



**THEEWATERSKLOOF MUNICIPALITY  
SUPPLY CHAIN MANAGEMENT  
IMPLEMENTATION REPORT**

**For The**

**2016/2017 FINANCIAL YEAR**

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## 1. Introduction

This report will assist Council in the execution of its oversight role and to perform trend analysis, to identify significant control weakness areas, deviations and minor breaches, complaints, queries and disputes. Through the effective performance of its oversight function, the necessary action can be taken to improve financial governance.

## 2. Demand and Acquisition Management

The municipality's SCM policy states that "All user departments are required to submit their procurement plans by end of April, for the following financial year to the Manager Supply Chain Management to improve planning and management of resources".

For the 2015/2016 financial year and 2016/2017 financial year, a total number of 26 and 37 projects respectively were identified on the procurement plan for contracts above R 200 000. These plans excluded the procurement of goods and services with a value of greater than R30 000 and less than R 200 000.

The table below will illustrate the procurement plan, formal written price quotation process inclusive of additional awards above R 30 000:

### **2015/2016 Tenders:**

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	0	5 020 736.30	2 916 816.53
August	2	1 498 835.64	1 498 835.64
September	2	49 783.80	0.00
October	5	4 332 069.26	1 600 238.86
November	3	4 140 138.62	4 140 138.62
December	0	862 520.01	862 520.01
January	0	2 941 675.38	2 941 675.38
February	4	1 986 294.96	1 986 294.96
March	1	14 698 004.24	4 991 767.23
April	6	725 553.00	725 553.00
May	2	8 769 793.17	5 960 452.54
June	2	1 812 297.90	734 160.00
<b>TOTAL</b>	<b>27</b>	<b>46 837 702.28</b>	<b>28 358 452.77</b>
<b>Cancelled</b>	<b>9</b>		

**2016/2017 Tenders:**

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	6	12 363 456.30	8 608 186.04
August	3	4 021 463.77	0.00
September	3	23 385 502.93	23 385 502.93
October	4	4 616 586.76	1 424 950.00
November	5	2 916 891.00	656 024.40
December	0	0.00	0.00
January	2	5 874 298.17	4 182 214.77
February	3	4 729 432.99	0.00
March	3	16 374 903.15	14 955 607.05
April	0	0.00	0.00
May	19	34 269 321.30	483 820.55
June	10	27 218 321.76	508 800.00
<b>TOTAL</b>	<b>58</b>	<b>135 770 178.13</b>	<b>54 205 105.74</b>
<b>Cancelled</b>	<b>4</b>		

A total of 58 Tenders [(2015/12016): 27 Tenders] were awarded in the 2016/2017 financial year. This indicates an increase of 115% in contracts awarded above R 200 000. The Contract Value increased from R 46 837 702.28 in 2015/2016 to R 135 770 178.13 in 2016/2017. This indicates an increase of 190% in the contract value awarded. The contract value awarded to B-BBEE Entities increased from R 28 358 452.77 in 2015/2016 to R 54 205 105.74 in 2016/2017. This indicates an increase of 91% in the Contract Value awarded to B-BBEE Entities. This represents 40% of the total contract value compared to 60% in the previous financial year and is mainly due to B-BBEE Entities submitting non-competitive prices.

Certain dates on the procurement plan was not met. SCM identified gaps in drafting of specification by end-users that do not make use of consultants which indicates a lack of expertise and knowledge. It was further identified by SCM that end-users are reluctant to conduct research pertaining to demand management. SCM is currently engaging with Provincial Treasury to address this shortcoming.

**2015/2016 Quotations:**

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	7	626 662.90	597 088.03
August	8	623 264.64	266 181.24
September	14	1 024 058.02	1 024 058.02
October	13	652 249.94	536 892.50
November	14	503 318.40	342 068.40
December	1	823 972.30	514 060.22
January	9	357 093.60	169 563.60
February	18	347 064.77	715 967.93
March	17	941 864.04	430 571.90
April	20	1 558 488.74	761 857.68
May	7	2 432 518.44	858 234.82
June	0	580 501.52	0.00
<b>TOTAL</b>	<b>128</b>	<b>10 471 057.31</b>	<b>6 216 544.34</b>
<b>Cancelled</b>	<b>22</b>		

**2016/2017 Quotations:**

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	1	106 691.20	106 691.20
August	10	1 099 523.05	668 179.25
September	10	672 314.46	376 851.83
October	9	1 260 689.15	496 031.00
November	12	1 000 992.93	447 967.21
December	23	2 659 759.56	1 019 943.33
January	3	398 590.33	398 590.33
February	7	756 213.28	515 838.58
March	12	1 256 553.87	481 599.38
April	25	2 535 047.75	954 080.26
May	25	2 639 267.42	1 013 066.66
June	6	639 165.92	240 381.16
<b>TOTAL</b>	<b>143</b>	<b>15 024 808.92</b>	<b>6 719 220.19</b>
<b>Cancelled</b>	<b>22</b>		

