

**THE APPLICATION OF THE SUPPLY CHAIN MANAGEMENT IN THE
OFFICE OF THE PREMIER, MPUMALANGA PROVINCE**

by

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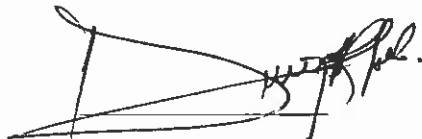
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DECLARATION

I declare that the mini-dissertation hereby submitted to the University of Limpopo, for the degree Master of Public Administration has not previously been submitted by me for a degree at this or any other university; that it is my work in design and in execution, and that all material contained therein has been duly acknowledged.



DS Rampedi (Mr)



2010/03/08
Date

This work is dedicated to my late wife, Mahlodi, and father Makgetha Rampedi.

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ABSTRACT

The public sector is faced with increased demands for public goods and services from communities. Public institutions have limited resources which should be managed effectively for effective and efficient service delivery. The South African government initiated and implemented financial management reforms since 1994 with the aim of improving public service delivery.

The *Public Finance Management Act, 1999*(Act 1 of 1999) was promulgated to regulate financial management. The object of *Public Finance Management Act* is to secure transparency, accountability and sound management of revenue, expenditure, assets and liabilities of the public sector. The aim of the *Public Finance Management Act* is to enable public sector managers to manage and be more accountable with the purpose of eliminating waste and corruption in the use of public resources.

A Supply Chain Management system was introduced by the South African government in 2003 to ensure effective procurement and improve financial management in the public sector. The introduction of Supply Chain Management led to procurement reforms which resulted in government decentralising and delegating authority for procurement to public institutions. Supply Chain Management forms an integral part of financial management. The process integrates general financial practices with budgeting, procurement and asset management.

Supply Chain Management is currently not correctly implemented by some public institutions and this lead to irregular, fruitless and wasteful expenditure. Accounting officers should recognise the importance of Supply Chain Management in order to ensure effective procurement, sound financial management and improve service delivery. The study highlights the important of implementing Supply Chain Management in an institution. The implementation of adequate Supply Chain Management practices will promote efficiency, effectiveness, transparency, openness, accountability and fairness in procurement and improve ethical conduct of officials.

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Chapter 1 INTRODUCTION

1.1. Introduction

The government spends large amounts of money on procuring goods and services in order to meet the needs of the community it serves. Despite this fact, the importance of efficient and cost effective procurement was not recognised. During the 1995/96 financial year, the total consolidated general government procurement was estimated at R56 billion. The expenditure was equal to 13% of the South African Gross Domestic Product and it represented about 30% of all government expenditure. The government realised that an effective and efficient procurement system would allow the government to deliver the expected quality and quantity of services to the public (Van der Waldt, Van Niekerk, Doyle, Knipe & Du Toit, 2001:28).

The first South African democratically elected government initiated and implemented financial management reforms since 1994. The Cabinet agreed that procurement in the government should be used as a tool to give effect to some other goals of the government, including financial management. Procurement reforms led to the government decentralising and delegating authority for procurement to executive public institutions. These reforms focused on the promotion of the principles of good governance and the introduction of a preference system to achieve particular socio-economic objectives.

1.2. Definition of concepts

Accountability

Accountability refers to the need to demonstrate achievement or failure to someone, and to provide a reliable and meaningful account of how that achievement or failure came about (Gardner, 1998:171).

Contract

A contract is an agreement made with intention of creating an obligation, which legally binds together legal subjects (Van der Merwe, Van Huyssteen, Reinecke, Lubbe & Lots, 1993:8). The relation entails a right to performance and, on the other hand, a duty to render the performance.

Cost Effectiveness

Cost effectiveness refers to the extent to which a need has to be satisfied as indicated in the original programme of action (Cloete, 1994:82). Quality should be comparable with costs or price, and correct needs should be addressed.

Efficiency

Efficiency means that the maximum output is being achieved for the minimum input of resources (Hepworth, 1970:238).

Effectiveness

Effectiveness means the extent to which an output from a defined activity achieves the desired results or policy objective of the institution (Gardner, 1998:170).

Equitable

Equitable means every individual should have the same opportunity (Bailey, 2004:8). Suppliers should be rotated when calling for quotations for the purchase of goods and services.

Fairness

Fairness means that officials should apply laws justly so that every person and private institution can derive maximum benefits from such actions (Cloete, 1989:28). When determining specifications for goods and services, those specifications should be able to accommodate different potential suppliers.

Procurement

Procurement is the acquisition of materials and services (Hugos, 2006:44). It includes the acquisition of goods and services, other than services of employees acquired by means of commercial transactions.

Supply Chain Management

Supply Chain Management is defined as a set of approaches used to efficiently acquire goods and services at right quantities, to the right locations, and at the right time in order to minimize costs while satisfying service-level requirements (Simchi-Levi, Kaminsky & Simchi-Levi, 2004:2).

Supply chain practices

Supply chain practices are those set of activities that needs to be undertaken in supply chain to promote effective management (De Villiers, Nieman & Niemann, 2008:253).

Transparency

Transparency means disclosure of full information to the public. Suppliers should be informed of adjudication procedures and processes, and the outcomes of bids.

1.3. Problem statement

The *Public Finance Management Act, 1999* (Act 1 of 1999 as amended by Act 29 of 1999) was promulgated to regulate financial management in the national and provincial spheres of the government and to provide for responsibilities of persons entrusted with financial management in government. Procurement forms part of financial management for which accounting officers are held responsible and accountable.

The *Public Finance Management Act, 1999* stipulates that one of the responsibilities of an accounting officer of a department, trading entity or organ of state, is to ensure that an institution has and maintains an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive and cost effective. A Supply Chain Management system was introduced in 2003 to improve financial management in the

public sector. The National Treasury issues *Practice Notes* that address Supply Chain Management topics to ensure uniform minimum norms and standards within government. However, the system may not be correctly implemented by some of the departments at the national and provincial spheres of government.

The application of the Supply Chain Management system indicates that the Office of the Premier of Mpumalanga Province does not obtain the most effective procurement of goods and services. The study determines the extent to which the Supply Chain Management system is implemented to obtain effective procurement system.

1.4. Aims of the study

The main two fold purpose of the study is as follows:

- to highlight the importance of the implementation of Supply Chain Management practices in public institutions; and
- to establish the extent of the implementation of Supply Chain Management practices in the Office of the Premier, Mpumalanga Province.

1.5. Research objectives

To establish whether or not the implementation of an effective Supply Chain Management system will ensure efficient and effective procurement in the provincial service.

1.6. Research questions

- Does Supply Chain Management ensure effective procurement?
- Does the Office of the Premier manage the Supply Chain Management to obtain accountable Supply Chain Management?
- How is Supply Chain Management effected in the Premier's Office?

1.7. The scope of the research

The research is limited to the Office of the Premier of the Mpumalanga Province due to the specialised nature of the Supply Chain Management application in that particular provincial department. The Office of the Premier is largely representative of the provincial departments. Its procurement practices could be transferred to other departments once the results of the study are known. The researcher focused the study on supply chain activities in the Office of the Premier, Mpumalanga Province for the period ranging from 01 September 2007 to 31 August 2008.

1.8. Sequence of chapters

The study is divided into five chapters outlined as follows:

Chapter 1: Introduction

This chapter outlines the background of the study. The chapter focuses on the research problem and the main purpose of the proposed research.

Chapter 2: Literature Review

The literature selected gives the background of Supply Chain Management and its practice, and identifies existing gaps in Supply Chain Management in the Office of the Premier, Mpumalanga Province.

Chapter 3: Research Methodology

In this chapter, the study outlines how the research methodology have been handled. This refers to target groups, sampling and research techniques applications.

Chapter 4: Discussion on Supply Chain Management Process

The researcher analyses the data drawn from interviews, observations and documentation.

Chapter 5: Conclusion

The conclusion of this research is made based on the findings of the research. The recommendations are drawn from the conclusion.

1.9. Conclusion

Accounting officers should acknowledge the importance of efficient and cost effective procurement. The responsibility of ensuring success in the implementation of Supply Chain Management in the Office of the Premier, Mpumalanga Province lies with the accounting officer. Success in the implementation of Supply Chain Management practices in the Office of the Premier will ensure effective procurement, accountable Supply Chain Management and sound public financial management. The research establishes the extent to which Supply Chain Management is effected in the Office of the Premier, Mpumalanga Province.

Chapter 2

LITERATURE REVIEW

2.1. Introduction

Public institutions spend almost 40% of their annual budget on financing operational activities and fixed assets. Prudent public administration practices and sound public financial management are critical for public institutions to be able to render services to the society. The application of Supply Chain Management will enhance sound public financial management and effective and efficient public service. The relationship among administration, public administration, public financial management and Supply Chain Management is highlighted.

The application of the Supply Chain Management will be discussed under the establishment of Supply Chain Management system, creation of Supply Chain Management unit, appointment of bid committees, establishment of a suppliers database, procurement procedures, delegation of authority, drafting of specifications, preferential procurement policy, procurement process, bidding processes, payment to service providers, stores and inventory level management, assets and disposal management as well as conclusion.

2.2. Relationship between administration and public administration

Administration takes place when two or more people work together towards a common goal or objective. Administration consists of six functions, namely, policy-making, organizing, financing, staffing, determining work procedures and the exercise of control. Administrative activities always precede and accompany the functional and auxiliary activities which are concerned with producing goods or rendering services (Cloete, 1989:2). Functional activities refer to services which are rendered directly to the society for example the provision of health services. Auxiliary activities are services which are rendered within an institution to give support to different sections when executing functional activities, for example supply of stationery by the Supply Chain Management

unit (Gildenhuis, 1993:28). The six generic functions are undertaken simultaneously to ensure that the objectives of the institutions are achieved.

Public Administration is a discipline to study the operation of the state. Public Administration as a subject include theory and the practice of policy-making, financing, organizing, staffing, determination of work procedures and control measures (Cloete, 1989:38). Public administration is a functional activity and refers to day to day activities of public officials. It includes a combination of generic functions and functional activities. Public Administration studies public administration as a practice.

Policy- making is an activity that precedes the publication of a goal. Organising refer to the process of creating a structure that will enable its people to work effectively towards its vision, mission and goals. Staffing means the appointment of qualified personnel to fill posts in the organisational structure. Financing is the process of allocating funds to finance expenditure on activities related to the achievements of a predetermined policy or objective. Work procedures should be determined in order to reach the objective. Control measures are necessary to monitor activities of public institutions and obtain accountability. Public institutions are given authority by legislation to execute government policy. Public institutions undertake executive activities on behalf of the legislative authority.

2.3. Relationship between public administration and public financial management

Public financial management is part of public administration, since it forms an integral part of other public sector functions such as policy making, organizing, staffing, work procedures and control (Visser & Erasmus, 2002:7). Sound public financial management practices contribute towards prudent public administration.

