VOLUME 8:

RISK MANAGEMENT

AND

SCM PERFORMANCE MANAGEMENT
44. RISK MANAGEMENT AND INTERNAL CONTROL

Supply chain management (SCM) is a 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. It is part of a broader function of managing expenditure on and payments for the goods and services that are involved in delivering services to communities.

In order to achieve service delivery goals effectively, efficiently and economically, managers must ensure that proper controls exist over the entire business process, from planning (determining the demand for goods and services), procuring (through a fair, equitable, transparent, competitive and cost effective system consistent with both the Preferential Procurement Policy Framework Act (Act No. 5 of 2000) and the Broad Based Black Economic Empowerment Act (Act 53 of 2003)), managing logistics and disposing of goods no longer required. It is imperative that risks associated with these processes are managed at all stages in the cycle.

44.1. INSTITUTIONAL ARRANGEMENTS OR REQUIREMENTS

The Department needs to indicate its own requirements in this section that specifically speaks to:
1. Who will be responsible for SCM / asset management internal control and risk management?
2. How it will be managed (centrally /decentralised)?
3. How is the line management factored into the operational requirements of the SCM unit to manage operational SCM risks and internal control
4. Process flow
5. Enforcement and reporting requirements
6. Assessment tools to be used
7. Training and capacity development

44.2. RISK MANAGEMENT RELATED TO SCM

Risk management is a process used for identifying, assessing, and prioritising risks of different kinds within the supply chain and asset management domain. Once the risks are identified, the risk manager will be required to create a plan to minimise or eliminate the impact of negative events.

Risk management in the supply chain management context ensures that a department identifies and understands the risks to which it is exposed. Risk management also guarantees that the department creates and implements an effective plan to prevent losses or reduce the impact if a loss occurs.

A risk management plan includes strategies and techniques for recognizing and confronting these threats. Good risk management does not have to be expensive or time consuming; it may be as uncomplicated as answering these three questions:
a. What can go wrong?
b. What will we do, both to prevent the harm from occurring and in response to the harm or loss?
c. If something happens, how will we pay for it?

Operational Risks Impacting on Supply Chain Management:

d. Operational risk is the exposure of an organisation to losses resulting from internal failures or shortcomings of people, processes and systems. Supply Chain Management is also reliant on people, processes and systems to function effectively.

e. People

i. There is always a human factor to consider in any supply chain activity. The knowledge, experience, capability and reliability of the purchasing and supply personnel in supply chain processes are critical risk factors.

f. Processes

i. Process risk is the risk of the supply chain processes being insufficient and causing inefficiency and unexpected losses. This includes execution errors due to flaws in the processes, for example the miscommunication of a need between a user and purchasing and supply.

ii. Processes form part of the operations environment and therefore have a strong interactive relationship with people and systems. Any changes in processes affect people and systems; for example changes in the supply chain processes may alter the way in which people perform their different activities and may also require the adaptation of the system that is used in these processes.

iii. People and systems, on the other hand, can also affect processes; for example the introduction of an e-procurement and e-commerce in an enterprise may require that supply chain processes be changed to facilitate efficient operational performance.

g. Systems

iv. Systems risks to those resulting from systems failures and are therefore primarily based upon the dependency of supply chain and technology. Inventory and supplier records are mostly kept in digital format on computer systems, accounting and reporting are done via electronic systems, and the bulk of orders and payments may take place electronically.

v. This makes supply chain management vulnerable to any disruption in the efficient functioning of systems, and also to system obsolescence. New technologies often have implications of complexity and uncertainty. The newer the technology, the greater the risk that it may not perform as expected. New systems often require modifications in order for them to function smoothly. Although forming part of people risks, new skills are needed for the use of new technologies, which require the running of effective training programmes.

vi. The following are examples of systems risks:
- Systems failure;
- Security breach;
- Implementation failure;
- Insufficient systems capacity; and
- Poor date integrity

c. Technology controls are required throughout the department to ensure that technology is protected against human error, data theft, equipment failure, fire, heat, water, smoke, corrosive fumes etc.

d. External Risk

e. External events risks refer to those external factors that could affect the department negatively like natural disasters, and particular supply and supplier risk, of which the following are examples.
   - External supplier that does not adhere to agreed delivery dates;
   - Physical security risk at warehouses where supplies are stored;
   - The litigation risks pertaining to purchasing and supply contracts;
   - Natural disaster risks delaying the delivery of purchased materials;
   - Labour actions risks leading to non-compliance; and
   - Government regulations pertaining to purchasing materials.

f. As a department’s purchasing and supply management have no direct control over external factors, it is often difficult to manage risk proactively. Although it is difficult to quantify these factors, it is important for purchasing and supply management to anticipate these risks in order to reduce the factors’ adverse effects.

g. The Risk Management Process
   - All departments are looking for optimal trade-offs between the perceived risks and the potential returns they are facing. Therefore the first step of risk management is to identify the risks.
   - The second step is to access the impact of the risks on the department and the third consists of determining a strategy to deal with or eliminate the risks. The strategy is then implemented, monitored and evaluated.
   - This process is referred to as the risk management model. Although the risk management process may differ from one department to the next and may vary for different types of risk, certain steps are fundamental to this process and should therefore always be present in one form or another.

