

Assessing the Procurement Practices of Victoria Hospital

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DECLARATION

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ABSTRACT

South Africa faces challenges of poor service delivery in all facets of government. Corruption in supply chain management (SCM) is one of these that are faced by government in public institutions. Procurement is a critical section of SCM, with procurement practices being adopted in 2003 to ensure that service is fair, equitable, transparent and competitive, and to ensure value for money. The Public Financial Management Act (No. 1 of 1999) guides institutions when utilising public funds. Government's current aim is to reduce fruitless and irregular expenditure.

In 1995 government established procurement reforms with an aim to promote principles of good governance and to address past socio-economic challenges. Best practices for procurement were adopted to address past inequitable policies and practices. Procurement reforms were introduced and supported by a number of legislation, including the adoption of the PFMA and Preferential Procurement Policy Framework Act (No. 5 of 2000) (PPPFA). The procurement reforms were given an additional push by the implementation of the accounting officer's system for supply chain delegation (AOS).

This study only focuses on the procurement section and the critical role that it plays in service delivery. The research focuses on the assessment of procurement practices at Victoria Hospital to ensure best practices and improve service delivery. Through this, Victoria Hospital is revealed to be utilising an effective procurement system.

During the course of this research, a theoretical review is conducted to describe procurement best practices and to gain insight into the system utilised by a developed country in this public procurement. An interview system is also used to gain information on the procurement practices used at Victoria Hospital. This study reveals that this hospital previously had issues of compliance due to poor management systems. The study also highlights that a new administration was appointed in April 2013, after which SCM developed further in terms of compliance. Since the appointment of the new administration, there has been an improvement in procurement practices.

This study also ultimately highlights the challenge of achieving value for money in terms of procurement practices. The research reveals that procurement practices are not always successful due to the electronic procurement systems used to promote good governance. The system used to source the quotation takes a long time and affects service to the patient. The researcher recommends that the integrated procurement system (IPS) that is used to promote best practices in procurement should be designed to meet value for money. The procurement system should support this through proper financial planning. It is also recommended that internal procurement control be strengthened to promote accountability and reporting, as strong procurement systems will ensure commitment to economic growth. The Department of Health should consider centralising procurement tenders; this will promote good governance and prevent the possibility of bias and unfairness.

OPSOMMING

Suid-Afrika kom op alle regeringsvlakke voor uitdagings met betrekking tot swak dienslewering te staan. Korrupsie in die bestuur van die voorsieningsketting is een van hierdie uitdagings wat die regering in openbare instellings in die gesig staar. In die praktyke wat in 2003 aanvaar is om diens wat regverdig, billik, deursigtig en mededingend is, en waarde vir geld verseker, is aanskaffing 'n kritieke afdeling van voorsieningskettingbestuur. Die Wet op Openbare Finansiële Bestuur (No. 1 van 1999) lei instellings wanneer openbare fondse gebruik word. Die regering se huidige doel is om vrugtelose en onreëlmatige uitgawes te beperk.

In 1995 het die regering aanskaffingshervormings ingestel met die doel om die beginsels van goeie bestuur te bevorder en sosioekonomiese uitdagings van die verlede aan te spreek. Beste praktyke vir aanskaffing is aanvaar om ongelyke beleide en praktyke van die verlede aan te spreek. Aanskaffingshervorming wat ingestel is, is deur wetgewing, insluitend die aanvaarding van die Wetsontwerp op die Raamwerk vir Voorkeurverkrygingsbeleid, 2000 (Wet No. 5 van 2000) en die Wet op Openbare Finansiële Bestuur ondersteun. Die aanskaffingshervormings het 'n bykomende stoot verkry deur die implementering van die rekenpligtige beampte se stelsel vir afvaardiging in die voorsieningsketting.

Hierdie studie was slegs op die aanskaffingsafdeling en die kritieke rol wat dit in dienslewering speel, gerig. Verder was die navorsing op die assessering van die aanskaffingspraktyke by die Victoria Hospitaal gerig om beste praktyke te verseker en dienslewering te verbeter. Hierdeur is aan die lig gebring dat die Victoria Hospitaal 'n effektiewe aanskaffingstelsel gebruik.