Public management and public resource management are areas of speciality within Public Administration. Public management and public resource management represent foci within public administration as function (Schwella, Burger, Fox & Müller, 1996:5). Public management is the optimal effective, efficient and productive use of scarce

resources in pursuing public policy goals. Public resource management focuses on relationship between public management functions, skills, techniques and the scarce resources used to achieve policy goals and objectives. Public resource management includes public financial resource management (Schwella *et al.*, 1996:6).

Public institutions cannot provide services to the community without money and are dependent upon citizens for their income. Accounting officers of public institutions have the authority to spend monies voted by Parliament and are responsible for accounting for all payments made by their institutions (Hanekom & Thornhill, 1983:153). Public institutions must find methods and means to utilize scarce resources optimally in order to provide services to the society.

Role players in public financial management are the legislative authority, Treasury, accounting officers, programme managers, chief financial officers and other public officials. The legislative authority approves the appropriation of public funds to public institutions. Treasury renders support and advice to the executive authority on the appropriation of public money to meet various often competing objectives. Treasury has control over the development of the financial management system and accounting system of public institutions. Accounting officers of public institutions have to maintain an effective, efficient and transparent system of financial management and internal control (*Public Finance Management Act*, 1999. Section 38(1)(a)(i)). Accounting officers, as part of their public administration responsibility, must account for all financial transactions and activities of their department. Accounting officers are responsible for functions assigned to them by legislation and Treasury as far as financial matters are concerned (Gildenhuys, 1997:75).

The chief financial officers assist accounting officers on matters related to effective financial management of the institution, in exercising of sound budgeting and budgetary control practices. They give advice to accounting officers on all institutional matters relating to finance. According to Section 45 of *Public Finance Management Act*, 1999, programme managers are responsible for the effective, efficient, economical and

transparent use of resources within their respective areas of responsibility. All officials within an institution must ensure that the system of financial management and internal control established for the institution are carried out effectively within their area of responsibility.

2.4. Relationship between public financial management and Supply Chain

Management

Supply Chain Management functions are part of auxiliary services that give support to line functions. Supply Chain Management functions include activities such as procurement of goods and services; warehousing and inventory management; as well as assets and disposal management (Hugo, Bandernhorst-Weisis & Van Biljon, 2004:6). Supply Chain Management forms part of public financial management as it involves the procurement of goods and services. It involves the spending of public funds. Public procurement presents many opportunities for corruption, and if not well managed, can result in inefficiency and financial mismanagement (Khoza & Adam, 2005:248). Accountable Supply Chain Management practices contribute towards improved public financial management. An effective public procurement system should lead to value for money, good financial management, address corruption, and promote competition in the procurement of goods and services (Akafia, 2007:11). Public procurement refers to those public administrative activities that concern the acquisition of good and services by public institutions (Pauw, Woods, Van der Linde, Fourie & Visser, 2002:227).

Procurement policies and practices should be in line with the sound management of public money. The policy and management of procurement are critically important because almost all government activities involve the spending of public monies. Shortcomings in the application of Supply Chain Management practices lead to loss of money and goods through inefficiency, waste, fraud and corruption (Pauw *et al.*, 2002:228). Procuring public goods and services and managing assets are financial management activities of the public financial management system (Coe, as quoted by Fourie, 2007:735). Special legislative procedures have to be followed in the procurement of goods and services and financial spending in the public sector (Cloete, 1989:175).

2.5. Establishment of Supply Chain Management system

The *Constitution of the Republic of South Africa, 1996* (Chapter 13, Section 217(1)) provides the basis for Supply Chain Management and states that:

When an organ of state in the national, provincial or local sphere of government, or any other institution identified in national legislation, contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

The accounting officer must ensure that his/her department has and maintains an appropriate procurement and provisioning system, which is fair, equitable, transparent, competitive and cost-effective (*Public Finance Management Act, 1999*, Section 38(1)(a)(iii)). Accounting officers are required to establish and implement a Supply Chain Management system that promotes sound financial management and uniformity in all spheres of government (*Policy to guide uniformity in procurement reform processes in government*, Section: 1.3).

Accounting officers must ensure that the internal Supply Chain Management system forms an integral part of the institution's financial management and ensures that goods and services are delivered to the right place, in the right quantity, with the right quality, and at the right cost and time (*Exemptions from Supply Chain Management framework*, Section: 7). The Treasury Regulations state that the accounting officer of an institution must develop and implement an effective and efficient Supply Chain Management system for the acquisition of goods and services, disposal and letting of state assets. An effective and efficient Supply Chain Management system will improve public financial management.

2.6. Creation of Supply Chain Management unit

An accounting officer of an institution must create a separate Supply Chain Management unit within the office of the chief financial officer, to implement the institution's Supply Chain Management system (*Framework for Supply Chain Management*, Regulation 4.(1)). An analysis should be done to provide sufficient information on how the various

tasks and responsibilities should be divided among Supply Chain Management unit personnel (Van Weele, 1994:272). Officials should be arranged in sub-units in such a manner that a common goal of Supply Chain Management unit can be achieved (Roux, Brynard, Botes & Fourie, 1997:8). A Supply Chain Management unit's organisational structure should advocate segregation of duties to improve Supply Chain Management practices and sound public financial management. For example, an official who is responsible for placing order should not also be responsible for receiving goods.

The head of the Supply Chain Management unit must report to the chief financial officer. The levels of the heads of Supply Chain Management unit are from manager and upwards, depending on the size of the institution or department. The structure of a Supply Chain management unit should consist of at least five sub-units, namely, Demand Management; Acquisition Management; Logistics Management; Asset and Disposal Management; as well as Supply Chain Performance (*Policy Strategy to guide uniformity in procurement reform process in government*, Section: 2.1).

2.6.1. Demand Management sub-unit

Demand management is the initial phase of Supply Chain Management and is defined as a shared decision-making strategy, which focuses on providing the right services in the right place and at the right time. Goods and services required as inputs to the institution should emanate from the strategic plan of the institution (Saunders, 1977:164). Supply Chain Management decisions are based on forecasts that define which products will be required, what amount of these products will be called for and when they will be needed (Hugos, 2006:48).

As soon as the institution's strategic plan is in place, a Demand Management sub-unit should conduct a needs assessment to ensure that goods and services required to fulfil the needs identified in the strategic plan of the institution are delivered at the correct time, price, place and that quality and quantity of goods and services will be able to satisfy those needs. Requirements should be linked to the budget (South African Management Development Institute, 2004:3).

The main objective of demand management is to ensure that goods and services required to fulfil the needs identified in the strategic plan of the institution are delivered at the correct time, price, place and that quality and quantity of goods and services will be able to satisfy those needs. A needs assessment should be conducted to ensure efficient and effective services and deliveries. Specifications and terms of reference should be determined at this stage. Requirements should be linked to the budget. Demand management sub-units maintain the supply information database of preferred service providers.

2.6.2. Acquisition Management sub-unit

Acquisition management is the process of calling for quotations for the supply of goods and services until the time the order is placed with the service provider or from the time of advertisement of a bid until the bid is awarded to the bidder. Acquisition management includes taking decision of how the market will be approached; establishing the total cost of ownership of a particular type of asset; ensuring that the bid documents are complete; evaluating bids in accordance with published criteria; and ensuring that proper contracts are signed (South African Management Development Institute, 2006:27).

2.6.3. Logistics Management sub-unit

Logistics is that part of the supply chain process that plans, implements and controls the efficient, effective flow and storage of goods and related information, from the point of placing an order to the point of consumption, in order to meet the end user's requirements (Lysons & Gillingham, 2003:65). Logistics management include the setting of inventory levels, placing of orders, receiving and distribution of goods as well as stores, maintenance, warehouse and transport management. The sub-unit is also responsible for contract administration (South African Management Development Institute, 2006:27).

2.6.4. Assets and Disposal Management sub-unit

Assets and Disposal Management sub-unit must maintain an assets register for all immovable and movable assets. The section is also responsible for the disposal of

unserviceable, redundant or obsolete movable assets. The sub-unit must ensure that there is proper control system for movable and immovable assets (*Treasury regulation 10.1.1*). The sub-unit must develop and maintain proper preventative mechanisms in place to eliminate theft, losses, wastage and misuse of assets.

2.6.5. Supply Chain Performance sub-unit

Supply chain performance depends on the actions of all members in the supply chain and every official must support, in principle, the objective of optimising the supply chain's performance (Cachon & Terwiesch, 2006:335). Supply Chain Performance sub-unit retrospectively monitors the supply chain process to determine whether proper processes are followed and desired objectives are achieved. Aspects to be considered are compliance to norms and standards; stores efficiency savings generated; breach of contracts; and whether principles of co-operative governance are observed (Institute for Public Finance and Auditing, 2004:24). An effective supply chain performance monitoring will contribute towards prudent public financial management.

2.7. Appointment of bid committees

The accounting officer of an institution should appoint three bid committees, namely, Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee. (*Implementation of Supply Chain Management*, Section: 4.1). Officials should not be members of more than one committee to avoid individual influence in more than one committee.

2.7.1. Bid Specification Committee

The Bid Specification Committee is a committee responsible for compiling bid specifications. A Bid Specification Committee should be composed of officials of a department requiring the goods or service. External experts may be appointed in complicated cases. Specifications should be approved by the accounting officer prior to advertisement of bids (*Implementation of Supply Chain Management*, Section: 4.1(a)).

2.7.2. Bid Evaluation Committee

The Bid Evaluation Committee is responsible for the evaluation of bids received in accordance with the criteria specified in the bid documentation. The committee should be composed of supply chain practitioners and officials from the user departments. The committee evaluates all bids received and submits a report, together with recommendations regarding awarding the bid, to the Bid Adjudication Committee (*Implementation of Supply Chain Management*, Section: 4.1(b)).

2.7.3. Bid Adjudication Committee

The Bid Adjudication Committee should be composed of at least four senior officials. At least one member should be a supply chain practitioner. The chairperson of the committee should be the institution's chief financial officer. At least one member of the Bid Adjudication Committee should be a supply chain practitioner (*Code of Conduct for bid adjudication committees*, Section: 3.2.3). Depending on the delegation granted by the accounting officer, the committee could take the final decision on awarding the bid or make recommendation to the accounting officer for the final awarding of the bid (*Implementation of Supply Chain Management*, Section: 4.1(c)).

The Bid Adjudication Committee must consider recommendations made by the Bid Evaluation Committee and make a final award or make recommendations to the accounting officer (*Code of Conduct for bid adjudication committees*, Section: 2.4). Section 2.6 of the *Code of Conduct for bid adjudication committees* stipulates that, in cases where the Bid Adjudication Committee approves a bid other than the one recommended by the Bid Evaluation Committee, the accounting officer must first be notified.

