



PROVINCIAL TREASURY

Provincial Government of the Western Cape

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TREASURY CIRCULAR NO. 36/2011

THE PREMIER

THE MINISTER OF AGRICULTURE AND RURAL DEVELOPMENT

THE MINISTER OF COMMUNITY SAFETY

THE MINISTER OF CULTURAL AFFAIRS AND SPORT

THE MINISTER OF EDUCATION

THE MINISTER OF FINANCE, ECONOMIC DEVELOPMENT AND TOURISM

THE MINISTER OF HEALTH

THE MINISTER OF HOUSING

THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING

THE MINISTER OF SOCIAL DEVELOPMENT

THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT

THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

ALL OTHER MEMBERS OF PARLIAMENT

} For information

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)

THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR P WILLIAMS)

THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)

THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (DR GA LAWRENCE)

THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MS P VINJEVOLD)

THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KC HOUSEHAM)

THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MS K LUBELWANA)

THE ACCOUNTING OFFICER: VOTE 8: HOUSING (MR M TSHANGANA)

THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR R ELLIS)

THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR J FOURIE)

THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)

THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)

THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)

THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (DR H FAST)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR P O'BRIEN)

THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R HINDLEY) (ACTING)

THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)

THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)

THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)

THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)

THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR JO SMITH)

THE CHIEF FINANCIAL OFFICER: VOTE 8: HOUSING (MR D BASSON)

THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR AA GAFFOOR)

THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR CR ISMAY)

THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)

THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)

THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)

THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MR D BASSON)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)

THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)

THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR TC ARENDSE)

THE HEAD: PUBLIC POLICY SERVICES (MR A PHILLIPS)

THE HEAD: PUBLIC FINANCE (MR H MALILA) (PRO TEM)

THE HEAD: FINANCIAL GOVERNANCE (MR A REDDY) (ACTING)

THE HEAD: ASSET MANAGEMENT (MR TC ARENDSE) (PRO TEM)

THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)

THE SENIOR MANAGER: ACCOUNTING SERVICES: PROVINCIAL GOVERNMENT (MR N VAN NIEKERK) (ACTING)

THE SENIOR MANAGER: ACCOUNTING SERVICES: LOCAL GOVERNMENT (MR T MADONDILE/MS M FORTUIN) (ACTING)

THE SENIOR MANAGER: CORPORATE GOVERNANCE (MR B VINK)

THE SENIOR MANAGER: BUDGET MANAGEMENT: PROVINCIAL GOVERNMENT (MS M SHERATON)

THE SENIOR MANAGER: BUDGET MANAGEMENT: LOCAL GOVERNMENT (MR ML BOOYSEN)

THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MS A PICK)

THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (GROUP ONE) (MR F SABBAT)

THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (GROUP TWO) (MR M SIGABI)

THE SENIOR MANAGER: PUBLIC FINANCE POLICY RESEARCH AND MODELLING (MS C HORTON)

THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)

THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT (MS N EBRAHIM)

THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE HEAD: OFFICE OF THE FINANCE MINISTRY (MS A SMIT)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

- RE:**
- 1. NATIONAL TREASURY INSTRUCTION NOTE ON ENHANCING COMPLIANCE MONITORING AND IMPROVING TRANSPARENCY AND ACCOUNTABILITY IN SUPPLY CHAIN MANAGEMENT (SCM);**
 - 2. THE DEVELOPMENT OF A PRO-FORMA ACCOUNTING OFFICER'S SYSTEM (AOS) FOR THE PROVINCE; AND**
 - 3. PREFERENTIAL PROCUREMENT REGULATIONS, 2011**

1. PURPOSE

- 1.1 To inform departments of the implementation of the National Treasury Instruction Note on Enhancing Compliance Monitoring and Improving Transparency and Accountability in SCM, dated 31 May 2011.
- 1.2 To provide feedback in terms of the development of a pro-forma AOS for the Province (Treasury Circular 4 of 2010).
- 1.3 To provide advice to departments in terms of the Preferential Procurement Regulations (PPR), 2011.

