



**REPORT ON THE IMPLEMENTATION OF THE SUPPLY
CHAIN MANAGEMENT POLICY IN 2018/2019 OF
KAROO HOOGLAND MUNICIPALITY
JULY 2018 – JUNE 2019**

NC066



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Date: JULY 2019

SECTION A

1. INTRODUCTION AND BACKGROUND INFORMATION

Karoo Hoogland Municipality approved its Supply Chain Management Policy on **26 April 2016** and revised it for approval on **26 May 2017** again. The model policy was introduced by National Treasury as the then new revised policy and approved as such by council. The policy was again revised during August 2017 and it was approved by Council on **29 August 2017** to be implemented backwards from 1 July 2017 for the 2017/2018 financial year.

On **30 May 2018** the SCM policy was approved and again on **6 July 2018** the SCM Policy was revised together with the Petty Cash Policy for implementation from 1 July 2018.

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.

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.

The Quarterly Section 52 Reporting done by the CFO included the Supply Chain Management reporting and also separate quarterly reports were compiled during the 2018/2019 financial year. Since 2018/2019 quarterly reporting in terms of SCM and Deviations were done at Council meetings for compliance.

3. PERIOD

The reporting period covers the period 01 July 2018 to 30 June 2019.

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.

- ✓ **The Karoo Hoogland Municipality has a Supply Chain Management Policy in place. (approved by Council : 30 May 2018 & 6 July 2018)**

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**.

SUPPLY CHAIN MANAGEMENT CONTRACTS ABOVE A PRESCRIBED VALUE THAT WAS PLACED ON THE MUNICIPAL WEBSITE IN THE PERIOD UNDER REVIEW :

- **Mubesko**
- **Ring fenced Agreement with Auditor General**
- **SEBATA – Financial Management System according to mSCOA**
- **Nexia SA B&T**
- **HCB Valuators**
- **All Grant funded projects**

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

The following Sub-delegations have been made from the CFO to the following personnel to perform supply chain management duties:

- *G Vermeulen*
- *C Erasmus*
- *HG Louw*
- *L Januarie (Financial Intern)*
- *W Malgas*
- *SJ van Schalkwyk*

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. (included in the SCM Policy)
- In the disposal of goods no longer needed. (included in the SCM Policy)
- 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. (included in the SCM Policy)

- 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. (included in the SCM Policy)

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 32 Procurement in terms of SCM Regulations and the SCM Policy were made in accordance with the said regulations and policy and are listed on page 14.

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

No goods were disposed of in the period under review.

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.

Karoo Hoogland have a Supply Chain Management Policy approved by Council on 30 May 2018 and revised again on 6 July 2018 for the 2018/2019 financial year.

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.

A list of all tenders advertised and awarded are on page 10 and 11. The list have also been published on the website.

All awards for the procurement of goods and services are kept in an Awards Register per amount range. This register is attached as **ANNEXURE D**.

The process for competitive bidding are described according to National Standards in the SCM policy and have been dealt with accordingly. Procedures are in place to upload the opening of the bids register onto the website within 5 days of the opening to ensure a transparent process. All bid documentation are advertised on the E-Tender portal as well as for building contracts it was

advertised on the CIDB (i-Tender) website. Procedures and mechanisms are in place for the evaluation of bids to ensure best value for money and the negotiating of the final terms of a contract. All submitted bidding documents went through the bid evaluation and the bid adjudication committee and to the Accounting Officer for final award. Screening processes and security clearances for prospective contractors on tenders or other bids above a prescribed value as stipulated in the Regulations and addressed accordingly.

- 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 is 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 willfully 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, favoritism 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 was in place.
- 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.

No unsolicited bids were received in the period under review.

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.

No such deviations with regards to tenders took place in the year under review.

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 minimize the likelihood of fraud, corruption, favoritism 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
- Regularly 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.

Two contracts have been amended/extended which was tabled to Council for a decision in public after the extra MIG funds were received during February 2019 which were promulgated in the DoRA. During the Council meeting the public and the ward committees were invited to submit representations to the municipality. No representations were received. The Contract for the Sports facility in Sutherland have been extended to include an Athletics Course. The extended amount was not more than the allowed percentage of 20%.

