



*Limpopo*

**PROVINCIAL TREASURY**

**INSTRUCTIONS**

**ON**

**SUPPLY CHAIN MANAGEMENT**

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## **1. ACRONYMS**

The following abbreviations are used throughout this document.

- a) SCM : Supply Chain Management
- b) DSCM : Departmental Supply Chain Management
- c) DTC : Departmental Tender Committee
- d) EP : Evaluation Panel
- e) DPSO : Departmental Procurement Support Office
- f) SMMEs : Small, medium and macro enterprises
- g) PPPFA : Preferential Procurement Policy framework Act 5 of 2000
- h) PFMA : Public Finance Management Act 1 of 1999
- i) BEE : Black Economic Empowerment
- j) FSCM : Framework for Supply Chain Management, promulgated on 05 December 2003
- k) CFO : Chief Financial Officer

## **2. GLOSSARY**

- a) Accounting officers: As defined in section 36 of the PFMA.
- b) Accounting Authority: As defined in section 49 of the PFMA
- c) Bid: Refers to tender and the two are used interchangeably throughout this document.
- d) Supply Chain Management: Systematic process that ensures that 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

## **CHAPTER 1**

### **1. INTRODUCTION**

#### **1.1. Purpose of the Provincial Treasury Instruction**

To serve as Provincial directive, for provincial departments and any other organ of state within the jurisdiction of the Provincial Treasury, in which the Supply Chain Management policy and procedures apply. These guidelines should be read in conjunction with the National Guidelines on Supply Chain Management, PFMA, PPPFA, FSCM and all other relevant legislation and documentations issued by both National and Provincial treasuries to Accounting Officers.

### **2. THE FRAMEWORK FOR SUPPLY CHAIN MANAGEMENT**

- 2.1 On 18 November 2003, the Minister of Finance approved the promulgation of the Regulatory Framework for Supply Chain Management which applies to all national and provincial departments and trading entities, constitutional institutions and public entities listed in Schedules 3A and 3C of the PFMA.
- 2.2 The Framework for Supply Chain Management was published in the Government Gazette No. 25767 dated 5 December 2003 as Government Notice Number 7837 issued in terms of Section 76 (4) (c) of the PFMA.
- 2.3 This Framework, which takes effect from 5 December 2003, serves as a formal requirement to accounting officers/authorities to ensure the implementation of the Supply Chain management process as an integral part of their financial systems.
- 2.4 The major objectives of this Framework are:
- 2.4.1 To give effect to the provisions of the Constitution of 1996,
- 2.4.2 PFMA 1 of 1999 and the Municipal Finance Management Act 56 of 2003, and
- 2.4.3 Transform the procurement and provisioning functions in Government into an integrated Supply Chain Management function.

- 2.5 Section 3 (1) and (2) of the Regulatory Framework for the Supply Chain Management, endorses the provisions of Section 38 of the PFMA of 1999, thereby giving Accounting Officers an obligation, mandate and responsibility to develop and implement an effective and efficient supply Chain management system for the acquisition of goods and services and the disposal and letting of state assets, including the disposal of goods no longer required.

### **3 THE POLICY STRATEGY TO GUIDE UNIFORMITY IN THE PROCUREMENT REFORM PROCESSES IN GOVERNMENT**

- 3.1 On 10 September 2003, National Cabinet approved the adoption of the Policy Strategy to Guide Uniformity in the Procurement Reform Processes in Government.
- 3.2 This document gives a comprehensive picture of the processes depicted in the Framework. Its aim is to ensure uniformity in the implementation of Supply Chain Management throughout government institutions.
- 3.3 The Policy Guide further directs Provincial Treasuries to issue instructions and further practice notes to the Provincial Accounting Officers /Accounting Authorities ensuring fulfillment of their responsibilities in the Provincial sphere.

## CHAPTER 2

### 1. DEPARTMENTAL SUPPLY CHAIN MANAGEMENT SYSTEM (DSCM SYSTEM)

- 1.1. In terms of the Regulatory Framework for Supply Chain Management, Accounting Officers/ Authorities of provincial departments /public entities are directed to do the following:
- 1.2. Establish a Supply Chain Management function/unit within the Office of the CFO.
- 1.3. Be fully accountable for any decision taken/ expenses incurred.
- 1.4. Work out or develop the implementation plan for Supply Chain Management and measure the progress against the implementation plan.
- 1.5. Adhere to the practice notes issued by both the National and Provincial treasuries.
- 1.6. Build capacity and ensure that appropriate training is provided to Supply Chain Management Practitioners.
- 1.7. Comply with highest ethical standards.
- 1.8. In line with paragraph 2.3 under Chapter 1, above, the Accounting Officer must ensure that such a system is developed and documented and should be signed by the Accounting Officer of the relevant Department taking into account any recommendations and comments of the Supply Chain Management Office within the Provincial Treasury. Such system shall *inter alia* provide for:-
  - 1.8.1. The day - to - day procedural and administrative arrangements and requirements within the relevant department relating to Supply Chain Management.
  - 1.8.2. Processes that address the peculiar circumstances of SCM within the department, i.e. to tailor make the procurement and provisioning processes to meet the needs of the Department.