Gedurende die loop van hierdie navorsing is 'n teoretiese oorsig onderneem om beste praktyke vir aanskaffing te beskryf en om insig te verkry in die stelsel wat deur 'n ontwikkelde land vir openbare aanskaffing gebruik word. 'n Stelsel van onderhoude is ook gebruik om inligting oor die aanskaffingspraktyke wat by Victoria Hospitaal gebruik word, te verkry. Uit hierdie studie het dit geblyk dat die hospitaal voorheen probleme met betrekking tot nakoming te wyte aan swak bestuurstelsels ondervind het. Die studie het ook uitgelig dat 'n nuwe administrasie in April 2013

aangestel is en dat die bestuur van die voorsieningsketting daarna verder in terme van nakoming ontwikkel het. Sedert die aanstelling van die nuwe administrasie, is daar 'n verbetering in die voorsieningskettingpraktyke.

Die studie het ook die uitdaging om waarde vir geld in terme van aanskaffingspraktyke te verkry, beklemtoon. Die navorsing toon dat die aanskaffingspraktyke nie altyd suksesvol is nie vanweë die elektroniese aankoopstelsels wat gebruik word om goeie bestuur te bevorder. Die stelsel wat gebruik word om 'n kwotasie te bekom is tydrowend en affekteer diens aan die pasiënt. Die navorser beveel aan dat die geïntegreerde aanskaffingstelsel wat gebruik word om die beste praktyke vir aanskaffing te bevorder, ontwerp moet word om waarde vir geld te bied. Die aanskaffingstelsel behoort dit deur middel van behoorlike finansiële beplanning te ondersteun. Dit word ook aanbeveel dat beheer oor interne aanskaffing versterk word om toerekenbaarheid en verslagdoening te bevorder, aangesien sterk aanskaffingstelsels verbintenis tot ekonomiese groei sal verseker. Die Departement van Gesondheid behoort dit te oorweeg om die verkryging van tenders te sentraliseer; dit sal goeie bestuur bevorder en sal die moontlikheid van partydigheid en onregverdigheid uitskakel.

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LIST OF ABBREVIATIONS

AOS:	Accounting Officer's System
BBBEE:	Broad-Based Black Economic Empowerment Act (No. 53 of 2003)
BEC:	Bid Evaluation Committee
BMI:	Budget Monitoring Instrument
CEO:	Chief Executive Officer
CPAR:	Joint Country Assessment Review
GDP:	Gross Domestic Product
IPS:	Integrated Procurement System
LOGIS:	Logistical Information System
MFMA:	Municipal Financial Management Act (No. 56 2003)
NT:	National Treasury
OGC:	Office of Government Commerce
PAJA:	Promotion of Administrative Justice Act (No. 3 of 2000)
PFMA:	Public Financial Management Act (No. 1, as amended by 29 of 1999)
PPPFA:	Preferential Procurement Policy Framework Act (No. 5 of 2000)
QC:	Quotation Committee
SCM:	Supply Chain Management
SMMEs:	Small, Medium and Micro Enterprises
WCG:	Western Cape Government

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CHAPTER 1: INTRODUCTION AND BACKGROUND

1.1 Introduction

The concept of supply chain management (SCM) is widely debated in all spheres of government. This is mainly because it describes how government funds should be utilised. According to Jespersen and Skjøtt-Larsen (2005:11), a supply chain incorporates all organisations and activities associated with the flow and transformation of goods and services from the raw materials stage, right through to the end user, and includes the associated information flows. Jespersen and Skjøtt-Larsen (2005:11) further debate that supply chain management can be described as the relations and integrated business process across the supply chain that produces products, services and information that add value for the end customer. According to Christopher (1998:15, as cited by Hugo, Badenhorst-Weiss & van Biljon, 2004:5), the concept of a supply chain describes the network of organisations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the hands of ultimate customers in the form of products and services. A supply chain forms important aspects of the operation of every business.

The aim of this study is to assess public procurement practises at Victoria Hospital and thus ensure that effective procurement practises are in place to promote service delivery. The researcher's aim is to use a theoretical background to describe the best procurement practises and to assess current practises in the hospital in order to give recommendations of the best practises to improve service delivery.

Procurement is one of the branches within the supply chain that guides how goods and services must be acquired. Procurement determines the system used to acquire goods and services in the company. Public procurement is utilised as an important tool for achieving economic, social and other objectives (Arrowsmith, 1998; Thai, 2001). According to Roos and De La Harpe (2008:1), it is a generally accepted principle of good governance that effective legal remedies should be available for any instance of a breach of legal duty by a procuring entity. Bolton (2006:193) believes that procurement is currently of particular significance in the South African public sector and that it has been used as a policy tool to address unfair practices that occurred during apartheid. Supply chain management forms part of efforts to

ensure correct systems and processes are followed in the public sector in order to ensure accountability, equitability and integrity of the procurement regime.