44.3 RISK MANAGEMENT PROCESS

x. The risk management process shall be applied to all stages of supply chain management, be it the Demand, phase (conceptual stage, project definition, etc.), Acquisition Phase (specification preparation,
acquisition approval or implementation to completion) or any of the other management phases.

Risk management is an integral part of good management of supply chain management activities and cannot be effectively performed in isolation from other aspects of supply chain management.

Appropriate risk management conditions should therefore be incorporated in contracts.

Where risks are perceived or anticipated, the department should retain the responsibility for the risk, how it can be minimised and how it will be managed should it occur. The department will be aiming at business continuity in all possible circumstances, although it is unlikely to be cost effective to plan for every possibility, and a certain level of risk will have to be accepted.

Typical SCM Risk Management System
Risk management activities should always add value to the procurement process. The effort expended in managing risk should be commensurate with:

j. the nature of the procurement
k. the cost of the procurement
l. the complexity of the procurement
m. the significance of the procurement to the agency or government program.

The risk management process is applicable to all stages of procurement, from identifying a need, satisfying that need, and ultimately through to disposal. It is an integral part of good procurement management. Effectively managing risk can lead to significant savings in resources, timely delivery and improved quality of services and relationships with clients.

It is important to note that risk management isn’t a once off process. Risk in procurement change all of the time. The risk process must therefore be a continual one and be managed and revisited at every stage of the procurement cycle and throughout the duration of the contract.

The seven steps of the risk management process are:

n. Establishing the context
o. Risk identification
p. Risk analysis
q. Risk evaluation
r. Risk treatment
s. Communication and consultation, and
t. Monitoring and review.

Operational risk during a bidding process and resultant contract:
Risk is defined as uncertainty of outcome, whether positive opportunity or negative threat. In the area of SCM risk management, the term ‘management of risk’ incorporates all the activities required to identify and control risks that may have an impact on (i) the award of the bid, (ii) the successful bidder being able to deliver and (iii) the SCM contract being able to be executed and managed. It is important to note that it remains the Department’s responsibility to maintain the service wherever possible.

Many risks involved in SCM relate to the bid failing, or delivery not being to the right level of quality. These could inter alia include:

- Poor bid specifications.
- Poor contract design.
- Poor contract administration and/or management.
- Limited departmental capacity.
- Tight timeframes.
- Lack of capacity.
- Key staff on the bidder side is redeployed elsewhere, eroding the quality of the service provided.
- The bidder’s business focus moves to other areas after contract award, reducing the added value for the department in the arrangement.
- Bidder’s financial standing deteriorates after contract award, eventually endangering their ability to maintain agreed levels of service.
- Demand for a service is much greater than expected and the bidder cannot cope.
- Demand for a service is too low, meaning economies of scale are lost and operational costs are disproportionately high.
- Staff on the department side with ‘intelligent department’ skills is transferred or move on (possibly to the bidder).
- The department is obliged to make demands that cannot be met, perhaps in response to changes in legislation.
- Force majeure: factors beyond the parties’ control disrupt delivery; for example, premises cannot be accessed because of a natural disaster.
- Fundamental changes in the departmental requirements, perhaps as a result of changes in policy, make the arrangement a higher or lower priority or change.
- The level of demand for the service.
- The department’s inability to meet their obligations under the contract.

Where risks are perceived or anticipated, the department should retain responsibility for the risk, how it can be minimised and how it will be managed should it occur. The department will be aiming for business continuity in all possible circumstances, although it is unlikely to be cost-effective to plan for every possibility, and a certain
level of risk will have to be accepted.

Questions to consider for each individual risk include:

II. Who is best able to control the events that may lead to the risk occurring?
mm. Who can control the risk if it occurs?
nn. Is it preferable for the department to be involved in the control of the risk?
oo. Who should be responsible for a risk if it cannot be controlled?
pp. If the risk is transferred to the provider:
xiv. Is the total cost to the department likely to be reduced?
xv. Will the recipient be able to bear the full consequences if the risk occurs?
xvi. Could it lead to different risks being transferred back to the department?
xvii. Would the transfer be legally secure (will the transfer be accepted under common law)?

