



THABA CHWEU

Local municipality

**ANNUAL REPORT ON THE IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT
(SCM) REGULATIONS 6 (2) (a) (i)
2016-2017 FINANCIAL YEAR.**

REPORT OF THE CHIEF FINANCIAL OFFICER

Regulation 6(1) of Supply chain management stipulates that Council of a Municipality and the board of directors of a Municipal entity must maintain oversight over the implementation of its supply chain management policy.

Sub-section (2) of the regulations stipulates that for the purposes of such oversight, the Accounting Officer must in the case of a municipality, within 30 days of the end of each financial year, submit a report on the implementation of the supply chain management policy of the municipality and of any municipal entity under its sole or shared control, to the council of the municipality.

1. EXECUTIVE SUMMARY

The Local Government: Municipal Finance Management Act, No 56 of 2003 (MFMA), requires the municipality to have and implement a Supply Chain Management (SCM) Policy which gives effect to the provisions of Part 1 of Chapter 11 of the Act that deals with 'Supply Chain Management'.

On 30 May 2005 the Municipal Supply Chain Management Regulations were promulgated. The Thaba Chweu Local Municipality Supply Chain Management Policy was approved in terms of these Regulations by Council.

Although the MFMA prohibits a Councillor from being a member of a bid committee or any other committee evaluating or approving quotations or tenders, Council has an oversight role to ensure that the accounting officer implements all supply chain management activities in accordance with this policy. For the purposes of such oversight, Council's Supply Chain Management Policy, **Paragraph 6.2(a)** requires that the accounting officer must **"Within 30 business days of the end of each financial year, submit a report on the implementation of the policy to the Council."**

2. BACKGROUND/DISCUSSION/EVALUATION/CONCLUSION

BACKGROUND

2.1 The Council must maintain oversight over the implementation of this Policy and for the purpose of such oversight the accounting officer must Within 22 business 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 in terms of paragraph 6(2) of the Policy.

2.2 Supply Chain Management (SCM) Policy

The objectives of the Policy are:

(a) to give effect to section 217 of the Constitution of the Republic of South Africa by implementing a system that is fair, equitable, transparent, competitive and cost effective; and

(b) to comply with applicable provisions of the Municipal Finance Management Act including Municipal Supply Chain Management

Regulations published under GN868 in Government Gazette 27636, 30 May 2005 and any National Treasury Guidelines issued in terms of the MFMA and regulations pertaining thereto.

(c) To acknowledge the provisions of:

- (i) The Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003);
- (ii) The Competitions Act 1998 (Act No. 89 of 1998)
- (iii) The Construction Industry Development Board Act, 2000 (Act No.38 of 2000);
- (iv) The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- (v) The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003):
- (vi) The Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);
- (vii) The Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000);
- (viii) The Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000);
- (ix) The Prevention and Combating of Corrupt Activities Act, 2000 (Act No. 12 of 2004);
- (ix) the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000)

2.3 Amendment of Supply Chain Management Policy

In terms of Paragraph 3(1)(a) of the Policy, the Accounting Officer must, when considered necessary, submit proposals for the amendment of the Supply Chain Management Policy.

The Supply Chain Management Policy was amended on 31 March 2016 with specific reference to clauses 11(3)(a),(b) and 14(1)(a), to ensure adherence to National Treasury's call for uniformity in supply chain practices, procedures and norms between organs of state.

As part of the annual budget policy review, the 2016/2017 SCM policy was submitted to Council for consideration and approval on 31 May 2016.

