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📺 Bergrivier Municipality

REPORT TO THE MUNICIPAL COUNCIL

SUBJECT: OVERSIGHT ROLE OF COUNCIL: IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY IN TERMS OF SECTION 6(1)(3) OF THE MUNICIPAL REGULATIONS FOR THE SECOND QUARTER OF THE FINANCIAL YEAR 2022/2023

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1. INTRODUCTION

In terms of clause 6(1) (3) of the Municipal Supply Chain Regulations, 2005, which deals with the Oversight role of council of a municipality or board of directors of a municipal entity:

- (1) The Council of a Municipality and board of directors of a Municipal Entity must maintain oversight over the implementation of its supply chain management policy.
- (2) 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 of the municipality or the board of directors of the municipal entity, as the case may be.

2. SCM POLICY AND PROCEDURES

- (1) Review and adoption of Supply Chain Management Policy by Council In terms of Regulation 3(1)(b) of the Supply Chain Management Policy the policy must be reviewed annually, submitted to Council and be adopted. The Supply Chain Management Policy was reviewed and adopted by Council on 31 May 2022.
- (2) The Municipality adopted a new PPPFA Policy to ensure that local business receive more opportunities to quote and tender. They need to keep in mind that the price is fixed and they have to quote or tender market related to win a bid or quote.

- (3) All SCM delegations are being followed.
- (4) Further Regulation 106: Implementation of Local Government Framework for Infrastructure Delivery and Procurement Management (LGFIPDM) does bring another burden on the SCM unit – all capital projects have to comply with this regulation from 1 July 2021. This reform is over the whole Municipality but with little assistance the SCM unit is the implementer and the responsible person to implement the project as the Project Manager. This control is part of the SCM Policy and it is important that all steps are followed – from the planning, budget to the close out report of a project.

3. FUNCTIONING OF THE SCM UNIT

3.1 All staff in the Unit declared their interest.

3.2 All SCM staff signed the Code of Conduct.

3.3 Capacity of **SCM unit**

The SCM unit comprises of:

- Manager: Supply Chain Management & Expenditure (N. Bothma)
- Head: Supply Chain Management & Assets (I Saunders)
- Accountant: Supply Chain and Assets (E Scholtz)
- **Assistant Accountant: Assets (Vacant) – critical position, closed but not yet interviewed.**
- Administrator: Bid Administration (R Hendricks)
- 1X Clerk: SCM Clerk Gr 2 -C Smit
- 1x Principle Clerk SCM (**vacant**)
- 1X Senior Clerk: Assets and Insurance (U van Wyk)
- 1X Clerk Supplier/Contract Management (Vacant)- **critical position.**
- 1 Clerk: Logistics, Insurance, Assets (K Klaase)
- 1 x Interns - We currently have a shortfall of two financial interns. Interviews were conducted during March 2022 and we advertised again and we could appoint three new interns, one in internal audit and two in the financial services department.
- The Head: Supply Chain Management & Assets is on sick leave from 1 December 2022 to 31 January 2022, after which his medical condition will be re-evaluated.

One vacancy was funded for the year and the appointment of this official must be prioritized so that the operational efficiency of this important function can be improved. The approved organogram makes provision for unfunded posts. It is critical that Council should make funds available to fund the Supplier/Contract Management Clerk position since this is a focus area of the AG. Cognisance should be taken that although additional posts were not funded, the organogram must be reviewed on an annual basis to build the SCM unit to full capacity to ensure:

- (i) A clean audit in terms of compliance with the Regulations;
- (ii) To comply with Section 115(1) (b) Local Government: Municipal Finance Management Act (Act no 56 of 2003) with regards to segregation of duties in the SCM system to minimize the likelihood of fraud, corruption, favouritism and unfair and irregular practices; and

- (iii) To put the necessary levels of control in place (auditing of documents and authorization of orders, etc.)

Centralization of functions have not been implemented and will put additional pressure on existing structure to comply with the following SCM regulations. The following aspects must be addressed with the appointment of officials during 2023/2024;

- (i) Regulation 10 (Demand Management) – this will be addressed with the filling of the vacancies, but not to a point where centralization can take place;
- (ii) Regulation 41 (Risk Management) – this will be addressed with the filling of the Vacancies; and
- (iii) Regulation 42 (Performance Management) - this will be addressed with the filling of the vacancies.

Provision was made for additional capacity during the annual review of the approval of the Organogram for the 2022/2023 to appoint officials to perform the following functions:

- (i) Regulation 39 (Logistics Management);
- (ii) Regulation 40 (Disposal Management);
- (iii) Additional officials must also be appointed to perform functions regarding new best governance practices implemented such as performance management of suppliers, irregular-Fruitless- and wasteful expenditure as well as unauthorized expenditure, and to roll out the electronic requisition system to all Departments.

