

Reference: RCS/C.5

TREASURY CIRCULAR MUN NO. 10/2017

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THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

DEMAND MANAGEMENT & ACQUISITION MANAGEMENT RISK REGISTER

1. PURPOSE

The demand management and acquisition management risks and controls have been researched and documented to guide our local government risk practitioners on possible risks to be considered when facilitating a Supply Chain Management (SCM) risk identification and assessment workshop.

2. BACKGROUND

The need for providing our risk practitioners with this guidance was highlighted during our July 2015 Municipal Risk Management Forum.

To assist municipalities, the Provincial Treasury stepped up to the plate and compiled the demand management and acquisition management risk registers. The risk registers were distributed to all our local government risk practitioners for their inputs on 6 March 2017.

It was further strengthened by the AGSA's presentation on 16 March 2017 which highlighted the stagnation of SCM. This reinforces the need for active risk management in this area.

3. REQUIRED ACTION

In our stride to assist our local government risk practitioners in driving risk management to greater levels of maturity within their respective institutions, the Provincial Treasury requests that all risk practitioners assist their SCM unit with risk identification, assessment and development of sound risk response strategies.

4. CONCLUSION

The Provincial Treasury would like Management to use risk management as a valuable tool to increase the institutions prospects of success through minimising negative outcomes and optimising opportunities.



ASHLEY THOMAS

ACTING DIRECTOR: FINANCIAL GOVERNANCE

DATE: 31 March 2017

XYZ Municipality

Directorate: Finance
Sub-Directorate: Supply Chain Management

Objective:

Process	RISK REF No.	RISK	EFFECT	IMPACT AREA					CONTROL REF No.	CONTROLS	
				Financial	Service Delivery	Reputational	Compliance	OH&S			
Acquisition Management	PROCUREMENT										
	PETTY CASH PURCHASES (Up to a transaction value of R2 000 VAT included)										
	AM-R1	Misuse of petty cash	* Unauthorised, irregular, fruitless & wasteful expenditure * Non-compliance to applicable laws and regulations	✓			✓		AM-C1	Municipal Finance Management Act (MFMA)	
									AM-C2	A SCM policy which stipulates the conditions for procurement of goods and services by means of petty cash purchases	
									AM-C3	The Director: SCM managers implementation of the SCM policy	
									AM-C4	Implementation of the SCM policy is reviewed at least annually	
									AM-C5	In terms of the municipal delegations, council maintains oversight over the implementation of the SCM policy	
									AM-C6	The accounting officer ensures that a report is submitted to council within 30 days of the end of each financial year on the implementation of the SCM policy	
									AM-C7	The accounting officer ensures that a report is submitted to the mayor within 10 days of the end of each quarter on the implementation of the SCM policy	
									AM-C8	Municipal supply chain regulation no. 12(1)(a) & 15(1)	
									AM-C9	System of delegations stating who may authorise petty cash purchases	
									AM-C10	Dedicated SCM personnel to manage & supervise petty cash	
									AM-C11	Monthly reconciliation reports to the CFO	
									AM-C12	Limit the number of petty cash purchases or the maximum amounts per month for each manager	
									AM-C13	Petty cash policy	
AM-C14									Recording disbursement of petty cash in a petty cash register		
	WRITTEN OR VERBAL QUOTATIONS (Transaction value over R2 000 up to R10 000 VAT included)										
	AM-R2	Abuse of the written or verbal quotations procurement method	* Irregular expenditure * Non-compliance to applicable laws and regulations * Possible negative publicity	✓		✓	✓		AM-C2	A SCM policy which stipulates the conditions for the procurement of goods and services through written or verbal quotations	
									AM-C3	The Director: SCM managers implementation of the SCM policy	
									AM-C4	Implementation of the SCM policy is reviewed at least annually	
									AM-C5	In terms of the municipal delegations, council maintains oversight over the implementation of the SCM policy	
									AM-C6	The accounting officer ensures that a report is submitted to council within 30 days of the end of each financial year on the implementation of the SCM policy	
									AM-C7	The accounting officer ensures that a report is submitted to the mayor within 10 days of the end of each quarter on the implementation of the SCM policy	
									AM-C8	Municipal supply chain regulation no. 16(1)	
									AM-C9	System of delegations stating who may authorise use of the written or verbal quotation procurement process	
									AM-C15	On a monthly basis the accounting officer or the CFO is notified in writing of all written or verbal quotations	