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.

No Councillors serve on a municipal tender committee as a member during the period under review.

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.

No interference or tampering took place.

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 SCM and bid committee personnel did the RPL course and received the minimum competency credits for the recognition of prior learning and years' experience.

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 2017. – AND PREFERENTIAL PROCUREMENT REGULATIONS 2017 - APPLICABLE FROM APRIL 2017

80/20 preference point system for acquisition of goods or services for Rand value equal to or above R30 000 and up to R50 million

6.(1) The following formula must be used to calculate the points out of 80 for price in respect of a tender with a Rand value equal to or above R30 000 and up to a Rand value of R50 million, inclusive of all applicable taxes:

$$P_s = 80 \left(1 - \frac{P_t - P_{min}}{P_{min}} \right)$$

Where-

- P_s = Points scored for price of tender under consideration;
 P_t = Price of tender under consideration; and
 P_{min} = Price of lowest acceptable tender.

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 followed the guidelines.

MUNICIPAL POLICY

The Supply Chain Management Policy was adopted and approved by Council on **26 May 2015 (5.5.1 a & b)** and **27 October 2015 (8.2.j)** and revised on the following dates:

- **26 April 2016**
- **26 May 2017**
- **29 August 2017**
- **30 May 2018**
- **6 July 2018**

This policy is reviewed annually and approved by Council.

SECTION B

1. SUPPLY CHAIN MANAGEMENT INSTITUTIONAL ARRANGEMENTS

1.1 Policy and Procedures Development and Implementation

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 for the first time from **26 April 2016**. However it has been reviewed annually and the last approval by Council was on **6 July 2018**.

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

In the 2015/2016 financial year no Budget and Treasury Office existed within Karoo Hoogland Municipality as required by Section 80 of the Municipal Finance Management

Act. That made the establishment of a Supply chain management unit difficult as there was no official primarily responsible for Supply Chain Management in the department.

In 2016/2017 a Budget & Treasury Office was established as it was planned and incorporated into the organogram which was approved by Council in December 2015. Placements from the old organogram onto the new Organogram took place in June 2016.

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

Currently the CFO and Accountant : Expenditure & SCM is responsible for the monitoring and implementation of Supply Chain Management in the municipality. The Municipal Manager is responsible for the signing off of formal price quotations (quotations between R 2000 – R200 000).

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 interests 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. All the Supply Chain Officials signed the Code of Conduct as well as their Financial Declarations. This will be done annually and updated when changes comes to light.

DELEGATIONS:

The following delegations were approved by the MM and implemented:

- Delegations to do electronic transfers
- Delegations to sign cheques
- Delegations to sign purchase orders
- Delegations to approve requisitions

SUB-DELEGATIONS:

1. The power to make a final award –
 - (a) above R10 million (VAT included) may not be sub delegated by the Accounting Officer;
 - (b) above R2 million (VAT included), but not exceeding R10 million (VAT included), may be sub delegated only to –
 - (i) the chief financial officer;
 - (ii) a senior manager; or
 - (iii) a bid adjudication committee comprises of:
 - I. Chief Financial Officer ; and
 - II. A Senior managers.

- (c) not exceeding R2 million (VAT included) may be sub-delegated
- (i) the chief financial officer;
 - (ii) a senior manager; or
 - (iii) a manager directly accountable to the chief financial officer or a senior manager; or -
 - (iii) a bid adjudication committee comprises of:
 - Chief Financial Officer; and
 - Senior managers
2. No SCM decision-making powers may be delegated to an advisor or consultant. Also refer to paragraph 4 and 5 of the SCM Policy.

Challenges & measures taken

2018/2019: Challenges experienced in the year under review

None – in terms of delegations however a formal framework should be developed and better control measures and checklists be put in place and updated regularly as well as legislation.

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

These committees have been appointed and established in May 2015. Due to only a few senior staff members the Bid adjudication Committee could not consist out of the **four** senior managers required by the regulations and therefore the municipality deviated. However, it is reported to Provincial Treasury on more than one occasion. However this committee is still functional and the Municipal Manager must still approve all recommendations from the Bid Adjudication Committee.