4 FUNCTIONING OF THE BID COMMITTEES

Formal Tenders Awarded: Competitive Bidding for all Contracts valued more than R30 000

The competitive bidding process and bid committee structures are functioning effectively. The Bid Committees are composed of the following members:

| # | Committee | Composition & Function |
|----|----------------------------------|--|
| 1. | Bid Specification Committee- BSC | The project manager and a Senior SCM Practitioner- Considers tender specifications and approve and recommend for approval to the HOD |
| 2. | Bid Evaluation Committee- BEC | The project manager, a Senior SCM Practitioner and any other Manager- Considers tender evaluation reports and makes recommendations to the BAC |
| 3. | Bid Adjudication Committee- BAC | At least 4 directors and a Senior SCM Practitioner, with the CFO as Chairperson. (Not the same SCM Practitioner as BEC)- Considers recommendations from the BEC and make awards or recommend to the MM to award the tender. The Municipality follows the principle of a quorum 50% plus 1 to consider tenders. |

4.1 Members of the bid committees are required to declare to undertake the following:

4.2 That all information, documentation and decisions regarding any matter before the committee is confidential and undertakes not to make known anything in this regard;

- 4.3 To treat all service providers and potential service providers equitably and will not purposefully favour or prejudice anybody; and
- 4.4 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.
- 4.5 The members of the Bid Committees have duly undertaken to uphold the confidentiality, to be fair in all dealings and to declare their personal interests, if any. None of the members had conflicts of interest to declare.

The awards made by bid committees or the delegated officials are valued at **R9 200 000.00** excluding the rates tenders.

No objections were received.

2 Tenders Awarded between 01 October 2022 and 31 December 2022 amounts to **R 9 200 000.00**

No awards were made to suppliers/service providers within the boundaries of the Bergvriervier Municipality.

23 Formal Quotations were awarded between October 2022 and 30 December 2022 of which 2 quotations were awarded to suppliers from Piketberg. The value of the Formal Quotations was **R 1 823 842.95**

All tenders are opened in public, and the results of the opening are recorded in a Bid Opening Register and placed on the Municipal Website.

- 4.6 Council also requires statistical information regarding the time taken to process a tender in terms of the SCM Policy in line with the following criteria:

| Description of Measurement Criteria per Tender | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|---------------|----------------|---------------|----------------|
| Average Calendar Days from Bid Specification Committee (BSC) to Bid Adjudication Committee (BAC)- Full Procurement Cycle | 61 | 79 | | |
| Average Calendar Days from Tender Advertisement Date to BAC | 58.16 | 37 | | |
| Average Calendar Days from Tender Closing Date to BAC | 30.16 | 39 | | |
| Average Calendar Days from Tender Closing Date to BEC- Tender Evaluation | 18.33 | 18 | | |
| Tender with Fastest Procurement Process: BSC to BAC | 31 | 56 | | |

| | | | | |
|---|----|-----|--|--|
| Tender with Longest Procurement Process: BSC to BAC | 89 | 102 | | |
|---|----|-----|--|--|

The time to process tenders needs to improve, but due to administrative problems, tenders were returned to user Departments to compile the evaluation reports properly after mistakes were detected by SCM.

A proper bid committee system with relevant terms of reference and delegations is implemented and fully functional.

The tender processes are less in numbers due to the fact that better planning was done to streamline the processes. The annual tenders are done for three year periods.

4.7 Challenges faced during the 2022/2023 financial year:

(i) Incomplete specifications are still a challenge (The measure we put in place is that the final specifications must be signed off by the relevant Director and Manager)

(ii) Buy-in to finalize bids timely to ensure capital spending; and

(iii) The turnover rate as indicated in paragraph 4.6 above is a good indication.

(iv) Some departments wait until the last three months of the financial year to start a SCM process and then it is normally too late to ensure timely spending.

(v) The cut-off date for procurement will be **12 May 2023** and no tenders or formal quotes for the current financial year will be done after this date.