A total of 143 Quotations [(2015/12016): 128 Quotations] were awarded in the 2016/2017 financial year. This indicates an increase of 12% in contracts awarded. The contract value increased from R 10 471 057.31 in 2015/2016 to R 15 024 808.92 in 2016/2017 which translates into an increase of 44% in the contract value awarded. The contract value awarded to B-BBEE Entities increased from R 6 216 544.34 in 2015/2016 to R 6 719 220.19 in 2016/2017 and represents an increase of 8.1% in the contract value awarded to B-BBEE Entities. In 2015/2016 59.37% of the total contract value Awarded for quotations were awarded to B-BBEE Entities. In 2016/2017 44.72% of the total Contract Value Awarded for quotations were awarded to B-BBEE Entities. This indicates a decrease of 14.65% although there was an increase of 12% in Contract Value Awarded from previous to current year and is mainly due to B-BBEE Entities submitting non-competitive prices.

### 3. List of Accredited Prospective Suppliers

The suppliers play a pivotal role in the municipality, hence the need to ensure that all suppliers are compliant from application up to and including the period during which an award is made to the supplier. The municipality's database currently has 3 089 suppliers (active + suspended) listed. Of this, 1 579 is active on the database of TWK, of which 781 are registered on CSD, 248 are suspended and 1 262 are inactive.

The table below is an illustration of the applications received:

<b>Financial Year</b>	<b>2015/16</b>	<b>2016/17</b>
Applications Received	291	296
Declined Applications/Supporting Documents	10	46
Declined/Inactive Tax Clearance	18	8
Fraudulent Tax Clearance Certificates	0	0
Person's in service of the state	2	2
Total Applications Rejected	30	56
Applications Confirmed and Approved	261	184
Success Rate of Database Application	89.69%	62.16%

The following statistical reports indicates the growth in the registration process, despite economic difficulties, businesses are still finding opportunities provided by the municipality.

Also note that in both financial years it was identified that two suppliers with persons in the service of the state were found non-compliant and their applications to register were declined.

SCM assisted suppliers to register on E-filing at SARS to obtain valid Tax Clearance certificates in a much quicker and more effective way in order for them to register on our database and be compliant for any quotations and tenders advertised/awarded.

Monthly Report Summary:

<b>Financial Year</b>	<b>2015/16</b>	<b>2016/17</b>
July	13	15
August	29	17
September	37	19
October	16	22
November	21	34
December	20	3
January	10	16
February	16	12
March	29	21
April	23	12
May	26	10
June	21	3
Average Database Applications uploaded per month	21.75%	15.33%

#### 4. Logistics Management

The main purpose of the inventory and Stores section is to provide the right quality of material at the right time and in the correct quantities to the other departments in TWK municipality. This is done to enable all departments to deliver services effectively to the various towns. At the same time the section strives to keep the stock levels as low as possible in order to reduce the Municipality's financial investment in stock.

There is a continuous focus on the improvement in customer service, material availability, quality and quantity, business processes and training.

The table below illustrates some comparative statistics for the 2014/2015 and 2015/2016 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Project Stock Inserts	Store Issues	Closing Stock Value
2014/15	1 858 925.99	2 780 269.52	2 369 880.74	2 590 391.18	4 418 685.07
2015/16	4 418 685.07	7 520 235.92	0.00	6 625 964.38	5 312 956.61
Increase	137.70%	170.49%	N/A	155.79%	20.24%

The opening stock values indicate that it has increased by 137.07% year on year which is attributed to the inclusion of project stock in the financial records.

The SCM department is of the opinion that the store figures for the 2015/2016 financial year will be the basis for the average store total beyond this financial year. SCM will focus on how to improve the management of stock levels across all stock items to maintain a balance of the right stock levels to support user departments to sustain service delivery.

The table below illustrates some comparative statistics for the 2015/2016 and 2016/2017 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Project Stock Inserts	Store Issues	Closing Stock Value
2015/16	4 418 685.07	7 520 235.92	0.00	6 625 964.38	5 312 956.61
2016/17	5 312 956.61	7 977 911.98	0.00	8 716 207.91	4 574 660.68
Increase/(decrease)	20.24%	6.09%	N/A	31.55%	(13.9%)

As indicated in the schedules above the total Closing Stock Value decreased from 2015/2016 to 2016/2017 financial with a value of R 738 295.93. This indicates a decrease of 13.9%. The increase in the stores issues indicates that stock was readily available which resulted in a higher services delivery to the community and the level of support via the SCM office to the relevant store in the various towns increased as well.

