



# MUNISIPALITEIT **BERGRIVIER** MUNICIPALITY

## REPORT TO THE MUNICIPAL COUNCIL

**SUBJECT: OVERSIGHT ROLE OF COUNCIL: IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT FOR THE THIRD QUARTER OF THE FINANCIAL YEAR 2020/2021**

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### 1. PURPOSE OF THE REPORT

The purpose of this report is to inform the Council regarding the implementation of the Supply Chain Management Policy in accordance with the oversight role of Council for third quarter of the 2020/21 financial year.

### 2. BACKGROUND

For the purposes of ensuring appropriate oversight over the implementation of the Municipal Supply Chain Management Policy, 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.

The detail discussion in the report hereunder provides an overview of the activities, achievements and challenges that the SCM Section of Bergrivier encountered over the course of the first quarter of the 2020/21 financial year.

It also highlights the extent to which the SCM Section complied with the legislative regime as well as the policy prescripts during the first quarter of the 2020/21 financial year.

### 3. DISCUSSION

#### 3.1 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)**
- Senior Clerk: Bid Administration ( R Hendricks)

- 1X Clerk: SCM Clerk Gr 2 (**advertised**)
- 1x Principle Clerk SCM (**vacant**)
- 1X Senior Clerk: Assets and Insurance (U van Wyk)
- 1X Clerk Supplier/Contract Management
- 1 Clerk: Logistics, Insurance, Assets (K Klaase)
- 1 x Intern ( Appointed on 1 September 2020 – Me Nero from Porterville)

One vacancy was funded for the 2020/21 year and appointment of officials should be considered that the logistic function can be fully operational. The approved organogram makes provision for unfunded posts. Cognisance should be taken that all though additional posts were funded, the organogram will be reviewed on an annual basis to build the SCM unit to full capacity to ensure:

- (i) A clean audit in terms of compliance in terms of 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 must still take place and this puts an additional burden on existing structure to comply with the following SCM regulations. The following aspects must be addressed with the appointment of officials during 2021/2022;
- (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 must be made for additional capacity during the annual review of the approved Organogram for the 2020/2021 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 good governance practices implemented such as “local content and production”, irregular-Fruitless- and wasteful expenditure as well as unauthorized expenditure, and to roll out the electronic requisition system to all Departments.

3.2 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 29 May 2020.

3.3 The PPPFA Policy was reviewed again and was approved at Council in the second quarter to assist with local economic development.

3.4 In addition I would like to report that most of the staff in this unit was affected by COVID 19 and was tested positive during December 2020 and did put more strain on the unit. Out of the unit of 13 staff members including students and interns there were 9 staff members infected with the virus, but all recovered from the COVID 19.

### 3.5 COMPLIANCE

#### 3.5.1 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 or 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.

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

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

3.4.4 To treat all service providers and potential service providers equitably and will not purposefully favour or prejudice anybody; and

3.4.5 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.

3.4.6 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.

3.4.7 The awards made by bid committees or the delegated officials are valued to the amount of **R7 971 794.22** formal tenders awarded. Further 4 contracts concluded from the 4 tenders as more than one bidders obtained the award.

- 0 objections were received.

- 11Tenders Awarded between January 2021 and 31 March 2021 were inclusive of 4 awards R7 971 794.22 as well as rates based tenders

0 awards to Piketberg service providers and 0 to Porterville. 0 to Velddrif 0 to Eendekuil, 0 to Redelinghuis, 0 to Aurora for to service provider inside Bergrivier Municipality.

- 17 Formal Quotations awarded between January 2021 and 31 March 2021 and were inclusive of 2 awards to Piketberg service providers (R0.00) and 0 rate based Quotation 0 to Porterville. 2 to Velddrif, 0 to Dwarskersbos, 0 to Eendekuil, 0 to Redelinghuis, 0 to Aurora, to service providers inside Bergrivier Municipality. The value of the Formal Quotations was R 1 620 766.21.

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.

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

Description of Measurement Criteria per Tender	Annual Average Calendar Days Per Quarter
Average Calendar Days from Bid Specification Committee (BSC) to Bid Adjudication Committee (BAC)- Full Procurement Cycle	110.00
Average Calendar Days from Tender Advertisement Date to BAC	98.25
Average Calendar Days from Tender Closing Date to BAC	77.75
Average Calendar Days from Tender Closing Date to BEC- Tender Evaluation	29.75
Tender with Fastest Procurement Process: BSC to BAC	88.00
Tender with Longest Procurement Process: BSC to BAC	128

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.