1.2 Background to the Study

The Western Cape Department of Health's vision is to provide quality of health, equitable access to health services in partnership with relevant stakeholders, and to ensure balanced and well-managed health institutions (NT, 2014:29). The Western Cape Health Department has a core function to promote the values of caring, competence, accountability, integrity, and responsiveness. These values ensure that the department provides comprehensive quality care within the province. The utilisation of supply chain management (SCM) directs the model towards the achievement of a departmental strategic vision. President Jacob Zuma, during his State of the Nation address, on the 16th February 2014, mentioned that an intervention through the centralisation of government tenders could also root out corruption. Corruption in government is mainly due to negative procurement practices and has attracted much media attention. Some government departments are taking this matter seriously and attempting to promote good governance, whereas others are still struggling to take substantial steps to make their procurement and SCM processes impermeable. Ambe and Badenhorst-Weiss (2012a:11003) believe that supply chain management promotes South Africa's new public management model by way of bettering financial management and acting as a strategic tool for managing and improving procurement practices.

Victoria Hospital is a district hospital situated in the Southern Suburbs of Cape Town. It is in a metro district region between the suburbs of Wynberg and Plumstead. It has a maximum of 450 staff members with a maximum of 200 beds. This hospital is marking 150 years of existence, as it was established in 1864. The hospital regards itself as being committed to the delivery of services to patients. Despite government intervention, the full implementation of supply chain management is still a challenge in the public sector, with the issue of compliance being one of the major concerns. This study aims to recommend the best available practices to enhance service delivery at Victoria Hospital through an exploration of the theoretical

background of best procurement practices, and a subsequent assessment of the use of these practices in the hospital.

1.3 The Aim of the Study

The aim of this study is to assess the public procurement practices in use at Victoria Hospital in the Western Cape, to identify how the hospital is practising these procurement policies, and to give recommendations on good practises to improve service delivery by the hospital. Current procurement practices at Victoria Hospital will be assessed based on the best procurement practices relating to value for money, equity, open and effective competition, ethics and fair dealings, and accountability and reporting to promote service delivery.

1.4 Research Problem Statement and Objectives

Compliance has been identified as one of the critical elements of supply chain management at Victoria Hospital during the past years. Government is trying to close the gap of non-compliance to ensure service delivery to citizens. Procurement is one of the elements that effect how the public funds are utilised. The procurement process should be monitored to ensure that the correct practices are followed and to ensure accountability and proper utilisation of public funds especially as Victoria Hospital has been overspending in recent years. The purpose of the study is to assess procurement practices in terms of the process that is followed to procure goods and services in order to ensure compliance with government policies.

1.4.1 Research questions and objectives

The purpose of this study is as follows:

- To provide a theoretical framework for the supply chain in public procurement.

- To provide a theoretical framework for good procurement practises in the public sector.
- To assess procurement practices at Victoria Hospital.
- To identify the system used to promote good governance in procurement practises.
- To identify strategies to address procurement challenges in order to improve services at Victoria Hospital.
- To provide recommendations on the best practises that Victoria Hospital can use to improve service delivery.

The research question of this study aims to answer the following question:

How does Victoria Hospital practice public procurement?

The study is guided by the following sub-questions:

- What is public procurement?
- What are the best procurement practises?
- What are the procurement practices in place at Victoria Hospital?
- What system is used to promote good governance in procurement?
- What are the challenges that this hospital is experiencing in procurement?

1.5 Research Design

This study is an empirical case study (Mouton, 2001:149). The aim of the study is to assess the procurement practises at Victoria Hospital and to give recommendations based on the best practises that can be used to improve service delivery.

This study also focuses on non-empirical research. According to Mouton (2001:179), a literature review provides an overview of knowledge of a certain discipline through an analysis of trends and debates. The literature review of supply chain knowledge and procurement grants a broad understanding of research that has already been conducted and provides a good understanding of procurement practices and debates in public procurement in the public sector. It also advises on the background of procurement practices in developed countries. The legislation and policies are used to gain an understanding on the law regarding procurement practices.

The study includes six respondents from Victoria Hospital: two procurement clerks, one management representative, one quotation committee members, one compliance advisor and one manager. The study only focuses on personnel that work in procurement and management as the study aims to assess how Victoria Hospital is practising public procurement and to identify the procurement processes currently in use.

1.6 Research Methodology

Data was collected in the form of a literature review. This includes research that has been conducted based on SCM and on defining the concept of public procurement. The interviews method and an audit report review was used to gather evidence. Only the procurement staff was involved in the study as this study encompasses practises of procurement at Victoria Hospital. Audit reports were reviewed to identify how Victoria Hospital has been practising public procurement policies. The information was then analysed in Excel through the use of graphs to interpret the results and findings.

