



**THEEWATERSKLOOF MUNICIPALITY
SUPPLY CHAIN MANAGEMENT
IMPLEMENTATION REPORT**

For The

2015/2016 FINANCIAL YEAR

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1. Introduction

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

2. Demand and Acquisition Management

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

For the 2014/2015 financial year and 2015/2016 financial year, a total number of 25 and 26 projects respectively were identified on the procurement plan for contracts above R 200 000. These plans excluded the procurement of goods and services with a value of greater than R30 000 and less than R 200 000.

The table below will illustrate the demand plan inclusive of the formal written price quotation process:

2014/2015 Tenders:

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	2	231 000.00	0.00
August	3	26 691 197.98	23 388 705.70
September	2	9 851 982.87	7 393 485.03
October	8	21 454 740.82	0.00
November	1	23 926 713.88	2 249 793.99
December	0	44 785 996.22	35 790 031.49
January	2	2 617 080.00	2 267 080.00
February	2	3 268 562.76	3 268 562.76
March	5	9 952 584.79	878 830.79
April	5	164 781.75	164 781.75
May	7	6 072 022.60	0.00
June	4	4 265 617.80	4 265 617.80
TOTAL	41	153 117 499.72	80 545 720.07
Cancelled	4		

2014/2015 Quotations:

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"
July	9	536 733.31	219 610.64
August	5	519 061.95	519 061.95
September	11	677 904.76	185 461.20
October	17	1 850 116.07	781 106.71
November	4	1 075 626.48	849 170.98
December	1	425 884.65	743 884.65
January	5	258 295.71	69 808.00
February	3	1 581 052.70	104 352.64
March	12	341 663.52	341 663.52
April	10	655 923.48	382 344.64
May	7	404 884.82	315 522.26
June	1	762 242.17	712 580.60
TOTAL	85	9 089 389.62	5 224 567.79
Cancelled	9		

2015/2016 Tenders:

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

2015/2016 Quotations:

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

3. List of Accredited Prospective Suppliers

The suppliers play a pivotal role in the municipality, hence the need to ensure that all suppliers are compliant from application up to and including the period during which an award is made to the supplier. The municipality's database currently has 4 008 suppliers listed.

The table below is an illustration of the applications received:

Financial Year	2014/15	2015/16
Applications Received	250	291
Declined Applications /Supporting documents	15	10
Declined. Inactive tax clearance	16	18
Fraudulent tax clearance certificates	0	0
Person's in service of state	2	2
Applications confirmed and approved	217	261
Success rate of Database application	86.80%	89.69%

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

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

Monthly Report Summary:

	2014/15	2015/16
July	22	13
August	22	29
September	19	37
October	32	16
November	13	21
December	5	20
January	11	10
February	27	16
March	15	29
April	15	23
May	13	26
June	23	21

4. Logistics Management

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

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

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

Financial Year	Opening Stock Value	Store Purchases	Project Stock Inserts	Store Issues	Closing Stock Value
2014/15	1 858 925.99	2 780 269.52	2 369 880.74	2 590 391.18	4 418 685.07
2015/16	4 418 685.07	7 520 235.92	0.00	6 625 964.38	5 312 956.61
Increase	42.07%	36.97%	N/A	39.09%	9.18%

Opening Stock Values

The opening stock values indicate that it has increased by 42.07 % year on year which is attributed to the inclusion of project stock in the financial records.

During 2014/15, the stores SOP was reviewed to include project stock into the various stores that resulted in a more controlled environment which are more effective. This

indirectly contributed to items being readily available for maintenance on those projects. The increase in the store purchases and stores issues can be attributed mainly to the aforementioned.

The SCM department is of the opinion that the store figures for the 2015/2016 financial year will be the basis for the average store total beyond this financial year. SCM will focus on how to improve the management of stock levels across all stock items to sustain or decrease the store totals as indicated above during the 2016/2017 financial year.

5. Disposal Management

The SCM disposed of 34 municipal assets to the value of R 2 142 304.00 during the 2014/2015 financial year and 2 to the value of R 163 950.00 in the 2015/2016 financial year.

