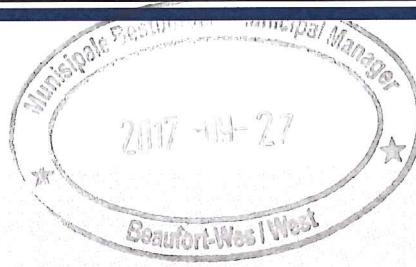


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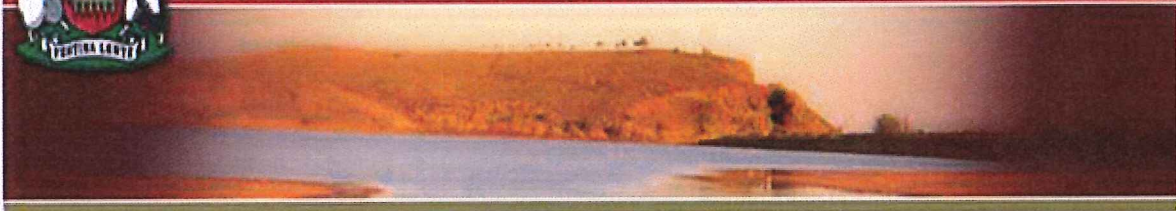


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BEAUFORT WEST MUNICIPALITY



# BEAUFORT WEST MUNICIPALITY

## SUPPLY CHAIN MANAGEMENT

### IMPLEMENTATION REPORT

for the

SIRKULASIE		OPDRAG
DKD	- Rand: 6 <sup>de</sup>	Rd: 03.10.17 Item no: 7.1

### 2016/2017 FINANCIAL YEAR

## **INDEX**

**The scope of the implementation review will include the following:**

### **Introduction**

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3. Organizational Structure
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7. The Bid Committee System
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Addendum B- Minor Breaches & Deviations

Addendum C- Awards to Close Family Members of Persons in the Service of the State

## SUPPLY CHAIN MANAGEMENT IMPLEMENTATION REPORT

### 1. BACKGROUND

The Local Government: Municipal Finance Management Act, No 56 of 2003, (MFMA) requires the municipality to have and implement a Supply Chain Management Policy(SCM Policy) which gives effect to the provisions of Part 1 of Chapter 11 of the Act that deals with ‘Supply Chain Management’.

On the 30<sup>th</sup> May 2005 the Municipal Supply Chain Management Regulations were promulgated. As a Medium Capacity Municipality the Beaufort West Municipality had to comply with the provisions of the Regulations from 01 January 2006. The SCM Policy, together with the applicable set of delegations was approved by Council on February 22, 2006 at a legally constituted Council meeting.

Although the MFMA prohibits a Councillor from being a member of a bid committee or any other committee evaluating or approving quotations, bids or tenders the council has an oversight role to ensure that the accounting officer implements all supply chain management activities in accordance with this policy. For the purposes of such oversight, Council’s Supply Chain Management Policy requires that the accounting officer must –

**“P1.8 (a) Within 30 days of the end of each financial year, submit a report on the implementation of the policy to the Council.”**

The availability of this report must be made public in accordance with section 21A of the Local Government Municipal Systems Act 32, 2002.



## 2. THE DELEGATIONS

Council has duly delegated the implementation of the Supply Chain Management Policy to the Accounting Officer who is responsible for taking all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

In terms of this responsibility Council has adopted a full set of delegations which assist in maximizing the administrative and operational efficiency. The delegations also provide adequate checks and balances in the municipality's Supply Chain Management function.

In terms of Section 79 of the Municipal Finance Management Act, 2003, the Municipal Manager must develop an appropriate system of delegations that will both maximize administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration in order to ensure the proper implementation of the Act.

Council's Supply Chain Management Policy in Section 5, allows the Municipal Manager to delegate supply chain management powers and duties as well as financial authority under certain conditions. These delegations

- ❖ must be reduced to writing,
- ❖ are subject to limitations,
- ❖ may be either to an individual or the holder of a specific post and
- ❖ allow for the sub-delegation of a delegation conferred to a Head of Department,

However, the delegations does not divest the Municipal Manager from any responsibility.

The supply chain delegations of the municipality was reviewed by Provincial Treasury with a recent compliance assessment and amended accordingly. The Accounting Officer has delegated the powers and duties to directors as prescribed by the SCM Policy. These delegations have since been conferred in writing and have been duly accepted. In addition we have also dealt with sub-delegations in terms of individual officials' job description and these delegations have also been conferred and accepted in writing, cognisant of their responsibilities in terms of the Codes of Conduct of Municipal Officials and Municipal Supply Chain Officials. To this effect we keep a delegations register listing the delegates and sub-delegates with their corresponding authority.

Municipal Supply Chain Management Regulations paragraph 29(2) stipulates "A Bid Adjudication Committee must consist of at least four senior managers of the municipality which must include-

(ii) at least one senior supply chain management practitioner who is an official of the municipality; and"



The Provincial Treasury also recommended that SCM Manager should serve on the Bid Specification and Bid Adjudication Committees.