- 1.8.3. The use of initiative and creativity of line functionaries to establish best practices that may in turn lead to excellence when it comes to service delivery.
- 1.8.4. The institutional arrangements i.e. clear segregation of duties and responsibilities of SCM Practitioners, and to provide a complete picture of the importance of each core function and process within DSCM System.
- 1.8.5. A culture of responsibility and accountability in order to minimize costs, ensure customer satisfaction and pursuance of the province's socio- economic responsibilities and objectives.
- 1.8.6. The disciplines of Demand, Acquisition, Logistical, Supply Chain Management performance and asset and disposal management.



## **CHAPTER 3**

### **1. INSTITUTIONAL ARRANGEMENTS**

#### **1.1. SUPPLY CHAIN MANAGEMENT UNIT**

1.1.1. A Supply Chain Management (SCM) Unit **must** be established in each department and it must perform the following functions:

- a) Demand, Acquisition, logistics and disposal management of goods and services for and on behalf of the department/ institution;
- b) Render administrative support to departmental bid committees in the performance of their duties;
- c) Check bids specifications, monitor award of bids and administer and manage contracts;
- d) Act as secretariat to the bid committee /sub committee meaning that, the unit will be responsible for the preparation and presentation of cases to the bid committee;
- e) Maintain supply chain management delegations;
- f) Perform all monitoring activities, inclusive of achievements in terms of preferential procurement, report them to the accounting officer (AO), and Provincial Treasury, as required;
- g) Any other functions the accounting officer may delegate to or instruct an official in order to ensure the effective and efficient utilization of provincial assets, and
- h) Ensure that Contract Forms (PT 7.1/7.2) /service level agreements are signed with successful bidders that properly reflect the decisions of the bid committee.

#### **1.2. POWERS OF THE SUPPLY CHAIN MANAGEMENT UNIT**

1.2.1. Although the SCM Unit must implement their DSCM System and will have the responsibilities outlined above, it's precise role in this context will depend on the specific DSCM System in force within a department and the decision – making delegations awarded by the relevant Accounting Officer.

1.2.2. Every Accounting Officer/Authority should, in terms of sections 44 and 51 of the PFMA, delegate officials within his/her SCM Unit, to deal with SCM processes. It is recommended that bid evaluation/adjudication committees be delegated to adjudicate and award bids, or make recommendations to the accounting officer/authority regarding the award of any bid. The principle should be vested such that no individual official should be in a position to take a decision in isolation regarding the award of a bid.

### 1.3. **SUPPLY CHAIN MANAGEMENT SKILLS**

1.3.1. The Accounting Officer must ensure that the following skills exist within the SCM Unit, namely-

- a) Cost and economic analysis,
- b) Legal interpretation skills,
- c) Strategic sourcing skills,
- d) Drafting and research skills,
- e) Warehouse management skills, where applicable; and
- f) Logistical and disposal management skills.
- g) Asset Management
- h) Transport Management

### 1.4. **BID/TENDER COMMITTEES**

1.4.1. The accounting Officer of a department must appoint a bid committee or bid committees i.e. DTC, DPSO and EP as per provincial approved model of August 2003, depending on the size and complexity of the department. The panel must be demographically representative in terms of race, gender and expertise.

1.4.2. Members of the committee must include experts in the field of procurement, contract management, financial management and economic analysis (including Black Economic Empowerment). However, in the absence of such skills, accounting officers may invite experts from outside the department, subject to the requirements of the AO System and any framework issued by the Provincial Treasury in this regard.

1.4.3. National Treasury has issued a code of conduct for committee members that must be strictly adhered to. It is important that accounting officers/authorities must ensure that all members of bid adjudication committees/teams be cleared at the level of "Confidential"

## **1.5 FUNCTIONS OF BID/TENDER COMMITTEES**

1.5.1 The functions of the tender committee may include :

- a) Adjudication and consideration of bids within the context of the legislative framework and the National Policy Strategy to guide uniformity in the procurement reform process;
- b) Making of recommendations on the acceptable bid to the relevant departmental delegate or accounting officer for approval, and
- c) Assistance to the accounting officer in the assessment and implementation of the departmental DSCM System provided that it is not inconsistent with legislation.

## **1.6 MEETINGS OF THE BID COMMITTEES**

1.6.1 All meetings of bid committees must be recorded and all decisions must be minuted. Such minutes should be made available to the Provincial Treasury on request.

1.6.2 Members of tender committees shall, prior to the commencement of meetings or discussions regarding pending tenders, sign a register declaring any interest or confirming that they have no interest in any bid under consideration.

