

SALDANHA BAY MUNICIPALITY

REPORT TO THE MAYOR

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

DIRECTORATE: FINANCE

AUTHOR: H MEEDING

CONTACT DETAILS: 022 – 701 6196

DATE: 07 October 2016

FILE NO: 8/1

1. **PURPOSE OF THE REPORT**

The purpose of this report is to inform the Mayor regarding the implementation of the Supply Chain Management (SCM) Policy adopted on 26 May 2016, R5/5–16 to perform their oversight role for the 2015/16 financial year.

2. **BACKGROUND**

Regulation 6(3) 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 –
(3) *The accounting officer must, within 10 days of the end of each quarter, submit a Service Delivery Budget Implementation Plan report on the implementation of the supply chain management policy to the mayor."*

3. **DISCUSSION**

3.1 **Capacity of SCM Unit:**

The SCM unit has 12 funded posts. The Senior Accountant: Acquisition and Demand Management has to be re-advertised (the candidates did not meet the minimum requirements). The Senior Bid Administrator Specifications post is in process of being advertised. The capacity is still supplemented with the placement of interns on a rotational basis. This is however not a sustainable solution to address capacity problems.

All municipalities have to comply by 1 July 2017 to the mSCOA requirements. Munsoft was appointed to provide a complete enterprise resource planning solution

and part of the solution is a centralized electronic supply chain system. The implementation of the centralized electronic supply chain process is going to create an enormous additional workload on the SCM unit and thus there is a risk that this might impact negatively on service delivery.

The following solutions are considered at this stage:

- i) To inform departments to expedite their planning to provide for additional time to follow due process;
- ii) To re-deploy competent personnel from directorates to the SCM unit to create sufficient capacity to ensure effective service delivery; or
- iii) To request for additional funding on the personnel budget to appoint SCM officials with the necessary skills to ensure effective service delivery.

The extent of the impact can only be determined when the system is operational. Complete feedback will be provided in the next report.

3.2 Statistical information:

3.2.1 Acquisition:

<u>Description</u>	<u>2016/17</u>	<u>2015/16</u>	<u>Increase / decline</u>
Number of orders issued (July till September)	2992	2666	Increase 326
Value of orders (July till September)	R 136 940 121.62	R 293 273 583.57	Decrease (R 156 333 461.95)
Number of deviations (July till September)	497	366	Increase 131
Value of deviations (July till September)	R 7 685 996.36	R 7 940 679.03	Decrease (R 254 682.67)

The figures above indicate an overall increase in the value and number of orders issued and deviations approved for quarter compared to the first quarter of the 2016/2017 financial year. Orders are issued for all bids awarded and thus the increase in the number issued.

3.2.2 Competitive bidding process

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

<u>Description</u>	<u>2016/17</u>	<u>2015/2016</u>	<u>Increase / decline</u>
Number of Tenders Awarded (July till September)	15	8	7 (Increase)
Value of Tenders Awarded (July till September)	R 102 472 690.17	R 5 406 784.05	R 97 065 906.12 (Increase)

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

3.2.3 Database administration:

Section 5 of the MFMA gives National Treasury that authority to investigate any system of financial management and internal control in a municipality and to recommend appropriate improvements.

MFMA Circular 81 dated March 2016 was issued and instructed municipalities to make use of the Central Supplier Database (CSD) from 1 July 2016 to assist the municipalities to perform validation functions on key supplier information.

"Central Supplier Database": means a single database that serves as the source of all supplier information for all spheres of government. A municipality or municipal entity must keep a list of prospective suppliers in terms of Regulation 14 of the Supply Chain Management Regulations.

The CSD is a real-time system that is used to verify supplier information with each award that is made. The following information is verified on the CSD:

- (a) Business registration; including details of directorship and membership;
- (b) Bank account holder information;
- (c) In service of the state status (Persal);
- (d) Tax compliance status;
- (e) Identity numbers;
- (f) B-BBEE status level;
- (g) Tender defaulting and restriction status;

Note:

- (a) Bank account information is verified for ease of transacting and compliant financial management and not as a mandatory requirement for sourcing and procurement processes.
- (b) In the service of the state: Please note this check is currently done on state employees who have a PERSAL number, but will also be verified for municipalities, municipal entities and public entities from 1 October 2016.
- (c) B-BEEE will only be verified from 1 October 2016 (this not yet functional).