4. DEVIATIONS FROM THE SCM POLICY

Section 36(1) of Council's Supply Chain Management Policy allows the Accounting Officer to dispense with the official procurement processes under certain circumstances. During the period 1 July 2022 and 31 December 2022, no deviations were considered and none were approved in line with Section 36(1) (a) (i), (ii) & (v) of the Bergrivier SCM Policy.

| Month | Total | Emergency | Impossible / Impractical / Exceptional Case | Sole Provider | Covid 19 |
|-----------|-------|-----------|---|---------------|----------|
| July | Zero | 0 | 0 | 0 | 0 |
| August | Zero | 0 | 0 | 0 | 0 |
| September | Zero | 0 | 0 | 0 | 0 |
| October | Zero | 0 | 0 | 0 | 0 |
| November | Zero | 0 | 0 | 0 | 0 |
| December | Zero | 0 | 0 | 0 | 0 |

| TOTAL | Zero | 0 | 0 | 0 | 0 |
|--------------------|------------------|----------------|------------------|------------------|--------------------------|
| Departments | Community | Finance | Corporate | Technical | Municipal Manager |
| July | N/a | N/a | N/a | N/a | N/a |
| August | N/a | N/a | N/a | N/a | N/a |
| September | N/a | N/a | N/a | N/A | N/a |
| October | N/a | N/a | N/a | N/a | N/a |
| November | N/a | N/a | N/a | N/a | N/a |
| December | N/a | N/a | N/a | N/a | N/a |
| TOTALS | N/a | N/a | N/a | N/a | N/a |

5. REPORTING ON REGULATION 32

There were no section 32 appointments

6. REPORTING ON THE CENTRAL SUPPLIER DATABASE (CSD)

The CSD is sometimes offline, and will hamper the SCM Unit to do an order, or Suppliers do not update their information regularly. The SCM unit did place an advertisement to request Suppliers to regularly update their information on CSD.

The unit does also provide assistance to Suppliers that struggle to register on CSD.

Three workshops were held with Suppliers in Porterville, Piketberg and Noordhoek (Velddrif). This year we got CIDB, CSD(Treasury) & SARS to assist the businesses and SMME's.





7. REPORTING ON REGULATION 33

The bid documentation, evaluation and adjudication criteria and general conditions of a contract must be in accordance with applicable legislation. There were no section 33 applications for the year from July 2022 to December 2022.

8. REPORTING ON THE PROCUREMENT PLAN

The Procurement Plan is a challenge due to the fact that Procurement Plans are not submitted with the Budget Process. Departments do not follow the due dates submitted, but for the 2022/2023 financial year the Procurement Plan is being submitted monthly to the Chairpersons of the different Standing Committees of Council.

Another suggestion is that all capital projects should be linked to the individual KPI's on the SDBIP.

19 projects on the Procurement Plan were not done in accordance with the time lines as per the Procurement Plan. These were reported to the Directors and Council as at 30 September 2022.

For the period from 1 October 2022 to December 2022 - 46 projects were not done in time as indicated on the procurement plan.

The relevant departments gave the dates to SCM on the Procurement Plan when processes will start, but did not adhere to the dates.

Community Services – 3 projects (Quarter 1) – The help of the Project Management Unit is requested to assist the User department.(Quarter 2 - 8)

Technical Services - 16 projects (Quarter 1) and 15 projects for quarter 2

Municipal Managers Office – 1 project for Strategic Services – done second week in December 2022.

Corporate Services – 3 Projects – done in second week of December 2022

9. VARIATION ORDERS WITHIN 1 to 20%

The following variation orders for the period was approved:-

| Number | Tender/FQ number | Tender Awarded | Amount requested | % Exceed | Service Provider Name | Approved | Period |
|--------|------------------|----------------|------------------|----------|-----------------------|----------|---------|
| 29 | 8.2.33-2022 | 2022/12/08 | R 3 898.20 | 2% | Cocopan (Pty) Ltd | yes | 2022/23 |
| 30 | 8.3.38.2019 | 16.09.2022 | R114 770.00 | 6.43% | Rumball and Partners | yes | 2022/23 |

10. MUNICIPAL WEBSITE

The following reports are placed monthly on the website:-

All Tenders, All formal Quotations

The following reports:- Purchases above R100 000, Service Level Agreements, the tender register, the Contract register and the monthly SCM report.

11. UNSOLICITED BIDS

There were no unsolicited bids for the period July 2022 to 30 December 2022.

12. E-TENDER PORTAL

The e-tender portal is from time to time offline, but due to resource constraints no tenders are published on the e-portal.

13. IRREGULAR, FRUITLESS AND WASTEFULL EXPENDITURE

Section 32(1) (c) of the Municipal Finance Management Act (MFMA) determines that any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure. Section 32(2)(b) of the MFMA further determines that a municipality must recover irregular expenditure from the person liable for that irregular expenditure unless the irregular expenditure, after investigation by a committee of council, is certified by the council as irrecoverable and to be written off.