## **1.7 DELEGATION AND EXECUTION OF POWERS**

1.7.1 The power to engage in supply chain management activities is vested in the Accounting Officer who may delegate his/her powers in writing to any official in that department in terms of Section 44 of the PFMA.

1.7.2 Such delegations must take account of the legislative framework and the relevant DSCM System to ensure efficient and effective execution thereof.

1.7.3 The execution of any delegated power is subject to Section 44 (2) and (3) and 51 of the PFMA,

1.7.4 Where a delegate disagrees with the recommendation of a bid committee, the decision should be justified and the reasons for

such a decision must be well documented and referred back to the bid committee for consideration.

## **1.8 THRESHOLD VALUES**

1.8.1 The threshold as provided for in the Practice Note No. 2 of 2003 from National Treasury should be maintained and they are :

### **1.8.1.1 Up to an estimated value of R5000/DELEGATION**

- a) Accounting officers/ authorities may procure requirements without inviting competitive bids or price quotations by obtaining at least three (3) verbal quotations from, where applicable, a list of prospective suppliers. The order should however, be placed against written confirmation from the selected supplier.

### **1.8.1.2 Up to an estimated value of R100 000/DELEGATION**

- a) Accounting officers /authorities should invite and accept price quotations for requirements up to an estimated value of R100 000 from as many suppliers as possible, that are registered on the list of prospective suppliers.
- b) Where no suitable suppliers are available from the list of prospective suppliers, quotations may be obtained from other possible suppliers.
- c) If it is not possible to obtain at least three (3) quotations, the reasons should be recorded and approved by the accounting Officer/authority or his /her delegate.
- d) Accounting officers/authorities should apply the provisions of the Preferential Procurement Policy Framework Act, 5 of 2000 and the Regulations promulgated there-under, for all procurement equal to or above R30 000. However these prescripts may be applied for procurement with a value of less than R30 000.

### **1.8.1.3 Above the estimated value of R100 000/DELEGATION**

- a) Accounting officers/authorities should invite competitive bids for all

procurement above R100 000.

- b) Bids should be advertised in at least the Provincial Government Tender Bulletin and in other appropriate media should an Accounting officer/ authority, deem it necessary, to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant accounting officer/ authority.
- c) Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in the case of a sole supplier, the accounting officer/ authority may procure the required goods and services by other means, such as price quotations or negotiations. The reasons for deviating from inviting competitive bids should be recorded and approved by the Accounting officer/ authority or his/her delegate.
- e) The provisions of the Preferential Procurement Policy Framework Act, 2000(Act 5 of 2000) and the Regulations promulgated thereunder should be adhered to.

1.8.2 Other than the aforesaid, goods and services must be procured by means of open tendering/bidding, unless otherwise provided for by the accounting officer.

## **1.9 PREFERENTIAL PROCUREMENT**

1.9.1 Any procurement is subject to the Preferential Procurement Policy Framework Act, 5 of 2000 and its Regulations of 2001.

1.9.2 Regulations 3 and 4 of the PPPFA (5 OF 2000), prescribe for the Point systems and formula to be applied.

## **CHAPTER 4**

### **1. DEMAND MANAGEMENT**

#### **1.1 PRINCIPLES**

1.1.1 Demand Management is the beginning of the supply chain process and also the stage where research and planning takes place. The objective is to ensure that the resources required to fulfill the needs identified in the strategic plan of the institution are delivered at the correct time, price and place and that the quantity and quality will satisfy those needs.

1.1.2 All functionaries, managers, responsibility managers, programme managers and decision makers, directly dependant on goods and services procured through SCM process should execute their respective responsibilities in such a way that it contributes to efficiency and effectiveness.

#### **1.2 Practices and procedures for demand management**

1.2.1 Key to effective Demand Management is the following process: Determining a needs assessment dealing with issues such as:

- Understanding future needs;
- Identifying critical delivery dates
- The frequency of need
- Linking the requirement to the budget i.e. availability of funding;
- Doing an expenditure analysis(based on past experience);
- Determining the specification;
- Doing a commodity analysis(checking for alternatives);
- Doing an industry analysis;
- Ensure that goods/services to be procured have not already been provided for on a National/Provincial contract or cannot be transferred from another location;
- Goods and services may be provided from other State and Provincial Institutions where economically viable.

1.2.2. Understanding the business needs of the Department

Areas that need to be understood are:

- The available budget linked to the required needs.
- Buying and bargaining power, if any, of the Department.

- The difference between buying and leasing and the long term benefits or disadvantages that can be derived from such agreements.
- The challenges that the timing of purchases hold with particular emphasis on the risks attached to rates of exchange and the impact thereof on the budget of the Department.
- Risks attached to the inappropriate warehousing of excess stock.

