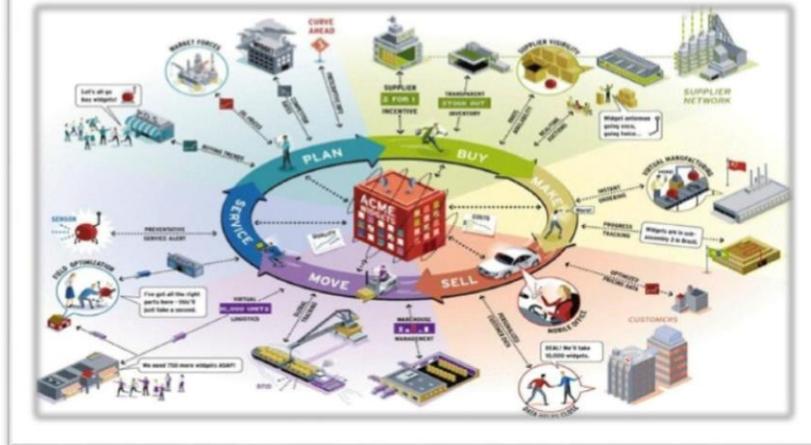


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REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT POLICY OF KAROO HOOGLAND MUNICIPALITY

NCo66

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SECTION A

1. INTRODUCTION AND BACKGROUND INFORMATION

Karoo Hoogland Municipality approved its Supply Chain Management Policy in **May 2015**. The model policy was introduced by National Treasury as the new revised policy and approved as such by council.

2. OBJECTIVES OF THE REPORT

Section 6(3) of the Supply Chain Management Regulations states that the Accounting Officer must, within ten (10) days after the end of each quarter, submit a report on the implementation of the Supply Chain Management Policy of Karoo Hoogland Municipality to the mayor.

This is the first year that Karoo Hoogland Municipality will start submitting reports in this regard thus only an annual report has been compiled.

The report must be made public in accordance with section 21A of the Municipal Systems Act as required by Section 6(4) of the policy.

3. PERIOD

The reporting period covers the period 01 July 2015 to 30 June 2016.

4. FURTHER LEGISLATION

A. LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, NR. 56 OF 2003

In terms of section 62(1)(f)(iv) of the MFMA the Accounting Officer is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that a supply chain management policy in accordance with chapter 11 of the Act is drafted and implemented.

Section 65 of the MFMA requires the Accounting Officer to take reasonable steps to ensure that the municipality's supply chain management policy is implemented in a way that is fair, equitable, transparent, competitive and cost-effective.

The Accounting Officer is required in terms of section 73 of the MFMA to report to Provincial Treasury in writing of any failure by Council to adopt or implement a supply chain management policy and any non-compliance therewith.

In terms of section 75 the Accounting Officers must place all supply chain management contracts above a prescribed value on the municipal website.

The CFO is required in terms of section 81 to perform supply chain management as delegated to him/her by the Accounting Officer.

In terms of section 90 any transfer of ownership of a capital asset must be consistent with the supply chain management policy.

Chapter 11 of the MFMA, part 1, relates to supply chain management and stipulates as follows in sections 110 to 119:

Section 110(1) stipulates that chapter 11 of the MFMA applies to a municipality in the following circumstances:

- In the procurement of goods and services.
- In the disposal of goods no longer needed.
- In the selection of contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies.
- In the selection of external mechanisms referred to in section 80(1)(b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.

In terms of section 110(2) chapter 11 of the MFMA does not apply if a municipality, except where specifically provided otherwise, contracts with another organ of state for—

- the provision of goods or services to the municipality;
- the provision of a municipal service or assistance in the provision of a municipal service; or
- the procurement of goods and services under a contract secured by that other organ of state, provided that the relevant supplier has agreed to such procurement.

Section 110(3) requires that the disposal of goods by a municipality in terms of chapter 11 be read with sections 14 and 90.

In terms of 111 each municipality must have and implement a supply chain management policy which gives effect to the provisions of chapter 11 of the MFMA.

In terms of section 112(1) the supply chain management policy of a municipality must be fair, equitable, transparent, competitive and cost-effective and comply with a prescribed regulatory framework for municipal supply chain management, which must cover at least the following:

- The range of supply chain management processes that the municipality may use, including tenders, quotations, auctions and other types of competitive bidding.
- When the municipality may or must use a particular type of process.
- Procedures and mechanisms for each type of process.
- Procedures and mechanisms for more flexible processes where the value of a contract is below a prescribed amount.
- Open and transparent pre-qualification processes for tenders or other bids.
- Competitive bidding processes in which only pre-qualified persons may participate.

