

Transparency in Supply Chain Management: A South African Local Government Case Analysis

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DECLARATION

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ABSTRACT

This study was conducted to assess transparency in Supply Chain Management (SCM) at local government. The case study of eThekweni Municipality as an institution at the local sphere of government was used to explore the objectives of the study. Fundamentally, institutions such as municipalities and municipal entities, by virtue of being the closest to the people, play an important role of rendering basic services that are aimed at improving living standards of local communities. Therefore, purchasing of goods and/ or services through SCM should strictly comply with specific legislation, policies and regulations which are implemented to achieve standard norms and principles in execution of these duties. One of these requirements is achieved by adhering to transparency in procurement processes. Ultimately, adherence to the principle of transparency in SCM results to openness in decision-making and integrity of the entire process. In this study, these considerations were explored at eThekweni Municipality's SCM and qualitative analysis of secondary data against SCM legislation, policies and regulations were extensively investigated to establish the extent to which the SCM processes had adhered to transparency.

The findings of the analysis as primarily guided by the Auditor-General's (AG's) audit outcomes since the launch of "Operation Clean Audit" established that the municipality had not received a clean audit during the period of review from the 2009/2010 to 2011/2012 financial years. The findings pointed to a number of issues regarding SCM irregularities, exceptionally high irregular expenditure (with a net regression of 12% in the financial year 2010/2011), abuse of contract deviations, failure of the accounting officer to give reasons in writing for irregular expenditure and non-compliance with applicable laws and regulations. This state of affairs had led to the municipality making a prognosis of the internal issues which placed them at risk. These issues informed the development of a strategy to implement austerity systemic and financial management measures to mitigate the identified risks. The findings of the study concluded that the importance of adherence to transparency results in sound decision-making, promotes access to information to the public and other stakeholders, increases integrity of processes, and prevents opportunities of fraud and maladministration.

OPSOMMING

Hierdie studie is uitgevoer om deursigtigheid te evalueer in Voorsieningskettingbestuur op plaaslike regering. Die gevallestudie van eThekweni Munisipaliteit as 'n instelling op die plaaslike vlak van regering is gebruik om die doelwitte van die studie te verken. Fundamenteel speel instansies soos munisipaliteite en munisipale entiteite 'n belangrike rol in die lewering van basiese dienste wat gemik is op die verbetering van lewensstandaarde van plaaslike gemeenskappe, omdat hulle die naaste aan die mense is. Daarom moet die aankoop van goedere en / of dienste deur Voorsieningskettingbestuur streng voldoen aan spesifieke wetgewing, beleid en regulasies wat geïmplementeer is om standaard norme en beginsels in die uitvoering van hierdie pligte te bereik. Een van die vereistes kan aan voldoen word deur deursigtigheid in die verkryging prosesse. Uiteindelik sal die nakoming van die beginsel van deursigtigheid in Voorsieningskettingbestuur die openheid in besluitneming en integriteit van die hele proses tot gevolg hê. In hierdie studie, was die oorwegings ondersoek by die eThekweni Munisipaliteit se Voorsieningskettingbestuur en 'n kwalitatiewe analise van sekondêre data teen Voorsieningskettingbestuur wetgewing, beleid en regulasies was intens ondersoek om die mate waarin die Voorsieningskettingbestuur prosesse voldoen het aan deursigtigheid, te bepaal.

Die bevindinge van die analise was hoofsaaklik gelei deur die Ouditeur-Generaal se audit-uitkomste sedert die bekendstelling van "Operasie Skoon Oudit", en dit het gewys dat die munisipaliteit nie 'n skoon audit gehad het gedurende die tydperk van die hersiening van die 2009/2010 tot 2011/2012 finansiële jaar nie. Die bevindinge het gewys op 'n aantal kwessies rakende Voorsieningskettingbestuur ongerymdhede, buitengewoon hoë onreëlmatige uitgawes (met 'n netto agteruitgang van 12 % in die finansiële jaar 2010/2011), die misbruik van kontrak afwykings, nalating van die rekenpligtige beampte om redes te gee vir die afskryf van onreëlmatige uitgawes en nie-nakoming van die toepaslike wette en regulasies. Hierdie toedrag van sake het daartoe gelei dat die munisipaliteit 'n prognose gemaak het van die interne kwessies wat vir hulle 'n risiko was. Hierdie kwessies het gelei tot die ontwikkeling van 'n strategie om sistemiese en finansiële bestuur maatreëls in te stel om die geïdentifiseerde risiko's te verminder. Die bevindings van die studie dui daarop dat die nakoming van deursigtigheid lei tot gesonde besluitneming, bevordering van toegang tot inligting aan die publiek en ander belanghebbendes, en dat dit die integriteit van prosesse verhoog, en geleentheid vir bedrog en wanadministrasie voorkom.

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TABLE OF CONTENTS

Declaration.....	i
Abstract	ii
Opsomming.....	iii
Acknowledgements.....	iv
Table of Contents.....	v
List of abbreviations	x
List of figures.....	xii
List of table's	xii
CHAPTER 1: BACKGROUND	1
1.1 Introduction.....	1
1.2 Preliminary literature review	2
1.2.1 Conceptual framework of SCM in brief.....	2
1.2.2 Transparency as a conceptual framework	4
1.3 Research problem and objectives	5
1.4 Research design and Methodology	5
1.4.1 Data collection	6
1.4.2 Document analysis	6
1.5 Outline of chapters.....	7
1.6 Summary.....	8
CHAPTER 2: SUPPLY CHAIN MANAGEMENT AND TRANSPARENCY: A LITERATURE STUDY.....	10
2.1 Introduction.....	10
2.2 The importance of the concept of SCM	11
2.3The value SCM adds to an organisation	11
2.4 SCM defined	13
2.5 SCM: Theoretical views	16
2.5.1 Evolution of the concept of SCM	16

2.5.2 Important theoretical developments of the concept of SCM.....	18
2.5.3 Relevance of SCM developments in the public sector.....	21
2.6 Selected models of SCM	24
2.6.1 Supply chain responsiveness.....	26
2.6.1.1 Anticipatory business model.....	26
2.6.1.2 Efficient (or Lean) Supply Chains and Responsive (or Agile) Business Model.....	26
2.6.2 Operational performance models	28
2.6.2.1 The Resource-Event-Agent (REA) Model.....	28
2.6.2.2 The Supply Chain Operations Reference (SCOR) Model.....	29
2.6.2.3 The Balanced Scorecard (BSC).....	29
2.7 SCM processes.....	29
2.7.1 Cycle view of supply chain processes.....	30
2.7.2 Push and pull processes.....	31
2.8 SCM outcomes.....	31
2.8.1 Fairness in SCM.....	32
2.8.2 Equitable SCM.....	32
2.8.3 Competition in SCM	33
2.8.4 Cost-effective SCM.....	33
2.8.5 Transparency in SCM	34
2.9 The Concept of transparency	34
2.9.1 Defining Transparency.....	35
2.9.2 The importance of transparency.....	37
2.9.3 Public sector perspective.....	39
2.9.4 Private sector perspective.....	40
2.9 Summary.....	42
CHAPTER 3: SUPPLY CHAIN MANAGEMENT POLICY AND LEGAL	
FRAMEWORK.....	43
3.1 Introduction.....	43

3.2 The concept of SCM in South Africa	44
3.2.1 Background.....	44
3.2.2 Objectives of the South African SCM policy	44
3.2.2.1 Demand Management.....	45
3.2.2.2 Acquisition Management.....	45
3.2.2.3 Logistics Management.....	45
3.2.2.4 Disposal Management.....	46
3.2.2.5 Supply Chain Performance.....	46
3.2.2.6 Risk Management.....	46
3.3 The Constitution of the Republic of South Africa Act 108 of 1996 (Republic of South Africa, 1996)	47
3.3.1 Background.....	47
3.3.2 Interpretation of the Procurement Clause	48
3.4 The Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999).....	52
3.4.1 Background.....	52
3.4.2 Application of relevant sections of the PFMA.....	52
3.5 National Treasury Regulations.....	55
3.5.1 Background.....	55
3.5.2 Application of the National Treasury Regulations.....	56
3.6 Other Applicable Laws.....	59
3.6.1 Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South Africa, 2000).....	59
3.6.2 Broad-Based Black Economic Empowerment Act 53 of 2003 (Republic of South Africa, 2003)	59
3.7 Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003).....	60
3.8 Institutionalisation of SCM	61
3.9 Summary.....	62

CHAPTER 4: A CASE STUDY ANALYSIS OF ETHEKWINI MUNICIPALITY 64

4.1 Introduction..... 64

4.2 EThekwini Municipality: A Case Study 65

4.2.1 General overview of eThekwini Municipality 65

4.2.2 EThekwini Municipality Draft Integrated Development Plan 67

4.2.3 SCM Practice at eThekwini Municipality 69

 4.2.3.1 Compliance requirements 69

 4.2.3.2 EThekwini SCM objectives and plan 71

 4.2.3.3 EThekwini SCM processes 72

4.2.4 EThekwini Municipality’s SCM Policy 73

4.2.5 Targeted Procurement Policy 74

4.2.6 EThekwini Code of Conduct for procurement 75

4.2.7 Treasury Regulations reporting requirements for eThekwini Municipality 76

4.3 Analysis of the Current Status of SCM practices and Adherence to Transparency 76

4.3.1 Annual reports 77

4.3.2 Audit reports 78

 4.3.2.1 EThekwini Municipality 2010/2011 audit report 78

 4.3.2.2 Summary of evidence of 2010/2011 SCM audit queries 79

 4.3.2.3 EThekwini Municipality 2011/2012 audit report 80

4.3.3 Media statement by the MEC for KwaZulu-Natal COGTA 81

4.3.4 Speech by the MEC for KwaZulu-Natal COGTA 83

4.3.5 Speech by the Executive Mayor of the City of Durban 84

4.3.6 Presentation to Institute of Municipal Finance Officers’ (IMFO) Conference 85

4.4 Data analysis 86

4.4.1 Analysis of compliance with SCM legislation 89

4.4.2 Analysis of compliance with SCM policies 92

4.4.3 Analysis of compliance with SCM Regulations 96

4.5 Summary.....	100
CHAPTER 5: FINDINGS AND RECOMMENDATIONS	101
5.1 Introduction.....	101
5.2 Findings on the current status of transparency as an outcome in the SCM processes at eThekweni Municipality.....	101
5.2.1 Findings on transparency as an outcome of SCM.....	101
5.2.2 Findings of analysis of audit reports	103
5.2.3 Media statement by the MEC for KwaZulu-Natal COGTA	104
5.3 Findings on tools to measure transparency in SCM.....	105
5.3.1 Findings on tools to measure transparency in the Supply Chain Management at eThekweni Municipality.....	107
5.4 Recommendations	110
5.4.1 Leadership.....	110
5.4.2 Compliance with SCM legislation, policies and regulations	110
5.4.3 Training of SCM staff	111
5.4.4 Implementation of e-procurement.....	111
5.4.5 Strengthening of internal controls.....	111
5.5 Conclusion	112
6.1 List of Reference.....	114

LIST OF ABBREVIATIONS

AG	Auditor-General
BAC	Bid Adjudication Committee
BBBEEA	Broad-Based Black Economic Empowerment Act 53 of 2003 (Republic of South Africa, 2003)
BEC	Bid Evaluation Committee
BEE	Black Economic Empowerment
BSC	Balanced Scorecard Model
BSC	Bid Specification Committee
CAPMON	Capital Projects Monitoring System
CFO	Chief Financial Officer
COGTA	Co-operative Governance and Traditional Affairs
DORA	Division of Revenue Act 6 of 2011 (Republic of South Africa, 2011)
EMM	Ekurhuleni Metropolitan Municipality
EXCO	Executive Committee
GDP	Gross Domestic Product
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
KZN	KwaZulu-Natal
LGB	Local Government Bulletin
MEC	Member of the Executive Council

MFMA	Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003)
PAIA	Promotion of Access to Information Act 2 of 2000 (Republic of South Africa, 2000)
PAJA	Promotion of Administrative Justice Act 3 of 2000 (Republic of South Africa, 2000)
PFMA	Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999)
PPPFA	Preferential Procurement Policy Framework 5 of 2000 (Republic of South Africa, 2000)
QMS	Quotes Management System
REA	Resource-Event-Agent Model
RSA	Republic of South Africa
SCM	Supply Chain Management
SCMCP	Supply Chain Management Council of Professionals
SCOR	Supply Chain Operations Reference Model
SOP	Standard Operating Procedures
UN	United Nations

LIST OF ILLUSTRATIONS

LIST OF FIGURES

Figure 1: The integrated supply chain framework.....	20
Figure 2: Public sector supply chain management framework.....	23
Figure 3: A supply chain model.....	25
Figure 4: Anticipatory Business Model.....	26
Figure 5: Responsive Business Model.....	27
Figure 6: Sub-processes in a supply chain cycle.....	30
Figure 7: EThekwini Municipality’s strategic priority areas.....	68
Figure 8: Transparency as an outcome indicator in SCM process at eThekwini Municipality.....	102

LIST OF TABLES

PAGE

Table 1: Applicable laws governing SCM processes at eThekwini Municipality.....	61
Table 2: Analysis of the 2010/2011 AG report.....	79
Table 3: Analysis of the 2011/2012 AG report.....	80
Table 4: Analysis of the presentation at the IMFO Conference.....	85
Table 5: Analysis of compliance with SCM legislation.....	89
Table 6: Analysis of compliance with SCM policies.....	92
Table 7: Analysis of compliance SCM regulations.....	96
Table 8: Findings on Tools to Measure Transparency in SCM at eThekwini Municipality.....	107

CHAPTER 1: BACKGROUND

1.1 Introduction

The study emanates from the 2011/2012 local government audit outcomes which were reported to be worsening and these findings raised serious concerns about deterioration of financial management in municipalities (Business Day Live, 2013). According to the South African Minister of Co-operative Governance and Traditional Affairs (COGTA), out of 278 municipalities, only nine had clean audits, with three of these being in the Western Cape. The Minister also reported irregular expenditure to the value of R9.82 billion and fruitless and wasteful expenditure reaching R568 million which is more than double that of the previous year. These audit outcomes are an indication that local government financial management is regressing and they paint a gloomy picture of possible achievement of the goals of the government's "Operation Clean Audit 2014" launched by the previous Minister in 2009. The overall aim of the programme is to 'clean up governance and enhance service delivery at both local and provincial levels of government' (Local Government Bulletin, 4) (LGB). Primarily, "Operation Clean Audit 2014" seeks to ensure that none of the municipalities of the Republic has either a disclaimer or an adverse audit opinion. Ultimately, the operation seeks to ensure that all municipalities have clean audit reports in 2014, with the view that there will be no qualified audit reports received across the board.

For the purpose of this study, it is imperative to use the AG's reports as the primary indicator and reliable tool to verify whether the operation has achieved its goals or not. It should be noted that one of the key audit issues identified by the AG, was the issue of non-compliance with SCM regulations by municipalities (LGB, 4-6). It is evident that the reported transgressions of SCM regulations raise concerns whether a carefully constructed system of procurement is followed, which is done in a manner that is "*fair, competitive, equitable, cost-effective, and transparent*" (Bolton, 2007:10). This concern consequently triggered a particular interest in transparency as one of the principles of governance which plays a significant role in ensuring that public officials diligently fulfil their role of equitable delivery of essential services to citizens.

Another important area of interest in this particular study emanates from the statement by the Mayor of eThekweni, Councillor James Nxumalo, who reported that eThekweni Municipality is a step closer to achieving a clean audit (eThekweni Metro Newspaper eZasegagasini,

2013:1). The audit outcome of the 2011/2012 financial year of the Municipality showed significant progress as it maintained an unqualified audit (with other matters). The Mayor attributed these results to strengthened oversight austerity measures which have significantly reduced irregular expenditure. This audit outcome is very welcome since the statement by the former Municipal Manager, Mr Sutcliffe and the former Chief Financial officer (CFO), in respect of the 2009/2010 audit report indicated that there were concerns regarding compliance issues and SCM processes in the eThekweni Municipality (eThekweni Municipality, 2011). According to the statement, the AG's report raised the issue of SCM irregularities. On the contrary, the statement argues that the Municipality's SCM framework is "tight" and the process of approval of tenders could take up to six (6) months. This undoubtedly negatively impacts on service delivery. Even though the Municipality has come up with innovative ways of shortening the turnaround time by setting up a panel of suppliers from which the Municipality could appoint a supplier without going out to tender each time a procurement need is generated, the AG strongly discouraged the practice.

It is against this background that this study is being conducted to critically analyse the SCM processes with particular focus on transparency as one of the important governance principles underpinning effective running of the public sector SCM, especially the eThekweni Municipality which is an institution at the local sphere of government.

1.2 Preliminary literature review

The literature review of the study focuses extensively on the body of knowledge in the area of governance interlinked with financial management. This will be achieved by examining the published literature on the concept of SCM, its theoretical developments and definitions, critical factors that influence successful SCM processes, the legal framework governing proper functioning of SCM and importance of SCM in the South African public sector. The considerations of different authors on SCM practices are explored with the view of enhancing proper functioning of public sector finance management while borrowing ideas from the private sector, which has extensively studied and developed the concept and practice of SCM.

1.2.1 Conceptual framework of SCM in brief

The concept of SCM has its origins in the private sector since the beginning of the 1980s (Alfalla-Luque and Medina-Lopez, 2009:202). This view is supported in business literature which regards the definition of SCM as the control of materials, information and finances as

they move in a process from supplier to manufacturer to wholesaler to retailer to consumer (Ambe and Badenhorst-Weiss, 2011:1101). Alfalla-Luque and Medina-Lopez (2009) agree with this early definition and regard SCM as playing an important role in production whereby companies have to use a supply chain in allowing for acquisition and storage of raw material; and storage and distribution of end products. These early definitions are an indication that the concept emanated from the proper convergence of materials during the production process to the stage in which products reach suppliers and consumers. Hugo, Badenhorst-Weiss and van Biljon (2004:3) provide extensive literature on the emergence of the concept of SCM and share similar views with the other two authors in clarifying that the concept evolved from functional areas such as marketing, finance and operations (production) management.

Hugo et al. (2004:5) contend that the definition of SCM though, not universally accepted but with no contradictions to other views, to be a new approach which aims to optimally achieve enhanced customer service and provide an organisation with a competitive advantage to efficiently provide services. By implication this definition clearly encompasses the elements of competition in the rendering of services to meet customer needs.

Ambe and Badenhorst-Weiss (2011:1100-1101) have brought an exciting variation into the study of SCM by exploring supply chains in the public sector while making reference to the private sector as the point of departure. Ambe and Badenhorst-Weiss (2011:1104) are of the opinion that public sector SCM is of strategic importance in ensuring that improved efficiency and value for money are achieved when a particular public organisation seeks to perform procurement functions. The real added advantage of SCM is derived from the competitive process, which contributes to the lowering of costs for the organisation in delivering a service, leading to savings that can be left to be diverted to other basic services. By integrating SCM in the public service, it plays the critical role of optimal logistical support and improved management of secondary inventory with the ultimate goal of achieving efficient financial management (Essig and Dorobek, 2006 cited in Ambe and Badenhorst-Weiss, 2011:04).

The study will further highlight the progress that has been made by the South African local government institutions, being the sphere of government closest to the people, which play a significant role in ensuring that public resources are used efficiently as required by legislation. The legal framework governing how the municipalities should provide these basic

services to the community prescribes the important financial management standard for ensuring proper financial control and administration of processes.

In order to properly understand the development of the concept of SCM in the context of the South African public sector and its elements, it is crucial that a case study conducted by Ambe and Badenhorst (2011:1106-1112) be used as a point of reference relevant to this particular study. This covers SCM and its elements, namely, demand management; acquisition management; logistics management; disposal management; risk management; and supply chain performance.

1.2.2 Transparency as a conceptual framework

The above discussion has alluded to the fact that public institutions and public officials have a responsibility to efficiently use resources allocated to deliver basic services to the people. Ababio (2007:4) advises, that in fulfilment of this fundamental role, the public officials and institutions should adhere to effective public sector governance. Among other things, this view promotes the notion of having public officials being accountable to the public as a form of representative democracy (Ababio, 2007:4). In essence this breeds the belief that official decisions and activities in the public sector should be done in a manner that captures various stakeholders' interests, this is best achieved through transparency.

Transparency International provides a definition that captures a clear meaning of transparency whether in the public or private sector, and regards this concept to be "*a principle that allows those affected by administrative decisions, business transactions or charitable work to know not only the basic facts and figures but also the mechanisms and processes*" (Transparency International, 2011). This means that transparency does not simply refer to openness or allowing for access to information to those who need it, but demands that those entrusted with important administrative roles with a potential of adversely affecting the output aimed by certain programmes, must act accordingly. Furthermore, Kakumba and Fourie (2007:4) cited in Ababio (2007:5) are of the view that transparency involves undertaking official decisions and activities that take into consideration stakeholders' interest; adherence to ethical and professional standards and regulations; and accounting to the public by providing feedback and information.

For the purposes of clarity it is imperative that the legislative framework be discussed together with different definitions of transparency. Furthermore, in the context of governance,

obstacles to transparency need to be identified and indicators defined that could be used to assess transparency in local government.

1.3 Research problem and objectives

The growing concerns around municipal governance in recent years and the continued debates about effective governance have become a priority in many public institutions in South Africa, for a number of reasons including perceptual factors such as decision-making, transparency, public participation, and consultation. Netswera and Phago (2011:131) identify the challenges of municipalities in failing to adhere to effective governance standards and argue that this has a negative impact on service delivery. In view of this argument it is clear that certain indicators and indices are needed to monitor governance modes in government processes or programmes that are implemented to meet service delivery needs.

It is therefore imperative that an in-depth study be done to answer this research question: **To what extent does the Supply Chain Management process at eThekweni Municipality adhere to transparency?**

The objectives of this study are to identify if transparency could be used to measure proper functioning of SCM processes; to investigate how financial transparency influences the functioning of SCM processes; and to make recommendations (if any) on transparency in the SCM at the eThekweni Municipality.

1.4 Research design and methodology

In order to properly explore the research problem in the study of the eThekweni Municipality, a non-empirical research design was used to obtain secondary data that afforded the researcher the opportunity to intensively research this individual case and produce enough analytical evidence to answer the research question. According to Mouton (2001:175) non-empirical studies can assist in analysing different views and dynamics of concepts. In this instance, the case study assisted in clarifying and elaborating on the different theoretical and conceptual views of SCM and how it has developed into a distinctive concept.

The case study follows an ethnographic research technique by ascertaining the insider perspective of the SCM process at eThekweni Municipality (dependent variable). The research is qualitative in nature and involves conducting an intensive analysis of SCM processes with specific focus on transparency (independent variable) which is measured

through analysis of documentary sources in a form of public records, reports, media statements, government documents, and opinions. According to Mouton (2001:149) a case study can be typically applied in studies of organisations such as this municipality due to its comparatively small size. Cooper and Schindler (2001:140) concur and are of the view that a case study is of benefit in acquiring in-depth knowledge. It also provides valuable insights that can assist in problem-solving.

1.4.1 Data collection

Qualitative data was used for the purpose of exploring the research question in the form of a case study. The advantage of using a case study was that it placed more emphasis on the contextual analysis of a specific concept being studied (Cooper and Schindler, 2001:137). Therefore, the use of qualitative data is appropriate to prove if eThekweni Municipality's SCM processes adhere to transparency or not. In this case, for the desired results, SCM processes were extensively investigated without attempting to gather responses from the Municipal officials and other stakeholders involved in decision-making and other SCM related functions.

Data was collected by securing of multiple sources of information such as the policies, regulations, and legislations. The data gathered from COGTA, the Municipality's website and electronic media provided sufficient evidence to conduct an analysis. Other supplementary documentary sources which provided the insider's perspective of SCM processes at the eThekweni Municipality that were used included Standard Operating Procedures (**SOPs**) and the updated Integrated Development Plan (**IDP**). The analytical evidence gathered entailed Municipality's consolidated annual reports, Treasury reports, and audit reports from AG's office, speech and media statement by the KwaZulu-Natal MEC for COGTA and the Mayor of eThekweni Municipality which are all public documents that made it possible to assess the trends since the launch of "Operation Clean Audit 2014". These crucial documents were evaluated to investigate if indeed transparency had been adhered to in respect of SCM processes.

1.4.2 Document analysis

Primary data was collected by internal municipal officials or external stakeholders such as the AG's officials. In this case study the aforementioned will serve as secondary data. These documents are sufficient for an analysis around the degree of transparency in SCM. Welman,

Kruger and Mitchell (2005:151) suggest using content analysis as a method to investigate a specific concept when documentary sources such as mass media, for example, newspaper articles are analysed. This secondary data from documentary sources is critically analysed to identify inconsistencies, loop holes and “red flags” in comparison with the legal, policy and regulatory framework governing SCM processes. Cooper and Schindler (2001:139-141) are of the view that this type of document analysis assists in reviewing prior investigations or studies and methodologies that were able to determine the success or failure of the concept being explored. Furthermore, the findings of the previous studies that were not given attention in the past due to unfavourable conditions may offer opportunities for further study.

1.5 Outline of chapters

The chapters will be outlined according the chronological stages of the research process as follows:

Chapter one: The introduction: This is an overview of the entire project and specifically details how the study is going to be conducted by describing the research problem and objectives, research design and methodology.

Chapter two: SCM and Transparency: A literature study starting by systematically introducing the concept of SCM, definitions, theoretical views and developments, selected models, SCM processes and outcomes and the concept of transparency.

Chapter three: SCM policy and legal framework by providing an in-depth view of the concept of SCM in South Africa, policy, legislation, regulations, perspectives and institutionalisation.

Chapter four: A case study analysis of eThekweni Municipality, orientation, theory and legislative framework. Exploring how the Municipality deals with SCM and Transparency by reviewing consolidated annual reports, AG’s reports, speech and media statement by KwaZulu-Natal MEC for COGTA and the speech by the Mayor of eThekweni, and the analysis thereof is conducted to establish an improved understanding of challenges faced by the municipality.