1.7 Ethical Clearance

The CEO of Victoria Hospital, the acting director of the sub-structure, and the deputy director of the supply chain and finance gave written permission for the research in order for the study to be ethically conducted.

1.8 Chapter Outline

This study consists of six chapters, detailed below.

Chapter one:

This chapter introduces the study as well as the reasons for it. This chapter introduces the research design and methodology used to conduct the study.

Chapter two:

This chapter consists of the theoretical background to supply chain management and procurement. This is in order to give a background to the supply chain and the importance of procurement in supply chain management. The supply chain and procurement practises in developed countries are observed, so as to learn how these countries are practicing public procurement and to draw insight into how Victoria Hospital can improve its procurement practices.

Chapter three:

This chapter deals with the SCM policies' framework, as well as the national and provincial policies that govern the SCM. The aim of this chapter is to advise legislation on how procurement practices should be practiced based on South African law and policies.

Chapter four:

This chapter describes the Western Cape public hospitals' procurement processes as well as Victoria Hospital's procurement practices.

Chapter five:

This chapter describes the methodology used to collect the data. The chapter also interprets the data that is collected.

Chapter six:

This chapter provides a summary of the previous chapters and gives recommendations and findings based on the study. This chapter contains the conclusion to the study.

CHAPTER 2: SUPPLY CHAIN MANAGEMENT

2.1 Introduction

This chapter conducts a theoretical review of supply chain management (SCM) and procurement. The aim of the chapter is to provide the theoretical framework behind SCM and effective procurement practises in order to assess the procurement practises at Victoria Hospital and give recommendations of what practises should be utilised to promote good governance. This chapter aims to give an in-depth review of the concept of procurement as well as best practices. It aims to facilitate an understanding of, and background to, procurement in South Africa. The aim of this chapter is also to bring about a greater understanding of what procurement is, as well as to explore the international procurement systems used in developed countries.

2.2 Supply Chain Management

Supply chain management (SCM) plays a huge role in service delivery and the implementation of the Public Financial Management Act (No. 1, as amended by 29 of 1999) (PFMA). According to the scholars , supply chain management involves the planning of activities, which consist of procurement, sourcing, conversion, as well as logistics management. SCM includes collaboration and interaction with clients and suppliers. It is also the design, planning, execution, control and monitoring of supply chain activities in the delivery of goods and services with the purpose of creating net value and providing oversight and co-ordination of information and finances within the supply chain (NT, 2014:14). Government departments need to buy goods and services in order to conduct business. The purchasing of goods is of the outmost important for offering their own goods and services (Behan, 1994:1).

Ambe and Badenhorst-Weiss (2012b:11003) believe that SCM promotes South Africa's new public management model by means of improved financial management. They view SCM as a strategic tool for management and the enhancement of procurement practices. SCM plays a major role in business growth, as it determines how goods and services should be purchased and how money

should be spent. Cohen and Roussel (2005:9) argue that if you want to succeed in business, you should consider changing your supply chain when something is broken, inventory levels are too high, customers are complaining about poor service, or if your benchmark analysis shows that your suppliers' performance is poor.

It is important that supply chain management be properly managed in any organisation to ensure service delivery to clients, as well as business growth. A strategic supply chain is about more than just being innovative; it is about creating a unique supply chain configuration that drives your strategic objectives forward (Cohen & Roussel, 2005:11). Hugo, et al. (2004:3) believe that SCM was a product of dramatic change in business during the 1990s but it is also true that most of the basic principles underlying SCM developed over the last four decades. According to Hugo, et al. (2004:3), SCM developed from logistics and purchasing, however it has also been proven that it developed from other functions such as marketing, finance and operations (production) management. Logistics forms part of the supply chain, and is defined as the movement of goods, from the customer's order to their final consumption (Voortman, 2004:13). According to Voortman (2004:13), logistics is critical in the health economy as it involves the process of manufacturing, transporting and distributing goods and services. Logistics adds value to the supply chain by sourcing the right products faster and in a cost-effective manner. It is important to ensure that you buy the right goods to promote value for money. In government, procurement is critical as it is a process followed to procure goods and services to promote service delivery.

