

SALDANHA BAY MUNICIPALITY

REPORT TO THE MAYOR

SUBJECT: REPORT OF THE IMPLEMENTATION OF THE SUPPLY CHAIN  
MANAGEMENT POLICY: SECOND QUARTER

DIRECTORATE: FINANCE

AUTHOR: H MEEDING

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DATE: 9 JANUARY 2017

FILE NO: 8/1

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**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 2016/17 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:

*“(3) 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 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 was advertised twice and the office is in the process of head hunting. HR was also requested to provide alternative solutions as the Municipalities are not very co-operative to provide information regarding staff that meets the requirements. The Senior Bid Administrator Specifications post is in process of being evaluated. 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.

Request for additional posts were included in the new organogram that will be presented to Council.

### 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 (October till December)	2179	2746	Decrease 567
Value of orders (October till December)	R67 097 742	R57 502 552	Increase (R 9 595 190)
Number of deviations (October till December)	513	313	Increase 200
Value of deviations (October till December)	R7 647 571	R5 144 985	Decrease (R 2 502 586)

The increase in the deviations is due to the change in process with regards to fuel procured in towns such as Hopefield, St Helenabay and Langebaan where only one fuel company exist. The Auditor General has given instruction that these type of procurement must be done via a deviation process and not in terms of Clause 36(5) of the SCM Policy. The necessary changes were already communicated with all role players.

#### 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>2015/16</u>	<u>Increase / decline</u>
Number of Tenders Awarded (October till December)	14	24	10 (Decrease)
Value of Tenders Awarded (October till December)	R 52 140 060	R 74 802 387	R 22 662 327 (Decrease)

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

<u>Description</u>	<u>2016/17</u>	<u>2015/16</u>
Number of Tenders Awarded (July till September)	8	24
Number of Tenders Awarded (October till December)	15	14

It is clear that better planning has taken place during the 2016/17 year when comparing the figures of the first quarter of this financial year with the figures for the same periods during the previous year.

### **3.2.3 Database administration:**

Section 5 of the MFMA provides authority to National Treasury 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;

The following issues must still be addressed by the CSD:

- (a) Bank account information is not a mandatory requirement for sourcing and procurement processes and this impacts negatively on the maintenance of creditor master file when payments have to be processed.
- (b) Information of state employees are still only checked where an employee has a PERSAL number. The verification of employees of municipalities, municipal entities and public entities should have been addressed since 1 October 2016. The employee details of the municipality are still mailed on a monthly basis to Provincial Treasury for verification. Progress will be reported.
- (c) B-BBEE verification should have been addressed on the system since 1 October 2016. Progress will be reported.

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

The number of registered suppliers has increased from 479 to 576 suppliers. There are more registered suppliers in the Saldanha Bay Area as in Drakenstein.

The unit is also driving a process to ensure that all suppliers are registered for the correct commodities to ensure effective and efficient service delivery.

## **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 formalize the process. This process will be implemented on 1 July

2017 (this standard operating procedure must be aligned with the contract and project management module to ensure successful implementation).

**5. SDBIP:**

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

**6. AUDIT FINDINGS**

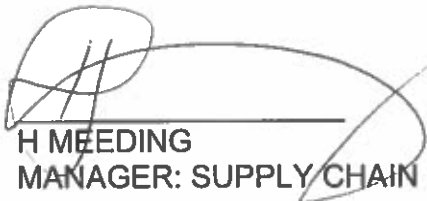
The municipality maintained their clean audit status. Monthly feedback is provided to the Senior Manager Financial Operations on the corrective actions. Only one conclusive finding was raised against the municipality and the change in Policy was already communicated with all role players for implementation.

**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.

  
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H MEEDING  
MANAGER: SUPPLY CHAIN MANAGEMENT

9/1/2017  
DATE

  
\_\_\_\_\_  
J LOUW  
ACTING CHIEF FINANCIAL OFFICER

9/1/2017  
DATE

  
\_\_\_\_\_  
J MARAIS  
ACTING MUNICIPAL MANAGER

2017.1.10  
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><b>Challenges:</b> Insufficient capacity remains a challenge.</p> <p><b>Solutions:</b> Matter was addressed during restructuring process (organogram).</p>
8	Training of supply chain management officials	Yes	All engineers have attended the session on the implementation of the Model Policy for Infrastructure Procurement and Delivery Management. Another session is scheduled for 20 January 2016 where the policy will be tailor-made to address SBM's specific needs.	
10	System of demand management	Yes	Progress reports are submitted to the Municipal Manager.	<p><b>Progress:</b> Communication has improved between departments. See par. 3.2.2.</p>
11	System of acquisition management (quotations)	Yes	The Manager: SCM has written a new module for Munsoft for Quotations above R30 000.	<p><b>Progress:</b> The ERP solution was implemented with various challenges. The challenges were as follows:</p> <ul style="list-style-type: none"> <li>(i) Requestors can authorize their own requests (resolved);</li> <li>(ii) The system was not linked to prescribed processes (resolved);</li> <li>(iii) The forms did not include compliance requirements (resolved);</li> </ul>

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				<p>(iv) The system did not make provision for all compliance checks (resolved);</p> <p>(v) The system is not paperless as anticipated (document management module must be implemented – TO BE ADDRESSED;</p> <p>(vi) CSD information was not imported correctly from the CSD and the old creditors and CSD suppliers was duplicated (in process of being resolved);</p> <p>(vii) The system does not make provision for fields (locality) to source quotes from (CFO to make final decision);</p> <p>(viii) The system does not have a process for the requesting of quotes above R30 000 (Manager SCM has written the module, in testing phase to be implemented).</p> <p>(ix) Resistance to change and to co-operate in the implementation of the system.</p> <p><b>Challenges:</b> Suppliers do not submit compulsory documentation with quotations and this leads to delays in processes.</p> <p><b>Solutions:</b> See progress.</p>
11	System of acquisition management (tenders)	Yes		<p><b>Challenges</b> Insufficient planning and incomplete specifications leads to delays in processes and appeals. Turnaround time must be reduced.</p>

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
				<u>Progress</u> See par. 3.2.2.
14	Lists of accredited prospective providers	Yes	The CSD was successfully implemented from 1 July 2016.	<u>Progress</u> See par. 3.2.3.
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.	<u>Progress</u> Munsoft is still in process of developing electronic reports that include all compliance related fields as well as feeds that will assist management in decision-making.  <u>Challenge</u> 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.
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.	<u>Challenge</u> 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	Yes		

REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
	(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.			
26	Committee system for competitive bids	Yes	Monitoring did take place via reporting.	
27	Bid specification committees	Yes		<p><b>Progress</b> 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.</p> <p><b>Challenges:</b> Insufficient planning and incomplete specifications lead to delays in the award of bids.</p> <p><b>Solutions:</b> 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. Feedback from Provincial Treasury is still outstanding.</p>
28	Bid evaluation committees	Yes		<p><b>Challenges:</b> 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		



REG NO	CRYPTIC DESCRIPTION OF POWER OF DUTY	IMPLEMENTED (yes / no)	MILESTONES (if applicable)	CHALLENGES AND SOLUTIONS
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 implemented.	One appeal was upheld by the Municipal Manager and feedback will be provided in the next report.
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.	