When a bidder is made responsible for managing a risk, it is referred to as having been ‘transferred’ to the bidder. It is important to remember that transferred risks still have to be managed by the department, and cannot be forgotten about simply because the contract obliges the bidder to deal with them. Bidders will want payment for managing or taking on risks and ideally this should be built into the contract.

A key point is that business risk can never be transferred to the bidder. Although the bidder may be under severe financial pressure for non-fulfilment, this will not compensate the department for failing to fulfil its obligations and deliver key outcomes. For example, a critical service may fail, endangering the lives of citizens.

Although the bidder failed to deliver, the ultimate responsibility remains with the department. It is essential to consider the whole supply chain when analysing the risks to a bid or contract. While a relationship based on trust, openness and communication is desirable, a department with too much ‘hands-on’ involvement in the bidder’s business can end up taking back transferred risk, by not allowing the bidder to take responsibility for managing it. This take-back is itself a risk to the contract, closely linked with the issue of intelligent department skills.

A full understanding of what the bidder can and cannot do should enable the department to strike the right balance between ‘hands-on’ and ‘hands-off’ styles of contract management.

Risks can be identified and managed – even though it takes a level of risk analysis on the part of the department. Most bidders who submit proposals to the department for various types and sizes and contracts
do not list all things that could go wrong on their side. Since all proposals are highly competitive documents designed to convince the department to select their respective product or service, it is highly unlikely that real risks will be articulated and pre-identified by the bidder in the bid documents. The responsibility of the department to be able to identify and predict certain risk eventualities can only be accurately assessed if the department has a clear understanding of:

- qq. The nature of the project.
- rr. The required criteria a bidder should possess in order to successfully complete the project.
- ss. An understanding of the environment where the product or service will be delivered into.
- tt. Corporate memory or lessons learnt from similar projects.

In events where due to the technical or special nature of goods and services required, it is not possible to determine the exact specifications without inputs from the industry, the SCM Unit may be approached to guide such inputs to be received.

There are 3 distinct phases in any selection, appointment and delivery process of a bid that can be analysed and the various risks assessed:

**Figure a: Bid-risk factors:**

1. Tender Risk: Pre-Bid Factors
2. Bidder Risk: Mid-Bid Factors
3. Contract Risk: Post-Bid Factors

uu. **BID RISK – PRE-BID FACTORS** – [responsibility of the Bid Specification Committee]:

xviii. **In-house vs outsourcing:** Savings are certainly the main draw of outsourcing, but research recently noted that other reasons for outsourcing are on the rise. For instance, more than 40% of respondents said they would outsource to improve customer relationships. Another 37% said outsourcing could help them develop new products or services, and about one-third said outsourcing would be important in helping to expand into geographies they couldn't otherwise enter. The survey also revealed that executives increasingly are willing to outsource functions considered core to the business. Although IT remained the most outsourced activity, with about 60% sending those duties outside their institutions, 70% of respondents outsource one or more of what could be considered strategic functions.
Legislative/Legal requirements: There are a host of prescripts that govern the bid process as indicated in Part 9 above. Although designed to reduce subjectivity in the selection criteria, they can create a potential hazard due to the technical nature and legalities that govern the various SCM processes. The SCM regulations are clear in determining various quantifiable criteria that are to be applied in the bid process.

Deliverables: The bid specifications are designed to guide the bidders in meeting the expectations of the bid requirements. Deliverables are to be clearly stipulated against timelines and monetary cost. SCM practitioners should be wary of bidders who have merely replicated the specifications of the bid without any apparent attempt to interpret or contextualise what the objectives of the bid are.

Timeframes: The bid timeframes need to be realistic in what is expected of the bidder. Unfortunately the drafters of bids can be under budgetary or political pressure and may include unrealistic timelines in the bid. Effective supply chain management should question the viability of potentially setting up a bidder to fail or be forced to submit/deliver sub-standard work so as to meet these aggressive targets. In the bid the bidder should have a clear Gantt chart that specifies the entire project plan coupled with resourcing and milestone dates.

Departmental resources: Of importance in the facilitation of the entire bid (as well as post-bid project roll-out) the department needs to ensure that there are sufficient capacitated departmental resources to monitor the process throughout contracting and implementation.

Costs: Pricing is a key selection criterion in all bids. Although it should not be a case of “cheapest bidder wins”, the justification of a more expensive bidder over another is the first criteria point that comes under scrutiny. Often the most contested issues between bidders are who was the cheapest. The pre-bid bid phase forces the department to consider what a realistic price is for the meeting of the deliverable. (Hint: if there is a very wide pricing discrepancy between the bidders – a variation of more than 100% - then it is possible that the bid specifications have not been clearly specified.)