2.8. Establishment of a database for suppliers

Institutions should advertise annually in the local media for businesses to register as potential suppliers for goods and services to be obtained by means of quotations on the institution's supplier database. The accounting officer must categorise the suppliers according to the goods and services suppliers are capable of supplying. Quotations for the

required goods and services should be obtained from all registered potential suppliers in the specific category or on a rotational basis from various suppliers (*Supply Chain Management: A Guide for Accounting Officers/Authorities*, Section: 4.6.1). The list of potential suppliers should be used effectively to promote the objectives of the *Preferential Procurement Policy Framework Act, 2000* (Act 5 of 2000) and the *Broad Based Black Economic Empowerment Act, 2003* (Act 53 of 2003) for all procurement equals to or above R30 000 (including VAT).

The Demand Management sub-unit should maintain the database for preferred service providers. The database for suppliers should be updated on a regular basis, but at least quarterly to allow for all potential suppliers to register (*Supply Chain Management: A Guide for Accounting Officers/Authorities*, Section: 4.6.2). Supply Chain Management practitioners should not invite quotations from suppliers who are not on the institution's suppliers' database, except in cases where there are no suitable suppliers available from the list of prospective suppliers (*Practice Note Number SCM 2 of 2005*). Officials will not be able to abuse the system by randomly using their individual preferred suppliers.

2.9. Procurement procedures

A procedure outlines in detail the specifications to be taken to accomplish a given task, within the guidelines of any applicable policies. It establishes the way of performing tasks. In public institutions, detailed procedures have to be followed when carrying out executive actions in order to honour the requirements of transparency and public accountability. Procedures give clarity to subordinate officials as to how to carry out instructions. Subordinate officials should be provided with procedure manuals (Thornhill, 1995:243).

Individuals differ from each other and, as such, each individual will have his/her way of doing a task. Work procedures are necessary to prevent a confusing multiplicity work procedures since individual officials serving in a team may each have a different way of doing a particular task. Work procedures ensure uniform and integrated action in matters

where more than one employee is involved (Cloete, 1998:251). Work procedures prevent overlapping and duplication. Work procedures should be in the form of printed manuals. Procurement procedures provide the framework and direction for the procurement of goods and services (Dobler & Burt, 1996:62).

Institutions should develop Supply Chain Management procedures to provide for the framework and direction for accomplishing functional activities effectively and efficiently. Supply Chain Management procedures indicate specific activities that should be performed by Supply Chain Management personnel to achieve Supply Chain Management objectives (Hugo, Van Rooyen, Badenhorst, 1997:22). Supply Chain Management manuals contribute considerably to the efficiency of the Supply Chain Management system's primary task, namely to supply a service to the end users. Detailed prescribed procedures are integral part of the public service (Hanekom & Thornhill, 1983:134).

Supply Chain Management manuals usually contain detailed information on Supply Chain Management policies and a description of basic Supply Chain Management procedures. It is essential to create specific purchasing procedures for the handling of urgent orders (Hugo, Badenhorst & Van Biljon, 2006:19). Supply Chain Management procedures indicating procedures to be followed for procurement and the functioning of the bidding committees form critical requirements of financial internal control (Fourie, 2007:737). Supply Chain Management procedures contribute to effective Supply Chain Management practices and sound financial management.

2.10. Delegation of authority

Delegation means that authority is handed over from top level officials to lower level officials. Authority is the right to give an instruction to someone about what to do, how, where and when to carry the instruction out (Cloete, 1989:91). Authority and responsibility for placing orders should be vested in only one function, i.e., the purchasing function, because the official order for the supply of goods and services is a legal binding contract between the institution and the supplier (Hugo *et al.*, 2006:19).

Section 44 of the *Public Finance Management Act, 1999*. (Act 1 of 1999) empowers the accounting officer of an institution to delegate in writing, decision-making powers to officials on the acquisition of goods or services and disposal and letting of assets. The accounting officer should indicate threshold values regarding delegated decision-making powers on the final awarding of bids by the Bid Adjudication Committee. Bids above the delegated threshold values should be referred to the accounting officer for the final awarding of such bids. The delegation is intended to prevent an individual official from taking a decision in isolation regarding the awarding of a bid (*Supply Chain Management: A Guide for Accounting Officers/Authorities*, Section: 4.3.1).

2.11. Drafting of specifications

Developing proper specifications is an important management task. It involves many variables, including conflicting human sensitivities and orientations (Dobler & Burt, 1996:162). The description of the need should be clear, precise and comprehensive. It is the responsibility of both the buyer and the user to ensure that the description meets these standards (Hugo, Badenhorst-Weiss & Van Rooyen, 2002:18). Costs of goods and services are based on item specifications. Costs should be reduced and controlled during specification design (Dobler & Burt, 1996:163). When conflicts arise, final authority for the decision should rest with the section having responsibility for product performance (Dobler & Burt, 1996:164).

Supply Chain Management processes are sometimes obstructed by specifications for goods and services. Specifications are often determined unilaterally by the end user, which means that they are often defined to favour a particular supplier (Van Weele, 1994:28). Sometimes specifications are determined after receiving a quotation to suit the preferred supplier. End users should involve personnel from the Supply Chain Management unit in matters of development of specifications (Saunders, 1997:192).

Managing quality of purchased goods and services is a contributing factor in delivering the required service level to the customer. Quality of goods and services must not be

compromised in order to realise a saving in a short run, as this will result in additional expenditure in the future. Poor quality will lead to high maintenance costs or replacement within a short space of time (Hugo *et al.*, 2006:126). Specifications must be set out clearly and should allow emerging businesses to easily understand the technical procurement process. Specifications should reflect the minimum requirements of the participating institution (Kanyane, 2004:52). Specifications should be broadly drafted to encourage competition. As such they must neither be brand-based or so narrow that compliance is limited to a specific product (Visser & Erasmus, 2002:160).

The Bid Specification Committee should make recommendations on the specifications for the supply of goods and services amounting R200 000 (including VAT) and above for the accounting officer's approval before advertisements of bids. The R200 000 has been increased to R500 000 with effect from 01/12/2007 (*National Treasury Practice Note 8 of 2007/2008*, Section: 3).

2.12. Preferential procurement policy

Government institutions must determine procurement policies and procedures to implement a prescribed preferential point system to remove confusion and clearly define the points allocation to ensure a fair, equitable, transparent, competitive and cost-effective procurement system and also to provide for the protection or advancement of people who were previously disadvantaged (Hugo *et al.*, 2004:55). An organ of state must determine its preferential procurement policy and follow a preference points system when procuring goods and services (*Preferential Procurement Policy Framework Act, 2000*. Section 2.(1)). When procuring goods and services, institutions should implement the *Preferential Procurement Policy Framework Act, 2000* by practising the 80/20 preference points system for procurement from R30 000 to R499 999,99 and the 90/10 preference points system from R500 000 and more. The figures 80 or 90 represent points allocated to price, whereas 20 or 10 are maximum points that can be awarded to a tenderer for being HDI or achieving any of government's specific objective goals.

Specific goals may include contracting with persons who had no franchise in national elections prior to the introduction of the 1993 interim Constitution and were historically disadvantaged by unfair discrimination on the basis of race, gender and disability (*Preferential Procurement Policy Framework Act*, 2000. Section 2.(1)(d)(i)). Equity ownership of previously disadvantaged individuals will be equated to the percentage on an enterprise that is owned by previously disadvantaged individuals or in case of company shares that are owned by previously disadvantaged individuals who are actively involved in the management and daily operations of the enterprise at the closing date of the tender (Hugo *et al.*, 2004:55). Specific goals for which points are awarded should be clearly specified in the invitation to submit bids.

2.13. Procurement processes

The need for specific goods and services originates with the user of the goods and services or in the stores. It is important that users of a required product or service or store personnel should identify the needs in time to avoid urgent orders (Hugo *et al.*, 2006:15). Procurement of goods and services should be placed from items on the contract and in the absence of a contract the price quotation or competitive bidding method of ordering should be applied in accordance with delegated authority (*Supply Chain Management: A Guide for Accounting Officers/Authorities*, Section: 6.4).

Purchasing procedures often require that requisitions exceeding a predetermined amount be accompanied by two or three written quotations (Hugo *et al.*, 2002:18). Supply Chain Management prescripts in the public sector limit the amount for which verbal or written quotations may be obtained (Gildenhuys, 1997:176). The National Treasury must determine threshold values for the procurement of goods and services by way of price quotations or through a competitive bidding process (*Treasury regulation 16A6.1*). Accounting officers are required to apply threshold values as per *Practice Note Number SCM 2 of 2005* and *Practice Note No 8 of 2007/2008* when procuring goods and services.

2.14. Bidding/Tendering processes

In government, procurement of goods and services which are in excess of amounts for written quotations requires calling for tenders (Gildenhuys, 1997:176). Statutory prescriptions limit the amount for which written and verbal quotations for the procurement of goods and services may be obtained (Gildenhuys, 1993:603). All government procurements amounting to R200 000 and above from 01/12/2007 and R500 000 and above, as from 01/12/2007, must be made through competitive tendering processes (*Practice Note No 8 of 2007/2008*, Section: 3). The procurement of goods and services may not deliberately be split into parts or items of lesser value to avoid complying with tendering requirements. Should it be impossible to invite competitive bids for specific requirements in case of emergency or only a sole supplier, the institution may procure the required goods or services by means of price quotations or negotiations. Reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer (*Practice note number SCM 2 of 2005*, Section: 4).

The objectives for calling competitive tenders are to avoid irregularities in the buying of goods and services and to promote competition among suppliers. Calling for competitive tenders among suppliers ensures high quality of goods and services at reasonable and economical prices (Gildenhuys, 1997:175). Competitive tendering processes mean that an institution should invite offers for the supply of goods and services from service providers and award the tender to the best offer according to pre-determined criteria. On procurement above R500 000 the 90/10, preference point system should be applied during the adjudication of the tenders. The 90 represents maximum points that can be allocated to price, whereas 10 is for maximum points that can be awarded to a bidder for being an HDI or achieving any of government's specific objectives (*Preferential Procurement Policy Framework Act*, Section 4.(1)).

Competitive bids should be advertised in the Government Tender Bulletin and other printed media, should the accounting officer deem it necessary to ensure greater exposure to potential bidders. Bids should be advertised for at least 21 days before closure except in urgent cases when bids may be advertised for shorter periods as the accounting officer

of the institution may determine (*Treasury regulation 16A6.3(c)*). Late bids should not be accepted to ensure effective procurement. Acceptance consideration of late bids will lead to irregularities and corruption (Gildenhuis, 1993:604). The bid register should be kept for auditing purpose (Gildenhuis, 1997:177).

