

MODERNISATION PROGRAMME

BLUEPRINT

SUPPLY CHAIN MANAGEMENT

13 November 2009

Ref no: M.P. 6/1



Provincial Government Western Cape



INDEX

1. INTRODUCTION	4
1.1 Mandate.....	4
1.2 Business Case	4
1.3 Scope of Work	5
2. METHODOLOGY	6
2.1 Expected Outcomes	7
2.3 Risk Management	7
3. KEY FINDINGS	8
3.1 A review of the Legislative and Policy Requirements.....	8
3.2 Review of Provincial SCM Compliance Assessments	12
3.2.1 Provincial Benchmarking Retrospective Analysis of SCM processes.....	12
3.2.2 Root cause of deficiencies.....	19
3.2.3 Positive Findings.....	20
3.3 Review current operating / legacy systems.....	20
3.3.1 The Provinces current legacy systems.....	20
3.3.2 The Integrated Financial Management System (IFMS).....	22
4. DISCUSSION	26
4.1 Legislative and policy imperatives.....	26
4.2 SCM Refinement	27
4.2.1 Policy review.....	28
4.2.2 Departmental Capacity Assessments.....	28
4.2.4 Transparency in SCM.....	36
4.2.5 Moveable Asset Management.....	36
4.2.6 BBBEE / SMME development.....	37
4.2.7 Strategic sourcing	38
4.3 CFO Structures and Capacitaion	39
4.4 Refinement and Stricter control over current Legacy Systems.....	41

5. CONCLUSION	44
6. RECOMMENDATIONS	45
7. HUMAN RESOURCE IMPLICATION	46
7.1 SCM Refinement	46
7.2 CFO structure and Capacitaion Programme.....	47
7.3 Systems Refinement.....	48
8. FINANCIAL IMPLICATION	48

1. INTRODUCTION

1.1 Mandate

Due to the manifestation of a high level of non-compliance to supply chain management, legislation, policy and procedure in the province, resulting in disparate expenditure trends, lack in cost effectiveness and value for money and collusive uncompetitive and non-transparent tender processes, defined the need for a modernisation approach in respect of procurement for the province.

In the Premier's 1st analysis of the current state of the PGWC, the following challenges, amongst others were identified:

- Poor financial management across various departments, seriously impacting on their ability to deliver on their core mandates; and
- Secrecy being applied to tender processes and weak control over spending processes.

The Supply Chain Management project is intended to conceptualise a comprehensive programme to address these key challenges, by proposing strategic priorities in respect of the designated work stream and interrelated interventions that will produce the desired outcome for the province.

The project was undertaken to:

- Analyze current supply chain processes, identify weaknesses
- Ensure improved transparency (open tender processes), accountability and value for money, within SCM; and
- Identify steps to improve.

1.2 Business Case

Many governments the world over are honing -in on their focus on accountability and efficiency.

Increased customer focus is an important factor, where satisfaction with the public service is reliant on the manner in which services are delivered, as well as the scope of the services available. Technology also provides a means for achieving cost reductions and changing processes. In some instances these are impossible to achieve without the implementation of technology solutions.

It must be noted that strong leadership and motivated and mobilised government officials is a key ingredient for implementing ongoing modernisation programmes. The Western Cape provincial government is however experiencing problems in recruiting and retaining its civil servants.

Poor IT management is also a key problem – as is the poor choice of technology vendors or systems integrators.

More often than not, political leadership may be the problem and who is in charge of the modernisation agenda is key to driving the process. There may also be a strong “legacy” organisational structure within government that protects the traditional territories that may inhibit efficiencies.

The Western Cape government like most either within the local sphere or internationally suffer from a lack of professional skills and specialist knowledge, particularly within the key areas of procurement. The KPMG report defined the following management programme to modernise government’s procurement processes which is very relevant to the South African and Western Cape context:

- Improved performance through the integration of policy and delivery
- Enhanced capability to address strategic issues
- More flexible deployment of resources to match priorities
- Improved ways of working and more effective procedures for identifying and addressing skills gaps and training needs¹

1.3 Scope of Work

The work stream’s scope of work was amended and redefined after the findings of the Organisational Design work stream’s blueprint was tabled with the Modernisation Steering Committee which concluded, for factors mentioned and discussed within the OD blueprint that, a shared service model is not the appropriate model for the Provincial Government of the Western Cape.

The OD work stream further concluded that the functional departmental organisational approach must be retained for all intensive purposes as follows:

- Retain the status quo in respect of the current CFO units;
- Capacitation of CFO units under guidance of the Provincial Treasury;
- A concerted multidisciplinary effort under the legislative mandate of the Provincial Treasury be enforced;
- A strategic sourcing model as contemplated by National Treasury Regulations 16A6.5 is effected with capacitation requirements for proper implementation.

¹ KPMG International: “Modernising Government,” Publication No. 309-974, December 2007

Key concerns and potential risk factors may be enumerated as follows:

- The financial accountability of the accounting officer in terms of sections 38 and 43 of the PFMA
- The unique financial management requirements and mandates of departments must be considered to which a completely standardized approach may not be necessarily prudent, and
- The current levels of compliance, departmental SCM structures and capacity.

Therefore, in cognizance of the above, the SCM work stream's scope of work was redefined and unpacked in terms the approach defined hereunder:

- Retrospective Analysis of SCM processes;
- Review of departmental SCM policy and procedures;
- Review current operating / legacy systems utilized in the provincial sphere and identify challenges and shortcomings;
- Review of intergovernmental relations / mandate with National Government and the province and define steps and outcomes in respect of envisaged improvements for a systems based approach for SCM. (IFMS; BAS; LOGIS etc.);
- Investigation of ways to improve and refine procurement information and management thereof in the public domain by creating awareness and transparency within SCM
- Define appropriate procedures to:
 - Improve departmental performance through the integration of SCM policy and service delivery
 - Enhance departmental capability to address strategic issues in respect of SCM
 - Enable a more flexible / departmentally bespoke deployment of resources to match SCM priorities
 - Improved efficiency gains and defining effective procedures for identifying and addressing skills gaps and training needs
 - Enabling a strengthened monitoring and evaluation environment to prevent fraud, corruption, collusive tendering and improved service delivery.
- Develop a SCM blueprint for the province.

2. METHODOLOGY

The work stream further utilised an environment study and assessment methodology that was based on the following:

- A review of the Legislative and Policy Requirements:

This process addressed the policy and legislative requirements, issues of accountability, mandates of provincial departments in terms of AO responsibilities and enforcement.

- Review of Provincial SCM Assessments
Review of provincial SCM compliance assessments undertaken by the Provincial Treasury that utilised the methodology of:
 - Review of compliance to Accounting Officers Systems and Provincial Treasury Instructions;
 - Random sampling of source documents;
 - Questionnaire; and
 - Interviews.

A retrospective analysis of the past two financial years (2007/08 and the 2008/09) was undertaken in respect of compliancy issues, recommendations to address issues raised in the assessment reports and requirements to take departments to the next level of financial capability for SCM.

- Review of the current legacy systems
 - Identified shortcomings via a system assessment and compliancy based assessment
 - Review of the IFMS tender specifications, and
 - What are the short terms goals and objectives for refinement and improvement of the current legacy systems

2.1 Expected Outcomes

The expected outcomes of the project, is to identify mechanisms and delivery models which will contribute to effectiveness, efficiency and value for money spend:

- Compliance to policy and legislative frameworks for SCM;
- Planning of procurement processes to enabling a better response to need and expenditure trends;
- Centralise the awarding of contracts for transversal needs;
- Improvement of reporting frameworks for SCM thereby enabling open and transparent management of information;
- Enabling departments to respond more effectively and efficiently in respect of their spend of their budget allocation in respect of goods and services;
- Enabling a stronger, more developed and responsive M&E environment

2.3 Risk Management

All projects that arise out of this Modernisation Process will be supported by a Risk Mitigation Plan. Furthermore, an iterative and phased approach will be utilised to rollout the implementation of the projects.

3. KEY FINDINGS

3.1 A review of the Legislative and Policy Requirements

Section 217 of the Constitution of the Republic of South Africa Act 108 of 1996

The enabling section of the Constitution that underpins procurement is encapsulated in **section 217 of the Constitution**:

- “(1) When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective.*
- i. Subsection (1) does not prevent the organs of state or institutions referred to in that subsection from implementing a procurement policy providing for:*
- (i) categories of preference in the allocation of contracts; and*
(ii) the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- (b) National legislation must prescribe a framework within which the policy referred to in subsection(2) must be implemented”*

This section is the cornerstone against which the SCM requirements of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) and its supporting legislation is based on as well as the subsequent promulgation of the Preferential Procurement Policy Frameworks Act, 2000 (Act No. 5 of 2000) and its supporting regulations issued in August 2001, have been based on.

The National Treasury when implementing **The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999)**, issued the following write –up on its website:

“The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government in South Africa. The

Act promotes the objective of good financial management in order to maximise service delivery through the effective and efficient use of the limited resources.

The key objectives of the Act may be summarized as being to:

- Modernise the system of financial management in the public sector;
- Enable public sector managers to manage, but at the same time be held more accountable;
- Ensure the timely provision of quality information; and
- Eliminate the waste and corruption in the use of public assets."

When addressing the legislative requirements for Supply Chain Management in the province cognisance must be had of the following sections of the PFMA:

Section 18

In terms of section 18 of the PFMA it must be noted that the Provincial Treasury from an SCM perspective is required to play a crucial strategic role:

- To promote and enforce effective financial management
- To enforce SCM requirements of the Act
- Assist departments in building their capacity for an effective, efficient and transparent financial management
- To investigate any system of internal control and financial management
- Interventions by taking appropriate steps, and
- May do anything further that is necessary to fulfil its responsibilities effectively

Section 38 (1) (a) (iii)

In terms of section 38 of the PFMA: "The accounting officer of a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution, has and maintains an appropriate provisioning and procurement system which is fair, equitable, transparent, competitive and cost effective."

Hence with the exception of the requirements of section 18, financial responsibility and accountability of supply chain management vests in the accounting officer of a department, trading entity or constitutional institution.

Sections 39 – 45 expands further on these requirements which are under the management control of the accounting officer.

The National Treasury being the National regulator of the PFMA issued the following directives in respect of the implementation of supply chain management:

- Normative Measures for Financial Management (Phase 1: Perfecting the Basics),
- National Treasury Circular dated 27 October 2004: "Implementation of Supply Chain Management,"
- National Treasury Practice Note Number SCM 3 of 2004: " Checklist for the Implementation of Supply Chain Management and monthly Reporting of Supply Chain Management Information," and
- National treasury Circular dated 9 may 2006: "Exemptions from Supply Chain Management Framework."

In terms of National Treasury's Normative Measures for Financial Management (Phase 1: Perfecting the Basics), the following CFO's structure was recommended:

Financial Management (CFO)		
Management Accounting	Financial Accounting	Supply Chain Management
Financial Business Support and Risk Management (including strategic planning, budgeting and performance measurement)	Transactional processing and internal / external financial reporting	Demand Acquisition Logistics Disposal

National Treasury Regulations 16A3.2 (d) requires that SCM must at least make provision for the following:

- demand management;
- acquisition management;
- logistics management;
- disposal management;
- risk management; and
- regular assessment of supply chain performance

It must be noted that these Regulations require the additional requirements for a risk management and regular assessment of supply chain performance.

National Treasury Circular dated 27 October 2004: "Implementation of Supply Chain Management," provided for: accountability, unsolicited bids, Payment of accounts, appointment of bid committees, late bids, and

publication of awards, delegations, participation of advisors, training and access to SCM documentation. The Circular is attached herewith for ease of reference marked "Annexure A."