Social versus economic gain: The goal of socio-economic gain is generally to bring about socioeconomic development, usually in terms of improvements in metrics such as GDP, life expectancy, literacy, levels of employment, etc. Although harder to measure, changes in less-tangible factors are also considered, such as personal dignity, freedom of association, personal safety and freedom from fear of physical harm. Economic gain on the other hand consists of the economic system of a country, the labor, capital and land resources, and the economic agents that socially participate in the production, exchange, distribution, and consumption of goods and services of that area. The aim of economic gain is to get the best result at the best cost. It is however a responsibility of government to not only focus on economic gain but also socio-economic benefits when procuring goods and services and to weight the gain in both aspects.
prior to finalising its specifications.

xxv. **Political risk:** Service delivery is ultimately linked to political promises and must be considered. However, NO political interference with SCM processes at any stage is allowed.

vv. **BIDDER RISK – MID-BID FACTORS** - [responsibility of the Bid Evaluation Committee]:

i. Profile – The profile of the bidder should be assessed against the core competencies of the company. In all construction or civil engineering related work, the CIDB grading must also be verified.

ii. Capacity/staff/size/location – Having conducted the appreciative inquiry (Part 11), the SCM practitioner will have a better understanding of the bidder capabilities required in order to meet the demands of the project.

iii. Preferences/BBBEE – the SCM practitioner is well guided here in terms of the Treasury Regulations on how to measure and assess the preference status of a bidder. Because of its nature and the competitiveness between bidders, fronting is a reality that needs to be assessed and mitigated.

iv. Financial position – Ultimately the bidder needs to demonstrate that they are able to commence the project and have sufficient cash flow to ensure project floatation and reduce the risk of delay through strike action, inability to pay plant hire, liabilities and staff costs.

v. Experience – the bidder will need to submit various references and articulate experience from similar projects. The bidders should have the following information included in the bid relating to their past experience:
   - Name of client
   - Nature of project
   - Monetary value of project
   - Project dates
   - Client reference name and title
   - Client contact number (and e-mail address) and referrals.

ww. **CONTRACT RISK – POST-BID FACTORS** - [responsibility of the Contract Administrator]:

xxvi. **Project risks:** The unique nature of each project will determine the nature of the project risks that can arise throughout the project lifespan. There are certain generic project management criteria that can serve as early warning signs that a project could start losing traction:
   - A high churn of project staff
   - Diluted progress reports
   - Minutes that appear repetitive
- Progress reports that echo the last report
- Scope creep at early stages of the project
- Missing of project milestones
- A lack of visible progress
- An inability to engage meaningfully and contextually with department project managers
- Invoices without detail
- Poor quality products
- An over-reliance on sub-contractors

xxvii. Contract administration and management risks.

Whilst these steps clearly demonstrate the 3 stages that create separate risks in the bid process, there are also tools and methodologies that can assist in the identification, assessment, and mitigation of risks. The 7-Step Risk Management Toolkit below may assist.

7-STEPS TO CONDUCT RISK ASSESSMENT AND RELATED MANAGEMENT

NOTE STATUS OF TOOLKIT:

This toolkit has been designed to guide the risk management approach and treatment and should be applied on a discretionary basis. It is not a mandatory tool, except if the relevant bid has been identified as a 'strategic commodity'.

STEP 1: ASSESS THE REASON FOR BID

By analysing the need for bids and its subsequent evaluation process, SCM practitioners are forced to look at all factors in a HOLISTIC manner. This allows for a wider evaluation of all potential risk factors.

In determining the need for a bid, the procurement plan should be consulted and can be obtained from the SCM Unit.

A methodology designed for this type of assessment is known as Appreciative Inquiry. This process forces the evaluator to look for all factors in the bid that will enable success.

Guiding questions at this phase are:

a. What factors will make this bid a success?

b. What factors already exist/are in place that will enable the success of this bid?
c. What environmental factors promote the success of this bid?

d. What are the positive characteristics that existed in past similar projects?

The result of this phase is a list of enablers that promote the success of the bid. These enablers identify the positives within the overall bid and often counter an over-pessimistic risk-based assessment of the process. To achieve successful service delivery, the SCM official should seek to promote enablers rather than promote limitations within a bid. The balance is to enhance the positives and reduce the negative impact of risks.

**STEP 2: ASSESSMENT OF THE CURRENT AND FUTURE STATE**

By employing a Force Field Analysis, the SCM team jot down the main points of what the current as-is status is i.e. the area that is to be positively affected by the bid. These points should focus on the main features that are to be addressed through the bid. They should also try to be quantifiable as possible (use of metrics).