- Bid documentation, advertising of and invitations for contracts.
- Procedures and mechanisms for:
 - the opening, registering and recording of bids in the presence of interested persons;
 - the evaluation of bids to ensure best value for money;
 - negotiating the final terms of contracts; and
 - the approval of bids.
- Screening processes and security clearances for prospective contractors on tenders or other bids above a prescribed value.
- Compulsory disclosure of any conflicts of interested prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders or bids.
- Participation in the supply chain management system of persons who are not officials of the municipality (subject to section 117 of the MFMA).
- The barring of persons from participating in tendering or other bidding processes, including persons:
 - who were convicted for fraud or corruption during the past five years;
 - who wilfully neglected, reneged on or failed to comply with a government contract during the past five years; or
 - whose tax matters are not cleared by South African Revenue Service (SARS).
- Measures for:
 - combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management; and
 - promoting ethics of officials and other role players involved in municipal supply chain management.
- The invalidation of recommendations or decisions that were unlawfully or improperly made, taken or influenced, including recommendations or decisions that were made, taken or in any way influenced by—
 - councillors in contravention of item 5 or 6 of the Code of Conduct for Councillors set out in Schedule 1 to the Municipal Systems Act; or
 - municipal officials in contravention of item 4 or 5 of the Code of Conduct for Municipal Staff Members set out in Schedule 2 to the Municipal Systems Act.
- The procurement of goods and services by the municipality through contracts procured by other organs of state.
- Contract management and dispute settling procedures.
- The delegation of municipal supply chain management powers and duties, including to officials.

In terms of section 113 a municipality is not obliged to consider an unsolicited bid received outside its normal bidding process. If a municipality decides to consider an unsolicited bid received outside a normal bidding process, it may do so only in accordance with a prescribed framework which must strictly regulate and limit the power of the municipality to approve unsolicited bids received outside their normal tendering or other bidding processes.

Section 114 requires the Accounting Officer to report to the Auditor-General, Provincial Treasury and National Treasury in writing the reasons for deviating from the recommendation in the event that a tender other than the one recommended in the normal course of implementing the supply chain management policy is approved.

Section 115 requires that the accounting officer implements the supply chain management policy and take 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. No person may impede the accounting officer in fulfilling this responsibility.

Section 116(1) stipulates that a contract or agreement procured through the supply chain management system must:

- be in writing;
- stipulate the terms and conditions of the contract or agreement, which must include provisions providing for—
 - the termination of the contract or agreement in the case of non- or underperformance;
 - dispute resolution mechanisms to settle disputes between the parties;
 - a periodic review of the contract or agreement once every three years in the case of a contract or agreement for longer than three years; and
 - any other matters that may be prescribed.

In terms of section 116(2) the accounting officer must:

- take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy is properly enforced;
- monitor on a monthly basis the performance of the contractor under the contract or agreement;
- establish capacity in the administration of the municipality:
 - to assist the accounting officer in carrying out the aforementioned duties; and
 - to oversee the day-to-day management of the contract or agreement; and
- regular report to Council on the management of the contract or agreement and the performance of the contractor.

In terms of section 116(3) a contract or agreement procured through the supply chain management policy of the municipality may be amended by the parties, but only after the reasons for the proposed amendment have been tabled in Council and the local community has been given reasonable notice of the intention to amend the contract or agreement and has been invited to submit representations to the municipality.

Section 117 bars all Councillors from serving on municipal tender committees as member and from attending any adjudication meeting as observer, be it for the evaluation and approval of tenders, quotations, contracts or other bids.

Section 118 prohibits any person from interfering with the supply chain management of a municipality or amend or tamper with any tenders, quotations, contracts or bids after their submission.

Section 119 requires that the accounting officer and all other officials involved in the implementation of the supply chain management policy must meet the prescribed competency levels, and for this purpose the municipality must provide the resources or opportunities for the training of those officials. Training assistance may be provided by NT and PT.

All long-terms contracts, i.e. contract term exceeds 3 years, have to comply with section 33 and 116 of the MFMA. In addition section 120 applies to Public Private Partnerships and section 19 applies to Capital Projects.

B. PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT, NO. 5 OF 2000 AND AMENDMENTS IN 2011. – AND PREFERENTIAL PROCUREMENT REGULATIONS,

3. APPLICABILITY

3.1 Institutions

3.1.1 The Preferential Procurement Regulations, 2011 are applicable to organs of state as contemplated in section 1 (iii) of the PPPFA and all public entities listed in Schedules 2, 3A, 3B, 3C and 3D to the PFMA and municipal entities.

3.1.2 These organs of state and entities are hereafter referred to as institutions in this Guide.

3.2 Preference point systems

3.2.1 The 80/20 preference point system is applicable to bids* with a Rand value equal to, or above R30 000 and up to a Rand value of R1 million (all applicable taxes included). Institutions may apply the 80/20 preference point system to price quotations with a value less than R30 000 if and when appropriate.

3.2.2 The 90/10 preference point system is applicable to bids with a Rand value above R1 million (all applicable taxes included).

