



**Western Cape  
Government**

Provincial Treasury

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# **RISK MANAGEMENT APPROACH TOWARDS SCM**

**CFO LEGOTLA 10/11 DECEMBER 2012  
MOSSELBAY**

# Why having a risk management approach towards SCM

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## Regularity environment

- Highly regulated
- Rights of third party entrenched in procurement processes
- Contract law requirements
- Audits on non-compliance with laws and regulations

# Why having a risk management approach towards SCM

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## Service delivery environment

- Runs across an institution
- Directly involve in spending public money
- Product must be delivered at the right time, right place, right quantity, right quality, right costs and from the right source
- SCM inefficiency can contribute to non-delivery

# Why having a risk management approach towards SCM

## PT Commitments as part of MGRO

- Review and assessing Municipality's SCM policy.
- Sharing of best practices through the issuance of a guideline for drafting delegations and sub delegations.
- S 44: Engage with National Treasury and AGSA (National) to address the issue. Engaged with Credit Agencies to provide solutions via quarterly SCM Forums.
- Created a helpdesk to assist both municipalities and suppliers on SCM matters
- Developing a framework for AM Policy assessment and verifications processes in conjunction with the NT

**There is a need to unpack risks within the SCM environment**

# Risks within an procurement environment

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## Procurement cycle

- Institutionalisation
- Identification of need and procurement planning
- Development of specifications
- Selecting the procurement method
- Compilation of bid documents
- Inviting , clarifying and closing of bids
- Evaluating offers
- Selecting the successful bidder
- Negotiations
- Contract management

# Risks within an procurement environment

## Institutionalisation

| RISKS  | LIKELY CONSEQUENCES  | ACTION NEEDED   |
|--|--|---|
| Inadequate SCM structure   | Inability to meet service delivery needs<br>Non-compliance to prescripts<br>No separation of duties        | Establishment of SCM Unit<br>Identify roles and responsibilities of line departments involve in SCM<br>Demarcate and separate duties                              |
| Lack of policies and procedures<br>Inappropriate SCM delegations | Uncoordinated SCM practices<br>Irregular SCM activities<br>Decision-making happens on to low or high level | Develop and implement policies<br>Alignment thereof with NT requirements<br>Compile set of delegations that will support both service delivery and accountability |
| Inadequate bid committee structures                              | Non-compliance to NT prescripts<br>Unsuitable staff on committees<br>Risky decision-making                 | Revamp committee structures<br>Line departments to take responsibility to appoint specification and evaluation committees   |

# Risks within an procurement environment

## Identification of need and procurement planning

| RISK  | LIKELY CONSEQUENCES   | ACTION NEEDED  |
|---|---|--|
| Understatement of the need.<br>Overstatement of the need.<br>Misinterpretation of user needs. | Purchase of unsuitable product or service.<br>Money wasted.<br>Need not satisfied.<br>Poor competition.<br>Time lost.<br>Increased costs.<br>Possible downtime. | Analyse need accurately.<br>Use functional and performance requirements.<br>Improve consultation with users.<br>Obtain clear statement of work and definition of need. |
| Impractical timeframe.  | Inadequate responses from bidders.<br>Reduced competition.<br>Delivery schedule not met.  | Improve forecasting, planning and consultation with users.<br>Improve communication with potential bidders.  |

# Risks within an procurement environment

## Development of specifications

| RISK  | LIKELY CONSEQUENCES  | ACTION   |
|---|--|--|
| Narrow definition or commercial specification.<br>Definition of inappropriate product or service. | Fewer alternatives.<br>Most suitable product or service may not be obtained.<br>Increased costs.               | Define specification in terms of required output<br>Use functional and performance specifications  |
| Inadequate statement of requirements.   | Variety of offers.<br>Insufficient responses.<br>Products offered not meeting needs.<br>Difficult to evaluate. | Be familiar with requirements.<br>Use functional and performance specifications.<br>Use an Expression of Interest to obtain information. |



# Risks within an procurement environment

## Compilation of bid documentation

| RISK  | LIKELY CONSEQUENCES  | ACTION   |
|---|--|--|
| Terms and conditions unacceptable to bidders. | Loading of costs in offers.<br>Having to modify bid terms and conditions.<br>Disruption.<br>Low response.                        | Use standard documentation.<br>Select appropriate documentation for purchase type.<br>Improve bid planning.<br>Use commercially acceptable terms.            |
| Providing inadequate information.             | Loading of costs in offers.<br>Variations in offers.<br>Having to provide clarifying information, causing delays in bid closing. | Ensure staff have appropriate bid planning and documentation training.<br>Improve bid planning and preparation.<br>Review bid documents before issuing them. |

# Risks within an procurement environment

## Inviting, clarifying and closing of bids

| RISK  | LIKELY CONSEQUENCES  | ACTION  |
|---|--|---|
| Failure to adequately address enquiries from bidders.     | Claims of unfair practices.<br>Offers with qualifications by bidders.<br>Withdrawal of offers. | Implement standardised procedures for responding to enquiries.<br>Provide staff with appropriate bid management training.<br>Respond in a timely manner to enquiries. |
| Actual or perceived favouritism in providing information. | Complaints from bidders.<br>Withdrawal of offers.  | Answer queries in writing and provide copies to all potential bidders.<br>Ensure that all potential bidders are provided with any addenda.                            |
| Actual or perceived breach of confidentiality.            | Complaints from bidders.<br>Mistrust by bidders.   | Establish formal security procedures.<br>Train staff in their obligations.<br>Perform regular audits and reviews of security processes.                               |

# Risks within an procurement environment

## Evaluation of bids

| RISK   | LIKELY CONSEQUENCES  | ACTION   |
|--|--|--|
| Failure to follow effective evaluation procedures. | Inconsistent evaluations.<br>Possible complaints from bidders.<br>Subjective not objective evaluation of offers. | Provide staff with appropriate bid assessment and evaluation training and experience.<br>Improve bid assessment and evaluation processes.<br>Maintain, audit and review evaluation procedures. |
| Failure to identify a clear winner.                | Claims of unethical and unfair behaviour.  | Ensure evaluation criteria contain factors on which the assessment of bids will be based and that they are clearly identifiable to bidders in bid documents.                                   |

# Risks within an procurement environment

## Contract management

| ACTIVITY  | RISKS  | HOW TO MITIGATE RISKS  |
|---|--|--|
| Unwillingness of the supplier to accept the contract.             | Delays in delivery.<br>Need to restart procurement.  | Seek legal redress if non-acceptance causes loss.<br>Negotiate but retain integrity of the contract.   |
| Failure of either party to fulfil the conditions of the contract. | Contract disputes.<br>Failure to satisfy needs.<br>Delays in delivery.<br>Downtime.<br>Legal action. | Ensure good contract administration.<br>Hold regular inspections.<br>Ensure all staff know responsibilities and conditions.<br>Ensure good record keeping and documentation. |

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# QUESTIONS AND ANSWERS

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Thank you