National Treasury Practice note 3 of 2004 gave effect to an implementation checklist for SCM. The purpose for the issuance of the Circular was to guide accounting officers in the implementation of SCM within their institutions and also to monitor their status regarding their implementation process with the view to providing assistance and guidance where required. Circular is attached herewith marked "**Annexure A**"

According to National Treasury Circular dated 9 May 2006: "Exemptions from Supply Chain Management Framework." Paragraphs 4-7 are cited hereunder as follows:

"4 Insofar as the implementation of the principles of the supply chain management policy is concerned, it is the responsibility of the accounting officer / authority of each institution to work out a detailed implementation plan. Implementation of the supply chain management system was intended to be with a "phased-in strategy" approach. The measurement of progress on implementation should, therefore, be conducted against the implementation plan developed by the institution.

5 Although the Office of the Auditor General has undertaken to monitor and report on institutions compliance to the requirements of SCM implementation, they are aware that implementation would take place with a "phased-in strategy" approach. They have, therefore, agreed to monitor and report on compliance against the institution's internally approved SCM implementation plan.

6 Practice Note Number SCM 3 of 2004 issued on 28 August 2004 by the National Treasury contains a Checklist for the implementation of SCM. This checklist may be used as a guide to ensure that your procedures are in compliance with the regulatory requirements.

7 Accounting officers/authorities are, therefore, requested to ensure that their supply chain management System forms an integral part of the institution's financial management and at the same time ensure that through a systematic process, goods and services are delivered to the right place, in the right quantity, with the right quality, at the right cost and at the right time."

National Treasury Regulations 16A.5, provides for the accounting officer of a department the option to participate in transversal term contracts facilitated by the relevant treasury. The regulation further provides that should the accounting officer opt to participate in a transversal contract facilitated by the relevant treasury, the accounting officer or accounting

authority may not solicit bids for the same or similar product or service during the tenure of the transversal term contract.

The abovementioned sections of the PFMA and its regulations provides the backdrop for the roles and responsibilities of the accounting officers and the supporting structures required for SCM which must be vested under the office of the chief financial officer.

National Treasury Regulations 16A3.2 provides that:

“A supply chain management system referred to in paragraph 16A.3.1 must

–

- (a) be fair, equitable, transparent, competitive and cost effective;*
- (b) be consistent with the Preferential Procurement Policy Framework Act, 2000*
(Act No. 5 of 2000);
- (c) be consistent with the Broad Based Black Economic Empowerment Act, 2003*
(Act No. 53 of 2003).....”

The Preferential Procurement Policy Frameworks Act, 2000 (Act No. 5 of 2000) and its supporting regulations issued in August 2001 have been promulgated to give effect to section 217 (3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in section 217 (2) of the Constitution; and to provide for matters connected therewith.

The promulgation of this Act and its regulations has basically been effected to give effect to government's socioeconomic responsibility within the procurement environment and makes it a unique requirement to the South African context. To expand further, this requires that economies of scale and leveraged buying power must be balanced against the socio – economic responsibility of government that is entrenched within this Act and its regulations.

3.2 Review of Provincial SCM Compliance Assessments

3.2.1 Provincial Benchmarking Retrospective Analysis of SCM processes

In the 2008/09 financial year the Directorate Moveable Asset Management, as part of its Annual Performance Plan (APP), conducted SCM compliance assessments at provincial departments. This process was informed by an assessment tool and standard operating manual. Findings were recorded in

assessments reports, where departments were measured and rated further against the Directorate's financial capability model for SCM.

This process was the under girdle on which the 2009/10 APP was developed which required the implementation and refinement of a management process and practice capability assessment model throughout the Province. This targeted the need for a refined capability assessment model and intervention plan which necessitated the cataloguing of provincial departments from an SCM perspective.

The manifestation of a high level of non-compliance to SCM policy and procedure and disparate expenditure trends, provides the backdrop for the analytical process involved and the catalogue was the information base created to generate and prompt:

- SCM advancements made by provincial departments.
- a rating of departments in terms of the financial capability model;
- an identification of actions /steps that are required by departments to enable them to attain the next level of financial capability for SCM;
- interventions and remedial steps;
- linkages with other Treasury disciplines monitoring the spend on goods and services

The following key areas of concern / deficiencies were identified through the assessment process:

- Non-compliance to SCM regulatory and policy frameworks
- Outdated AO systems and delegations
- Lack of demand management procedures in place
- Inadequate procurement planning and linking to the budget
- Lack of internal control and risk mitigation procedures
- Lack of monitoring and evaluation of SCM
- Lack of contract management procedures
- Lack of standardization of SCM procedures and proper record keeping
- Inefficient utilization of the EPSi
- Lack of SCM skill / capacity and Inadequate SCM structure

Non-compliance to SCM regulatory and policy frameworks

The lack of the requisite SCM skill and competencies in most departments and the absence of a stricter regulatory framework predisposed or created a culture within departments to non-comply with prescribed SCM requirements.

Some of these instances would include the tendency not to utilise a competitive process for both quotations and bids, incorrect utilisation of the preference points system, passing over of bids for incorrect reasons, utilisation of the incorrect procurement process in respect of the thresholds, extensions of validity periods, incorrect utilisation of the limited bidding process, inadequate controls and procedures for the handling of bids, the utilisation of emergency delegations where not required, lack of bid information on bid register, ambiguous specifications, appointment of bid committee members not aligned to policy requirements, line functionaries incorrectly drafting bid documents and insufficient motivation for deviations from SCM procedures.

To contextualise these concerns it needs to be stated upfront that the findings indicate the frequency at which the abovementioned materialised within provincial departments and not necessarily in respect of its materiality. In other words there was a greater propensity for such behavioural patterns or deficiencies within the SCM process being manifested rather than a manifestation of wilful or material levels of non-compliance

The intensive compliance assessment process over the 2007/08 and 2008/09 financial years, which focused strategically on the institutionalisation of SCM, the demand management process, acquisition management and contract management procedures, drew greater focus on departmental SCM processes, created the impetus for accounting officer's and their delegated officials to operate with a higher level of care than they have been in the previous financial years since the implementation of the PFMA.

This becomes evident if one has to look at the level of gradual improvement over the last two years in the Auditor – General's report especially in respect departmental SCM processes resultant from the practical improvements effected by departments to improve their SCM processes.

One must also take cognisance of the differences in the assessment methodology utilised by the AG and the Provincial Treasury. Whilst the AG's review is a regularity audit that is process driven and focuses on actual procurement, contract management, inventory management and disposal, the Provincial Treasury's focus is based predominantly on the decision making processes within SCM especially within the demand management process.

Outdated AO systems and delegations

Since the implementation of SCM in respect of the PFMA and issuance of National Treasury frameworks in respect of SCM, most departmental AO systems in terms of Section 38(1)(a) (iii) of the PFMA, have not been reviewed or updated since 2003/04.

This also predisposed them to being non-compliant to the current regulatory frameworks as National Treasury Regulations were reissued in March 2005, to

which most of the current AOS did not comply. The Departments of Health, Education and Agriculture were the only departments on record that had revised their AOS since 2004, at the time of assessment.

Lack of demand management procedures in place

Procurement is central to the management of a department. Departments have to purchase a wide range of goods and services to fulfill their key objectives and deliver their core functions.

Departments have the possible options of outsourcing an entire activity, awarding individual contracts for goods and services or collaborating with other departments in transversally arranged contracts strategically sourced by the Provincial Treasury.

Cost effective procurement depends on specialist skills to ensure that buying requirements are reliably determined, appropriate contract strategies are developed, contracts are well managed and the opportunities to secure the best deal at the right time and at the right price.

Better value for money in procurement may be achieved through many ways, for example:

- Securing an increased level of quality at the same price;
- Avoiding unnecessary purchases;
- Ensuring departmental needs are met and not exceeded
- Clear specifications are crafted to enable suppliers to respond in a cost effective and innovative manner;
- Optimising the cost of the delivering of the goods / services over the full life cycle of the contract;
- Introducing incentives into the contract to ensure continuous cost and quality improvements throughout the period of the contract;
- Aggregating transactions to obtain volume discounts;
- Leveraged buying to ensure best prices are obtained and better discounts from bulk buying are obtained;
- Reducing levels of stock held; and
- Reducing the cost of buying goods / services by streamlining procurement processes.

The demand management process hence is integral to any procurement process as it defines the decision making process that allows departments to procure at the right time, at the right place and at the right cost.

This is one of the areas where it was found that department's did not meet the requirements given their limited skill and capacity. Although not necessary an area that would prompt non-compliance, it is a crucial

decision making process that gives effect to efficiency gains and service delivery improvements.

Inadequate procurement planning and linking to the budget

This finding is obviously linked to the previous findings in respect of demand management. It must be noted that there appeared to be a trend in respect of poor planning of all procurement related activities. Departments procure when the need has materialised and do not necessarily undertake projected planning initiatives that are linked to their strategic goals and objectives and APPs. Costing of procurement options seldom happens in the context of testing the market, looking at current trends, benchmarks and baseline indicators that would prompt them into financially planning towards projected goals and objectives and the allocation of adequate funding at the budgeting stage. This is evident when we look at the number of contract extensions and limited bids procured by the province.

Buying goods and services through competitive means is the best way of ensuring the best price for the quality of service required. But it is not always cost effective for low value items, complex goods and services or where no well developed market exists. Hence value for money is dependant on combining competition with innovative methods of procurement whilst managing the risks associated with innovation effectively and drawing on the latest advancements in best procurement practices.

Having a comprehensive procurement strategy is a key consideration to enable a department to deliver on its key objectives and deliver their core functions.

Lack of internal control and risk mitigation procedures

Evident also from the findings made above is the fact that the lack of an internal control environment and the implementation of risk mitigation procedures through the effective utilisation of SCM policy and procedure was although present appeared to be deficient.

Lack of monitoring and evaluation of SCM

Linked to the absence or the poor presence of a control environment and the departments are placed in a difficult position to give effect to or implement M &E. Hence deviations or non-compliance goes undetected or is identified after the fact.

Lack of contract management procedures

Contract management procedures require tighter and more stringent control. The management of suppliers / service providers is important to give effect to value for money and service delivery.

Project managing contracts to monitor supplier performance as well as to prepare adequately for the continuation of the need for the particular goods or services, require planning for further procurement, through a competitive process.

Giving effect to service level agreement to enforce legal compliance as well as the safekeeping of these documents that bind contractual agreements are important.

Departmental utilisation of the limited bidding process as well as extended the same contract over long periods needs to be afforded with stricter control and adequate future planning. The utilisation of consultants, the procurement thereof and the management of consultants once services have been procured is also an area that requires attention, support and guidance to enable better control and management.

Lack of standardization of SCM procedures and proper record keeping

Whilst the National Treasury Guide to Accounting Officers prescribes a standard approach towards SCM procedure, in many instances given the autonomy of the accounting officer's financial management and the lack of application resulted in department's utilisation discretion to procure in a manner that would be appropriate for a specific time. This resulted in differentiation in approaches and a lack of standardisation.

Inefficient utilization of the EPSi

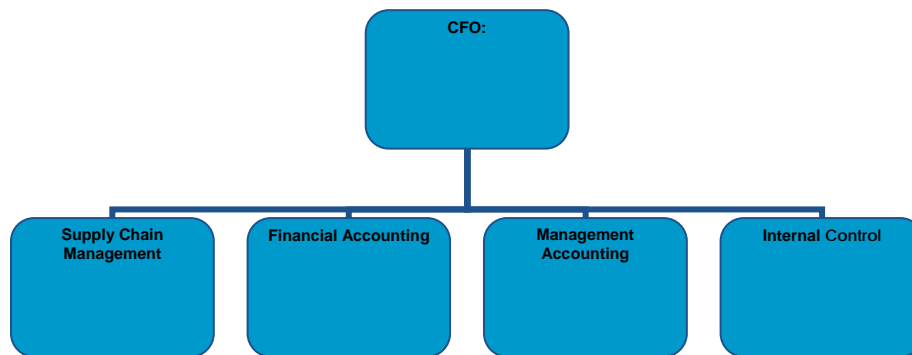
The EPSi is an ERP system that is utilised by the province to procure quotations. The system invites quotations from a threshold value of R10 001 – R200 000 and administers the process in terms of the policy and prescripts that govern quotations.