Chapter five: Findings, recommendations of how the *status quo* can be improved and a conclusion.

1.6 Summary

The study pertains to some of the identified causes of financial management and governance issues at local government. These concerns are raised by the Minister of COGTA in the audit outcomes which confirm that municipalities are not applying stringent controls to prevent irregular, fruitless and wasteful expenditure. This audit outcome indicates that only nine of the 278 municipalities received clean audits in the 2011/2012 financial year and this poses a challenge in attaining the goals of “Operation Clean Audit 2014”. The financial mismanagement and good governance issues identified by the AG emanated from SCM irregularities. These findings prompted an interest in investigating transparency as one of the outcomes of effective, efficient and economical SCM.

The study therefore focuses on transparency in SCM at local government and a case study of eThekweni Municipality is used since it is one of the biggest metropolitan municipalities in South Africa. In order to further investigate the concept of SCM, a preliminary literature review of the theoretical framework and developments of the concept of SCM from the private and public sector perspectives are explored. Thereafter an independent viewpoint of existing literature on transparency which explores the meaning and theoretical views of this principle of good governance is discussed. The importance of transparency is highlighted as one of the indicators of sound financial management which makes the rationale of conducting this study relevant.

External stakeholders are creatures of statutes and by law they are mandated to gather primary data in the form of financial statements and reports. Municipalities also build records. Thus the tools for measuring transparency in SCM would be secondary data collected internally at the municipality and externally from stakeholders. They would be pivotal to answering the research question. The evidence obtained from the documents analysed is tested against applicable legislations, policies and regulations to establish the extent to which SCM processes at eThekweni Municipality adhere to transparency.

The research findings indicate that there are discrepancies in the manner in which the municipality’s SCM processes are conducted and these are caused by failure to comply with SCM legislation, policies and regulations which have resulted in procurement irregularities being internally investigated and externally reported by the AG. The study further reveals that lack of transparency in SCM resulted in the municipality incurring irregular expenditure as a

result of municipal officials, councillors, stakeholders and companies in the employ of the municipality failing to disclose interest. The use of specific indicators to measure transparency as an outcome of SCM provides an effective tool to establish the extent to which transparency is adhered and these findings create an opportunity for future studies in developing more indicators for effective implementation of SCM.

The recommendations made, therefore provide possible solutions for correction of the identified discrepancies or systemic gaps to improve the SCM processes and hopefully assist the Municipality in achieving a clean audit by 2014.

CHAPTER 2: SUPPLY CHAIN MANAGEMENT AND TRANSPARENCY: A LITERATURE STUDY

2.1 Introduction

The aim of this chapter is to discuss in detail the concept of Supply Chain Management including its definitions, theoretical views, selected SCM models, processes and outcomes. This discussion begins by giving an insight into the evolution of the concept of SCM and its importance in procurement of goods and/ or services on behalf of a private or public authority. It further details how SCM has contributed to securing inputs and key resources to meet the needs of the wider society. This is achieved by exploring how SCM works and how strategies are implemented to increase efficiency and cost-effectiveness.

The literature study further makes reference to the intended results of SCM by showing the value it adds to the company as a whole and to the recipients of services. The concept of “value for money” is further discussed to highlight how supply chains respond to customer needs and the cost factors compared to the worth of the final product versus the cost incurred in making the product.

The views of different authors are captured to create a greater understanding of the concept of SCM and its different definitions to identify fundamental similarities or differences. These different views are consistently checked for key elements of processes that supply chains utilize to provide quality products to meet specific customer needs in an efficient and cost-effective manner. This is achieved by exploring the SCM theoretical framework and the different models that depict simplified representations of the internal processes that complete a cycle of how organisations respond to the industry demands in order to meet their goals.

The chapter is concluded by giving an in-depth discussion on SCM outcomes which are guiding principles that encourage good decision-making, deter corruption and ensure value for money. Linked to this discussion is an emphasis on the principle of transparency which serves as a prerequisite in ensuring that accountability and integrity are maintained in SCM processes. This discussion further explores definitions of transparency and its theoretical overview in relation to the public sector and private sector perspectives.

2.2 The importance of the concept of SCM

In recent years organisations are increasingly focussing on strategies that are aimed at optimising performance of their operations and internal processes in trying to meet customer demands by efficiently utilising resources and increasing value for money. It is in this perspective that SCM has re-shaped the manner in which organisations operate and has immensely contributed to delivery of valuable services and/ or products to customers by achieving product availability, flexibility, cost-effectiveness and quality (Chopra and Meindl, 2007:23-26; Hugo et al. 2002:30,31). In essence SCM ensures that increased efficiency, effectiveness and competitiveness occur to achieve the best outcomes.

This implies that for organisations to be able to thrive and be effective, they have to implement strategies and methodologies to improve performance. These compelling circumstances in implementation of SCM practices do not only create a continued supply base and suppliers that understand customers, but ensure that product sustainability is achieved. Hugo et al. (2002:30,31) are of the view that SCM plays a significant role in creating value to customers, product availability at reduced costs, delivery of processes that are integrated to achieve optimal performance, and improved responsiveness in meeting customer demands. These considerations will be explored further in discussions relating to SCM models, processes and outcomes.

These considerations have prompted more private and public organisations to develop SCM practices aimed at ensuring that the relationship between organisations, suppliers and customers and the interrelated processes within are initiated to increase economic viability and sustainability. It is therefore evident from this discussion that the concept of SCM has significantly contributed to improving the manner in which resources are utilised to deliver quality services to customers. However, the cost implications in rendering these services are an area of concern, especially when the aspect of value for money should be strictly maintained. Hence the following discussion will explore the value that SCM adds to the wider society and the specific public or private authority.

2.3 The value SCM adds to an organisation

In light of the above discussion it is clear that SCM adds value since it fundamentally enables the buyer-supplier relationship to thrive in order to achieve quality, delivery performance, flexibility and the ability for supply chains to work together. These are typically determined

by coordination of activities in the material/ or product flow within the supply chain. Hence according to Swaminathan, Smith and Sadeh (1998:611), SCM has significantly improved performance measures of companies during transformation of materials and/ or products.

Chopra and Meindl (2010:22) concur and are of the view that supply chain maximises overall value in an organisation. This is based on the actual value created through supply and demand, whereby a relationship exists between the worth of the final product and its worth to the customer compared to the actual cost incurred by supply chains in responding to the customer needs. However, the success of a supply chain is closely connected to the success of the management of the supply chain flows.

This point of view, according to Chopra and Meindl (2010:37) is indicative of the ability of an organisation to respond to the specific needs of customers by creating a competitive advantage through the quality of products and services it provides. Hence SCM adds value to the organisation by improving responsiveness, convenience, availability and the quality of products at an affordable price.

Hugo et al. (2002:29) agree with the other authors and point out that SCM does add value through transformation of a product and/ or service that has commercial advantage compared to the actual costs involved in the process of creating and providing this product by a specific organisation. In trying to provide more clarity to this statement, Hugo et al. (2002:29) mention that if there are any internal processes that incur costs in material flow, they should be excluded in order for value to be maintained.

Bowersox, Closs and Cooper (2007:79) point out that in a competitive environment, organisations would continue to flourish if they provide quality products and services. The factor that determines this success is the ability of that product's durability and performance compared to how it is designed to perform. In essence SCM creates opportunity for organisations to go beyond focussing more on buyer-seller operations, but more on sustainability. However, Hugo et al. (2004:118,119) consider the role of the customer to be central in the value chain of SCM and not merely the provision of an exceptional service or product. The authors identify the fact that customers perceive value to involve promotion of value by a company through the quality and price of the product which ultimately meets specific customer requirements. This in essence confirms that the complex relationship

between customers as the recipients of services and the supply chain activities, functions and processes is driven by the concept of value which should take place across all SCM stages.

This view clarifies the intended results of SCM which prompts a key interest in exploring the meaning of SCM and how it is perceived by different authors in both private and public sectors. The following section will therefore provide a thorough review of definitions of SCM beginning with industry-specific views to a broader and more encompassing view.

2.4 SCM defined

The above discussion puts into perspective the importance of implementing SCM practices within an organisation and the value they add. It, therefore, is imperative that definitions of the concept of SCM are explored with the view of determining the underlying similarities and differences shared by different authors.

It should be pointed out that the concept of SCM has been a subject of interest in many published private sector pieces of literature with the view of establishing its distinctive features and dynamics. This led to a focus on a number of definitions by different authors. These definitions capture the processes in different fields that are a subject of study and may not necessarily be universally accepted. However, the widely shared view of SCM definition is cited in Stock (2009:148) by the Supply Chain Management Council of Professionals (SCMCP) who believes that the concept:

“encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and logistics management activities”. The important features in this definition include “coordination and collaboration with channel partners, which could be suppliers, intermediaries, third-party service providers, and customers”.

In essence this definition indicates that SCM is not a simple process since it involves a myriad of planned and interdependent activities that take place in management of acquisition of goods and/ or services from the service providers, the actual delivery to the intended consumer up to the stage that they are disposed of. This process is made possible by the important relationships and partnerships that exist between the organisation requiring a service and the service providers, with both having shared interests in consumers.

This view is shared by Hanfield and Nichols (2002) cited in Alfalla-Luque and Medina-Lopez (2009:204) in defining SCM as:

“the integration of all the activities that relate to the flow and transportation of goods, including associated information flows, from raw materials stage right through to the end user by means of improved supply chain relationships, in order to achieve a sustainable competitive advantage”.

This definition captures the common elements that are identified by the SCMCP which involve integration of processes from the production stage to the final consumption stage, but further brings the intermediate logistical processes and, most importantly, the synchronisation of information in between the conversion phases. This implies that information sharing plays a pivotal role in proper integration of supply chains.

The common views shared by Stevens (1989) cited in Richardson and Snaddon (2011:156) indicate that SCM is a:

“system whose constituent parts include material suppliers, production facilities, distribution services, and customers linked together via the flow of materials and information”.

According to Stevens (1989) SCM begins with the manufacturing and conversion of raw materials to products that could be used for consumption by consumers and the linkages made possible by information-sharing.

According to Swaminathan et al. (1998:607), though not in disagreement with other definitions, view SCM to involve:

“a network of autonomous or semi-autonomous business entities collectively responsible for procurement, manufacturing and distribution activities associated with one or more families of related products”.

Essentially, the authors seem to capture a specific industry-related view of the concept of SCM since the emphasis is on the provision of the same product, but the definition in its entirety still recognises the acquisition of goods from the production stage to the stage where they reach the end-user. The existing literature on the subject of SCM has brought common

definitions that capture the dynamic processes of the different fields where supply chains are part of company strategies.

It should be noted that in the definition suggested by Nel and Badenhorst-Weiss (2010:200) it emphasises the role of the supply chains in material conversion and the relationship that ultimately has to exist between the organisation and the consumer of a specific product as follows:

“SCM consists of a set of at least three organisations directly linked by the necessary supply chain activities (or supply chain flows) between an organisation, a supplier to the organisation and a customer of the organisation”.

The noteworthy elements of this definition are the specific relationships that should exist for effective and efficient supply chains which are the views that are commonly shared by other authors.

The SCM definition that collectively includes all distinctive processes, activities, linkages and important role players (supply chains) in SCM is the one suggested by Stock and Boyer (2009) cited in Stock (2009:148) where the authors qualitatively analysed 173 unique definitions from literature published from 1985 to 2008 and agreed that the concept could be defined as:

“the management of a network of relationships within a firm and between interdependent organisations and business units consisting of material suppliers, purchasing, production facilities, logistics, marketing, and related systems that facilitate the forward and reverse flow of materials, services, finances and information from the original producer to final consumer, which benefits of adding value; maximising profitability through efficiencies, and achieving customer satisfaction”.

In essence this combination of the different elements of SCM is in agreement and consistent with views shared by other authors. It singularly recognises the specific processes and a full life cycle from the raw material stage and the transition to a product that could be used for consumption. This takes into consideration customer satisfaction and the value it is going to add to the desired consumer, the profit generated from demand and supply of a particular product to the disposal stage. It is evident from the different definitions that SCM as a

concept has been extensively studied though a consensus on the universal definition has not been reached, the common views on different industries still capture similar distinctive features. This brings us to the crucial part of this literature study which explores the SCM theoretical and conceptual developments from other early disciplines to what it has become in recent years.

2.5 SCM: Theoretical views

The definitions of the concept of SCM indicate that this approach is influenced by the discipline of logistics management and other authors are of the view that it is an extension of logistics and therefore, an understanding of its evolution to a distinctive concept is going to be explored in this discussion.

2.5.1 Evolution of the concept of SCM

The evolution of the concept of SCM began in the 1980s as a response to the changing nature of business. The interest in the field has since grown considerably with many researchers exploring and developing an understanding of the specific elements and functions associated with SCM. It is evident from the existing literature on theoretical advancement in the field that it is still an ongoing development. Notably, many definitions have been provided suggesting that there is indeed a lack of consensus on the precise definition due to the dynamic nature of the discipline. Also, conceptualising SCM in terms of the different dimensions, functions and elements informed by the available publications is an interesting development in the field.

According to Hugo et al. (2004:4), the advancement of SCM into a distinctive concept has been driven by the role companies played in developing optimisation techniques and strategies to address the growing demands of manufactured goods by customers. Many authors are of the view that SCM is a relatively new concept since it only emerged from other management functions in the past three decades (Hugo et al., 2002:29; Hugo et al., 2004:29). Hence there have been many articles and studies in various disciplines exploring different perspectives that might lead to the advancement of the theory of SCM. However, Stock (2009:148) is of the view that these advances are incremental as they tend to be industry-related to the exclusion of other key SCM functions. It, therefore, is essential to understand the important factors that contributed to the emergence of the concept of SCM by taking into consideration the early theoretical framework available in the private sector literature.

Hugo et al. (2004:3) are of the view that the changes in the nature of business have significantly contributed to evolutionary developments in management from the logistics, supply and purchasing functions to a well-defined concept of SCM. This implies that the field has advanced by clearly distinguishing the close-knit relationship that exists between logistics management and SCM.

The authors emphasise other inherent features of SCM to incorporate both internal and external company processes that lead to enhancement of customer satisfaction and increased reliance on effective information-sharing. Fundamentally, this is the basis that has made SCM the centre of every business strategy by allowing organisations to shift towards integrating management activities to meet customer needs (Pauw, Woods, van der Linde, Fourie and Visser, 2009:249; Stock, 2009:147; Raubenheimer and Conradie, 2002:55). This has significantly contributed to defining the concept through interlinked relations between suppliers and customers whereby the product being manufactured during internal processes adds value to the customers externally. Hence in recent times the integration of these relationships has played a fundamental role in optimal performance and sustainability of organisations. The higher the demand of specific products, the greater the competition between supply networks became.

In the past 10 years these developments have extended to the public sector whereby delivery of essential services has become central to government performance in meeting the needs of citizens (Pauw et al. 2009:249). As a result, the systemic activities integrated in SCM have become vital in identifying the specific needs of the wider society. These use innovative methods to achieve provision of basic services by competing service providers to create a cost advantage to the organisation. Therefore, the literature that exists indicates that the major determinants of improved and effective supply chain in the public sector are influenced by the quality of service provided in meeting expectations of citizens and the greater the control in management of state resources (Ambe and Badenhorst-Weiss, 2011:1100,1101). However, a few advances in studying the concept of SCM have gained interest in public procurement systems as compared to the majority of literature that extensively covers private sector systems and international organisations. It is imperative that this relationship be further explored in the following discussion, by identifying the critical factors of SCM that are beneficial in cost-minimisation considerations and alignment of activities via information

flow in an organisation. These will be achieved by highlighting the important theoretical developments of the concept of SCM.

2.5.2 Important theoretical developments of the concept of SCM

The evolution of SCM to a distinctive concept has contributed immensely to the manner in which companies respond to industry demands. Therefore it is important that the theoretical views on relationships between organisations, suppliers, customers and internal processes or drivers are discussed. The aim of this discussion, therefore, is to capture the early developments which helped define SCM and the general views that have been observed in recent years.

An important contribution in developing the discipline into a recognised concept was made at Booz Allen Hamilton in the early 1980s when discussions exploring a strategy to combine internal business functions of purchasing, manufacturing, sales and distribution were initiated (Alfalla-Luque and Medina-Lopez, 2009:204). This significant contribution is mentioned by Stock (2009:147) to have been specifically made by Keith Oliver, a management consultant at Booz Allen Hamilton in 1982. This advancement suggests that companies needed to develop a comprehensive strategy to address the challenges that existed and change the manner in which business was conducted. Swaminathan et al. (1998:610) are in agreement that the philosophies were informed by emerging and growing trends in the nature of business. This idea matured when Houlihan (1985) incorporated information-sharing and coordinated decisions across all levels and from top to bottom in a supply chain (Alfalla-Luque and Medina-Lopez, 2009:204). This in essence indicates that prior to the introduction of a comprehensive strategy; there was lack of proper coordination and integration to sustain companies in response to demands.

According to Alfalla-Luque and Medina-Lopez (2009:210) the company demands grew in the 1990s drawing an increased interest in SCM as it took centre-stage in business strategy in many organisations. This period was marked by further advancements in which SCM became a business practice whereby organisations considerably gained a competitive advantage as a result of synchronisation of information-sharing and materials flow across all levels (Alfalla-Luque and Medina-Lopez, 2009:210). It is evident that for organisations to thrive under pressure from customer demands, strategies had to be derived to streamline supply chain activities with organisations' objectives. This view is shared by Nel and Badenhorst-Weiss

(2010:198) that SCM plays a crucial role in creating organisations' competitiveness in responding to customer demands. Richardson and Snaddon (2011:157) concur and are of the view that a company should develop a strategy that gives it a competitive advantage in the market. This implies that the ability of the organisation to compete is advantageous and strategically important in responding to external industry pressures.

Nel and Badenhorst-Weiss (2010:198) further state that this business strategy is vitally important in ensuring supply chain efficiency as it includes the components that are involved in the production process and collaboration of relationships through planning and information-sharing across all stages. It can be equivocally stated that the efficiency and effectiveness of processes in the materials flow is through proper collaboration within the chain, with each component being the part of a chain involved in the conversion of raw materials to end products suitable for consumption.

The philosophical view by Nel and Badenhorst-Weiss (2010:199) in suggesting that SCM is based on the relationships between organisations, their suppliers and their customers in fulfilling the role of customer satisfaction is an integral part of the concept. As a result the suppliers appear to be the important industry players when taking into consideration their role of manufacturing a product that will ultimately be used by customers.

Naude and Badenhorst-Weiss (2011:281) also point out that SCM is not made of separate entities, but is an approach that integrates and combines businesses, supply chain activities and a network of facilities into a single system to achieve efficiency. The building blocks of this integrated system are the relationships between individual suppliers, organisation and suppliers (first tier, second tier, and third tier - based on contractual obligations), and organisation and customers. This implies that there needs to be linkages directly or indirectly connecting the key components of the supply chain to achieve the desired results. According to Naude and Badenhorst-Weiss (2011:281) these key integral parts are the suppliers, manufacturers, warehouses and stores. These relationships come into effect, according to Ambe and Badenhorst-Weiss (2011:1102), by integration of supply and demand management within and outside of the organisation. This view is not contradictory, but gives a closer look at the specific functional (inter- and intra-organisational) activities involved in successful SCM processes. This appears to be a complex topic since it seeks to underpin the linkages between different components of SCM and therefore will require that it be approached

practically by a simplified representation in a form of an integrated framework as illustrated in figure 1 (Bowersox et al., 2007:6).

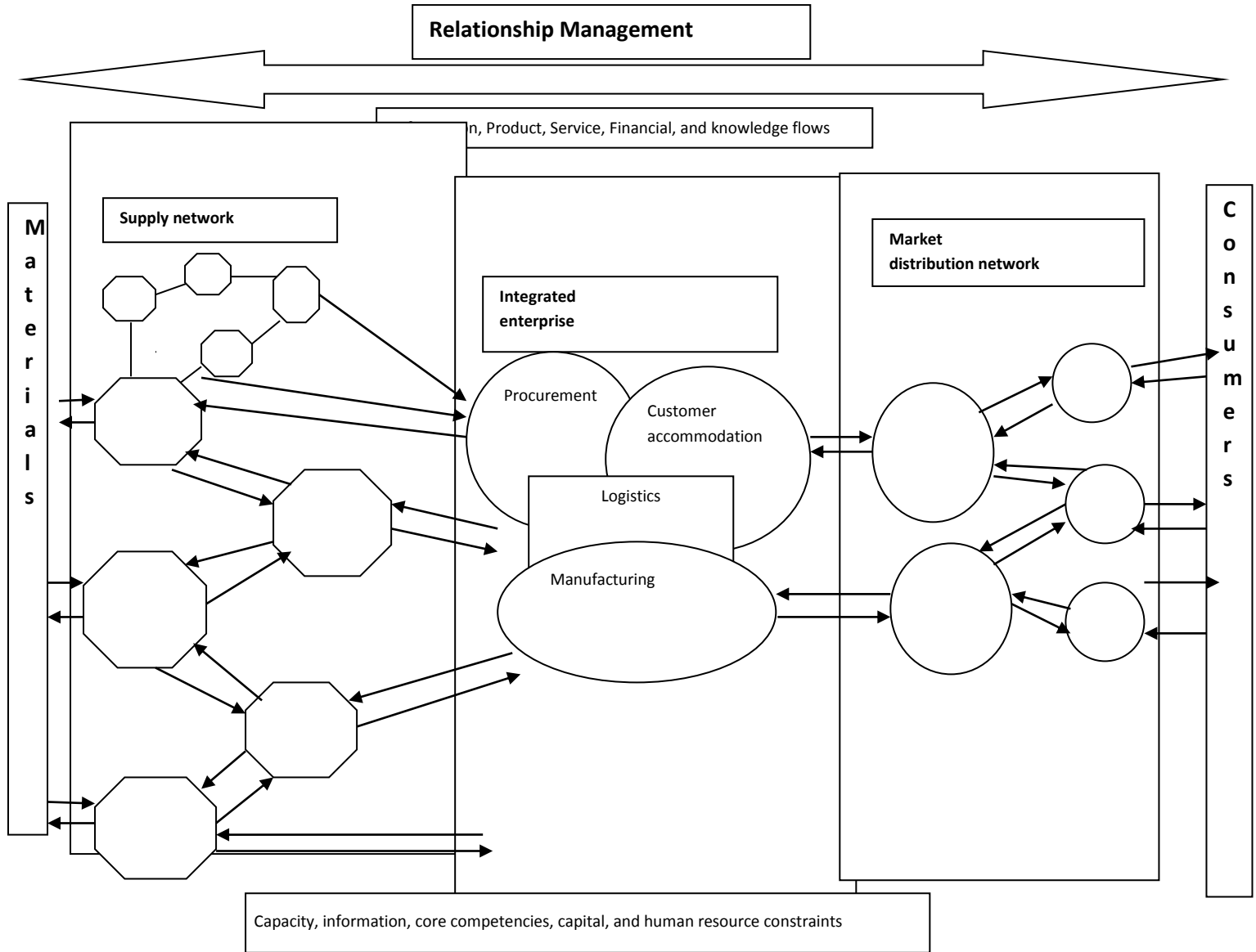


Figure 1: The Integrated Supply Chain Framework

This practical representation of a somewhat complex integration of different components that make up a complete chain of interrelated linkages of SCM cannot be limited to the private sector, but this is a framework that could also apply to the public sector. This view is discussed in the following section of this literature study which explores important developments of SCM in the public sector.

2.5.3 Relevance of SCM developments in the public sector

The above discussion has significantly conceptualised SCM as the management philosophy that has contributed to organisational performance by creating a competitive advantage as the principle of supply and demand increases. This development has contributed to the public sector adopting the same principles as value for money has become the business of the day in government operations. It is in this perspective that the role of SCM is viewed as the solution to government operations that are aimed at equitable delivery of essential services to citizens and therefore forms an integral part of financial management.

The identification and prioritisation of government services is achieved by planning and coordination of activities as set out in predefined objectives in line with government's strategy. According to Ambe and Badenhorst-Weiss (2011:1102) the parties involved directly and indirectly with citizens in rendering essential services are vitally important in government's implementation plans. These parties include external suppliers that play an important role in purchasing of goods and services, the internal corporate services within the government department and external organisations (Pauw et al. 2009:249, 250). According to Ambe and Badenhorst-Weiss (2011:1102) the basic SCM steps involve planning, procurement (purchasing), stocking, and shipping of products. It should be noted that government supply chain is streamlined according to the different sectors as per government's delivery needs, for example, procurement of learning material in the Department of Education. This demonstrates that public sector SCM processes combine general financial practices such as budgeting, reporting and accounting with procurement, provisioning and asset management.

Nelson (1997:82) is of the opinion that the importance of government procurement processes is the benefit of best total cost due to the competitive nature in acquisition of goods and/ or services. Hence the availability of alternatives that are less monotonous and less bureaucratic to deliver services for government to meet customer (citizens) requirements is viewed as sound public policy. Nelson (1997:83) points out that government tends to rely on the skills from the private sector for supplying the required goods and services due to the guaranteed advanced technology, higher accountability and efficiency in performance of its duties.

However, Ambe and Badenhorst-Weiss (2011:1103) suggest that successful SCM is achieved when suppliers responsible for procuring goods and services are contractually bound in

fulfilling their obligations to government. From the South African perspective the processes that take place in government SCM involve cooperation of important parties involved in delivery of services according to South African National Treasury Regulations that provide guidelines for proper implementation of the SCM policy (Ambe and Badenhorst-Weiss, 2011:1103, Pauw et al.2009:250).

Similarly with private sector SCM, the government processes begin with an initial demand from citizens (customers) and the final provision of goods and services linked systematically and comprehensively by internal processes (Pauw et al. 2009:249). This implies that public sector SCM processes are integrated based on linkages and relationships of key role players. Ambe and Badenhorst-Weiss (2011:1103) agree with this view and add that this process is determined by specific selection criteria of service providers linked with procurement processes that are guided by good governance principles.