![Figure 23: Diagrammatic illustration of the Force Field Analysis Model](image)

The enablers listed in the earlier process are then positioned as “driving forces” – i.e. they are designed to move the current state towards the desired future to-be state. The desired state is the articulation of what the bid is meant to achieve. The use of metrics is again important as it forms the basis for performance measures throughout the project. The first part of risk identification is now tabled during the identification of restricting factors or elements that will inhibit the reaching of the desired state.

**STEP 3: RISK IDENTIFICATION**

By tabling the various restrictive factors that may derail or hinder the process of the bid, the first process of risk identification has now occurred. The most value in this process is derived from experienced SCM practitioners who also have knowledge of project implementation.
Whilst the SCM regulations can be prescriptive in HOW the bid is awarded, the identification of risks is a process of identifying possible known factors that could derail the bid.

**STEP 4: RISK QUANTIFICATION**

The only way to prioritise the risks associated with the bid is to attach a value or quantify a risk. The tool used for this is the Risk Management Matrix (RMM). The RMM is designed to look at the probability of a risk happening (of the likelihood of it happening), and then determine the level or impact that this risk will have on the project.

By scoring the risks, the next step is to rank them with the highest value first. Once tabled and arranged, it is easy to determine where the most amount of effort needs to be spent in order minimise the potential risk that exists at a specific stage within the project.

**STEP 5: RISK MINIMISATION AND CONTINGENCIES**

Because the RMM has now prioritised the risks, the SCM Unit is now able to formulate various plans and strategies around how best to minimise the risk. There are various ways to manage the risk and can be remembered with the acronym MARTA:

a. **Mitigate** - Reduce the severity of its impact  
b. **Avoid** - Don't do the thing that makes the risk possible  
c. **Reduce** - Make the risk less likely to happen  
d. **Transfer** - Move the impact of the problem to another party (e.g. insure such as paid insurance or outsource with penalties for failure)  
e. **Accept** - Do nothing or set aside budget to cope with the impact  
f. It is recommended that each of the risk mitigation strategies be evaluated to determine what the best approach would be per project.

There are also various risks that can occur POST APPOINTMENT in the built environment, namely:

- **Contract Documents**
  - Health and Safety Plan – is it convincing, tailor made?
  - Environmental Plan - is it convincing, tailor made
Quality Assurance Plan – contractor must explain how they will check in-house on quality – is it convincing?

Surety, Insurances, Guarantees, JBCC documents – are they signed promptly, delivered on time etc.?

- **Capability**
  - Sufficient equipment/plant on site?
  - Experienced permanent core team in key positions? – check CVs
  - Ratio of casual to permanent staff – sufficient permanent employees to enable good quality workmanship?
  - Working capital – can contractor pay labor, order material without difficulty?

- **Site establishment**
  - Has site been made secure with danger tape, warning signs etc.?
  - Is labor wearing safety shoes, hats?
  - Site office – has this been set up?

- **Programme**
  - Is programme adhered to, and if not, why?
  - Administration
  - Is Site instruction book well administered?
  - Are payment claims correctly presented

- **General**
  - Site meetings – do relevant representatives from contractor attend?
  - Variation orders – does contractor have the ability to cope with doing these?
  - Are contractor decision makers on site sufficiently?
  - Is communication response time from contractor quick and efficient?

**STEP 6: DETERMINATION OF EFFORT**

Getting lost in the detail of minor matters is often the cause of delay and frustration in the bid and project process. By being able to apportion effort towards the more important matters first it is likely that the majority of risks and issues can be managed comfortably. The Pareto 80/20 Principle should be at the forefront of managers who are overseeing these processes.

The Pareto 80/20 principle guides the SCM practitioners in determining the EFFORT needed to mitigate the risk versus the IMPACT that this effort will have on the bid or project. The nature of the principle is that 20% of
your effort can resolve or have a positive impact over 80% of task at hand. Of course, the opposite is also true in that 80% of the effort is often only directed at 20% of the task.

**NOTE:** the use of this principle does not translate into the fact that certain key tasks or activities can be ignored in totality; it simply means that effort should be directed in the appropriate area.

**STEP 7: DETERMINATION OF ACTIONS**

Once all risks have been identified, quantified, prioritised, and the mode of minimisation chosen, the department is then able to document the necessary actions that need to be taken in the MARTA of the risks.

By tabling a clear action plan, the department is then able to allocate the Responsibility and Accountability of a particular task. It can also include who needs to be Consulted and who needs to be Informed in various processes. This last tool is known as a RACI Action Plan.

**Rules on the application of the risk assessment toolkit**

In a further effort to make the SCM process transparent and objective, an Excel based Risk Management Toolkit (RMT) has been created.