Departments advertise quotations on the system and are required to adjudicate the quotations received, i.e. indicate the suppliers or service providers to whom the quotations were awarded. This would ensure that the EPSi report reflects the true value of committed expenditure for quotations, to whom the quotations were awarded and the HDI status of the awarded supplier or service provider.

A number of departments do not indicate the award or the cancellation of the quotation resulting in the data reflected not being true reflections of the actual spend on goods and services procured through this method. In some instances the system is not utilised at all for the indicated thresholds.

Lack of SCM skill / capacity and Inadequate SCM structure

In 2002 the National Treasury proposed the following structure to be vested under the office of the CFO.



The key responsible areas include:

1. Managerial
 - Structure
 - Strategic plan developed and implemented
 - Processes established to ensure effective oversight
2. Capacity building
 - Skilled and trained finance corps
 - IDP and performance plans
3. Planning and Budget Management
 - Strategic plan approved
 - Products services coasted for effective budgeting
 - sound budgeting and budgetary control exercised
4. Asset management
 - SCM process managed
5. Liability Management
 - Debt management
 - ERM
 - Fraud prevention
 - Internal Control
6. Accounting and accountability
 - Approved delegations in place
 - AFS

Challenges faced by the CFOs are basically, capacity, dynamics of the environment and the need for assistance and support. The institutional requirements in terms of 2002 National Treasury Implementation Plan for SCM required that:

“It would be necessary for accounting officers/authorities to adopt the appropriate practices and procedures as contemplated in the PFMA as also outlined in this Policy document and to establish supply chain

management units within the offices of CFO's (or equivalents in the case of public entities).

Adequate CFO capacity in the form of appropriate structures with fully skilled and professional supply chain management personnel are key success factors particularly as supply chain management was either neglected or dealt with in a very fragmented or desultory manner, made worse by a lack of understanding of industry dynamics. The latter has an important bearing on the success or failure of preferential procurement.

Accounting officers/authorities would have to undo their lack of involvement in supply chain management and come to grips with this entirely new concept, as that requires appropriate planning and management of all the items deemed necessary for the successful operation of relevant institution² so that the value for money objective is attained.

A third intervention would be the introduction of depreciation rates linked to the various categories of goods/assets including buildings and roads, so this can be incorporated into an integrated budgetary planning process."

To fully deploy the supply chain management policy objectives as outlined in this Policy document, it would be necessary to introduce a dedicated, well-trained, professional supply chain management cadre in government. Training for the supply chain management cadre should include the following:

- General managerial training;
- Financial management training; and
- Specialist supply chain management training"

The above requirements especially in respect of SCM were not fully implemented especially in respect of SCM.

3.2.2 Root cause of deficiencies

The root cause of the deficiencies raised within the Provincial Treasury assessments may be attributed to:

The leeway / autonomy given to Accounting Officer have set the playing field for more discretion and a looser application of policy and prescripts; lack of skill and experience within the SCM environment, and Old systems in

² Meaning department, constitutional and public entity.

place that lacked integration and enhancements to keep up to date with SCM improvements.

- This has largely been resultant of the failure of the National government to fully give effect to the role out of its plan in respect a fully effective and efficient SCM process with the provincial and municipal spheres of providing a better and more prescriptive regulatory framework, frameworks for AO systems that ensured uniformity and stricter control whilst at the same time addressing departmental bespoke requirements culminating in standard operating procedures, systematic training and closer monitoring and evaluation, assistance and guidance. This would have inadvertently supported and provided an enabling environment for prudent and efficient financial management had it attained the level of implementation envisaged.

3.2.3 Positive Findings

Departments have:

- Met the National Treasury requirement that the SCM unit vest under the office of the CFO;
- Given effect to a bid committee system for the competitive bidding process;
- Basic policy / AO systems in albeit that these policy documents require refinement and alignment to the current regulatory and policy frameworks
- Implementation of a supplier database and an e-procurement system for quotations although systems enhancement and compliance requirements requirement stringent enforcement; and
- A progressive improvement in respect of SCM findings in the AG's report over the last 2/3 financial year.

3.3 Review current operating / legacy systems utilized in the provincial sphere and identify challenges and shortcomings

3.3.1 The Provinces current legacy systems

Currently, there are three major systems (Basic Accounting System (BAS), Personnel and Salary Administration System (PERSAL) and Logistical Information System (LOGIS)) that are maintained by National Treasury for National and Provincial Departments. The various systems are managed as separate stand-alone "silos" and not as a single integrated solution.

The Basic Accounting System is an on-line windows-based accounting system that encompasses Government's basic accounting requirements on a cash basis and is not a fully-fledged accrual accounting system.

The Personnel and Salary Administration System is the central system used for the administration of the public service payroll and is very stable from a payroll perspective. Over the years, PERSAL has expanded by increasing the spectrum of data fields, especially regarding human resource management, to comply to legislative and national reporting requirements.

Salary payments and human resource management requirements are integrated into one system and therefore the database cannot be separated. The user focus is more on the salary functions than on the HRM function. The result is that HRM data on PERSAL is neglected and often incomplete and/ or inaccurate.

The Logistical Information System was developed to cater for Governments provisioning administration requirements in respect of moveable assets and inventories. Even though LOGIS was not originally developed as an asset management system, legislative requirements over the last couple of years necessitated the further enhancement of the system to at least comply with the minimum requirements of asset management, as required for the public sector.

Although LOGIS currently complies with the processes and procedures of provisioning administration and asset management, and is an integral part of supply chain management, it does not cater for procurement management.

Significant revisions of governance practices in recent years have had a fundamental impact on public sector management and associated information technology solutions. In particular, the PFMA requires the introduction of the Generally Recognised Accounting Practice (GRAP), which in turn calls for the introduction of new integrated financial management solutions to meet the requirements of the public service.

In addition to the legislative requirement, all National Departments and Provincial Governments were approached to ascertain their User Requirement Statement (URS) for future financial systems. The legislative and user requirements necessitated comprehensive analysis by National Treasury of the existing legacy systems to determine their suitability. A decision was then taken by National Treasury to phase in new integrated

financial management solutions over time and to maintain and enhance the existing systems in certain priority areas in the interim.

3.3.2 The Integrated Financial Management System (IFMS)

The IFMS project aims to implement a single system for all National and Provincial Departments through the acquisition and integration of a mix of commercial-off-the-shelf (COTS) software with bespoke in-house developed modules for the core financial functions.

The model is encapsulated hereunder as follows:

System	Acquisition	Scope
Financial management	In-house	Revenue, expenditure, assets, liabilities, bank management, general ledger, budget execution, cash management, financial reporting
Supply chain management	In-house	Demand, logistics, disposal
Procurement management	COTS	Quotes, bids, supplier management, order management, contract management, purchase requisitions, invoice receipting
Human resource management	COTS	Recruitment, assumption of duty, performance management, exit management, skills development, employee wellness
Payroll	In-house	Salaries, benefits, allowances, deductions
Business intelligence	In-house and COTS	Data consolidation, trend analysis and reporting

As the existing legacy financial systems were not originally developed to be fully-fledged procurement, asset or human resource management systems, as required by the public sector, these specialised areas were identified as priority to be phased in.

During 2007, the decision was taken by National Treasury and the State Information Technology Agency (SITA), as the implementation agent of National Treasury for the IFMS project, to follow the competitive bidding

route for the acquisition of the procurement management and human resource management systems, while National Treasury opted to develop the asset management module, in-house.

Procurement Management System

The Western Cape Provincial Treasury was invited to be part of the Bid Evaluation Committee of the procurement management system that required the evaluation of the bidders' response to the functional and technical criteria for each requirement.

Bidders who met the minimum scores for the functional and technical criteria were invited to give a detailed presentation/ demonstration to confirm their compliance with the criteria.

Of the seventeen responses received from consortiums/ individual bidders, the following three bidders were invited to give a detailed demonstration.

* Intenda (Pty) Ltd	(Individual bidder)
* ICT Works (Pty) Ltd	(Consortium consisting of Oracle Corporation, SA Ltd, Intenda (Pty) Ltd and a black empowerment company)
* SAP Public Services (Pty) Ltd	(Individual bidder)

Taking into account the bidder who obtained the highest scores for the functional and technical criteria, who could confirm their compliance with the criteria during the demonstration and pricing, a recommendation was made to the Bid Adjudication Committee, who awarded the bid to ICT Works (Pty) Ltd.

The procurement management system will provide core functionality to support Government transversal procurement in the following seven functional areas:

- Supplier management: Management of supplier information and provision of default supplier data
- Purchase requisitions: For items and services as the source from which procurement options are determined and provides default information to the follow-up processes
- Quotes: Handling responses and managing the selection of suppliers

- Bids: Creating and publishing requests for bids to industry, handling bid responses and managing supplier selections
- Purchase orders: Order negotiation between the client and supplier and execution and management of procurement expectations
- Contract management: Manage the supplier and Government agreement aspects that relates to procurement
- Invoice receipting: Recording supplier invoices and the consolidation and matching of orders to supplier invoices and recorded items/ services received notes. Matched invoices lead to payment advices.

The procurement management process is currently being piloted at National Treasury and the South African Defence Force and all indications are that it will be available to National and Provincial Departments as from the middle of 2010.

Asset Management System

The asset management system was developed in-house by National Treasury and completed on 31 July 2009. The intention is also to pilot the application at National Treasury and a department within Mpumalanga Province before it is rolled out to the remainder of the National and Provincial Departments on 1 April 2010.

Human Resource Management System

The Western Cape Provincial Treasury was not part of the Bid Evaluation Committee for the evaluation of the human resource management system, but the indications are that the bid was awarded to SAP, South Africa, although the SITA website is indicating that the bid has not been awarded (under evaluation).

The intention is to pilot the system at the Department of Public Service Administration and the Education Department of the Free State.

The current indication is that the system will only be available to National and Provincial Departments as from 2011.

Taking into account the progress that has been made with at least two of the three IFMS modules (procurement and asset management), which should be available to National and Provincial Departments by early 2010, systems that would conform to business and legislative requirements, promote effectiveness and transparency and minimise the possibility of irregularities/ fraud in especially the area of procurement, it makes sound

business sense to seriously consider the implementation of the IFMS modules.

In addition to the above, the following benefits for Government as a whole, but more specifically the PGWC, can be derived from the implementation of the IFMS modules:

Benefits	Responsibility
Cost effectiveness	Cost effectiveness for acquiring/ developing the system for account of NT
Further enhancements/ customisation	Responsibility and for account of NT
Compliance to NT reporting requirements	NT responsible for changes to system where requirements change
Standardisation of systems	within PGWC
Ability to support business intelligence requirements	Conform to PGWC's user requirements
Support reformed and asset management processes which leads to more transparency and effectiveness	Address existing deficiencies related to procurement, contract management, inventory and assets
Programmatic transfer of data from legacy systems to IFMS	Responsibility of NT
Integration with the service-oriented architecture of IFMS	Responsibility and for account of NT

4. DISCUSSION

4.1 Legislative and policy imperatives

To ensure that departments give effect to the regulatory and policy requirements for SCM, it is important that departmental SCM structures give effect to all areas cited above.