2. NATIONAL TREASURY INSTRUCTION NOTE ON ENHANCING COMPLIANCE MONITORING AND IMPROVING TRANSPARENCY AND ACCOUNTABILITY IN SCM

2.1 Implementation of the Instruction Note

- 2.1.1 The Provincial Treasury has noted the requirements and the potential administrative impact that the above-mentioned Instruction Note would have on Departments and has further identified certain mechanisms and processes that need to be developed and implemented by both the Provincial Treasury and Departments to give effect to the requirements.

- 2.1.2 The Provincial Treasury has met with the National Treasury regarding the impact of the Instruction Note, the mechanisms and processes needed to give effect to the requirements as well as the limited timeframe given to implement the requirements in the hope of agreeing on an agreeable implementation date for the Province. The National Treasury is however adamant regarding the effective date of 31 May 2011 for its implementation.
- 2.1.3 The Provincial Treasury is aware of the fact that departments will be audited in terms of the requirements of the Instruction Note as from its effective date, 31 May 2011 and will thus in collaboration with departments draft and issue an implementation plan which will indicate the short and medium term timeframes as well as resources required to implement the various requirements of the Instruction Note.
- 2.1.4 The Chief Financial Officer's (CFO) were requested at the CFO Forum meeting held on 15 June 2011, to formally table its concerns in respect of the Instruction Note with the Provincial Treasury. The due date given was Friday, 24 June 2011. The Provincial Treasury has however not received any correspondence from Departments within the designated timeframe.
- 2.1.5 Furthermore, to fast track the implementation process a meeting was arranged with departmental SCM managers on 1 July 2011 to discuss the way forward. It was agreed that SCM managers would formally table departmental concerns in respect of the Instruction Note by Friday, 8 July 2011. Once comments are received they will be assessed and the implementation plan drafted and finalised in collaboration with SCM managers that will charter a way forward.
- 2.1.6 Implementation of the Instruction Note will therefore be processed after the implementation plan has been finalised and agreed upon by the SCM Managers' Reference Group and the Provincial Treasury: Fiscal and Economic Services Branch, and then issued formally by the Provincial Treasury. The target date for this is the end of July 2011.

2.1.7 The requirements of the implementation plan will be further phased into the pro-forma AOS discussed in paragraph 3 and its supporting sub-paragraphs hereunder.

3. DEVELOPMENT OF A PRO-FORMA ACCOUNTING OFFICER'S SYSTEM (AOS) FOR THE PROVINCE

3.1 Background

3.1.1 Departments were informed via Treasury Circular 4 of 2010 of the Provincial Treasury's intention to develop and issue a new provincial framework (pro-forma) AOS which will indicate standardized risk mitigating requirements for SCM and assist Departments in aligning its AOS with the latest legislation, policies, procedures and practices.

3.2 Feedback in terms of the pro-forma AOS

3.2.1 The Provincial Treasury has decided to hold the finalisation of the draft pro-forma AOS in abeyance, pending the completion of the revision of the Provincial Treasury Instructions (PTIs) and associated legislation.

3.2.2 The key objective for the revision of both the PTIs and the AOS is to enforce standardised mandatory SCM requirements for the Province, but also building in departmental bespoke elements; adequate control measures; designated levels of accountability; separation of duties and transparency so as to elevate the financial capability of Departments in the Province.

3.2.3 The Pro-forma AOS will therefore be aimed at enhancing due diligence in processing that will be inclusive of LOGIS enhancements as well as the envisaged enhancements of the e-procurement system for quotations and the supplier database as well as moving toward placing the Province in a state of readiness to implement the National Treasury's Integrated Financial Management Solutions (IFMS).

