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NATIONAL TREASURY

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FRAMEWORK FOR SUPPLY CHAIN MANAGEMENT [SECTION 76(4)(c) OF THE PFMA]

The draft Framework for Supply Chain Management is hereby published for public comments in terms of section 78 of the Public Finance Management Act (Act No. 1 of 1999).

Interested persons are invited to lodge written comments on the draft framework by not later than **5 December 2002** to:

The Director-General
National Treasury
Private Bag X 115
Pretoria
0001

All comments must be marked for the attention of Mr HML Malinga and may either be posted to the above address or transmitted by facsimile to (012) 3155343 or by e-mail to henry.malinga@treasury.gov.za.

DRAFT

FRAMEWORK FOR SUPPLY CHAIN MANAGEMENT [Section 76(4)(c) of the PFMA]

1. INTRODUCTION

- 1.1 The prescripts of this framework will be applicable to all departments at national and provincial levels, Constitutional Institutions, Public and Trading Entities (hereafter referred to as "Institutions") and should be executed by the accounting officers and accounting authorities.

2. RESPONSIBILITIES OF THE ACCOUNTING OFFICERS/AUTHORITIES [Section 38(1)(a)(iii) of the PFMA]

2.1 Establishment of supply chain management units

- 2.1.1 Every accounting officer/authority must establish a separate supply chain management unit within the chief financial officer structure of his/her institution to deal with the supply chain management for the institution.

2.2 Implementation of a supply chain management system

- 2.2.1 The implementation of a supply chain management system within an institution, should lead to the acquiring of goods, works and services on a competitive basis, based on sound business principles. The supply chain management system should at least address the following:

(a) *Demand management*

A total needs assessment should be done at least annually, which should include amongst others an analysis of the needs, the frequency of need, linking the requirement with the medium term expenditure framework, an analysis of past expenditure as well as an analysis of the industry.

Such a cross-functional exercise should bring the supply chain practitioner closer to the end user and ensure that value for money is achieved.

(b) *Acquisitioning management*

In this stage the preferential procurement policy objectives that could be met through the specific contract are identified, the strategy of how the market is to be approached is determined, the total cost of ownership (TCO) principle is being applied, bid documents are compiled, bid evaluation criteria is determined, bids

are evaluated and recommendations tabled, bids are awarded and contract administration is done.

(c) *Logistics management*

This aspect pertains amongst others to coding of items, setting of inventory levels, placing of orders, receiving and distribution, stores/warehouse management, expediting orders, transport management and vendor performance. This process should activate the financial system to generate payments. The accounting officer should ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets..

(d) *Disposal management*

This involves amongst others a database of all redundant material, inspection of material for potential re-use and determining of a strategy for disposal. The process of redundant material should be properly managed.

(e) *Supply chain performance*

Here amongst others a monitoring process takes place, undertaking a retrospective analysis to determine whether value for money has indeed been attained, the proper process has been followed, whether the desired objectives have been achieved, how the process should be improved, assessment of suppliers, establishing whether the supply chain management objectives were met as well as reasons for deviations.

2.3 Reporting

- 2.3.1 All accounting officers/authorities should report, in the prescribed formats and frequencies prescribed by the relevant Treasury, management information to the executive authorities and the National and relevant treasuries.

2.4 Training

- 2.4.1 Accounting officers/authorities should ensure that their relevant officials are adequately trained in the supply chain management process.

3. Disposal and letting of assets [Section 76(1)(k) of the PFMA]

- 3.1 Disposal of moveable assets is the final process when an Institution needs to do away with unserviceable, redundant or obsolete assets. The Accounting Officer should appoint a Disposal Committee, (if necessary at each regional / sub-office) to make

recommendations with regard to the disposal to such assets. It is the responsibility of the Accounting Officer to consider the recommendation of such Disposal Committee.

