

SALDANHA BAY MUNICIPALITY

REPORT TO THE MUNICIPAL COUNCIL

SUBJECT: OVERSIGHT ROLE OF COUNCIL:
IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY

DIRECTORATE: FINANCE

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ITEM NUMBER:

1. **PURPOSE OF THE REPORT**

The purpose of this report is to inform the Council regarding the implementation of the Supply Chain Management (SCM) Policy adopted on 28 May 2015, R11/5–15 to perform their oversight role for the 2015/16 financial year.

2. **BACKGROUND**

Regulation 6(1) of the SCM Regulations (GenN 868 in GG 27636 of 30 May 2005 as amended) states the following:

“For the purposes of such oversight the accounting officer must –

- (i) Within 30 days of the end of each financial year submit a report on the implementation of the supply chain management policy to the council of the municipality.”*

3. **DISCUSSION**

3.1 **Capacity of SCM Unit:**

The SCM unit has 12 funded posts. Two vacancies existed and the Accountant: Contract Management was appointed on 1 July 2016. The Senior Accountant: Acquisition and Demand Management post was advertised and the Staffing Committee is in process of making an appointment. The capacity is supplemented with the placement of interns on a rotational basis. This is still not a sustainable solution to address capacity problems that exist in the SCM unit effectively.

A revised organogram was submitted to management to centralize SCM functions to provide an effective support service to Departments. The organogram was not approved due to budget constraints. Segregation of duties are imperative to prevent fraud, corruption and other misconduct. An insufficient staffing capacity place the municipality at risk. It is of utmost importance that Council must address capacitation problems to address the risks associated with insufficient staffing capacity and also to enhance service delivery. All the officials in the unit has ambitions to better the system, but time available is a real issue.

The municipality has embarked on a process to appoint a service provider to provide an all-inclusive Enterprise Resource Planning solution. This or the upgrading of the current system will impact positively on processes.

3.2 Statistical information:

3.2.1 Acquisition:

<u>Description</u>	<u>2015/16</u>	<u>2014/15</u>	<u>Increase / decline</u>
Number of orders issued	10493	10 119	374 (Increase)
Value of orders	R453 308 342	R 433 548 817	R 19 759 525 (Increase)
Number of deviations	1419	1170	249 (Increase)
Value of deviations	R 25 584 750	R 21 395 512	R 4 189 238 (Increase)

In previous years orders were issued for annual tenders and not for each individual tender. Orders for bulk services for example Eskom are also issued which contributed to the high increase in the total value of orders issued for the 2015/16 financial year.

The figures above indicate an overall increase in the value of orders issued and deviations approved. The following items accounted for most deviations approved for the 2015/16 financial year:

<u>Description:</u>	<u>Amount:</u>
Bitline 74 CC (Security Services)	R 5 788 830
Broodryk Bessenger (Saldanha Sportfield)	R 1 542 644
HSM Amanzi (Various)	R 851 696
Sandveld (Various)	R 834 828
African Ideas	R 554 306
Total	R 9 572 304

There are only two buyers and two quotation officials in the Buyer's Section who deals with all the orders issued. This is a great concern and it has a direct impact on service delivery. Back logs exist on a permanent basis and are increased by absenteeism (sick leave, annual leave and

training). Segregation of duties is also required for an efficient control environment and additional officials are needed to breach this gap.

The table below indicates the number of advertisements placed on the website during the 2015/16 financial year:

<u>Period</u>	<u>Below R30 000</u>	<u>Above R30 000</u>
July 2015 – February 2016	568	267
March 2016 – June 2016	179	121
Total	747	388

Almost a quarter (24%) of the advertisements for procurement below R30 000 and (31%) of the advertisements for procurement above R30 000 were placed during the last four months of the financial year. It is clear from the above that spending occurs in the latter part of the financial year and might result in delayed spending and service delivery. It is necessary that proper planning is done coupled with prompt execution of projects. Additional pressure is furthermore placed on SCM officials to perform their functions and this is a high risk which can result in mistakes or non-compliance.

3.2.2 Competitive bidding process

The table below indicates the number and value of tenders awarded:

<u>Description</u>	<u>2015/16</u>	<u>2014/15</u>	<u>Increase / decline</u>
Number of Tenders Awarded	42	56	14 (Decline)
Value of Tenders Awarded	R 187 406 887	R106 210 900	R 81 205 987 (Increase)

The above table excludes the figures of all annual or repetitive tenders awarded.

The tender specification committee was selected on an ad-hoc basis according to the needs and technical expertise required for the specific tender. New delegations have however been implemented with inception of 01 July 2015 to create consistency and for SCM to exercise more control over these function. Three senior officials consisting of the Manager: SCM, Senior Accountant: Compliance and Accountant: Contract Management has been dedicated to act as full time chair persons for specification committee meetings.