3.2.4 Pending further contemplated enhancements, given the intensive compliance and efficiency requirements, the status of the current Quadrem Contract in respect of the e-procurement solution for quotations and the supplier database has in the interim been extended for a further three months (1 July 2011 to 30 September 2011) as communicated via Treasury Circular 32 of 2011.

3.2.5 Engagements have been underway with National Treasury over the past year towards improvements and enhancements to the LOGIS system to similarly improve and facilitate better supply chain management. The enhancements either already finalised (and in the process of being rolled out), or underway are:

Description of selection/function	Shortcoming on selection/function	Recommendation
1. Supplier maintenance	No provision for tax clearance certificate and validity period	Create additional fields for an indication of existence and validity
2. Completion of prescribed bank credit entity form	No provision is made for valid tax clearance certificate and validity period	Provide for valid tax clearance certificate and validity period
3. Standard report	No report exist indicating the existence and validity of a tax clearance certificate	Developing of a report indicating the existence and validity of a tax clearance certificate
1. Contract maintenance	Contracts are not maintained departmentally or centrally	All current contracts should be maintained departmentally or centrally depending on national/provincial requirements
Standard report	No report exist indicating the expiry dates of contracts	Developing of a report indicating the expiry dates of contracts
Quotations	Quotations not maintained departmentally	All quotations accepted or not accepted should be maintained on the system
Noncontract	In addition to contract, quotation the system provides for noncontract	The option to select noncontract should be discontinued
Services rendered by Major Public Entities and Local Government	No contract necessarily exists for services rendered by TELCOM and Municipalities.	Provision should be made to accommodate the services

Description of selection/function	Shortcoming on selection/function	Recommendation
RQAT /PAAP – Requisition capture/authorize and Procurement Advice approval	The describe depreciation rate linked to asset categories and asset category can be changed	No changes should be allowed to describe depreciation rate and asset category
PAAP	No linkage to the Corporate Reference database and data captured	Only contracts that are available on the database should be selected.
PAAP	No linkage between the captured information and the accepted quotation on the system	All quotations accepted or not accepted should be maintained on the system
Standard report	No report exist indicating the quotations that were captured/accepted/not accepted	Developing of a report indicating the quotations that were captured/accepted/not accepted
Order authorize	The contract number are not displayed on the order authorize selection	An additional field should be provided on the selection for verification purposes by the authorizer
WMMT	Maintenance of assets on selection WMMT are not maintained due to being a separate selection form receipt of assets	When confirming the receipt of assets the system should automatically prompt the user to complete Maintenance of assets (WMMT)
	Provision are only made for barcode number and not manufacturers serial number	In addition to the barcode number provision must be made for the manufacturers serial number to be captured
WMGI	The current selection does not provide for an indication if a guarantee is applicable or not	The selection should provide for the option to select “YES” if guarantee is applicable or “NO” if guarantee are not applicable. If “YES” the selection should prompt you to complete the guarantee period and serviceability fields
WMRP	Maintenance of repaired assets on selection WMRP is not maintained due to being a separate selection.	When confirming the receipt of repaired assets the system should automatically prompt the user to complete Maintenance of assets (WMRP)

Description of selection/function	Shortcoming on selection/function	Recommendation
WMRP	Currently there are no linkage between an order for repairs for assets and the Maintenance of assets	Provision should be made for an additional field to capture the applicable order number on WMRP
BRRR	Currently no standard report exists for payments per contracts, quotations, etc.	Developing of a report indicating the payments made per contract, quotations, etc.
	Standard reports RR106 to RR108 only display SMME status	In addition to the SMME status the supplier analysis report should also include BEE and HDI status as available on Corporate Reference Database
	Currently no standard report exists for the replace of assets eg. Computer hardware that will reach its useful life cycle in the future.	Developing of a standard report indicating the items that will reach its useful life cycle for replacement in future financial years (refreshment purposes)

3.2.6 The target date for completion and issue of the AOS has remained unchanged in terms of the date submitted to the Modernisation SteerCom and PTM being the 01 February 2012. The process to be followed to finalise the AOS will be as follows:

	Process	Envisaged Due Date
1.	Issue of PTIs for Comment	30 July 2011
2.	Internal Workshop with all SCM managers	September 2011
3.	Internal Workshop with all CFO's	September 2011
	Presentation to PTM	September 2011
4.	Finalisation of document; compilation of issuing certificates; presentation to MEC for Finance and issuing of document	30 September 2011
5.	Alignment of SCM delegations and AOS to issued PTIs	30 November 2011
6.	Work shopping of document with SCM work stream; - taking up comments; and - issue for provincial comments	1 December 2011 – 30 January 2012
7.	Finalisation of SCM AOS Blueprint and issue	1 February 2012
8.	Implementation plan and capacitation programme to get departments to a level 3+ financial capability implemented	1 February – 31 March 2012

3.3 **Way forward**

- 3.3.1 In the absence of the revised generic pro-forma AOS, departments are advised to issue internal SCM / financial instructions (internal memoranda) in order to ensure that it in the interim complies with the latest legislation, policies, procedures and practices as well as to address the gaps identified by the Auditor - General.
- 3.3.2 In the latest audit cycle it was also highlighted that certain issues previously raised by the Auditor-General have not been rectified as yet, and it is imperative that departments take the necessary steps to put the required due diligence steps in place.
- 3.3.3 Departments may benchmark financial/SCM instructions referred to in paragraph 3.3.1 with other departments, to facilitate and encourage a standardized approach.
- 3.3.4 Departments may further forward these internal financial/SCM instructions to the Provincial Treasury: Movable Asset Management for assistance and guidance; review and /or concurrence.
- 3.3.5 The Provincial Treasury, on completion and issuing of the PTIs will issue a revised generic pro-forma AOS as a "blueprint" for utilisation by departments with the view of standardising and creating uniformity in the application of SCM policy and procedure.
- 3.3.6 In addition, In conjunction with the Chief Directorate: Legal Services within the Department of the Premier, present functional training on the conclusion and management of contracts within the supply chain management environment, to commence during February 2012;
- 3.3.7 To note further, developing, during the 2012/13 financial year, a transversally applicable contract management framework, providing for improved norms and standards in contract implementation, on-going management and

succession planning; and the roll-out of training interventions aimed at operationalising the contract management framework.

4. PREFERENTIAL PROCUREMENT REGULATIONS (PPR), 2011

- 4.1 The revised PPR has been issued by the National Treasury and will come into effect on 7 December 2011.
- 4.2 Departments are advised to sensitize their suppliers of the revised requirements in terms of the Broad Based Black Economic Empowerment (B-BBEE) status level certificates that would be required to claim points for its B-BBEE contribution.
- 4.3 The National Treasury has advised that it will conduct an information session with each province in due course and departments will be advised via the Provincial Treasury on the date of such information session.

5. REQUEST

- 5.1 Departments are hereby requested to note that:
 - (a) the Provincial Treasury will issue a generic implementation plan for the implementation of the requirements of the said National Treasury Instruction Note which will be driven by both the current and revised departmental AOS's;
 - (b) Accounting Officers must update their current AOS by issuing internal financial / SCM Instructions (internal memoranda) to ensure that it in the interim complies with the latest legislation, policies, procedures and practices as well as to address the gaps identified by the Auditor-General's previous audit process and not been rectified as yet, as well as issues raised in the current audit processes in order to put the required due diligence and internal control steps in place;
 - (c) The systems enhancements and improvements tabled in terms of paragraphs 3.2.4 to 3.2.6 above are underway; and

- (d) Departments must sensitize their suppliers on the revised PPR requirements and the submission of B-BBEE status level certificates as well as avail SCM practitioners to the information session to be provided by the National Treasury in respect of the Preferential Procurement Regulations which will be communicated in due course by the Provincial Treasury.

Your co-operation in this regard will be appreciated.



NADIA EBRAHIM

ACTING HEAD: ASSET MANAGEMENT

DATE: 19 JULY 2011