According to Pauw et al. (2009:251,252) public SCM has key elements that are 'linked based on flows in the supply chains from demand management, acquisition management, logistics management, disposal management, risk management and performance management'. The SCM Guide for Accounting Officers/ Authorities (Republic of South Africa National Treasury, 2004) provides a framework of public sector SCM as illustrated in figure 2. These elements are consistent with government objectives, legislative environment and related government policies which aim to optimise cost-effectiveness and efficiency in achieving the desired goals.

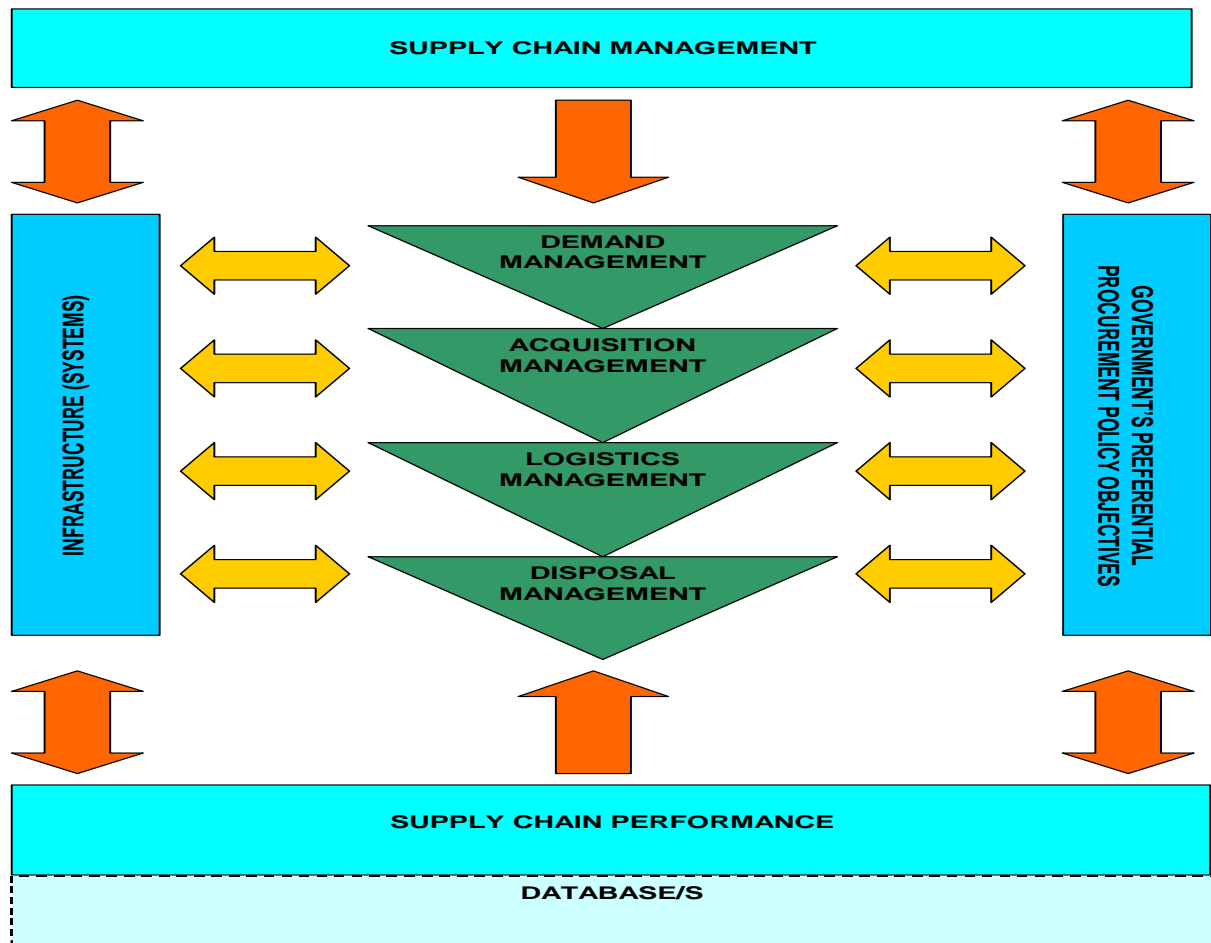


Figure 2: Public Sector SCM Framework

Conceptually the important initiator is the identification of the customer needs in the form of the public, citizens, and interest in public goods (Pauw et al. 2009:250; Ambe and Badenhorst-Weiss, 2011:1103). Determination of specific provision of services is conducted by selection of suppliers' supply chain or suppliers sub-contractors based on contractual obligations. In the South African context it is vitally important that this process is done in an open, fair, ethical and cost-effective manner as provided by SCM policies. Hence the SCM components are setup to capture the principles of good governance which ensure that the processes provide value for money, are transparent and fair, competitive, equitable and the responsible officials involved in SCM processes are accountable for their actions (Ambe and Badenhorst-Weiss, 2011:1103). Furthermore, the principles of good governance are important in ensuring that the processes from the stage when a need for goods and services is established through to entering into contracts with suppliers, receipt of goods from suppliers,

managing stock levels, authorization of payments to suppliers and issue of stock to users is upheld in accordance with criteria.

In essence public procurement puts at its centre the principles of good governance so as to make impact on its major stakeholders and the greater public. Based on this discussion, there are key underlying similarities that are observed in implementation of mechanisms to either respond to customer demands in the private sector and to meet the basic needs of citizens in the public sector. This literature study, therefore, will briefly give an overview of a few selected SCM models that practically show how organisations respond to external demands and display their ability to perform under pressure.

2.6 Selected models of SCM

The theoretical developments of the concept of SCM to a distinctive management concept have transformed the nature in which organisations or businesses perform traditional logistics and purchasing functions to enhancing customer service. In this regard, it is imperative to understand the complexity of the integration that exists between the activities, linkages and role players involved in the flow of materials to the point where value is added to the customer by making a simplified representation in a form of SCM models.

A significant number of SCM related articles and case studies have made considerable efforts to identify common processes in product flow within the supply chain and factors that influence development of supply chain models. According to Bala and Kumar (2011:28) there are different models that enable organisations' competitiveness and responsiveness to the changing business environment. The critical factor that determines effective and efficient supply chain is its ability to integrate activities that are designed to meet customer demands by involving the flow and transformation of goods from raw material stage, through to the consumer, synchronised with flow of information and funds (Richardson and Snaddon, 2011:156). The associated supply chain activities encompass four stages, namely, the supply network, the internal supply chain (manufacturing plant), distribution systems, and the customers (Nel and Badenhorst-Weiss, 2010:2010).

Hugo et al. (2002:29, 30) are of the view that the important stages that best explain the concept of a supply chain are depicted in figure 3. The authors point out that these interdependent upstream (sources of supply) and downstream linkages (distribution and

customers) together with processes and activities linked by information flow will ultimately ensure that value is shared across all functional stages of the chain.

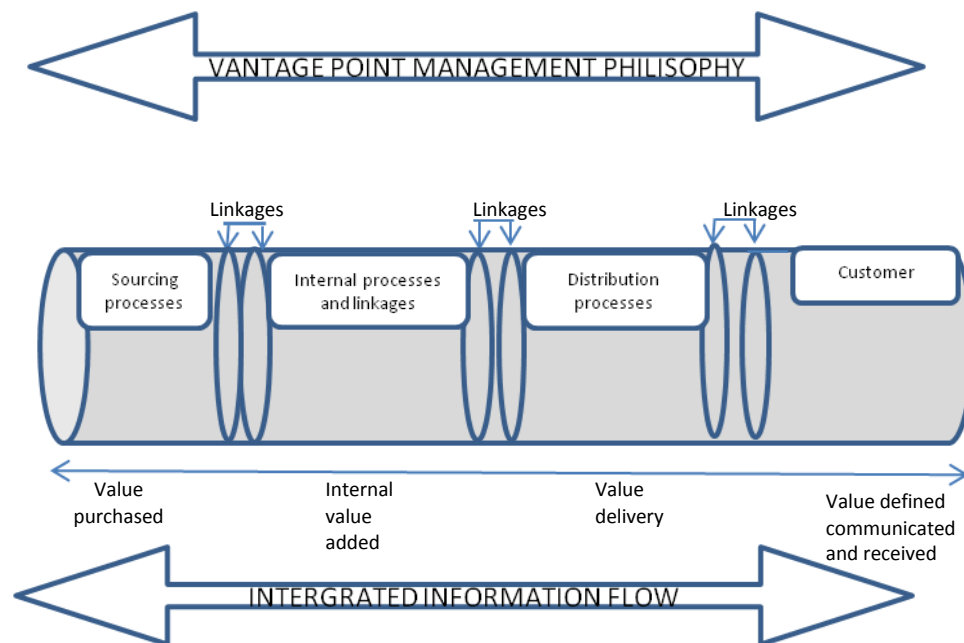


Figure 3: A Supply Chain Model

This model represents an integration of processes that should take place in an organisation to involve a “*customer-driven supply chain*”, which is a process predetermined by information that flows from the customer due to a demand for a specific product; “*efficient logistics*” which relates to the cost-saving measures on logistical arrangements to meet customer needs; “*demand-driven sales planning*” which is determined by the demand and supply factor; and “*lean manufacturing*” which mainly captures cost-saving measures during the manufacturing stage. Naude and Badenhorst-Weiss (2011:280) are of the opinion that it is in this context that the emergence of the concept is indeed due to the realisation that the relationship between customers and suppliers could optimally influence supply processes for beneficial results. In essence, this means that a deeper understanding of customer needs and the role that suppliers have to play in meeting the demands is crucial in improving supply processes. This is further explained by briefly giving an overview of supply chain responsiveness and the specific models that apply the approach which seeks to effectively meet the demands of customers as and when required.

2.6.1 Supply chain responsiveness

It has been mentioned that the coordination and integration of businesses in different stages of the supply chain is driven by the need to satisfy customers. However, the challenge that exists with this practice is ensuring that businesses in manufacturing and distribution of a product are able to effectively respond to the specific need while ensuring that coordination is maintained to prevent disruptive effects (Fayazbakhsh, Sepehri and Razzazi, 2009:27; Raubenheimer and Conradie, 2002:55,56). It is in this context that a discussion on the implications of responsive business models in comparison with traditional anticipatory models is elaborated on developments in supply chain management.

2.6.1.1 Anticipatory business model

This traditional business practice depends on anticipation of future demands of customers since there is lack of information sharing between companies relating to purchase behaviour, so business plans and therefore business operations are determined by forecasts (Bowersox et al. 2007:11). According to this business practice, manufacturing of products is determined by market forecast and wholesalers, distributors, and retailers rely on unique forecasts for purchasing purposes. The authors argue that this practice has flaws in as far as generating forecast results and this impacts negatively on inventory planning. The issue of unreliability of inventory results consequently leads to high cost and risk that is associated with the anticipatory model and this leads to the high levels of adversity between trading partners. According to Bowersox et al. (2007:11) the limitation of this model is that performance of essential work is based on anticipated future requirements as depicted in figure 4.

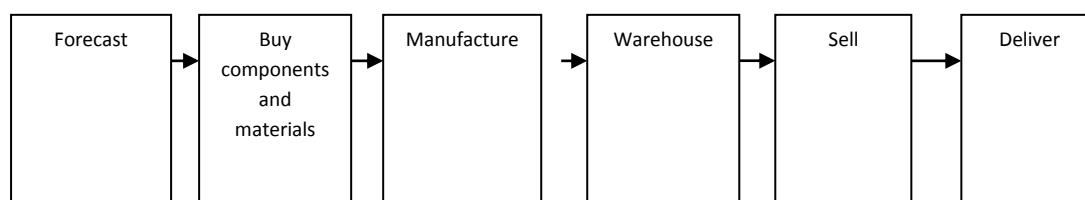


Figure 4: Anticipatory Business Model

2.6.1.2 Efficient (or Lean) Supply Chains and Responsive (or Agile) Business Model

The efficient and responsive supply chains are two distinctive approaches that are designed to address the company's market demands. According to Nel and Badenhorst-Weiss (2010:205)

responsive or agile business model is reactive to customer needs and exercises a greater degree of flexibility. This supply chain model is suitable for an environment in which the product life cycle is short and the quick response time is of the essence. Bowersox et al. (2007:11) concurs with this view and are of the opinion that the agility associated with this model is suited for low demand predictability and high forecasting errors leading to low inventory levels. Hence there is an emphasis on improved reaction time, quick delivery time, flexibility and a high degree of competitiveness of partners in the supply chain. Figure 5 depicts a responsive business model that focuses on delivery of a product based on customer demand (Bowersox et al., 2007:12)

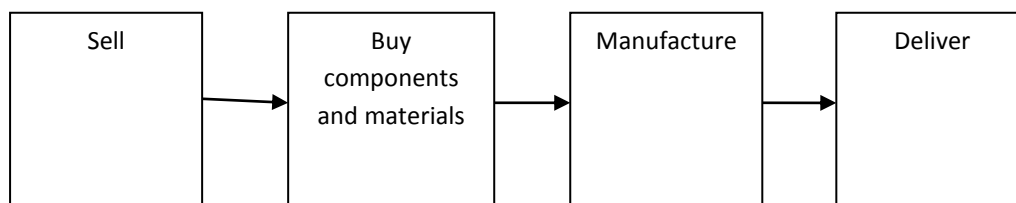


Figure 5: Responsive Business Model

An efficient or lean supply chain is designed to collectively reduce costs by ensuring that information-sharing, coordination of material flow and provision of services occurs between supply chains to maximise efficiency and competition (Nel and Badenhorst-Weiss, 2010:206). This model best suits an environment that is highly predictable, forecasting errors are reduced, longer product life cycles exist due to lack of frequency of new products and the emphasis is on high efficiency and value. Hence the design features of lean supply chains include cost-effectiveness and stability of material flows.

According to Nel and Badenhorst-Weiss (2010:207) there have been instances where both agile and lean supply chain strategies have been considered for use in combination as trade-offs of each other. This hybrid strategy can be adopted by companies as each individual approach is in competition with the other, but not the actual organisations and this is highly beneficial when the best features are complimented. Therefore, application of these models could reap benefits when a company is faced with a challenge of a high demand for manufactured products and has to derive a responsive strategy to counter the effect.

2.6.2 Operational performance models

Fundamentally, each one of the different stages of a supply chain could directly or indirectly be affected by lack of coordination and cooperation of individual role players and related linkages that might negatively impact on delivery of products. This brings into play an interesting dimension of operational performance models which focus on optimisation of performance and increased efficiency to satisfy customer demands within minimum costs. The literature indicates that there are many models that are available to analyse and measure performance of supply chain across all stages and activities. However, not all models can be assessed due to the extensive work that has been done in the field and the focus will be limited to a comparison of a few. According to Ericsson (2011:133) these models are based on the following attributes:

- *Optimisation, effectiveness and efficiency in processes that ensure an even flow in the supply chain.*
- *Standardisation, simplification, strict control and centrally planned activities in the entire chain.*
- *An integration of reliable management systems and fast performance of activities in line with the standards and norms.*
- *An integration and alignment of materials and information flows across all levels of the supply chain with the single goal focussed on customer satisfaction.* The examples include the following models:

2.6.2.1 The Resource-Event-Agent (REA) Model

The description of the REA is made in Haugen and McCarthy (2000) cited in Bala and Kumar (2011:28) and interlinks economic events across different firms, industries and nations. According to this model 'the distinctive features are links between individual activity-to-activity/ or agent-to-agent/ or person-to-person, not collectively from firm-to-firm'. This model is able to determine performance of supply chain in all stages and the specific links that identify a single activity. According to Bala and Kumar (2011:28) the advantage of using the REA is its ability to distinguish the specific characteristics of the relationships that exist between processes in a supply chain. However, this model has

limitations in terms of depth needed to define the functions of each process and key performance indicators related to supply chain strategies.

2.6.2.2 The Supply Chain Operations Reference (SCOR) Model

The SCOR model is best described by the Supply Chain Council (2011) cited in Bala and Kumar (2011:28) and involves ‘business process re-engineering, benchmarking and best practice analyses’. According to these authors the SCOR model can be used to assess and measure the activity involved in a hierarchical framework from top- and lower-levels of supply chain. The limitations of this model are its inability to address the areas of sales and marketing, human resources (training), product development and quality assurance, and information technology. Notably the SCOR model has been used widely in academia and business practices, but it does not prescribe how an organisation should conduct its business.

2.6.2.3 The Balanced Scorecard (BSC)

The BSC is described in Kaplan and Norton (1996) cited in Bala and Kumar (2011:28) as ‘the multidimensional framework used in implementation of a company’s strategy at all levels’. The BSC is a widely used model in measuring business strategy by linking company objectives and initiatives across all levels. The advantage of using the BSC is its ability to comprehensively address performance and the greater freedom and independence of customisation of all functions. However, the BSC fails to make a comparison and benchmarking of individual instances in the same activity levels.

The specific models that have been briefly explained are designed to show the external factors which determine the manner in which different industries either respond to customer demands or perform to meet these demands. It is in this context that attention is given to internal processes that systematically perform an important function in SCM.

2.7 SCM processes

The selected SCM models discussed provided a simplified representation of the relationship and interdependency of activities, processes and the role companies play in responding to customer demands in a competitive business environment. In order to understand the integration of the different segments of the chain, it is imperative that an insight into the upstream and downstream processes be gained to distinguish the effect it has on the entire supply chain. Various authors mention that a supply chain is an integration of a sequence of processes in the materials flow to the stage when the product reaches the customer (Chopra

and Meindl, 2010:26; Raubenheimer and Conradie, 2002:54-55; Modares and Sepehri, 2009:13). This implies that the supply chain constitutes different processes which interlink to complete the business' desired objective to efficiently respond to customer needs and these processes are by no means fragmented or unsynchronised. Chopra and Meindl (2010:26-27) identify that process views of a supply chain include both a “*cycle view*” and “*push/pull view*” discussed as follows:

2.7.1 Cycle view of supply chain processes

The supply chain processes involve internal activities that should take place in manufacturing a product that conforms to customer requirements. Chopra and Meindl (2010:26) identify the process cycles to include ‘the customer order cycle, replenishment cycle, manufacturing cycle and the procurement cycle which interface within the different stages of the supply chain’. However, the authors point out that the supply chain may not necessarily include all four cycles due to the different type of products being manufactured based on industry needs.

Ideally, the cycle activities begin with the demand for a specific product or service by a customer, which requires the retailer to replenish the used product as the demand increases, and this will create pressure on the distributor to supply the retailer with the manufactured product which has been requisitioned during the procurement cycle. This cycle of activities, according to Chopra and Meindl (2010:27), repeats itself as the customer demand increases.

Each of the processes in the supply chain have six sub-processes that should take place for a product to eventually reach the customer as illustrated in Chopra and Meindl (2010:27) in figure 6.

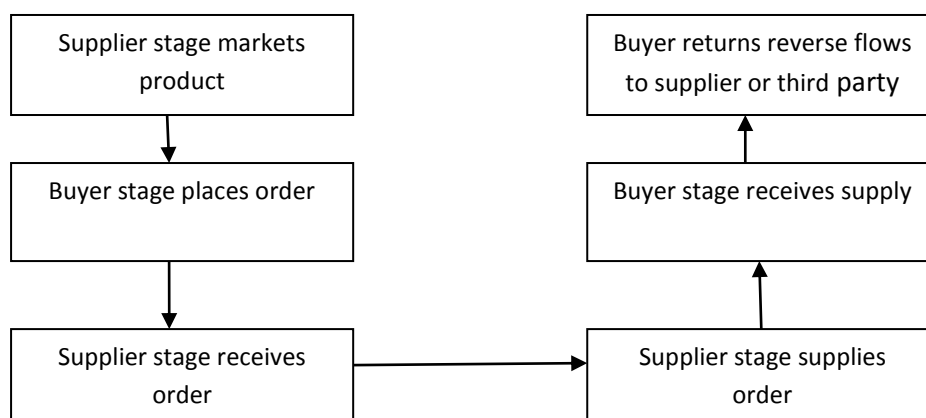


Figure 6: Sub-processes in a supply chain cycle

Fundamentally, these sub-processes should achieve continued product availability coupled with cost considerations which, therefore, place a responsibility on the supplier to continuously deliver as the need increases.

2.7.2 Push and pull processes

The above discussion reflected the nature of activities that drive the manufacturing of a product in relation to the customer demands and the internal sub-processes which are bound to take place for a cycle to be completed. Another view of supply chain processes has been considered to be initiated by the time taken to respond to the customer order. Chopra and Meindl (2010:28) distinguish between push or pull views of supply chain processes depending on anticipation or responsiveness to the demand for a product by end-users. In the push process, the primary production approach is determined by the manufacture of a product with the purpose of replenishment (make-to-stock). In this scenario, the decision to refurbish the order is based on the existing inventory and, therefore, is referred to as the “*speculative processes*”.

Chopra and Meindl (2010:28) distinguish the pull processes to be triggered by the end-user demands (make-to-order). In this scenario, the uncertainty exists since the inventory is minimal or non-existent and therefore, this approach is referred to as the “*reactive process*”.

It can be deduced from the description of the push/pull processes that the complexity of customer demands plays an important role in designing a supply chain and in ensuring its efficiency. Therefore, a greater understanding of the end results or outcomes of an efficient SCM is needed to combine the goals of the theoretical and practical views shared in all discussions in this literature study. These are covered in the section below.

2.8 SCM outcomes

The discussion on SCM processes indicates that a successful approach should take into consideration effective working relationships and cooperation between supply chains in the meeting of customer demands. Also, the products acquired from a successful SCM are a result of efficiency and competition created during the different supply chain stages where product quality, availability and flexibility, cost effectiveness and value for money are prioritised. These considerations based on sound purchasing decisions and taking into account the magnitude of processes involved in ensuring that the goods and services, in fact, are designed to meet customer needs, form basis of the outcomes of a successful SCM.

Realistically, organisations therefore should seek to implement measures and criteria that would achieve valued SCM outcomes based on collaboration between supply chains, reduced costs and improved services. Bolton (2007:40) recognises that in public procurement in the South African context, the process of procuring goods and/ or services must be done in a manner that is “*fair, equitable, transparent, competitive and cost effective*”. This implies that the activities involved in purchasing of goods and/ or services should be based on unbiased decisions that take into consideration the best interests of the customer, and affordability of that particular product, due to differentiation of competing suppliers. It is in this context that SCM outcomes will be individually discussed to recognise the important role each one plays in the organisation’s response to customer needs and in achieving value for money.

2.8.1 Fairness in SCM

The realisation exists that a supply chain involves parties that take part in production of goods and/ or services to the stage where consumption by the end-users is achieved through the coordination in processes and relationships in different supply chain stages (Nel and Badenhorst-Weiss, 2010:199). The complexity of achieving the desired outcomes from the different stages lies in the key decisions taken throughout the supply chain (Nel and Badenhorst-Weiss, 2010:199). This implies that fair decisions should take place from the input stage, when raw materials are manufactured and when sustainability issues are properly addressed, through to the conversion and output stages, where decisions are based on competition between supply chains. Ultimately, this would result in effectiveness and efficiency in services rendered based on product quality and value added to the customer. Dighe (2011:4) is of the view that fairness is achieved when information is made available throughout the public procurement processes. This ensures that all interested participants are equally granted access to information on procurement processes in order to enhance value and curb unfair advantage. Therefore, fairness enables openness to vital information which curbs monopolies and ensures that decision-making is fair as it takes into consideration the best interest of the end-users without impeding the relationship and cohesiveness between involved parties or creating an unfair advantage.

2.8.2 Equitable SCM

Essentially management of supply chain involves making sound decisions in response to customer needs. Bolton (2007:49) is of the view that fairness in decision-making during the different stages, processes and relationships in a supply chain is linked to the principle of

equity. This implies that the organisations involved in a supply chain should maintain good working relationships that do not seek to discriminate or unfairly justify their actions to achieve a competitive advantage. Therefore, the principle of equity highlights the balancing of measures to prevent discriminatory conditions between the participants in procurement processes and ensures that SCM functions as a whole add value to those in need.

2.8.3 Competition in SCM

Conceptually one of the dimensions of a successful SCM practice includes cost minimising considerations resulting from supplier partnerships that compete to produce goods and/ or services that are aligned to meet customer needs (Nel and Badenhorst-Weiss, 2010:198; Hugo et al. 2002:30). This implies that the competitive advantage of an organisation lies with its capability to deliver quality products at affordable prices and perform optimally by ensuring quicker product availability, and flexibility (Nel and Badenhorst-Weiss, 2010:198).

Ericsson (2011:121) states that competition plays an important role in ensuring that the services that are provided by companies to the end-users are efficient and also add value. Essentially, competition in procurement should have desirable effects such as accessibility of procurement information to achieve marginal costs, reduced costs over time by competing suppliers and should promote innovation. Therefore, competition in SCM results in efficiency, effectiveness and significant cost reduction in services or/ goods provided.

2.8.4 Cost-effective SCM

The issue of the organisation's competitiveness is linked to its capability to deliver quality products at affordable prices compared to other competing parties (Nel and Badenhorst-Weiss, 2010:198). This implies that supply chains must be able to constantly make efforts to improve performance in response to the volatility of the business environment without compromising quality. Swaminathan et al. (1998:608) are of the opinion that the objectives of a successful SCM practice should be able to achieve on-time delivery and quality products influenced by minimised costs. This means that customer expectations have a potential impact on performance of supply chains when the type of services and costs are considered. The key factor in a cost-effective SCM is the ability of suppliers to adopt cost minimising processes by reducing production and other costs over time and this, in turn, mutually measures against the purchasing costs incurred by an organisation. These considerations have

a potential of benefiting both the suppliers and the organisations since the criteria used in most procurement systems is often based on the lowest bidding price. However, in other cases, selection is not based on price alone, but may have an advantage of speed of delivery.