2.4. Supply Chain Management Unit (SCMU)

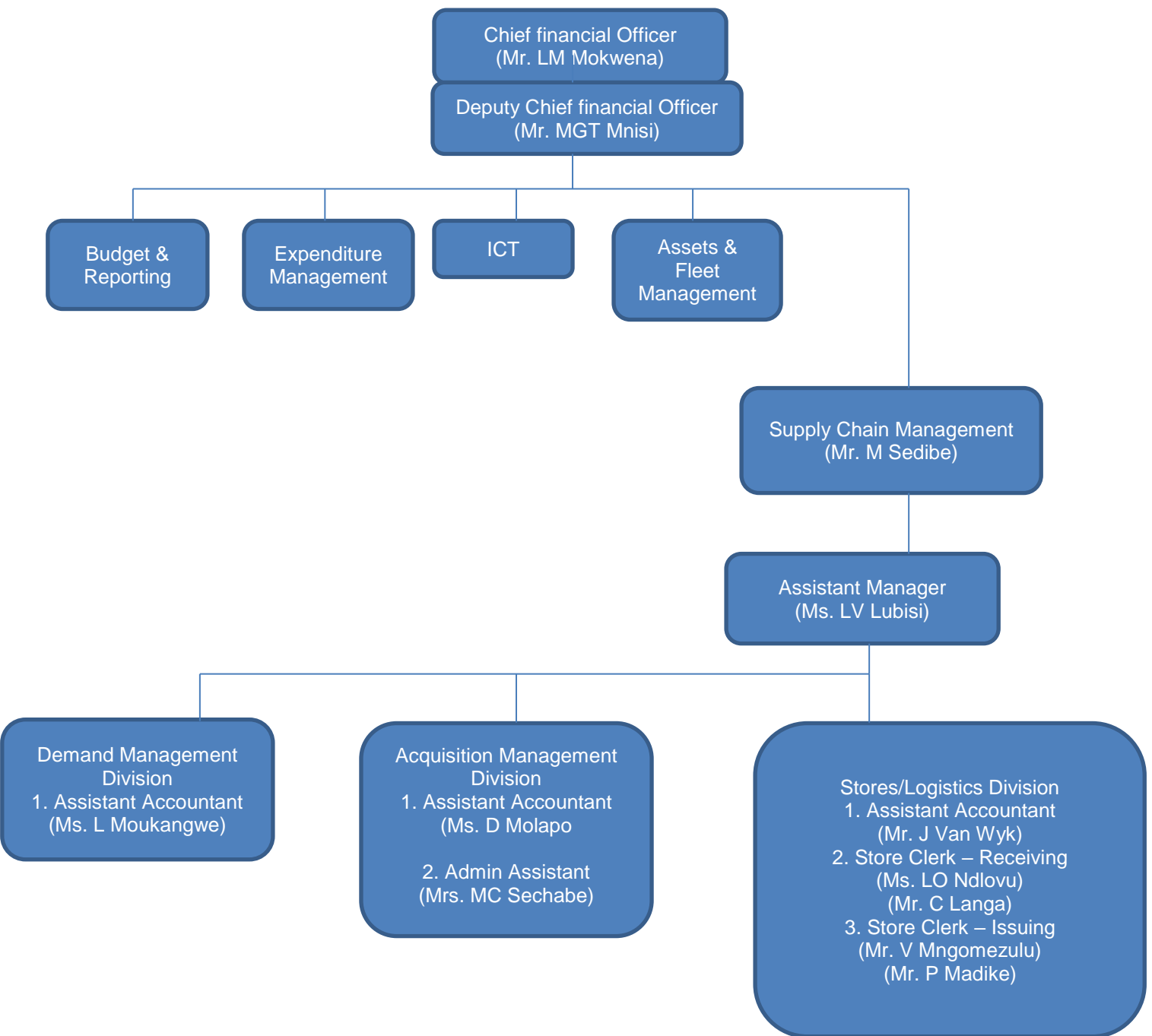
The Supply Chain Management Unit operates under the direct supervision of the Chief Financial Officer and is led by the Deputy Director: Finance.

The structure of the SCMU covers the following disciplines within Supply Chain Management:

- Demand Management : Demand Planning and Specifications
- Acquisition Management : Procurement of Goods & Services below R30 000- Buyers Division 1. Procurement of Goods & Services above R30 000- Procurement Division
- Logistics Management : Inventory Management- Municipal Stores

- Contract Management : Monitoring the performance of Contracts Procured through the SCM process.

The staff complement in the SCMU consists of 13 posts.