The current delegations framework is outlined in the table below;

VALUE (Including VAT)	QUOTATIONS / TENDERS	Limitations in respect of delegations for the 2016-17 financial year. With due regard to proper segregation of duties
Petty cash- Up to R 300	Original valid invoices required	Delegated Foremen
Up to R 2 000	One (1) written price quotation	Delegated Middle Management directly Accountable to the CFO or Senior Manager subject to the recommendation of a Senior Supply Chain Management Official
Over R 2 000 – R 30 000	Three (3) formal written price quotations	
Over R 30 000 – R 200 000	Formal written price quotations and advertised for 7 days on the official notice board and website of the municipality in terms of Section 18(b)	HOD's after consultation with the Manager: Supply Chain Management subject to the recommendation of a Bid Specification Committee and Evaluation of Supply Chain Management Official.
Over R 200 000 – R 10 million	Competitive Bidding to be awarded by a Bid Adjudication Committee	HOD's subject to approval of the Bid Adjudication Committee
Over R 10 million		Municipal Manager after recommendation from the Bid Adjudication Committee

To ensure that all delegated officials understand and perform their duties in an effective and efficient manner we have consulted with Provincial Treasury to assist with a training workshop to inform all officials of the legislation and policies in the following areas:

- ❖ Delegations
- ❖ Declaration of Interest
- ❖ Code of Conduct
- ❖ Acceptance of Gifts and procedures
- ❖ Financial Misconduct Regulations and
- ❖ Procurement Process

### **3. SUPPLY CHAIN MANAGEMENT CAPACITY, COMPETENCY AND TRAINING**

#### **a) Organizational Structure**

All officials and other role players in the supply chain management system of the municipality must implement the SCM Policy in a way that gives effect to Section 217 of the Constitution, which requires processes to be fair, equitable, transparent, competitive and cost effective.

Municipality has appointed service provider, Agito Minds, which will be responsible for the review, design and implementation of organizational structure of Beaufort West Municipality. The project deliverables will be as follows:

1. Phase 1: Review current status
2. Phase 2: Organizational design
3. Review of the Human Resource Strategy
4. Organizational design and implementation

The Supply chain management unit has also be reviewed and the necessary gaps will be identified with implementation plan that will ensure that all the required functions of supply chain management are adhered to in order to deliver effective, efficient and economical services to user departments and community.

#### **b) Supply Chain Management Unit (current status)**

Municipal Supply Chain Management Regulations, Paragraph 7 (1) states that “Each Municipality and each Municipal Entity must establish a Supply Chain Management Unit (SCMU) to implement its supply chain management policy.”

Paragraph 7 (3) also states that “The Supply Chain Management Unit must, where possible, operate under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of Section 82 of the Act.”

With the current organizational structure in Beaufort West Municipality the Manager: Supply Chain Management reports to the Accountant Expenditure in accordance with the previous approved organogram of Financial Services by Council. The SCM Regulations as stated above SCM is a function that should operate preferably directly under the supervision of Chief Financial Officer. The job description of the SCM Manager provides for control and strategic responsibility in respect of the administration and the implementation of the SCM policy, with direct supervision of the Director Financial Services.

With the vacant positions of Accountant Expenditure and Director Financial Services, the Manager Supply Chain was in any event ultimately responsible for the implementation of SCM under the direct supervision of the Municipal Manager as Acting CFO.

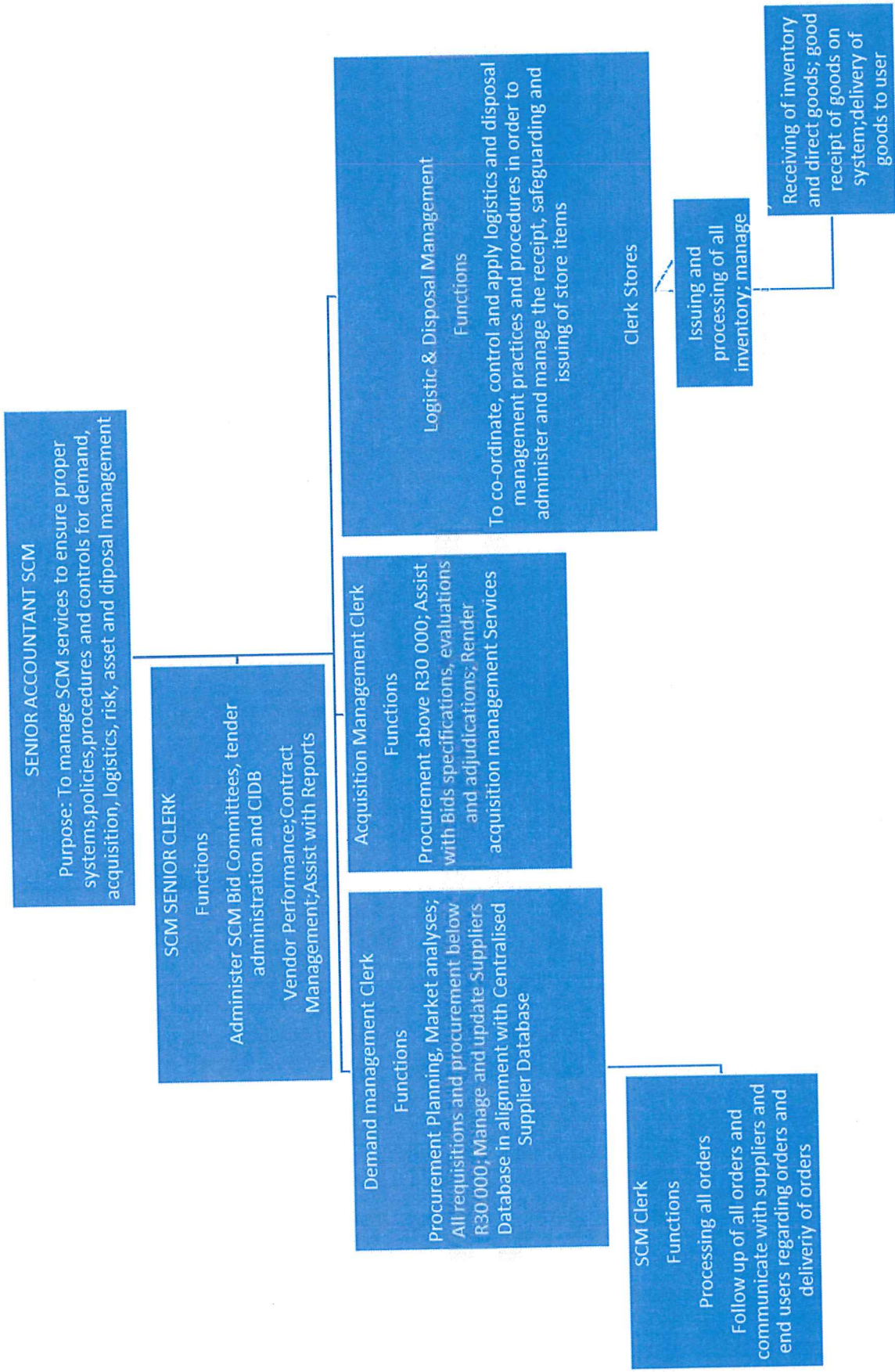
During the reporting period the staff complement that performed the duties and functions in terms of the SCM policy were as follows:

- |  |   |  |
|--|---|--|
| Accountant: Expenditure                | - | Post vacant  |
| Practitioner: Supply Chain Management- | - | Supply Chain Management Practitioner,                    |
|  | - | Implementation of the Policy                             |
|  | - | Processing of procedures for procurement above R 150 000 |
| Clerk: Supply Chain Management         | - | Assisting with all Supply Chain Management duties        |
| Clerk: Supply Chain Management         | - | Post vacant  |
| Stores Master                          | - | Supply Chain Management Practitioner                     |
|  | - | Implement procedures for procurement up to R 2 000       |
|  | - | Processing of Invoices                                   |
|  | - | Control over inventory in the Municipal Store            |
|  | - | Supervise staff in Stores                                |
| Stores Clerk                           | - | Processing and follow-up of Orders                       |
| Stores Clerk                           | - | Processing of Stock Issues                               |
|  | - | Receipt of Goods   |
|  | - | Monitoring of Stock Levels                               |
| Accountant Expenditure                 | - | Payment of Vendors / General Payments                    |
| Controller Expenditure                 | - | Processing of payments to Vendors / General Payments     |

**c) Proposed SCM Unit organizational review  
Proposal**



With the review of organigram by Agito Mind the proposed amendments to structure are as follows:



The SCM procurement system must adhere to section 217 of the Constitution ensure fairness, equity, transparency, competitiveness and cost-effectiveness. Current procurement system is decentralised and this is a huge risk for municipality as SCM Unit does not have control over the procurement of all expenditure below R200 000 which is inconsistent with Regulations and policy.

It is imperative that municipality use this opportunity of organisational review to ensure that SCM Unit comply and implement SCM Policy. The policy provides for the implementation of following supply chain management systems, details of which follows hereunder -

- (a) Demand management system
- (b) Acquisition management system
- (c) Logistics management system
- (d) Disposal management system
- (e) Risk management system
- (f) Performance management system

In order to successfully implement and deliver the desired service to end user departments which will empower them to deliver desired service to community and all relevant stakeholders it is imperative that certain crucial risks needs to address. We are also aware regarding the financial implications this holds for the municipality to address this concerns but we Provincial Treasury has offered their support and enable municipality to address this.



### **1) Centralisation of SCM Procurement**

Paragraph 7 (3) “The Supply Chain Management Unit must, where possible, operate under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of Section 82 of the Act.”

#### **Challenges with decentralized procurement system**

Due to the fact that SCM procurement system is decentralized we currently experience challenges were end user department request quotation from suppliers and that hold a huge risk for municipality as it could lead to fraud and corruption, irregular, unauthorized and wasteful and fruitless expenditure. We as SCM must then have to clarify to auditors as it is our main responsibility to ensure that all procurement processes followed is in line with legislation or Council’s SCM Policy.

There were incidences where officials procure goods and services from suppliers without following the SCM procedures or without an official order, which could be deriving as a deviation in order to proceed with payment.

Where suppliers were used that is not registered on Council’s preferred Suppliers database, which holds the risk that shareholders may be in the service of the state, tax matters are not in order or restricted from doing business with government.

#### **Recommendation**

The implementation of a centralised procuring system will minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices in municipality. It is imperative that the municipality look towards giving effect to off the functions of SCM the effectiveness centralized system with clear roles and responsibility and segregation of duties and delegated powers and duties. The centralizing of procurement has been identified as a priority and must will be reviewed with the implementation of consultant that was appointed for the review and design of organizational structure of municipality. Capacity and resources must also be set in place to ensure successful implementation of centralized procurement system.



## 2) Municipal Minimum Competency Levels of the Supply Chain Management Unit Supply Chain Management Training

SCM Manager (Mrs. S.A Pothberg), has completed Municipal Minimum Competency training, SCM Clerk (Mr. H.J Meintjies) and Stores Clerk (Mr. B.A Mitchell) has completed partly training for the Municipal Minimum Competency Level as prescribed by National Treasury in the 2014-2015 financial year.

### Supply Chain Management Training in 2016/2017:

Date	Venue	Course	Facilitator	Attendees
22 April 2016	Drakenstein Municipality	SCM Infrastructure Model Policy		Mrs S Pothberg Mr F Sabbat
13 September 2016	Weighbridge Conference Room Beaufort West	SCM Infrastructure Model Policy	Provincial Treasury	Central Karoo District Municipality Prince Albert Municipality Laingsburg Municipality Beaufort West Municipality
01-02 February 2016	Pinelodge Conference facilities - George	Asset Management	Provincial Treasury	Mr H Meintjies Mr W Petersen
25-27 October 2016	Pinelodge Conference facilities - George	Risk management	Professor Len Mortimer- USB Sponsored by Provincial Treasury	Mr H Meintjies Mrs S Pothberg
03-04 November 2016	The Club Mykonos, Langebaan	Supply Chain Management Indaba	Hosted by West Coast District Municipality and Provincial Treasury	➤ Mrs S Pothberg ➤ Mr L Lackay ➤ Me S Gouws
22-26 May 2017	Gariep Dam	MSCOA Training-SCM & Inventory	Sebata Municipal Solutions	➤ All Finance Department Management

### Supply Chain Management Forum Training

The attendance of the quarterly Supply Chain Management Forum meetings arranged by the Provincial Government is another platform where we gained information and engaged with like-minded officials on the challenges in the field. The aim of SCM Forum is to assist on issues such as managing transformation in SCM, developing coherent policy and setting norms and standards for service delivery and to enhance interdepartmental SCM relations and the exchange of information; while taking a long term perspective on spending and policy from and SCM perspective.