Challenges are addressed in Annexure A.

3.2.3 Awards to persons in service of the state:

Information is sent on a monthly basis to Provincial Treasury to verify information on PERSAL and mitigates risk of incurring irregular expenditure.

The ID numbers of all councilors and officials were also verified by Provincial Treasury.

The Western Cape Supplier Database was also utilized for the verification of person in service of the state and related parties.

3.2.4 Database administration:

The implementation of CSD is effective from 01 July 2016. Transitioning from WCSD to CSD is currently in progress but no major challenges were encountered as SCM was very pro-active when the instruction to implement CSD was issued.

SCM has done extensive work on the creation of awareness of suppliers, service providers and contractors to ensure readiness at the implementation of the CSD. The following was done:

- a) Suppliers on database was informed via emails that they must register on CSD,
- b) Registration requirements were placed on the following media:
 - i) Facebook
 - ii) Official Website
 - iii) Advertisements in news papers
 - iv) Radio coverage – shout out every three hours
- c) West Coast Development Centre and the IDZ were invited to attend training to also assist suppliers to register
- d) Suppliers who visit the municipal offices are shown how the CSD work (speed limit of internet slow, they were required to do registration on own time after guidance was provided and if problems are experienced, they must come back for further assistance).

We still have to identify ways to monitor registration of our local suppliers on CSD as the reports provided are very limited. National treasury has however promised that the functionality of CSD will continuously be improved to address these issues.

All SCM staff received training from Provincial Treasury to ensure that suppliers can be assisted with registration (there is only one database administrator).

4. VENDOR PERFORMANCE

Clause 51 on Performance Management was implemented during 2015/16. The Directors submitted monthly reports on vendor's performance for awards made above R200 000 (competitive bids). This process will be streamlined during 2016/17 as contract management is one of the most important stages during which value for money must be monitored.

The departments in co-operation with Legal Services has dealt with under performance or defaulting issues.

5. OVERALL COMPLIANCE

The detail in this regard is attached as Annexure A.

6. AUDIT FINDINGS

No audit findings were raised against SCM.

7. LEGISLATIVE COMPLIANCE

Local Government: Municipal Finance Management Act (Act 56 of 2003)
Supply Chain Management Regulations
Supply Chain Management Policy: Saldanhabay Municipality
Preferential Procurement Regulation, 2011; and
All other relevant legislation, National Treasury guidelines and circulars.


8. RECOMMENDATION

(i) That the report be noted.



CHIEF FINANCIAL OFFICER

8/7/2016
DATE

Acting: 

MUNICIPAL MANAGER

8/7/16
DATE



COUNCILLOR S LOUW PORTFOLIO CHAIRPERSON

8/7/16
DATE

ANNEXURE A
SALDANHA BAY MUNICIPALITY
IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT IN TERMS OF CLAUSE 6(2)(1)(a) OF
THE SUPPLY CHAIN MANAGEMENT POLICY

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
3	Review of SCM policy	Yes		
5	System of delegations and report on awards made within 5 working days	Yes	Implemented comprehensive operational delegations to ensure effective service delivery in SCM unit.	
6	Oversight role of Council	Yes		
7	Supply chain management unit	Yes, situation unchanged.		<p>Challenges: Insufficient capacity especially in the acquisition section, only minimum requirements are met – this impact negatively on service delivery (turnaround time relating to acquisition management), implement best practices or move towards excellence.</p> <p>Solutions: Budget provision should be made for additional personnel An ERP tender was advertised to source a suitable all-inclusive system solution.</p>
8	Training of supply chain management officials	Yes	<p>Training: SCM officials and other role players received Demand Management Training.</p> <p>Courses: Computer skills, General Condition of Contract for construction works.</p>	
10	System of demand management	Yes, unchanged.	Procurement plan (bids) was compiled in cooperation with the Directorates.	<p>Challenges: Planning is still a challenge and spending occurs only at the end of the year. Departments do not adhere to dates set in plan. Insufficient capacity in SCM unit to compile and manage procurement plan for quotations.</p>