### 3.6 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 1 July 2020 and 31 March 2021, 56 deviations to the total amount of **R 5 713 192.81** were considered and approved as per **delegation provided by the SCM Policy**. The deviations were considered and approved in line with Section 36(1) (a) (i), (ii) & (v) of the Bergrivier SCM Policy.

<b>Month</b>	<b>Total</b>	<b>Emergency</b>	<b>Impossible / Impractical / Exceptional Case</b>	<b>Sole Provider</b>	<b>Covid 19</b>
July	R 1 569 205,35	R 53 679,13	R 1 383 587,22	R 59 789,00	
August	R 514 321,75	R 22 361,75	R 211 960,00	R 280 000,00	
September	R 162 101,03	R -	R 16 773,93	R 145 327,10	
October	R 1 478 919,15	R 388 418,80	R 1 083 370,35	R 7 130,00	
November	R 1 276 393,85	R 737 697,50	R 409 028,10	R 129 668.25	
December	R424 108.7	R70 725.00	R353 383.70		
COVID 19					R 72 150.00
January	R 42 120,00	R 42 120,00	R -	R -	
February	R 115 788,24	R 83 741,44	R 32 046,80	R -	
March	R 61 191,50	R 63 868,70	R 66 366,04	R -	
<b>TOTAL</b>	<b>R 5 713 192,81</b>	<b>R1 462 612,32</b>	<b>R 3 556 516,14</b>	<b>R 621 914.35</b>	<b>R 72 150.00</b>
<b>Departments</b>	<b>Community</b>	<b>Finance</b>	<b>Corporate</b>	<b>Technical</b>	<b>Municipal Manager</b>
July	R 54 446,00	R 2 875,00	R -	R 1 375 141.35	R 152 866,00
August	R -	R -	R 11 960,00	R 286 238,75	R 200 000,00
September	R 15 200,00	R -	R -	R 4140,00	R 142 761,03
October	R 94 750,00	R -	R 559 720,35	R 752 078,80	R 72 370,00
November	R 5 865,00	R -	R 399 728,10	R 646 650,75	R 224 150,00
December	R -	R -	R -	R403 477.04	R20 631.66
January	R 8 655,00	R -	R -	R 33 465,00	R -
February	R 18 554,01	R -	R -	R 97 234,23	R -
March	R 15 640,00	R -	R 10 925,00	R 103 669,74	R -
<b>TOTAL</b>	<b>R 213 110.01</b>	<b>R 2 875,00</b>	<b>R 982 333,45</b>	<b>R 3 702 095,66</b>	<b>R 812 778.69</b>

#### 4. 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.

Bergrivier SCM Policy section 36(3) prescribes that all identified possible unauthorised, irregular, fruitless and wasteful expenditure (UJFWE) 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, that if material in nature. Further it could lead to an audit qualification in the Auditor-General's Report.

There was no irregular expenditure for the quarter.

##### 1. Irregular expenditure

<b>Incidents/cases of irregular expenditure</b>	<b>Number of Cases</b>	<b>Value of Case</b>
Services rendered by Government Employee (Intern) Gallant Nicola. An official order was issued after the artist has performed at the New Year's bash in Piketberg 01.01.2020. Order number C0003187 was issued on 13.01.2020. She was employed by the Dept. Transport and Public Works between 01 March 2019 till 20 March 2020.	1	R1000.00
Nobody else could make halaal food for the meeting on a short notice, except Mrs Kears. Mr Kears (An employee of Bergrivier Municipality) declared his interest.	1	R600.00

As indicated in the above table the irregular was done without the Municipality knowing that Me Nicola Gallant was an intern at that stage and the only person that could prepare halaal food for a meeting was Mrs Kearns, who is in the employment of Swartland Municipality. The Section 32 Committee recommended to Council that the irregular expenditure disclosed in this instance be written off.

Furthermore, it should be noted that in all instances reported, the services were rendered by different service providers, even in the absence of verification because they were both private individuals and therefore a contractual obligation existed where the municipality was compelled to pay for the services rendered. It must also be mentioned that there are no evidence that the municipality suffered any loss in any of the matters or paid excessive rates

for services rendered and it is therefore recommended that the expenditure disclosed as irregular be written off.

