmed what was indicated on the delivery note was what had actually been delivered. The receiving agent then signed the delivery note and issued a system-generated goods received note (GRN) indicating what had been delivered before sending the goods to the factory floor.

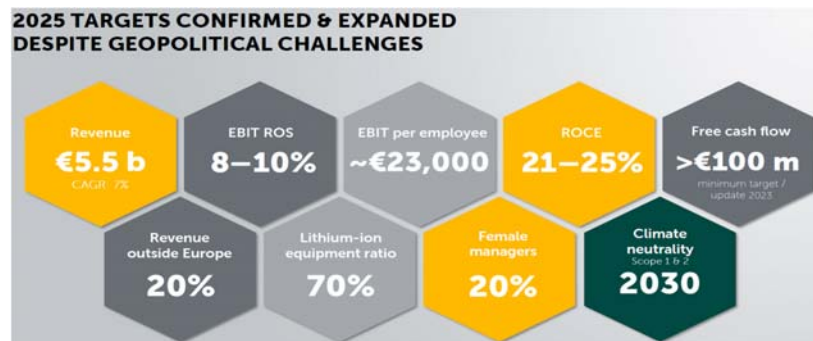
The company's policy states that payments will only be made to suppliers after 45 days of receiving the invoice. As soon as the Accounting Department receives the invoices, the Accounts Assistant posts them into the system. Once the GRNs have been posted in the system and checked by the Accounting Department and confirmed that they indicate the correct quantities for the goods that are billed, the Accounts Assistant then checks the payment terms and the accounts payable ageing reports that are generated by the system in order to process payments that are over 45 days due.

**Required:**

- (a) Identify any FIVE control weaknesses in the above process. (10 marks)
- (b) Identify and explain any FIVE risks associated with the control weaknesses (5 marks)
- (c) Assess the risks in terms of impact and likelihood. Give reasons for each assessment. (10 marks)
- (d) Make recommendations for actions to be taken. (5 marks)

**QUESTION TWO (20 MARKS)**

Jungheinrich AG is a German company active in the intralogistics - material handling equipment, warehousing, and material flow engineering sectors. In these segments, the company is ranked in second place in Europe, and third in the world. Jungheinrich's most recent strategy has the following metrics captured:



Source: Jungheinrich's 2025 strategy

**Required:**

- (a) Formulate a very clearly defined key performance indicator alongside any FIVE areas. (5 marks)
- (b) For each KPI, formulate 2 initiatives Jungheinrich should pursue to achieve them. (10 marks)
- (c) For each KPI, suggest the necessary audit evidence that would be sought to confirm its achievement. (5 marks)

**QUESTION THREE (20 MARKS)**

- (a) Define procurement fraud and distinguish between internal and external schemes. (5 marks)
- (b) Discuss the sections of a performance audit report. (15 marks)

#### QUESTION FOUR (20 MARKS)

Read the mini-case below and answer the questions that follow:

The Country Director of Sadiki International (“Sadiki”), an International NGO based in Nairobi noticed an abnormally huge amount in an invoice dated 10 April 2014 relating to one of the many suppliers to Sadiki. The invoice indicated an amount of Kshs. 3.2 million for the refurbishment of his residence (which included major electrical repairs and painting). He knew that no major works had been carried out in the residence he occupied but since he had only stayed at the residence for two months, he was unsure of the magnitude of the refurbishment works carried out before he moved in. Due to the significant amount invoiced by Jitengenezee Suppliers Limited (“Jitengenezee”), the Country Director called Sadiki’s internal auditor to discuss the matter. It was agreed that the internal auditor carries out preliminary investigation to establish works carried out by this particular supplier over the past seven months since the supplier was on boarded. Part of the internal auditor’s findings included: (1) Sadiki has procured work from Jitengenezee amounting to Kshs. 70 million over a period of seven months. (2) Some key onboarding procedures were not undertaken. (3) Jitengenezee was introduced to Sadiki by the Procurement Manager, who had been fired. (4) Jitengenezee was the only supplier selected because there were no other qualified suppliers for the service. (5) Significant deviations from guidelines provided in the Procurement Procedures and Policy manual of the NGO.

**Required:**

- (a) Identify any FIVE procurement red flags in the case. (10 marks)
- (b) Recommend to Sadiki ways of mitigating against each reflag. (10 marks)

#### QUESTION FIVE (20 MARKS)

Write short notes on the following:

- (a) Green audits in supply chain. (5 marks)
- (b) Auditing of performance information in the public sector. (5 marks)
- (c) Value for money auditing. (5 marks)
- (d) ESG auditing. (5 marks)

-----End of the question paper-----