Whilst most departmental structures do not provide for risk management and the regular monitoring of SCM performance, the following must also be provided for:

- Demand management
- Contract management
- Procurement planning from a financial accounting and budgetary perspective
- Asset management (acquisition, disposal, operations and maintenance and disposal)

In terms of section 18 of the PFMA it must be noted that the Provincial Treasury from an SCM perspective is required to play a crucial strategic role:

- To promote and enforce effective financial management
- To enforce SCM requirements of the Act
- Assist departments in building their capacity for an effective, efficient and transparent financial management
- To investigate any system of internal control and financial management
- Interventions by taking appropriate steps, and
- May do anything further that is necessary to fulfil its responsibilities effectively

In addition the Budget Council imperative to eradicate corruption in SCM processes may also be incorporated under the ambit of the above-mentioned requirements. The National Treasury cited the following process at the TCF Lekgotla held in July 2009:

Prevention

- Identify areas of weakness and propose remedial actions.
- Receive and analyze information to identify areas needing improvement (Linking budgets to planned procurement and reporting at beginning of the year and Compiling business cases for specific strategic commodities)

- Render assistance by suggesting areas that need specific training and focusing on participating in bid processes of selected strategic procurement
- Prescribe measures of dealing with corruption (Internal to Department and Municipality)
- Monitor Supplier performance
- Trend analysis (Type of allegations)

Supply Chain Management Anti-corruption

- Actively respond to allegations of corruption in all spheres of government.
- Receive complaints through a given mechanism
- Investigate allegations
- Facilitate remedial action
- Co-ordinate with:
- Auditor General
 - Accountant General
 - Prosecuting Agencies
 - All other relevant bodies
- Inspect the adjudication process and report on non adherence to prescribed Norms & Standards
- Maintain the register for Tender defaulters
- Monitor Supply Chain Management maturity capability of entities
- Follow-up on the Auditor-General's report regarding Public Officials implicated in the tendering processes.

4.2 SCM Refinement

To give effect to the intended outcomes of the project as envisaged in this document the following requirements must be met:

- Improve departmental performance through the integration of SCM policy and service delivery;
- Enhance departmental capability to address strategic issues in respect of SCM;
- Enable a more flexible / departmentally bespoke deployment of resources to match SCM priorities;
- Improved efficiency gains and defining effective procedures for identifying and addressing skills gaps and training needs;
- Enabling of a strengthened monitoring and evaluation environment to prevent fraud, corruption, collusive tendering and improved service delivery.

A process driven implementation process is envisaged to give effect to SCM improvement. This would fall under the mandate of the Provincial Treasury as envisaged by section 18 of the PFMA.

The implementation plan would include the following:

4.2.1 Policy review, implementation and the setting of best practice norms and standards

The issue of provincial policy and best practice in respect of section 38 of the PFMA is intrinsic to Provincial Treasury's section 18 mandates. The SCM compliance assessments conducted to by the Provincial Treasury and as alluded to in paragraph 3.1.2 of this document set the tone and stepping stone towards the review of departmental SCM policy , namely its Accounting Officer's system in terms of section 38 (1) (a) (iii) of the PFMA.

This initiated the development and finalisation of a risk mitigation framework that would be utilised to assess departmental AO systems against the legislative and policy frameworks for SCM as well as take into account departmental bespoke requirements. The framework addressed key risks within the SCM chain and areas of management as well as within the institutional requirements for SCM. The framework also identified whether /not adequate control measures, separation of duties, transparency and accountability and separation of duties within SCM was provided for within the department's policy. The Department of Transport and Public Works' draft AO system was the first policy to be review against this assessment model to which comments were provided to the Department in early September 2009. The Provincial Treasury envisages the completion of the review of AO systems for the Departments of Health and Education in the 2009/10 financial year.

4.2.2 Departmental Capacity Assessments

Having completed SCM compliance assessments in the 2008/09 financial year, the Provincial Treasury identified an assessment framework that would be more suitable to detecting early warning signs within the SCM process, rather than an after the fact assessment model. The Gateway Review model currently a model being used successfully in Australia and in the UK is based on a project assurance methodology that involves short, intensive reviews at up to six critical stages of the project lifecycle. The reviews, undertaken by a team of experienced peer reviewers who are not associated with the project, are designed to:

- Assess the project against its specified objectives at a particular stage in the project's lifecycle;
- Provide early identification of areas that may require corrective action; and
- Provide validation that a project is ready to progress successfully to the next stage.

The Gateway Review Process (GRP) has been developed to be applied to the procurement of infrastructure, information technology, property, goods and services. Through this, it aims to improve procurement discipline and outcomes.

Gateway is the application of high level, structured reviews at critical points (or gates) in the procurement process, as shown in the diagram.

They consider:

- the alignment of the project with agreed objectives,
- the benefits and value for money offered; and
- the management processes adopted.

The output of the review is a report for the department that indicates how well the project is proceeding. The report also provides guidance on where further work may be required to keep the project on track.

The Gateway Review Process will provide department management with confidence that an appropriate level of discipline is being applied to the procurement process. The project team may also find the advice of experienced procurement practitioners from other departments beneficial

Gateway Reviews are essentially an assessment of whether the processes used in developing and implementing a project are sound. They do not consider technical minutiae or investigate other options for developing and implementing the project.

This workbook provides a framework to conduct the Bid Evaluation Review. It is based on considering the project against seven key success factors, which are constants throughout the procurement process:

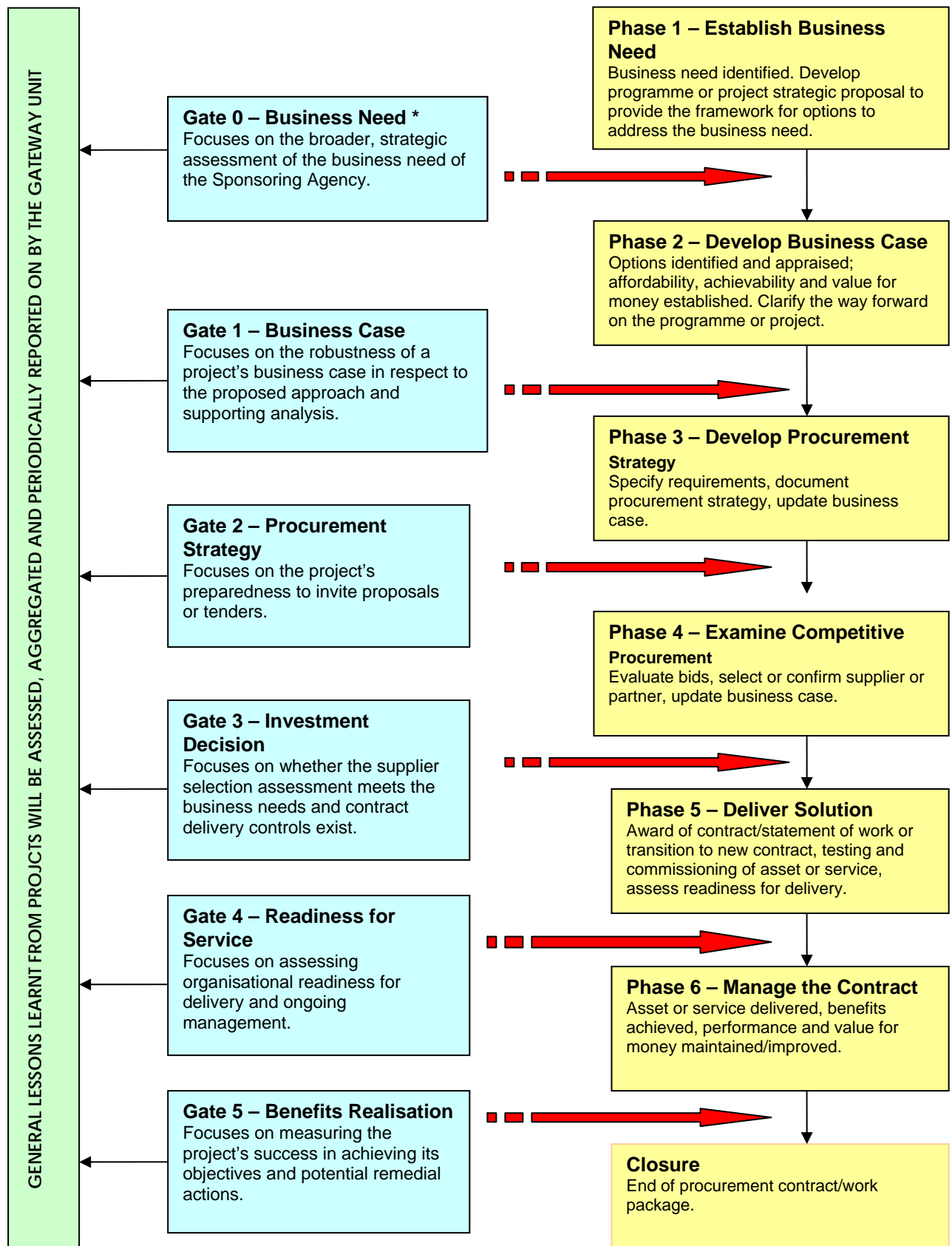
- service delivery
- affordability
- sustainability
- governance
- risk management
- stakeholder management
- change management

Indicators have been developed for each key success factor to assist the review team in evaluating a project. The Review Team is encouraged to expand this list of indicators to reflect the specific characteristics of the project.

It is intended that review teams use existing documentation and interviews with project stakeholders to gather information on the indicators. When this is completed, each of the factors is rated to provide the project team with a snapshot assessment. The recommended rating scale is:

0 –	This factor cannot be assessed
1 – Inadequate:	The Review Team’s opinion is that the project should not proceed until this aspect is improved.
2 – Marginal:	The Review Team’s opinion is that the project has some weaknesses in relation to this aspect. Additional effort should be put into this before the project proceeds.
3 – Satisfactory:	The Review Team’s opinion is that this aspect has been given adequate consideration not to jeopardise the success of the project.

The Gateway and Project Cycle is encapsulated diagrammatically hereunder:



* A Gate 0 Review may occur prior to the start-up stage of a programme or project if required, or during later stages of the project if required. The majority of projects subject to Gateway are not expected to undertake Gate 0 Reviews.

6.2.3 Support, Interventions assistance and guidance

The retrospective analysis of the 2008/09 financial year's SCM compliance assessments, AG reports, management letters and YM reports targeted the need for a refined capability assessment model and intervention plan which necessitated the requirement for the cataloguing of provincial departments from an SCM perspective. This allowed the Provincial Treasury to craft an intervention plan to address levels of non-compliance through targeted interventions with departments that would be responsive to deficiencies identified within each department as well as is responsive towards improving departmental SCM capacity.

The intervention training plan took into consideration a more holistic approach that would focus on the following disciplines:

- Identified policy imperatives that required improvement, review / enhancement;
- SCM operational training requirements;
- Deficiencies encountered from a Public Finance / expenditure perspective;
- Deficiencies encountered from a Budget Management perspective;
- Deficiencies encountered from a Governance / risk management perspective;
- Deficiencies encountered from a Financial Accounting perspective;
- Inadequate SCM Unit / resources;
- Internal control weaknesses;
- Lack of SCM skill;
- Inadequate procurement planning; and
- Fruitless and wasteful, irregular or unauthorised expenditure patterns.

These highlighted areas of focus and deficiencies identified further allowed the Provincial Treasury to rate departments against a financial capability model for SCM and to target bespoke remedial steps to take departments to the next level of financial capability for SCM.

These interventions are department specific that utilises a case study methodology to make SCM content more practically applicable to departments. However although the plan is in place a capacitating and implementation plan is required to develop the skill and resources within the Provincial Treasury so that the plan may be implemented and maximum impact is derived. The initiative is further linked to the broader Treasury LINE FUNCTION FORUM.