Bergvrievier SCM Policy section 36(3) prescribes that all identified possible unauthorised, irregular, fruitless and wasteful expenditure (UIFWE) must be referred to Municipal Public Accounts Committee (MPAC) for investigation and MPAC must make recommendations with exceptions of minor breaches ratified by the Accounting Officer. Thus, by legislation irregular expenditure has to be disclosed in Annual Financial Statements (AFS). If not certified by Council to be written off the closing balance will lead to an audit exception, if material in nature. Further it could lead to a qualified audit outcome.

For the period July 2022 to December 2022 there were three incidents reported, namely Baron and Son, - this matter was referred back for more information, the second matter, Mr Klaase's case was condoned by Council. The third matter is the repair of a tractor that was paid by the Director Community Services, this matter was referred to the Internal audit unit for further investigation.

14. AWARDS TO PERSONS IN SERVICE OF THE STATE

The Auditor General normally identified businesses that have directors, etc. who are in services of the state on their CAATS report. The Municipality does not have access to this website but we use the MBD4 declaration form together with the CSD website to confirm persons in service of the state. No persons with whom we do business during the period was identified as a person in service of the State.

15. VIREMENTS

Reporting of virements for the financial year 2022-2023 for the months from 1 July 2022 to 30 December 2022 below is a total of R11 839 933.00 The high virement in September 2022 is due to the Finance Management Grant that was allocated according to the business plan.

| Month | Total |
|----------------|---------------|
| July 2022 | R1 906 000.00 |
| August 2022 | R1 035 882.00 |
| September 2022 | R3 409 711.00 |

| | |
|---------------|----------------|
| October 2022 | R3 888 999.00 |
| November 2022 | R1 334 671.00 |
| December 2022 | R264 670.00 |
| TOTAL | R11 839 933.00 |

16. ESTABLISHMENT OF A FUNCTIONAL SCM UNIT

The establishment of a functional SCM unit (centralized or decentralized) will most certainly assist with compliance to legislative requirements, however, the following needs to be considered to ensure effective service delivery to operational departments:

16.1. Establishment or assigning procurement responsibilities to appropriate persons. Operational departments will then only submit their resource requirements as per an approved requisition.

16.2. Refining of supplier database to include primary and secondary business portfolios.

16.3. Utilization of the current Central Supplier database of National Treasury – all requisitions submitted is being verified.

16.4. Use current item prices as standard prices and refine to align with market related prices.

16.5. Vendor performance criteria should be part of standard SCM documentation highlighting the sanctions for non-compliance. This is done by the User Departments, if a Service Level Agreement is in place. The invoice submitted is accompanied with an evaluation sheet that is completed with the confirmation of goods/services received and submitted to the SCM Unit to monitor the performance of Suppliers. This is still a challenge to receive the evaluations from the user departments, but has improved.

16.6. Assist with reporting templates to ensure synergy in dealing with same matters by difference directorates and/or departments.

16.7. Developing standardized specifications for day-to-day material and/or service provider usage.

16.8. Increased focused on quotations below R30 000.00 where it seems like most anomalies occur, and this can help with local economic growth.

17. PROBLEM STATEMENT

In terms of this report, it is clear that there are challenges in the Supply Chain Management processes which are in many instances similar to the previous financial year.

Many of the previous year's recommendations have not been implemented i.e., Logistic, Assets and Contract Management and measuring of the Suppliers/Contractors performance.

Currently the supply chain functions are fragmented through the various departments and not all officials are conversant with the latest legislation and directives of National Treasury.

It is recommended that the responsibility and accountability of the supply chain function of logistics be under the Supply Chain Management Unit to ensure uniform compliance as well as effective delivery, but currently we encounter resource constraints to accommodate the function. A proper secured store will first have to be built/identified and equipped with the necessary shelves and storage space.

The implementation of an electronic logistic system is currently not assisting the Municipality due to the fact that only one junior clerk, that is also responsible for assets and insurance, is also capturing the issues on the stores, which are located in all the respective towns within Bergrivier Municipal area. At the various stores the Municipality is making use of general workers to do store functions and in Porterville there is nobody permanent assisting with the store function. – See the latest internal audit report.

The Finance Department submitted a report in the second quarter of 2020/2021 to the standing committee to relook at the organogram and functions of the stores.

This function will only be transferred if sufficient budget is available to appoint appropriate human resources, with a centralised store building, and to enhance the current financial system.

20. COST CONTAINMENT

In terms of Regulation 15(2) of the Municipal Cost Containment the Municipality does report in the Section 52 quarterly report on the savings due to cost containment measures.

RECOMMENDATION

1. That Council consider and take note of the Supply Chain Management implementation report for the period 1 October 2022 to 31 December 2022 representing the second quarter of the 2022/2023 financial year.
2. That the report be made public in accordance with section 21A of the Municipal Systems Act.