#### 1.2.3. Understanding and planning for future needs.

This process requires proper planning by the relevant line managers, assisted by the SCM Unit to ultimately minimize costs and getting quality supplies or services. A thorough assessment as to what will be required and how to plan and budget for it must be undertaken.

#### 1.2.4. Strategic Sourcing

In order to lower cost and improve service delivery departments should adopt strategic sourcing which is a *disciplined systematic process for reducing the total cost of ownership for purchased products and services without compromising service delivery standards.*

Some of the elements of Strategic Sourcing are:

- Goods on loan
- Consolidating purchasing power
- Analyzing the market
- Used equipment
- Periods and time scales
- Total cost of ownership.

This must be read together with the Preferential Procurement Policy Framework Act and its Regulations as well as the Strategy for Broad Based Black Economic Empowerment.

#### 1.2.5. Identify and draft proper specification

- The Program Manager (or user) of the department as delegates of the Accounting Officer, must ensure that proper demand planning is done and specifications are drafted for the required goods or services. This can be very detailed, identifying exactly how a product is used and which features are most and least important.

- Where possible assistance for drafting specifications must be sought from organizations accredited by South African National Accreditation System (SANAS), experts in the relevant field or with organized trade and industry to guard against obscurities and contradictions in specifications.
- Specifications must however, not be biased.

1.2.6. In cases of unbudgeted needs, the PFMA provides that "The MEC for Finance in a province may authorize the use of funds from the Provincial Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for and which cannot, without serious prejudice to the public interest in the Province, be postponed to a future appropriation by the province"

1.2.7. Circumstances necessitating unbudgeted expenditure by its very nature could not have been foreseen. Request for exceptional expenditure must be well motivated and submitted to the MEC of Finance and Economic Development for written approval. In situations where exceptional expenditure is requested, the Accounting Officer of the relevant Department, must indicate the following in the written motivation to the MEC of Finance and Economic Development.

- a) A description of the circumstances, which could not have been foreseen. This could also include *vis major* situations (acts of God)
- b) An outline of the specific dangerous or perilous conditions, misery or defect that occurred/could have occurred as a result thereof or the damage it could bring / could have brought about.
- c) What the purpose of the action would be to relieve, stem and or prevent the condition.

1.2.8. In the case where the use of such exceptional funds has been authorized by the MEC of Finance and Economic Development, the Accounting Officer of the relevant department must in cases, where the delivery of goods and services is of critical importance and the invitation of comparative bids are either impossible or impractical, certify that the situation requires immediate action and must be treated as an emergency.



## **2. ACQUISITION MANAGEMENT**

### **2.1. DEFINITION**

Acquisition Management is the process of compiling bid documents criteria, inviting and adjudication of bids and the eventual management of contracts. This is critical to the supply chain management process as it involves direct contact with private sector partners whose rights are protected by various laws. For further guidance, see the Policy Strategy to guide Uniformity in the procurement process.

### **2.2 OPEN BIDDING (COMPETITIVE BIDDING)**

As a rule the open bidding process must be used. All Provincial Government bidding processes must adhere to the requirements of the Constitution, (s 217) in terms of fairness, equity, transparency, cost- effectiveness and competitiveness. This process will entail:

- d) Drafting of proper and unambiguous bidding documents and criteria;
- e) Calling for bids;
- f) Consideration of bids/ proposals (evaluation and awarding);
- g) Contract Management

### **2.3 BID DOCUMENTATION**

The minimum documentation as provided for in the Framework for Supply Chain Management and further in the National Practice Note Number SCM 1 of 2003 must be used and should include at least the following documents:

- a) Invitation to bid ;
- b) Application for Tax Clearance certificates;
- c) Pricing schedules;
- d) Declaration of interest;
- e) National Industrial Participation Programme (if applicable)
- f) Preference claim forms in terms of the Preferential Procurement Regulations;
- g) Formal Contract: The formal contract document should not form part of the bidding documents issued to every prospective bidder, but should be made applicable only to the successful bidder after adjudication and award of the bid. ;
- h) Technical specifications, /Terms of reference (TOR) ;

- i) Government Procurement General Conditions of Contract (Annexure A of Practice Note No. SCM 1 of 2003); and
- j) Special Conditions of Contract ( to be compiled per commodity)

#### 2.4 **INVITATION OF BIDS**

Bids should be invited by the SCM Unit unless other components have been empowered by means of the DSCM system/ delegations.

#### 2.5 **ADVERTISEMENTS OF BIDS**

- a) Subject to the requirements of the Framework for Supply Chain Management, bids must be advertised in the Provincial Tender Bulletin or any publication media if deemed necessary.
- b) Bids should as a rule be advertised for a period not less than 30 days except in urgent cases, and shall not be advertised or closed during the December/January holidays unless critical and so determined by the accounting officer.