### **Supply Chain Management District Forum**

Provincial Treasury has also established the SCM District Forums with the aim of sharing of knowledge; expertise and skills as a platform to inform SCM policy in the municipal environment. The district focus group comprise of the SCM head/manager/practitioner of Beaufort West; Central Karoo; Laingsburg and Prince Albert Municipality in collaboration with Provincial Treasury and Mrs. S.A Pothberg as Chairwomen of the Central Karoo District.

**The following SCM District Forums were held in 2016/2017 financial year and were attendant by SCM officials from Central Karoo District Municipality:**

<b>Date</b>	<b>Venue</b>	<b>Attendees</b>
12-15 June 2017	Beaufort West	Mrs S Pothberg & Mr H Meintjies
12 May 2017	Drakenstein Municipality; Paarl	Mrs S Pothberg
12-15 September 2016	Beaufort West	Mrs S Pothberg & Mr H Meintjies

### **Training needs**

It is imperative that all SCM Officials continue to be informed about relevant and updated legislation relating to SCM therefore we urge Council and Provincial Treasury to assist where possible. To ensure that all delegated officials understand and perform their duties in an effective and efficient manners we have consulted with Provincial Treasury to assist with a training workshop to inform all officials of the legislation and policies in the following areas:

- ❖ Bid Administration
- ❖ Contract Management
- ❖ Delegations
- ❖ Declaration of Interest
- ❖ Code of Conduct for employees and SCM Practitioners
- ❖ Acceptance of Gifts and procedures
- ❖ Financial Misconduct Regulations and
- ❖ Procurement Process



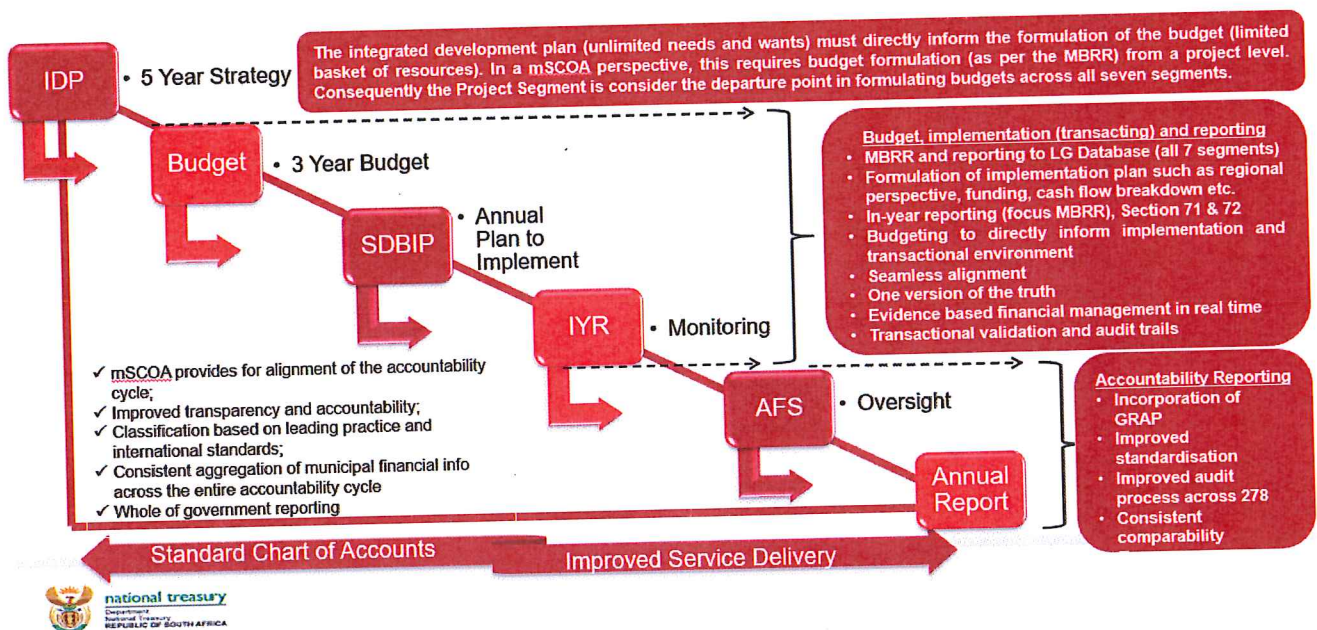
### 3) Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA)

MFMA Circular 80 replace and updates the implementation of MFMA Circular No. 57 was released on 20 October 2011 with the primary objective of informing Municipalities of the investigation into local government financial systems and processes and to outline the procedure that municipalities need to comply with when considering a replacement of their core financial systems. Importantly, MFMA Circular No. 57 was issued 31 months prior to the gazetting of the Municipal Regulations on Standard Chart of Accounts (22 April 2014) as the National Treasury understood that the mSCOA would have to be supported by appropriate systems of financial management and internal control. This was considered a prerequisite for mSCOA implementation and consequently MFMA Circular No. 57 placed limitations on the replacement of systems of financial management and internal control.

Section 5 of the MFMA enables National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. Since the release of MFMA Circular No. 57, the National Treasury has continued with the commissioning of a project into the research and assessment of various financial applications and related software; this project has culminated into five years' worth of research and development.