2.8.5 Transparency in SCM

The concept of SCM ensures that the parties involved in all stages and processes work towards a decrease in costs, improved customer service and efficiency (Naude and Badenhorst-Weiss, 2011:280). Another key factor in the success of SCM lies in decision-making and problem-solving when the specific approach to be used in considering the capabilities of buyer-supplier relationships and performance needs to be determined (Stock, 2009:152). The responsible executives involved in supply chain decision-making should be provided with sufficient information to mitigate risks that might occur, based on disruption in the supply chain. The principle of transparency in SCM is based on accessibility to relevant information that is in-depth and is consistently generated to afford interested parties the opportunities to compete. However, there needs to be transparency measures that balance access to information and that balance competition to receive best value for money in public procurement. This highlights that transparency is fundamental to ensuring that the required information flows between all parties involved and that it flows in individual stages across the supply chain. The concept of transparency will be defined and its theoretical considerations will be explored in the following section of the literature study.

2.9 The Concept of transparency

Essentially, it is important to recognise and understand the trade-offs and successes that impact on efficient and effective SCM. It is in this context that the concept of transparency is going to be explored with the view to assessing its importance as one of the considerations of a successful SCM. In essence, the notion of transparency and accountability is sometimes met with challenges that limit access of information to stakeholders and when government provides justification for non-disclosure about decisions or actions. According to Bennis, Goleman and O'Toole (2008:6) this happens in cases of national security and if it is justifiable to limit access to information to only individuals that have gone through integrity screening. This is when the organization may have legitimate interest in withholding information. However, Cross, Clark and Bekker (1995:9) bring another dimension to the argument and state that the 'principle of broad disclosure goes against the way bureaucratic and delivery strategies have been conceived in the past in South Africa'. These bureaucratic

organizations tend to develop a culture of secrecy to protect staff from having to account for mistakes and failures.

In the public sector, lack of transparency can take place as a result of compromised SCM practices. Pope (2005:7) states that manipulation of procurement processes for financial benefit of those responsible for carrying out this duty is a huge obstacle to transparency. This manifests itself by actions of extortion of money, kick-backs from bidders, bribing of manufacturers, issuing of contracts to friends, family members and close relatives and associates. It can be deduced from this statement that lack of transparency in public operations and activities results in corruption, due to an opportunity that is created or a systemic gap that is explored by those officials who have no regard for the rule of law or departmental policies.

The risk of corrupt activities in procurement processes cannot be ruled out due to the number of processes (SCM stages), relationships or links between role players such as the manufacturers, private suppliers (and sub-contractors) with public officials. Hence the Transparency International's "Integrity Pact" makes provision for all parties involved in tender processes to make an agreement prior to the initiation of the process to prevent bribery and for the public to play an oversight role in ensuring that integrity and transparency are adhered to in the entire process. Essentially, the benefit of this agreement is to ultimately reduce corruption in public procurement by following transparent procedures. This highlights a need to define the principle of transparency. The following section of the literature study will look into the key elements that determine consistency of decision-making and integrity of government processes.

2.9.1 Defining transparency

The term 'transparency' has been the centre of interest in many discussions and forums dealing with corporate governance and public sector governance. However, Bennis et al. (2008:2) point out that there is lack of clarity as to what the meaning of transparency is, especially when those in positions of power make commitments to keep the public informed about their operations and decisions, but act in contradiction by limiting access to basic information. This view is further supported by John Schwartz, an essayist, in the New York Times cited in Bennis et al. (2008:2) who reckons "*what they really mean is not lying and not*

hiding what they are really doing". It can be deduced from this statement that merely saying one is transparent is meaningless when one's actions are not transparent.

Hence Bennis et al. (2008:3) define transparency as "*free flowing of information within an organization and between the organization and its many stakeholders, including the public*". This, in essence, means that information sharing and openness about decisions that could impact on the public should take place at all levels in and across organizations. Rogers (2007:2) concurs with this definition and is of the view that transparency refers to 'the need for openness in government policies and decisions'. The interesting dimension to this view is the issue of public involvement in making of government policies and involvement in decision-making. This view is vitally important as most decisions taken by government are implemented at lower levels and getting a buy-in from the citizens during early policy-making stages could have beneficial results. According to Bennis et al. (2008:3) openness in an organisation can be compared to "*a central nervous system*" by which the functioning of the organisation is managed and sustained. Therefore, for transparency to be achieved, information should be readily available to all stakeholders internally in the organisation and externally to the public, including civil organisations that are potentially affected by implementation of decisions.

Tapscott and Ticoll (2003:25) point out that the issue of integrity and transparency in the functioning of institutions is predominantly in discussions and plans to progressively promote organisational effectiveness. Bennis et al. (2008:2) concur with this view and believe that transparency is 'at the core of organisational culture as it is intrinsically a part of the organisation structure making it possible for those in power to be answerable to their subordinates'. This development serves as confirmation that access to information, participation, consultation and openness in decision-making are important in organisational effectiveness. Therefore, the role of the principle of transparency in government processes is emphasised in the definitions reviewed as it presents opportunities of openness, fairness and integrity which are at the centre of sound decision-making. The discussion below outlines the importance of transparency as a universally recognised principle that deters corrupt practices, promotes access and knowledge of relevant information.

2.9.2 The importance of transparency

It is imperative that the reasons for organisations to adhere to the principle of transparency are discussed with the intention of clarifying the justification to have this requirement incorporated in SCM policies when government procurement is conducted. It is for this reason that in 1996 the United Nations (UN) promulgated an International Code of Conduct for Public Officials (Resolution 51/59: Action Against Corruption adopted by the General Assembly on 12 December 1996) in efforts to root out corruption in public institutions (Pope 2005:2). This intervention by the UN is an indication that there existed a need to hold public officials accountable for their actions in management of national resources, not just at national level, but at international level too.

This development formed the basis for other state bodies to adopt the same principles at regional levels such as the Council of Europe's Model Code of Conduct for Public Officials (2000) which was introduced in the United Kingdom's broad code for public life. The Seven Principles of Public Life that are universally accepted and have been adopted by many countries (Pope 2005:2). Among other principles in the Code is provision for openness by public officials which are required to be as open as possible regarding decisions and their actions. This therefore calls for public servants to provide reasonable explanations in respect of decisions taken and to limit restrictions on information when demanded for public interest. The other fundamental principle is honesty of public officials which enforces a legal duty to make disclosures relating to public duties and to resolve conflict of interest, thus ultimately protecting public interest (Pope, 2005:3). It can be deduced from this statement that one of the important indicators of transparency is declaration of interest by public officials involved in decision-making to mitigate the risk of conflict of interest. By implication, these principles are aimed at ensuring that corruption, inefficiency and inequity do not take place as a result of impediments to transparency in management of government resources.

Improving transparency in public management can be achieved by open government procurement which is one of the key components of SCM that deals with purchasing of goods and/ or services from private suppliers. Rogers (2007:2) highlights that 'government procurement practices should be applied through open tender processes by making public information regarding awarding of tenders (contracts), and easy access to procedures in reporting corrupt activities relating to procurement fraud in order to improve good governance in public finance management'. This notion of openness in respect of SCM

procedures simply means that all parties involved in procurement of goods and/ or services have a willingness to do the right thing in accordance with the prescript of SCM policies.

Pope (2005:5-7) concurs and states that open public procurement can prevent manipulation of SCM processes whereby those responsible for carrying out procurement procedures have a legal duty, as provided by SCM policies, to disclose conflict of interest. This provision is fundamental to good administration as it ensures that public officials in their capacity should not directly or indirectly have personal interest that might impede their objectivity or independence in carrying out their duties.

Another fundamental principle to achieving transparency in public management results when adherence to prescripts of policies governing outsourcing of government activities takes place privately (The International Standards of Supreme Audit Institutions, 24 August 2012) (ISSAI 20). This is achieved when contracts for procurement of these activities are concluded in a manner that promotes integrity and where responsible are accountable for their actions. However, it should be noted that for overall performance of these contracts certain checks and balances can determine whether procurement procedures were carried out in a transparent manner. Hence ISSAI 20 (24 August 2012) states that an important indicator of transparency involves timely communication in respect of audit results that should be made public in the media and government department websites. It is, therefore, imperative that departments subject themselves to audits regarding their overall activities. In cases where audit queries are reported, government departments should facilitate measures with respect to audit recommendations and impose sanctions on accounting officers that fail to meet their reporting obligations (ISSAI 20, 24 August 2012).

Public involvement is another indicator or fundamental principle in promoting transparency due to the triangular relationship that exists between government, the private sector and civil society (Pope, 2005:9). This relationship has been extensively explored in government procurement processes which involve different parties and partners in procuring government services. Bolton (2007:229) reiterates this view and identifies the important features of a transparent procurement system as “(1) *general availability of procurement information*; (2) *publication of procurement rules and practices*; (3) *publication of contract opportunities*; (4) *disclosure of the criteria to be applied in selecting a winning contractor*; and (5) *provision of information on contract awards*”. However, Pope (2005:9) adds that in deed the public

deserves the right of access to basic information unless there are reasonable grounds for the state to withhold information which arguably is entrusted with that responsibility and can only be used in cases of public interest. It can be deduced from this discussion that transparency provides for adequate, consistent and rational explanations for decisions which have an impact on how government processes respond to the needs of the wider society. This therefore requires that an insight into public and private sector perspectives of transparency are discussed with the intention of highlighting the relationship that exists between the two.

2.9.3 Public sector perspective

The principle of transparency has been presented to emphasise the practices that promote good governance. In the South African perspective, as the democratic state, the people's interest is at the centre of government's mandate of improving living standards and enhancing economic growth. This is achieved when those in positions of power understand the role of accountability and transparency in fulfilment of their mandate, since this realisation is important in enhancing credibility of government action (ISSAI 20, 24 August 2012). This implies that governance and transparency is a requirement in practice that can improve government responsibilities towards other stakeholders. This view is supported by Emery (2003:1) who believes that transparency plays an important role in running public accounts where state funds are allocated accordingly to achieve the developmental role of government by alleviating poverty and achieving economic growth. It is evident from this statement that transparency improves efficiency and effectiveness in achieving government commitments to the people.

The notion of accountability and transparency in the running of state affairs appears to be closely related as they more or less determine the same actions in terms of reporting by public officials. However, Emery (2003:1) is of the opinion that transparency is the most important principle since when it is consistently adhered to, it can prevent corrupt activities, promote good governance and accountability. Kopits and Craig (1998:1) concur and state that openness to the public about government structures, functions and public sector accounts is an important concept of governance. This is an indication that dissemination of basic information in respect of political buy-in (by the citizens) and management of government activities should be accessible to the public.

ISSAI 20 (24 August 2012) explicitly states that ‘transparency encompasses timeliness, reliability, clarity and relevance in terms of reporting by public officials in reference to operational activities, financial management in public accounts and performance in delivery of services’. This view is supported by Kopits and Craig (1998:1) in stating that transparency involves ‘accessibility to information that is reliable, comprehensive, timely, and understandable and information that is comparable in respect of government activities’. In essence, this means, that transparency promotes high levels of integrity and ethics of those entrusted with the responsibility to report about government operations. Emery (2003:1) mentions that the close relationship between management of state accounts and maintenance of good governance is important in administration since if it is compromised, it can lead to corrupt activities and poor governance. It is evident from this statement that there are impediments to achieving good governance which can lead to increased corruption in the public sector and across society.

Pope (2005:1) emphasises the role of transparency as the most fundamental principle of good governance since it promotes citizen involvement in government processes and influences participation in decision-making. This in essence means that transparency promotes dialogue between the citizens and government, and citizens with each other. However, Pope (2005:1) warns that as much as access to information is important, not all information is available for public consumption. This takes place when certain limitations demand that access to information be restricted, based on reasonable grounds and justification for the state to do so. However, Pope (2005:1) states that this decision could be reversed if the matter under review is of “*public interest*”. This is informed by the commitments of government towards citizens in a democracy to openly report about actions that could potentially cause a public outcry and that can lead to instability when ignored. Therefore, the public sector perspective of transparency relates to the manner in which information flow is adequately shared in government processes that are performed to meet the basic needs of citizens. This view is going to be compared with the private sector perspective which places an emphasis on ethics in attaining the goals of accessing capital and resources to inject value into the market place.

2.9.4 Private sector perspective

In the corporate environment, transparency is fundamental to organisational operations since it promotes integrity and ethics of all staff at all levels. This is achieved when ethical behaviour throughout the organisation is informed by a clear mandate, responsibilities,

mission and strategy that encourage transparency with operations (ISSAI 20, 24 August 2012). This implies that for organisational efficiency to take place, integrity and transparency should be adhered to. Operational practices should be transparent, organisational values be upheld and transparent decisions made with the interests of all stakeholders at the centre.

Tapscott and Ticoll (2003:37) point out that limits of knowledge of critical information which can assist decision makers to take appropriate action is one of the obstacles to transparency. In corporate governance, Tapscott and Ticoll (2003:38) mention that the business value of secrets, which allows companies to have rights of confidentiality for competitive or privacy reasons, impede transparency.

One of the impediments to active transparency includes the costs of an organization to function in an open and fair manner. This according to Tapscott and Ticoll (2003:39) requires continuous checking and reporting, interaction with stakeholders, and outside auditors. This in essence means that an organization should allocate a budget to fund these activities to ensure that true transparency takes place at all organizational levels. Active transparency may not be possible when the needs and the aspirations of stakeholders are not properly addressed. Tapscott and Ticoll (2003:39) are of the view that the information given to stakeholders needs to be 'trustworthy, verifiably material and true'. This ensures that the organization maintains its integrity since a secretive organization is vulnerable to exposure by mainstream media and sometimes competitors. It is evident that the private sector perspectives on transparency emphasise the core values of ethics, integrity and free flow of information to major stakeholders. These views are not in disagreement with the public sector perspectives which put at its centre the right to know and access to vital information which influences accurate decision-making.

This part of the literature study has, therefore, demonstrated that transparency is one of the core principles of good governance which allows for adequate controls to be put in place to minimise corrupt practices. Adherence to transparency in SCM is considered to promote practices that enhance openness and fairness when purchasing goods and services to meet the desired goals. The challenge lies with ensuring that public officials do not limit vital information to interested parties and stakeholders, the opportunities to commit corruption are minimised and lack of accountability in decision-making is properly addressed as these risks have a potential to impede efficiency and effectiveness of procurement processes. Therefore

transparency necessitates stringent measures to be put in place to promote access and knowledge of relevant information to all interested parties with the ultimate objective of creating competition and deterring corrupt practices.

2.9 Summary

It, therefore, can be deduced from the literature study that SCM creates a competitive advantage of supply chains by improving and coordinating their relationships to satisfy customer demands. This is done through information sharing, funds flow and integration of planned logical and systematic processes. Also, a balance must be maintained throughout the different stages of the supply chain to prevent disruptions and unsynchronised activities that might have undesirable outcomes. The balanced supply chain will ultimately create value in all stages and improve responsiveness in meeting customer demands.

The literature study emphasised that the integration of SCM activities, processes, linkages and cooperating supply chains in transformation of raw materials to the stage when the products are consumed by customers, can be best explained by simplified representations in SCM models. These models can demonstrate the linkages and relationships of how supply chain performance and responsiveness can be achieved.

Another important consideration identified was that supply chain involves stages where input, conversion, and output in materials flow occurs in a sequence to deliver quality products that are aligned to customer needs. These downstream and upstream processes are synchronised to improve efficiency and performance. It is imperative that these SCM processes be done in a manner that is fair, competitive, cost-effective and transparent to achieve value for money. One of the outcomes of SCM that was explored and discussed in detail was the principle of transparency. The literature provided insights into ways of achieving transparency in SCM and what benefits it can provide in public procurement. It, therefore, can be unequivocally stated that transparency requires a commitment from all actors that are involved in local public decision-making processes and in management of public resources to adhere to good governance. Ultimately, this will be achieved by allowing information processes to be broadly examined, problems relating to these decisions identified and priority to be given to the interests of the state, the public and other relevant stakeholders.

CHAPTER 3: SUPPLY CHAIN MANAGEMENT POLICY AND LEGAL FRAMEWORK

3.1 Introduction

The purpose of this chapter is to provide an in-depth view on Supply Chain Management in South Africa, relevant legislation, guidelines or instructions governing SCM in government and institutionalisation of SCM as represented by the three spheres, namely, National, Provincial and Local Government, including constitutional institutions and public sector entities.

The regulatory framework governing SCM pertains to all key legislation which provides the cornerstone of public sector processes and practices concerning the identification of requirements, planning for procurement, purchasing, asset management, warehousing and the disposal of assets. In the South African context, the relevant legislative prescripts are used as a first point of reference in the implementation of SCM and related aspects of risk management and ethics in all organs of state. The legislations that form the basis of the South African SCM regulatory framework include, among others, the Constitution of the Republic of South Africa Act 108 of 1996 (Republic of South Africa, 1996), the Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999) (**PFMA**), the Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South Africa, 2000) (**PPFFA**), Preferential Procurement Policy Framework Regulations of 2001 (Republic of South Africa, 2001) (**PPPF Regulations**), Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003) (**MFMA**), Model Policy Municipal Supply Chain Management of 2005 (Republic of South Africa, 2005), MFMA Municipal Supply Chain Management Regulations of 30 May 2005 (Republic of South Africa, 2005), as well as the South African National Treasury prescripts, namely Policy to Guide Uniformity in Procurement Reform Processes in Government, Treasury Regulations promulgated on 15 March 2005, and Treasury Guidelines, Directives and Practice Notes.

The aforementioned are some of the important pieces of legislation and do not represent all applicable legislation. The aforementioned will be discussed in this chapter with the purpose of highlighting the efforts government has made in providing uniformity and compliance to strict financial controls and ethics in its key responsibilities of effecting service delivery to the people at grass roots level where it is needed. This discussion will, therefore, begin by

giving a brief overview of the South African SCM policy which provides uniform guidelines and processes to be followed by SCM practitioners in government institutions and other government entities when procuring goods and/ or services.

3.2 The concept of SCM in South Africa

3.2.1 Background

In 2003, Cabinet introduced the concept of supply chain management in South Africa (RSA National Treasury, 2004). This concept was implemented through regulations setting out a framework issued in terms of the PFMA and the MFMA in a phased approach. The SCM framework serves as a guiding principle to accounting officers and authorities by ensuring that the implementation of SCM processes are in accordance with financial management systems. It also requires accounting officers and authorities to develop and implement an effective and efficient SCM system and to establish a separate SCM unit within the CFO's structure of the department or government department.

The regulations also empower National Treasury to issue practice notes to address relevant SCM requirements to ensure uniformity within government. The practice notes and regulations include, among others, conditions of contract standardised bidding documents, directives for the appointment of consultants and a code of conduct applicable to all SCM practitioners. The regulations also address threshold values for invitation of price quotations and competitive bids with which the accounting officers must ensure compliance. These are updated timely by National and Provincial Treasuries. However, compliance to these legislative prescripts should be consistently adhered to in ensuring that government does attain the planned social objectives. Therefore, in the South African context, government uses SCM systems to achieve these objectives as discussed below.

3.2.2 Objectives of the South African SCM policy

Supply chain management sets out an effective, efficient and innovative process for demand planning, procurement (including strategic resourcing), contract management, inventory management/ asset control and disposal management. These processes are standardised in the form of a policy framework governing SCM (RSA National Treasury SCM Guide to Accounting Officers/ Authorities, 2004: 9) and of which its objectives are therefore to:

- *give effect to the Constitution;*
- *give effect to the provisions of the PFMA and the MFMA;*
- *transform the procurement and provisioning functions in government into an integrated SCM function;*
- *introduce a system for appointment of consultants;*
- *create a common understanding and the interpretation of government's preferential procurement policy objectives; and*
- *promote consistency in respect of supply chain policy and other related policy initiatives in government.*

These policy guidelines apply to acquisition and disposal of all goods, services, construction and road works and movable property of all government institutions. Essentially, the SCM policy deals with management principles relating to the integrated stages as envisioned by South African National Treasury as briefly outlined below:

3.2.2.1 Demand Management

This is the initial phase of the supply chain where a needs assessment is carried out to ensure appropriate goods or services are acquired to deliver the agreed service. It is in this stage where specifications are determined by the Bid Specification Committee, requirements are linked to the budget and the supplying industry is analysed. This stage plays an important role in providing the exact requirements as per the objectives of the need identified.

3.2.2.2 Acquisition Management

The management aspects of this stage involve decision-making based on how to approach the market, establish total cost of ownership of a particular type of asset, and ensure that all bid documents are completed, including evaluation criteria. It is at this stage that bids are evaluated in accordance with published criteria and the accompanying contract documents properly signed.

3.2.2.3 Logistics Management

This phase addresses the aspect of setting up of inventory levels, receiving and distributing material, stores, warehouse and transport management. It is in this stage where reviewing of

vendor performance and the financial system is activated to generate payments. This process requires proper appointment of logistics personnel that will accurately take stock of all goods received for distribution and will maintain an inventory of stock in proper storage facilities.

3.2.2.4 Disposal Management

At this stage consideration is given to planning on disposal of assets, maintenance of redundant material, inspection of materials for potential re-use, determination of disposal strategy and the actual execution of physical disposal process. This process also requires that all excess stock be properly stored for future use and the delegated officials should conduct inspections timely for record keeping.

3.2.2.5 Supply Chain Performance

This phase is a monitoring process which assists in determining if proper processes were followed and if desired objectives were achieved. According to the RSA National Treasury SCM Guide to Accounting Officers/ Authorities (2004:11), some of the issues to be reviewed include:

- *Compliance with norms and standards;*
- *Cost efficiency of SCM process; and*
- *Whether supply chain practices are consistent with government's broader policy focus.*

This phase is crucial in ensuring that financial management aspects of SCM are complied with and the actual process followed did not result in financial losses through the form of irregular, fruitless and wasteful expenditure. The accounting officer of any government department and/ or state institution should maintain sound financial controls in an effort to prevent financial losses as a result of non-compliance with regulations.

3.2.2.6 Risk Management

This process involves determining what an acceptable level of risk is, by assessing risks that may prevent a particular activity from meeting its objective. Risk management should therefore form part of the business plan for the acquisition of all goods and services. This aspect of SCM should be carried across all stages as risk identification and mitigating factors should be applied to ensure that SCM objectives are achieved without any impediments.

For further details on each phase, attention should be given to relevant chapters of the SCM Guide for Accounting Officers/ Authorities (National Treasury, February 2004), and SCM Guide to Accounting Officers of Municipalities and Municipal Entities (National Treasury, October 2005). These documents should be read in conjunction with the relevant Treasury practice notes and circulars, and other relevant legislative framework.

While the legal landscape on SCM has seen many reforms since the concept was introduced by parliament, the next section of this discussion is going to provide further details on the complexity surrounding important legislation that has shaped how SCM should be applied in state institutions and government departments, as represented by all three spheres of government. The discussion below will systematically begin with the legislative framework at national level, such as the Constitution and will follow by giving an overview of provincial and local government legal framework.

3.3 The Constitution of the Republic of South Africa Act 108 of 1996 (Republic of South Africa, 1996)

3.3.1 Background

The Constitution of the Republic of South Africa Act 108 of 1996 (Republic of South Africa, 1996) is the basis upon which all SCM practices within the public sector are developed and is applicable to all spheres of government. The role of government and other organs of state are to provide basic services to all citizens and that has resulted in these institutions being the most prolific purchasers of goods and services. This therefore demands that certain political reforms and initiatives be put in place to regulate the manner in which state resources are allocated and used. The reason being that, there are instances which have been widely publicised in the media where the devolution of financial powers and responsibilities to public institutions has created opportunities of financial mismanagement and other acts of corruption due to lack of strict financial controls. It is in this token that the Constitution makes specific provisions for the manner in which SCM processes should be implemented in procurement of goods and services. Of particular relevance is section 217 of the Constitution (“Procurement Clause”) which stipulates in subsection (1) that when SCM is implemented, it must be tested against the five principles namely, “*fairness, equitability, transparency, competitiveness and cost-effectiveness*”.

3.3.2 Interpretation of the Procurement Clause

The first principle of “*fairness*” would require at least that sufficient time be given for responses required of applicants, that the process not be unduly impossible, that applicants be given an opportunity to review their bids if any aspect of the tender parameters change, and they be given access to relevant information.

The second principle of “*equity*” means that an organ of state must treat all bidders equally in order to prevent incidents of unfair treatment and undue preference. This in essence means that bidders must have an equal opportunity of responding to the invite for a tender and fair adjudication. The requirement of equity means that organs of state engaging in procurement processes must also adhere to Bill of Rights, which amongst other provisions, includes the right not to be unfairly discriminated against. Hence an organ of state cannot discriminate against any bidder on any of the grounds specified in the Bill of Rights.

The third principle of “*transparency*” requires that all administrative processes related to public procurement of goods and services should intrinsically represent the best interests of all the parties involved. This means that all information and decisions in respect of the invitation of tenders are accessible to the public, the criteria for procurement decisions are clear and this information is shared with the interested parties, the evaluation criteria is made available to all bidders in advance, the tender decisions are able to be scrutinised by the public and there are efficient systems to review decisions on awarded tenders and the information on the awarding of successful bidders is disseminated to the public.

Adherence to the principle of transparency in the bid committee system as stated above could promote proper decision-making and ultimately enhance dissemination of correct information to competing bidders and the public. This in turn can reduce the influx of unsuccessful bidders to the courts in a bid to appeal or challenge procurement decisions due to uncertainties as a result of lack of vital information.

The fourth principle of “*competitiveness*” relates to the equal opportunities provided to applicants in respect of tender specifications drawn by the Bid Specifications Committee (BSC) when a need for goods and/ or services has been identified. The aspect of competitiveness is applied to ensure that the bid specifications are not drawn to create an unfair advantage that eliminates competition to the detriment of other bidders. These occur in

instances where sole providers are appointed on the basis of technological ability and expertise as per the specifications.

The fifth principle of “*cost-effectiveness*” is achieved when the services to be rendered by a successful bidder result in increased productivity at low costs. This in essence means that the appointment of the preferred bidder to procure goods and services takes into account the institution’s budget and the final decision determines the expenditure that will be incurred. This process results in the acquisition of assets and therefore, the inter-relationship between procurement and other regulated financial management aspects should be considered. Hence the appointment of a successful bidder should be determined by the price of the quotation or tender that is submitted in comparison to the value it would add in meeting the required specifications.

