

<b>ANNUAL REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT POLICY FOR THE FINANCIAL YEAR ENDING 30 JUNE 2016</b>
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**Department:**                      **Finance**                                      **Demarcation: All Wards**

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

**Date:**                                      **30 July 2016**

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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 30 days of the end of each financial year, submit a report on the implementation of the policy to the Council.

## **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. BACKGROUND/INTRODUCTION/DISCUSSION/CONCLUSION**

#### **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 30 days of the end of each financial year, submit a report on the Implementation of the Supply Chain Management Policy of the Knysna Municipality, to the Council 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
  - (iii) Acquisition Management
  - (iv) Logistics 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 was reviewed twice during the 2015/16 financial year in order to reduce some of the more cumbersome requirements and included clearer instructions in alignment with other legal requirements. The SCM Policy for 2015/16 was approved on 28 October 2015. 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 as recommended by the SCM Manager. 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 up to R30 000.
- 3.2.3.4. This should also reduce the time spent by officials in user departments who now have to run around obtaining quotations themselves. The recommended amendments will also allow for improved procurement planning and contract administration. The following disciplines are covered by the proposed organogram within Supply Chain Management:
  - Demand, Tender, Contract administration and supplier performance
  - Demand Planning and Specifications Development
  - Procurement of Goods & Services above R30 000 and below R30 000
  - Secretariat services for Bid Committees
  - Acquisition & Logistics Management
- 3.2.3.5. Demand Management has unfortunately been limited to support with the compilation of specifications but did not address demand planning adequately and must be addressed urgently.
- 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. SCM Officials and other officials of the municipality have also been exposed to training opportunities with specialised SCM Training by the Provincial Treasury and SCM Manager. The focus on training and development of officials will be improved for the next financial year.

### **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. Competitive Bidding for Contracts valued more than R200,000**

3.3.3.1. 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:

- 3.3.3.1.1. 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;
- 3.3.3.1.2. That all service providers and potential service providers are treated equal without favour or prejudice anybody; and
- 3.3.3.1.3. 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.

3.3.3.2. The awards processed by bid committees and SCM:

#	Tenders & RFQ's processed	2015/16	2015/14
1	Tenders Awarded	62	40
2	RFQ's Awarded	223	97

**3.3.4 Deviations from the SCM Policy**

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

processes. Deviations to the value of R36 071 916,05 were considered and approved and compare as follows to the previous financial year:

	<b>2016/15</b>	<b>2015/2014</b>
<b>Value of Deviations</b>	<b>36 071 916.05</b>	<b>86 932 642.24</b>

- 3.3.3.4. The decrease in the value of deviations was due to more formalised processes being followed by the user departments and user departments were more closely monitored with all procurement transactions being subject to scrutiny by SCM Officials and the relevant Directors, in order to ensure correct reporting to Council as well as more stringent implementation of the SCM policy.
- 3.3.3.5. The bulk of the deviations may be addressed via competitive bidding processes and this office are continuing to assist user departments with the sourcing of specifications in order to attempt to reduce the occurrence or re-occurrence of some deviations.

### 3.4. LOGISTICS MANAGEMENT

#### 3.4.1. The System of Logistics Management

- 3.4.1.1. The system of logistics management must ensure the following:
- (i) 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;
  - (ii) the setting of inventory levels that includes minimum and maximum levels and lead times wherever goods are placed in stock;
  - (iii) the placing of orders for all acquisitions other than those from petty cash;
  - (iv) 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;
  - (v) 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;
  - (vi) monitoring and review of the supply vendor performance to ensure compliance with specifications and contract conditions for particular goods or services.
- 3.4.1.2. Each stock item at the municipal stores is coded and listed on the financial management system.
- 3.4.1.3. 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.
- 3.4.1.4. Regular monitoring of the condition of inventory is performed and no damaged stock has been identified.

#### 3.4.2. Annual Inventory Count

- 3.4.2.1. The Annual Inventory Count took place on 30 June 2016. The surpluses were due to stock that user departments did not consume during the financial year which were submitted back to the main inventory/Stores. This is the first year that this practice occurred:

<b>Inventory</b>	<b>2016/15</b>	<b>2015/14</b>
<b>Surpluses:</b>	R 293 885.16	R 11 502.87
<b>Shortages:</b>	R 0	R 408.76

- 3.4.2.2. The results from the year-end inventory count for 2015/16 are as follows in comparison with the results of the previous financial year:

<b>Inventory</b>	<b>2015/16</b>	<b>2015/14</b>
	<b>R</b>	<b>R</b>
Consumables at Stores	5 557 236.23	1 616 316
Consumable stores materials written down due to losses as	0	408.76

identified during annual stores count		
Consumable stores materials surpluses as identified during annual stores count adjustments	293 885.16	11 502.87
Inventory recognised as an expense during the year	12 091 186.56	21 604 301

- 3.4.2.3. The stock turnover rate has come down from the previous financial year and is mainly attributed to the fact that more stock are being held to have stock available for user departments to resolve brakes/problems. Most of the Water and Solid Waste department needs can now be immediately addressed without first having to follow a procurement process. The Electrical department and other service departments needs will be addressed early in the new financial year. 2015/16 was dedicated to award term tenders for stock items and all are now awarded.

	<b>2016/15 R</b>	<b>2015/14 R</b>
Inventory Consumed	12 137 352	21 604 301
Average Inventory	5 533 376.37	2 473 407
Stock Turnover Rate	2.19	8.7

- 3.4.2.4. Dormant stock is also an aspect of the stores over which we do not have much control considering the age of the network and stock items have to be kept on the shelves in the advent of a sudden breakdown in the old infrastructure.

	<b>2016/15</b>	<b>2014/13</b>
Dormant stock	47 415.62	68 523.70

### **3.5. CONCLUSION**

- 3.5.1. 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 addressed.
- 3.5.2. De-Centralised Procurement and Contract administration has been identified as areas of particular concern and will be addressed over the next financial year. Council will be updated regularly on the progress in this regard. Demand Management will be a focus area and progress will also be reported regularly.
- 3.5.3. Projects and procurement are being 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 July 2015 to 30 June 2016 be noted;
- (b) That the deviations to the value of R 36 071 916.05 for the 2015/2016 financial year as indicated in (a) above be noted;
- (c) That the report on stock taking as indicated in the report mentioned in (a) above, for the 2015 / 2016 financial year be noted;
- (d) That the report be made available to the public in terms of section 21A of the Municipal Systems Act, 2000.