The Bid Evaluation Committee should evaluate all bids in accordance with prescribed evaluation criteria and compile a recommendation report to the Bid Adjudication Committee. The Bid Adjudication Committee should consider the evaluation report, adjudicate and make recommendations to the accounting officer for approval and awarding of the bid to the successful bidder. The successful bidder must have the necessary capacity and ability to execute the contract (South African Management Development Institute, 2006:14). An audit should be done before awarding the tender to confirm that the evaluation exercise has not been flawed. The audit should also confirm that open procedures and non-discriminatory criteria were used. The audit confirmation is necessary in the selection and awarding of all public tenders to reduce the possibility of losing bidders contesting in an unwarranted manner the awarding of tenders to winning bidders (Pauw *et al.*, 2002:237). Departments lose a lot of money defending their decisions in courts for awarding bids to certain service providers. The validity period for bid processing is 90 days from the date of the advertisement of the bid up to the awarding of the bid to the successful bidder (*Provincial Supply Chain Management policy*, Section: 8.4.3).

Accounting officers must check the National Treasury's List of Restricted Suppliers to ensure that no recommended bidders or any of its directors are listed as companies or persons prohibited from doing business with the public sector prior to awarding of a contract (*Treasury Regulation 16A9.1 (c)*). Service providers who are compelled to register with controlling authorities regarding their goods or services to be delivered or rendered should ensure that their registration is in order prior to the closure of the bids (*Supply Chain Management: A Guide for Accounting Officers/Authorities*, Section: 4.8). The process assists departments to award bids to accredited service providers who can provide quality services.

Institutions are not obliged to accept the lowest bid. In cases where the lowest bid is not accepted, sound reasons should be furnished. Some of the reasons for not accepting the lowest tender may be the quality of goods or services offered by the lowest bidder, lack of the bidder's experience on complicated work or the financial position of the bidder to complete the work. This is to make sure that departments get good quality products and services through the competitive bidding process. After the awarding of the tender, a written agreement should be entered into between the institution and the successful bidder (Gildenhuys, 1997:177).

Accounting officers are required to report within 10 days to the relevant treasury and the Auditor-General, all cases where goods and services above R1 million including VAT were procured without inviting competitive bids as from 1st April 2007 and the reasons for dispensing with the prescribed competitive bidding process (*National Treasury Practice Note 6 of 2007/2008*, Section: 3.1). The process promotes accountability in Supply Chain Management.

2.15. Payment to service providers

The accounting officer of an institution must settle all contractual obligations and all money owing within the prescribed or agreed period (*Public Finance Management Act*, 1999. Section 38(1)(f)). Unless determined otherwise in a contract or other agreement, all payment due to service providers must be settled within 30 days from date of invoice (*Treasury regulation 8.2.3*). The supplier should furnish the institution with an invoice, accompanied by a copy of delivery note, after delivery of goods or after the service has been rendered.

Service providers are sometimes paid after 30 days and this results in interests being charged on overdue accounts by service providers. Payments of interest charged on overdue accounts constitute fruitless expenditure and public financial mismanagement. Hence accounting officers are requested to have the necessary measures in place to

ensure that accounts are paid within the contractual time limit (*Practice note number SCM 1 of 2005*, Section: 3).

All payments to service providers in excess of R2 000 must be effected electronically unless otherwise approved by the relevant treasury (*Treasury regulation 15.12.3*). The processing of payment to service providers electronically prevents theft of cheques and promotes accountable Supply Chain Management and sound financial management. Non-compliance with this regulation constitutes financial misconduct.

2.16. Stores/warehouse and inventory level management

2.16.1. Stores/warehouse management

Stores management includes, receiving of goods, safekeeping of goods and issuing of goods. Stores management is responsible for the safety and appropriate physical storage of items not yet issued (Dobler & Burt, 1996:545). Goods and equipment must be stored and arranged to facilitate verification and handling, and to limit the possibility of damage, exposure, deterioration or perishing. Unauthorised persons, other than the responsible officials, should not have access to the store. The store should be securely locked up after hours (Visser & Erasmus, 2002:168).

2.16.2. Inventory levels/management

Accounting officers must ensure that stock levels are at an optimum and economical level (*Treasury regulation 10.1.1.(b)*). An important stores management task is to keep track of inventory levels efficiently so that replacement items can be obtained in time (Lambert & Stock, 1993:277). Inventory level is a set of techniques that are used to manage the inventory levels in a supply chain (Hugos, 2006:58). The aim is to reduce the cost of inventory as much as possible, but still maintain the service levels that customers require. Inventories should be kept at minimal levels to prevent over stocking and over investment (De Wit, 2002:73). Adequate inventory level management ensures effective procurement and sound financial management

2.17. Assets and disposal management

2.17.1 Assets management

The accounting officer of an institution must ensure that proper control systems for movable and immovable assets exist (*Treasury regulation 10.1.1*). The accounting officer must develop and maintain proper preventative mechanisms to eliminate theft, losses, wastage and misuse of assets. Assets and Disposal Management sub-unit must maintain assets register for all immovable and movable assets. The register should indicate the description of the asset, date purchased, amount, depreciation rate, serial number, life span of the asset, the name of person to whom the asset has been allocated.

2.17.2 Disposal of assets

Disposal is the final process when an institution needs to do away with movable assets. An institution can do away with a movable asset if it is unserviceable, redundant or obsolete. Surplus materials and equipments may be disposed of in different ways, depending on the income or benefit that may be derived from specific methods (Hugo *et al.*, 2004:223). Asset not used is money wasted. Unused assets can be sold and converted back to cash, and become part of the cash flow of departments. Disposal of movable assets must be at market-related value or by tender or auction (*Treasury regulation 10.2.1*). Disposal of assets at market-related value adds revenue and contributes towards prudent public financial management.

2.18. Conclusion

Supply Chain Management in the public sector forms part of public financial management, because it involves the spending of public funds. Public financial management is one of the six generic functions of public administration. The implementation of an effective and efficient Supply Chain Management system will contribute towards sound public financial management.

Supply Chain Management in the public sector should be fair, equitable and cost effective. An effective Supply Chain Management system must promote competition among service providers, eliminate corruption in the procurement of goods and services

and improve assets management. The application of Supply Chain Management processes discussed in this chapter will contribute towards accountable Supply Chain Management and effective procurement. Accountable Supply Chain Management practices contribute towards positive ethical conducts of officials and thus promote prudent financial management.

Chapter 3

RESEARCH METHODOLOGY

3.1. Introduction

There are mainly two approaches in scientific research, namely, quantitative and qualitative approach. Researchers have to select appropriate techniques and methods to enable them to carry out their research task objectively. "Research methods" refer to the means required to execute a particular stage of the research process, whereas "research techniques" refer to the variety of tools that can be used when data is collected (Webb & Auriacombe, 2006:591). Research methods and techniques are linked either to quantitative or to qualitative approach.

Research methodology refers to methods of collecting data in order to comply with the demands of truth, objectivity and validity during the execution of the research (Brynard & Hanekom, 1997:28). Research methodology focuses on the research process and decisions the researcher have to undertake to execute the research project. "Methodology" is a coherent group of methods that complement one another, and that have the goodness of fit to deliver data and findings that will reflect the research questions and suit the research purpose, whereas the term "methods" denote a way of doing things (Henning, Van Rensburg & Smit, 2004:36).

Qualitative methodology refers to a research that produces descriptive data (Brynard & Hanekom, 1997:29). Qualitative data collection techniques strive to emphasise that if the researcher wants to understand human behaviour, he/she must get closer to it. Qualitative research is any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification. It can refer to research about a person's life, behaviour, social movements, interactional relationships or organisational functioning (Strauss & Corbin, 1990:17). The use of qualitative variables refers to a research design that uses data that is not possible to quantify. Qualitative data is not suitable for statistical deduction (Jarbandhan & Schutte, 2006:672). The nature of the research problem lends itself more to the qualitative type of research as it relates to

organisational functioning, the application of the Supply Chain Management in the Office of the Premier, Mpumalanga Province. The research investigated the process followed to implement Supply Chain Management in the Office of the Premier, Mpumalanga Province.

A case study is an intensive investigation of a single unit. The defining characteristic of a case study is its emphasis on an individual unit. The unit of study may be an individual person, groups and organizations (Babbie & Mouton, 2001:281). A case study design is characterized by the focus on a phenomenon that has identifiable boundaries (Henning *et al.*, 2004:41). This means that a case study must be demarcated or bounded. The case study approach is based on a limited number of units of analysis and uses intense study. Units of analysis include individuals, groups and organizations. Case study uses documents, artifacts, interviews and observation as source of evidence (Webb & Auriacombe, 2006:600). The researcher gathers a large amount of information on one or a few cases, go into greater depth and get more detail on the cases being examined (Neuman, 1997:331). The study has the characteristic of a case study as it focuses only on the Office of the Premier, Mpumalanga Province as an organisation. The existing Supply Chain Management practices in the Office of the Premier, Mpumalanga Province were researched empirically to determine whether or not they meet the acceptable standards.

3.2. Population and target group

3.2.1. Population

Population is the study object and may be individuals, groups, organizations, human products and events (Welman & Kruger, 2001:46). Population is the theoretically specified aggregation of the elements of study (Babbie, 2001:185). Population means the group or collection that the researcher is interested in generalizing about. Population is the sum total of all the cases that meet the researcher's definition of the unit of analysis. Population encompasses the total collection of all units of analysis about which the researcher wishes to make specific conclusions (Welman, Kruger & Mitchel, 2005:52). It is a full set of cases from which a sample is taken. Population is a group of potential

participants to whom the researcher wants to generalise results of a study. In this case study the population consists of individual officials appointed in the Office of the Premier, Mpumalanga Province.

3.2.2. Target group

Target population refers to the specific pool of cases that the researcher wants to study (Neuman, 1997:203). Target population is the population to which the researcher wishes to generalise the findings (Mouton, 1996:135). Any research study must identify the population clearly from which the sample will be drawn.

- (a) Supply Chain Management unit officials in the Office of the Premier, Mpumalanga Province formed part of the target group because they are directly involved in the implementation of the Supply Chain Management system. Officials from Supply Chain Management unit are selected as source of information because of their daily involvement in the application of Supply Chain Management. The unit consists of 20 officials.
- (b) Budget unit officials in the Office of the Premier, Mpumalanga Province were targeted as source of information because they monitor the spending trend of sections. The unit ensures that sections do not overspend, and this contributes to prudent public financial management. The unit consists of two officials.
- (c) The Expenditure unit in the Office of the Premier, Mpumalanga Province was targeted as the unit responsible for processing payments to service providers. The expenditure unit officials check compliance with Supply Chain Management policies and procedures, as well as the *Public Finance Management Act, 1999* during the procurement of goods and services obtained before paying service providers. The units consist of five officials.
- (d) Members of the Supply Chain Management committees in the Office of the Premier, Mpumalanga Province also form part of the target group because they

are directly involved in Supply Chain Management bids. Committees consist of a total of 21 members.

- (e) Lastly, selected end-users, i.e., cost centre managers in the Office of the Premier, Mpumalanga Province were targeted because they took active part in initiating the procurement of goods and services. The end-users consist of 38 cost centre managers who are responsible for sectional budgets.