The following table details vacancies as at the 30 June 2017, in terms of the existing organogram

#	Description	Funded/unfunded
1	Demand Management – Assistant Accountant	Unfunded
2	Demand Management – Admin Assistant	Unfunded
3	Acquisition Management – Assistant Accountant	Unfunded

2.5 Contract and Logistics Management

The contracts management has not been established in the Thaba Chweu Local Municipality. This is because of the previous organogram not aligned to key objectives of the Municipality.

The Municipality must establish a contract management committee and will assist in determining if there is a need for a contract management office.

Objectives that can be achieved:

- (a) Contract management procedures and systems are in line with the rest of the SCM department and formalized in the Contract Management Policy.
- (b) All contracts resulting from SCM Paragraph 36 Deviations above a value of R 30,000.00 (Incl. VAT), Formal Written Quotes and Competitive Bids will be monitored effectively.
- (c) Contract Status (Active/cancelled/expired/to be expired/Unsigned) reports will be prepared and distributed on a monthly basis to all relevant stakeholders.
- (d) Control and safekeeping of contract documents, in conjunction with the records department will be improved.
- (e) The specifications development of an integrated system that will ensure proper controls in order to reduce operational risk to the contract life cycle should be established and it is envisaged that this development must form part of the financial system currently in being implemented, for deployment at the beginning of the 2017/2018 financial year (mSCOA).

The following table illustrates the contracts entered into during the 2016/2017 financial year.

Total contracts concluded above R 200 000 for the 2016/2017 (Tenders including Transversal Term Contracts)	32
Contracts that was amended/Variations	5
Contracts that was cancelled/Not appointed	6
Contracts established out of deviations above R 200 000/S32	3

2.6 SCM Systems Development

The following projects formed part of the SCM implementation during the 2016/2017 financial year:

1. Migration of Thaba Chweu Local Municipality's Supplier Database to the National Treasury Centralized Database CSD.
2. Compliance to the E-portal system of National Treasury (To be fully implemented during 2017/2018 financial year).
3. Compliance to the E-Tender system of National Treasury.
4. Migration of the current financial system to the Municipal Standard Chart of Accounts (Mscoa) system and be fully complaint by 2016/2017 financial year.

Benefits of the successful implementation of the above projects will be:

1. Enhancement of controls for local government;
2. Increased efficiency;
3. Improved reporting; and
4. Standardizing of procedures for municipalities

2.7 Training of SCM officials

The Municipal Regulations on Minimum Competency Levels requires certain General Competency Levels for Officials Involved in the Implementation of the Supply Chain Management Policy.

2.7.1 The below table shows the list of employees who have enrolled for the competency levels.

#	Designation	Name	Qualification enrolled for
1	Mr M Sedibe	Manager SCM	Diploma
2	Ms LV Lubisi	Assistant Manager SCM	Diploma

2.7.2 Thaba Chweu Local Municipality attends the quarterly SCM workshops, scheduled by Provincial Treasury. SCM issues are discussed at these meetings, which are regularly attended by officials from the SARS, CIDB, National Treasury, the Auditor-General, etc.

During the 2016/2017 year, various additional training opportunities were offered by the Provincial Treasury as part of its mandate of ensuring that local government spheres are adequately equipped in the implementation of Supply Chain Management.

Below is a list of such courses/workshops attended by officials in the SCM Unit

#	Designation
1	Central Supplier Database
2	E-tender Portal Training
3	CIDB Portal Training
4	New BBBEE Codes Regulations Workshop

2.8 The Delegation of Supply Chain Management Powers and Duties

Council has duly delegated the implementation of the Supply Chain Management Policy to the Accounting Officer who is responsible for taking all reasonable steps to ensure that proper mechanisms and separation of duties are in place in the Supply Chain Management System in order to minimize the likelihood of fraud, corruption, favoritism and unfair and irregular practices.

To aid the Accounting Officer in this responsibility, Council has adopted a Delegations of Powers and Duties, which assists in maximizing the administrative and operational efficiency, and is reviewed and updated annually.

2.9 Demand Management

Demand Management is an interactive process to determine the demand levels required to meet the municipality's objectives. These objectives are reflected in the municipality's Integrated Development Plan (the 'IDP'), which is a comprehensive strategy document setting out how the municipality intends to address the development challenges in a specific financial year.