3.2.3 The value referred to in paragraphs 3.2.1 and 3.2.2 distinguishing the 80/20 and 90/10 preference point systems has been increased from R500 000 to R1 million.

3.2.4 It must be pointed out that the prescribed threshold values within which AOs /AAs may procure services, works or goods by means of petty cash, verbal / written price quotations or advertised competitive bids are not affected by the Preferential Procurement Regulations, 2011.

* which is referred to as tenders in the PPPFA and the Preferential Procurement Regulations, 2011 include advertised competitive bids, written price quotations or proposals.

Other applicable legislation include:

- Broad-Based Black Economic Empowerment Act, No. 53 of 2003
- Construction Industry Development Board Act, No. 38 of 2000

National Treasury issued a comprehensive guide for Accounting Officers of Municipalities and Municipal Entities on Supply Chain Management in 2011 as well as numerous circulars

MUNICIPAL POLICIES

The Supply Chain Management policies in operation in May 2010 comprised of ::

- Aankoopbestuur - approved by Council resolution 5.2.6 on 10 July 2001 and revised by Council resolution 7.2.4.1 on 23 October 2001.
- Aanvraagbestuur – approved by Council resolution 6.16 on 24 August 2005.
- Logistieke bestuur, rekwisisie, aankoop, ontvangs en uitreiking – approved by Council resolution 6.16 on 24 August 2005.
- Voorraadbeheer – approved by Council resolution 5.2.5 on 10 July 2001.
- A “voorsieningskanaalbestuursbeleid” was drafted during March 2009, but has not been approved by Council.
- The Supply Chain Management Policy replaced all of the above when it was adopted and approved by Council on **26 May 2015 (5.5.1 a & b) and 27 October 2015 (8.2.j)**
- **It will be annually reviewed and was reviewed and adopted by Council on 30 May 2016**

SECTION B

1. SUPPLY CHAIN MANAGEMENT INSTITUTIONAL ARRANGEMENTS

1.1 Policy and Procedures Development and Implementation

The first Supply Chain Management Policy was drafted in March and April 2015 since the municipality received audit queries with regards to irregular expenditure. The policy was developed in line with the Supply Chain Management Regulations that was issued by National Treasury. Due to changes in the Preferential Procurement Regulations and the challenges experienced within the Karoo Hoogland jurisdiction the Chief Financial Officer in cooperation with the Provincial Treasury of Kimberley revised the policy to avoid irregular expenditure that may arise and to suit the needs of the municipality. This policy became effective from 26 May 2015.

The Provincial Treasury regularly reviews the supply chain management policies of municipalities in order to ensure that they comply with the relevant amendments to legislation. Changes to the policy will be made as and when required. The policy has been fully implemented. This policy will be annually reviewed.

1.2 Establishment of the Supply Chain Management Unit

Currently no Budget and Treasury Office is established within Karoo Hoogland Municipality as required by Section 80 of the Municipal Finance Management Act. This makes the establishment of a Supply chain management unit difficult as there is no official primarily responsible for Supply Chain Management in the department.

Currently the CFO and the Head of Supply Chain is responsible for the monitoring and implementation of Supply Chain Management in the municipality. However the Municipal Manager is responsible for the signing off of formal price quotations (quotations between R 2000 – R200 000). This makes the monitoring of irregular expenditure extremely difficult as some of the purchases is done by bypassing the supply chain management unit which most of the time this type of purchases causes irregular expenditure that cannot be avoided.

The current structure in supply chain management is as follow:

- Chief Financial Officer // Director : Financial Services (FIN01)
- Accountant : Budget & Treasury (FIN02)
- Accountant : Expenditure & Supply Chain Management (FIN04)
- Clerk : Expenditure & SCM x 2

A declaration of interest form is circulated annually to all head of departments and council to complete which gives the Supply Chain Management Unit an idea of business interest of all staff members. This function however is still done within the administration department by Mrs C Viljoen. No formal register has been drafted and the finance department wants to take possession of this and ensures that this is done before financial year end.

Challenges

The municipality faces budget constraints in having a fully-fledged structure as envisaged by the legislation. No Budget and Treasury office is established to ensure accountability and proper segregation of duties within the supply chain management unit as some officials are doing more than they can handle.

Proposed Solution

Appointment Financial Interns who can be capacitated in more than one area and having dedicated staff in different departments. However funding for appointing permanent staff is also a challenge in this regard.

1.3 Establishment of the Supply Chain Management Bid Committees

In terms of the Municipal Supply Chain Management Regulations all municipalities is required to have a bid specifications committee, bid evaluation committee and a bid adjudication committee.