6. Risk Management

The SCM department underwent periodic reviews during this financial year. These reviews resulted into a review into the hierarchy. During this review it was clear that the SCM department is short of staff and by adding one position to the hierarchy will decrease the risk tremendously. The aforementioned was approved and accepted by Council.

SCM further identified a risk on the line to proactively plan and manage projects. The purpose of highlighting this risk lies in the consequences. It is highlighted that the lack of planning is likely to result in the lack of ability to spend budgets and in turn therefore a lack of service delivery, poor quality contracts, and other related consequences.

7. Performance Management

The municipality's SCM department's performance are audited by the internal audit on a quarterly basis in accordance with the Internal Audit plan for the 2015/2016 financial year, as agreed to by the Audit Committee.

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

Internal Audit Opinion:

1st Quarter:

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

2nd Quarter:

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

3rd Quarter:

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

4th Quarter:

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

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

8. Due Diligence

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

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

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

Before an award for procurement of goods and services above R 30 000 are made, the id numbers of the relevant supplier are run through a system that can identify last employment with a 99% confidence level which give the municipality an indication of whether a supplier is compliant.

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

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

The municipality currently has 23 employees linked to various suppliers as close family members. Furthermore the municipality has 19 declarations at other various state institutions.

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

We are investigating how to improve our procedures that will result in a report finding process.

Regulation 46 (ethical standards):

HR implemented a gift register on the PayDay system of which SCM must report it to the Municipal Manager on a quarterly basis which resulted into the below table:

Month	Amount of gifts
July	6
August	1
September	2
October	3
November	15
December	49
January	5
February	12
March	5
April	6
May	5
June	5
TOTAL	114

The above illustrate that the amount of gifts received during the year are minimal with a spike during the months of November and December.

9. SCM related Appeals

The municipality received 13 appeals since the 2012/2013 financial year of which 1 was successful in 2013/2014 and 1 is still pending in the 2015/2016 financial year.

10. Measures implemented to increase local spending

Clause 4 of the municipality's SCM Policy states the following:

(4) Overall Purpose And Objectives Of The Supply Chain Management Policy

1. Theewaterskloof Municipality's overall purpose of the Supply Chain Management Policy, Principles and Operational System is the following:
 - a) Ensure effective and efficient application of resources.
 - b) Promote accountability, transparency and fairness.
 - c) Provide access to contracts for local small, medium and micro enterprises.
 - d) Stimulate socio-economic development.
 - e) Eliminate and counter corruption.
 - f) Contribute towards reduction of unemployment, especially within the Theewaterskloof Municipal area.
 - g) Broadening the tax base within the Theewaterskloof Municipal area.
 - h) Encourage linkages between small and large enterprises.
 - i) Promote skills transfer and training of the historically disadvantaged.

2. In order to achieve this, empowerment goals will be set and revised from time to time, which aims to redress the skewed distribution of wealth and therefore contribute to the alleviation of poverty, as well as increasing usage of local resources, stimulation of skills development and transfer, fast tracking the growth and ensuring sustainability of SMME's.

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

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

11. Conclusion

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

13. Recommendation

It is recommended that Council:

1. Take cognisance of the report.

RESOLVED BY COUNCIL: 28 JULY 2016

After the Chairperson had given the Councillors an opportunity, and the item had been thoroughly discussed, on a proposal by Alderman PU Stanfliet, and seconded by Councillor M Koegelenberg, it was resolved as follows:

Council take cognisance of the SCM Implementation Report for the 2015/2016 financial year.

For finalization by the Director: Financial Services, Mr. D Louw.

BESLUIT DEUR DIE RAAD: 28 JULIE 2016

Nadat die Voorsitter geleentheid aan die Raadslede gegee het, en die item behoorlik bespreek is, word op aanbeveling van Raadsheer PU Stanfliet, gesekondeer deur Raadslid M Koegelenberg, as volg besluit :

Die Raad neem kennis van die VKB Implementeringsverslag vir die 2015/2016 finansiële jaar.