#### 2.6 **RECEIPT OF BIDS**

- a) The Accounting Officer must establish proper systems, processes and controls for the receipt of bids at all Institutions where bids close.
- b) Upon closure of bids, the institution should open all bids at the stipulated time and place. Bids should be open in public. For the purposes of uniformity the cut off time for closing of Bids should be **11h00** on the day indicated on the bid invitation.
- c) Upon receipt, bids must be listed in a bid opening Register.
- d) Bid copies, telegrams, telexes, e-mails and facsimiles do not meet the requirements and as such they should be summarily rejected.
- h) There are various reasons why prices are usually not read out. The most important is the fact that some bids, especially those for term contracts, have numerous items and the reading of prices is very time- consuming. If however, anybody present at the opening of the bids insists in terms of the Constitution that

prices be made known, the request will have to be adhered to if possible and practicable.

- i) As far as bids in the categories civil, mechanical, electrical and building works are concerned, agreements have been reached with BIFSA and SAFCEC that names and bid prices in these categories will be read out.
- g) Bids received after the time stipulated, should not be considered. It is advisable to only consider late bids if no or no valid bids were received on time.
- h) In order to avoid confusion regarding precisely what must be signed for, a bid to be valid, only the following standard form must be signed in black ink:
  - Bid commitment and declaration of interest;
  - Price schedule;
  - Non-firm prices.
- i) Bidders should not be permitted to alter their bids after the deadline for receipt of bids. Request for clarification and the bidders' responses should be made in writing.
- j) All bid documents must, as a rule, be signed by a duly authorized person.
- k) Information relating to the evaluation process of the bid, should not be disclosed to the bidders or any other person not officially concerned with the process, until the successful bidder is notified of the award.

## **2.7 VALIDITY PERIODS**

- a) The validity periods of bids should not exceed 90 (ninety) days unless it is certain from the outset that a final decision would not be reached within such a time frame.
- b) The validity period for term agreements will be longer than 90 days, but should normally not exceed 120 (One hundred and twenty days).

## **2.8 CANCELLATION OF BIDS**

Unless all prospective bidders can be notified timeously of any rectifications or mistakes made in the bid documents, bids must be cancelled. This instruction is complementary to Regulation 10 of the PPPFA Regulations of 2001 which stipulates that cancellation of bids may take place under the following circumstances;

- a) In the event that bids received are either below or above the rand value of the published preference point system.
- b) Due to changed circumstances, unavailability of funds or,
- c) In the event that no acceptable tenders are received.

## 2.9 **CONSIDERATION, EVALUATION AND ADJUDICATION OF BIDS**

- a) All bids duly lodged must be taken into consideration. Care must be taken that no service or prospective service provider is unduly prejudiced and that, the relevant prescripts, especially of preferential procurement, are followed.
- b) In considering bids for acceptance or before a formal contract is concluded, the following tests must be applied:
  - i. Compliance with conditions and other administrative requirements;
  - ii. Compliance with specification;
  - iii. Consideration of latent (through site - inspections) and other factors that might have an influence on the award of the bid;
  - iv. Allocation of preference points for price and socio-economic objectives.
  - v. Allocation of preference points for functionality.
- c) Regulation 12 (1 & 8 ) of the PPPFA, when read together, provides that, if the applicable bids are, after comparison, evaluation and awarding of points equal in all respects, firstly it must be determined if one of the bidders have scored a higher number of points for specific socio-economic goals. If this is a case, the contract is awarded to the equal bid that received the highest number of points for specific socio – economic goals. If, however the bids are equal in all respects, i.e. total points and points received for specific goals, and then only should the drawing of lots be considered.

## 2.10 **ACCEPTANCE OF BIDS**

- a) Successful bidders must be notified at least by certified mail post of the acceptance of their bids, but that acceptance however, will only take effect after completion of the prescribed contract form.
- b) Unsuccessful bids should not be returned to bidders, but should be placed on record for audit purposes.

## 2.11 **PUBLICATION OF INFORMATION**

With the exception of period contracts, the under mentioned particulars of the successful bidder should be published in the Provincial Tender Bulletin:

- a) Name of the contractor;
- b) The relevant price and delivery basis;
- c) The brand name of the product or the name of the manufacturer;

## 2.12 **DEVIATION FROM COMPETITIVE BIDDING (OPEN BIDDING)**

2.12.1 Any deviation from competitive or open bidding process will be regarded as limited bidding. Limited bidding is the process where bidding is reserved for a specific group or category of possible suppliers/ service providers/ contractors.

2.12.2 There are various forms of limited bidding:

- a) **Multi Source bidding:** This form of bidding is used in the case where the market has been tested and it is proven as a fact, that there are only a few prospective contractors that are requested to make a proposal. A detailed market analysis report must be available as motivation.
- b) **Single Source Bidding:** This form of bidding requires a pre-selection process that identifies only one amongst a few prospective sources to be requested to submit a bid/ proposal. Reasons for decision must be documented and readily available thus giving effect to the provisions of the Promotion of Justice Administrative Act, 3 of 2000 and the Promotion of Access to Information Act, 2000 (Act 2 of 2000)
- c) **Sole Source bidding:** This form of bidding is used in the absence of competition therefore it must be established that

only one source exists. Documentation substantiating such a position and subsequent procurement decision must be available.