It should be pointed out that despite the above-mentioned requirements of “*fairness, equitability, transparency, competitiveness and cost-effectiveness*”, as entrenched in the Constitution, government has other options to apply certain public procurement legislation to prefer certain bidders over others, or to protect the advancement of disadvantaged persons. It is in this context that section 217 of the Constitution stipulates in subsection (2) that organs of state should implement procurement policies that seek to address the imbalances that resulted due to unfair discrimination and also promote the advancement of those applicants or bidders who meet these requirements. The related procurement legislation which clarifies how the appointment of the preferred bidder(s) is conducted will be discussed later in this chapter.

Apart from the fundamental descriptions and background, it is significant that attention be drawn to the contribution that the Constitution has made in the alignment of other SCM and procurement legislation and in clarifying the complexity surrounding the regulation of tenders and procurement as discussed above. The other important factor that has contributed to the need to develop specific SCM and procurement processes in line with the Constitution is the government’s reliance on external providers of goods and services. However, certain phrases and descriptions that should be embodied in the other legislative framework must take into account the guiding principles as entrenched in the Constitution and also be placed within the broader context of public finance management.

For the purpose of this study it is also imperative to highlight the relevance of the Constitution in service delivery initiatives and the role it has played in transformation of the

legal landscape at the local sphere of government. The Constitution provides for establishment of municipalities across the Republic through section 151. Fundamentally, provisions of this section give powers to the Municipal Council to run municipal affairs and that of local communities without impediments by the National and Provincial spheres of government. In order for municipalities to properly address the basic needs of the local communities, section 153 of the Constitution provides for the developmental role of municipalities. In essence this means that municipalities have an important role of enhancing living standards of people by ensuring that socio-economic development occurs.

The manner in which this objective is achieved is guided by how budgetary resources are utilised in procurement of goods, works and / or services to meet the needs of the local community. In terms of South African law procurement is an administrative process that should be carried out with utmost integrity from the needs analysis stage, to the stage when the contract is concluded with the successful bidder and finally when the goods and/ or services are disposed. The official decisions taken during this process have a direct impact on the rights of the citizens and therefore should ensure that the rights of the citizens are upheld as entrenched in the Constitution.

The provisions stipulated in section 32 of the Constitution which allow for access to information by the public and the reasons justifying decisions or actions taken by any public institution or public officials. This provision is vitally important in ensuring that transparency and openness is achieved by those responsible for taking official decisions that directly impact on the public. Of particular relevance to this discussion is section 33 of the Constitution which makes provisions for just administrative action by ensuring that everyone is given the opportunity to be informed and given an insight into how decisions in administrative processes are reached, especially when those decisions adversely impact on other individuals not involved in decision-making. This implies that the right to know about how decisions are taken and what informed such decisions is important in ensuring proper implementation of any planned activity. It can be deducted that when such fair and reasonable action is undertaken, the intended results will ultimately enhance transparency and accountability by those taking decisions. However, there are cases when decisions taken are not favourable to involved parties and these negatively affect administrative processes.

Some of these instances occur when decisions taken during procurement processes are challenged by unsuccessful bidders or aggrieved parties, after a tender has been awarded to the successful bidder. It is in the nature of a democratic society such as South Africa that, legal recourse could be exercised by aggrieved parties to have a concluded contract set aside for review. Reports on these cases have increased whereby unsuccessful bidders are seen approaching courts of law appealing or questioning decisions taken during procurement processes. This indicates that there is an area of concern in the manner in which certain decisions are made or there is lack of transparency on how these decisions are made.

It is evident that the challenges facing public officials involved in procurement processes become an issue of public management when they directly or indirectly affect the greater public. In other instances, these decisions are put under public scrutiny and failure to account by those taking part in government decisions constitutes a breach of trust. Under these circumstances free flow of information and openness about decisions taken is vitally important since it strengthens the relationship that exists between government and the public.

The provisions of section 33 of the Constitution have been given more meaning and effect by the Promotion of Administrative Justice Act 3 of 2000 (Republic of South Africa, 2000) (**PAJA**) which makes provisions for administrative action that is “*lawful, reasonable and procedurally fair*”. This Act ensures that those individuals that are negatively affected by administrative action be given reasons in writing by those accountable.

The courts have held that public procurement processes could fall within the prescripts of this Act. As a consequence this Act enables aggrieved parties to take procurement decisions on judicial review when the need arises.

Another important piece of legislation is the Promotion of Access to Information Act 2 of 2000 (Republic of South Africa, 2000) (**PAIA**) which gives effect to provisions of section 32 of Constitutional rights of access to any information held by the state or any person withholding such information which could lead to infringement of other people’s rights if not disseminated for rightful purposes. In the instance of procurement processes, the Act allows aggrieved bidders to openly challenge procurement decisions by allowing them to access information they might require to determine whether their rights have been infringed. Therefore, it is clear that the mentioned reforms have significantly contributed to improving

the legal landscape when government institutions embark on procurement activities aimed at addressing policy objectives.

The next discussion will explore the applicable laws governing the manner in which public institutions and entities should implement SCM processes to achieve the developmental role as required by the Constitution. It is against this background that the Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999) is going to be discussed with the purpose of providing an insight on how procurement of goods and services impacts on state institutions' budgets and what control measures should be put in place in assessing and limiting risk factors associated with acquisition of assets.

3.4 The Public Finance Management Act 1 of 1999 (Republic of South Africa, 1999)

3.4.1 Background

The PFMA is applicable to national and provincial government departments, and provincial entities listed under Schedule 2 and 3 of the PFMA, Constitutional institutions and to a limited extent to parliament. The aforementioned are required to comply with the relevant provisions of the Act. The fundamental principles of the PFMA are applied in ensuring adherence to transparency, accountability and proper financial management by those entrusted with the important responsibilities to control state financial resources. The provisions of section 36 and 49 of this Act require state institutions to appoint an accounting officer or an accounting authority that is responsible for managing the financial aspects and functions as delegated. These considerations necessitate that the guidelines on how to apply the PFMA be clarified to ensure consistency with other legislation when state departments plan to procure goods and/ or services and the role of the accounting officers in execution of this mandate as discussed below.

3.4.2 Application of relevant sections of the PFMA

The responsibilities of accounting officers are clarified with the intention of promoting good governance in state institutions and in acquiring sound financial management. However, it should be noted that the relevance of the PFMA to the subject under discussion, is highlighted in section 38(1)(a)(iii) which reflects the guidelines and principles that an accounting officer must comply with, ensuring integrity of procurement processes since these form part of the SCM. The provisions of this section emphasise the Constitutional obligations

and the alignment of the aspirations as pre-determined by the overarching principles of the Constitution.

Another important section of the PFMA that places a reporting obligation on accounting officers and is worth mentioning, is the provisions of section 38(1)(g), which require that cases of “*unauthorised, irregular and fruitless expenditure*” when identified in procurement processes, are immediately reported in writing to the relevant tender board. This implies that accounting officers should prevent unnecessary financial losses whereby value for money is not achieved due to non-compliance with the provisions of the Act. However, the PFMA also gives powers to apply proper sanctions on officials found to be in contravention of statutory requirements in respect of the provisions of section 38(1)(h), which seeks to prevent financial losses to the public institution.

Attention should also be given to budgetary allocations which play an important role in determining the basis upon which the expenditure to be incurred in identifying the need of goods and services is approved by a public institution. If the department’s budget has been exhausted or the funds are not available to cater for the identified need for services, the accounting officer should be guided by the provisions of section 39 of the PFMA which places an emphasis on expenditure control and allocation, and seeks to prevent overspending.

The significance of maintaining strict financial measures is also placed upon accounting authorities in section 51(1)(a)(iii), which clarifies the roles and responsibilities as determined by the Constitutional obligations in ensuring that integrity is maintained in carrying out procurement processes in the specific institutions. This implies that there is a responsibility placed upon accounting officers and accounting authorities to maintain uniformity in applying guiding principles and standards in execution of their duties. Accordingly, section 51(1)(e) of the Act gives powers to accounting authorities to apply sanctions by means of disciplinary action on officials who fail to comply with provisions of the statutory requirements and as a consequence cause unnecessary financial losses.

Emphasis, therefore, should be placed on accounting officers’ conduct in implementation of strict financial controls based on the guiding principles provided by the Act, especially when they need to play an oversight role in acquisition of assets through supply chain. As the highest authority, the accounting officers must not misuse their positions for financial gains and should mitigate the risk associated with misconduct of officials involved in bid

committee systems in case of tenders and/ or in quotation systems. Therefore, the role of the accounting officers extend to guarding against conflict of interest issues where officials fail to disclose interest and their decisions are impaired and biased for personal or financial gains.

The accounting officers should also ensure that conflict of interest cases in public procurement are completely eliminated because if these go undetected they have an adverse effect of benefiting unqualified bidders or applicants and also give them undue preference based on undisclosed interests.

The PFMA also makes provisions in sections 45 and 57 which specifically describe the responsibilities of other officials in respect of financial management in pursuit of their duties. The requirements of these provisions clearly clarify how issues of risk management in execution of their financial roles should be adhered to, compliance with budgetary considerations based on areas of responsibility are effected, prevention of financial losses is ensured and asset management is maintained as delegated. This, in essence, indicates that all officials entrusted with the responsibility to carry out financial duties regardless of position should do so in manner that seeks to promote integrity and good governance by preventing unwarranted financial losses.

It is evident from this discussion that the interpretation of this legislation should not be viewed in isolation and would sometimes have to be read in conjunction with other relevant legislation with regards to duties of the accounting officers in management of budgetary allocations. The overarching principles of the Constitution which lay a foundation for the PFMA and other relevant legislation should be upheld, especially when the financial affairs of the public institutions are placed in the hands of officials whose skills and expertise should best protect the interest of the state and ensure that disbursement of funds through services is within the legal prescripts.

The PFMA, therefore, is one of the legislative reforms whose aims are to protect state financial resources and prevent losses due to the stringent controls that have to be put in place and at the same time prevent misappropriation of funds by applying sanctions on those officials found to be in contravention of prescripts of the legislation. The following discussion will look into other relevant Treasury Regulations that have contributed to ensuring that proper governance principles are adhered to in implementation of systems that strengthen internal controls to keep financial systems in check and all other aspects of

financial management that affect accountability (Ababio, 2007:5). Hence the notion of public accountability seems to be of relevance when efficient service delivery is achieved as a result of proper SCM and related systems that are followed as a mechanism to promote sound public finance management. It is in this context that the National Treasury Regulations which stem from the PFMA are going to be discussed as a source that will provide an insight into development of SCM systems in state institutions.

3.5 National Treasury Regulations

3.5.1 Background

The above discussion clearly indicates that the legal landscape is ever-changing, but the overarching principle remains in that the public funds are held in trust on behalf of citizens and should therefore be spent wisely. Since December 2003 when the concept of SCM was introduced by National Treasury, one of its objectives has been to make procurement more uniform and effective. The relevant documents and copies are available on the National Treasury website, <http://www.treasury.gov.za>. Having delegated responsibility to the accounting officer, National Treasury's aim is to provide a framework of best practices and more effective management through guidelines, regulations and practice notes in relation to SCM.

The significance of National Treasury in developing systems that serve as a more effective control over procurement management is set out in terms of section 215 to 219 of the Constitution and empowered by section 76(4)(c) of the PFMA and by section 168(1)(a) of the MFMA. These legislative reforms issue guidelines and instructions in the form of Treasury Regulations, on various issues relating to procurement to ensure uniform standards within government. If these practical guidelines are ignored, accounting officers inevitably make themselves vulnerable to contraventions of the relevant legislation.

The National Treasury Regulations, therefore, are applicable to government departments, constitutional entities and, to a certain extent, to public entities. Since these regulations came into effect on 15 March 2005, they have significantly provided more practical guidelines for the establishment of SCM systems in line with other legislation. The basis of this discussion is taken from Regulation 16A of the said regulations which provides for SCM and is an important source of reference for SCM practitioners in respective government institutions. Hence Regulation 16A3.2 (a) to (d) lays a foundation by which the institution or public

entity's SCM must provide for a system that is consistent with section 217 of the Constitution, has principles and aspirations of the PPPFA, BBBEEA and adhere to at least all stages of supply chain performance from demand management to risk management. These practical guidelines promote compliance with the SCM policy and other relevant legislation making it a requirement for SCM practitioners to understand their application when carrying out procurement functions as discussed in the next section.

3.5.2 Application of the National Treasury Regulations

The specific regulations that are guided by Constitutional principles in ensuring that SCM systems are implemented are enforced through Regulations 16A4 and 16A5. These regulations make provisions for a department or government entity to establish an SCM Unit within the CFO's office. They also ensure that SCM officials are properly and adequately trained in terms of National Treasury's Framework for Minimum Training and Deployment. This guideline must be read together with the National Treasury Practice Note SCM 3 of 2004 dated 23 August 2004, National Treasury Circular dated 27 October 2004 and Treasury Practice Notes SCM 5 dated 27 October 2004, to maintain consistency since these provide a checklist for additional information that should be taken into consideration in meeting the requirements.

One of the components of SCM that provide for the actual acquisition of goods and services, is the procurement stage which takes place either by invitation of quotations or a tender process, and in terms of Regulation 16A6.1, certain minimum requirements must be met by competing bidders or applicants. The said requirements are determined by National Treasury in terms of threshold values and should be read together with National Treasury's Practice Note SCM 2 of 2005 dated 10 May 2005 and these values were amended in November 2007 by means of Practice No 8 of 2007/2008, however the 2005 values were used up to December 2007. The regulations provide that:

“Accounting officers/ authorities should apply the following threshold values when procuring goods and services, hiring or letting anything, acquiring or granting any right or disposing of movable state property:”

(i) Category 1: Up to the value of R2 000 (VAT inclusive)

This threshold is applicable from the period 1 December 2007 to 1 December 2011 and requires that accounting officers and/ or authorities may procure goods and services without inviting tenders or price quotations and therefore a supplier may be appointed directly through their own internal procedures to govern the award and the supplier list may not be necessary to select the suitable supplier. The accounting officers may use petty cash as a source of funds to procure goods and services.

(ii) Category 2: R2 001 to R10 000 (VAT inclusive)

This National Treasury threshold is applicable for the period 1 December 2007 to 1 December 2011 and clearly states that accounting officers and/ or authorities, when procuring goods and services, must invite written or verbal quotations, there needs to be an invitation of a minimum of 3 listed suppliers, and in the case of a verbal invitation an order should be placed through a written confirmation from the successful supplier. National Treasury also requires that accounting officers invite prospective suppliers once a year to be registered on the database and this list must promote Black Economic Empowerment (**BEE**) and take into account previously disadvantaged individuals. This list of registered suppliers should be updated quarterly and suppliers should be welcome to apply anytime. However, strict requirements should be met in terms of the compilation of this list since suppliers must be grouped per commodity and type of services to be provided. Accounting officers should also rotate suppliers to ensure fair competition.

(iii) Category 3: R10 001 to R500 000 (VAT inclusive)

This threshold is also applicable from 1 December 2007 to 1 December 2011 and specifies procedures to be followed by accounting officers when procuring goods and services to the value between R10 001 to R500 000. The procedure requires accounting officers to invite as many as possible listed suppliers but should ensure that a minimum of three (3) are obtained. The invitation of non-listed suppliers should be done if there are no suitable suppliers on list. In cases where there are no 3 competitive quotes, the accounting officer must record reasons in writing and also approve in writing. Vigilance must be maintained in ensuring that original documents for quotations above R30 000 (VAT inclusive) and the same rules as in category 3 should be applied.

(iv) Category 4: R500 001 and above (VAT inclusive)

This threshold is applicable from 1 December 2007 to 1 December 2011 and detail procedures that should be followed when procuring goods and services to the value of R500 001 and above (VAT inclusive). For purposes of this threshold, competitive bids should be invited from prospective suppliers through an advertisement (must be advertised at least in the Government Tender Bulletin). The accounting officer must ensure that the Preferential Procurement Policy Framework and regulations for all procurement above R30 000 are applied. In cases of exceptions where an emergency /or urgency/ or sole supplier are identified, a deviation may be used via quotations or negotiations. However, reasons for the deviation must be recorded in writing and the accounting officer must approve in writing. If the deviation is above R1 million (VAT inclusive), it must be reported to Treasury and the Auditor General in ten (10) working days. Caution must be applied to guard against splitting of orders to avoid threshold requirements and the accounting officer may lower, but not increase threshold values. In order for the tender documents to be accepted, competing bidders must submit original documents.

These Treasury Regulations are deemed necessary to maintain uniform standard procedures by accounting officers and authorities in advertisement of tenders or invitation of price quotations and all other processes that follow in procurement of goods and services. Among other provisions, the other important aspect that is provided by the Treasury Regulations is the formulation of the bid committee system responsible for the bid adjudication process. In terms of Treasury Regulation 16A6.2 the bidding process must be regulated as follows:

- *Bids be adjudicated by a bid adjudication committee;*
- *Provision be made for the establishment, composition and functioning of bid specification, evaluation and adjudication committees;*
- *Bid adjudication committee be selected;*
- *Provision be made for bidding procedures; and*
- *Approval of bid evaluation and/ or adjudication committee recommendations*

The above discussion on provisions of Treasury Regulations relating to setting up of bid adjudication committees makes it a standard procedure for government institutions to comply with the specified provisions in order to prevent procurement irregularities. However, these are not the only guidelines that should be complied with; National Treasury issued a Code of

Conduct for Bid Adjudication Committees in its Circular dated 24 March 2006, including a pro-forma Declaration of Confidentiality and Impartiality for Bid Adjudication Committee members. These guidelines are intended to prevent issues of conflict of interest and unfair advancement of unqualified bidders due to undisclosed interest.

While there are other important Treasury Regulations, practice notes and circulars that ensure standardisation of SCM processes and more specifically, procurement of goods and/ or services, it should be pointed out that the legislative environment surrounding this concept has seen many reforms that are worth discussing in brief in the next section. These include the Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South Africa, 2000) and Broad-Based Black Economic Empowerment Act 53 of 2003 (Republic of South Africa, 2003).

3.6 Other applicable Laws

3.6.1 Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South Africa, 2000)

Although the Constitutional principles and other relevant legislative framework detailed in the above discussion, organs of state may still implement procurement policies to give preference in the “*allocation of contracts and to protect or advance persons or categories of persons disadvantaged by unfair discrimination*”. These policies are regulated by the Procurement Act, the primary objective of which is to provide a framework for the implementation of such procurement policies via the guidelines promulgated under the Act, which include a preference point system for awarding of tenders.

The PPPFA provides the enabling legislation for government institutions or entities to implement a preferential policy, and gives effect to section 217 of the Constitution. The specific regulations were promulgated in terms of this Act in 2001, and are currently being applied in the public sector.

3.6.2 Broad-Based Black Economic Empowerment Act 53 of 2003 (Republic of South Africa, 2003)

The BBBEE Act and the Codes of Good Practice which were promulgated in terms of the Procurement Act, have a significant impact upon government departments and public entities in respect of SCM functions. The objects of the BBBEE Act are applied in line with the Codes of Good Practice (the Codes) promulgated in February 2007. In terms of provisions of

section 9(1) (a) to (f) of the Codes, guidelines are given in the interpretation of the Act, the qualification criteria for procurement and measuring indicators are provided. Reference should be made when considering compliance aspects of the BBBEE Code, to the Department of Trade and Industry's website at www.dti.gov.za for full details of the Codes and copies of relevant legislation.

The Procurement Act's contribution towards giving equal opportunities to economically disadvantaged individuals, and giving preference by means of specific scoring measurement tools has helped change the legislative landscape regarding SCM and related processes. While some of the legislative framework discussed in the above sections is applicable to National and Provincial spheres of government, the PPPFA is applicable in all three spheres of government. The other important piece of legislation that will be discussed in the next section is the Municipal Finance Management Act, which is one of the legal reforms that have shaped how SCM processes should be applied at local government level.

3.7 Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003)

The promulgation of the MFMA resulted in certainty in the area of financial management in municipalities and local government organs and entities. This Act is superficially similar to the PFMA but provides a much simpler application in enforcing a number of provisions relating to SCM. Such provisions clearly state the position that local government institutions should take in implementing SCM policy. The objectives of section 2 of this Act, amongst other provisions, set out the establishment of norms and standards of municipal finances in which these ensure that transparency is adhered to by responsible accounting officers in reporting appropriate financial statements.

Section 2 of the MFMA also provides for the handling of financial issues in municipalities and in SCM. One method in which a municipality can procure goods and services to meet the needs of its community is to set up an internal SCM unit by using its own human and financial resources. Alternatively, procurement of goods and services may also be done via an external entity through outsourcing in which the municipality chooses the service provider and ensures that it delivers according to contractual obligations. These provisions are stipulated in section 111 of the Act and further, stipulate requirements for compliance with SCM policies within the prescribed framework in section 112.

The other important sections that are relevant to the subject under discussion are provisions of section 114, 115 and 116 which specify steps to be taken when the approval of tenders not recommended in the course of normal SCM policy; implementation of a SCM system; and completion of contracts and contract management, respectively. The MFMA has therefore given clear guidelines in areas where uncertainties previously existed at this level of government.

A detailed overview of the financial legal reforms has been discussed in detail under the section of the PFMA and the impact of putting in place strict financial controls and systems when state financial resources are entrusted to those delegated custodianship. The MFMA also makes provisions of powers vested to perform financial responsibility in management of the municipality to the accounting officer, and in this case, the Municipal Manager, who is delegated by an appropriate system in performance of his/ her duties.

It is clear from the legal landscape and reforms discussed that government has taken serious measures of managing financial resources by implementing policy guidelines at National, Provincial and Local government levels. The provisions of these legislative frameworks should not be interpreted in isolation and should be read in conjunction with other relevant legislation and the Constitution of the Republic. This will promote uniformity in application and therefore maintain standardised processes throughout government. The other important aspect of SCM that should be clarified is the institutionalisation of SCM within government as required by law.

3.8 Institutionalisation of SCM

The above discussion clearly stated that SCM should be implemented accordingly by all organs of state as provided by the legislation in respect of the three spheres. Fundamentally, at the National level the PFMA provides guidelines and makes it a requirement for state institutions to appoint accounting officers to manage financial affairs and put adequate financial controls in state institutions. The PFMA also places the duty to maintain integrity of all procurement processes to accounting officers. However, the National Treasury Regulations through Regulations 16A4 and 16A5 specifically enforce that a state department or government entity should establish a Supply Chain Management Unit within the CFO's office. This standard practice by National Treasury goes further to giving a practical guide on how SCM should be implemented, who should constitute this Unit and how specific SCM

functions should be performed. In addition National Treasury has established an SCM office which is the custodian of the databases of restricted suppliers and plays a supporting function to accounting officers on National and Provincial level as well as accounting authorities.

This contribution by National Treasury in setting up a framework of how all public institutions should implement an integrated SCM system is a source of reference for good operating standards which should be complied. These clearly state that the responsibility to implement this integrated SCM system lies with the Accounting Officers who are required to develop the necessary infrastructure and capacity to deal with SCM functions under the management of the CFO. However, an implementation plan should be drafted stating the procedure to be followed and has to be complied with. In most cases this duty is given to a specific senior official.

The implementation plan provides specifications on guidelines to establish the SCM Unit which is fully capacitated by SCM practitioners under the leadership of the SCM head and is given appropriate powers to respond to the needs as per the objectives of that state institution. As part of this Unit's functions, the bid committee should be established and given powers to deal with tender processes and finalisation of bids as and when required. While the guidelines practically make it a requirement to establish and capacitate the SCM Unit, they also strictly enforce the Accounting Officer to maintain adherence to internal policies, processes and procedures in line with National Treasury's and/ or the relevant provincial treasury's prescripts. Therefore, it is clear from this discussion that SCM is the function of the finance department of that specific state institution and compliance to the National Treasury prescripts is paramount in maintaining uniform operating standards.

3.9 Summary

The South African perspective of the concept of SCM involves inter-related processes that have to be implemented in line with financial management and good governance principles. Considerable planning and execution of SCM processes have to be adopted to ensure that procurement of goods, works and/ or services is performed in order to meet the best interest of the recipients of such services. Therefore, caution should be applied in maintaining uniform standards across the SCM processes by making sure that these are in line with broader strategies and policy objectives. In view of the policy framework of SCM, it is clear

that the accounting officers have to play an important role to ensure that compliance with policies and procedures in meeting the desired needs of actual recipients of services is observed.

An emphasis and greater detail was placed on the financial and legal reforms that have shaped how SCM is implemented in government departments and institutions. These legislative frameworks are intended to enforce uniform standards and compliance with specific prescripts as envisioned by the Constitution of the Republic of South Africa. This legal landscape has also provided clearer directives and instructions in areas where uncertainties existed in service delivery issues in all three spheres of government.

It against this background that an example of eThekweni Municipality as an institution at local government is going to be used to present evidence of how SCM processes and procedures are implemented to achieve set objectives as well as all related legislative framework, policies and regulations .

CHAPTER 4: A CASE STUDY ANALYSIS OF ETHEKWINI MUNICIPALITY

4.1 Introduction

The preceding chapters have discussed in detail the conceptual, policy and legislative framework of SCM. Chapter 2 extensively explained the concept of SCM by making reference to the theoretical views, selected models, processes and outcomes of SCM in both the private and public sectors. This discussion is followed by an in-depth viewpoint of the South African policy perspective of SCM and applicable legislations governing effective and efficient SCM at all three spheres of government. This chapter is concluded by examining institutional reforms of SCM guided by South African National Treasury which should be complied by all public institutions.

This chapter is therefore going to critically analyse the current status of eThekweni Municipality with regard to governance and management by investigating issues of compliance to regulations, policies and regulations, specifically focussing on SCM processes and adherence to transparency. This will be achieved by conducting analyses of documentary sources, namely, Annual Report, AG's reports, media statement and speech by the KwaZulu-Natal Member of the Executive Council (**MEC**) for COGTA, speech by the Mayor of the City of eThekweni and a presentation by eThekweni Municipality to the Institute of Municipal Finance Officers' (**IMFO**) Conference.