The following linkages with various Provincial Treasury line function disciplines have been identified:

DEFICIENCIES	IDENTIFIED INTERVENTION	RESPONSIBLE PT DISCIPLINE	LFF PROJECT LINKAGES
Non compliance to policy and prescripts	1. SCM Intervention Training 2. SCM policies and best practice guidelines 3. Assistance and Guidance	MAM	1. Interventions 2. Gateway Reviews and Training
	4. Risk Mitigation Frameworks / Policy and procedure 5. Internal Control 6. Governance Framework Implementation	ERM & Governance	ERM: Risk Mitigation framework for provincial departments
Demand processes	1. Market research 2. Needs Analysis / procurement planning	MAM	1. Gateway Reviews 2. SCM Interventions
	3. Budget management and linking procurement planning to Budget	Budget Office	Budget alignment with Strategic Plans and departmental APPs
Internal control weaknesses	Ensuring adequate control measures are in place for procurement & provisioning processes, and contract management	1. MAM 2. ERM & Gov 3. Accounting 4. Internal Audit	1. MAM: Gateway Reviews 2. ERM/GOV: Internal Control measures 3. ACC: SOPM for M&E Checks 4. I/A: Internal control
Risk mitigation procedures	Identification of Risk mitigation procedures within SCM	ERM & Gov	ERM: Risk Mitigation framework for provincial departments
Monitoring and evaluation of SCM	1. Implementation of an efficient and effective M&E environment 2. Performance Management of SCM	1. MAM 2. Accounting	1. AO System revamp; 2. ACC: SOPM for M&E Checks
Procurement Planning	1. Linking procurement to budget 2. Cash flow Management within the MTEF	1. Budget Office 2. Cash Management	1. Budget alignment with Strategic Plans 2. Cash Management and integration of financial systems
	3. IYM of spend on goods and services 4. Early warning signs on spending patterns 5. Programmatic planning of spend on goods and services	3. Public Finance	4. Preventing shifts of money and improving quality of the budget 5. Correlation between expenditure and procurement
Insufficient	1. Procurement Planning	1. MAM	1. Correlation between

motivation for deviations	2. SCM skill and Knowledge		expenditure and procurement 2. Interventions
	3. Requirements for deviation 4. Financial Management procedures	2. Accounting	3. Systematic improvement of skill of accounting practitioners 4. SOPM for M&E
Deviation from normal SCM procedure	1. SCM policy and procedure 2. Compliance	1. MAM	1. AO system revamp 2. Gateway Review
	3. Governance and Risk Mitigation requirements and procedure	2. ERM & Gov	3. Risk Mitigation and Governance Framework
Contract management	1. Vendor / supplier management 2. Contract administration procedures	1. MAM	1. Contract Management; Transparency and Accountability
	3. Governance and risk management procedures 4. Contract Law requirements	2. ERM & Gov 3. MAM & Legal Services	2. ERM/GOV: Risk Mitigation and Governance Framework 3. MAM: Contract Management
Standardisation of SCM procedures	1. SCM policy and Procedures 2. Alignment to policy and legislation	MAM	1. AO system revamp 2. Standardisation of SCM procedures
Record Keeping	1. Information management for SCM	1. MAM	
	2. Keeping of a proper audit trail (supporting documents etc.)	2. ERM & Gov 3. Accounting	1. SCM data integrity, transparency and accountability 2. ACC: Integrity of financial information
	3. Contracts, information management of supplier performance, trends and prior track record	5. MAM 6. ERM & Gov	3. Procurement information: transparency and accountability
Utilisation of	1. System Training 2. Requirements	MAM in conjunction	Compliance to system requirement;

EPSi	3. Control measures to enforce compliance	with departments	accountability and transparency
AOS and Delegations	Review, alignment, risk mitigation procedures, enforcement	MAM	AO system revamp and standardisation of SCM procedure.
Non compliance to own policies	1. Early warning signs 2. Control environment and M&E	1. MAM 2. Internal Audit	1. MAM: Gateway Review and Interventions 2. I/A Internal control
SCM skill / Capacity.	1. SCM Interventions 2. Assistance and Guidance	MAM	MAM interventions; assistance and guidance
SCM structure	Review	Departments	None
Code of Conduct for SCM	1. Awareness 2. Training 3. Enforcement	MAM in conjunction with department	SCM policy and interventions
Separation of duties	1. Awareness 2. Training 3. Enforcement	MAM in conjunction with department	Intervention and SCM policy
Fruitless and wasteful expenditure	1. Procurement Planning and budgeting 2. Cash flow Management within the MTEF	1. Budget Office & MAM 2. Cash Management	1. BO: budget alignment and strategic plans of departments (APP's) 2. Cash Management and integration of financial systems
	3. IYM of spend on goods and services 4. Early warning signs on spending patterns 3. Programmatic planning of spend on goods and services	3. Public Finance 4. Accounting	3. PF: Preventing shifts of money and improving quality of the budget 4. PF: Correlation between expenditure and procurement 5. ACC: SOPM for M&E Checks
Unauthorised and / or Irregular Expenditure	1. Financial Management policy and procedure	1. Accounting 2. ERM & Gov	1. ACC: SOPM for M&E Checks 2. ERM/GOV: Risk Mitigation and Governance Framework

•

Supporting frontline services: Supplier Database; E- procurement (IFMS) are also part of this intervention plan.

4.2.4 Transparency in SCM

A key focus within the directorate is also to improve transparency in SCM for the province and facilitate a public awareness on policy and awards made. This would be done through creating awareness in the public domain on SCM policy and procedure and provincial awards made for contracts for an amount of R200 000.00 and above, to ensure transparency in Provincial SCM.

The following key milestones will be focused on in the 2009/10 financial year:

- Publication of contract awards made on a monthly basis for contracts awarded by provincial departments on a monthly basis on the PT website.
- Publication of all national and provincial policy in respect of SCM on the PT website on an ongoing basis.
- Publication of a monthly article on the PT website on topical SCM issues.
- Development and implementation of an online capturing tool for contract data on the PT intranet website for provincial departments.

The on-line capturing tool would however require systems development and would have a cost implication which has to be further weighed against the IFMS process that when implemented will have this functionality.

4.2.5 Moveable Asset Management

A focus on moveable asset management refinement and progressively moving departments to a level 3 financial capability for moveable asset management is also a function of the directorate.

A process driven plan to give effect to the above includes:

- Quarterly Project Dashboard and Risk log assessment Reports
- Asset Management Verification and Capacity Assessments
- Intervention Training
- Assistance and Guidance
- Forum Meetings
- Implementation of National Treasury Policy requirements
- Integration and linkages with other Treasury units (Accounting, Systems, Corporate Governance)

The requirements hereunder must be linked to the Dashboard of the Asset Management work stream.

4.2.6 BBBEE / SMME development: Develop relationships with specifically black empowered SMME vendors in support of a preferential procurement strategy. (Balancing commercial imperatives with social responsibility)

Business is going through a revolution! At the start of the 21st century, driven by communication and information technologies, we have rapidly moved to a way of doing business with new rules and new competitors. And amidst all this change, a new business pattern is emerging. Simply put, any business that is involved in the making and/or delivery of products, services and/or information is no longer part of a linear value chain, but is part of a broader, more dynamic, interconnected, *collaborative community*, where each member benefits by focusing on profitably satisfying the personal wants and needs of the individual consumers that define the community

Business is going through a revolution and we live at the dawn of an economic transition as profound as the beginning of the Industrial Age. At the start of the 21st century, driven by communication and information technologies, we have rapidly moved to a way of doing business with new rules and new competitors. Every product is available everywhere.

Across the country, public and private partnerships in the form of joint ventures and business incubators are being established to support entrepreneurial activity. All colleges and universities currently teach courses in entrepreneurship. Yet despite all this start-up frenzy, there has never been so much doubt and confusion about what it takes to be successful.

In the midst of all of this government has the added responsibility of addressing its socioeconomic responsibility to empower and capacitate / provide opportunities to previously disadvantaged individuals and to SMMEs.

From a procurement perspective the Provincial Treasury shares in the mandate with the Department of Economic Development. Given the challenges around the legislation in respect of BBBEE, the Provincial Treasury has in the interim looked at addressing the following initiatives in respect of socioeconomic improvement from a procurement perspective:

- Addressing a supplier capacitation programme through the facilitating and arranging of supplier open days
- Development of a policy in respect of targeted procurement initiatives addressing the empowerment of small businesses within government procurement as well as black owned companies and companies having local content.

It would also be necessary to analyse the spending patterns of government on goods and services and to identify opportunities for black economic empowerment within the different sectors of the economy. Such analyses should include clear indications of the magnitude of the preferences that

should be included in bid documentation and should be applicable to all bids in a specific discipline; until such time that a specific goal has been achieved.

The National Treasury should spearhead the analyses in conjunction with the various role players in the particular sector/industry.

The SMME sector has a particularly important role to play in the creation of job opportunities in the economy. Targets for SMME participation in government procurement should be set in such a way that an element of "graduation" is incorporated to phase out preferences when a business outgrows the status of an SMME. Care should also be taken to insist on a minimum level of value added by SMME's in entertaining sub-contracting and joint venture arrangements to guard against "fronting" practices.

4.2.7 Strategic sourcing - selected goods and services – centralized basis – NTR's 16A6.5

In terms of Provincial Treasury Instruction 16A 2.3 issued in April 2008, the Provincial Treasury initiated a process that gave effect to the requirements of Regulation 16A6.5. A delegation framework as well as a Standard Operating Procedural manual was developed and issued to implement the process. The current provincial Recruitment and Advertising Bid was benchmarked against these sets of documentation.

One of the objectives of the work stream's terms of reference was to address bulk buying and economies of scale within Western Cape Government's procurement environment. The above mentioned frameworks were developed with these requirements in mind.

The following challenges with the current procedures have been identified:

An overly prescriptive and administratively burdensome process;
The requirement of additional capacity and skill within the unit.
The current processes and procedures with minimal tweaking and refinement will be able to be appropriate as well as eliminate the current administratively burdensome process.
The resource requirement will be dealt with under the human resources section. Further departmental spending patterns and commodity analysis needs to be undertaken to identify procurement trends and niche markets where the Provincial Treasury will be in a position to facilitate and arrange further transversal contracts by utilizing the strategic sourcing model.

4.3 CFO Structures and Capacitaion

In terms of National Treasury's Normative Measures for Financial Management

(Phase I: Perfecting the Basics), "the general principles for financial management in the public sector include:

- Financial management must be performed by or under supervision of personnel with the necessary technical training and proficiency.
- In all decisions affecting departmental outputs, financial impact must objectively be considered with the aim to provide the public with economical, efficient, effective and appropriate services or products.
- Due professional care must be exercised during all financial decisions affecting departmental outputs.

To achieve the aim of financial management as described above requires the involvement by the chief financial officer in the planning, design and control processes of the department. In terms of Treasury Regulation 2.1.2, the chief financial officer is directly accountable to the accounting officer. The chief financial officer should have an appropriate support structure that allows him/her sufficient opportunity to provide analysis, interpretations and appraisals that will assist and improve decision making in the institution.

Generally speaking, the skills required are categorised into 11 competency areas, which are:

- Strategic leadership and management
- Strategic financial management
- Operational financial management
- Governance, ethics and values in financial management
- Financial and performance reporting
- Risk and change management
- Project management
- Legislation, policy and implementation
- Stakeholder relations
- Supply chain management

In response to the challenges highlighted within the office of the CFO in the Discussion Section of this document and given the onerous burden of financial management, the following proposed responses to the challenges are made:

- Re-defining the focus of CFO offices
- Providing strategic support to the office of the CFO
- Integration within Provincial Treasury structures to give optimum support to CFOs.

To give effect to the above the following key focus areas must be given attention:

Review of Departmental CFO structures and post levels

The current CFO structures require review from an organisational development perspective to that the requisite structure is aligned to the functional requirements for SCM as well as the bespoke requirements of each department be considered and provided for within the proposed structure for each department. An Organisational Design enquiry requires to be conducted in respect of each department

Post levels within these structures must also be considered especially given the complex requirements of the procurement requirements of certain procurement processes especially when looking at the deficiencies within departments to give effect to the strategic requirements demand management and procurement planning processes.

The fast tracking of the recruitment process to fill vacant posts within CFO structures needs to be given effect to with immediate urgency.

Skills development

When giving effect to the appropriate structures and post levels, a concurrent skills development must be put in place by each department to deal with the up-schilling of SCM staff and all officials involved in the procurement process. A department specific skill development plan requires to be developed in this regard.

New Focus on CFO Offices

Standard Operating Procedures (SOP's) must be compiled by departments so as not to absolve them from their accountability as risk owners. These SOP's will be based on guidance and support which will be provided with the revision of Circular 44/2002.

