



**THEEWATERSKLOOF MUNICIPALITY  
SUPPLY CHAIN MANAGEMENT  
IMPLEMENTATION REPORT**

**For The**

**2018/2019 FINANCIAL YEAR**

## **INDEX**

1. Introduction
2. Demand and Acquisition Management
3. List of Accredited Prospective Suppliers
4. Logistics Management
5. Disposal Management
6. Risk Management
7. Performance Management
8. Due Diligence
9. SCM Related Appeals
10. Measures implemented to increase local spending
11. Conclusion
12. Recommendation

## 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 2017/2018 financial year and 2018/2019 financial year, a total number of 22 and 62 projects respectively were identified on the procurement plan for contracts above R 200 000. The Bid Specification Committee in conjunction with the end-user departments inclusive of the Local Economic Development Section decided to combine some of those projects to give effect to local economic development. SCM frequently reported to management on the progress of the projects listed on the procurement plan. The purpose of such reporting was to monitor and track performance against the approved procurement plan. These plans excluded the procurement of goods and services with a value of greater than R30 000 and less than R 200 000.

The tables below illustrates the results of the procurement plan and deviations above R 200 000.00 for the 2017/18 and 2018/19 financial years with a brief comparison summary between the two financial years.

### 2017/2018 Tenders:

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	3	3 967 833.04	3 967 833.04	2	2 453 060.54
August	1	200 000.00	200 000.00	0	0.00
September	3	9 272 389.04	9 272 389.04	0	0.00
October	5	25 150 748.44	4 590 846.59	0	0.00
November	3	10 868 543.40	10 868 543.40	0	0.00
December	9	8 430 243.29	6 760 580.75	0	0.00
January	0	0.00	0.00	0	0.00
February	0	0.00	0.00	0	0.00
March	8	25 159 877.53	25 159 877.53	0	0.00
April	1	6 639 302.71	6 639 302.71	0	0.00
May	9	8 163 002.28	7 413 002.28	3	2 250 008.26
June	1	1 179 325.00	1 179 325.00	0	0.00
<b>TOTAL</b>	<b>41</b>	<b>96 578 204.19</b>	<b>73 598 639.80</b>	<b>5</b>	<b>4 703 068.80</b>
<b>Cancelled</b>	<b>10</b>				

The below table also include three unforeseen tenders excluded from the Procurement Plan and procured from National Treasury's Transversal Tender for the Procurement of Vehicles.

**2018/2019 Tenders:**

Month	Contracts Awarded	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	6	10 067 059.59	10 067 059.59	0	0.00
August	2	21 921 747.41	21 921 747.41	0	0.00
September	6	6 773 782.01	5 788 782.01	0	0.00
October	6	34 588 856.39	34 588 856.39	0	0.00
November	4	14 906 920.00	14 906 920.00	2	117 000.00
December	0	0.00	0.00	0	0.00
January	5	20 466 701.85	20 466 701.85	0	0.00
February	3	3 618 695.80	3 618 695.80	0	0.00
March	6	5 411 806.15	5 411 806.15	0	0.00
April	3	6 192 106.94	6 192 106.94	0	0.00
May	6	17 194 311.28	17 194 311.28	0	0.00
June	11	16 079 584.09	16 079 584.09	2	1 268 100.00
<b>TOTAL</b>	<b>58</b>	<b>157 221 571.20</b>	<b>156 236 571.20</b>	<b>4</b>	<b>1 385 100.00</b>
<b>Cancelled</b>	<b>1</b>				

**Summary:**

	2017/18	2018/19	%	Increase/Decrease
<b>Contracts Awarded</b>	41	58	41%	Increase
<b>Cancelled Tenders</b>	10	1	90%	Decrease
<b>Contracts Awarded</b>	R 96 578 204.19	R 156 221 571.20	62%	Increase
<b>B-BBEE Awards</b>	R 73 598 639.80	R 156 236 571.20	112%	Increase
<b>Local Awards</b>	5	4	20%	Decrease
<b>Contracts Amount Local</b>	R 4 703 068.80	R 1 385 100.00	71%	Decrease

The table below illustrates the formal written price quotation results inclusive of deviations above R 30 000.00 up to R 200 000.00:

**2017/2018 Quotations:**

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	1	199 956.00	199 956.00	0	0.00
August	17	1 094 837.04	908 333.04	7	637 554.46
September	10	674 442.87	674 442.87	3	261 926.40
October	13	1 314 359.17	1 156 745.05	2	198 043.00
November	13	965 004.46	768 639.46	2	144 234.30
December	7	869 939.18	869 939.18	2	89 954.60
January	0	0.00	0.00	0	0.00
February	12	1 271 461.39	1 271 461.39	3	305 670.00
March	5	479 436.45	479 436.45	1	41 040.00
April	6	791 822.88	791 822.88	0	0.00
May	19	2 027 029.27	2 027 029.27	5	339 346.60
June	8	721 103.95	721 103.95	2	124 780.50
<b>TOTAL</b>	<b>111</b>	<b>10 409 392.66</b>	<b>9 868 909.54</b>	<b>27</b>	<b>2 142 639.86</b>
<b>Cancelled</b>	<b>32</b>				

**2018/2019 Quotations:**

Month	Quantity Advertised	Contract Values Awarded "R"	Contract Value Awarded to B-BBEE Entities "R"	Contracts Awarded to Local Suppliers	Contract Value Awarded to Local Suppliers "R"
July	7	727 228.96	429 106.96	3	233 682.00
August	14	1 286 922.74	1 072 352.88	6	305 848.93
September	3	331 211.90	122 130.00	0	0.00
October	16	1 555 985.13	1 504 235.13	1	27 565.50
November	11	1 210 164.45	1 137 641.77	1	72 522.68
December	11	1 143 800.65	945 504.80	0	0.00
January	5	663 026.92	663 026.92	0	0.00
February	11	1 364 195.40	1 312 561.89	5	735 516.29
March	5	498 991.53	425 121.73	1	139 987.78
April	8	865 675.83	774 370.80	3	265 236.50
May	18	1 771 220.18	1 771 220.18	6	547 910.39
June	10	897 996.65	680 124.65	4	240 423.36
<b>TOTAL</b>	<b>119</b>	<b>12 316 420.34</b>	<b>10 837 397.71</b>	<b>30</b>	<b>2 568 693.43</b>
<b>Cancelled</b>	<b>28</b>				

**Summary:**

	2017/18	2018/19	%	Increase/Decrease
<b>Contracts Awarded</b>	111	119	7%	Increase
<b>Cancelled Tenders</b>	32	28	13%	Decrease
<b>Contracts Awarded</b>	R 10 409 392.66	R 12 316 420.34	18%	Increase
<b>B-BBEE Awards</b>	R 9 868 909.54	R 10 837 397.71	10%	Increase
<b>Local Awards</b>	27	30	11%	Increase
<b>Contracts Amount Local</b>	R 2 142 639.86	R 2 568 693.43	20%	Increase

**Procurement of Goods or Services through Written or Verbal Quotations and Formal Written Price Quotations**

**2017/2018 Orders**

Month	Total Orders Approved "R"	Total Orders Approved for Local Spending "R"	% of Local Spending
July	7 964 099.56	2 883 084.31	36%
August	1 744 560.06	953 411.79	55%
September	4 779 235.27	1 085 046.69	23%
October	3 011 198.63	1 228 410.43	41%
November	1 817 834.90	766 900.93	42%
December	2 216 093.73	1 014 293.39	46%
January	1 432 983.62	1 120 847.89	78%
February	4 799 197.34	2 345 330.01	49%
March	3 436 060.50	2 411 465.23	70%
April	5 609 630.17	1 335 541.12	24%
May	4 713 561.59	1 882 748.83	40%
June	1 393 643.93	589 609.79	42%
<b>TOTAL</b>	<b>42 918 099.30</b>	<b>17 616 690.41</b>	<b>41%</b>

For the 2017/2018 financial year a total number of 5 686 orders were issued which amounts to R 42 918 099.30. The total order value spent within the boundaries of Theewaterskloof Municipality amounts to R 17 616 690.41. This indicates that 41% of all orders approved were spent within the boundaries of Theewaterskloof Municipality.