The RMT is designed to be used across the three stages of bid management, i.e. (i) pre-bid, (ii) mid-bid and (iii) post-bid. By its nature it is designed to quantify and determine thresholds around decision-making for SCM practitioners.

Use of the toolkit is as follows:

xx. **Establishment of a RMT Panel:** The RMT should not be used officially in isolation. By creating a panel, collective inputs can be collated and quantified with credibility. Multiple viewpoints also assist in the moderation and consideration of various assessment criteria when evaluating a bid. The RMT panels will consist of the following members:

xxviii. **Pre-bid:** Bid Specification Committee members

xxix. **Mid-bid:** Bid Evaluation Committee members

xxx. **Post-bid:** Contract Administrator/Manager

yy. **Uniform Assessment:** The outcomes of the RMT (Risk Management Toolkit) can only be considered fair if all bidders are evaluated in the same manner.

zz. **Consistency of the RMT Panel:** The evaluation panel should have a 75% consistency rate so that all evaluations are done in a level of uniformity.

aaa. **Evaluation over Time Span:** All bidders competing for the same project should be evaluated over the
same evaluation period and delays between bidder evaluations should be reduced.

bbb. **Training**: All practitioners who use the RMT are to be trained by their supervisors in this regard with the trainee acknowledging this on-the-job training.

### 45. INTERNAL CONTROL

The SCM internal control framework must provide for:

(a) the entire virtuous cycle of supply chain management;
(b) identified risks;
(c) control activities;
(d) type of control activity (management, administrative and accounting);
(e) preventative, detective and corrective control activities;
(f) responsible employee; and
(g) management of assessment.

1. The Department must attach the internal control framework as it pertains to its own operational and business requirements

The appendices to the framework addresses the transaction life cycles of the following areas:

(a) Moveable asset management; and
(b) Supply chain management (goods & services).

The Department is required to adopt mechanisms to speak to its bespoke requirements. This includes:

1. Identification of bespoke risks to be included in appendices and classification thereof;
2. Completion of the first blank column on the appendices which allows for the identification of the ‘delegated employee’, i.e. the person (or possibly position) to whom the specific responsibility has been formally delegated;
3. Completion of the last blank column on the appendices where management must indicate the level at which they believe the control is functioning, in accordance with the maturity capability model.

### 46. SCM REPORTING

The reporting of SCM information assists in ensuring that individuals and organisations are answerable for their plans, actions and outcomes. Openness and transparency in administration, by external scrutiny through public reporting, is an essential element of accountability. Within the supply chain management framework:

(a) AO’s are accountable to their MECs for the overall management of supply chain management activities;
(b) Heads of supply chain management and senior supply chain management directors are accountable to AO’s/CFO’s for various high-level management and co-ordination activities;
Individual supply chain management officers are accountable to heads of supply chain management, and to their clients, for the services they provide; and

All people exercising supply chain management functions must have regard to Departmental requirements in this SCM system and are accountable to management.

46.1. REPORTING FORMATS
The head of the supply chain management unit of a Department must within 15 working days after the end of each month submit a report via, the chief financial officer, to the accounting officer or accounting authority containing information on procurement transactions during that month.

The report referred to must contain at least the following:
(a) required information, on procurement transactions for each form of procurement as prescribed;
(b) compliance to norms and standards prescribed for the various forms of procurement;
(c) any patterns observed that could be construed as irregular in the responses received from the issuance, management or handling of requests for quotations via the integrated procurement solution;
(d) any problems experienced with the invitation of price quotations through the integrated procurement solution;
(e) information on payments outstanding after the prescribed 30 day period;
(f) any problems experienced with the implementation of the accounting officer’s supply chain management system; and
(g) any other information as prescribed by the Provincial Treasury.

The PT:PCPO will issue a reporting format for monthly and quarterly reporting with the specified minimum requirements for the Province.

The Department must adapt this format to its own business processes and needs.

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**Department must insert at this point the following:**

1. Its own institutional arrangements for the reporting of SCM information;
2. Its reporting template;
3. Process flow; and
4. Roles and responsibilities

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**Monthly**
The head of the supply chain management unit of an institution must within 15 working days after the end of
each month submit a report via, the chief financial officer, to the accounting officer containing information on procurement transactions during that month. The report must contain the following:

- Required information, on procurement transactions for each form of procurement;
- Compliance to norms and standards prescribed for the various forms of procurement;
- Any patterns observed that could be construed as irregular in the responses received from the issuance, management or handling of requests for quotations via the integrated procurement solution;
- Any problems experienced with the invitation of price quotations through the integrated procurement solution;
- Information on payments outstanding after the prescribed 30 day period;
- Any problems experienced with the implementation of the accounting officer’s supply chain management system; and
- Any other information as prescribed by the Provincial Treasury.