- 3.2 If disposal of such assets is approved, any of the methods indicated below may be followed:
- (a) Transfer to another institution in terms of section 42 of the PFMA;
 - (b) Transfer to another Institution at market related value.
 - (c) Transfer to another Institution free of charge (bearing in mind that the assets cannot be transferred to a sub-office, school, etc. without the approval of the Head Office of the Institution under which jurisdiction such sub-office, school, etc., falls.);
 - (d) Selling per tender or auction (requirements as prescribed in regulation 5 and 6 of the preferential Procurement regulations, 2001, should be adhered to); or
 - (e) Destroying such assets.
- 3.3 Should the selling of the moveable assets not be at market related value or by tender or auction, the reasons for the disposal in such a manner should be motivated, certified and recorded for auditing purposes by the accounting officer or his / her delegate.
- 3.4 All assets transferred to another Institution should be by means of an issue of a voucher.
- 3.5 Where computer equipment are to disposed of, the relevant Department of Education should be approached for arrangements for free transfer of such assets to educational institutions.
- 3.6 Firearms may not be sold or donated to any person or institution within or outside the RSA without the approval of the national Conventional Arms Control Committee.
- 3.7 In cases where stores (inventory) items or assets are traded in for other stores items or assets, the highest possible trade-in price is to be negotiated. The order placed should be for the net amount, as charged against the vote. The actual value of the new item should, however, be reflected on the register.
- 3.8 The letting of immovable state property (excluding state housing for officials and political office bearers) should be at market-related tariffs, unless the relevant treasury approves otherwise. No state property may be let free of charge without the prior approval of the relevant treasury.

- 3.9 The accounting officer should review, at least annually when finalizing the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of state property to ensure sound financial planning and management.

4. Assets accruing to the state by operation of any law

- 4.1 When any money, property or rights accrue to the state by operation of law (*bona vacantia*), the relevant treasury may exercise all powers, authority and prerogatives, and fulfil any obligations on behalf of the state.

5. MISCELLANEOUS

5.1 Ethics and fair dealings

- 5.1.1 In supply chain management, all parties are required to comply with the highest ethical standards in order to promote:

- (a) Mutual trust and respect; and
- (b) an environment where business can be conducted in a fair and reasonable manner and with integrity.

- 5.1.2 All officials / employees associated with supply chain management, particularly those dealing directly with suppliers or potential suppliers, are required to:

- (a) Recognise and deal with conflicts of interest or the potential therefor;
- (b) deal with suppliers even-handedly;
- (c) ensure that they do not compromise the good standing of the state through acceptance of gifts or hospitality;
- (d) be scrupulous in their use of public property;
- (e) provide all assistance in the elimination of fraud and corruption; and
- (f) adhere to the instructions issued by the accounting officer/authority as well as the code of conduct for supply chain management officials/employees issued by the National Treasury.

5.2 Combating corruption

- 5.2.1 Accounting officers must ensure that all measures are in place to avoid any abuse of the supply chain management system.

- 5.2.2 All allegations of corruption/misconduct must be investigated by accounting officers/authorities. "Minor" or "petty" acts of corruption may

not be ignored. When justified, the South African Police Service and/or NIA should be involved. Details of contact persons must be easily accessible for reporting purposes.