- 2.12.3 As limited bidding imposes a limitation on the provision of openness, it must be used responsibly and as such should only be allowed in **exceptional circumstances**. Exceptional circumstances should be identified by the Accounting Officer and reflected in the DSCM System.
- 2.12.4 For all types of deviations from normal tender procedures, written approval must be obtained from the relevant Accounting Officer. Examples of such deviations are as follows:
- a) Usage of limited quotations.
  - b) Applications for a shorter period for the submission of proposals than the general twenty (20) working days
  - c) Request for approval to buy outside an existing contract.

### **3 CONTRACT MANAGEMENT**

#### **3.1 CONCLUSION OF CONTRACT OR SERVICE LEVEL AGREEMENTS (SLAs)**

After approval of a bid, both parties should sign a written contract or, if necessary, a service level agreement. Original /legal copies of contracts should be kept in a secure place for judicial reference. A bid, together with all relevant documents that comprise the full contract documents, becomes a binding contract when both parties, have signed the relevant documents.

As far as risk management is concerned consideration should be given to the degree of risk and its impact on service delivery, providing for the transfer of risks to the party best able to handle such risk and to realize service delivery targets.

#### **3.2 EXTENSION/EXPANSION OF CONTRACTS**

- a) Accounting Officers must as far as possible refrain from extending/ expanding contracts and /or allowing variation orders as it increases the risks, reflects possible flaws in the planning process and it creates an uncompetitive environment, possibly unfairly prejudicing other possible vendors.

- b) Accounting Officers may only extend contracts for up to a maximum period equal to the original contract period and in the case of expansions only up to a maximum amount equal to the original value of the contract. This power should only be executed if it makes economic sense and provided that such extension/expansion can be justified in terms of fairness, equitableness, transparency, competitiveness and cost-effectiveness.

### 3.3 **UNSATISFACTORY PERFORMANCE BY SERVICE PROVIDERS / CONTRACTORS**

3.3.1 Bidders can be disregarded by the Accounting officer in the following circumstances;

- a) Where a bidder has failed to sign a contract or to provide security within the period stipulated in the conditions of bid, or such extended period as may be allowed , when required to do so ; or
- b) Where a bidder/ contractor/ service provider fails or has failed to comply with any of the conditions of an agreement or performs or has performed unsatisfactorily under an agreement; or
- c) Has failed to react to written notices sent to him / her by registered or certified post ; or
- d) Where a bidder has concluded an agreement and has promised, offered or given a bribe, or has acted in respect thereof in a fraudulent manner or in bad faith or in any other improper manner.

3.3.2 Accounting officers must take the National Treasury Regulations into account when applying this power as well as the Promotion of Administrative Justice Act, 3 of 2000 by, ***inter alia***:

- a) Giving the bidder, service provider or contractor adequate Notice of the nature and purpose of the proposed administrative action;
- b) Giving the accused party a reasonable opportunity to make representations; and

- c) Giving a clear statement of the administrative action considered.

3.3.3 It is thus important that all information be provided in order that the Accounting Officer may put these allegations to the party concerned and also make an informed decisions.

## **4 GENERAL**

### **4.1 CONTRAVENING PROVISIONS**

- a) Where any of the stipulations in the Supply Chain Management Regulations, or Provincial Treasury Instructions and DSCM System are not met, it may constitute an irregular action and must be dealt with accordingly.
- b) No ex-post facto approval is available to condone any irregular action.

### **4.2 TRANSVERSAL CONTRACTS**

Where transversal contracts are deemed to be more cost- effective, rather than individual departmental bidding process, the Provincial Treasury as the case may be, will facilitate such process and establish the necessary rules and mechanisms to accomplish this. All transversal contracts in the province shall be adjudicated by the Central Procurement Committee or any such structure as may be decided by the MEC for Finance and Economic Development.

### **4.3. APPOINTMENT OF CONSULTANTS**

- 4.3.1 National Treasury has issued Practice Note SCM Number 3 of 2003 to regulate appointment of consultants. The information should be brought to the attention of all programme managers.
- 4.3.2 The term consultants includes consulting firms, engineering firms, construction managers, management firms, procurement agents, inspection agents, auditors, other multinational organizations, investment and merchant banks, universities, research agencies, government agencies, non- governmental organizations (NGOs), and individuals.
- 4.3.3 Accounting Officers/Authorities may use these organizations as consultants to help in a wide range of activities such as policy advice; accounting officer's/authority's reform management; engineering services,



construction supervision; financial services; procurement services; social and environmental studies; and identification, preparation, and implementation of projects to complement accounting officers'/authorities' capabilities in these areas. The consulting services are of intellectual and advisory nature.