A copy of the report must also be submitted to the Provincial Treasury within 5 working days after submission to the AO.

**Other Monthly Reporting**

- Accounting officers must capture the prescribed information for all institutional contracts awarded above the value of R100 000 on the National Treasury’s Contract Registration Application (CRA) within ten working days after the end of each month.
- The Provincial Treasury must on a monthly basis forward to all institutions a pre-populated spread-sheet as obtained from the CRA and request additional information. Accounting officers must submit responses to this request within 10 working days of the request been made by the Provincial Treasury.
- The head of the supply chain management unit of an institution must within 15 working days after the end of each month submit a report, via the chief financial officer, to the accounting officer containing information on procurement transactions during that month, and other related information.
- A copy of the report must also be submitted to the Provincial Treasury within 5 working days after submission to the accounting officer.

**Annual**

- All concluded unsolicited proposal agreements must be reported by the accounting officer in the annual report of the institution.
- Accounting officers must submit a copy of the final annual stock take report together with the prescribed information to the Provincial Treasury before closing of the financial year.
- Accounting officers must submit a procurement schedule containing all planned procurement for the financial year in respect of goods or services which exceed R500 000 (applicable taxes included) to the Provincial
treasury by 30 April of each year in the prescribed format.

**General Reporting**

- Accounting officers must within 5 working days furnish the National Treasury with the prescribed information on the restriction of suppliers from doing business with the public sector in terms of the Preferential Procurement Regulations, 2011.
- All cases where goods or services above the value of R1 million (inclusive of all taxes) were procured in respect of National Treasury Regulations 16A6.4 must be reported, as prescribed, to the Provincial Treasury and the Auditor General within 10 working days.
- Accounting officers must furnish the Department of Trade and Industry with the required information within 5 working days after the award of any contract that is in excess of R10 million.
- Upon receipt of an unsolicited proposal, the accounting officer must, in writing, notify the Provincial Treasury within 10 working days.
- The accounting officer must submit a copy of a concluded unsolicited proposal contract to the Auditor General and the Provincial Treasury.
- Accounting Officers must within 2 working days:
  - Notify the Provincial Treasury of all bids advertised via the open bidding process as and when they are advertised in the Government Tender Bulletin (GTB) or the local newspapers; and
  - For awards, forward a copy of the acceptance letter sent to the successful bidder to the Provincial Treasury.
  - The Provincial Treasury may review the reporting requirements from time to time and issue new or revised reporting requirements when necessary.

47. **SCM PERFORMANCE MONITORING**

The AO must ensure that the supply chain management system provides for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised processes are being followed and whether the desired objectives are being achieved.

The performance monitoring and evaluation system referred to above must, amongst others, provide for a scorecard mechanism which describes the key strategic and operational performance targets to be met in relation to the strategic and operational planning processes referred to in Demand Management.

The scorecard used for SCM is:

(a) a measurement-based performance monitoring framework that displays organisational measures graphically and groups it into categories, as a dashboard;
(b) a strategic performance monitoring and evaluation system for the organisation;
(c) a communications tool to make strategy clear to everyone;
(d) a way to balance financial and non-financial views of the organisation’s performance;
(e) a system for increasing accountability;
(f) a commitment to change; and
(g) a way of aligning the organisation’s vision with human and capital resources, and with day-to-day operations.

**Improvement Interventions**
The AO must ensure that the supply chain management system provides for an effective internal performance monitoring and evaluation system in order to determine, on the basis of retrospective analysis, whether the authorised supply chain management processes are being followed and whether the desired objectives are being achieved.

In order for the Department to manage SCM performance and resultant improvement interventions, it will apply its internal control framework as well as maintaining the following records/portfolio of evidence:

**Record of gifts received per division**
- Name of official that received the gift.
- Description of the gift.
- Estimated value of the gift.
- Name of person or organization that presented the gift.
- Pages must be numbered.
- This record must preferably be in hard copy format.

**Bid documents issued**
- Bid reference number.
- Names and addresses of prospective bidders who requested documentation.
- All inscriptions must be numbered.

**List of bids received**
- Bid reference number.
- Closing date.
- Names of bids received.
- All inscriptions must be numbered.