- 5.2.3 Accounting officers must ensure that all members of the bid/evaluation committees as well as the secretaries to these committees are cleared by the National Intelligence Agency (NIA).
- 5.2.4 An official / employee who is involved in the decision-making process must, if a conflict of interest is prevalent:
- (a) Declare the private interest;
 - (b) recuse himself/herself permanently from such decision-making processes; and
 - (c) refrain from discussion in any matter related to such process.
- 5.2.5 Whenever the contract amount of any contract is R 10 million or more, or when a bid is in process of being awarded to a foreign bidder, the Accounting Officer must liaise with the NIA for clearance of the recommended bidder.
- 5.2.6 The Accounting Officer may liaise with NIA regarding the award of a contract to any prospective bidder, irrespective of the amount of such bid. The Accounting Officer must liaise with NIA before the award of any contracts in respect of any strategic/sensitive contracts related to, amongst others, defence supplies, information technology and aviation.
- 5.2.7 Prior to the award of any contract, the accounting officer must ensure that neither the recommended bidder nor any of the directors are listed as companies/directors/persons restricted to do business with the Public Sector.
- 5.2.8 Accounting officers must:
- (a) Reject a proposal for award if it is determined that the bidder recommended for award has engaged in corrupt or fraudulent practices in competing for the contract in question;
 - (b) ignore any bid from a bidder whose name appears on the national list of restricted bidders/suppliers/persons; and
 - (c) cancel the contract allocated to a bidder for goods, services or works if it is at any time determined that corrupt or fraudulent practices were engaged in by representatives of the department and/or the supplier during the acquisition or the execution of that contract.
 - (d) Inform the National Treasury of any new restrictions imposed on any suppliers/companies/directors and/or persons.

5.3 Advertising

- 5.3.1 Bids should be advertised in at least the Government Tender Bulletin. Bids may also be advertised in other appropriate media. Accounting officers/authorities should take cognisance of the fact that timely notification of bidding opportunities is essential in competitive bidding.

5.4 Bid/Evaluation Committees

- 5.4.1 Accounting officers/authorities should delegate power to award bids to bid/evaluation committees. These bid/evaluation committees should be constituted of at least three members of whom at least one member should be a supply chain management functionary. When it is deemed necessary, independent experts may also be co-opted to a bid/evaluation committee in an advisory capacity.

5.5 Urgent and emergency cases

- 5.5.1 In urgent/emergency cases where the invitation of comparative bids is impossible or impractical, the institution may dispense with the invitation of bids and may obtain the required goods, works and/or services by means of quotations. The reasons for the urgency/emergency and for dispensing with open competitive bidding, should be clearly recorded and certified/approved by the accounting officer/authority or his/her delegate.

5.6 Accommodation and/or conference facilities for conferences, seminars, etc.

Accommodation and or conference facilities for conferences, seminars, workshops, "lekgotlas", etc should be obtained by means of competitive bidding. Should it not be possible or impractical to follow the normal competitive bidding process, the accommodation and/or conference facilities may be obtained by means of written quotations as prescribed in 5.5.1 above.

5.7 Public/Private/Partnerships

- 5.7.1 Whenever goods, works and/or services are procured by means of public private partnerships or as part thereof, Treasury Regulation 16 should be adhered to.

5.8 Tax Clearance Certificates

- 5.8.1 No contract should be concluded with any bidder whose tax matters are not in order. Prior to the award of a bid the institution should be in

possession of a tax clearance certificate, submitted by the bidder. This certificate should be an original issued by the South African Revenue Services.

5.9. Involvement of the State Information Technology Agency (SITA)

- 5.9.1 All IT-related contracts should be arranged with the assistance / inputs of SITA. However, the responsibility and accountability for the final decision regarding the procurement rests with the accounting officer/authority.

5.10 Appointment of Consultants

- 5.10.1 Consultants should be appointed by means of competitive bidding. Where, in exceptional instances, it is impractical to appoint the required consultants through a competitive bidding process, the Guidelines on fees for Consultants issued by the Department of Public Services and Administration should be followed to establish the appropriate tariffs.

5.11 Risk management

- 5.11.1 Risk management forms an integral part of the supply chain management process.

- 5.11.2 It is imperative that accounting officers/authorities take cognisance of potential risks during the supply chain management process. Due consideration should amongst others be given to the following:

- (a) Identification of procurement risk on a case-by-case basis;
 - (b) allocation of risks to the party best suited to manage such risks;
 - (c) subject to the provisions of section 12 of the National Treasury Regulations, the State should bear the cost of risks where the cost of transferring them is greater than that of retaining them;
 - (d) the exercising of risk management in a proactive manner and providing adequately for the cover of residual risks; and
 - (e) contract documentation clearly and unambiguously assigning relative risks to the contracting parties.
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