The SCM Unit must, with support by the Accounting Officer and the Chief Financial Officer implement a Demand Management Plan (DMP) as a strategic tool in order to implement the budget. The DMP will assist the SCM Unit with the planning of tender processes and user departments with the planning of the execution and timely completion of projects in alignment with performance targets in the Service Delivery and Budget Implementation Plan.

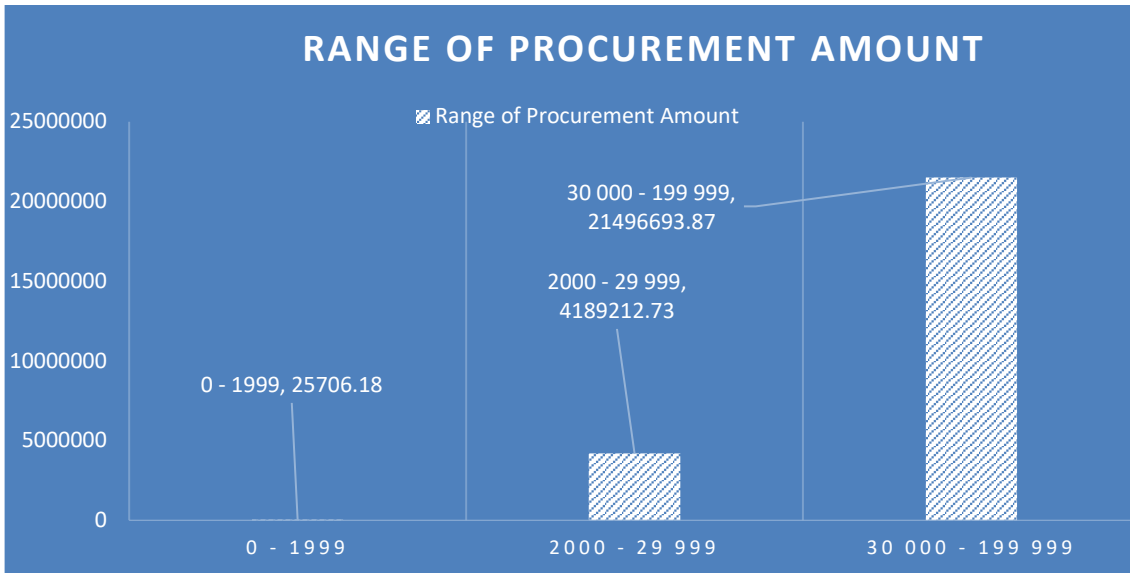
2.10 Buyers Section

The Buyers Section is specifically tasked to perform all procurement related functions for the procurement of goods and services with a value up to R 199 999 as well as the issuance of orders for procurement with higher values.

The following table illustrates the amount of orders being managed by the Purchasing Office, during the 2016/2017 financial year 559 orders were issued. The table also shows the total number of orders issued to local suppliers as a percentage.

Number of orders issued during the 2016/2017 financial year:

Quantity	Range of Procurement	Amount	% Local Suppliers
99	0 – 1 999.99	R 125 706.18	83.60%
272	2 000 – 29 999.00	R 4 189 212.73	53.02%
188	30 000.00 – 199 999.99	R 21 496 693.87	22.14%



2.11 Accredited Suppliers Database

In terms of Paragraph 14(1)(a) of Council's Supply Chain Management Policy, the Accounting Officer is required to (a) make use of the Centralized Supplier Database for the procurement of goods and services through written or verbal quotations and formal written price quotations;

(b) ensure that contracts are awarded to suppliers who are registered on the Centralized Supplier Database.

(c) Disallow service providers whose name appears on the Centralized Supplier Database as a person prohibited from doing business with the public sector.

The Municipality also runs a Emerging contractors database in conjunction with the Local Economic Development (LED) Unit. This database is to assist where capital projects are involved in identifying emerging contractors who can sub-contract work in accordance with all relevant legislations.

2.12 Bid Committee System

The Bid Committee system for competitive bids has been actively applied within the municipality. The bid committee system includes a Bid quotation committee - , Bid Specification - , Bid Evaluation - as well as a Bid Adjudication Committee.