Any system of financial management and internal control, as a minimum, must comply with the seven main business and process components. The seven components must integrate seamlessly with the mSCOA general ledger and comply at a posting level to the mSCOA Regulations and GRAP. The seven main components are defined as follows:

1. General Ledger;
2. Billing;
3. Supply chain management;
4. Assets management;
5. Inventory and stores;
6. Budgeting and planning; and
7. Human Resources and payroll





#### **4) Procurement Plan**

National Treasury issued MFMA Circular 62 – SCM enhancing compliance and accountability, in August 2013 which is a guide to assist municipalities with the planning of the procurement of goods, service or infrastructure projects in a proactive manner. It is still the vision of the SCM Unit, as supported by the Accounting Officer and the Chief Financial Officer, to implement SCM via a Demand Management Plan (DMP) as a strategic tool in order to implement the budget. It aims to identify the procurement requirements of the municipality in advance, draft a programme listing all the requirements and the timelines of the different activities at the different procurement gates.

The goal with the DMP is to ultimately enable the SCM Unit to improve planning of tender processes and to effectively assist user departments with the planning of the execution and timely completion of projects in alignment with performance targets in the Service Delivery and Budget Implementation Plan. Municipality has compiled and implemented DMP for 2016/2017 financial year.

#### **Current challenges with implementation**

We face difficulties with end user department with the proper implementation of demand management plan which have the negative effects as follows:

- ❖ Cancellation of tenders
- ❖ Unspent funds
- ❖ Improper procurement processes followed
- ❖ Irregular ,unauthorized, fruitless and wasteful expenditure
- ❖ Deviations
- ❖ Conflict between user departments

#### **Recommendations**

With a demand management clerk/buyer we will be able to address the needs of end user department with proper demand management planning and procurement plan.

## **5) Preferred Suppliers Database/ Centralised Supplier Database**

In terms of the Municipal Financial Management Act (MFMA) (Act 56 of 2003) the Beaufort West Municipality is required to have a Preferred Suppliers Database. Purchases of goods and services for the Municipality are made through the Preferred Suppliers Database and all current as well as interested suppliers were again requested via an advertisement in the local newspaper to register on our database.

National Treasury has issued MFMA Circular 81 in March 2016 to Municipalities regarding the use of a Web Base Central Supplier Database (CSD) for the registration of prospective suppliers to assist in performing validation functions of key supplier information. With effect from 1 July 2016, Municipalities and Municipal Entities must use the CSD supplier number starting with (MAAA) which is auto generated by the Central Database System after successful registration and validation of the prospective provider as mandatory requirement as part of listing criteria for accrediting prospective provider in line with Section 14(1)(b) of the Municipal Supply Chain Management Regulations.

The CSD will automatically validate the following registration documents for Municipalities and Municipalities;

- ❖ Confirmation and status of Business Registration Documents
- ❖ Proof of Bank Account Registration
- ❖ Tax compliance status
- ❖ Employee in the service of state as defined in the Municipal SCM Regulations with information only available in the PERSAL system at this time, namely National and Provincial officials
- ❖ Identity Documentation
- ❖ Tender defaulters and restrictions status

The following aspects are work-in-progress and further information will be provided once systems have been upgraded after consultation with relevant stakeholders:

- ❖ BBBEE Status (not yet available, municipalities are required to continue with their current and existing process)
- ❖ CIDB (not yet available, municipalities are required to continue with their current and existing process)
- ❖ Municipal Account status (not yet available, municipalities are required to continue with their current and existing process)

It is the responsibility of the Municipality to continue with verification of other listing criteria which are not currently validated by CSD, for instance, proof of municipal accounts

### **CSD Implementation**

The Beaufort West; Laingsburg; Prince Albert Municipalities and Central Karoo District Municipality, in collaboration with the Western Cape Provincial Government, has successfully implement Centralised Supplier Database. The purpose of implementing the WCSD is to show equality, develop best practice guidelines, ensure sound financial governance, promote and maximize service delivery. We have obtained training for the use of the Centralised Supplier Database. We also trained and assisted all suppliers within the Central Karoo District to successfully register on CSD.

### **This is some of the benefits of being actively registered on the Centralised Supplier Database:**

- ❖ A registered supplier will be considered as an active supplier, meaning that they meet the minimum requirements to do business with all spheres of the National Government and municipalities.

- ❖ Eradicates the repetitive submission of the required documentation for each quote lodged.
- ❖ Prospective service providers to be eligible to contract with all spheres of the National Government.
- ❖ A once off registration has to be done in order for suppliers to be considered for rendering business to National Government and all Municipalities.
- ❖ No cost involved for registration on the CSD or updating of mandatory documentation.

#### **6) Local Economic Development-Supplier Open Day**

Municipality hosted a Supplier's open day on 20-21 October 2016 at the Thusong Centre Hall with all current and interested local suppliers in the Central Karoo District. This event was in collaboration with Central Karoo District Municipality, SEDA, IDP and LED managers of municipalities. Different stakeholders exhibited their services that they can deliver to SMME's in order to enhance development like SARS, SEDA, Capitec Bank, Absa, and Youth Development Agency.

The main focus of this open day was to help suppliers with their difficulties which prevent them from development and to inform them how the different stakeholders and government can help their business to develop and speak to their needs. We also assisted suppliers to register on the Centralised Supplier Database.