In July 2018 the Municipal Manager, appointed new members to the bid committees. The list of members serving on each of these committees are attached as **ANNEXURE A**

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/Procurement plan was the best solution to 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 be introduced which must then be adhered to as far as practically possible.

LIST OF BID COMMITTEE MEETINGS, ADVERTISEMENT DATES AND AWARDS PER TENDER ADVERTISED :

Please see the Tender/Contract Award Register for 2018/2019 as ANNEXURE B
Section 32 Contracts Register attached as ANNEXURE C

Summary of Bid Committee meetings:

Bid Specification	6
Bid Evaluation	6
Bid Adjudication	6

Number of Bids : 10

Section 32 Contracts : 6

Monthly registers as uploaded on the Karoo Hoogland Municipality website - see ANNEXURE D

Tenders advertised and awarded for 2018/2019

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. A new form has also been completed for Local Content as well as a new MBD form for the Preference Point System after January 2017. Since April 2017 the MBD 6.1 form was revised to include the new PPP Regulations of 2017.

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. Request Internal Audit to assist with control measures.

New Notices with regards to minimum thresholds of locally produced products should also be taken into consideration as it changes annually.

1.5 Establishment of Database of Suppliers/Service Providers/ Lis of Accredited Prospective Providers

Annually, KHM advertise for Service providers to register on the National Central Supplier Database (NCSDB) in an effort to source accredited service providers of goods and services. This advert was placed in the Noordwester and on the website.

No business are done with suppliers that are not registered on the CSD.

The supplier database of Karoo Hoogland Municipality was kept updated in 2015/2016, however since 1 July 2016 a list of prospective suppliers are kept of all suppliers registered on the CSD as this requirement replaced the supplier database kept previously by the municipality.

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 workshops presented by Provincial Treasury and other stakeholders to assist suppliers in rural areas to apply for registration of companies to be able to supply to the municipality and then through this intervention stimulate the economy and support local companies and service providers.

1.6 Training and Development of the SCM Unit and Bid Committees

The Workplace Skills Plan (WSP) provide for training for the Supply Chain Management Officials and the bid committee members. Good relationships exist with Provincial Offices and assistance are done via telephone and email where possible. Supply Chain Training on CSD was given to the public and to staff by Provincial Treasury.

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 six months 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 procurement plan for 2018/2019 was submitted and tabled to Council by the Municipal Manager during August 2018. However this should be done from March each year from 2019/2020.

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

Challenges

Constant improvements and changes due to timelines and schedules effects the Procurement Plan's dates. Changes will be made to the plan as the municipality progresses with its implementation. 2018/2019 better planning was done with some assistance from the Technical Director and the Consultants being used at that stage.

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 as well as monthly monitoring of projects and progress thereof.

ACHIEVEMENT OF PREFERENTIAL PROCUREMENT GOALS AND TARGETS

3.1 Number of Bids Awarded

Please see page 11 for the number of bids awarded during the 2018/2019 financial year as well as Annexure B,C and D

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 December 2016 and the report from Provincial Treasury was only received in September 2017. The Internal Audit Unit was established (Shared Services with District Municipality) during November 2017. The Internal Audit Unit audited the SCM department and its procedures on a regular basis. Reporting were done to the Audit Committee and to the CFO for actions to be taken. Risk assessment was done by Provincial Treasury during May 2019 and a 2019/2020 Risk register will be compiled with the assistance of Internal Audit and assessed to evaluate progress made and effectiveness of controls to be put in place in the SCM Department.

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.

COMPILED BY: G VERMEULEN
REVIEWED BY: SJ VAN SCHALKWYK
SIGNED OFF BY: SJ MYBURGH
DATE : 28 JUNE 2019

ANNEXURES TO BE ATTACHED:

ANNEXURE A – LIST OF MEMBERS OF BID COMMITTEES
ANNEXURE B – TENDER REGISTER 2018/2019
ANNEXURE C – SECTION 32 CONTRACTS
ANNEXURE D – AWARDS OVER R200 000 PUBLISHED ON THE WEBSITE PER MONTH
ANNEXURE E – DEVIATIONS
ANNEXURE F – QUARTERLY REPORTING ON SCM
ANNEXURE G – UIF REPORTING