The brief chapter outline that has been presented explains the methodology that is going to be used in conducting the case study analysis with specific reference to SCM practices and adherence to transparency in SCM. The evidence obtained will be used to determine whether there are any discrepancies, gaps or "red flags" and/ or successes regarding compliance to legislative prescripts, policies and regulations governing SCM processes and adherence to transparency. The identified discrepancies and/ or successes will be tested against the previous chapters' considerations of how SCM processes should be performed and comply with applicable SCM legislation. The analysis will be discussed in the next part of the case study as follows:

4.2 EThekwini Municipality: A Case Study

This section presents a case study of eThekwini Municipality as an institution at local government and according to the Constitution is a sphere that is closest to the people. Such government institutions play a pivotal role in rendering services aimed at improving living standards of people. This case study will begin by giving a general overview of the Municipality and priority areas aimed at improving socio-economic development and governance. This part will be followed by a discussion on institutional reforms that impact on the Municipality's ability to deliver equitable services to the people in a form of eThekwini Integrated Development Plan (**IDP**), SCM Standard Operating Procedures (**SOPs**), eThekwini SCM Policy, Targeted Procurement Policy and Provincial Treasury Regulations requirements for the municipality.

4.2.1 General overview of eThekwini Municipality

This discussion is going to provide a general overview of the Municipality from the point of view of its geographical location in South Africa, social-economic status and noteworthy developments in relation to the subject matter.

The Municipality is situated in the South African province of KwaZulu-Natal (**KZN**) and is rated as a category "A" municipality (eThekwini Municipality, 2013). According to the Municipal Structures Act, 1998 (Act No. 117 of 1998), category A municipalities can only be established in metropolitan areas. This therefore makes eThekwini Municipality one of the eight metropolitan municipalities in the Republic of South Africa. The City of eThekwini is the largest in the KZN province and third largest in the country, with a population of over 3 468 088 people. The city's land is 2,297 square kilometres, which is comparatively large, with a landscape that ranges from rural to urbanised and multicultural society with growing challenges of social, economic and environmental issues.

The socio-economic standing of eThekwini Municipality, according to the 2008 electronic records, the Gross Domestic Product (**GDP**) of R137.6 billion is reflected. During 2010 the economy increased to R196, 1 billion and the municipality's budget for the financial year 2010/11 reflected a capital budget of R5.4 billion, Operating budget of R20.5 billion and a total budget of R25.98 billion. As part of its core values the Municipality has put forward the following aspirations: "*sustainability, economically successful city, caring city, smart city, poverty reduction, and democratic and equal city*". These core values are an indication that

the municipality has prioritised the issue of improving living standards of its citizens by aiming to address socio-economic challenges through effective and efficient utilisation of resources. The municipality also mentions prioritisation of sustainable use of its natural resources to improve the quality of life of its citizens and at the same time increasing economic growth.

With regard to service delivery, Tshishonga (2011:721) mentions that there are instances where the municipality has failed to provide basic services and that has negatively impacted on the living standards of citizens. As a result of these conditions the crime rate, violence, prostitution and gambling have increased. These challenges have also resulted in the local community embarking on strike actions to voice out their frustrations with poor service delivery. On the contrary, the author states that the municipality has prioritised the improvement of service delivery in its restructuring and transformation process to address socio-economic challenges. These measures deal specifically with strategies to increase economic growth and job creation. In response to these challenges, Tshishonga (2011:722) states that the municipality has developed an Eight Point Plan to specifically look into sustainable development, socio-economic development, environmental improvement, cultural diversity and good governance.

The aforementioned discussion briefly explains the geographical and socio-economic status of the Municipality and the measures that have been put in place to address the existing challenges. As part of this discussion it is relevant to mention an important innovation that is captured in the Municipality's website (www.durban.gov.za), which is the inclusion of procurement information which states that an online Request for Quotation Application has been developed which allows suppliers to access information online by viewing quotes and any technical and support documentation attached. According to this update this innovation has improved the turn-around time for procurement operations through an integration of the internet and procurement systems. This implies that suppliers have easy access to crucial information when they have been registered on the system.

It is evident from the priority areas aimed at addressing socio-economic factors that eThekweni Municipality has an important duty to implement programmes that will empower and uplift the local communities. These can be made possible by establishing systems that will promote socio-economic development through service delivery initiatives. It, therefore,

is imperative that the Municipality's IDP and SCM practices are discussed in the sections below to give an account of how service delivery initiatives are implemented.

4.2.2 EThekwini Municipality Draft Integrated Development Plan

The eThekwini Municipality draft IDP was adopted by full Council on 30 May 2012 for the five year period from 2012/2013 to 2016/2017 (eThekwini Municipality, 2013). This comprehensive report was analysed for the purpose of identifying the priority areas that the municipality has planned to address during the five year period. Therefore, the draft IDP document presents the situational analysis of all social, economic and ecological issues facing the local communities at eThekwini. The identified priority areas would then assist in determining the strategic approach to be followed and programmes to be implemented to address these issues. This draft document therefore provides the Eight Point Plan and the approach to be used to execute the implementation process. The aspirations of the Municipality's IDP are reflected in the Mayor's foreword, in which he alludes to the fact that the framing of this IDP is aligned to the 2030 National Spatial Vision and KZN Provincial Growth and Development Strategy, which pertain to, among others, job creation, improving economic infrastructure, improving the quality of education, social protection and fighting corruption.

The municipality is required to prepare the IDP in accordance with the Municipal Systems Act and serves as a planning document to facilitate and manage developmental issues in line with delivery mechanisms at agreed timeframes. The strategic approach of the municipality is, therefore, aligned to the international, national, provincial and local development policies.

For the purpose of this case study, the Eight Point Plan which is aimed at addressing the identified priority areas is going to be used as a point of reference due to its relevance as a mechanism that ensures that specific plans, projects and programmes are implemented to achieve effective and efficient service delivery. This plan comprises of separate but related eight plans which are strategically identified to address the following strategic priority areas as depicted in figure 7:

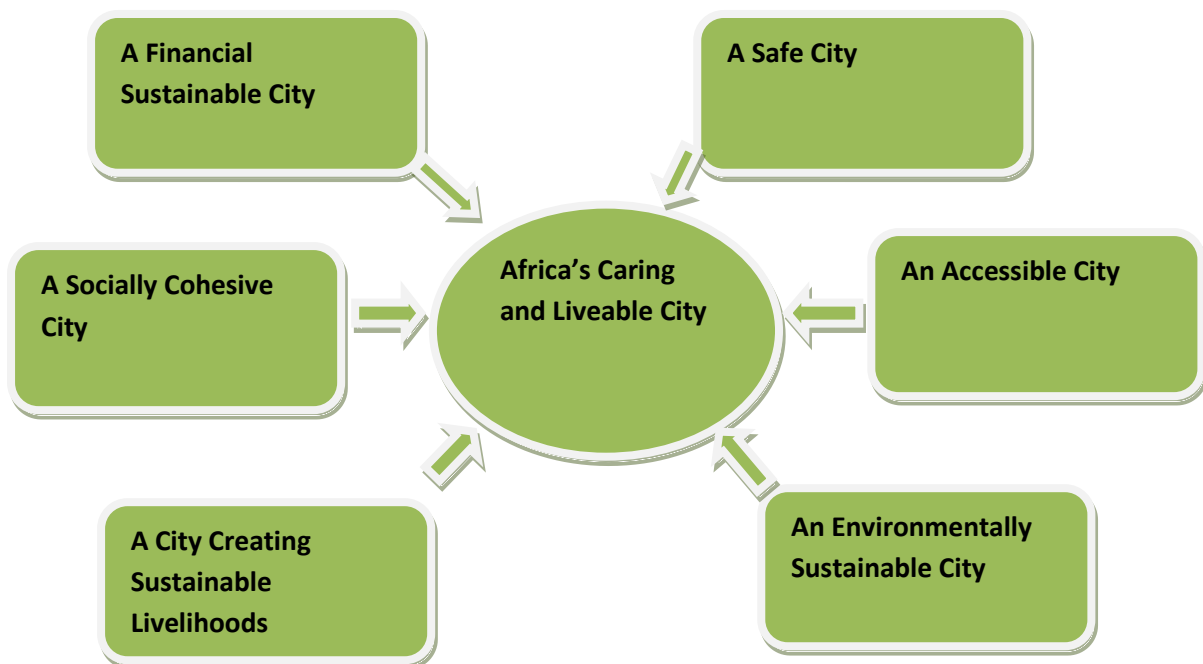


Figure 7: eThekweni Municipality's strategic priority areas

These priority areas are aimed at informing and guiding specific programmes that will ensure that eThekweni Municipality achieves its objective of being the Continent's premium sustainable city that is caring and indeed liveable. Therefore, for the municipality to achieve greater impact the interrelated plans within the Eight Point Plan are used as a tool to enable delivery as follows:

1. *Develop and sustain spatial, natural and built environment;*
2. *Developing a prosperous, diverse economy and employment;*
3. *Creating a quality living environment;*
4. *Fostering a socially equitable environment;*
5. *Creating a platform for growth, empowerment and skills development;*
6. *Embracing our cultural diversity, arts and heritage;*
7. *Good governance and responsive local government; and*
8. *Financially accountable and sustainable City.*

Essentially, the outcomes of the Municipality's programmes and projects should aspire to achieve the goals of each one of the plans as they determine if the needs of the local communities are being prioritised or not. Therefore, effective service delivery mechanisms should be put in place to address the social, economic and ecological issues identified. The following part of the case study will explore the SCM practice at the Municipality which is a mechanism aimed at improving processes that are a vehicle that effectively ensures that services are delivered to the local communities.

4.2.3 SCM practice at eThekweni Municipality

This part of the case study is going to provide guidelines of how SCM processes and procedures should be conducted by means of Standard Operating Procedures that have been implemented at eThekweni Municipality (eThekweni Municipality, 2013). These SOPs have been compiled to clearly describe procedural aspects that have to be complied when procuring goods and/ or services at the municipality. The document analysed consists of compliance requirements, SCM objectives, SCM plan, SCM processes and procedures that should be followed by designated SCM officials. These key aspects of the SOPs will be briefly explored to assess the extent to which the municipality adheres to transparency in execution of SCM processes.

4.2.3.1 Compliance requirements

The SCM procedures at the municipality should comply with all relevant and applicable laws which govern SCM in all spheres of government as stated below in table 1:

Table 1: Applicable laws governing SCM processes at eThekweni Municipality

<i>Act</i>	<i>Applicability</i>	<i>What it does in respect to SCM</i>
<i>Constitution of the RSA Act 108 of 1996 (Republic of South Africa, 1996)</i>	<i>All organs of state</i>	<i>Provides procurement clause and government's policy for establishing preference criteria</i>
<i>Preferential Procurement Policy Framework Act 5 of 2000 (Republic of South</i>	<i>All organs of state</i>	<i>Implementation of preferential procurement</i>

<i>Africa, 2000)</i>		<i>policies</i>
<i>Local Government Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003)</i>	<i>Municipality and Municipal entities</i>	<i>Provides for a regulatory framework for SCM</i>
<i>Local Government Municipal Systems Act 32 of 2000 (Republic of South Africa, 2000)</i>	<i>Local government</i>	<i>Issues guidelines for establishment of service delivery agreements in relation to tender processes</i>
<i>Construction Industry Development Board Act 38 of 2000 (Republic of South Africa, 2000)</i>	<i>All organs of state involved in procurement in construction industry</i>	<i>Establishes the mechanism by which a Board can promote and implement policies aimed at procurement reforms, standardisation and uniformity in procurement documentation, practice and procedures. It also establishes a national register for contractors to manage procurement risk.</i>
<i>Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003)</i>	<i>Procurement provisions apply to all organs of state</i>	<i>Establishes a code of good practice to develop and implement preferential procurement policy.</i>
<i>Auditor-General Act, 1995 (Act No. 12 of 1995)</i>	<i>All organs of state</i>	<i>The role of the AG involves putting in place management measures that should be taken to ensure that</i>

		<i>resources are procured economically and utilised efficiently and effectively.</i>
<i>Competitions Act, 1998 (Act No. 89 of 1998)</i>		<i>Prohibits restrictive horizontal practices which negatively impact on competition in the market.</i>
<i>Promotion of Equality and Unfair Discrimination Act, 2000 (Act No. 4 of 2000)</i>	<i>The state and all persons</i>	<i>Prohibits the state or any person from discriminating unfairly on the grounds of race.</i>

This implies that eThekweni Municipality must ensure that it complies with the aforementioned applicable laws as an organ of state at local government level when contracting service providers or suppliers during procurement of goods and/ or services.

4.2.3.2 EThekweni SCM objectives and plan

The SOPs provide specific objectives of SCM which are consistent with the Constitution and MFMA which relate to procurement practices and procedures at the municipality. These objectives are in line with the SCM plan that should be published in each financial year, specifying current contracts and contracts to be procured together with the capital programme which is captured on the Capital Projects Monitoring System (**CAPMON**). At the beginning of the financial year the Municipality should publish a listing of contracts for services and supplies to be procured in the following financial year.

The important aspect of the plan is the information provided about the SCM stages that should be conducted with utmost caution in conclusion of contracts for purposes of rendering services, works and/ or goods. The Municipality must ensure that it performs the following stages: *demand management, acquisition management, logistics management, disposal management, and supply chain performance*. These stages are aimed at ensuring that supply chain practices are in line with broader SCM policy framework and as a reporting obligation to the Municipality, the amount of expenditure of contracts should be monitored by the relevant manager.

4.2.3.3 EThekwini SCM processes

The SOPs provide flow charts that outline the SCM processes to be followed based on the different threshold values of services, works and/ or goods to be provided as well as procedures for inviting tenders and selection of contractors as required by the law. The following are the SCM processes that are followed at eThekwini Municipality:

<i>Lower Limit</i>	<i>Upper Limit</i>	<i>Procurement Method/ Quotes</i>	<i>Tender Charge</i>	<i>Tender Charge</i>
<i>R0</i>	<i>R500 (vat incl.)</i>	<i>Petty Cash</i>	<i>N/A</i>	<i>N/A</i>
<i>R500.01</i>	<i>R5000.00</i>	<i>3 verbal quotes written confirmation from the tenderer</i>	<i>No</i>	<i>No</i>
<i>R5000.01</i>	<i>R30 000.00</i>	<i>3 formal written quotes adjudicated and awarded by points</i>	<i>No</i>	<i>No</i>
<i>R30 000.01</i>	<i>R200 000</i>	<i>3 formal written quotes and advertised on the website</i>	<i>No</i>	<i>No</i>
<i>>R200 000</i>		<i>Public tender</i>	<i>Yes</i>	<i>Yes</i>

However, awarding of tenders above R10 million and long-term contracts should be guided by the accounting officer. In addition, the SOP document also provides strict guidelines which seek to ensure uniformity in submission of bid documentation, reporting obligations in relation to tender advertisements, requirements for registration, evaluation criteria, awarding of tenders and deviation from SCM/ procurement process.

It can be deduced from the above discussion that the Municipality's SOPs are a means to ensure standardisation of SCM processes and are aligned to broader policy framework and other applicable laws and regulations. This document is vitally important to the relevant manager and SCM practitioners within the Municipality to achieve policy objectives aimed at

providing basic services to the local communities. The following section will therefore discuss the policy framework required of the Municipality in execution of its mandate.

4.2.4 EThekwini Municipality's SCM Policy

Having discussed the SCM processes at eThekwini Municipality as guided by the SOPs, this part is going to specifically address the policy guidelines governing SCM practices at the Municipality. It is imperative that this exercise be conducted to show proper alignment to broader SCM policy perspective and also identify gaps in implementation, if there are any.

As earlier mentioned, the MFMA provides guidelines by which municipalities must implement the SCM policy in terms of section 111. It is for this reason that eThekwini Municipality implemented its own SCM policy on 22 September 2005 and was put into effect on 1 October 2005 (eThekwini Municipality SCM Policy, 2005). The objectives thereof are to ensure that specific guidelines of how SCM processes and procedures should be carried out are implemented when procuring goods, works and/ or services, disposing of the goods and assets that are no longer needed, appointing of contractors to deliver services on behalf of the Municipality, and outsourcing of external service providers occurs.

The implementation of this SCM policy in conducting procurement processes is consistent with section 217 of the Constitution and other applicable legislation. Among other provisions, the policy specifically mentions the powers bestowed upon those who are appointed to conduct SCM functions. The emphasis is made on additional powers and responsibilities delegated to the Municipality's accounting officer by Council. These powers compel the accounting officer to carry out SCM functions and comply with strict financial controls when allocating resources to fulfil the SCM role and responsibilities.

The SCM practices at eThekwini are implemented along the same principles as stated in the Model Policy for Municipal SCM of 2005 and are consistent with broader policy perspective of SCM in government. The following discussion will focus on the Targeted Procurement Policy which is another important point of reference which supports the Municipality's initiatives when implementing procurement processes and guidelines on preference points during selection of contractors or suppliers.

4.2.5 Targeted Procurement Policy

The eThekweni Municipality has made significant strides in ensuring proper implementation of procurement processes that are consistent with broader SCM policy framework. One of the initiatives that have been implemented is the Targeted Procurement Policy (eThekweni Municipality Draft Procurement Policy, 2003). The revised version of the policy document of February 2003 was reviewed for the purposes of this case study and according to the Municipality's electronic records, it was first revised in May/June 2003. It is noted from this document that this procurement policy is meant to be a "living" document that will be subject to regular reviews and is intended to phase in the new policy.

The objectives of this policy document, among others, are to 'promote employment and economic empowerment, inclusion of priority groups that have not benefited from the existing SCM policy and implement a procurement policy that is in line with the IDP'. This policy further captures the meaning of procurement in eThekweni as "*a process of acquiring and administering goods and services as required by Council in the course of normal business*". It also incorporates the disposal of movable assets that are no longer needed. This in essence means that the municipality has indeed prioritised compliance to SCM practices that seek to include disadvantaged groups in economic development initiatives.

The policy also outlines the specific procurement activities and methods to be used at eThekweni. The policy sets out the basis upon which criteria is used to select the target group that is intended to benefit from procurement activities. These are as follows: "*historically disadvantaged individuals; priority population group; black business enterprise; priority business enterprise and disabled persons business enterprise*". The policy document goes further in specifying categories, classes and adjudication methods of contracts within eThekweni. However, all suppliers, service providers and contractors who fall within this designated group that intend to do business with the Municipality should be registered on the supplier database. It can be deducted from this policy document that eThekweni has prioritised inclusion of target groups in procurement activities that are aimed at furthering service delivery initiatives. The next section of the case study provides guidelines with which all parties involved in procurement activities at the municipality need to comply and also lists specific sanctions that could be applied should non-compliance be established in terms of the code of conduct.

4.2.6 EThekwini Code of Conduct for procurement

The code of conduct dated 12 August 2003 was implemented to issue guidelines to parties involved in procurement of goods, services, engineering and construction works at eThekwini Municipality (eThekwini Municipality, 2003). This document is consistent and carries the same sentiments as section 217 of the Constitution. It also ensures that integrity of the procurement process is maintained throughout all its stages and failure to comply with the code of conduct may result in the guilty party being sanctioned or even being prosecuted in case of an illegal act being committed. Therefore, this document provides lists of action or conduct by parties involved in procurement processes which are not compliant with section 217 of the Constitution or are deemed to be illegal. The following list describes the parties that should comply with the code of conduct:

Participant	Description
<i>Employer</i>	<i>Any output Unit or Department within the Municipality involved in procurement processes, including other public bodies/ partners assisting in, or exercising control over procurement processes.</i>
<i>Official</i>	<i>An employee of the employer</i>
<i>Agent</i>	<i>One who acts on behalf of the employer</i>
<i>Tenderer</i>	<i>One who submits a competitive bid for supply of goods, services, or engineering and construction works of the employer</i>
<i>Contractor</i>	<i>The successful tenderer to whom the employer awards the contract for the supply of goods, services, engineering or construction works.</i>
<i>Subcontractor</i>	<i>One who contracts to a contractor to assist in execution of the construction</i>
<i>Representative</i>	<i>A political, or other, representative of the public; or of the private sector who serves on the procurement and tenders sub-committee responsible for policy, oversight of the appointment process or approving any aspect of procurement by eThekwini Municipality.</i>

The above-mentioned list clearly indicates that not only municipal officials are required to comply with the code of conduct; even other external participants that are involved in procurement processes at the Municipality are bound by the code.

The following part of the case study will briefly discuss the Treasury requirements that must be complied with by municipalities in terms of planning, performance and reporting which are monitored in each financial year.

4.2.7 Treasury Regulations reporting requirements for eThekweni Municipality

This discussion briefly explains the requirements by Treasury that should be complied with by municipalities over and above the Treasury regulations, circulars and practice notes that have been discussed earlier in the literature study. In this case eThekweni Municipality's area of jurisdiction is within the Province of KwaZulu-Natal and therefore KZN Provincial Treasury issues specific guidelines and circulars requiring adherence to promote standard and uniform procedures. These guidelines are issued to municipal managers timely to maintain strict adherence to the MFMA and the Division of Revenue Act 6 of 2011 (Republic of South Africa, 2011) (**DORA**) in relation to a wide range of reporting requirements, among others, the MFMA implementation plan, budget timetable, Service Delivery Budget Implementation Plan (**SDBIP**), Mid-Year Budget and Performance Assessment, and publication of section 75 information on municipal websites. This implies that eThekweni Municipality is bound by specific statutory obligations to execute its mandate and failure to comply with these reporting regulations has repercussions that could impact on local government delivery objectives.

The aforementioned discussion presents a case study of eThekweni Municipality by describing practical applications of SCM at local government which underpins the broader South African perspective. The analysis of the current status of the Municipality is going to be conducted to establish whether the SCM practice is in compliance with policy, legislative and regulatory prescripts that govern SCM processes at the local sphere of government.

4.3 Analysis of the current status of SCM practices and adherence to transparency

The analysis conducted in this section explains the methodology and tools that are going to be used to explore the research question and the evidence obtained is going to be used to draw conclusions on the case study. The secondary data sources analysed were collected from

KwaZulu-Natal COGTA, KZN Treasury, eThekweni City Library, electronic media and the eThekweni Municipality's website. The evidence of the analysed data is going to be tested for compliance with relevant laws, regulations and broader policy requirements to determine the extent to which the current status of eThekweni Municipality adheres to transparency in SCM.

4.3.1 Annual reports

The draft annual report of the 2011/2012 financial year was tabled on 25 January 2013 in terms of section 127 of the MFMA and was analysed for the purpose of the case study. This consolidated report presents the key aspects of governance, service delivery performance, organisational development performance, financial performance, AG's reports and management response. As a requirement by section 121(1) of the MFMA the Municipality must prepare the annual report that consolidates all activities of the 2011/2012 financial year; report on performance against the budget for 2011/2012 and account to the local community regarding decisions made during the period. This implies that the Municipality is compelled to comply with statutory requirements and policies that govern processes, financial management and governance which have an impact on the local communities.

This consolidated report incorporates SCM as one of the financial performance components in which the Municipality makes commitments to proactively reduce irregular expenditure through screening of companies prior to registration on the supplier database. The Municipality also undertakes to create an audit control checklist for reports coming to the Bid Evaluation Committee (**BEC**) and Bid Adjudication Committee (**BAC**). The report also states that ISO 9001 project within SCM has commenced, which will generate templates required during the SCM and Contract Management process. The other highlights mentioned include the adoption of Category Management process, address book consolidation to form a single central database and an electronic quotes management system (**QMS**) to improve handling of quotations. The Communication Department has also improved the electronic and print media by redesigning the Municipality's website and increased accessibility to the residents who do not have electronic media access by distributing the Metro newspaper eZasegasini on a bi-monthly basis. The Municipality's communication strategy is aimed at ensuring that all the stakeholders are kept abreast of the latest developments which include all legislated postings and statements, tenders, notices, Council decision, speeches, budget hearings, reports, policies, to mention but a few, on the website.

It is evident from these initiatives that the Municipality has recognised shortcomings in SCM which have been confirmed by the AG reports and by improving processes and systems to reduce unwarranted losses. These systemic improvements will, therefore, promote good governance and sound financial performance. In the management response to the AG findings, the accounting officer stated that a central SCM Unit has been established to implement the SCM Policy. This Unit has been incorporated to the Treasury Cluster which has an important duty to develop, among other initiatives, skills development which addresses effective resourcing of procurement activities both by staffing and improvement of staff capacity within the Unit. This implies that the accounting officer has prioritised closing systemic gaps that have led to the Municipality incurring irregular expenditure as a result of procurement irregularities.

4.3.2 Audit reports

The audit reports of consolidated financial statements of eThekweni Municipality as at 30 June 2011 and 30 June 2012, respectively, were perused for the purpose of the analysis. The AG conducted the audit according to the reporting obligation by the municipality in terms of section 188 of the Constitution, section 4 of the Public Audit Act 25 of 2004 (Republic of South Africa, 2004), and section 126(3) of the MFMA.