Currently Karoo Hoogland Municipality have the following committees established:

- Bid Specifications Committee
- Bid Evaluation Committee
- Bid Adjudication Committee

Only these committees have been established in May 2015 via appointment of the Municipal Manager. Due to only a few amount of senior staff the Bid adjudication Committee cannot consist out of the **four** senior managers required by the regulations and there for we deviated. However this is still functional.

Challenges

Timely sitting of the bid committee meetings and turnaround time due to work load by the officials serving on the committees. Not enough senior staff to serve on all the committees.

Proposed Solution

The development of a time frame schedule should be the best solution of the problem. Proper planning must be done at the beginning of the financial year which will inform

the time frame schedule A turnaround time schedule for the various bid committees must introduced which must then be adhered to as far as practically possible.

1.4 Implementation of MBDs Documents

All municipal bid documents (MBDs) are in place in compliance with MFMA Circular 25 and include specifications and evaluation criteria as recommended by the end user and approved by the Accounting Officer.

Challenges

Service providers/ Prospective bidders not completing all municipal bid documents as required by legislation which causes audit queries by the Auditor General which results in irregular expenditure that could have been avoided.

Proposed Solution

Assist prospective bidders with all queries relating to the completion of MBD documents. Acquire assistance by the Provincial Treasury to conduct bi-annual workshops on the importance of the completion of all municipal bid documents.

1.5 Establishment of Database of Suppliers/Service Providers

The municipality has developed and implemented a database of suppliers. Adverts are placed annually in the only locally circulated newspaper in the municipality's area of jurisdiction inviting suppliers to register on the municipal database. The advert is also posted onto the municipal website (newly designed and maintained since July 2015 – www.karoohoogland.gov.za) The planned date for advertisement was in August 2015 to invite advertisement.

Service providers may however register on the database at any stage as there is no closing date for registration. Service Providers have also been requested to register on the Central Suppliers Database. The Municipality has also been registered as a Service Provider of water, electricity and a few other services.

The supplier database of Karoo Hoogland Municipality is currently kept updated with more suppliers registered on the database with the necessary documentary evidence.

Challenges

Due to the locality of the municipality, we do not always receive applications for a wide range of services like the supply of fuel and the registration of supermarkets or post offices on our supplier database.

Proposed Solution

Continuous updating of the supplier database of Karoo Hoogland Municipality.

1.6 Training and Development of the SCM Unit and Bid Committees

Training has been provided in the Workplace Skills Plan (WSP) for training for the Supply Chain Management Officials and the bid committee members. No training has taken place for the 2013-2014 financial year for the Supply Chain Management Unit members, however no training was yet to be implemented by the municipality. The first official training was given during the first part of 2016 however the Department giving the training's system was down and very little was done. However very good relationships exist with Provincial Offices and assistance are done via telephone and email where possible.

Challenges

Keeping well-informed with the latest developments regarding to supply chain management and court cases outcomes pertaining to supply chain management.

Proposed Solution

Implementation of the WSP and request the Provincial Treasury for workshops on at least once every year for an update on changes to legislation and requirements of the Auditor-General as well as National Treasury.

2. SUPPLY CHAIN MANAGEMENT PLANNING

2.1 Procurement Plan

The municipality has developed an annual procurement plan template for 2015/2016 financial year. The procurement plan was tabled to council via a report of the CFO and approved. The new procurement plan for 2016/2017 was submitted and still need to be submitted to Council but because of the election this must still be done.

Procurement has been measured against the plan and the Annual Budget that was compiled by the Chief Financial Officer of Karoo Hoogland Municipality.

Challenges

2015/2016 was the first year that the municipality has developed a procurement plan. Projects identified on the Procurement Plan are not fully implemented due to lack of proper planning. Constant improvements will be made to the plan as the municipality progresses with its implementation.

Proposed Solution

Constant improvement, development and monitoring of the implementation of the procurement plan. Proper strategic planning at the beginning of the financial year where project start dates are identified and implemented as per project.

ACHIEVEMENT OF PREFERENTIAL PROCUREMENT GOALS AND TARGETS

3.1 Number of Bids Awarded

The following bids above R200 000 was awarded for Year of 2015/16

Supplier	Details	BBBEE Level	Amount of Project
Eagle Building JV	STORMWATER PROJEK SUTHERLAND	See Report from Bid Evaluation Committee & Consultants	Per MIG Project Allocation and Commitments Register R 3 893 534,81
Multi Crane & Platforms	Trailer Mounted Access Platform	See Report from Bid Evaluation Committee	R 355 000.00 (VAT excluded)

4. MANAGEMENT OF RISKS IN SUPPLY CHAIN MANAGEMENT

Risks around supply chain management have been identified as part of the risk assessment exercise undertaken by the Provincial Treasury and the officials within the various departments. However the last risk assessment was done in July 2014.

Challenges

Continuous identification of risks as officials work on a daily basis new risks are identified.

Proposed Solution

Continuous monitoring and evaluation of systems and controls.