### 1) Acquisition Management

The municipality's system of acquisition management must ensure:

- i. That goods and services are procured in accordance with authorized processes only;
- ii. That expenditure on goods and services is incurred in terms of an approved budget in terms of Section 15 of the MFMA;
- iii. That the threshold values for different procurement processes are complied with;
- iv. That bid documentation, evaluation and adjudication criteria and general conditions of a contract are in accordance with any applicable legislation; and
- v. That any Treasury guidelines on acquisition management are properly taken into account.
- vi. Goods and service are procured in accordance with authorized processes and approved delegations. Expenditure that has been incurred was budgeted for in the approved budget of Council. The bid documentation that is utilized is in accordance with the guidelines issued by National and Provincial Treasury, the general conditions of contract and applicable legislation such as the Construction Industry Development Board Act (Act 38 of 2000) and we are continuously improving the documents in order to improve access and ease of use.

**The following thresholds are currently being adhered to in order to support the strategic and operational commitments of the municipality:**

VALUE (Including VAT)	QUOTATIONS / TENDERS	Limitations in respect of delegations for the 2014-15 financial year. With due regard to proper segregation of duties
Petty cash- Up to R 300	Original valid invoices required	Delegated Foremen
Up to R 2 000	One (1) written price quotation	Delegated Middle Management directly Accountable to the CFO or Senior Manager subject to the recommendation of a Senior Supply Chain Management Official
Over R 2 000 – R 30 000	Three (3) formal written price quotations	
Over R 30 000 – R 200 000	Formal written price quotations and advertised for 7 days on the official notice board and website of the municipality in terms of Section 18(b)	HOD's after consultation with the Manager: Supply Chain Management subject to the recommendation of a Bid Specification Committee and Evaluation of Supply Chain Management Official.
Over R 200 000 – R 10 million	Competitive Bidding to be awarded by a Bid Adjudication Committee	HOD's subject to approval of the Bid Adjudication Committee
Over R 10 million		Municipal Manager after recommendation from the Bid Adjudication Committee

## 2) The Bid Committee System

The Bid Committee system for competitive bids has been actively applied within the municipality over the past financial year. Officials are still being invited on an ad-hoc basis to participate in the committees as and when required, but with written delegations in order to participate in the committees.

The Bid Adjudication Committee has been fully functional and has been involved in all bids exceeding R 200 000 and due to a conservative approach even awards to a lesser value. Formal quotations also follow the Bid Specification Committee system and are evaluated by SCM Unit before evaluation and awarding by Head of Departments in terms of the delegations have also being formalised and have been properly conferred and accepted.

The competitive bidding process and bid committee structures are functioning effectively. Members of the bid committees are required to complete the attendance register and declare to undertake the following:

That all information, documentation and decisions regarding any matter before the committee is confidential and undertakes not to make known anything in this regard;

To treat all service providers and potential service providers equitably and will not purposefully favour or prejudice anybody; and

To make known details of any private or business interest he or she or any close family member, partner or associate may have in any proposed procurement or disposal of, or in any award or contract that they will immediately withdraw from participating in any matter whatsoever.

Our aim is to organise a refresher course for bid committee members to ensure that they are completely aware of all applicable legislations to ensure that procurement for goods and services through competitive process are fair, equitable, transparent, competitive and cost effective.

### a. The bid specification committee

The bid specification committee compiles the specifications for the procurement of goods or services by the municipality.

The committee is appointed by the Accounting Officer and must be composed of one or more officials of the municipality, preferably a Supply Chain Management Practitioner and the manager responsible for the function involved, and may when regarded appropriate by the Accounting Officer, include external specialist advisors. The proceedings are being formalised via the arrangement of meetings by the Corporate Services Directorate.

### b. The bid evaluation committee

The bid evaluation committee is appointed by the Accounting Officer and must as far as possible be composed of-

- officials from departments requiring the goods or services; and



- at least one supply chain management practitioner of the municipality.

The proceedings have been formalised in minutes of the Bid Evaluation Committee meetings, taken by administrative personnel from the Directorate: Corporate Services.

**c. The bid adjudication committee**

The bid adjudication committee must consist of at least four senior managers of the municipality which must include-

- the chief financial officer or, if the chief financial officer is not available, another manager in the budget and treasury office reporting directly to the chief financial officer and designated by the chief financial officer;
- at least one senior supply chain management practitioner who is an official of the municipality; and
- a technical expert in the relevant field who is an official of the municipality, if the municipality has such an expert.

**The bid committees have been conducted regularly through the year with attendance closely monitored in compliance with Council’s SCM Policy:**

#	Committee	2016/2017 Number of Meetings	Attendance Quorum for
1	Specifications	13	100%
2	Evaluation	16	100%
3	Adjudication	14	100%

**The awards of formal quotations and competitive bids processed by bid committees:**

**Service statistics for procurement**

Description	2016/2017 Total No
Requests processed	28
Orders processed	3067
Requests cancelled or referred back	5
Extensions	2
Bids received (number of documents)	128
Bids awarded	19
Bids awarded ≤ R 200 000	12
Appeals registered	0



Description	2016/2017 Total No
Successful Appeals	0

**d. Bids awarded by the Bid Adjudication Committee**

The bids that were awarded by the Bid Adjudication Committee in terms of the SCM Policy and the Preferential Procurement Policy for the 2016/2017 financial year are attached as **Addendum A**.

**Administration of SCM Bid Committee System**

SCM Regulation 26 stipulates that municipality must establish a BID Committee system for competitive bids and consisting of a Bid Specification, Bid Evaluation and Bid Adjudication Committee.

**Current situation of Administration of SCM Bid Committee System**

Corporate service department is currently responsible for the administration of supply chain management and record keeping as well due to capacity and necessary resources.

**Challenges with Bid Administration**

We experienced challenges with the administration of bid committee system that have an impact the bids.