These committees have been properly constituted, duly appointed, and delegated in order to execute the mandates of each of the committees and have been rotated by annually.

All procurement of goods and services with a rand value above R 30 000 up to R 199 999 are procured by way of written quotations, via the bid quotations committee system.

All procurement of goods and services with a rand value above R 200 000 are procured by way of formal written quotations or competitive bidding processes, via the formal tender process.

2.13 Bids awarded by the Bid Quotations Committee

The bids that were awarded by the Bid Quotations Committee in terms of the SCM Policy and the Preferential Procurement Policy for transactions above R 30 000 up to R 199 999 for the 2016/2017 financial year are as per the below table.

Procurement Function	2016/2017
Bids Processed	188
Bids Processed – Average per Quarter	47
Average days from submission to awarding	15 days
Estimated Value of Awards (R) per Quarter	R 5, 200 000.00

2.14 Deviations and Minor Breaches from Procurement Processes

6.14.1 Deviations

The Supply Chain Management Policy states in Paragraph 36(1)(a): “The accounting officer may dispense with the official procurement processes established by this policy and may procure any required goods or services through any convenient process, which may include direct negotiations, but , amongst others, only –

(i) in an Emergency

(ii) if such goods or services are produced or available from a single provider only;

(iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile;

(v) in any other exceptional case where it is impractical or impossible to follow the official procurement processes, including but not limited to;

(a) ad-hoc repairs to plant and equipment where it is not possible to ascertain the nature or extent of the work required in order to call for bids;

(b) the unskilled labour component of the Municipality’s Local Labour Promotion Programme (LLPP);

(c) the acquisition of services of attorneys and advocates subject that the acquisition of such services to be dealt with in terms of Delegations 4.2.52, 5.1.1.35.1 and 5.1.1.35.3 of the Municipality’s Delegation of Powers and Duties, as amended from time to time and any Bargaining Council Agreements on Disciplinary Procedures;

(d) any contract relating to the publication of notices and advertisements by the municipality where applicable legislation or applicable council policy dictates.

(e) the acquisition of accommodation, car rental and air travel for official purposes, subject thereto that the acquisition of such services be dealt with in terms of the applicable council policy.

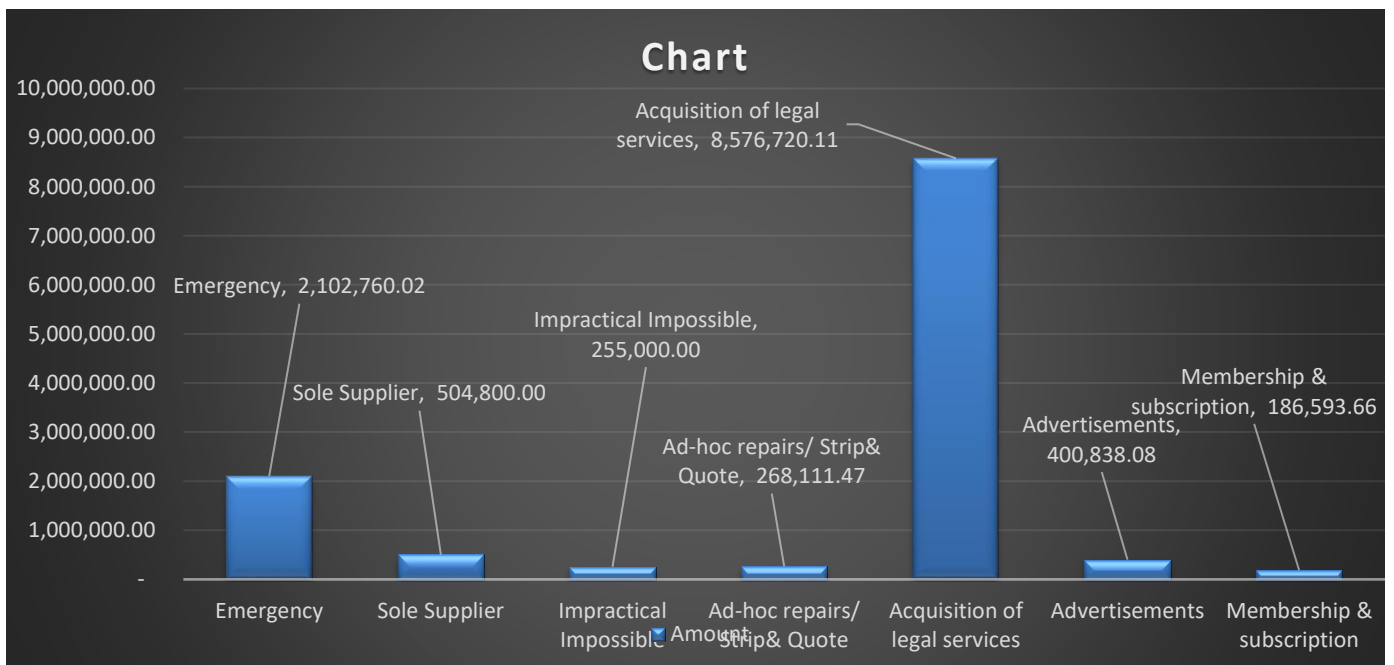
- (f) Membership and subscription to professional bodies and any training provided by such bodies for purposes of obtaining continuous professional development points;
- (g) the attendance of conferences and workshops;”