Function of the Corporate Governance Unit within Provincial Treasury

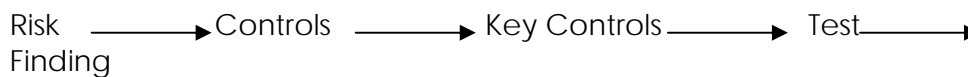
The functions of the unit will include:

- Review of Circular 44/2002
- Enforce the compilation of SOP's by departments
- Assess SOP's in line with legislation, policy and identified risks
- Monitor compliance thereto – inspectorate function

Obviously the inspectorate function that is envisaged would require further capacitating of the unit in respect of resources and skills involved, depending on the spectrum and detail of the inspection involved.

Inspection tool

ERA to be utilized as inspection tool, that will focus on the process depicted hereunder:



4.4 Refinement and Stricter control over current Legacy Systems

Provincial Treasury's Directorate: Interlinked Financial Systems will focus on areas of concern regarding the configuration of the systems, management of user accounts, segregation of duties and untrained users on the transversal financial systems (BAS, PERSAL and LOGIS), managed by Departmental Systems Controllers and the proposed solutions, to ensure more effective management of the system and limit the scope of the possibility of irregularities / fraud.

The normal day -to-day operation of the systems (structures, user access, exception reports, etc) is the responsibility of each provincial department, while Provincial Treasury is responsible for the rendering of transversal support services (training, user support, operation and implementation) to all departments within the provincial Government of the Western Cape. Provincial Treasury further provides the linkage between the respective provincial departments and the National Treasury as the principle of transversal systems.

The main duties of the Departmental System Controller include, but are not restricted to the following:

- Creation and maintenance of code structure (Vote/fund, program/subprogram, responsibilities, items, etc.);
- Provide access control security profiles and group profiles;
- Maintain parameters;
- Detect and investigate any inactive users;
- Monitor the effective utilization of the system;
- Enforce segregation of duties;
- Implement and control audit measures;

- Determine formal training requirements and provide person- to-person training when required;
- Report and follow up on any access and logon violations.

The Auditor –General reports and internal audit inspections for the 2008/09 financial year, has highlighted the fact that transversal systems are not properly managed and utilised at the departmental level, due the following shortcomings:

- Systems not configured in a standard format (organogram, establishment, budget structures, regional indicator (municipalities, wards), etc.);
- No departmental policy is in place to guide and direct access to the systems (who gets access and under what conditions);
- Lack of documented departmental procedures and defined responsibilities for the management of system users (application form, approval, termination, etc);
- System users are given access to the systems without any formal training;
- System users are given access to the systems under more than one user identification (undermining segregation of duties);
- Access to the systems are not monitored and evaluated on a regular basis (system users that have left the service of the department are still active o the system);
- No procedures are in place to report and follow up on any access and logon violations (possible irregularities / fraud).

This lack of effective management of transversal systems at a departmental level occurs despite Provincial Treasury training interventions, system circulars, user forums and workshops to emphasise System users are given access to the systems the importance of executing the functions in accordance with the prescribed procedures and processes.

Proposed Solution

To ensure that the systems are professionally managed by skilled and capacitated staff , configured in a standard format, access control properly executed , access and logon violations timeously identified and reported on and that policies are in place to guide the direct access, the system controller functions specifically relating to the day-to-day management of systems, be transferred to the Provincial Treasury.

This will exclude the related functions rendered by the departmental system controller which include the following:

- Orientation of departmental system users;
- Identification of training needs and the provision of person-to-person training;
- Distribute system notices / circulars and emphasise issues that require attention;

- Monitor effective utilization of the systems at a departmental level;
- Responsible for the compilation and maintenance of departmental manuals and procedures;
- Liaison between departmental system users and Provincial Treasury;
- Render a departmental user support (helpdesk) function.

Should the departmental system controller functions be transferred to the Provincial Treasury, the Provincial Treasury will be in a position to enforce the following processes and procedures:

- Implement generic policy pertaining to access and system security;
- Standardise system structures throughout departments to facilitate management information and reporting requirements;
- Establish on PERSAL an approved establishment in accordance with Cabinet;
- Limit / refuse access to new users who have not completed the required formal training in accordance with his / her profile;
- Implement effective user account management
- Standardise user I.D's to PERSAL number;
- Standardise password length;
- Password expiry period;
- Deactivate dormant as well as users who have left the service;
- Verify and monitor that resubmission queues and exceptions are addressed as a matter of urgency;
- Catalogue / request reports on a monthly basis that require ongoing attention by departments / institutions e.g. payments outstanding / older than thirty days.

The Provincial Treasury will confirm in writing to Accounting Officers, any amendments / additions to departmental structures as requested by departments.

5. CONCLUSION

In terms of section 18 of the PFMA it must be noted that the Provincial Treasury from an SCM perspective is required to play a crucial strategic role:

- To promote and enforce effective financial management
- To enforce SCM requirements of the Act
- Assist departments in building their capacity for an effective, efficient and transparent financial management
- To investigate any system of internal control and financial management
- Interventions by taking appropriate steps, and
- May do anything further that is necessary to fulfil its responsibilities effectively

Over the 2007/08 and 2008/09 financial year, the Provincial Treasury had made inroads into securing a better understanding of departmental challenges and deficiencies. PT has also made a concerted effort to capacitate the PT to enable giving effect to its key responsibilities; however a phased approach was envisaged to meet this responsibility.

In giving effect to the above would be the ultimate responsibility of the Provincial Treasury. The challenge of implementation would be the lack of resource capacity and a definitive approach needs to be adopted in re-looking at creating the required capacity within the Sub-programme 3.2.1 Moveable Asset Management within the Provincial Treasury by the review of the Unit's current structure through an organisational development assessment to be conducted in January 2010 as well as consider the split of the provincial and municipal requirements of the unit.

The following disciplines within the unit require capacitation:

- Policy review, implementation, setting of best practice norms and standards (SCM and AM)
- Compliance / Capacity assessment Unit (SCM and AM)
- Support, Interventions assistance and guidance (SCM and AM)
- Information Management, Data collation and expenditure analysis and review in respect of procurement (transparency)
- Supplier Helpdesk (call centre); Appeal process / supplier complaints
- Special SCM "investigations" not forensic in respect of corruption within SCM and collusive tendering practices
- BBBEE / SMME development: Develop relationships with specifically black empowered SMME vendors in support of a preferential procurement strategy. (balancing commercial imperatives with social responsibility)
- Strategic sourcing - selected goods and services – centralized basis – NTR's 16A6.5

Secondly, that the Directorate Corporate Governance deals with the CFO capacitation programme and inspectorate functions as discussed.

Thirdly that the Systems improvements and refinements discussed be implemented by the PT Directorate: Financial Interlinked Systems and that the departmental system controller functions specifically in respect of the day-to-day management of transversal systems be transferred to the Provincial Treasury. The Unit's current structure requires to be reviewed, through an organisational development assessment to be conducted in January 2010.

6. RECOMMENDATIONS

In giving effect to the above it is recommended that the Provincial Treasury implement and give effect to the following in respect of its section 18 mandate in terms of the PFMA:

6.1 Capacitate the Sub-programme 3.2.1 Moveable Asset Management within the Provincial Treasury to implement the following:

- Policy review, implementation, setting of best practice norms and standards (SCM and Moveable Asset Management);
- Strategic sourcing - selected goods and services – centralized basis – NTR's 16A6.5;
- Compliance Unit (SCM and Moveable Asset Management);
- Support, Interventions assistance and guidance (SCM and Moveable Asset Management);
- Information Management, Data collation and expenditure analysis and review in respect of procurement (transparency);
- Supplier Helpdesk (call centre); Appeal process / supplier complaints
- Special SCM "investigations" not forensic in respect of corruption within SCM and collusive tendering practices;
- BBBEE / SMME development: Develop relationships with specifically black empowered SMME vendors in support of a preferential procurement strategy. (balancing commercial imperatives with social responsibility).

6.2 To implement an inspectorate function within the Corporate Governance Unit to:

- Review of Circular 44/2002
- Enforce the compilation of SOP's by departments
- Assess SOP's in line with legislation, policy and identified risks
- Monitor compliance thereto – inspectorate function.

6.3 Refinement of policy and procedure in respect of the utilisation of the legacy systems and monitoring thereof by the Provincial Treasury Sub-programme 3.4 Supporting interlinked system to ensure:

- Enforcement and adherence to system requirements;
- Separation of duties in respect of requisitioning and approvals; and
- Better control measures in place to ensure efficient and effective utilisation over the next two years, whilst the province is preparing for the implementation of the National Integrated Financial Management System.

7. HUMAN RESOURCE IMPLICATION

7.1 SCM Refinement

The resource requirement of the Moveable Asset Management Unit requires further investigation and will be dealt with accordingly by the senior manager responsible for the directorate when the post structures are reviewed in January 2010 by OD.

The Provincial Treasury is further liaising with the National Treasury to guide and brainstorm the capacitation programme especially in respect of the reviewing of the current regulatory framework to tighten up on SCM requirements and enforce stricter control measures to address current gaps and concerns raised in the Key Findings of this document.

Policy issues around securing uniformity and standardisation within SCM policy whilst still addressing bespoke requirements. The implementation of SOP's and training and Capacitaion programme will also be addressed as well as the splitting of the municipal and provincial functions of the unit.

Implementation

The Provincial Treasury has already given effect to a phased 5 year implementation plan in respect of its APP goals and objectives for the unit as well as its has been agreed with the Premier that the above mentioned improvements in respect of the credibility and accountability of SCM will be incorporated into the executive dashboard.

The following processes have already been incorporated into the 2009/10 APP goals and objectives:

- The review of the AO systems of the Departments of Transport and Public Works; Health and Education;
- 12 x departmental capacity assessments for the MTEC and Governance Review Purposes;

- 12 x strategic Reviews in terms of the Gateway Review benchmarking departmental specific interventions (SCM and asset management)
- BEE / Supplier Development (1 x supplier open Day and draft procurement policy in respect of local content)
- 12 asset Management verification and capacity assessments
- 4 x Quarterly Procurement Statistics and data reporting
- 4 x Quarterly AM dashboard and risk log assessments
- Management of the EPSi, Western Cape Supplier Database and Recruitment Advertising transversal contracts
- Transparency dashboard project for SCM
- 7 municipal compliance assessments;
- 2 municipal specific interventions
- 8 forum meetings (Provincial and municipal included)
- Assistance and guidance to departments and municipalities.

The further requirements will be project driven on a project management basis and loaded onto the executive dashboard programme which will be a 5 year rolling plan. This will also be incorporated into the Provincial Treasury's 5 year Strategic Plan with effect from the 2010/11 financial year.

7.2 CFO structure and Capacitaion Programme

7.1.1 The Corporate Governance Inspectorate

The Corporate Governance Inspectorate function and the resources required require further investigation and will be dealt with accordingly by the senior manager responsible for the directorate when the post structures are reviewed in January 2010 by OD.

Implementation Plan

The implementation plan for the Corporate Governance Inspectorate will be effected via a phased approach spanning the next two financial years and include in the in the Provincial Treasury's 5 year Strategic Plan and APPs. This will be further unpacked by the end November 2009.

Phase 1:

- Review of Circular 44/2002
- Provision of good practice guidance
- Departments/municipalities to develop SOP's
- Provide support and guidance to Departments and municipalities in the development of SOP's

Phase 2:

- Assess SOP
- Ensure alignment to controls on ERA
- Investigate resource requirements
- Reconfigure PT inspectorate staff

Phase 3:

Monitor on a quarterly/bi-annually/ annual basis through inspection
Enforce process re-engineering if needed

7.3 Systems Refinement

No additional human resources is required at this stage, except the filling of 2 currently vacant posts within the directorate. However additional requirements will be dealt with in the OD review of PT in January 2010.

Implementation Plan

The further requirements will be project driven on a project management basis and loaded onto the executive dashboard programme which will be a 5 year rolling plan as the unit requires further capacitation to successfully give effect to its implementation plan.