### **COMMENTS FROM THE CHIEF FINANCIAL OFFICER**

An analysis of the matters have shown that the municipality received value for money and that all services were rendered, even in the absence of systems to do individual verification, furthermore there is no evidence that the municipality incurred a loss or paid excessive rates for any of the services rendered. It is therefore proposed that the irregular expenditure disclosed as alluded to in the report be written off.

#### **The Council Recommended the following:-**

1. That Council certifies the expenditure in the amount of R1600.00 disclosed during 2019/20 as irregular due to the fact that the services were rendered and to be irrecoverable and to be written off as the municipality received value for money in the rendering of the service and did not suffer any financial loss.
2. That it be concluded that no official can be held personally liable for the expenditure incurred.
3. That internal control processes be enhanced to ensure compliance with SCM regulations and to prevent a recurrence of non-compliance findings

### **Bid Committee System**

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

#### **Challenges faced during the 2020/2021 book year:**

- (i) Incomplete specifications are still a challenge (Departments),
- (ii) Buy-in to finalize bids timely to ensure capital spending; and
- (iii) Quorum remain a problem on Committees due to unavailability of nominated officials. – The turnover rate as indicated in paragraph 3.5 above is a good indication.

Directors are responsible to sign off on all specifications.

### **5. AWARDS TO PERSONS IN SERVICE OF THE STATE**

The Auditor General has identified businesses that have directors, etc. who are currently in service of the state. National Treasury has indicated that the municipalities could not be held responsible, because of lack of access to systems to provide the above information. (CAATS) The processes were changed and declarations of interest were requested from all suppliers when submitting quotations. Thus if a supplier is identified by the AG – steps can be taken in terms of information supplied in the declaration. The PT is also assisting municipalities to verify information on the government PERSAL system.

### **6. DECLARATIONS OF SCM EMPLOYEES**

Declarations were completed by all personnel in the unit.

## **7. 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:

- 7.1. Establishment or assigning procurement responsibilities to appropriate persons. Operational departments will then only submit their resource requirements as per an approved requisition.
- 7.2. Refining of supplier database to include primary and secondary business portfolios.
- 7.3. Utilization of the current Central Supplier database of National Treasury – all requisitions submitted will first be verified.
- 7.4. Use current item prices as standard prices and refine to align with market related prices.
- 7.5. Vendor performance criteria should be part of standard SCM documentation highlighting the sanctions for non-compliance. This is done by the User Departments and with every invoice submitted an evaluation sheet must be completed with the confirmation of goods/services received and submitted to the SCM Unit to monitor the performance of Suppliers.
- 7.6. Assist with reporting templates to ensure synergy in dealing with same matters by difference directorates and/or departments.
- 7.7. Developing standardized specifications for day-to-day material and/or service provider usage.
- 7.8. Increased focused on quotations below R30 000.00 where it seems like most anomalies occur.

## **8 PROBLEM STATEMENT**

In terms of this report it can be assumed 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 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.

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 is located in all the Bergvliet Municipal town.



Therefor the Finance Department did submit a report in the second quarter to the standing committee to relook at the organogram and functions of the stores. The function of the stores are in the process of being transferred to the SCM Unit.

This function will only be transferred if sufficient budget is available to appoint resources and to have resources to enhance the current financial system.

## **9. DISASTER MANAGEMENT**

The Minister of Cooperative Governance and Traditional Affairs, as designated under Section 3 of the Disaster Management Act, 2002 (Act No. 57 of 2002) ( "the Act " ), in terms of section 27(5)(c) the Act, extended the national state of disaster that was declared on 15 March 2020 by Government Notice 313, published in Government Gazette 43096, to 15 July 2020, extended now to 15 January 2021, taking into account the need to continue augmenting the existing mitigation measures undertaken by organs of state to address the impact of the disaster to a further unknown date and that emergency procurement had to be done under emergency circumstances to ensure that the different Towns/Offices were sanitized with the second wave of the pandemic. The pandemic will be with us for an unknown time and till then we will have to ensure that we will continue with humanitarian support for people in need and sanitizing of our offices.

## **10. 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 the Mayor consider and take note of the Supply Chain Management implementation report as at 31 March 2021 representing the third quarter of the 2020/2021 financial year.
2. That the report be made public in accordance with section 21A of the Municipal Systems Act.