

<b>REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT POLICY FOR THE QUARTER ENDING 31 DECEMBER 2016</b>
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**Department:**                      **Finance**                                      **Demarcation:** **All Wards**

**Report from:**                      **Chief Financial Officer**

**Date:**                                      **9 January 2017**

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## **1. EXECUTIVE SUMMARY**

- 1.1. The Local Government: Municipal Finance Management Act requires the municipality must have and implement a Supply Chain Management Policy which gives effect to the provisions of Part 1 of Chapter 11 of the Act that deals with 'Supply Chain Management'.
- 1.2. On the 30<sup>th</sup> May 2005 the Municipal Supply Chain Management Regulations were promulgated. The Knysna Municipality Supply Chain Management Policy was approved by Council during 2016 at a legally constituted Council meeting in terms of these Regulations.
- 1.3. Although the MFMA prohibits, in Section 117, a Councillor from being a member of a bid committee or any other committee evaluating or approving quotations or tenders, the SCM Policy requires per Section 9 that Council has an oversight role to ensure that the Accounting Officer implements all supply chain management activities in accordance with the SCM Regulations.
- 1.4. The purpose of this report is to provide an overview of the SCM process in terms of Council's Supply Chain Management Policy (as amended), Section 9.3.1 of said Policy states that the Accounting Officer must, within 10 days of the end of each quarter submit a report on the implementation of the policy to the Mayor.

## **2. LEGAL REQUIREMENTS**

- 2.1. The Constitution of the Republic of South Africa (No. 108 of 1996), Section 217
- 2.2. Local Government: Municipal Finance Management Act (No. 56 of 2003) (MFMA)
- 2.3. Municipal Systems Act (Act 32 of 2000), Section 21A (MSA)
- 2.4. Municipal Supply Chain Management Regulations (Government Gazette 27636 dated 30 May 2005) (SCM Regulations)

## 2.5. Knysna Municipality Supply Chain Management Policy (SCM Policy)

### Paragraph 9.3.1

## 3. DISCUSSION

### 3.1. BACKGROUND

3.1.1. 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.

3.1.2. Council's mandate is to maintain oversight over the implementation of the SCM Policy and for the purposes of such oversight the Accounting Officer must within 10 days of the end of each quarter, submit a report on the Implementation of the Supply Chain Management Policy of the Knysna Municipality, to the Mayor of the municipality in terms of Section 9.3.1 of the Policy.

3.1.3. The report will reference the following sub sections:

- (i) Institutional Arrangements
- (ii) Demand Management
- (ii) Acquisition Management

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

### 3.2. INSTITUTIONAL ARRANGEMENTS

#### 3.2.1. The SCM Policy

3.2.1.1. The Knysna Municipality SCM Policy was adopted in adherence to the SCM Regulations and is in line with the Model Policy issued by National Treasury (NT).

3.2.1.2. The SCM Policy for 2016/17 was approved on 31 May 2016. The Provincial Treasury regularly reviews the supply chain management policies of municipalities within the province in

order to ensure compliance with all relevant amendments to legislation.

### **3.2.2. Delegation of SCM Powers and Duties**

3.2.2.1. Council has delegated the SCM powers and duties to the Municipal Manager in order to ensure that the Municipal Manager adheres to Section 115 of the MFMA and:

- discharge the responsibilities conferred by the SCM Policy;
- maximise the administrative and operational efficiency in the implementation of the Policy; as well as
- enforce reasonable cost-effective measures to prevent fraud, corruption, favouritism and unfair and irregular practices.

3.2.2.2. The Municipal Manager may in terms of Section 79 of the MFMA, sub-delegate certain of these powers and duties in writing. Sub-delegations has been conferred in writing to the members of Bid Committees and financial delegations were issued to all Heads of Departments for the procurement of goods and services for a value up to R 200 000, subject to compliance to the requirements of the SCM Policy. The further sub-delegation has been limited to officials on a T-Level 12 as well as MMC competent officials.

### **3.2.3. Supply Chain Management Unit**

3.2.3.1. In terms of Section 7 of the SCM Policy the municipality must establish a Supply Chain Management Unit (SCMU) to implement its Supply Chain Management Policy.

3.2.3.2. The SCMU must operate under the direct supervision of the Chief Financial Officer which may be delegated to an official reporting to the CFO, in terms of Section 82 of the MFMA, viz, the Manager: Supply Chain Management.

3.2.3.3. The structure of the SCMU was amended and approved during the 2011/12 financial year and requires a review in order to address the current shortcomings in the section. The new extended organogram will cover the implementation of centralised procurement with dedicated buyers and supervision to allow for

the improved procurement processes followed for transactions valued below R10 000.