## **Disposal Management**

The SCM disposed of 7 municipal assets to the value of R 404 970.00 in the 2016/2017 financial year.

The Assets Departments disposed of 211 municipal assets to the value of R 256,380.30 during the 2016/2017 financial year.

## **5. Risk Management**

Various risks were identified and mitigation strategies implemented which includes a software system. A Project risk checklist was implemented to identify risks on a case-by-case basis.

Risks are also mitigated through various audit assignments from the Internal Audit Department which is done quarterly.

## **6. Performance Management**

The municipality's SCM department's performance are audited by the internal audit on a quarterly basis in accordance with the Internal Audit plan for the 2016/2017 financial year, as agreed to by the Audit Committee.

The purpose of the audit was to evaluate the adequacy and effectiveness of the control activity, relating to the reliability; effectiveness and compliance to regulations of the SCM processes.

### **Internal Audit Opinion:**

**Effective**—Controls evaluated are adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met in the Supply Chain Management Process.

This audit opinion was maintained throughout the financial year for each quarterly audit conducted by the internal audit section.

It is clear that that the authorised SCM processes were followed and the objectives of the SCM policy were achieved.

## **7. Due Diligence**

The due diligence process strives to close the compliance gap as per the legislative requirements.



**Regulation 44 (awards to persons in the service of the state):**

SCM implemented a system in conjunction with Provincial Treasury and the Western Cape Supplier Database to ensure that prospective supplier ID numbers are run through the persal system to avoid non-compliance.

Before an award for procurement of goods and services above R 30 000 are made, the ID numbers of the relevant supplier are run through a system that can identify last employment with a 100% confidence level which give the municipality an indication of whether a supplier is compliant.

SCM also uses TransUnion and the Central Supplier Database of National Treasury as a balance check to ensure that the prospective suppliers is not in the service of the state.

**Regulation 45 (awards to close family members of persons in the service of the state):**

There are basic controls within the SCM and HR department where we request all staff members to declare any relationship to a supplier. Furthermore, we are also reliant on the integrity of the declaration forms.

The municipality currently has 12 employees linked to various suppliers as close family members. Furthermore the municipality has 18 declarations at other various state institutions.

This is an on-going process to ensure compliance. We are continually engaging with suppliers, procurement and tenders and contracts to ensure that the relevant information and documentation is timeously received and is noted on the list as well. The proper recording of this information has proven to be successful in providing a detailed report for the Auditor General in their request for information.

**Regulation 46 (ethical standards):**

HR implemented a gift register on the PayDay system of which SCM reports to the Municipal Manager on a quarterly basis and which is summarised in the below table:

<b>Month</b>	<b>Amount of gifts 2016/17</b>	<b>Amount of gifts 2015/16</b>
July	1	6
August	9	1
September	2	2
October	9	3
November	15	15
December	6	49
January	7	5
February	1	12
March	1	5
April	2	6
May	2	5
June	7	5
<b>TOTAL</b>	<b>62</b>	<b>114</b>

The above illustrate that the amount of gifts received during the 2016/2017 year are minimal. The total of gifts received decrease from 114 in 2015/2016 to 62 in 2016/2017. This is a decrease of 45.61% from 2015/2016 to 2016/2017 financial year. The decrease can be attributed to the decrease of gifts received in the month of December whereby 49 gifts was received in 2015/2016 and only 6 gifts received in 2016/2017.

### **8. SCM related Appeals**

The municipality received 3 appeals in the 2015/2016 financial year of which all was unsuccessful.

The municipality received 7 appeals in the 2016/2017 financial year of which 1 was successful.

### **10. Measures implemented to increase local spending**

SCM implemented a checklist that must form part of a request for tender which must be in line with the above and which form part of the special conditions of tender. This checklist consists of the empowerment goals that must be set.

Various local spending took place as well as corporate social investment funding that were made available for various projects within the boundaries of the municipality.

### **11. Conclusion**

Supply chain management is perhaps one of the most challenging legislative requirements due to the lack of human resource capacity as well as the uncertainty with regards to the interpretation and implementation of legislation. This could result in underspending of the capital budget which will directly affect the municipality's ability to achieve its strategic objective of service delivery. Despite all the challenges, it can be stated that the municipality was successful in the implementation of the regulations and SCM policy.

### **13. Recommendation**

It is recommended that Council:

1. Take cognisance of the report.

### **RESOLVED BY COUNCIL: 27 JULY 2017**

After the Chairperson had given the Councillors an opportunity, and the item had been thoroughly discussed, it was unanimously resolved as follows:

**Council take cognisance of the report.**