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				<p><u>Solution</u> Better and more efficient communication between Supply Chain Management Unit and all other stakeholders involved in the implementation of the SCM policy. Capacity must be created to allow SCM to compile, manage and monitor a procurement plan for quotations.</p>
11	System of acquisition management (quotations)	Yes	New BEE codes was implemented with the WCSD. Suppliers reaped the benefits as the WCSD did not acknowledge affidavits (which provide suppliers the opportunity to claim points as Level 1 contributors).	<p><u>Challenges</u> Planning is still a challenge and spending occurs only at the end of the year. This put pressure on SCM officials to finalize orders and bids (compliance risk) and community do not receive services. Turnaround time must be reduced.</p> <p><u>Solutions</u> Managers must monitor budgets and spending patterns on an on-going basis and plan accordingly.</p>
11	System of acquisition management (tenders)	Yes		<p><u>Challenges</u> Insufficient planning and incomplete specifications leads to delays in processes and appeals. Turnaround time must be reduced. Suppliers do not submit compulsory documentation with quotations and this leads to delays in processes.</p> <p><u>Solutions</u> Managers must set dates for bidding process linked to their cash flow budgets.</p>

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				Managers must monitor budgets and spending patterns on an on-going basis and plan accordingly.
14	Lists of accredited prospective providers	Yes	The municipality implemented the WCSD to ensure compliance and lessen the burden on suppliers to submit tax clearance certificates and BEE certificates. Opportunities were created for local businesses to partake in processes in Province. Municipality adopted the use of Central Supplier database-implementation on 1 July 2016. Awareness was created regarding importance of registration.	
16	Written quotations (reasons are recorded, authorized and monthly reports are submitted to CFO, MM and Council)	Yes	All reports were submitted within 3 days after the end of the month.	<p>Challenge Currently, all orders that are issued are manually captured by the buyers on a register. This creates a risk that not all orders are captured on the register, hence not all awards are reported to the CFO, MM and Council). Another risk is the fact that errors can be made with the capturing of the amount of the order. The current system do not have the functionality to create reports.</p> <p>Solutions An ERP tender was advertised to source a suitable all-inclusive system solution. The procurement of an all-inclusive system will provide the necessary functionality to generate electronic reports. This will enable SCM to have more time to analyse the</p>

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				spending and it will also mitigate the risk that the reports are submitted late.
17	Formal written quotations (reasons are recorded, authorized and monthly reports are submitted to CFO, MM and Council)	Yes	All reports were submitted within 3 working days after the end of the month.	Challenge See Clause 16. Solutions See Clause 16.
18	Notify the Accounting Officer or CFO in writing on a monthly basis of all written quotations and formal written price quotations accepted by the official acting in terms of a sub-delegation.	Yes		
20	Competitive bidding process	Yes	Monitoring did take place via reporting.	
23	Procedure for handling, opening and recording of bids (i) record in a register all bids received in time; (ii) make the register available for public inspection (iii) Publish the entries in the register and the bid results on the website of the municipality.	Yes		
26	Committee system for competitive bids	Yes		
27	Bid specification committees	Yes	User departments convene before the final Specification meetings to ensure that all issues are addressed. All role players such as Health and Safety (Mr. Makok) are involved. Minutes are presented to the Specification Committee for consideration.	Challenges: Insufficient planning and incomplete specifications are still a problem. Solutions: The Manager: SCM has requested to build a specification library to save time on re-inventing the wheel each time a tender must be advertised.

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28	Bid evaluation committees	Yes		Challenges: Departmental Evaluation Reports are not received timeously and putting pressure on committee system to finalize bids before validity lapse. Quorum problems.
29	Bid adjudication committees	Yes		
30	Procurement of goods and services under contracts secured by other organs of state	Yes		
35	Appointment of consultants	Yes		
36	Deviation from, and ratification of minor breaches of, procurement processes	Yes		The deviations has increased drastically due to technical issues that was not resolved related to the security services of the municipality.
38	Combating of abuse of supply chain management system	Yes	There were no cases brought against any official or councilor regarding abuse of the SCM system. Effective segregation of duties and delegations were implemented.	One case of abuse of the SCM system is still pending.
40	Disposal: Moveable (Auction) Immovable (Corporate Services)	Yes		
41	Risk management	Yes	Risk register was compiled and implemented. Additional control measures implemented: (i) Gift register containing questions to mitigate possible conflict of interest.	

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			(ii) Bids distributed to all bidders via SCM (centralized to ensure effective service delivery) (iii) Contracts taken to MM by SCM for signature to prevent delays (iv) Registration and award of CIDB tenders on i-Tender performed by SCM to prevent non-compliance.	
42	Performance management	Yes	See report.	
43	Ethical Standards	No		
45	Inducements, rewards, gifts and favours	Yes		
46	Objections and complaints (Appeals)	Yes	No successful appeals in a Court of Law were lodged against the municipality.	
50	Contract Administration	Yes		
51	Management of expansion or variation of orders against the original contract	Yes	Parameters were included in the SCM Policy and are managed by the Manager: Expenditure.	