- ❖ The organizing of bid committee meetings
- ❖ The follow ups of the evaluations of bids
- ❖ The validity periods of bids
- ❖ The communications to successful and unsuccessfully bidders
- ❖ Communications and correspondence between end user departments, bidders and SCM unit regarding bids
- ❖ Ensuring compliance with regards to record keeping of bids for auditing purposes

**Recommendation**

To ensure that bidding process of SCM is efficient effective timeously and awarded in timeously period to ensure that contracts are completed and awarded within procurement timeline as specified in procurement plan. We recommend that SCM unit assist with the administration of bid committee processes. Performing the duties of the Secretary of bid committees with all meetings

**Prevention plan for appeals**

In order to prevent appeals that might be launched against the Municipality, the SCM unit is currently envisaging a strategic prevention plan for appeals. The plan is to inform all unsuccessful bidders reasons why their bids were found non responsive and to advise on areas where they can prevent future disqualifications and comply with the minimum compliance issues, especially local SMME's.

### 3) Minor Breaches and Deviations

#### Minor breaches of procurement processes

The Supply Chain Management Policy states in Paragraph 10.3.2 that: “The accounting officer may ratify minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature”.

#### Deviations from Procurement Processes

The Supply Chain Management Policy states in Paragraph 10.3.1: “The accounting officer may dispense with the official procurement processes established by this policy and may procure any required goods or services through any convenient process, which may include direct negotiations, but only –

- “(a) in an Emergency
- (b) if such goods or services are produced or available from a single provider only;
- (d) in any other exceptional case where it is impractical or impossible to follow the official procurement processes”

**Deviations from the SCM Policy were approved in the following categories as per Section 36 of the SCM Policy:**

Type of deviation	Number of deviations	Value of deviations R
Emergency	14	355 435.30
Sole Supplier	68	2 490 042.00
Acquisition of special works of art or historical objects where specifications are difficult to compile	0	0
Any other exceptional case where it is impossible or impractical to follow the official procurement process	99	785 094.00
Any contract relating to the publication of notices and advertisements by the Municipality	26	582 820.30
Any contract with an organ of state, a local authority or a public utility corporation or company	6	103 303.00
The appointment of any person to provide professional advice or services, where the value of such appointment is less than R 200 000	35	1 072 322.00
Ad-hoc repairs to plant and equipment where it is not possible to ascertain the nature or extent of the work required in order to call for bids	72	821 776.00
<b>Total</b>	<b>320</b>	<b>6 210 792.60</b>



### **Challenges with deviations**

The increase in the value of deviations and the increase in the number of deviations are due to demand management that are currently not being adhered to. Due to the decentralized procurement system end user department is currently involved with the procurement for goods and services. The normal deviation process are not adhered to as SCM Manager receive deviation when all user departments and Municipal Manager has already signed of deviation.

### **Recommendation**

With the implementation of demand management and filling of buyer position we will decrease the deviations. Implementing the procurement plan will also ensure that proper needs analysis and best procurement process will be followed. This could improve diligence exercising in managing procurement in the municipality. User-departments were more closely monitored with all procurement transactions being subject to scrutiny by SCM Officials, in order to ensure correct reporting to Council. We also want to implement a demand management plan for procurement below R30 000, which will enhance the procurement process and ensure better planning. End user departments must be actively involved in this process to ensure implementation is a success.

During the 2016/2017 financial year NO minor breaches were ratified and deviations approved by the Accounting Officer. Attached please find a schedule as **Addendum B**.

#### **4) Awards to close family members of persons in the service of the state**

Emanating from the recent audits conducted by AGSA, municipalities have received audit findings in respect of SCM Regulations 44 and 45. AGSA has classified this expenditure as irregular expenditure; this has caused serious distress and discontent with the municipalities, in the absence of an enabling system.

All suppliers that we use must be registered on the Centralised Supplier Database, and with this electronic system National Treasury verify on National Persal system whether Directors are in the service of the state.

However currently the system does not have the functionality were bidders can provide details of their close family members that are currently employed by the state. We still request suppliers to do the completion of Municipal Bidding Document (MBD 4- Declaration of Interest) for suppliers to declare their ownership within the company and close family members that are in the service of the state.

This will minimise the non-compliance issues in terms of irregular expenditure with regards to Regulation 44 and 45. Provincial Treasury has created a platform whereby municipalities can submit the identity numbers of the directors of a company involved in the bidding process, which can be used to match/ verify whether they are in the service of the state. Identity numbers are match against the National Persal System of employees that are in the service of the state.

#### **Attached find Addendum C bids were awarded to a person who is a family member of a person in the service of the state:**

In terms of Regulation 45 of the Supply Chain Management Regulation, particulars of awards above R 2 000 made to a person who is a spouse, child or parent of a person in the service of the state must be



disclosed in the notes to the Annual Financial Statements. All abovementioned are reported in the AFS of municipality.

### **Contract Management**

Due to capacity constraints the municipality has no proper/ effective contract management system in place. With all competitive processes that take place the Director of end user Department is the responsible to implement, manage and monitor contract. However we still experience challenges of contract management as follows:

- ❖ No proper record keeping of all contracts for auditing purposes
- ❖ No contract performance system of contracts in place
- ❖ No monitoring and reporting of extension, deviations, or expansions of contracts as per MFMA Circular 62 by Directors
- ❖ Contracts before the implementation of SCM Policy
- ❖ No Policy or procedures in place for form of contracts

### **Logistic Management**

**The SCM unit must provide an effective logistics management system to ensure the following:**

- ❖ the monitoring of spending patterns on types or classes of goods and services incorporating, where practical, the coding of items to ensure that each item has a unique number;
- ❖ the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
- ❖ the placing of orders for all acquisitions other than those from petty cash;
- ❖ before payment is approved, certification by the responsible officer that the goods and services are received or rendered on time and is in accordance with the order, the general conditions of contract and specifications where applicable and that the price charged is as quoted in terms of a contract;
- ❖ appropriate standards of internal control and warehouse management to ensure that goods placed in stores are secure and only used for the purpose for which they were purchased;
- ❖ Monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.
- ❖ Each stock item at the municipal stores is coded and listed on the financial management system. Monthly monitoring of patterns of issues are signed off by Senior Stores Clerk and SCM Manager.
- ❖ Internal controls are in place to ensure that goods and service that are received are certified by the responsible person which is in line with the general conditions of contract.
- ❖ Regular monitoring of the condition of inventory is performed and no damaged stock has been identified.
- ❖ The inventory levels and commodities kept have been communicated with end user department and will be reviewed and changed to suit end user department's needs.