4.3.2.1 EThekweni Municipality 2010/2011 audit report

The consolidated financial statements for the relevant period were prepared and presented by the accounting officer in accordance with the South African Standards of Generally Recognised Accounting Practice (**GRAP**), MFMA and DORA. With regard to the audit report of the financial position of the Municipality as at 30 June 2011, the AG raised the following issues in table 2:

Table 2: Analysis of the 2010/2011 AG report

Audit query	Opinion
Irregular expenditure	Disclosure in note 43 of the financial statement reflected irregular expenditure of R1, 329 billion incurred due to contraventions of the Municipality's SCM Regulations (GNR 868 of 30 May 2005).
Compliance with laws and	Contravention of the Municipal SCM Regulation 44

<p>regulations</p>	<p>occurred due to awarding of contracts to Municipal employees.</p> <p>Extending of contracts without reasons for amendments being tabled before the council.</p> <p>The accounting officer failed to take reasonable steps to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.</p>
<p>Internal control (Financial management)</p>	<p>The municipality and its entities failed to implement effective internal monitoring system to ensure that all SCM regulations are adhered to prior to awarding contracts.</p>
<p>Other reports (SCM investigations)</p>	<p>With regard to internal investigations relating to procurement irregularities and non-compliance with SCM regulations, 10 were finalised of which 4 were found to be compliant and 6 resulted in disciplinary action and subsequent resignation of employees.</p> <p>There were 13 internal investigations in progress relating to procurement irregularities and non-compliance with the SCM regulations in the financial year.</p>

4.3.2.2 Summary of evidence of 2010/2011 SCM audit queries

The evidence presented below is extracted from the Management response to the AG's comments and does not represent the completeness of the document used as annexure 10 in the 2011/2012 IDP. The following extracts pertain to eThekweni Municipality's SCM related queries raised in the AG outcome:

Irregular expenditure incurred (R'000)	Non-compliance with MFMA & SCM Regulations
37 546	Awards made to entities whose directors/ members/ principal shareholders were in the service of eThekweni Municipality
84 650	123 awards made to 109 entities whose directors/ members/ principal shareholders/ stakeholders were in the service of other state institutions
1 658	7 awards made to entities whose directors/ members/ principal shareholders/ stakeholders were in the service of eThekweni Municipality as Councillors

4.3.2.3 EThekweni Municipality 2011/2012 audit report

With regard to the audit report of consolidated financial statements as at 30 June 2012, the AG raised the following issues in table 3:

Table 3: Analysis of the 2011/2012 AG report

Audit query	Opinion
Irregular expenditure	Disclosure in note 42 of the financial statement reflected irregular expenditure to the value of R783 million incurred due to contraventions of the SCM regulations (GNR 868 of 30 May 2005).
Compliance with laws and regulations	<p>Contraventions of the SCM Regulation 44 were identified due to awarding of contracts to Municipal employees.</p> <p>Extension of contracts without reasons for amendments being tabled before the Council which is in contravention of section 116(3) of the MFMA.</p>

	<p>The accounting officer failed to report in writing the reasons for the irregular expenditure in terms of section 32(4) of the MFMA.</p> <p>The accounting officer failed to take reasonable steps to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.</p>
Internal control (Financial management)	The Municipality did not implement an effective internal control system to regulate modifications in terms of section 116(3) of the MFMA and did not implement appropriate monitoring controls to prevent and detect awards to Municipal employees.
Other reports (SCM investigations)	<p>With regard to internal investigations relating to procurement irregularities, 41 were finalised during the financial year.</p> <p>There were 32 internal investigations relating to procurement irregularities and non-compliance to SCM regulations by employees that were under way.</p>

This audit information, captured and analysed from the AG reports, was taken from the consolidated financial statements of the Municipality which consist of the statements of financial performance, statements of changes in net assets and the cash flow statements for the respective financial years and presented according to accounting policies.

4.3.3 Media statement by the MEC for KwaZulu-Natal COGTA

The media statement on findings and recommendations of section 106 forensic investigations into eThekweni Municipality was presented by the MEC for KwaZulu-Natal COGTA, Nomusa Dube on 6 February 2012 and was perused for the purpose of the analysis (www.politicsweb.co.za, 15 August 2013). The media statement emanated from a forensic investigation conducted by the Provincial Government through COGTA in terms of section 106(1) of the Local Government Municipal Systems Act. The MEC reported that the forensic investigations were initiated as a result of numerous representations in respect of maladministration, fraud and corruption within the Municipality. The documents furnished

for this probe included the 2009/2010 AG report, Internal Audit Report and a report by the Accounting Officer requesting investigations by Mrs Ngubane & Co. The scope of the investigation included, among others, the following matters that are relevant to the case study:

- (a) Alleged irregular expenditure resulting from inadequate budgetary controls and controls over payment process and weak checks and balances;*
- (b) Alleged abuse of the use of Urgent and Emergency Procurement Policy when appointing service providers;*
- (c) Alleged non-compliance with SCM policies and regulations in respect of the various infrastructure and housing related projects;*
- (d) Alleged unwarranted variation orders being approved by the management without following proper procedure;*
- (e) Alleged non-disclosure of interests by Councillors and officials of the Municipality;*
and
- (f) Alleged irregularities in the SCM process in the award of contracts, payments and performance management in respect of telecommunications.*

The MEC stated that the main objective of the investigation was to identify systemic gaps and implement austerity measures that would assist the Municipality to function effectively. The report also mentioned that ten Councillors were identified to have business interests with entities which conducted business with the Ekurhuleni Metropolitan Municipality (EMM). These Councillors contravened paragraph 6 of Schedule 1, Code of Conduct for Councillors of the Municipal Systems Act read with section 54 of the Act. The report also highlighted the opinion by the AG which identified instances of non-compliance with section 36 of the SCM policy which deals with deviations from procurement procedures that should be reported to the Council. This in essence means that the officials contravened the MFMA which requires that financial resources must be utilised effectively, efficiently, economically and in a transparent manner to prevent irregular expenditure. It should be highlighted that the report by the MEC included a number of discrepancies that were identified by the investigating

team and recommendations of which involved a number of disciplinary action against implicated officials as per the allegations referred.

4.3.4 Speech by the MEC for KwaZulu-Natal COGTA

The 2012/13 budget policy speech by the MEC for COGTA in KwaZulu-Natal, Nomusa Dube dated 30 May 2012, was uplifted and used for the purpose of the analysis (KwaZulu-Natal COGTA, 2013). The analysis would establish if local government had allocated substantial budget to address socio-economic challenges facing local communities at the jurisdiction of municipalities. It would also establish if adequate measures had been put in place to ensure that municipalities expedite service delivery mechanisms. Among other initiatives that this budget vote intended to address included, infrastructure led growth, improving the capacity of government to fast track service delivery and of importance to this case study, is the report on the progress of the eThekweni Municipality intervention. The MEC reported on the investigations conducted against the Municipality as a result of the Cabinet intervention. The investigation had led to commencement of disciplinary action against 10 councillors and 123 officials who were implicated in the report.

However, the MEC stated that the Municipality had requested additional time to implement the recommendations of the report in order for legal procedures and processes to be correctly applied. Furthermore, requests to have this report released in terms of the Promotion of Access to Information Act had been received and would be processed in due course. The reasons stated for not releasing the report were that many parties, including outside entities, have been implicated. Understandably this may require further investigation and releasing the report prematurely may compromise the investigations.

It is worth mentioning that the MEC raised concerns of the increasing fraud, corruption and maladministration in municipalities. The main cause of this scourge emanates from SCM irregularities which have led to irregular, fruitless and wasteful expenditure from excessive use of regulation procurement delegations reserved only for emergencies. These have occurred without justification and reasons to follow correct procedures. These continuing challenges facing local government demand that those in positions of authority put in place stringent control mechanisms to ensure that compliance with policies, legislation and regulations occurs and if adverse reports persist, the implicated individuals are held accountable according to law.

4.3.5 Speech by the Executive Mayor of the City of Durban

The speech by Councillor James Nxumalo, the Mayor of the City of eThekweni that took place on the inaugural meeting of Council on 6 June 2011 was uplifted for the purpose of the analysis (eThekweni Municipality, 2013). In his speech, the Mayor mentions the achievements that have been accomplished during his predecessor's tenure and these important milestones cover most of the interventions to address socio-economic issues, economic development and tourism, infrastructure development and financial management. Among the priority areas that have been budgeted for, the following were highlighted in the Mayor's speech:

- *To ensure visible leadership by making the City Manager and councillors declare business interests for public scrutiny and to fight against fraud, corruption and maladministration by putting measures to detect and prevent SCM and tender irregularities.*
- *To improve the oversight role of Council, EXCO and senior managers to ensure that the City's resources are utilised economically, effectively and efficiently.*
- *To continue to speed up service delivery to eliminate backlogs by deriving mechanisms to improve delivery programmes.*
- *To ensure that sound financial governance is achieved by maintaining records of unqualified audits that the City has and commit to obtaining clean audits by 2014.*
- *Commit to addressing challenges that the City has around procurement processes and derive means that will not compromise service delivery.*
- *To ensure that the City's administration works economically, effectively and efficiently to promote the interests of residents.*

These commitments by the Mayor during the reporting period are an indication that the Municipality had an important duty to improve leadership, financial management, governance and service delivery which are all at the centre stage of development.

4.3.6 Presentation to Institute of Municipal Finance Officers' (IMFO) Conference

The presentation by eThekweni Municipality at the IMFO Conference that took place on 30 September 2013 (Striving towards clean audit: a case study of eThekweni Municipality) was analysed for the purpose of this case study. The presentation highlights the road travelled by the Municipality since the launch of Operation Clean Audit by the former Minister of Co-operative Governance and Traditional Affairs on 16 July 2009. It further identifies the challenges that have been experienced by the Municipality in achieving a clean audit, the improvements and achievements accomplished thus far, and the future prognosis in meeting the desired audit status. The following are some of the matters that are raised in the presentation in table 4:

Table 4: Analysis of the presentation at the IMFO Conference

Input	Description
Audit reports	The audit outcomes over the past three years (2009/10, 2010/11 and 2011/12) indicated that there was a net regression due to 33 (12%) audits outstanding.
2010/2011 issues	<p>7 awards made to entities whose directors/ members/ principal shareholders/ stakeholders were in the service of the Municipality as Councillors amounting to R 1 658 irregular expenditure.</p> <p>Awards made to entities whose directors/ members/ principal shareholders/ stakeholders were in the service of the Municipality amounting to R 37 546 irregular expenditure.</p> <p>123 awards made to 109 entities whose directors/ members/ principal shareholders/ stakeholders were in the service of other state institutions amounting to R 84 650 irregular expenditure.</p> <p>Non-compliance with section 116 (3) of the MFMA amounting to R 711 291 irregular expenditure.</p> <p>Non-compliance with other SCM regulations amounting to R</p>

	493 654 irregular expenditure. Total irregular expenditure during the financial year amounted to R 1 328 799.
Audit outcomes	2010/2011 the Municipality received an unqualified audit with findings and irregular expenditure to the value of R1, 3 million. 2011/2012 the Municipality received an unqualified audit with findings and irregular expenditure to the value of R 782, 5 million. 2012/2013 the audit outcomes are not yet known but irregular expenditure to the value of R 324, 9 million has been recorded.
Clean audit outcomes	Two of the Municipality's entities have received clean audits, namely, Durban Marine Theme Park and Inkosi Albert Luthuli International Convention Centre in Durban.

During the presentation, the Municipality also stated that it is in the process of addressing systemic gaps that have been mentioned in the past audit reports. The strategy that has been adopted, relates to strengthening internal controls, compliance with policies and regulations, human capital development, performance management and monitoring, to mention but a few. Some of the systems that have been put in place are aimed at ensuring clean governance, strict adherence to SCM regulations and investigation of conflict of interest cases that have plagued the Municipality in the past.

4.4 Data analysis

The evidence of documents analysed in respect of the current status of SCM processes at eThekweni Municipality will be used to establish the extent of adherence to transparency in SCM. The documents analysed include the 2011/2012 eThekweni Municipality annual report, audit reports of year ending 30 June 2011 and 30 June 2012, media statement by KwaZulu-Natal MEC for COGTA of 6 February 2012, 2012/2013 budget policy speech by the KwaZulu-Natal MEC for COGTA, speech by the Executive Mayor of eThekweni in the inaugural meeting of Council on 6 June 2011, and the presentation by eThekweni Municipality at the IMFO Conference on 30 September 2013. These documents were used in comparison with current SCM processes at the Municipality as guided by applicable laws,

policies and regulations. A quick reference of legislative, policy and regulatory prescripts that have to be consulted to measure compliance in respect of SCM processes and transparency are as follows:

Outcome	Legislation	Policy	Regulations
Transparency in SCM processes	Constitution of the RSA Act 108 of 1996 (Republic of South Africa, 1996) Local Government Municipal Finance Management Act 56 of 2003 (Republic of South Africa, 2003) Public Audit Act 15 of 2004 (Republic of South Africa, 2004) Promotion of Access to Information Act 2 of 2000 (Republic of South Africa, 2000) Division of Revenue Act 6 of 2011 (Republic of South Africa, 2011)	SCM Policy: A Guide to Accounting Officers of 2004 (Republic of South Africa, 2004) eThekweni Municipal SCM Policy effective on 22 September 2005	Local Government SCM Regulations of 2005 (Republic of South Africa, 2005) eThekweni Municipality SCM Regulations (GNR 868 of 30 May 2005)

Since transparency cannot be quantified, the literature review critically identified important features or indicators of transparency in public procurement which form part of SCM. Therefore, due consideration of the SCM cycle was taken into cognisance in determining the critical SCM stages which are required to adhere to transparency. The SCM regulations discussed in chapter 3 identified the critical stages of demand management, acquisition management and risk management, but not limited to these stages, that should be performed in a manner that is transparent to ensure integrity of the entire cycle of SCM.

In determining the extent of transparency in SCM the following indicators in the critical stages of SCM were used against applicable SCM legislation, policies and regulations:

1. **Publication** of procurement contract opportunities;
2. **Disclosure of the criteria** used to select successful bidder;
3. **Availability of financial performance reports** to internal and external auditors;
4. **Disclosure of interest** in parties involved and participating in procurement processes;
5. **Access to information** on contract awards; and
6. **Monitoring** of procurement procedures.

The data from documentary sources was used to provide evidence of either compliance or non-compliance with applicable legislation, policies and regulations. The sections below present data analysis to measure transparency using the identified indicators.

4.4.1 Table 5: Analysis of compliance with SCM legislation

Transparency indicators	Compliance with legislation	
	Constitution of the RSA, 1996 (Act 108 of 1996) (read with Promotion of Access to Information Act, 2000 (Act 2 of 2000) & Public Audit Act, 2004 (Act 25 of 2004))	Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003) read with Division of Revenue Act, 2011 (Act 6 of 2011)
Publication of procurement contract opportunities	<p>One of the important principles that is requirement for an effective and efficient SCM process is transparency and is given effect in section 217 of the Constitution.</p> <p>Section 32 of the Constitution and the Promotion of Access to Information Act (PAIA) provide for access to information by all interested and affected parties in administrative processes.</p> <p>The analysis of the 2011/2012 annual report confirmed that eThekwini Municipality complied with publication of procurement information via its website and printed media.</p>	<p>Section 111 and 112 make provisions of the MFMA for proper implementation of SCM which is consistent with the broader SCM policy perspective as well as section 217 of the Constitution.</p> <p>Analysis of the 2011/2012 annual report confirmed that eThekwini Municipality complied with provisions of the MFMA in terms of publication of procurement information via its website and printed media.</p>
Disclosure of the criteria used to select successful bidder	<p>Section 217 of the Constitution makes it a requirement that those entrusted with SCM functions, must perform such duties in a transparent manner. This provision promotes fair opportunities to willing applicants or bidders.</p> <p>Analysis of documentary sources was inconclusive in determining whether the criteria were disclosed by the Municipality in selecting the winning bidders for the period under review.</p>	<p>Section 111 and 112 make provisions of the MFMA for proper implementation of SCM which is consistent with the broader SCM policy perspective as well as section 217 of the Constitution.</p> <p>Analysis of documentary sources was inconclusive in determining whether the criteria were disclosed by the Municipality in selecting the winning bidders for the period under review.</p>

<p>Availability of financial performance reports to internal and external auditors</p>	<p>Section 188 of the Constitution and section 4 of the Public Audit Act places a reporting obligation on the Municipality to provide annual financial performance reports to the AG for auditing purposes.</p> <p>The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with prescripts of the law in providing audit information.</p>	<p>Section 126 (3) of the MFMA read with provisions of DORA require that the Accounting Officer of the Municipality must make available annual financial performance reports to the AG for auditing purposes.</p> <p>The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with prescripts of the law in providing audit information.</p>
<p>Disclosure of interest by parties involved in procurement processes</p>	<p>Section 32 of the Constitution and the Promotion of Access to Information Act (PAIA) provide for access to information by all interested and affected parties in administrative processes.</p> <p>The analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were a issues of non-compliance with provisions of section 217 of the Constitution since there were recorded incidents of Municipal employees or stakeholders and other government employees involved in conflict of interest and conducting business with the Municipality.</p>	<p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were issues of non-compliance with provisions of MFMA since there were incidents of Municipal employees or stakeholders and other government employees found to be in conflict of interest by conducting business with the Municipality.</p> <p>The analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement and speech by the KZN MEC for COGTA and the presentation to IMFO Conference stated that there are internal investigations relating to officials involved in procurement irregularities, disciplinary action being instituted and subsequent resignations.</p>
<p>Access to information on contract awards</p>	<p>Section 32 of the Constitution read with PAIA provides for access to information by all interested and affected parties in administrative processes.</p> <p>Analysis of documentary sources indicated that the Municipality complied with publication of procurement</p>	<p>Analysis of the 2011/2012 annual report confirmed that eThekweni Municipality complied with provisions of the MFMA in terms of publication of procurement information via its website and printed media, but there was no specific or conclusive evidence confirming that information on awarded contracts was also published.</p>

	<p>information via its website and printed media but there was no specific or conclusive evidence confirming that information on awarded contracts was also published.</p>	
<p>Monitoring of procurement procedures</p>	<p>Section 217 of the Constitution makes it a requirement that those entrusted with SCM functions, must perform such duties in a manner that is transparent.</p> <p>The analysis of the 2010/2011 and 2011/2012 audit reports, media statement by the KZN MEC for COGTA, and the presentation to the IMFO Conference identified instances of non-compliance with effective internal controls by the Accounting Officer and lack of transparency in execution of mandatory reporting which resulted in irregular expenditure not being reported to the detriment of the Municipality.</p>	<p>Section 111 and 112 make provisions of the MFMA for proper implementation of SCM which is consistent with the broader SCM policy perspective as well as section 217 of the Constitution.</p> <p>Analysis of the 2011/2012 annual report established that the Accounting Officer had established the SCM Unit to properly implement the SCM policy in terms of the MFMA. This Unit had been incorporated to the Treasury Cluster which would address human capital issues in procurement functions. However, this action was in response to previous audit queries.</p> <p>Analysis of 2010/2011 and 2011/2012 audit reports identified issues of non-compliance to the MFMA whereby the Accounting Officer had failed to apply control measures to prevent irregular expenditure. This was in contravention of section 62(1)(d) of the MFMA. The Accounting Officer failed to comply with section 32(4) of the MFMA by not reporting in writing reasons for the irregular expenditure to Treasury. Furthermore, the Accounting Officer failed to comply with section 116(3) of the MFMA by not putting in place appropriate monitoring controls to regulate deviations.</p>

4.4.2 Table 6: Analysis of compliance with SCM policies

Transparency indicators	Compliance with SCM Policies	
	SCM Policy: A Guide to Accounting Officers of February 2004	eThekwini Municipality SCM Policy of 22 September 2005
Publication of procurement contract opportunities	<p>The SCM Policy stipulates that invitation of bids through advertisements is necessary to create competition. The bids should be advertised for at least 30 days before closure in at least the Government Tender Bulletin and appropriate media.</p> <p>Analysis of 2011/2012 annual report confirmed that eThekwini Municipality complied with publication of procurement information via its website and printed media.</p>	<p>The implementation of eThekwini SCM Policy is in terms of the MFMA (section 111) and therefore, provides the SCM framework that should be complied with at the Municipality.</p> <p>The Policy provides for public invitation of competitive bids to prospective providers by means of public advertisement in local newspapers, the website and at least the Government Tender Bulletin.</p> <p>Analysis of 2011/2012 annual report confirmed that eThekwini Municipality complied with section 22 of the Municipality’s SCM Policy in publication of invitation of competitive bids via its website and printed media.</p>
Disclosure of the criteria used to select successful bidder	<p>The SCM Policy stipulates that the scope of contract and a clear statement of criteria for qualification should be sent to the respondents of the invitation. Those applicants that meet specified criteria should be allowed to bid (pre-qualification) and the Municipality should inform applicants about the results of pre-qualification.</p> <p>Analysis of documentary sources was inconclusive in determining whether the criteria were disclosed by the Municipality in selecting the winning bidders for the period</p>	<p>The SCM Policy provides for a procedure of handling, opening and recording bids and also provides for bid documents to be opened in public. The policy also provides for members of the public to request names of bidders who submitted in time and each bidders total bidding price.</p> <p>Analysis of documentary sources is not conclusive in proving compliance with this policy requirement.</p>

	under review.	
Availability of financial performance reports to internal and external auditors	The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with providing audit information.	The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with providing audit information.
Disclosure of interest by parties involved in procurement processes	<p>In terms of the SCM Policy, the Accounting Officer should ensure that the recommended bidders or directors are not listed as companies/ directors/ persons in the Municipality and the public sector. The list of approved suppliers should be identified through competitive bidding process and must meet registration requirements on the suppliers' database.</p> <p>The analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were issues of non-compliance with the SCM Policy since there were recorded incidents of Municipal employees or stakeholders and other government employees involved in conflict of interest and conducting business with the Municipality.</p>	<p>Section 44 of the SCM Policy prohibits selection of Municipal employees/ directors/ companies that are in the service of the Municipality or the public sector.</p> <p>Section 46 of the policy also provides a code of ethical standards for officials taking part in SCM processes and its main objective is to promote integrity in the manner in which the SCM duties are performed.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were issues of non-compliance with section 44 of the Municipality's SCM Policy since there were recorded incidents of Municipal employees or stakeholders and other government employees involved in conflict of interest and conducting business with the Municipality.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement and speech by the KZN MEC for COGTA and the presentation to IMFO Conference stated that there are internal investigations relating to officials involved in procurement irregularities, disciplinary action being instituted and subsequent resignations in contravention of section 44 and 46 of the</p>

		Municipality's SCM Policy.
Access to information on contract awards	<p>The Accounting Officer should be informed prior to rejection or selection of a preferred bidder before entering into a contract.</p> <p>Analysis of documentary sources is not conclusive in proving compliance with this policy requirement.</p>	<p>Analysis of documentary sources is not conclusive in proving compliance with this policy requirement.</p>
Monitoring of procurement procedures	<p>In terms of the SCM Policy the administration and monitoring are the responsibility of the Accounting Officer. The latter should delegate duties to the SCM Unit Head to manage and analyse risk during procurement processes.</p> <p>The analysis of the 2010/2011 and 2011/2012 audit reports, media statement by the KZN MEC for COGTA, and the presentation to the IMFO Conference identified instances of non-compliance with effective internal controls by the Accounting Officer and those entrusted with SCM processes at the Municipality.</p>	<p>Section 2 of the SCM Policy stipulates the delegation of duties to the Accounting Officer by Council to comply with administrative and operation responsibilities in implementation of SCM policy. These include enforcing reasonable cost-effective measures to prevent fraud, corruption, favouritism and unfair or irregular practices.</p> <p>The Accounting Officer must comply with section 36 of the policy which gives guidelines on how to perform deviations and ratification of minor breaches of procurement processes.</p> <p>The Accounting Officer must comply with section 38 of the policy which gives powers to establish measures to combat abuse of the SCM processes.</p> <p>Section 41 of the policy gives powers to the Accounting Officer to establish risk analyses and management to identify and prevent potential risk in SCM processes.</p> <p>Analysis of 2010/2011 and 2011/2012 audit reports and the media statement by the KZN MEC for COGTA identified issues of non-compliance with the Municipality's SCM Policy by the Accounting Officer in failing to comply with both sections 2 and 41 by not</p>

		putting in place appropriate monitoring control measures to detect and prevent risks in SCM processes.
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4.4.3 Table 7: Analysis of compliance with SCM Regulations