It should be noted that the Municipality is experienced a high number of deviations during the 2016/2017 financial year. This is due to a number of factors including but not limited to –

- Ageing Infrastructure
- Poor Planning

The Accounting Officer and his delegates approved the 116 deviations during the 2016/2017 financial year to the value of approximately R 14,810,303.09. A total of R 2,515,479.75 is recorded as poor planning.

SCM Policy	Description	2016/2017
Clause 36(1)(a)(i)	Emergency	R 2,102,760.02
Clause 36(1)(a)(ii)	Sole Supplier	R 504 800.00
Clause 36(1)(a)(v)	Impractical Impossible	R 255,000.00
Clause 36(1)(a)(v)(a)	Ad-hoc repairs/ Strip& Quote	R 268,111.47
Clause 36(1)(a)(v)(c)	Acquisition of legal services	R 8,576,720.11
Clause 36(1)(a)(v)(d)	Advertisements	R 400,838.08
Clause 36(1)(a)(v)(f)	Membership & subscription	R 186,593.66



6.14.2 Minor Breaches

The Supply Chain Management Policy states in Clause 36(1)(b) that the Accounting Officer may consider ratifying any minor breaches of the

procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical

2.15 Irregular Expenditure- MFMA Section 32

Irregular Expenditure is defined as expenditure incurred in contravention of the Municipal Financial Management Act, Municipal Systems Act, and Public Office-Bearers Act of the Municipality's Supply Chain Management Policy.

In terms of Section 32(4) of the MFMA the Executive Mayor, the MEC for Local Government and Auditor-General must be informed of all possible irregular expenditure incurred by the municipality.

Irregular expenditure cases incurred during the financial year total will be table with the annual expenditure report.

6.16. Logistics Management

Logistic management is a key part of Supply Chain Management and primarily aims to control the movement and storage of materials within a warehouse and process the associated transactions, including, receiving, safeguarding and issuing.

When properly managed and appropriately stocked a warehouse provides a consistent supply of material when it is needed.

Thaba Chweu Local Municipality operates one municipal stores situated In the Lydenburg (head office) area with a total stock value of R 1 767 162.57 million as at 30 June 2017.

Stock Balances during the 2016/2017 financial year as compared to 2015/2016:

#	Financial Year	Balance
1	2016/2017	R 1 767 162.57
2	2015/2015	R 1 724 747.24

Absolute/Redundant/Scrap Inventory has been identified and a report will be submitted to council to write off and take necessary disposal processes in terms of the disposal policy.

The total Value of the stock **R 72,936, 40**

Annexure A : Annual Detailed SCM Report
Annexure B : Tender Register
Annexure C : Irregular, Fruitless and Wasteful expenditure Report
Annexure D : Redundant Stock items

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