- ❖ This will then be constantly being monitored and updated with the assistance of the relevant user departments.
- ❖ The placing of orders are done and signed off by clerk processing the order. Copies of all orders are kept onsite and outstanding orders are followed up on a regular basis.
- ❖ The receipt and distribution of goods are recorded online. This enables us to regularly do spot checks on stock as well as a full formal stock take at the end of the financial year.

### Inventory Control

To ensure proper record keeping with the purchasing and issuing of inventory, quarterly inventory counts take place. Any losses or surpluses are reported to Chief Financial Officer and Municipal Manager. The Chief Financial Officer provide approval before any surpluses and shortages are corrected on financial system.

### Inventory Count

The Annual inventory counts has took place on the following dates at the Municipal Stores:

- Quarter 1      19 November 2016
- Quarter 2      18 February 2017
- Quarter 3      27 May 2017
- Quarter 4      01 July 2017 and was attended by representatives from the office of The Auditor General.

After the correction of all the variances and rounding errors the inventory count the balances were as follows, and a journal were written to correct the rounding errors:

Vote numbers	Sections	Value of General Ledger	Value as per PS03	Difference
9300/6000/0000	Water	R 1 130 958,30	R 1 126 190,47	R 4 767,83
9290/6000/0000	Electricity	R 1 743 712,54	R 1 743 483,61	R 228,93
9280/6000/0000	General	R 332 503,73	R 332 631,99	-R 128,26
		<b>R 3 207 174,57</b>	<b>R 3 202 306,07</b>	<b>R 4 868,50</b>

As at 30 June 2017, the value of stock at the municipal stores amounted to **R 3 207 174.57 (R 2 924 398** in 2015/16). For the 2016/17 financial year no surpluses, no deficits and no damaged stock items were reported.

## **Disposal Management**

Council has given approval that all obsolete and redundant assets and inventory that was identified could be disposed of. We previously used local Crawford's Attorneys as Auctioneers and will organise for an auction before December 2017.

## **Risk Management**

### **Mechanisms to identify consider and avoid potential risk in the SCM system**

The potential of risks are identified on a case by case basis when the specifications of a particular requirement are drawn up. Individual transactions are scrutinized by the heads of department with the relevant delegation of authority to ensure compliance with the SCM policy and further scrutiny is placed on the transactions before the payment is made by the office of the CFO.

Further measurements of risk management are also included in the policy via the Schedules dealing with ethical standards and the ethical conduct of officials dealing with SCM. These documents were incorporated into the delegations of the individual officials and have been duly conferred and accepted.

Central Karoo District Municipality has appointed Meyer and Otto to conduct the risk assessments for municipalities within the district. Risk assessments was conducted for all departments and all risks that has been identified parameters has been set in place to minimise the occurrences of events. These risks assessments was conducted and review in collaboration with the internal auditor (Me.Ronel Naidoo) with all the departments' heads.

## **2. Review of the Policy**

In terms of Paragraph 1.20 of Council's SCM Policy the accounting officer must when he or she considers it necessary, submit proposals for the amendment of the policy to the council. Provincial Treasury has reviewed and assessed Council's SCM Policy and policy was amended accordingly. The assessment process was aimed at the determining whether municipal policies contained a range of discretionary information that complies with SCM Regulations, National Treasury's Municipal Circulars, and the provision of the Construction Industry Development Board Act (CIDB Act) and have made use of the best practise guidelines as contained in the Guide for Accounting Officers of municipalities.

The SCM policy have been revised and amended with guidance from Provincial Treasury with following amendments:

- ❖ Amended Preferential Procurement Regulations of 2017
- ❖ Centralise Supplier Database
- ❖ E-Tender system



Council has made a resolution that all policies will be reviewed and a workshop will be conducted to discuss, amend and adopt all policies in Municipality before approval.

### **3. SCM Policy for Infrastructure Procurement and Delivery Management**

MFMA Circular 77 was issued to provide guidance to municipalities and municipal entities to establish a suitable supply chain management system for infrastructure delivery which is better able to deliver value for money, while minimizing the scope for corruption. The *National Treasury Standard for Infrastructure Procurement and Delivery Management*, if adopted, enables a municipal council to separate the supply chain management requirements for general goods and services from those for infrastructure delivery. (*Infrastructure delivery* is the combination of all planning, technical, administrative and managerial actions associated with the construction, supply, renovation, rehabilitation, alteration, maintenance, operation or disposal of infrastructure).

Policy was presented to Council for adoption but Council has resolved that all policies must be workshopped before adoption.

### **4. Preferential Procurement Policy**

**Council has adopted a Preferential Procurement Policy with the following objectives:**

- ❖ Provide clarity on the municipality's approach to procurement, particularly with regards to requirements of preferential procurement;
- ❖ Provide access to contracts for historical disadvantaged individuals;
- ❖ Promote participation by SMMEs as defined in Tender Strategy form, Annexure D and as amended from time to time;
- ❖ Promote capacity development and skills transfer;
- ❖ Promote Local Economic Development.

### **Challenges**

Council has approved SCM and Preferential Procurement Policies in 2017/2018 financial year. However the successful implementation of this policy still remain a problem as user departments and IDP/LED do not provide their support to develop a strategy for implementation for policy.

### **Recommendation**

It is recommended that with the approval of budget, the IDP and tender strategy must be workshopped in order to analyse which projects can be utilised for local economic development.