### 2018/2019 Orders

Month	Total Number of Orders Approved	Total Amount of Orders Approved "R"	Total Amount of Orders Approved for Local Spending "R"	% of Local Spending
July	467	4 257 960.00	1 544 167.23	36%
August	639	5 635 350.30	1 722 096.80	31%
September	548	3 677 935.87	1 528 541.25	42%
October	614	4 232 904.92	1 677 099.86	40%
November	674	4 458 493.65	1 940 429.17	44%
December	396	3 622 285.40	1 092 264.36	30%
January	476	5 634 171.62	991 516.98	18%
February	525	3 186 277.08	1 739 257.19	55%
March	433	5 181 620.86	2 137 967.01	41%
April	583	4 222 524.39	1 953 037.59	46%
May	582	5 829 481.30	2 254 917.01	39%
June	156	1 266 216.23	512 198.73	40%
<b>TOTAL</b>	<b>6 093</b>	<b>51 205 221.62</b>	<b>19 093 493.18</b>	<b>37%</b>

For the 2018/2019 financial year a total number of 6 093 orders were issued which amounts to R 51 205 221.62. The total order value spent within the boundaries of Theewaterskloof Municipality amounts to R 19 093 493.18. This indicates that 37% of all orders approved were spent within the boundaries of Theewaterskloof Municipality.

The above tables also illustrates an increase in total orders of 407 orders with an average order total per month of 508 for the 2018/19 financial year. The total amount of orders increase with an amount of R 8 287 122.32 with an increase of R 1 476 802.77 for local spent.

### DEVIATION FROM, AND RATIFICATION OF MINOR BREACHES OF, PROCUREMENT PROCESSES

The following deviations occurred during the 2018/2019 financial year with comparatives for 2017/2018:

Deviation	2017/18		2018/19	
	Transactions	Amount "R"	Transactions	Amount "R"
in an emergency	78	2 871 644.83	75	1 771 841.45
if such goods or services are produced or available from a single provider only	31	5 992 006.36	29	6 615 374.09
for the acquisition of special works of art or historical objects where specifications are difficult to compile;	0	0.00	0	0.00
acquisition of animals for zoos	0	0.00	0	0.00
in any other exceptional case where it is impractical or impossible to follow the official procurement processes	724	19 800 774.39	243	10 894 933.88
<b>Total</b>	<b>833</b>	<b>28 664 425.58</b>	<b>347</b>	<b>19 282 149.42</b>

These deviations were duly reported to Council as per SCM regulations and the SCM Policy. During the 2017/2018 financial year SCM deemed it necessary to develop and implement a SOP for Deviations which included a declaration of related parties to be disclosed by all end users.

**Summary:**

Deviation	Transactions	Transactions	%	Increase/Decrease
in an emergency	78	75	4%	Decrease
if such goods or services are produced or available from a single provider only	31	29	6%	Decrease
in any other exceptional case where it is impractical or impossible to follow the official procurement processes	724	243	66%	Decrease

Deviation	Amount "R"	Amount "R"	%	Increase/Decrease
in an emergency	2 871 644.83	1 771 841.45	38%	Decrease
if such goods or services are produced or available from a single provider only	5 992 006.36	6 615 374.09	10%	Increase
in any other exceptional case where it is impractical or impossible to follow the official procurement processes	19 800 774.39	10 894 933.88	45%	Decrease

The three highest deviations for the 2017/18 was for the following:

- The Appointment of a Housing Implementing Agent – R 4 800 055.10;
- Purchasing of W15mm WDM Water Meters – R 4 866 883.00; and
- The Design and Build of a New 0.15MI Prefabricated Steel Reservoir in Tesselaarsdal – R 1 741 028.39.

The three highest deviations for the 2018/19 was for the following:

- Purchase of Beaumont Land in Botrivier – R 4 115 103.53;
- Purchasing of W15mm WDM Water Meters – R 2 687 632.80; and
- Purchasing of W15mm WDM Water Meters – R 1 940 625.00.

**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 1519 active suppliers.

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



#### 4. Logistics Management

The main purpose of the inventory and Stores section is to provide the right quality of material at the right time and in the correct quantities to the other departments in TWK municipality. This is done to enable all departments to deliver services effectively to the various towns. At the same time the section strives to keep the stock levels as low as possible in order to reduce the Municipality's financial investment in stock. There is a continuous focus on the improvement in customer service, material availability, quality and quantity, business processes and training.