	FORMAL WRITTEN PRICE QUOTATIONS (Transaction value over R10 000 up to R200 000 VAT included)									
	AM-R3	Accepting formal written price quotations from non-accredited prospective providers	* Irregular expenditure * The possibility exist that service delivery could be negativity affected * In turn poor service delivery will diminish the reputation of the municipality * Non-compliance to applicable laws and regulations	✓	✓	✓	✓		AM-C2	A SCM policy which stipulates the conditions for the procurement of goods and services through formal written price quotations
									AM-C3	The Director: SCM, managers implementation of the SCM policy
									AM-C4	Implementation of the SCM policy is reviewed at least annually
									AM-C5	In terms of the municipal delegations, council maintains oversight over the implementation of the SCM policy
									AM-C6	The accounting officer ensures that a report is submitted to council within 30 days of the end of each financial year on the implementation of the SCM policy
									AM-C7	The accounting officer ensures that a report is submitted to the mayor within 10 days of the end of each quarter on the implementation of the SCM policy
									AM-C8	Municipal supply chain regulation no. 17(1)
									AM-C16	Dedicated SCM personnel assigned the responsibility of ensuring that prospective providers are listed on the accredited list of prospective providers
									AM-C15	On a monthly basis the accounting officer or the CFO is notified in writing of all formal written price quotations
									AM-C17	The accounting officer ensures that a list of accredited prospective providers of goods & services that MUST be used for the procurement requirements of the municipality is maintained
	AM-R4	The same providers submitting quotations	* Non-compliance to applicable laws & regulations	✓	✓	✓	✓		AM-C18	At least once a year prospective providers of goods & services are invited to apply for evaluation and listing as accredited prospective providers
									AM-C19	The list of prospective providers are updated at least quarterly to include additional prospective providers
									AM-C20	At least three quotations are requested from different providers whose names appear on the list of accredited prospective providers
									AM-C21	Reasons for not obtaining at least 3 written price quotations are recorded
									AM-C22	The reasons recorded are approved by the CFO or an official designated by the CFO
									AM-C23	Pre-qualified providers are invited to participate in the competitive bidding process
									AM-C24	The Head of SCM ensures that the competitive bidding process is open and transparent
									AM-C25	The accounting officer ensures that accurate record is kept of the names of potential providers and their written quotations
		COMPETITIVE BIDDING (Above a transaction value of R200 000 VAT included)								
AM-R5		Irrelevant & insufficient documentation provided by bidders when the value of transactions are expected to exceed R10 million (VAT included)	* Non-compliance to applicable laws & regulations				✓		AM-C2	A SCM policy which determines the criteria to which bid documentation for a competitive bidding process must comply
									AM-C8	Municipal supply chain regulation no. 21(1)(a) & (d)
									AM-C26	A checklist of bid documents are in place for bidders
									AM-C27	Standard bid documents are ready and available before the bid requirements are advertised
									AM-C28	Bid documents are collected by or e-mailed or posted to pre-qualified suppliers
									AM-C29	Bid documentation are reviewed by the Head of SCM before bids are advertised

									AM-C30	Bids that are received with insufficient documentation are declared 'invalid bids' and the Bid Evaluation Committee & the Bid Adjudication
	AM-R6	Failure to encourage competition amongst prospective providers	* Non-compliance to applicable laws & regulations		✓		✓		AM-C31	Only pre-qualified providers are invited to participate in the competitive bidding process
									AM-C32	The Head of SCM ensures that the competitive bidding process is open and transparent
									AM-C33	Reasons for not obtaining at least 3 written price quotations are recorded
									AM-C34	The reasons recorded are approved by the CFO or an official designated by the CFO
									AM-C35	Council approved SCM policy that stipulate procedures for a competitive bidding process for the compilation of bidding documentation
									AM-C36	General conditions of the contract
									AM-C37	Treasury guidelines on bid documentations
									AM-C38	Prescripts of the Construction Industry Development Board (CIDB) Act, 2000
	AM-R7	Insufficient time given to pre-qualifying suppliers to respond to bid advertisement		✓	✓	✓	✓		AM-C39	Council approved SCM policy which stipulates the procedures for the invitation of competitive bids
									AM-C40	Suppliers are invited publically
									AM-C41	Bids are advertised in the local newspaper, the municipal website or any other appropriate ways (including the Government Tender Bulletin) for at least 30 days in the case of transactions over R10 million (VAT included) or 14 days in any other case before closure
									AM-C42	The accounting officer only approve a closure date for the submission of bids which is less than 30 or 14 days if the shorter period is justified on the grounds of urgency or an emergency or any exceptional case where of is impractical or impossible to follow the official procurement
	AM-R8	Acceptance of late bids	* Irregular expenditure * Non-compliance to applicable laws & regulations	✓			✓		AM-C2	A SCM policy which stipulates the procedures for handling, opening and recording of bids
									AM-C43	Late bids are returned unopened to the bidder
									AM-C44	All bids are opened in public
									AM-C45	All bids received by closure are opened at the same time
									AM-C46	The bids are opened by 2 SCM officials & recorded in a register
									AM-C47	2 SCM officials stamp and sign each page of the bid
									AM-C48	Any bidder or member of the public may request a list of the names of the bidders and if practical each bidder's total bidding price
									AM-C49	The accounting officer ensures that all bids received in time are recorded in a register
									AM-C50	The accounting officer makes the register available for public inspection
									AM-C51	The accounting officer ensures that the entries in the register and the bid results are placed on the municipal website
	AM-R9	Bids awarded to providers that do not comply with specifications	* Irregular expenditure (Collusion, kickbacks, favouritism) * Poor service delivery * Non-compliance to laws & regulations	✓	✓		✓		AM-C52	The relevant bid documentation received is compared to the specifications
									AM-C53	Bids are evaluated by the bid evaluation committee, of which SCM forms part of, to ensure objectivity
									AM-C54	Recommendations made by the bid evaluation committee are approved by the accounting officer
									AM-C55	All bid committee members signs a declaration of interest