The municipality has implemented the CSD on 1 July 2016 as prescribed.

There are 479 suppliers registered on the CSD in the Saldanha Bay Municipal area. This is phenomenal in the sense that it is the second highest number of suppliers registered in the province.

4. VENDOR PERFORMANCE:

Reports are received on a monthly basis from the directors on the performance of the vendors. The Manager: SCM in co-operation with the Director EPS and Manager: Legal Services is busy compiling a standard operating procedure to formulize the process.

5. SDBIP:

Reports are submitted to the Council by the CFO on a monthly basis.

6. **AUDIT FINDINGS**

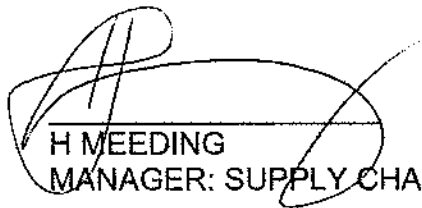
The Auditor General is busy with the audit and the audit outcomes will be discussed in the next report.

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.


H MEEDING
MANAGER: SUPPLY CHAIN MANAGEMENT

14/10/2016
DATE


S ROETS
ACTING CHIEF FINANCIAL OFFICER

14/10/16
DATE


J MARAIS
ACTING MUNICIPAL MANAGER

2016.10.14
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		<p>Challenges: Insufficient capacity remains a challenge. See report.</p> <p>Solutions: See report.</p>
8	Training of supply chain management officials	Yes	All officials meet the minimum requirements.	
10	System of demand management	Yes	Progress reports are submitted to the Municipal Manager.	<p>Progress: Communication has improved between departments. Proper feedback is received.</p> <p>Challenges: Proper planning is still a challenge and spending occurs only at the end of the year.</p> <p>Solution Budgeting in the mSCOA segments will force departments to plan properly..</p>
11	System of acquisition management (quotations)	Yes		<p>Progress: The ERP tender was awarded. Progress on the implementation will be provided during the next quarter.</p> <p>Challenges: Suppliers do not submit compulsory documentation with quotations and this leads to delays in</p>

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				processes. Solutions: See progress.
11	System of acquisition management (tenders)	Yes		Challenges Insufficient planning and incomplete specifications leads to delays in processes and appeals. Turnaround time must be reduced. Solutions Managers must set dates for bidding process linked to their cash flow budgets. Managers must monitor budgets and spending patterns on an on-going basis and plan accordingly.
14	Lists of accredited prospective providers	Yes	The CSD was successfully implemented from 1 July 2016. See report.	Progress: The unit is busy implementing the electronic centralized requisition system. The CSD listing for the region will create opportunities for local businesses as quotations will be sourced from the database for goods and services below R30 000.
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.	Progress Munsoft must develop electronic reports (in process). Feedback will be provided in next report. 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

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				made with the capturing of the amount of the order. Solutions See progress.
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		
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	Monitoring did take place via reporting.	
27	Bid specification committees	Yes		Progress 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.

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				<p>Challenges: Insufficient planning and incomplete specifications lead to delays in the award of bids.</p> <p>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. Provincial Treasury is busy with the above.</p>
28	Bid evaluation committees	Yes		<p>Challenges: Departmental Evaluation Reports are not received timeously and putting pressure on committee system to finalize bids before validity lapse. Quorum problems.</p>
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		
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	The accounting officer has made a ruling on the one case of abuse by a supplier.

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
			implemented.	
40	Disposal: Moveable (Auction) Immovable (Corporate Services)	Yes		
41	Risk management	Yes		
42	Performance management	Yes		
43	Ethical Standards	Yes		
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	All awards on CIDB were made within 21 days after signing of contract.	
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.	