The table below illustrates some comparative statistics for the 2016/2017 and 2017/2018 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Store Issues	Closing Stock Value
2016/17	5 312 956.61	7 977 911.98	8 716 207.91	4 574 660.68
2017/18	4 574 660.68	11 475 609.14	10 907 288.40	5 177 839.94
Increase/(Decrease)	14%	44%	25%	13%

The table below illustrates some comparative statistics for the 2017/2018 and 2018/2019 Financial Years.

Financial Year	Opening Stock Value	Store Purchases	Store Issues	Closing Stock Value
2017/18	4 574 660.68	11 475 609.14	10 907 288.40	5 177 839.94
2018/19	5 177 839.94	9 158 112.00	9 223 876.79	5 043 646.79
Increase/(decrease)	13%	(20%)	(15%)	(3%)

#### 5. Disposal Management

The Property Management Department disposed of 1 municipal asset (Erf 1281 in Villiersdorp) at a market value for R 35 000.00 during the 2018/2019 financial year. The Assets Department disposed municipal assets with a carrying value of R 804 652.14 (auction) in the 2018/2019 financial year. The proceeds of the auction amount to R 556 810.00 (Vat Incl.)

#### 6. Risk Management

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

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

#### 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 2018/2019 financial year, as agreed to by the Audit Committee.

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

### **Internal Audit Opinion:**

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

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

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

During 2017/2018 financial year, fifteen (15) notices of non/poor-performance were sent out to various contractors of which 1 was blacklisted and listed on the register for Tender Defaulters. During the 2018/2019 financial year, four (4) notices for non/poor-performance were sent out to various contractors of which none was listed on the register for Tender Defaulters.

## **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.

It is a requirement of all municipalities and National and Provincial Departments to upload their HR File on the Central Supplier Database to enable Government Departments to verify if a supplier is in the service of the state before it can be uploaded as a prospective service provider.

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

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

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

The municipality currently has 32 employees linked to various suppliers as close family members. Furthermore the municipality has 34 declarations at other various state institutions.

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

**Regulation 46 (ethical standards):**

HR implemented a gift register on the PayDay system of which SCM reports to the Municipal Manager.

**Summary of Suppliers and value of gifts**

<b>Company</b>	<b>Amount “R”</b>
MTN South Africa	R 350.00
ASLA	R 70.00
Lexis Nexis	R 80.00
METGOVIS	R 200.00
VERSO	R 50.00
Nissan SA	R 100.00
Investec Bank	R 285.00
ABSA	R 150.00
Grindrod Bank	R 2.00
Investec Bank	R 300.00
Investec Bank	R 285.00
BDCE	R 38.00
Rohlant's	R 200.00
Investec Bank	R 285.00
ABSA Bank	R 150.00
Grindrod Bank	R 340.00
MTN South Africa	R 350.00
METGOVIS	R 200.00
BDCE	R 38.00
BDCE	R 38.00
Lucky Point	R 85.00
Glopin	R 60.00
Metropolitan	R 10.00
Old Mutual	R 60.00
Metropolitan	R 50.00
Glopin Keyhealth	R 50.00
EB Solutions	R 60.00
VERSO	R 50.00
GLOPIN	R 20.00
MTN	R 350.00
Supplyfix	R 120.00
Investec Bank	R 285.00
MTN South Africa	R 350.00
<b>Total</b>	<b>9 155.99</b>

## **9. SCM related Appeals**

The municipality received 6 appeals in the 2017/2018 financial year of which none was successful.

The municipality received 5 appeals in the 2018/2019 financial year of which none was successful.

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

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

During the 2017/2018 financial year SCM amended the SCM Policy to ensure that all senior management responsible for each tender must report monthly to Management and quarterly to Council on the empowerment goals that were set per award above R 200 000 and the performance for each contract in terms of the empowerment goals. Contract Management Checklist was implemented to address the requirements in terms of the aforementioned.

## **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.

## **12. Recommendation**

It is recommended that Council:

1. Take cognisance of the report.

## **RESOLVED BY COUNCIL: 26 JULY 2019**

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

**Council took cognisance of the report.**