Transparency indicators	Compliance with SCM Regulations	
	Local Government Regulations of 30 May 2005	eThekwini Municipality SCM Regulations of 30 May 2005
Publication of procurement contract opportunities	<p>The implementation of Local Government SCM Regulations is in terms of the MFMA (section 111) and consistent with provisions of section 217 of the Constitution and therefore, provides the SCM framework that should be complied with at the Municipality.</p> <p>The regulation 22 provides for public invitation of competitive bids to prospective providers by means of public advertisement in local newspapers, the website and at least the Government Tender Bulletin.</p> <p>Analysis of 2011/2012 annual report confirmed that eThekwini Municipality fully complied with regulation 22 in terms of publication of invitation of competitive bids via its website and printed media.</p>	<p>The implementation of eThekwini SCM Regulations is in terms of the MFMA (section 111) and consistent with provisions of section 217 of the Constitution and therefore, provides the SCM framework that should be complied with at the Municipality.</p> <p>Regulation 22 provides for public invitation of competitive bids to prospective providers by means of public advertisement in local newspapers, the website and at least the Government Tender Bulletin.</p> <p>Analysis of 2011/2012 annual report confirmed that eThekwini Municipality fully complied with regulation 22 in terms of publication of the invitation of competitive bids via its website and printed media.</p>
Disclosure of the criteria used to select successful bidder	<p>The SCM regulations provide for a procedure of handling, opening and recording bids and also provides for bid documents to be opened in public. The regulations also provide for members of the public to request names of bidders who submitted in time and each bidders total bidding price.</p> <p>Analysis of documentary sources is not conclusive in proving</p>	<p>The Municipality's SCM regulations provides for a procedure of handling, opening and recording bids and also provides for bid documents to be opened in public. The regulations also provide for members of the public to request names of bidders who submitted in time and each bidders total bidding price.</p> <p>Analysis of documentary sources is not conclusive in proving compliance with the Municipality's SCM regulations requirements.</p>

	compliance with the SCM regulations requirements.	
Availability of financial performance reports to internal and external auditors	The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with providing audit information	The analysis of the 2011/2012 annual report, 2010/2011 and 2011/2012 audit reports confirmed that the Municipality fully complied with providing audit information
Disclosure of interest by parties involved in procurement processes	<p>Regulation 44 prohibits selection of Municipal employees/ directors/ companies that are in the service of the Municipality or the public sector.</p> <p>Regulation 46 also provides a code of ethical standards for officials taking part in SCM processes and its main objective is to promote integrity in the manner in which the SCM duties are performed.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were issues of non-compliance with regulation 44 of the SCM system since there were recorded incidents of Municipal employees or stakeholders and other government employees involved in conflict of interest and conducting business with the Municipality.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement and speech by the KZN MEC for COGTA and the presentation to IMFO Conference stated that there are internal investigations relating to officials involved in procurement irregularities, disciplinary action being instituted</p>	<p>Regulation 44 of the Municipality's SCM system prohibits selection of Municipal employees/ directors/ companies that are in the service of the Municipality or the public sector.</p> <p>Regulation 46 of the Municipality's SCM system also provides a code of ethical standards for officials taking part in SCM processes and its main objective is to promote integrity in the manner in which the SCM duties are performed.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement by the KZN MEC for COGTA and the presentation to IMFO Conference indicated that there were issues of non-compliance with regulation 44 of the Municipality's SCM system since there were recorded incidents of Municipal employees or stakeholders and other government employees involved in conflict of interest and conducting business with the Municipality.</p> <p>Analysis of the 2010/2011 and 2011/2012 Audit reports, the media statement and speech by the KZN MEC for COGTA and the presentation to IMFO Conference stated that there are internal investigations relating to officials involved in procurement irregularities, disciplinary action being instituted and subsequent resignations arising from contravention to regulations 44 and 46 of</p>

	and subsequent resignations arising from contravention to regulations 44 and 46 of the SCM system.	the Municipality's SCM system.
Access to information on contract awards	Analysis of documentary sources is not conclusive in proving compliance with the SCM regulations requirements.	Analysis of documentary sources is not conclusive in proving compliance with the Municipality's SCM regulations requirements.
Monitoring of procurement procedures	<p>Regulation 2 stipulates the delegation of duties to the Accounting Officer by Council to comply with administrative and operation responsibilities in implementation of SCM policy. These include enforcing reasonable cost-effective measures to prevent fraud, corruption, favouritism and unfair or irregular practices.</p> <p>The Accounting Officer must comply with regulation 36 which gives guidelines on how to perform deviations and ratification of minor breaches of procurement processes.</p> <p>The Accounting Officer must comply with regulation 38 which gives powers to establish measures to combat abuse of the SCM processes.</p> <p>Regulation 41 of the policy gives powers to the Accounting Officer to establish risk analyses and management to identify and prevent potential risk in SCM processes.</p> <p>Analysis of 2010/2011 and 2011/2012 audit reports and the media statement by the KZN MEC for COGTA identified issues of non-compliance with the SCM regulations by the Accounting Officer in failing to comply with both regulations 2 and 41 by not putting in place appropriate monitoring</p>	<p>Regulation 2 stipulates the delegation of duties to the Accounting Officer by Council to comply with administrative and operation responsibilities in implementation of SCM policy. These include enforcing reasonable cost-effective measures to prevent fraud, corruption, favouritism and unfair or irregular practices.</p> <p>The Accounting Officer must comply with regulation 36 of the Municipality's SCM regulations which give guidelines on how to perform deviations and ratification of minor breaches of procurement processes.</p> <p>The Accounting Officer must comply with regulation 38 which gives powers to establish measures to combat abuse of the SCM processes.</p> <p>Regulation 41 gives powers to the Accounting Officer to establish risk analyses and management to identify and prevent potential risk in SCM processes.</p> <p>Analysis of 2010/2011 and 2011/2012 audit reports and the media statement by the KZN MEC for COGTA identified issues of non-compliance with the Municipality's SCM regulations by the Accounting Officer in failing to comply with both regulations 2 and 41 by not putting in place appropriate monitoring control measures</p>

	control measures to detect and prevent risks in SCM processes.	to detect and prevent risks in SCM processes.
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4.5 Summary

The analyses conducted in this case study were performed to ascertain the current status of eThekweni Municipality's SCM processes and to determine whether transparency, as one of the fundamental principles of good governance, is adhered to in all critical stages of SCM. The documents perused and analysed included the Municipality's IDP, SOPs, Code of conduct for procurement, applicable legislations, SCM policies, SCM regulations, consolidated annual reports and the speech and media statement by the KwaZulu-Natal MEC for COGTA, the Mayor of eThekweni and the presentation by eThekweni Municipality at the IMFO Conference. The main objective of this exercise was to investigate the state of good governance at the Municipality as determined by effective and efficient SCM in respect of its commitment to delivery of equitable services to the local communities.

The evidence obtained from the qualitative analyses was tested against applicable laws, policies and regulations to determine if there were any discrepancies or anomalies and/ or achievements that either confirmed adherence to transparency in SCM or non-compliance which warranted further action and/ or appraisal on the side of the Municipality. The tools for measuring transparency in critical stages of SCM in comparison with applicable laws, policies and regulations, as guided by the literature study included specific transparency indicators. The detailed findings of the case study analysis and recommendations will be presented in the next chapter.

CHAPTER 5: FINDINGS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents detailed findings of analysis of data obtained through various documentary sources that were used to primarily investigate the extent to which eThekweni Municipality's SCM process adheres to transparency. The findings will clarify the current status of SCM processes at the Municipality with emphasis on systemic or process gaps that should be addressed to improve the *status quo*. The evidence gathered from application of transparency indicators against secondary data will be presented to determine the extent of compliance with applicable laws, SCM policies and regulations at the Municipality. The ultimate objective in presenting the analysis findings will determine whether certain checks and balances or/ specific tools or measures can be applied to achieve transparency in SCM. The chapter will be concluded by making systemic recommendations to assist in improving the current systems and processes at the Municipality to promote effective and efficient implementation of SCM processes.

This section will begin by discussing findings that will assist in exploring the research question with emphasis on the current status of SCM processes at the Municipality. Thereafter, specific factors that influence proper functioning of SCM at the Municipality will be explored, based on the analysis conducted in achieving the objectives of the study.

5.2 Findings on the current status of transparency as an outcome in the SCM processes at eThekweni Municipality

As discussed in the literature review in Chapter 2, Pope (2005:3) places a legal duty on public officials to be honest and make disclosures when participating in public procurement to prevent impediments to transparency. Essentially, this voluntary disclosure ensures that measures that have been put in place by the Municipality in reducing irregular expenditure by compelling potential suppliers and contractors to adhere to transparency will achieve its intended results.

5.2.1 Findings on transparency as an outcome of SCM

The outcome of identified indicators is aimed at achieving transparency in SCM and to determine if indeed these measuring tools are appropriate to meet this objective. The findings are limited to the documentary sources analysed and therefore the insiders' perspective was

only limited to the financial statements in the *annual report, the Municipality's IDP and the AG reports* as follows:

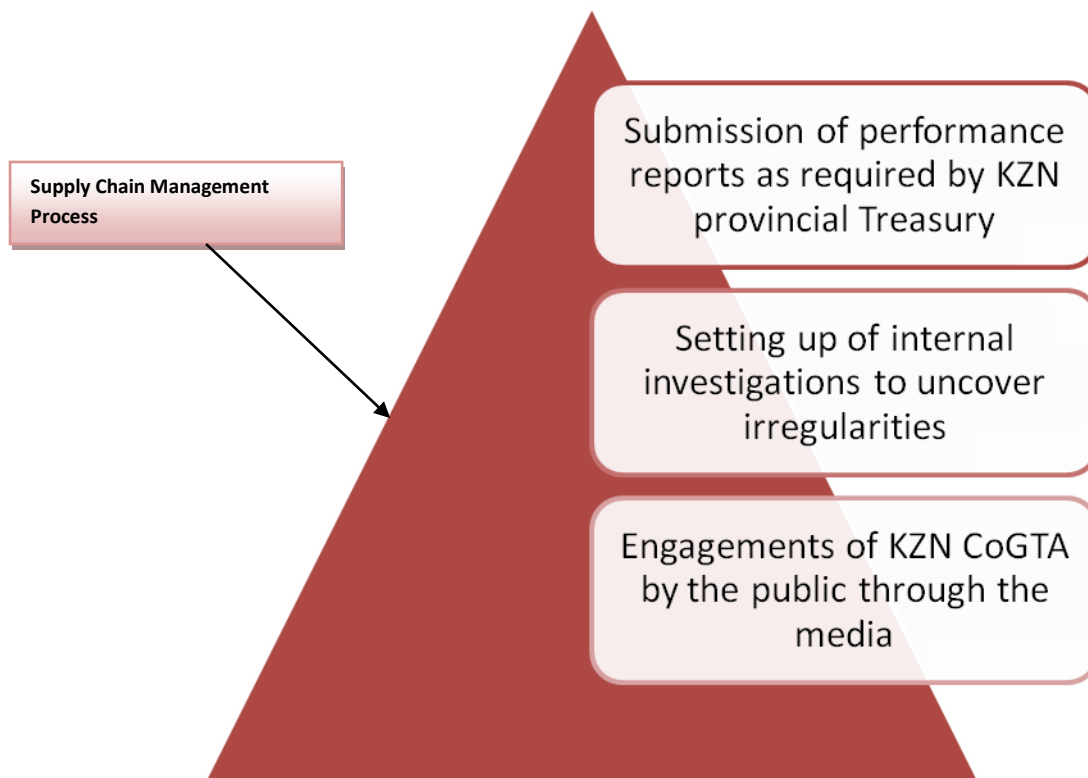


Figure 8: Transparency as an outcome indicator in SCM process at eThekweni Municipality

The evidence of the 2011/2012 annual report placed SCM as one of the financial performance components of the Municipality. Therefore, financial reports on annual performance or activities should be disclosed to the relevant statutory bodies internally and/ or externally to determine if adequate financial controls and systems were put in place in execution of the Municipality's mandate. Bennis et al. (2008:3) point out that free flow of important information within the organisation and to its stakeholders ensures that transparency is achieved. The analysis of findings established that the Municipality indeed submitted annual financial performance reports as required by Provincial Treasury to meet reporting obligations and therefore fully complied with this requirement as depicted in figure 8. The annual report also presents a number of austerity measures to reduce irregular expenditure by screening companies or suppliers prior to registration on the suppliers' database and to mitigate risks that might compromise procurement processes.

5.2.2 Findings of analysis of audit reports

The audit reports of year ending 30 June 2011 and 30 June 2012 provided an insider's perspective of the internal issues that the Municipality faced in executing proper SCM systems. The major issues or queries raised by the AG included irregular expenditure incurred through non-compliance with SCM laws and regulations, lack of adequate internal controls in financial management and internal investigations that have resulted due to procurement irregularities and non-compliance with SCM regulations as depicted in figure 8. The audit outcomes specifically identified instances of employees, councillors and other government employees that were awarded contracts at the Municipality. This resulted in the Municipality contravening regulation 44 of the SCM policy which prohibits awarding of employees, directors, and companies that are in the service of the Municipality. Contravention of regulation 44 of the SCM policy indicates that the Municipality's SCM system lacks internal controls to detect and prevent such occurrences in selection of contractors or suppliers. Another important factor that indicates poor control measures is the failure of SCM officials to apply stringent measures when registering the suppliers on the suppliers' database. The theoretical views on SCM pointed out that one of the features of a transparent SCM system during the selection of a preferred bidder is the reciprocal requirement of those submitting their bid documents to be transparent. This means that the bidders have a responsibility to disclose any relationship with bid committee members and the specific institution offering contract opportunities. Pope (2005:7) points out that lack of transparency during public procurement compromises the integrity of the entire SCM cycle and creates opportunities of fraud and corruption by officials that have no regard for the law or internal policies.

The audit outcomes also identified instances where contracts were extended or where deviations were performed without reasons for amendments being tabled before Council. This implies that the Accounting Officer contravened regulation 36 of the SCM policy by failing to provide reasons for deviations. The failure to disclose important information as required by SCM and Treasury regulations means that the accounting officer failed to adhere to the principle of transparency and created adverse audit outcomes to the detriment of the Municipality. ISSAI (6) states that awarding of contracts should be done in manner that promotes integrity and those responsible for decision-making are accountable for their

actions or decisions. In this instance the accounting officer failed to comply with the reporting obligations thereby failed to adhere to transparency.

It was established in the audit outcomes that the accounting officer failed to prevent irregular expenditure as required by section 62(1)(d) of the MFMA. The failure to comply with the MFMA and SCM prescripts in identifying potential risks that might compromise the integrity of SCM processes has a direct link to the abuse of the SCM processes and policies. This implies that availability or publication of procurement rules and practices as suggested by Bolton (2007:229) was overlooked or not met. In essence this means that availability and access of information on policies and procedures may deter corrupt activities since dissemination of information helps promote proper decision-making. The failure of the accounting officer to prevent irregular expenditure has resulted in the Municipality incurring R 1 329 billion as reflected in the 2010/2011 financial year and R 783 million in the 2011/2012 financial year. In addition, the accounting officer contravened section 32(4) of the MFMA in the 2011/2012 financial year by failing to report in writing reasons for the irregular expenditure. This implies that the accounting officer failed to provide important information for crucial decisions to be taken against the Municipality and that institutes impediments to transparency.

The reported internal investigations as a result of procurement irregularities and non-compliance with SCM regulations are an indication of the abuse of SCM processes and lack of risk management. In the South African context, the SCM policy requires that risk identification and management should take place throughout all the stages of SCM to prevent opportunities of fraud and corruption by SCM officials and applicants for tenders or quotations. Rogers (2007:2) points out that procurement processes should be applied through open tender processes to create competition and prevent corruption through abuse of the processes. Pope (2005:3) concurs with the notion of openness of procurement processes to prevent conflict of interest and corruption.

5.2.3 Media statement by the MEC for KwaZulu-Natal COGTA

The findings of the analysis emanate from a media statement by the MEC for COGTA in KwaZulu-Natal in respect of the findings and recommendations of the Manase report and cross referencing with the presentation of the Municipality to IMFO Conference and the speech by the Executive Mayor is done as shown in figure 8. It was established that the

forensic probe by the provincial department took place as a result of the outcomes of the 2009/2010 AG report, internal audit report and the request by the accounting officer to conduct investigations. Among others, the investigation discovered a number of irregularities in procurement processes, non-compliance with SCM regulations, abuse of deviations in procurement, non-disclosure of interest by councillors and municipal officials and non-compliance with SCM policies in housing projects. The findings highlight the important trends for the past three years since the launch of Operation Clean Audit in 2009.

The trends of the audit outcomes clearly indicate that the Municipality has issues of non-compliance with SCM regulations in respect of disclosure of interest, incurring of irregular expenditure, lack of internal controls to prevent opportunities of fraud and corruption and abuse of deviations in procurement. The issues raised in the audit outcomes were confirmed by the Municipality in the presentation to the IMFO Conference on 30 September 2013 where the Municipality conducted introspection by examining the current status of SCM and other financial performance functions. In the presentation the Municipality made concessions that it regressed in the 2010/2011 financial year by incurring exceptionally high irregular expenditure. In mitigating the identified risks, the Municipality has strengthened internal controls and has imposed stringent measures to address human capital issues and compliance with policies and procedures. The analysis of the Mayor's speech of 6 June 2011 also confirmed the number of problem areas that the Municipality has prioritised to achieve good governance. Among other priority areas identified by the Mayor, is the undertaking to compel the accounting officer and councillors to disclose interest for public scrutiny; and combating of fraud, corruption and maladministration as a result of SCM irregularities. The views by the Mayor highlight that the requirement of transparency in SCM is receiving attention and is part of the strategy that is currently being implemented to put the Municipality on track to achieve a clean audit by 2014 and beyond.

5.3 Findings on tools to measure transparency in SCM

The findings in respect of the tools that were applied to measure transparency in SCM were obtained from the theoretical views of authors that have studied the principle of transparency in the private sector and in public procurement. These features of a transparent system are by no means universally accepted, but they have been identified in previous studies and were used in this current study to achieve the research objectives. Pope (2005:3) identified disclosure of interest in public procurement as one of the important features of a transparent

procurement; Bolton (2007:229) identified, “(1) *general availability of procurement information*; (2) *publication of general procurement rules and practices*; (3) *publication of contract opportunities*; (4) *disclosure of the criteria to be applied in selecting a winning contractor*; and (5) *provision of information on contract awards*” to constitute a transparent procurement process. The findings of the analysis conducted when these indicators were tested against data from documentary sources and applicable laws, SCM policies and regulations have established that certain indicators are not applicable to some of the stages. This is due to the fact that SCM stages include a number of different processes that are interlinked and each has a number of activities that have to be performed until the entire cycle is completed. Therefore, the next part will briefly discuss the use of the identified measuring tools to determine if transparency can be used to achieve proper functioning of SCM.

The summary of the findings on tools to measure transparency in the Supply Chain Management process at eThekweni Municipality can be illustrated as follows:

5.3.1 Table 8: Findings on tools to measure transparency in the Supply Chain Management at eThekwini Municipality

No	Measuring tool	Findings
1)	Publication of contract	It was established from the 2011/2012 annual report that the Municipality has <i>an active website and a free eThekwini Metro newspaper</i> which provides timely reporting of tenders, legislated statements, speeches and other information for access to the public. Publication of procurement information provides for access to information by the public as rate payers and creates opportunities for potential bidders and suppliers to equally compete for tenders. This requirement for transparency in SCM is important since it serves the purpose of other principles such as fairness, equity and competition.
2)	Disclosure of the criteria to select winning bidder	The findings of the documentary sources analysed could not provide evidence to support this statement. However, this requirement is given effect by the SCM regulations and broader SCM policy that should be complied with to ensure that transparency is adhered. This in essence means that interested parties and the bidders who submitted their bids must be granted access to this important information in order to maintain integrity of decisions taken at a later stage. This will limit the number of complaints and challenges of procurement decisions by unsuccessful bidders.

Findings on tools to measure transparency in the Supply Chain Management at eThekwini Municipality

No	Measuring tool	Findings
3)	Availability of financial performance reports	Availability of financial performance reports to internal and external auditors is crucial in financial management and public management since compliance with these requirements indicates that performance of internal processes and utilisation of budgetary resources are accounted for. The analysed 2011/2012 annual report and audit reports confirmed that the Municipality complied with this important requirement. Since SCM is one of the financial performance component, all SCM contracts and contraventions to SCM regulations should be disclosed for scrutiny by the AG. In so doing the principle of transparency ensures

		that Municipal officials do not withhold important SCM information since the audit reports become public information when due internal processes have been finalised. The notion of AG and public scrutiny (publication of information) regarding SCM activities has a potential of deterring non-compliance with SCM regulations which will ultimately promote more accountability.	
4)	Disclosure of interest by parties involved in the procurement processes	The findings in respect of disclosure of interest by parties involved in procurement processes were discovered in the 2010/2011 and 2011/2012 audit reports as well as media statement by MEC for KwaZulu-Natal emanating from a forensic investigation in respect of the 2009/2010 audits outcomes. The audit outcomes confirmed incidents of Municipal officials, councillors, companies and government officials that were awarded contracts by the Municipality. For transparency to be achieved, the requirement to disclose interest is necessary for those parties involved in bid committees as well as bidders or applicants. This disclosure of information may prevent incidents of unfairness since prospective applicants may be prejudiced during selection of the preferred bidder.	

Findings on tools to measure transparency in the Supply Chain Management at eThekweni Municipality

No	Measuring tool	Findings	
5)	Access to information on contracts award	Access to information on contract awards is a crucial requirement for achieving transparency of decisions taken during procurement processes. This requirement serves as a measure to allow the public to scrutinize tender decisions and for interested stakeholders and other parties, such as unsuccessful bidders, to challenge tender award decisions. However, the documents analysed could not provide an insight into whether this crucial requirement was achieved but the 2011/2012 annual report confirmed that information on tenders was posted to the Municipality's website.	
6)	Monitoring of procurement procedures	Monitoring of procurement procedures as a requirement of transparency serves as a risk mitigation measure identifies and analyses the completeness of SCM processes and compliance with SCM regulations. This requirement has a direct impact on transparency in the bid process, bid selection criteria	

	<p>and tender award decisions since if the gaps in the SCM are not mitigated, it poses a risk to the integrity of the entire SCM cycle. The findings of the analysis of audit reports and other supporting evidence from the media statement by the MEC for KwaZulu-Natal COGTA in respect of the forensic probe confirmed that the Municipality lacked adequate internal controls in finance management. Consequently, the Municipality's SCM system was exposed to fraud, corruption and maladministration.</p>	
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5.4 Recommendations

The aforementioned findings of the case study analysis identified issues of non-compliance with SCM laws and regulations, lack of internal controls in financial management, and exceptionally high irregular expenditure which contributed to the Municipality receiving unqualified audits (with findings). The evidence of the audit outcomes have been used as an indicator of whether the Municipality is on track to achieve a clean audit by investigating transparency in SCM due to the adverse effect of SCM irregularities that have been identified as one of the audit queries. The following measures are recommended:

5.4.1 Leadership

The findings established a number of instances where the accounting officer failed to apply principles of leadership. The evidence of corrupt activities in SCM processes, abuse of the SCM system, failure to take reasonable steps to prevent irregular expenditure and compliance with Treasury reporting obligations indicates that leadership principles were not adhered to. The principles of leadership relate to the ability to diligently perform management duties by being able to execute plans, coordinate, direct and control, manage staff, create opportunities of self-development and being accountable for actions within one's jurisdiction. It, therefore, is recommended that the accounting officer be fully conversant with principles of leadership and Council clearly defines his/her leadership role, job description and performance indicators so that he/she can be held accountable should he/she fail to meet performance expectations.

5.4.2 Compliance with SCM legislation, policies and regulations

The findings uncovered issues of non-compliance with SCM legislation, policies and regulations which created opportunities of corruption, fraud and maladministration and irregular expenditure. The failure to comply with SCM regulations also compromised SCM processes whereby gaps in implementation were identified. It is therefore recommended that the Municipality takes reasonable steps to act on abuse of SCM processes by applying appropriate sanctions as provided in section 173 of the MFMA and the Code of Conduct for Procurement. The Municipality must also take reasonable steps to improve its communication strategy by disseminating information regarding policies and procedures to all staff.

5.4.3 Training of SCM staff

The failure to properly implement SCM processes can be attributed to lack of skilled staff in SCM procedures, shortage of human resources or incapacity. Therefore, the accounting officer must ensure that regular training for personnel that are already part of the SCM unit and recruitment of skilled personnel is also prioritised to capacitate the SCM unit. The training of staff should take place after a thorough skills audit has been completed and thereafter role clarification is communicated to SCM staff. The realisation that the Municipality has prioritised capacitating the SCM unit as stated in the 2011/2012 annual report reaffirms the need for this shortcoming to be corrected.

5.4.4 Implementation of e-procurement

The procurement irregularities identified during the analysis may have been manifested by maladministration as a result of systemic issues. The fact that the Municipality has SOPs with specific SCM processes that have to be followed in execution of procurement activities, should provide necessary guidelines to eliminate process inefficiency. Therefore, the system that the Municipality has initiated to implement an electronic quotes system for effective handling of quotations is a step in the right direction. The Municipality can phase in implementation of e-procurement which has an advantage of eliminating human error, increasing efficiency, cost savings in procurement and improving transparency. The implementation of future projects of e-procurement as part of the e-governance strategy has the ability to manage quotations and tenders on line and this information can be easily accessed by interested parties. The viability of implementing e-procurement should be properly researched in order to assess the state of readiness of the Municipality for such technological advancements and the realisation that e-procurement is an increasingly emerging development internationally confirms that this avenue can be explored.

5.4.5 Strengthening of internal controls

The lack of internal controls in financial management leading to abuse of the SCM system should have been prevented by the accounting officer and delegated authorities. In case of conflict of interest matters it is clear that inadequate controls were applied in registering of suppliers in the suppliers' database. The Municipality should implement criteria that compel potential suppliers or contractors to disclose personal, business and contact information to allow for proper screening before registration on the database. The registration forms should include a clause for disclosure of interest by suppliers or contractors intending to do business

with the Municipality. This can assist in eliminating Municipal officials, Councillors and other stakeholders in the service of the municipality from abusing the system.

The accounting officer should also ensure that the basics of financial transparency and financial management are maintained in handling of budgetary resources. Swift action should be taken against the accounting officer and responsible SCM officials for failure to implement cost saving measures leading to continued wasteful expenditure in procurement activities.

5.5 Conclusion

The exposition of the current status of transparency in SCM at eThekweni Municipality was ascertained by critically analysing publicly available sources that provided an insight into the affairs of the Municipality. The findings of the analysis established that the Municipality has necessary SCM guidelines in respect of the SOPs and the priority areas are clearly defined in the IDP. This realisation indicates the intention behind drafting of these documents and the alignment of strategic objectives to the core business of the Municipality which pertains to equitable delivery of services to the local community. Another interesting finding was the fact that the Municipality has a set of rules and regulations that have to be complied with in a form of applicable laws and regulations governing effective and efficient SCM. However, the exploration of collected data gave an insider's perspective by primarily using audit outcomes and other supporting annual performance reports and media statement which painted a completely different picture.

It was established that the Municipality has failed to obtain clean audits for the period under review (2009/2010 to 2011/2012) due to certain issues. The use of transparency as one of the requirements of an effective and efficient SCM was explored using specific transparency indicators to investigate if the Municipality was properly implementing SCM. It was discovered that the SCM processes were a target of abuse by municipal officials, stakeholders in the service of the Municipality and other government employees who have been awarded procurement contracts at the Municipality. This was generally caused by lack of transparency on the part of the mentioned officials and by failure of bid committee members to adhere to transparency by failure to disclose interest.

Instances of financial mismanagement were discovered in the form of irregular expenditure due to procurement irregularities and failure by the accounting officer to adhere to

transparency by not reporting in writing the reasons for irregular expenditure as well as failure to prevent such unwarranted expenditure. It has been unequivocally stated in the literature study that lack of transparency promotes opportunities for corruption and abuse of the procurement processes and a similar situation was observed in the Municipality. The initiatives that are currently underway to correct the wrongs of the past, restoration of leadership, strengthening financial controls and measures that have been put in place to reduce irregular expenditure as mentioned by the Mayor in his speech are promising and will promote good governance which in turn will restore public trust.

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