3.3. Sampling design

Sampling design is that part of the research plan that indicates how cases are to be selected for observation (Burger & Silima, 2006:658). A sample comprises the elements of the population considered for actual inclusion in the study. It is a subset drawn from the population under study. A sample should be representative of the population and should include all elements of the population (Brynard & Hanekom, 1997:44). Sample results should be generalised to describe the population.

3.3.1. Sampling frame

The sampling frame is the set of all cases from which the sample will actually be selected (Mouton, 1996:135). The sampling frame is not a sample but the operational definition of the population that provides the basis for sampling. The sampling frame is a complete list in which each unit of analysis is mentioned only once (Welman *et al.*, 2005:57). The structure of the Office of the Premier, Mpumalanga Province was used by the researcher to compile the sample frame from which the sample was drawn for Supply Chain Management, Expenditure and Budget sections, as well as Cost Centre Managers. A sample frame for bid committees was informed by appointment letters.

3.3.2. Sample techniques

The researcher applied probability sampling and non-probability sampling. In probability sampling, all units of the analysis have a chance of being included in the sample, while in non-probability sampling some units of analysis have no chance of being included in the sample (Welman *et al.*, 2005:56).

(a) Supply Chain Management unit officials

Non-probability sampling technique has to be applied for sampling of Supply Chain Management officials. The non-probability sampling technique applied in the case study is the purposive sampling technique. Purposive sampling is a sampling technique that is based on the judgement of the researcher and the purpose of the study. A sample is selected on the basis of the researcher's knowledge of the population, its elements, and the nature of the research aims (Babbie & Mouton, 2001:166). The purpose is to obtain units of analysis in such a manner that the sample can be regarded as being representative of the relevant targeted population. In a purposive sampling method, the researcher relies on his/her expert judgement to select units of analysis that are representative of the population. The major weakness of purposive sampling is that making an informed selection of units of analysis (respondents) requires considerable researcher's knowledge of the population before the sample is drawn (Burger & Silima, 2006:663).

The purposive sampling technique was applied in order to select relevant officials in the Supply Chain Management unit, who are daily involved with the application of the Supply Chain Management in the Office of the Premier, Mpumalanga Province. Selected officials play a significant role in procurement, bidding, warehousing and inventory management as well as assets and disposal management. The sample size is 12.

(b) Budget unit officials

The department's budget unit officials were purposively selected as they check correctness of allocations and sign the requisitions to indicate the availability of funds. The sample size is two.

(c) Expenditure unit officials

Purposive sampling technique was applied for sampling officials in the department's expenditure unit. Respondents were purposively selected because they check compliance to Supply Chain Management policies by cost centres before processing payments to service providers. The sample size is three.

(d) Bid committees members

The probability sampling technique had to be applied for sampling of bid committees. The probability sampling technique applied in the sampling of bid committees members is a simple random sampling technique. Simple random sampling is a sample procedure which provides equal opportunity of selection for each element in a population (Bless & Higson-Smith, 2000:87). The researcher applied simple random sampling techniques in respect of members of bid committees in the Office of the Premier: Mpumalanga Province. The sample size is nine.

(e) Cost centre officials

The probability sampling technique has to be applied for sampling of cost centres officials. The probability sampling technique applied during sampling of cost centres officials is the simple random sampling technique. In simple random sampling technique, each member of the population has the same chance of being included in the sample (Welman *et al.*, 2005:59). The researcher applied simple random sampling technique in respect of cost centres managers responsible for sectional budgets in the Office of the Premier: Mpumalanga Province. Sample size is 10.

3.4. Research Methods

Social scientists/researchers rely mostly on reactive research methods. This means that in the Social Science research, the researched person is aware of being studied. The researcher paid attention to ethical considerations for the duration of the research project. Respondents were protected against harm, were afforded anonymity, were free from manipulation and informed consent was obtained. Research methods used during the research project are interviews, observations and records.

3.4.1. Interviews

A qualitative interview is an interaction between the interviewer and a respondent in which the interviewer has a general plan of inquiry but not a specific set of questions that must be in particular words and in a particular order (Babbie & Mouton, 2001:289). The

problem with the interview as a research method was to secure appointments with officials.

Respondents were personally interviewed by the researcher at their work place. The researcher compiled an interview schedule to respondents, conducted face-to-face interviews and recorded the respondents' responses. Each question was read by the researcher and the response was recorded by the researcher. Unstructured interviews were conducted with staff members within the Supply Chain Management unit, Budget unit, Expenditure unit of the Office of the Premier, members of bid committees and cost centre managers in the Office of the Premier, Mpumalanga Province.

(a) Establishment of Supply Chain Management system

Informants were interviewed by the researcher to deduce whether the accounting officer of the Office of the Premier, Mpumalanga Province had established a Supply Chain Management system.

(b) Creation of Supply Chain Management unit

The researcher asked informants questions to deduce the existence of a Supply Chain Management unit within the structure of the Office of the Premier, Mpumalanga Province, to implement the institution's Supply Chain Management system. The purpose of the interview was also to determine the location of Supply Chain Management unit within the structure of the Office of the Premier.

(c) Appointment of bid committees

Respondents were interviewed to determine the existence of bid committees and their role in Supply Chain Management in the Office of the Premier, Mpumalanga Province.

(d) Establishment of a database for suppliers

The researcher interviewed informants to deduce whether the Office of the Premier, Mpumalanga Province had database for potential suppliers. Informants were also asked

questions related to the updating of the database and the utilisation of the database by cost centres officials within the Office of the Premier, Mpumalanga Province.

(e) Procurement procedures

Procedural manuals give detailed descriptions on how activities should be performed (Ferreira, Erasmus & Groenewald, 2000:284). The researcher asked respondents questions to establish whether the Office of the Premier, Mpumalanga Province had Supply Chain Management manuals and departmental Supply Chain Management policy.

(f) Delegation of authority

Questions were asked during the interviews to determine the delegation of authority by the accounting officer of the Office of the Premier, Mpumalanga Province to officials for the acquisition of goods and services.

(g) Drafting of specifications

The researcher asked questions with the aim of establishing whether specifications in the Office of the Premier, Mpumalanga Province were broadly drafted to encourage competition in procurement. Questions were also asked to determine who draws up specifications in the Office of the Premier?

(h) Preferential procurement policy

The researcher interviewed officials to deduce whether the Office of the Premier, Mpumalanga Province, applied the preference points system when procuring goods and services amounting to R30 000 (including VAT) and above.

(i) Procurement processes

The researcher interviewed participants to establish how Supply Chain Management is effected in the Office of the Premier, Mpumalanga Province. Informants were asked about procurement processes for goods and services less than R500 000 (including VAT).

(j) Bidding/Tendering process

The researcher conducted interviews with officials in the Office of the Premier, Mpumalanga Province to determine the bidding process in the Office of the Premier. The purpose of the interview was for the researcher to establish that the Office of the Premier invited competitive bids for procurement of goods and services above R500 000 (including VAT).

(k) Warehouse and inventory management

The researcher interviewed warehouse and cost centres officials to deduce the application of appropriate warehouse and inventory management systems by the Office of the Premier, Mpumalanga Province.

(l) Assets and disposal management

The researcher interviewed officials in Assets and Disposal Management sub-unit to deduce the manner in which the Office of the Premier, Mpumalanga Province manages and disposes off movable assets.

3.4.2. Observations

The participants were observed directly by the researcher. The observation method involves the researcher in watching, recording and analysing events of interest (Blaxter, Hughes & Tight, 2001:178). The researcher records events in a systematic manner as they happen. The researcher focuses his/her observation on activities that are directly relevant to the research question.

Non- participant observation is the recording of events as observed by the researcher. The researcher records facts without interacting with the observed (Bless & Higson-Smith, 2000:103). The researcher observed Supply Chain Management processes from the determination of needs by the end users until the order was place with the service provider, when payment was made to the service provider and warehouse management activities. Activities during the observation were documented in a systematic manner to reflect the various stages.

(a) Procurement process

The process of generating an order in the Office of the Premier, Mpumalanga Province was observed from the time the need arises from the end user, until such time that the order was placed with the service provider to determine whether procurement process adhered to Supply Chain Management guidelines.

(b) Payment to service providers

The payment of service providers in the Office of the Premier, Mpumalanga was observed from manual preparations until payment was authorised by manager/assistant manager to establish if payments process contributes toward sound financial management.

(c) Stores/warehouse management

The researcher observed processes during the receiving of stores items from the service providers, the issuing of stores items to cost centres and the warehouse stock taking to establish if processes in the Office of the Premier, Mpumalanga Province are in line with Supply Chain Management prescripts.

3.4.3. Documentation and records

Using documents and records can be a relatively unobtrusive form of research. The research does not require the researcher to firstly approach respondents. The researcher can trace the steps through the documents that respondents left behind (Blaxter *et al.*, 2001:168).

The undermentioned records were investigated to determine the application of Supply Chain Management in the Office of the Premier, Mpumalanga Province:

(a) Departmental Supply Chain Management policy

The researcher studied records to establish whether the Office of the Premier, Mpumalanga Province introduced a Supply Chain Management policy and Supply Chain Management manuals. Policy and procedure manuals facilitate the control process, since

procedure manuals serve as a standard that the task can be compared with (Ferreira *et al.*, 2000:285).

(b) Organisational structure for Supply Chain Management unit

Organisational structure refers to the formal arrangement of operations and activities within an organization (Arnold & Feldman, 1986:241). It is the basic framework of formal relationships among responsibilities, tasks and people. The researcher investigated the structure of the Office of the Premier, Mpumalanga Province to verify the existence of Supply Chain Management unit.

(c) Flowchart on work process

Work flowcharts eliminate duplication, promote expertise of officials and contribute to promotion of productivity (Ferreira *et al.*, 2000:281). Flowcharts indicate the flow of activities from the beginning of a task until such time that the task is completed. The researcher investigated records to determine if the Office of the Premier flowchart to guide officials on procurement procedures.

(d) Letters of authority or delegated powers

Letters of authority and Supply Chain Management circulars were investigated to verify the delegated authority to officials by the accounting officer on Supply Chain Management processes in the Office of the Premier, Mpumalanga Province.

(e) Payment batches

The researcher studied documentation for payments processed as from 3rd September 2007 to 29th August 2008. Payments records for March 2008 were purposively selected. The reason for purposively selecting March 2008 was because March is the last month for government fiscal year. Fiscal year refers to the twelve months to which a government budget applies. In South Africa, the fiscal year begins on 1st April and ends on 31st March the following year (Pauw *et al.*, 2002:59). There is a lot of fiscal dumping during March, when departments need to spend funds and sometimes proper Supply Chain Management processes are ignored. For example, service providers are sometimes

paid before goods have been delivered or services rendered. The researcher investigated monthly spreadsheets payment to establish whether or not all payments were made within 30 days after the date of the invoice.

(f) Assets register

The electronical print out of assets registers were verified against physical assets to deduce the accuracy records of assets in the Office of the Premier, Mpumalanga Province.