8. FINANCIAL IMPLICATION

There are currently no financial implications that have projected in terms of improvements and refinements. The only other financial implications envisaged at this stage will be in respect of the PT structures that require enhancement which will be determined after the OD investigation in 2010



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

Private Bag X115, Pretoria, 0001 Tel: +27 12 315 5111, Fax: +27 12 315 5234

Enquiries: J.SOOBRAMANIAN Ref: 3/4/3/2/10 Tel: 315-5336 Fax: 328-5445
e-mail: jeyrel.soobermanian@treasury.gov.za

TO ALL
ACCOUNTING OFFICERS: NATIONAL DEPARTMENTS
HEADS: PROVINCIAL TREASURIES
CHIEF FINANCIAL OFFICERS: PROVINCIAL DEPARTMENTS
CHIEF EXECUTIVE OFFICERS / CHIEF FINANCIAL OFFICERS:
CONSTITUTIONAL INSTITUTIONS / PUBLIC ENTITIES

Supply Chain Management Office

IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT

This circular is applicable to all national and provincial departments, constitutional institutions and public entities as defined in schedule 3A and 3C of the Public Finance Management Act (PFMA). All accounting officers of national departments and heads of provincial treasuries are required to disseminate the contents of this circular to all chief financial officers of departments and public entities that fall under their jurisdiction.

The Supply Chain Management (SCM) system has been introduced to national and provincial departments and trading entities, constitutional institutions and schedule 3A and 3C public entities. To this end, the Policy To Guide Uniformity in Procurement Reform Processes in Government, the Regulations in terms of section 76(4)(c) of the PFMA: Framework for Supply Chain Management and the Amendment to the State Tender Board Act Regulations and other supporting documents were issued during December 2003 with a view to assist institutions with the implementation of the SCM process.

The National Treasury expresses its gratitude to all institutions that have commenced with the phasing in of the new concept as an integrated part of their financial management.



1

Communication with and analysis of implementation information received from institutions to which the framework for SCM apply, reveal that the following aspects require further clarity and guidance:

1. Accountability

- 1.1 Sections 36 and 49 of the Public Finance Management Act, No. 1 of 1999, (as amended by Act 29 of 1999) vest accountability with the accounting officer / authority. This includes the management of all finances. Only the accounting officer / authority may award bids where any finances are involved. This is for the procurement of goods and / or services by means of a competitive bidding process, including the procurement of fixed assets, as well as bids related to the sale of movable and / or immovable assets by means of a competitive bidding process. The sale of land must comply with the prescripts of the State Land Disposal Act, No. 48 of 1961. The accounting officer / authority is empowered to delegate decision-making to subordinates who are officials, but accountability cannot be delegated.

2. Unsolicited bids

- 2.1 An accounting officer / authority is not obliged to consider unsolicited bids received outside a normal bidding process.
- 2.2 If an accounting officer / authority decides to consider an unsolicited bid, he or she may do so only if –
- (a) The product or service offered in terms of the bid is a unique innovative concept that will be exceptionally beneficial to, or have exceptional cost advantages for the institution;
 - (b) The person who made the bid is the sole provider of the product or service; and
 - (c) The need for the product or service by the institution has been established during its strategic planning and budgeting processes.

3. Payments of Accounts

- 3.1 The General Conditions of Contract prescribes that accounts must be paid within thirty (30) days after delivery of goods and / or services. Concerns were raised that institutions are not fulfilling their obligations in this regard. Non-payment within the prescribed contractual time limit may be regarded as breach of contract. Accounting officers / authorities are, therefore, requested to have the necessary measures in place to ensure that accounts are paid within the contractual time limit.

4. Appointment of Bid Committees

- 4.1 The accounting officer / authority should appoint bid committees as indicated below:

(a) Bid specification committee

This is the committee responsible for the compiling of bid specifications. The specifications should be written in an unbiased manner to allow all potential bidders to offer their goods and or services. The specification committee may be composed of officials of a department (i.e. the procurement department or the department requiring the goods or services), a committee appointed by the accounting officer / authority or his / her delegate, one or more qualified officials or an external consultant under direction of the officials concerned. It is recommended that specifications should be approved by the accounting officer / authority or his / her delegate(s), e.g. the adjudication committee, prior to advertisement of bid(s) as bids may only be evaluated according to the criteria stipulated in the bid documentation.

(b) Bid evaluation committee

This committee is responsible for the evaluation of bids received, which include verification of:

- the capability/ability of the bidder to execute the contract
- tax clearance certificate issued by the SARS
- national industrial participation programme requirements (only applicable for contracts in excess of R 10 million).

Bids may only be evaluated in accordance with the criteria specified in the bid documentation. According to the prescripts of section 2 of the Preferential Procurement Policy Framework Act, No. 5 of 2000 (PPPFA) bids must be evaluated in accordance with a preference point system. Any specific goal for which a point may be awarded must be clearly specified in the invitation to submit a bid.

The evaluation committee should be cross-functional and should be composed of supply chain practitioners and officials from the user departments requiring the goods and / or services.

The evaluation committee should evaluate all the bids received and submit a report and recommendation(s) regarding the award of the bid(s) to the adjudication committee.

(c) Bid adjudication committee

The adjudication committee should be cross functional of whom at least one member should be a supply chain practitioner. When

possible, the chairperson of the committee should be the institutions' chief financial officer. The committee should be composed of at least four senior officials and should consider the report(s) and recommendation(s) made by the evaluation committee. Depending on the delegations granted by the accounting officer / authority, the adjudication committee could make the final award of the bid, or make a recommendation to the accounting officer / authority to make the final award.

The evaluation and adjudication committees should be composed of different members to ensure that a transparent review of the evaluation is undertaken. Members of the evaluation committee may present their reports to the bid adjudication committee and clarify any uncertainties. Such members should not have any voting power on the adjudication committee.

The bid specification, evaluation and adjudication processes must be within the ambit of section 217 of the Constitution as well as the prescripts contained in the PPPFA and the Broad-Based Black Economic Empowerment Act, No. 53 of 2003 (BBBEE Act), and their associated regulations.

The accounting officer / authority may utilize the services of any other institution's bid committees if and when required.

5. Late Bids

- 5.1 Bids received late should not be considered.
- 5.2 Bids are late if they are received at the address indicated in the bid documents after closure time.
- 5.3 Late bids should not be admitted for consideration and where practicable should be returned unopened to the bidder accompanied by an explanation.
- 5.4 Accounting officers / authorities should re-advertise the bid if no bid or no suitable bid was received by closure time.

6. Publication Of Awards

6.1 Notification of acceptance

- 6.1.1 Successful bidders should be notified by registered or certified mail of the acceptance of their bids.
- 6.1.2 The following information on the successful bids should be made available on the institutions website and, if so decided by the Accounting Officer, also in the media where the bid was originally advertised:

- (i) Contract number and description;
- (ii) Name(s) of the successful bidder(s), the contract price(s), brands, delivery basis and where applicable, preferences claimed.

Bids are not available for perusal by the public. Any bidder should, when requesting it in writing, be provided with the reasons why his / her own bid was not successful. The reasons why another bidder's bid was unsuccessful should not be supplied, as this may contain privileged information (e.g. a negative banking report). No itemized prices other than the formal contract prices of the successful bidder(s) should be supplied to competitors. According to the prescripts of section 36 of the Promotion of Access to Information Act, No. 2 of 2000, no information may be revealed that will prejudice a third party in commercial competition. Revealing itemized prices of unsuccessful bidders may reveal their trade secrets / strategies and no such information should be revealed without the written consent of the relevant bidder(s).

7. Delegations

- 7.1 Sections 44 and 56 of the PFMA empower the accounting officer / authority of an institution to delegate decision-making powers to officials. The following should apply to acquisition of goods and / or services and the disposal and letting of assets:
- (i) All delegations must be in writing to the individual officials;
 - (ii) The accounting officer / authority should decide whether he/she delegates decision-making powers regarding the final award of bids to the adjudication committee and what the threshold values in this regard should be;
 - (iii) Should the accounting officer / authority resolve that the adjudication committee awards bids only up to a specified threshold value, bids above that threshold value should be referred to the accounting officer / authority for finality;
 - (iv) Should the adjudication committee or the accounting officer / authority decide to award a bid to a bidder other than the one recommended by the evaluation or adjudication committee respectively, the accounting officer / authority should, within seven working days, in writing, notify the Auditor-General, the relevant provincial treasury and the National Treasury and, in the case of a public entity, also the parent department, of the reasons for deviating from such recommendations.

8. Participation of advisors

- 8.1 The accounting officer / authority may procure the services of advisors to assist in the execution of the supply chain management function. These services should be obtained through a competitive bidding process. No advisor may, however, form part of the final decision-making process


regarding the award of bids, as this will counter the principle of vesting accountability with the accounting officer / authority. The accounting officer / authority cannot delegate decision-making authority to a person other than an official.

9. Training

- 9.1 It is the responsibility of the accounting officer / authority to ensure that supply chain practitioners within their institutions are trained in accordance with the *Guide for minimum training and deployment* issued as "Practice note number SCM 5 of 2004: Training of Supply Chain Management Officials". The National Treasury has also established a Validation Board (as an informal quality control mechanism) whereby training providers could apply to have specific courses validated. Courses that are of an acceptable level of quality and are consistent with the relevant legislation and reforms are granted validation. This form of validation is aimed at giving accounting officers / authorities an indication that the course would provide value for money. Details of courses that have been validated by the Validation Board are posted on National Treasury's web page <http://www.treasury.gov.za> / pfma.

10. Access to Supply Chain Management documents

- 10.1 All documents relevant to Supply Chain Management are available electronically on National Treasury's web page <http://www.treasury.gov.za> /organisation/ specialist functions/ supply chain management: norms and standards.


JAN BREYTENBACH
CHIEF DIRECTOR: NORMS AND STANDARDS
DATE: 2004/10/27.

Jan 698-Circular



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

Private Bag X115, Pretoria, 0001 Tel: +27 12 315 5111, Fax: +27 12 315 5234
Enquiries: J SOOBRAMANIAN Ref: 3/4/3/2/10 Tel: 315-5336 Fax: 326-5445
e-mail: joyrel.soobermanian@treasury.gov.za

TO ALL
ACCOUNTING OFFICERS: NATIONAL DEPARTMENTS
HEADS: PROVINCIAL TREASURIES
CHIEF FINANCIAL OFFICERS: PROVINCIAL DEPARTMENTS
CHIEF EXECUTIVE OFFICERS / CHIEF FINANCIAL OFFICERS: CONSTITUTIONAL INSTITUTIONS /
PUBLIC ENTITIES

Supply Chain Management Office
Practice Note Number SCM 3 of 2004

**CHECKLIST FOR THE IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT AND MONTHLY
REPORTING OF SUPPLY CHAIN MANAGEMENT INFORMATION**

This practice note is applicable to all national and provincial departments, constitutional institutions and public entities as defined in schedule 3A and 3C of the Public Finance Management Act (PFMA). All accounting officers of national departments and heads of provincial treasuries are required to disseminate the contents of this practice note to all Chief Financial Officers of departments, constitutional institutions and public entities that fall under their jurisdiction.

- 1 The Public Finance Management Act, 1999 (Act No. 1 of 1999 as amended by Act No. 29 of 1999) and the Regulatory Framework for Supply Chain Management that was promulgated on 5 December 2003 as Treasury Regulations in terms of section 76(4)(c) of the PFMA empowers the National Treasury, in consultation with provincial treasuries, to oversee and monitor the implementation of the supply chain management function and the achievement of government's broader policy objectives within all institutions to which the Regulatory Framework apply.
- 2 Paragraph 11 of the Regulatory Framework for Supply Chain Management prescribes the following regarding an institution's responsibility in respect of reporting of supply chain management information:
 - (1) The accounting officer or accounting authority of an institution to which these regulations apply must submit to the relevant treasury such supply chain management information as that treasury may require.
 - (2) A provincial treasury must submit to the National Treasury such supply chain management information as the National Treasury may require.