									AM-C56	Recommendations made by the bid evaluation committee are approved by the accounting officer
									AM-C57	A shortlist of suppliers that comply with the specifications is compiled
									AM-C58	SCM sends letters to unsuccessful suppliers
	AM-R9	Bids awarded to choice suppliers	* Irregular expenditure (Collusion, kickbacks, favouritism) * Poor service delivery * Non-compliance to laws & regulations		✓		✓		AM-C60	Preferential Procurement Policy Framework Act (PPPFA)
									AM-C61	Bids are evaluated by a bid evaluation committee which comprises of officials from departments requiring the goods & services and at least 1 SCM practitioner
									AM-C62	Bids are awarded to a specific provider through the bid adjudication committee which consist of at least 4 senior managers
									AM-C63	Recommendations made by the bid adjudication committee is approved by the accounting officer
									AM-C64	Declaration of interest certificate signed by all committee members
									AM-C65	Bidders must complete prescribed bid documents, including submitting a declaration whether a close family member/ partner/ associate of the supplier is in the employ of the state (disclosure of conflict of interest).
									AM-C66	No member of the bid evaluation committee nor an advisor or person assisting the bid evaluation committee, may be a member of a bid adjudication committee
									AM-C67	If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee the bid adjudication committee must notify the accounting officer
									AM-C68	The accounting officer will consider the deviation by the bid adjudication committee and ratify or reject the committee's decision
									AM-C69	If the accounting officer rejects the decision of the bid adjudication committee the decision is referred back to the bid adjudication committee for reconsideration
									AM-C70	In terms of the s114 (1) of the MFMA if the accounting officer rejects the decision made by the bid adjudication committee, the accounting officer must notify the AG, PT and the NT, of the reasons for deviating from such recommendations
	AM-R10	Bids awarded to unqualified suppliers	* Fruitless & wasteful expenditure * Delay in service delivery * Negative effect on the image of the municipality * Non-compliance to applicable laws & regulations	✓	✓	✓	✓		AM-C60	Preferential Procurement Policy Framework Act (PPPFA)
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									AM-C70	In terms of the s114 (1) of the MFMA if the accounting officer rejects the decision made by the bid adjudication committee, the accounting officer must notify the AG, PT and the NT, of the reasons for deviating from such recommendations
	AM-R11	Bids awarded to a supplier in whose company a state official has a vested interest	* Fraud & corruption	✓	✓	✓	✓		AM-C60	Preferential Procurement Policy Framework Act (PPPFA)
									AM-C61	Bids are evaluated by a bid evaluation committee which comprises of officials from departments requiring the goods & services and at least 1 SCM practitioner
									AM-C62	Bids are awarded to a specific provider through the bid adjudication committee which consist of at least 4 senior managers
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	AM-R12	Misrepresentation and omission of information by a supplier	* Irregular expenditure	✓	✓	✓	✓		AM-C71	Code of conduct governing suppliers
	AM-R13	Deliberately splitting goods & services above an estimated transaction value of R 200 000 (VAT included)	* Unauthorised & irregular expenditure * Non-compliance to applicable laws & regulations	✓			✓		AM-C1	Municipal Finance Management Act (MFMA)
									AM-C2	Council approved SCM policy that stipulate the procedures for a competitive bidding process
									AM-C8	Municipal supply chain regulation no. 19(1)(b)
									AM-C72	Continuous auditing / monitoring
	AM-R14	Municipal officials receiving kickbacks from suppliers	* Negative effect on the image of the municipality * Non-compliance to applicable laws & regulations	✓		✓	✓		AM-C73	Fraud hotline
									AM-C74	Whistle blowing policy
	AM-R15	Collusive bidding between contractors or suppliers		✓	✓	✓	✓		AM-C71	Code of conduct governing suppliers
									AM-C75	Private & public sector transgressors who abuse the public sector procurement system is sanctioned
	AM-R16	Collusion between members of the bid adjudication committee and suppliers		✓	✓	✓	✓		AM-C64	Declaration of interest certificate signed by all committee members
									AM-C76	Bid evaluation meeting minutes are made public
									AM-C77	Standard contracts entered into are made public
	AM-R17	Pre-determined evaluation criteria changed during bid evaluation and adjudication								
	AM-R18	Manipulation of bid scores (non construction bids)							AM-C70	Preferential Procurement Policy Framework Act (PPPFA)