(g) Minutes of bid committees meetings

The researcher studied records to verify that the Office of the Premier, Mpumalanga Province documented decisions made by bid committees.

(h) Annual report

The researcher studied the annual report of the Office of the Premier, Mpumalanga Province, to verify if there was any disclosure of irregular expenditure incurred during the 2007/8 fiscal year.

3.5. Conclusion

Researchers have to select appropriate research methods that are suitable for the research problem. Research methods selected contribute towards objectivity and validity to support findings on the application of the Supply Chain Management in the Office of the Premier, Mpumalanga Province.

Population should be well defined. Target population included all elements that the research focused on. The sampling frame included elements of the population under investigation and samples are a representative of the population to which the researcher wishes to generalise the findings of the study. Data collection techniques applied by the researcher were face-to-face interviews, non-participant observations and records review

Chapter 4

DISCUSSION ON SUPPLY CHAIN MANAGEMENT PROCESS

4.1. Introduction

The researcher analyses the data obtained through empirical research based on interviews, observations and documentation. The research findings are compared with guidelines contained in the *Treasury Practice Notes*, *Treasury regulations* and *Public Financial Management Act* stipulations. The data analysis process allows the researcher to generalise the findings from the sample used in the research, to the larger population in which the researcher is interested (Bless & Higson-Smith, 2000:137).

The researcher analyzed data on the establishment of the Supply Chain Management system; creation of Supply Chain Management unit; appointment of bid committees; establishment of a database for suppliers; procurement procedures; delegation of authority; drafting of specifications; preferential procurement policy; procurement processes; bidding processes; payment of service providers; warehouse and inventory level management; as well as assets and disposal management.

4.2. Establishment of Supply Chain Management system

The establishment of appropriate procurement practices and process by government and state owned enterprises should be a high priority for the achievement of good governance (Khoza & Adam: 2005:248). All the participants during the interviews confirmed that the Office of the Premier, Mpumalanga Province has an electronic Supply Chain Management system, which is an integral part of the institution's financial management system. The system is called the Logistical Procurement System. The Logistical Procurement System (LOGIS) interfaces with the Basic Accounting System (BAS). The Supply Chain Management system in the Office of the Premier is decentralised. This means that not all procurement processes are done by supply chain officials. Cost centres call for quotations from service providers and capture requisitions on the LOGIS procurement system.

About 80% of the respondents were concerned that the Logis Procurement System was slow during the day when every one was at work. The system was often down and this made it impossible to generate emergency orders. The concern during observation was that the Supply Chain System was unable to detect when there was insufficient budget, although it is integrated with the financial system and generated orders. Overspending is classified as unauthorized expenditure. Section 1 of the *Public Finance Management Act*, 1999 defines unauthorized expenditure as overspending of a vote or main division within a vote. This poses a question whether the current Supply Chain Management system in the Office of the Premier, Mpumalanga Province ensured effective procurement.

4.3. Creation of Supply Chain Management unit

Organisational structure refers to the formal arrangement of operations and activities within an organization (Arnold & Feldman, 1986:241). It is the basic framework of formal relationships among responsibilities, tasks and people. The responses from 90% of the interviewed officials indicated that the Office of the Premier, Mpumalanga Province has a Supply Chain Management unit within the office of the Chief Financial Officer, to implement the institution's Supply Chain Management system. The head of the Supply Chain Management unit reports to the chief financial officer. The head of the Supply Chain Management unit is at the level of manager. The structure of Supply Chain Management unit consists of three sub-units, namely, Acquisition and Demand Management; Logistics and Performance Management; as well as Transport and Asset Management. The three sub-units are headed by assistant managers.

4.3.1. Acquisition and Demand Management sub-unit

The Acquisition and Demand Management sub-unit maintained the database for potential service providers. It advertised bids and managed the bidding processes from the time of advertisement of a bid until the bid was awarded to the successful bidder. The Acquisition and Demand Management sub-unit ensured that the bid documents were complete, facilitated the evaluation of bids in accordance with published criteria and ensured that proper contracts were signed.

4.3.2. Logistics and Performance Management sub-unit

The Logistics and Performance Management sub-unit controlled the Logistical Procurement System. The Logistics and Performance Management sub-unit created and generated orders and was responsible for warehouse management.

4.3.3. Transport and Assets Management sub-unit

The Transport and Assets Management sub-unit called for quotations for the purchase of all movable assets. The sub-unit maintained an assets register for all immovable and movable assets and was responsible for the disposal of unserviceable, redundant or obsolete movable assets. The sub-unit ensured that proper control system for movable and immovable assets existed.

The organisational structure of the Office of the Premier was investigated and the findings were as follows:

Supply Chain Management unit in the Office of the Premier, Mpumalanga Province is within the office of the Chief Financial Officer. The structure of Supply Chain Management unit consisted of three sub-units, namely, Acquisition and Demand Management; Logistics and Performance Management; as well as Transport and Asset Management sub-unit. Both interviews and records supported each other for the researcher to conclude that the Office of the Premier, Mpumalanga Province had a Supply Chain Management unit.

The structure of Supply Chain Management unit in the Office of the Premier did not promote the segregation of duties as one of the elements of organisational structure. Logistics and Performance Management sub-unit was supposed to be split in to Demand, Logistics Management sub-unit and Performance Management sub-unit. Supply chain performance management is crucial through out supply chain processes to determine if the institution is making progress towards its goals (Fredendall & Hill, 2001:45). Segregation of duties within Supply Chain Management served as a control measure and eliminates corruption. Supply Chain Management structure was not correctly effected in the Office of the Premier.

4.4. Appointment of bid committees

Responses from 62% of the participants prove that the Office of the Premier, Mpumalanga Province had bid committees. The accounting officer of Office of the Premier, Mpumalanga Province has appointed three bid committees, namely, Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee. Each Bid Committee was composed of seven members.

4.4.1. Bid Specification Committee

The Bid Specification Committee checked compliance of bid specifications and bid evaluation criteria for competitive biddings submitted by cost centers. The Bid Specification Committee made recommendations to the Accounting Officer for approval before the bids were advertised.

4.4.2. Bid Evaluation Committee

The Bid Evaluation Committee evaluated bids received in accordance with the criteria specified in the bid documentation. The Bid Evaluation Committee disqualified bids that were not in accordance with specifications or without relevant documents and calculated points. The Bid Evaluation Committee evaluated all bids received and submitted a report together with recommendations regarding the awarding of the bid to the Bid adjudication committee.

4.4.3. Bid Adjudication Committee

The Bid Adjudication Committee was chaired by the Chief Financial Officer. The Bid Adjudication Committee considered recommendations made by the Bid Evaluation Committee. The Bid Adjudication Committee re-checked for compliance, calculations and made recommendations to the accounting officer for the final awarding of the bid.

Records indicated that 21 Bid Committee members were appointed in writing and each Bid Committee consisted of seven committee members. The appointment of Bid Committee members by the accounting officer in the Office of the Premier contributed to

accountable Supply Chain Management since individual officials were prevented from awarding bids.

4.5. Establishment of a database for suppliers

Responses by 90% of the informants revealed that the Office of the Premier, Mpumalanga Province advertised annually in the local media for businesses to register as potential suppliers for goods and services to be obtained by means of quotations on the institution's supplier database. Service providers were categorised according to the goods and services suppliers were capable of supplying. The Demand and Acquisition Management sub-unit maintained the database for preferred service providers. Upon conducting the interviews, it was established that the data base established for prospective service providers was updated regularly. The documents needed for supplier to register on database were Tax Clearance certificate, company's registration certificate and company profile, so as to eliminate the registration of bogus service providers and curb corruption. The interview established that cost centre managers sourced goods and services from registered service providers. Valid reasons were provided for any deviation and approved by the chief financial officer or the accounting officer.

Investigation of records proves that the Office of the Premier introduced "PROQUOTE" with effect from 01 April 2008 (*Utilisation of PROQUOTE with effect from April 2008*). The objective was to ensure fairness and transparency for the rotation of service providers. PROQUOTE select service providers for quoting on rotational basis. Records revealed that a list of potential suppliers was used effectively to promote the objectives of the *Preferential Procurement Policy Framework Act, 2000 (Act 5 of 2000)* and the *Broad Based Black Economic Empowerment Act, 2003 (Act 53 of 2003)* for all procurement equals to or above R30 000 (including VAT). Therefore, one can deduce that the Office of the Premier, Mpumalanga Province's supplier database contributes towards accountable Supply Chain Management.

4.6. Procurement procedures

Procedure manuals when properly prepared ensure uniform, efficient work at lower cost (Ferreira *et al.*, 2000:114). Supply Chain Management manuals contain detailed information on Supply Chain Management policies and a description of basic Supply Chain Management procedures. The researcher established from all the respondents that the Office of the Premier, Mpumalanga Province did not have Supply Chain Management policy and manuals. Officials used provincial supply chain policy and course manuals.

A procurement order should be placed when a pre-determined stock level is reached for a store item or when a request is received from the end user for items not held in stores. According to the National Treasury, when an item or service has to be procured, the following procedure should be followed:

- Step 1: Gathering of quotations from service providers on supplier database.
- Step 2: The functionary completes the requests memo and sends the memo to the cost centre clerk.
- Step 3: Cost centre manager manually approves the requisition.
- Step 4: Cost centre clerk capture the request on LOGIS procurement system.
- Step 5: Cost centre manager approves the requisition on LOGIS procurement system.
- Step 6: The budget manager manually approves the requisition.
- Step 7: The LOGIS procurement system controller authorise the requisition on the LOGIS procurement system.
- Step 8: The LOGIS procurement system controller approves the procurement advice on LOGIS procurement system and generated the purchase order.
- Step 9: The order clerk amends the purchase order on the LOGIS procurement system.
- Step 10: The LOGIS procurement system controller authorise the purchase order on LOGIS procurement system.
- Step 11: The order, receipt and issue vouchers and cost centre delivery notes are then printed out.
- Step 12: An authorised person (chief financial officer or head of Supply Chain Management unit) signed the order that was printed out.

Step 13: The order clerk fax the purchase order and thereafter posted the original.

Step 14: When the goods arrive, the transit clerk and the cost centre manager or clerk check for quality, quantity and correctness and sign the receipt and issue vouchers.

Step 15: A copy of an order together, with other relevant documents, are then sent to finance unit for payment.

If the above Supply Chain Management procedures are adhered to, they will contribute to effective Supply Chain Management and prevent corruption.

The researcher established, during observation, that only two officials in Logistics and Performance Management sub-unit displayed the flowcharts guides on procurement procedures from National Treasury at their working stations. The Office of the Premier, Mpumalanga Province failed to produce its Supply Chain Management policy and Supply Chain Management manuals that guide officials on daily Supply Chain Management activities. Therefore interviews, observations and investigation of records deduced that the Office of the Premier had no Supply Chain Management policy and manual.