4.3.4 Consultants should only be engaged when:

- The necessary skills and/ or resources to perform a project/ duty/study are not available; and
- The accounting officer/authority cannot be reasonably expected either to train or to recruit people in the time given.

## **5. LOGISTICS MANAGEMENT**

### **5.1 Principles**

- a) This refers to among others, recording, coding of items, setting of inventory levels, and placing of orders, receiving and distribution, stores/warehouse management, expediting orders, transport management and vendor performance monitoring.
- b) The prime function of an efficient Logistics Unit is to ensure that the institution have the right product at the right time, at the right price and at the right location.

### **5.2 STOCK LEVELS**

The following should be determined in order to automate the ordering process:

- a) Which items and quantities thereof to be kept in stock
- b) minimum/maximum levels to be kept in stock based on consumption figures or inputs from users; and
- c) Allowing for a safety margin ( $\pm 20\%$ ) to be added to the minimum level to cover unforeseen circumstances.

### **5.3 PLACING OF ORDERS**

An order should be placed either when a pre-determined stock level is reached or when a request is received from an end user for an item which is not held in stock.

#### **5.4 ORDER PROCESSING**

##### **5.4.1 CONTRACT PURCHASES**

Where a contract exists, orders should be placed for the purchasing of item, from the contract.

##### **5.4.2 PRICE QUOTATION/COMPETITIVE BIDDING METHOD**

Where there is no contract, the price quotation or competitive bidding method of ordering should be applied within delegated authority.

#### **5.5 VENDOR PERFORMANCE MANAGEMENT**

5.5.1 The reliability of the supplier should be monitored in terms of, among others:- delivery periods, quality; and quantity

5.5.2 Should problems be encountered, they should be followed up with the Vendor, and if it is a contract item, it should also be reported to the body that arranged the contract.

#### **5.6 STORES/WAREHOUSE MANAGEMENT**

5.6.2 Expediting of orders: If the delivery conditions reflected on the order form are not complied with, it should be followed up with the supplier immediately.

5.6.3 Receiving of items: All goods received should be verified for quality and quantity against the specification. It is recommended that a receipt voucher be generated for payment purposes.

5.6.4 Storage: Legal stipulations and safety regulations should be complied with when items are being stored, e.g. flammables, poison, explosives, ammunition, weapons, etc. An effective item location system should be utilized. Shelf life of stock should be taken into account.

5.6.5 A proper record of all applicable assets or groups of assets of the institution should be maintained by the accounting officer/ authority. Such record of all assets under a department's control, including information deemed necessary in respect of asset or a category of assets must be readily available for audit and inspection purposes

- 5.6.6 In terms of Treasury Regulations 10.1.1. The accounting officer of a department must take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, losses, wastage and misuse.

The Accounting Officer must ensure that processes (Whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the Institutions' assets.

#### **5.7 ISSUING/ DISTRIBUTION OF ITEMS**

An issue voucher should be generated for all goods issued. Consumable items should not be recorded after issue. Non-consumables items should be recorded from receipt to disposal.

#### **5.8 STOCKTAKING**

- a) Stores and equipment must be subject to stocktaking at least once every financial year. This procedure entails the comparison of stock verified with official records of what should be in stock. Differences should be accounted for.
- b) Where the quantity of stock or equipment is too large to allow a complete check in a single occasion, stocktaking may be carried out continuously or in progressive phases.
- c) All stock losses/shortages should be monitored.

#### **5.9 TRANSPORT MANAGEMENT**

Trip authority should be properly authorized and correctly utilized. Proper records should be maintained.

#### **5.10 HANDING OVER , UNAUTHORIZED USE AND TRANSACTIONS**

- a) Where a change in persons in direct control of stores, equipment or livestock takes place, a handing-over certificate must be completed and a copy retained for record and audit purposes.
- b) If for any reason the person from whom the stores, equipment or livestock are being taken over is not available, an impartial person must be nominated, in writing, to assist the person taking over with

the verification of the stores, equipment and livestock and the certification of any discrepancies.

- c) In case of failure to comply with the requirements of a handing-over certificate, the person taking over may be held liable for any shortages, unless it can be established that the shortages existed prior to the person taking over.
- d) During the requisitioning, consideration, acceptance or allocation of bids or any offer, no person employed by the Provincial Government or any person who acts on behalf of the Provincial Government may exercise or use his/her discretion, official powers or position in such a manner as to obtain for himself/ herself or for any other person or legal person an unlawful or unauthorized advantage or an advantage that serves to unlawfully prejudice the interests of the Provincial Government or any other person or legal person.
- e) Stock must be kept only in accommodation designed by the Accounting Officer.