**Record of verbal and written quotations**
- Verbal quotations:
- Date of the request received by the SCM Unit.
- Particulars of end user, contact person and telephone number.
• Registration number of the provider where applicable.
• Names and contact details of prospective providers contacted.
• Price of quotes received.
• Name of the successful provider.
• Date of approval and the name and rank of the person/s that granted the approval.
• Delegation number, if applicable.
• Satisfactory/non-satisfactory completion of the service or delivery of the goods.
• Rotation indicator on prospective provider list.
• All inscriptions must be numbered.
• Written quotations:
  • Date of the request received by the SCM Unit.
  • Particulars of end user, contact person and telephone number.
  • Requisition number.
  • Description of the requirement.
  • Estimated value of the requirement.
  • Registration number of the provider where applicable.
  • Names and contact details of prospective providers contacted.
  • Price of quotes received.
  • Specification points, B-BBEE status, points for goals, and points for price are to be indicated separately.
  • Total points scored.
  • Name of the successful provider.
  • Date of approval and the name and rank of the person/s that granted the approval.
  • Delegation number.
  • Satisfactory/non-satisfactory completion of the service or delivery of the supply.
  • Rotation indicator on prospective provider list.
  • All inscriptions must be numbered.

Record of all competitive bids
• Date of the request received by the SCM Unit.
• Particulars of end user, contact person and telephone number.
• Requisition number.
• Description of the requirement.
• Estimated value of the requirement.
• Registration number of the provider where applicable.
- Names and contact details of prospective providers contacted.
- Price of quotes received.
- Specification points, B-BBEE status, points for goals, and points for price are to be indicated separately.
- Special conditions applicable
- Site meeting records (minutes and all communiqué)
- Total points scored.
- Name of the successful provider.
- Date of approval and the name and rank of the persons/body that granted the approval.
- Delegation number.
- Negotiations
- Contract administration file
- Contract management file
- Satisfactory/non-satisfactory completion of the service or delivery of the supply.
- Rotation indicator on prospective provider list.
- All inscriptions must be numbered.

**Record of ad hoc bids and/or deviations**

- Bid number.
- Description of the requirement.
- Particulars of end user, contract person and telephone number.
- Date of advertisement.
- Date of advertisement for the extension of the closing date.
- Closing date.
- Extended closing date.
- Validity period.
- Extended validity period.
- Total number of bids received.
- Late bids received, where applicable.
- Name of successful bidder.
- Price of the successful bid.
- Points of the successful bid, received for specifications, price, equity and goals are to be indicated separately.
- Total points scored by the successful bidder.
- Date of approval and the name of the body that granted the approval.
- Delegation number, if applicable.
• Date contract form is signed.
• Satisfactory/non-satisfactory completion of the service or delivery of the goods.
• Cancellation of bid or the cancellation of contracts, where applicable. Particulars are to include the reason for the cancellation, the date of approval, the name and rank of the person/body that granted the approval and the delegation number.
• All inscriptions must be numbered.

**Record of Specific Term Contracts**

• Bid number.
• Description of the requirement.
• Contract term.
• Particulars of end user, contract person and telephone number.
• Date of advertisement.
• Date of advertisement for the extension of the closing date.
• Closing date.
• Extended closing date.
• Validity period.
• Extended validity period.
• Total of bids received.
• Late bids received, where applicable.
• Name of successful bidder.
• Price of the successful bid.
• Points of the successful bid, received for specifications, price, equity and goals are to be indicated separately.
• Total points scored by the successful bidder.
• Date of approval and the name of the body that granted the approval.
• Delegation number.
• Date of contract form signed.
• Satisfactory/non-satisfactory completion of the service or delivery of the goods.
• Cancellation of bid or the cancellation of contracts, where applicable. Particulars are to include the reason for the cancellation, the date of approval, the name and rank of the person/body that granted the approval and the delegation number.
• All inscriptions must be numbered.

**Record of urgency and emergency procurement**

• Reference number.
• Description.
• Nature and the details of the urgency or emergency process followed.
• Particulars of person or body that granted the approval.
• Date of approval.
• Delegation number.
• Financial implication.
• All inscriptions must be numbered.

Record of complaints received from bidders or contractors
• Date of complaint received.
• Name of company or person complaining.
• Reference of bid number.
• Description.
• Details of complaint.
• Action taken including the relevant dates.
• Date of finalization.
• All inscriptions must be numbered.

Record of instances of fraud or corruption
• This record reflects the instances of fraud or corruption that occurred including fraud or corruption by government officials, prospective providers, contractors or any other legal person/entity. This record will reflect all actions taken in this regard.

Record of irregular, fruitless and wasteful expenditure
• Date of request received.
• Description.
• Particulars of end user, contact person and telephone number.
• Details of irregular, fruitless and wasteful expenditure.
• Action taken.
• Date finalized.
• Financial implication.
• All inscriptions must be numbered.

Record of SCM circulars distributed within the Department
• Circular number.
• Description.
• Date on which the circular was distributed to end users.
• Date of confirmation of receipt of the circular.
• All inscriptions must be numbered.