4.7. Delegation of authority

Authority is the right to give an instruction to someone about what to do, how, where and when to carry out the instruction (Cloete, 1994:134). Section 44 of the *Public Finance Management Act*, 1999 empowers the accounting officer of an institution to delegate in writing, decision-making powers to officials for the acquisition of goods or services. Responses by all the participants deduced that in the Office of the Premier, Mpumalanga Province authority and responsibility for approving orders are vested within Supply Chain Management unit. Officials were not allowed to acquire services from service providers until such time that the official order was signed.

Records revealed that the accounting officer of the Office of the Premier, Mpumalanga Province, delegated the manual authorisation of purchase requisitions. Senior managers

authorised procurement up to the value of R100 000, General Managers authorised procurement up to the value of R300 000 and Programme managers authorised procurement up to R500 000 (*Departmental SCM circular 1/2008*). Members of bid committees were appointed in writing to make recommendations only during the bidding process. The head of Supply Chain Management unit had authority to sign orders up to R30 000 and can only sign orders above R30 000 if there is a contract. The chief financial officer signed orders above R30 000.

4.8. Drafting of specifications

Specifications should be drawn with the objective of insuring high quality goods and services (Poirier, 1999:137). Responses by 85% of the participants indicate that the end users in the Office of the Premier, Mpumalanga Province developed specifications. Specifications were broadly drafted to encourage competition. They were not brand-based or narrowed to limit compliance to a specific product. The Bid Specification Committee made recommendations on the specifications for the supply of goods and services amounting to R500 000 (including VAT) and above for the accounting officer's approval before bids were advertised as per Section 3 of *National Treasury Practice Note 8 of 2007/2008*.

4.9. Preferential procurement policy

Government institutions must determine procurement policies and procedures to implement a prescribed preferential point system to remove confusion and clearly define the point allocation. Efforts to correct the wrong of the past in the area of public procurement can fall prey to corruption and nepotism if not implemented in the context of a suitable framework (Khoza & Adam, 2005:272).

During the interviews, 80% of the participants revealed that they utilised preference point system when procurements above R30 000. The records investigated by the researcher established that the Office of the Premier, Mpumalanga Province applied preferential procurement policy and followed a preference points system when procuring goods and services. When procuring goods and services, the Office of the Premier implemented the

Preferential Procurement Policy Framework Act, 2000 by practising the 80/20 preference points system for procurements from R30 000 but not exceeding R500 000 (including VAT). The points are allocated as follows:

Price	80
Individuals who had no franchise in national elections	6
Female	10
Disability	2
Youth	2
Total	100

The Office of the Premier practised the 90/10 preference points system for procurements from R500 000 (including VAT). The points are allocated as follows:

Price	90
Individuals who had no franchise in national elections	4
Female	3
Disability	3
Total	100

Only bidders who had completed and signed the declaration part of the bid documentation, Preference Points Claim Form (SBD 6.1), were considered for preference points as required by Section 12.(2) of the *Preferential Procurement Regulations*. The implementation of preferential procurement policy contributes towards fairness in the appointment of service providers and accountable Supply Chain Management.

4.10. Procurement processes

During the interviews, 95% of the participants revealed that the need for procurement of goods and services in the Office of the Premier, Mpumalanga Province originated from the user of the goods and services or in the stores. Procurement of goods and services are obtained from items on the contract. In the absence of a contract, quotations were called

from service providers. One written quotation was required for procurement of goods or services up to R2 000 (including VAT). A minimum of three written quotations is required for procurements above the value of R2 000, but not exceeding R500 000 (including VAT).

The researcher observed the process of generating an order. During the observation the following procedures were established:

The end user developed the specifications. The chief user clerk requested the names of potential service providers from the data base for the service to be rendered. The official from Demand and Acquisition sub-unit printed names of three service providers. The chief user clerk called for quotations from the service providers. The chief user clerk compiled the purchase requisition using the cheapest service provider. The responsibility manager approved the requisition. The chief user clerk captured the requisition on LOGIS procurement system and signed the requisition. The chief user approved the requisition on the system and signed the requisition. The official from budget section manually signed the requisition to confirm that funds were available, that correct allocations were used, checked compliance with procurement procedures and that relevant supporting documents were attached. The Supply Chain Management unit registered the requisition and date stamped the requisition. The system controller checked the requisition for compliance and manually approved the requisition. The authorisation officer authorised the requisition on LOGIS procurement system and printed procurement advice. The system controller, the head of demand and acquisition and the head of budget section signed the procurement advice to confirm compliance. The system controller electronically created the purchase order number. Purchase order is printed together with the receipt voucher. The head of Supply Chain Management unit signed the order. The original copy of the purchased order was faxed to the service provider. The remaining copies were filed at expenditure section until the invoice was received.

The researcher established from records that the accounting officer did not consider applications for *ex post facto* approval of expenditure incurred (*Internal circular on Supply Chain Management: Ex post facto approvals*). Disciplinary hearing were

instituted against a cost centre manager who procured services without approved purchase order and was disclosed as irregular expenditure in the annual report (Office of the Premier, 2008:106). From the above, it can be deduced that the Office of the Premier, Mpumalanga Province follow procurement processes. The Office of the Premier manage procurement processes to obtain accountable Supply Chain Management.

4.11. Bidding/Tendering processes

The Office of the Premier, Mpumalanga invited competitive bids for procurement of goods and services above R500 000 (including VAT). Competitive bidding is a process whereby an organisation invites offers for the supply of goods and services and awards the bid to the best offer according to pre-determined criteria without negotiation (Pauw *et al.*, 2002:234).

Interviewed deduced that the Office of the Premier promote transparency, competition, fairness and eliminate corruption during bidding process. Responses by 82% of participants revealed that the Office of the Premier abided to the following procedure:

- The end user/cost centre completed supply chain management route form;
- The Planning section verified if the service was in compliance with the cost centre implementation plan;
- The Budget section confirmed the availability of funds. The end user developed the specifications;
- Demand and Acquisition sub-unit checked the correctness of the specifications and arranged for the sitting of Bid Specification Committee;
- Once the Bid Specification Committee agreed on the specifications, the committee made recommendations to the Director-General for approval;
- After the approval of the specifications by the Director-General, specifications were forwarded to the Provincial Tender Office for advertisement in the Provincial Tender Bulletin;
- Demand and Acquisition sub-unit collected bids from the Provincial Tender Office after closing date;

- Demand and Acquisition sub-unit registered bids and checked bids for compliance;
- Bid Evaluation Committee re-checked for compliance and disqualified non-compliance bids;
- Bid Evaluation Committee called short listed bidders for presentation if there was a need, calculated points and made recommendations to the Bid Adjudication Committee;
- The Bid Adjudication Committee recalculated the points awarded to bidders, verified whether required documents were attached and checked compliance and made recommendations to the Director-General;
- The Director-General approved the awarding of the contract and the acceptance letter was sent to the successful bidder; and
- A Service Level Agreement was then signed by the two parties.

Records indicate that minutes of meetings were kept for all recommendations made by the bid committees. Minutes were signed by the chairpersons and secretaries of bid committees. Declarations of conflict of interests for bid members were filled together with bids documents.

The researcher established that the Office of the Premier, Mpumalanga Province, incurred an irregular expenditure amounting to R1 949 000 during the 2007/8 fiscal year. The irregular expenditure was for the Premier's Alfred Dunhill Golf Challenge amounting to R1 881 000 and the launch of the heritage manuscript amounting to R68 000 (Office of the Premier, 2008:106). A contract of R1 881 000 was awarded to a service provider without calling for competitive bids. Services of the official who awarded a R1 881 000 contract to a service provider without calling for competitive bids were terminated following a disciplinary inquiry (Mogakane, 2008:15). Thus, it can be argued that the Office of the Premier, Mpumalanga Province does not always adhere to bidding process.

4.12. Payment to Service Providers

Response by all the informants indicated that the Office of the Premier, Mpumalanga Province paid service providers within 30 days from date of invoice. All payments to service providers were effected electronically.

The observation for the processing of payments to service providers established the undermentioned procedures:

The state accountant received the invoice, date stamped the invoice and attached to the relevant order. She then manually completed the creditor payment advice. The assistant manager checked the payment for compliance with procurement processes and that relevant documentations were attached. The assistant manager appended her signature on creditor payment advice as a proof that the payment was checked and verified. The payment was taken to the cost centre manager, i.e., the end user who signed simultaneous receipt and issue voucher to confirm that goods were received or that the service was rendered. The cost centre manager also signed credit payment advice to authorise payment. The state accountant captured the payment on BAS system, the second state accountant pre- authorised the payment and the assistant manager finally authorised the payment on the system. Payments to suppliers were made in South African currency. All payments to service providers were effected electronically through BAS system. It could therefore be agreed that this process contributes to accountable Supply Chain Management and prudent public financial management.

Records investigation deduced that the Office of the Premier, Mpumalanga Province paid R1 881 000 to a service provider who was appointed to render the service without following competitive bidding. The tax invoice is dated 09 November 2007 and the service provider was paid in March 2008. Monthly spreadsheets payments indicate that service providers were sometimes paid after 30 days. The delay implies that the Office of the Premier does not always pay service providers within 30 days as required.

4.13. Stores/warehouse and inventory level management

4.13.1. Stores/warehouse management

Warehouse operations revolve around receiving inventory, storing and issuing inventory to customers (Hugo *et al.*, 2004:294). In this instance, customers are cost centres. Response by 90% of the participants deduced that the Office of the Premier, Mpumalanga Province had a warehouse manager and three transit clerks. The keys to the warehouse were with the warehouse manager. The officials locked the store when they were not in the store.

Store items were packed on shelves and identified by shelf number, bin number, ICN number and description of the item. Only the warehouse manager and the three transit clerks had access to the store. Stores received all deliveries that were ordered by warehouse officials. Proper records of all items in stores were maintained electronically. Goods received were verified for quality and quantity against the ordering documents. A receipt voucher was signed by transit clerk and the warehouse manager captured the information on the system for all goods received. Store items were issued after the issue voucher had been authorized by the warehouse manager.

Stock taking of store items was done on monthly basis. The purpose of stock taking is to determine whether the quantity of items on hands corresponds with balances as reflected by LOGIS procurement system. Stock taking provides a means for measuring sound warehouse management and serve as a measure of control (Visser & Erasmus, 2002:171).

The researcher established the undermentioned processes when observing the receiving of stores items from the service providers, the issuing of stores items to cost centres and the warehouse stock taking.

(a) Receiving of store items

Supply Chain Management practices require officials to compare quantities with those on official order and complete a receiving note when receiving goods (Hugo *et al.*, 2002:23). Goods received were verified for quality and quantity against the ordering documents.

The transit clerk signed a delivery note as proof that the goods were received. A receipt voucher was generated for goods received. The warehouse manager updated the LOGIS procurement system with the quantity received.