- (3) Information referred to in subregulation (1) or (2) must be submitted to a relevant treasury in such format and at such intervals as that treasury may require."

3 Based on these prescripts, the National Treasury compiled and issued, a *Checklist for the implementation of Supply Chain Management* and a *Reporting Questionnaire for Supply Chain Management Information* to all institutions on 25 March 2004 and 27 May 2004 respectively.

4 Checklist for the implementation of Supply Chain Management

4.1 The purpose for the issuance of the *Checklist for the implementation of Supply Chain Management*, which was due to be submitted to the National Treasury by 1 June 2004, was to guide accounting officers / authorities in the implementation of supply chain management within their institutions and also to monitor their status regarding the implementation process with a view to providing assistance and guidance where necessary.

5 Reporting Questionnaire for Supply Chain Management Information

5.1 The National Treasury's aim for the issuance of the *Reporting Questionnaire for Supply Chain Management Information* was to, among others, provide the Minister of Finance with consolidated reports to enable him to regularly report to Cabinet and Parliament on the progress made in the public sector procurement reform process with the focus being on Black Economic Empowerment.

5.2 Institutions were required to submit reports in respect of each contract concluded for the months of April 2004 to June 2004 by 15 July 2004, thereafter, reports were to be submitted within 15 days of the end of each month for that month.

6 The National Treasury is, however, concerned with the unsatisfactory response received from institutions on both the *Checklist for the implementation of Supply Chain Management* and *Reporting Questionnaire for Supply Chain Management Information*. Reports have not been received from majority of the institutions.


This undesirable situation makes it impossible for the National Treasury to furnish Cabinet and Parliament with a reliable report on the status on supply chain management implementation and the progress made towards black economic empowerment in the area of government procurement.

Failure of the majority of institutions to submit the required information necessitates the issuance of this practice note as an instruction to provincial treasuries, departments, constitutional institutions and public entities to submit the information timeously.

The Office of the Auditor-General has undertaken to report on compliance with the requirements of this practice note.

7 To this end, the attached supply chain management implementation checklist and information reporting questionnaires are again issued to institutions.

- 7.1 Institutions that have already submitted the information required in terms of the *Checklist for the implementation of Supply Chain Management* may submit another return if their implementation status has changed since 1 June 2004. Institutions that have not submitted the required information to date must complete and submit the checklist to the National Treasury by 15 September 2004.
- 7.2 Institutions that have already submitted information required in terms of the *Reporting Questionnaire for Supply Chain Management Information* for contracts awarded for the months of April 2004 to June 2004 must submit reports for the months of July 2004 and August 2004 by 15 September 2004. Institutions that have not submitted any reports are required to submit reports on all contracts awarded for the months of April 2004 to August 2004 by 15 September 2004, thereafter, reports must be submitted within 15 days of the end of each month for that month.
- The information required must be submitted for all contracts awarded above the threshold value for verbal or price quotations. It is also recommended that the reporting questionnaire should be completed as and when each contract is concluded in order to ease the workload that may result if the questionnaire is completed only at the end of the relevant month.
- 8 The National Treasury envisages submitting the reports to Cabinet and Parliament by the end of September 2004. Non-compliance to the requirements of this practice note will also be captured in the reports.
- 9 The completed questionnaires must be submitted to the National Treasury for the attention of Mr Jan Breytenbach, Chief Director: Norms and Standards to Private Bag X 115, Pretoria, 0001 or by facsimile on (012) 326 5445 or by e-mail on jan.breytenbach@treasury.gov.za.
- 10 Any enquiries in this regard may be directed to Jeyrel Soobramanian or Dan Naidoo on telephone (012) 315 5336 or (012) 315 5348 respectively.
- 11 Your co-operation in this regard is appreciated.


JAN BREYTENBACH
CHIEF DIRECTOR: NORMS AND STANDARDS
DATE: 2004/08/23

Js320w 1 scm reporting quest

**CHECKLIST: IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT (SCM) WITHIN NATIONAL DEPARTMENTS/
NATIONAL PUBLIC ENTITIES/CONSTITUTIONAL INSTITUTIONS/PROVINCIAL DEPARTMENTS AND PROVINCIAL
PUBLIC ENTITIES**

NAME OF INSTITUTION: _____

KINDLY INDICATE N/A (NOT APPLICABLE) IF A QUESTION DOES NOT APPLY TO YOUR INSTITUTION

DUE BY: 15 SEPTEMBER 2004

Critical Performance Area	Basic Evaluation	Yes/ No	Actual Performance	Remarks
Accounting Officers (AOs)/Authorities (AAs)	1 Is your institution's SCM Unit established within the office of the CFO?			
Chief Executive Officers (CEOs)	2 Indicate the number of staff employed within the SCM unit? -Post approved -Post filled -Total salary costs (Total package)			
Chief Financial Officers (CFOs)	3 Have job descriptions been drawn up for each post within the SCM unit?			
	4 Has a detailed implementation plan for SCM been developed? If yes, is progress measured against it?			

Critical Performance Area	Basic Evaluation	Yes/ No	Actual Performance	Remarks
5	Has the institution provided for all the elements of the SCM function (Demand management to Assessment of SCM performance?) -Are needs assessment done before each acquisition? -Are the preferential policy objectives identified that could be met through each contract? -Are items codified? -Is the performance of vendors monitored? -Does the institution analyze whether proper processes are followed and desired objectives are reached?			
6	Does the institution still require the services of the tender board? If no, confirm whether the structures are in place (e.g. bid adjudication committees/ written delegation) to operate outside of the tender board?			

Critical Performance Area	Basic Evaluation	Yes/ No	Actual Performance	Remarks
	12 Have responsibilities (including values) been delegated to SCM practitioners/ committees in writing?			
	13 Is there a mechanism in place to verify bidders claims for preferences/ compliance to SARS/DTIs requirements/ capabilities, etc. prior to the award of a contract?			
	14 Is procurement of goods and services de-centralized? If yes, indicate to what level?			
	15 How are decisions on bid awards documented?			
	16 Are bid advertisements and awards advertised in at least the Government Tender Bulletin?			
	17 What other methods are used to advertise bids to promote BEE?			
	18 How regularly is your data base for BEE suppliers updated?			

Critical Performance Area	Basic Evaluation	Yes/ No	Actual Performance	Remarks
	19 Is there a data base established for redundant/obsolete store items			
	20 What methods are used for the disposal of movable state assets?			
	21 Are de-briefing sessions held with unsuccessful bidders?			
	22 Are IT contracts arranged through SITA?			
	23 Are any contracts arranged through the Public Private Partnership (PPP) Unit? If yes, indicate values and projects			
	24 How are training needs for SCM practitioners determined?			
	25 What training programmes do you have in place?			
	26 Which training service providers are conducting or will be conducting SCM training at your institution?			

REPORTING OF SUPPLY CHAIN MANAGEMENT INFORMATION

MONTHLY REPORTING QUESTIONNAIRE (To be completed for each contract awarded)

NB: Reports in respect of each contract awarded for the months of April 2004, to August 2004 must be submitted by 15 September 2004, thereafter, reports must be submitted within 15 days of the end of each month for that month.

1	Name of Department	
2	Contract Number	
3	Contract Date	
4	Contract Description	
5	Name of Contractor	
6	Percentage equity ownership by black persons (no franchise prior to elections) based on information furnished on Standard Bidding Document (SBD) 6.1	
7	Percentage equity ownership by black women based on information furnished on SBD 6.1	
8	Percentage equity ownership by white women based on information furnished on SBD 6.1	
9	Outsourced / subcontracted business to small businesses as a percentage of annual turnover based on information furnished on SBD 6.3, if applicable	
10	% local content of final product in relation to the bid price based on the information furnished on SBD 6.4, if applicable	
11	Total contract price [A]	R
12	Total price of lowest acceptable bid (price of bid scoring the highest points for price) [B]	R
13	Premium paid to promote specified goals [C = (A-B)]	R
14	Percentage premium paid (C/B X 100)	

INFORMATION FURNISHED BY: _____ DATE: _____

SIGNATURE: _____ DESIGNATION: _____

Glossary / Acronyms

AG:	Auditor-General
AO:	Accounting Officer
APP	Annual Performance Plan
BAS:	Basic Accounting System
BBBEE:	Broad Based Black Economic Empowerment
BEE:	Black Economic Empowerment
CFO:	Chief Financial Officer
EPS:	Electronic Purchasing System
FMIP	Financial Management Improvement Plan
FMS:	Financial Management System
GAMAP:	Generally Accepted Municipal Accounting Practice
GIAMA:	Government-wide Immovable Asset Management Act
GRAP:	Generally Recognised Accounting Practice
HDI:	Historically Disadvantaged Individual
IFMS:	Integrated Financial Management System
IYM:	In-Year Monitoring
MFMA:	Municipal Finance Management Act, 2003 (Act 56 of 2003)
MTEC	Medium Term Expenditure Committee
MTEF:	Medium Term Expenditure Framework
MTFF:	Medium Term Fiscal Framework
MTREF	Medium Term Revenue Expenditure Framework
NT:	National Treasury
NTR:	National Treasury Regulations
PERSAL:	Personnel and Salary Administration System
PER&O:	Provincial Economic Review and Outlook
PFMA:	Public Finance Management Act, 1999 (Act 1 of 1999)
PGWC:	Provincial Government Western Cape
PPPFA	Preferential Procurement Policy Framework Act
PT:	Provincial Treasury
SCM:	Supply Chain Management
SME:	Small and Medium Enterprises
SMME:	Small Medium and Micro Enterprise
SMS:	Senior Management Service
TCF:	Technical Committee on Finance
TOR:	Terms of Reference

References

- Articles:

-

 1. Breul, Jonathan; "Shared Services: Private Sector Example and Some Lessons Learnt," Federal Financial Management Conference, 11 March 2008.
 2. Ho Lai Kwin: "Transforming Government with SAP Shared Services," Public Service APJ, 9 July 2008.
 3. KPMG International: "Modernising Government," Publication No 309-974, December 2007.
 4. KPKG and Economist Intelligence Unit: "Performance Agenda," Taubman Centre for Public Policy, Brown University, July 2007.
 5. Phil Searle: Chazy Limited, "A Shared Agenda," 10 October 2006.
 6. SAP, "White Paper on Shared Services," SAP, AG, 2004.
 7. Tripp Babbet; "Failure through Shared Services," 6 March 2009.
 8. Turner, J; Adair, "CBI response to "Gershon" Review of Government Procurement", Confederation of British Industry; February 1999.
 9. Public Management LTD: "London Centre of Excellence" – Shared Services, Final Report, June 2006.
 10. ZD Net UK: "MPs Condemn DfT shared services failure," 16 December 2008.

- Websites:

-

 11. <http://gautengonline.gov.za>
 12. <http://www.cio.gov.uk/sharedservices>
 13. www.thefinancedirector.com
 14. www.thefinancedirector.com
 15. www.opm.co.uk
 16. www.treasury.gov.za

- Legislation and Policy

17. The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
18. The Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) (as amended by Act No. 29 of 1999),
19. The Preferential Procurement Policy Frameworks Act, 2000 (Act No. 5 of 2000)
20. National Treasury Regulations Issued in terms of the Public Finance Management Act, 1999 dated March 2005
21. Provincial treasury Instruction 16A 2.3 issued in April 2008,
22. Normative Measures for Financial Management (Phase 1: Perfecting the Basics)
23. National Treasury Circular dated 27 October 2004: "Implementation of Supply Chain Management,"
24. National Treasury Practice Note Number SCM 3 of 2004: " Checklist for the Implementation of Supply Chain Management and monthly Reporting of Supply Chain Management Information,"
25. National Treasury Circular dated 9 May 2006: "Exemptions from Supply Chain Management Framework."
26. National treasury Guidelines for the Issuance of Supply Chain Management Framework in terms of Section 76 (4) (c) of the PFMA, December 2002.