3.2.3.4. This should also reduce the time spent by officials in user departments obtaining quotations themselves. The recommended amendments will also allow for improved procurement planning. The following disciplines are covered by the proposed organogram within Supply Chain Management:

- Demand, Tender, tender administration and supplier performance
- Demand Planning and Specifications Development
- Procurement of Goods & Services above and below R30 000
- Secretariat services for Bid Committees
- Acquisition & Logistics and disposal Management.

3.2.3.5. The SCMU met with the user departments and drafted the Demand Management Plan for the 2016/2017 financial year, but the information submitted to SCMU is not complete. The draft was submitted to the ACFO during January 2017.

3.2.3.6. The centralising of procurement has been identified as a priority and must be rolled-out across the municipality as soon as the staff and systems are in place.

3.2.3.7. Training during the first two quarters of 2016/2017 was focused on MMC. These training opportunities were attended by various staff members from the entire municipality.

### **3.3. ACQUISITION MANAGEMENT**

3.3.1. 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.

3.3.2. 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.

3.3.3. From the Auditor General's report it is clear that additional training is urgently needed for all officials involved in SCM matters and not limited to the SCM section. The SCM Manager will request the ACFO to request PT to arrange a set of training interventions for all officials involved in SCM, from administrative personnel up to the Directors. This is the only way to ensure compliance and to assist the AMM, ACFO and SCM Manager in implementation of the SCM Policy and regulations.

3.3.4. Various memorandums and request were sent to all staff members to adhere to the SCM Policy and regulations. A memorandum with burning SCM issues was submitted to the ACFO and AMM.

### **3.3.5. Competitive Bidding for Contracts valued more than R30,000**

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

3.3.5.1.1. That all information, documentation and decisions regarding all matters before the committee are confidential and undertakings in this regard are issued to ensure that nothing is make known;

3.3.5.1.2. That all service providers and potential service providers are treated equal without favour or prejudice to anybody; and

3.3.5.1.3. 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.

3.3.5.2. The awards processed by bid committees and SCM/user departments:

<b>Tenders &amp; RFQ's processed</b>	<b>October - December</b>
Tenders Awarded	1
RFQ's Awarded	37
Cancelled tenders	0

See attached annexure A for RFQ's awarded for the quarter.

See attached annexure B for tenders awarded for the quarter, that were not previously reported on, as well as the BSC, BEC and BAC relating to those tenders.

No objections were received on the tender.

See attached annexure C for a schedule of tenders from 1 January 2016 with the current status.

### **3.3.4 Deviations from the SCM Policy**

3.3.4.1 Section 36 of Council's Supply Chain Management Policy allows the Accounting Officer to dispense with the official procurement processes.

3.3.4.2 Deviations to the value of R 27 350 517.45 were considered and approved for this quarter.

	<b>October to December R</b>	<b>July to September R</b>	<b>2015/2016 R</b>	<b>2014/2015 R</b>
<b>Value of Deviations</b>	27 350 517.45	13 358 130.96	36 071 916.05	86 932 642.24

A report on deviations for the quarter is attached as annexure D.

### **3.3.5 Procurement up to R30 000**

3.3.5.1 In terms of the SCM policy all requirements above R10 000 are advertised on the notice board as well as the municipal website. This is the first step in

centralising procurement. It eliminates possible favouritism towards certain suppliers and makes the procurement process more transparent.

### **3.3.6 Suppliers database**

3.3.6.1 The prospective provider list must be updated at least quarterly in order to accommodate additional providers, newly established providers and for adding or amending categories of requirements.

3.3.6.2 The following updates were made:

CSD registration support	42
Updates to KM database	115

## **3.4 CONCLUSION**

3.4.4 The Knysna Municipality has been implementing the Supply Chain Management Regulations through the Supply Chain Management Policy. Any shortcomings or inadequacies in the implementation of the Supply Chain Management Policy are constantly reported to the acting CFO and acting Municipal Manager.

3.4.5 The SCM Manager is requesting the Municipal Manager to take disciplinary action against non-compliance with the SCM Policy.

3.4.6 De-Centralised Procurement and Contract administration has been identified as areas of particular concern but do date the proposed organogram has not been approved by Council that would allow for these functions.

3.4.7 The SCM Manager is again stressing that projects and procurement must be planned with cognisance of the requirements of the Supply Chain Management legislative framework to ensure that the process of the municipality are fair, equitable, transparent, competitive and cost-effective and comply with the prescripts of the Municipal Finance Management Act in order to give effect to Section 217 of the Constitution.

## **4. RECOMMENDATION OF THE ACTING MUNICIPAL MANAGER:**

- (a) That the report on the implementation of the SCM policy for the period 1 October 2016 to 31 December 2016, be noted;
- (b) That the deviations to the value of R 27 350 517.45 for the second quarter as indicated in (a) above, be noted;
- (c) That the report be made available to the public in terms of section 21A of the Municipal Systems Act, 2000.