(b) Issuing of store items

The chief user clerk completed the store requisition form. The store requisition was signed by the cost centre manager for approval. The chief user clerk captured the requisition on LOGIS procurement system. The chief user approved the requisition on the system. The warehouse manager authorised the requisition on the system. The system printed the issue voucher. The requisition was attached to the issue voucher. The transit clerk took the warehouse key and called the chief user clerk to the warehouse. The transit clerk issued store items to the chief user clerk. The chief user clerk signed the issue voucher to acknowledge that she received the items. The issue voucher was filled for audit purpose.

(c) Stock taking

Store items should be subject to stock taking at least quarterly. During observation, the following process was established:

- The logistic assistant manager called the name of the item;
- Two officials from Supply Chain Management unit counted the items on the shelves and recorded their findings;
- The warehouse manager recounted the items after the two officials; and
- The logistic assistant manager reconciled balances LOGIS print outs with physical quantity.

4.13.2. Inventory levels/management

The LOGIS procurement system automatically generated the procurement advice once there was a need for replenishment of stores items. As far as the particular stage is concerned, it is obvious that the Office of the Premier adhere to Supply Chain Management prescripts.

4.14. Assets and disposal management

4.14.1. Assets management

During the interviews, 100% of the respondents revealed that Assets and Disposal Management sub-unit maintain electronic assets register for all immovable and movable assets. The register indicates the description of the asset, date purchased, amount, depreciation rate, serial number, life span of the asset, name and rank of the official to whom the asset has been allocated to as well as the section.

The preventative mechanisms in place in the Office of the Premier, Mpumalanga Province to eliminate theft and losses of assets are namely:

1. There was one entrance to the building physically guarded by police officers;
2. The building was fitted with surveillance cameras; and
3. The department used a release letter for movable assets, which must be signed by assets manager when equipments are to be used outside the building.

A complete identification and verification of assets was conducted annually and spot checks were done on quarterly basis. Records also indicate that the Department has an electronic assets management system. The electronic print out of assets registers are signed by office occupants and displayed on the back of office doors.

4.14.2. Disposal of assets

Response by all the informants revealed that the Office of the Premier disposed off movable assets via the departmental disposal committee. Unserviceable, redundant or obsolete movable assets and surplus items were disposed off at market related value. Disposal was done by means of a tender or auction.

The Office of the Premier, Mpumalanga Province disposed assets by donating computers to the Department of Education, Mpumalanga Province. Vehicles were auctioned to the public through Department of Roads and Transport, Mpumalanga Province. Auctioneers were appointed for auctioning of other movable assets to the highest bidder.

4.15. Conclusion

The researcher compared the data obtained through empirical research with Supply Chain Management guidelines and public finance management regulations during the discussion on Supply Chain Management process in the Office of the Premier. Information from data analysis enabled the researcher to conclude on whether Supply Chain Management ensures effective procurement, whether the Office of the Premier manages the Supply Chain Management to obtain accountable Supply Chain Management. Researcher deduced the extent to which the Supply Chain Management is applied in the Premier's Office, Mpumalanga Province.

Chapter 5

CONCLUSION

Conclusions made from the interpretation of research findings are discussed below. The researcher makes recommendations based on conclusions from the research findings.

The researcher concluded on the establishment of Supply Chain Management system; creation of Supply Chain Management unit; appointment of bid committees; establishment of a database for suppliers; procurement procedures; delegation of authority; drafting of specifications; preferential procurement policy; procurement processes; bidding processes; payment of service providers; warehouse and inventory level management; as well as assets and disposal management.

Establishment of Supply Chain Management system

The problem with the Office of the Premier, Mpumalanga Province electronic Supply Chain Management system was that, although it is linked to the institution's financial management system, it is not linked to the availability of funds. This contributed to overspending of allocations. Overspending is classified as unauthorized expenditure. The researcher recommends further research since there can be a procurement system that can automatically reject orders if cost centres have insufficient funds on their allocations.

Creation of Supply Chain Management unit

The Office of the Premier, Mpumalanga Province has a Supply Chain Management unit to implement the institution's Supply Chain Management system. There are three sub-units on the structure of Supply Chain Management, namely, Acquisition and Demand; Logistics and performance management; as well as Transport and Asset. The current structure means that Logistics and Performance Management sub-unit was monitoring itself as a player and referee. To promote efficiency in the supply chain, it is recommended that Logistics and Performance Management sub-unit be split in to Logistics Management sub-unit and Supply Chain Performance sub-unit.

Appointment of bid committees

Office of the Premier, Mpumalanga Province had three bid committees namely, Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee. At least one member of the Bid Adjudication Committee should be a supply chain practitioner. Appointment letters of members of the Bid Adjudication Committee indicated that there was no supply chain practitioner appointed to the Bid Adjudication Committee.

The researcher recommends that the Office of the Premier, Mpumalanga Province should appoint at least a supply chain practitioner to the Bid Adjudication Committee in line with Code of Conduct for bid adjudication committees. The expertise of a supply chain practitioner is essential to ensure that there are no flaws in the bid adjudication process.

Establishment of a database for suppliers

The Office of the Premier, Mpumalanga Province managed the Supply Chain Management to obtain accountable Supply Chain Management. The Office of the Premier introduced "PROQUOTE" with effect from 01 April 2008. The objective was to ensure fairness and transparency for the rotation of service providers. PROQUOTE select service providers for quoting on rotational basis. The system prevented officials in the Office of the Premier to award work to service providers in an irregular manner by handpicking their preferred service providers. Cost centres are only exempted from using PROQUOTE if the selected service provider had no capacity or on the basis of consistency in quality. The system ensured effective procurement.

Procurement procedures

Manuals eliminate confusion; facilitate division of work; and facilitate decentralisation and delegation of authority. The employee does not have to approach the manager continuously for assistance. Procedure manuals facilitate the control process and serve as a standard that the task can be compared with. The Office of the Premier, Mpumalanga Province did not have a Supply Chain Management procedure manuals and policy. It is important to bear in mind that no organisation can function without guidelines. It is

recommended that the Office of the Premier, Mpumalanga Province should develop Supply Chain Management procedure manuals and a departmental Supply Chain Management policy. The departmental policy should be guided by provincial and national policies.

Delegation of authority

The accounting officer of the Office of the Premier, Mpumalanga Province delegated in writing, decision-making powers to officials on the acquisition of goods and services as well as the disposal of assets. Authority on supply chain had been delegated to Bid committees, head of Supply Chain Management unit, chief financial officer, cost centre managers and disposal committee. The delegated authority in the Office of the Premier, Mpumalanga Province prevented individual officials from taking decisions in isolation regarding the award of a bid.

Drafting of specifications

Specifications were broadly and fairly drawn to encourage competition. The Specification Committee made recommendations on the specifications for competitive bidding. Expertise of cross-functional team members of the committee contributed to high quality goods and services. The Office of the Premier, Mpumalanga Province received high quality products and services as a result of the process. Therefore, it can be concluded that Supply Chain Management practices are correctly applied in the Office of the Premier to promote competition amongst service providers and ensure effective procurement.

Preferential procurement policy

Institutions must determine procurement policies and procedures to implement a prescribed preferential point system to eliminate confusion, corruption and nepotism and clearly define the point allocation. The Office of the Premier implemented the *Preferential Procurement Policy Framework Act, Act 2000* by practising the 80/20 or 90/10 preference points system when procuring goods and services. The Office of the Premier implemented preferential procurement policy as per prescripts. The SBD.6.1

form was completed by service providers for procurement in excess of R30 000. The form indicated preference points that can be claimed by service providers.

Procurement processes

Procurement processes were correctly effected in the Office of the Premier, Mpumalanga Province. The accounting officer did not consider applications for *ex post facto* approval of expenditure incurred. Disciplinary hearing were instituted against a cost centre manager who procured services without approved purchase order and was disclosed as irregular expenditure in the annual report. The Office of the Premier promoted transparency on supply chain by disclosing the irregular expenditure in its annual report.

Bidding/Tendering processes

The Office of the Premier, Mpumalanga Province managed the Supply Chain Management to obtain accountable Supply Chain Management by calling for competitive bids for procurement amounting to R500 000 (including VAT), and above. Services of the official who awarded a R1 881 000 contract to a service provider without calling for competitive bids were terminated following a disciplinary inquiry.

Payment to Service Providers

The Office of the Premier paid service providers electronically. However, service providers are sometimes paid after 30 days from date of the invoice as indicated on monthly payments spreadsheets. Payments of interest charges on overdue accounts constitute fruitless expenditure and public financial mismanagement. There was no evidence from records to substantiate that the Department paid interest to service providers as a result of paying service providers after 30 days. Therefore, it could be concluded that the Office of the Premier does not follow Supply Chain Management prescripts on payment of service providers. The researcher recommends that the Office of the Premier should have a mechanism in place for paying service providers within 30 days.

Stores/warehouse and inventory level management

The Office of the Premier, Mpumalanga Province managed the warehouse and inventory levels adequately. The Department maintained proper records of all items in the warehouse and warehouse items were safely and appropriately warehoused. Inventories were kept at minimal levels to prevent over-stocking. The Supply Chain Management system automatically generated procurement advices for warehouse items that need to be replenished. Warehouse and inventory level management in the Office of the Premier contributed towards effective procurement and accountable Supply Chain Management.

Assets and disposal management

The Office of the Premier, Mpumalanga Province managed and disposed of assets in accordance with Supply Chain Management practices. The Department exercised proper control measures to safeguard assets. Redundant assets and items are disposed of at market related value. Supply Chain Management is adequately implemented in the Office of the Premier, Mpumalanga Province.

Recommendations

The researcher recommends the under-mentioned recommendations for the Office of the Premier, Mpumalanga Province:

- That research should be undertaken to investigate whether the procurement system could be devised which will automatically reject orders if cost centres have insufficient funds on their allocations;
- That Logistics and Performance Management sub-unit should be split in to Logistics Management sub-unit and Supply Chain Performance sub-unit;
- That the Office of the Premier, Mpumalanga Province should appoint a supply chain practitioner to the Bid Adjudication Committee;
- That the Office of the Premier, Mpumalanga Province should develop Supply Chain Management procedure manuals and departmental Supply Chain Management policy; and

- That the Office of the Premier should put mechanism in place, which will enable the Department to pay service providers within 30 days from the date of the invoice.

The Office of the Premier, Mpumalanga Province managed the Supply Chain Management to obtain accountable Supply Chain Management. Supply Chain Management practices in the Office of the Premier promoted competition, transparency, fairness, accountability, openness and eliminated corruption in the procurement of goods and services. Despite recommendations made by the researcher, the Office of the Premier effected Supply Chain Management correctly.

In conclusion, the Supply Chain Management ensures effective procurement. Supply Chain Management contributes positively towards best procurement practices, efficiency and effectiveness in procurement and improves ethical conducts of officials. The researcher recommends that a detailed study be undertaken in the Office of the Premier to deduce a proper system of Supply Chain Management and that it must be monitored regularly to ensure consistent application.

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