## **6. DISPOSAL MANAGEMENT**

### **6.1 Principles**

This is the fourth and final phase of the integrated supply chain management system. Disposal management includes the following activities;

- 6.1.1 Obsolescence planning or calculation of depreciation rates;
- 6.1.2 Keeping a database of all redundant material;
- 6.1.3 Inspecting material for potential re-use;
- 6.1.4 Determining a strategy on how to dispose of obsolete items;
- 6.1.5 Carrying out the physical disposal of obsolete items.

### **6.2 DISPOSAL OF MOVABLE ASSETS**

- 6.2.1 Disposal of movable assets should be done in accordance with paragraph 10.2 sub paragraph 1 of the PFMA, Treasury Regulations published on 31 May 2000 which provides as follows: "Disposal of movable assets must be at book value or by tender or auction, whichever is most advantageous to the state, unless determined otherwise by the relevant treasury".
- 6.2.2 Assets to be disposed of (other than those to be re-used within the Provincial Government), should comply with the following:

- a) The Provincial Government mark on stores and equipments must be cancelled with a cross ('X') to show that Provincial Government ownership has ceased.
  - b) The brand on livestock must be dealt with in terms of the Livestock Brands Act, 1962 (Act No. 87 of 1962).
- 6.2.3 A decision to dispose of the Provincial motor vehicles, vests in the department of Transport. It is the responsibility of the Accounting Officers of other departments to inform the Department of Transport of all under-utilized and redundant properties as well as their intention, if any, of possible utilization of property for future intended purposes.

### **6.3 DISPOSAL OF IMMOVABLE ASSETS**

- 6.3.1 Disposal of immovable assets should be done in accordance with Paragraph 10.2 sub-paragraph 2 of the PFMA Treasury Regulations published on 31 May 2000 which provides "Any sale of immovable state property must be at market value, unless the relevant Treasury approves otherwise".
- 6.3.2 A decision to dispose of immovable property, vests in the Department of Public Works. It is the responsibility of the Accounting Officers of other departments to inform the Department of Public Works of all under-utilized and redundant properties as well as their intention, if any, of possible utilization of property for future intended purposes.
- 6.3.3 A list containing all these details must be periodically and at least on annual basis, submitted to the Departments of Public Works and Transport, as well as the Provincial Treasury.
- 6.3.4 Unless otherwise expressly provided for in any other law and whereas, various legislation provide for the disposal of land at market related prices, land can be disposed of at less than the market related value, subject to paragraph 6.3.5 below and provided that the following factors are taken into account:-
- a) Impact on socio –economic objectives of the province and
  - b) Availability and evaluation of user departments' accommodation plans.
- 6.3.5 Prior to the decision to dispose of provincial property below the market value, a detailed motivation for such disposal must be submitted. This submission must be made not later than 30 days

after the above-mentioned decision was taken. The motivation must contain the following information:

- a) Reasons for disposal;
- b) A valuation certificate;
- c) Comparison of disposal methods;
- d) Examination of costs and benefits of each disposal method, and

6.3.6 If disposal is envisaged by way of an offer to purchase (bid or public auction), all documentation (even minutes on meeting held) pertaining to the said offer, must be submitted to the Provincial Treasury for comments 30 days prior to conclusion of such an offer.

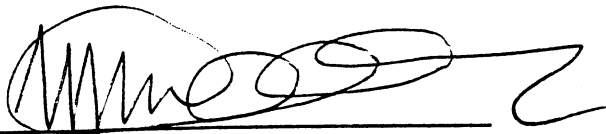
## **7. MONITORING AND ADVISING ON SUPPLY CHAIN MANAGEMENT**

The Supply Chain Management office within the Provincial Treasury will oversee Supply Chain Management within the Provincial Government and will *inter alia*, be responsible to-

- a) Formulate and advise on provincial supply chain management policy;
- b) Monitor the performance of Supply Chain Management Units in departments;
- c) Serve as a linkage between National Treasury and the different supply chain management units within departments;
- d) Promote communications and liaison between different supply chain management units;
- e) Issue and maintain provincial treasury instructions and practice notes to ensure uniform application of the national policy to guide uniformity in the implementation of supply chain management;
- f) Investigate complaints received regarding bid procedures and alleged irregularities and as otherwise provided for in the National Treasury Regulations 9.3;
- g) Assist departments in executing the national supply chain management requirements and instituting remedial steps in those departments not adhering to or not implementing such requirements;
- h) Maintain a database of suppliers;

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- i) Maintain a database to support the monitoring of the achievement of preferential procurement objectives.
- j) Monitor the manner in which Provincial Procurement policy is implemented in respect of government's preferential procurement objectives, the manner in which targets are set and attained, value for money obtained and delivery mechanisms, and
- k) Arrange transversal contracts.



**HEAD OF PROVINCIAL TREASURY  
MR J.N.T MOHLALA**

27/7/2004