	AM-R19	Incorrect use of the limited bidding process								
	AM-R20	Passing over bids for incorrect reasons								
	CONTRACT MANAGEMENT									
	AM-R21	Failure of supplier to fulfil the conditions of the contract		✓	✓	✓	✓		AM-C78	Evaulate each bidder's ability to execute the contract before awarding the contract to a supplier
				AM-C79	A project manager is assigned/appointed to manage service performance in terms of the signed contract					
				AM-C80	Suppliers are required to submit reasons for not fulfilling the conditions of the contract					
				AM-C81	The Head of SCM ensures that the queries are recorded in a register					
				AM-C82	SCM checks the legal implications of non-performance of the supplier t					
				AM-C83	SCM submits a report with the queries and its implications to the bid evaluation & bid adjudication committee					
				AM-C84	The bid evaluation & bid adjudication committee can cancel the supplier or impose a penalty on the supplier					

XYZ Municipality

Directorate: Finance
Sub-Directorate: Supply Chain Management

Objective:

Process	REF No.	RISKS	ROOT CAUSE	EFFECT	IMPACT AREA					CONTROL REF NO.	CONTROLS
					Financial	Service Delivery	Reputational	Compliance	OH&S		
Demand Management	DM-R1	Failure to meet the strategic objectives of the municipality and meet operational commitments	* Lack of a demand management system * Poor demand management planning	* It will impact on municipal spending. * Public protests * Inaccurate budgeting (Municipalities can only spend money on items that are already in the budget)	✓	✓	✓	✓		DM-C1	Develop a SCM policy that comply with the prescribed framework
										DM-C2	SCM policy implemented
										DM-C3	Demand management system in place
										DM-C4	An implemented demand management system
										DM-C5	SCM participates in the annual performance planning process
										DM-C6	All end-users and SCM is involved in the preparation of the APP
	DM-R2	Demand variability	* Unpredictable market demand	Specifications may be outdated	✓	✓				DM-C7	Demand forecasting of current and future needs
										DM-C8	End-user performs an annual needs analysis
										DM-C9	Regular review & revision of demand management plans
	DM-R3	Demand forecast may not meet the actual demand of the customer	* Inadequate needs analysis	* A high forecast but low actual demand can mean unnecessary cost for the municipality in terms of disposing or storing their surplus. * A low forecast but high actual demand can mean opportunity cost. Out of stock situations	✓	✓				DM-C10	The official/s responsible for the demand management function must co-ordinate the needs analysis & costing of each programme in the municipality.
										DM-C11	A planned needs analysis is performed
										DM-C12	Management performs an adhoc needs analysis on a case-by-case basis
	DM-R4	Customer demand changes	* Poor development of specifications as a result of not determining client expectations. * Misunderstood customer demand * Unpredictable demand changes	* Delay in delivery of goods & services * Quality of goods & service compromised	✓	✓	✓			DM-C5	SCM participates in the annual performance planning process
										DM-C7	Demand forecasting of current and future needs
										DM-C8	End-user performs an annual needs analysis
										DM-C9	Regular review & revision of demand plans
										DM-C12	Management performs an adhoc needs analysis on a case-by-case basis
	DM-R5	Governance & compliance failures	* Poor demand management planning	* Large deviations * Price exalations * Fraudulent activities * Poor development of specifications * Wrong decisions taken about the items to be procured * Unrealistic cost estimates	✓	✓	✓	✓		DM-C13	Supervision of the demand management process
										DM-C14	Combined assurance