The supply chain unit exists to ensure that departmental needs and expectations are determined and satisfied, in order to provide service delivery to citizens. The SCM unit is there to ensure the implementation of systems, and the enforcement of the regulatory framework with the departments. The supply chain unit was established to assist and render administrative support to the end user. This unit provides accountability for the utilisation of public funds, as well as regular reporting to the accounting officer on the performance of the SCM system and compliance to regulatory and policy-driven reporting requirements for SCM (NT, 2014:35). The supply chain section is there to ensure that goods and services are procured according to departmental policy. This unit ensures compliance by management to

the bid process in terms of the tender advertisement. The supply chain provides critical support as it acts as a focal point to determine and satisfy the needs of citizens and promotes good governance to ensure service delivery. In order to answer the research question it is therefore important to define public procurement so that a greater understanding can be obtained of procurement as well as its importance in government.

2.3 What is Public Procurement

Public procurement policies must be monitored to ensure the effective and efficient implementation of SCM policies. South Africa adopted procurement practices in 2003. Procurement is central to government service delivery and aims to promote social, industrial and economic policies (Ambe & Bandehorst-Weiss, 2012b:11003). The goal of public procurement is to satisfy public interests and to ensure good governance. Effective procurement is fair to businesses, safe and avoids wastage of public funds.

Public procurement is an important function of government for various reasons, such as the role it plays in spending public money. The sheer magnitude of procurement outlays has a great impact on the economy and needs to be well managed (Thai, 2006).

Public procurement is described as the process of purchasing the goods and services required to pursue public welfare, and for this to function effectively (Williams & Quinot, n.d:339). Public procurement can also be defined as the acquisition of goods, services and works by a procuring entity using public funds (World Bank, 1995).

According to the National Treasury's General Procurement Guidelines (2003a), proper and successful government procurement rests upon certain core principles of behaviour. These are value for money, open and effective competition, ethics and fair dealings, accounting and reporting, and equity. It is important that these pillars are observed to ensure that procurement meets the purpose of South Africa's Public Financial Management Act 1 of 1999 (PFMA). It is also important that supply chain

processes and systems be monitored to promote good governance. The challenges of procurement should be identified and addressed to ensure that this system effectively achieves the purposes that have been set out for it.

Public procurement refers to the government activity of purchasing the goods and services needed to perform its functions (Arrowsmith, 2010:1). According to Ambe and Badenhorst-Weiss (2012a:244), “public procurement involves the purchase of commodities and contracting of construction works and services if such acquisition is effected with resources from state budgets, local authorities budgets, state foundation funds, domestic loans or foreign loans guaranteed by the state, foreign aid and revenue received from the economic activity of state”. Public procurement is a function whereby public sector organisations acquire goods, services, and development and construction projects from suppliers in the local and international markets, subject to the general principles of fairness, equitability, transparency, competitiveness and cost-effectiveness (Ambe & Badenhorst-Weiss, 2012a:244). Ambe and Badenhorst-Weiss (2012a:244) believe that public procurement originates from the fiduciary obligation of governance administrations to deliver goods and infrastructure. It is important to understand the background of procurement reforms and the principles of good governance in South Africa for the reasons explored below.

2.3.1 Background to procurement reform processes in South Africa

According to Ambe (2009), within approximately the last two decades the South African public sector supply chain has undergone a transformation through the introduction of procurement reforms. The procurement reforms started in 1995 and were directed in two broad focus directions, namely the promotion of good governance and the introduction of principles of a preference system in order to address socio-economic objectives (NT, 2005a). Procurement reforms processes are embedded in section 76(4) of the Public Finance Management Act (PFMA) (1999) and the Preferential Procurement Policy Framework Act (2000) (PPPFA) (SAMDI, 2005).

In the context of logistics management, the procurement management tasks are the planning, organisation, leading, co-ordination, and control of activities relating to the procurement of all inbound items, such as raw materials, components, sub-assemblies, services and final products (Vogt, Pienaar & de Wit, 2002:59). Procurement links to all personnel in the supply chain to ensure the quality of the final product. Planning forms part of procurement management as it involves visualising what government wishes to achieve in future.

The procurement reform initiatives were given more incentive in November 2000 when the Report on Opportunities for Reform of Government Procurement in South Africa was brought before Cabinet. Cabinet recognised the push of the report and directed the Minister of Finance to address the details of the report with the relevant parties in government. Furthermore, to assist the National Treasury in achieving a more uniform implementation approach, a joint country procurement assessment review (CPAR) was conducted during 2001/2 with the World Bank . This report discovered issues that needed to be addressed.

These issues were the following. Firstly, government issues with the need to issue a single national legislative framework in terms of section 76(4)(c) of the PFMA and 106(1)(d) of the MFMA in order to guide uniformity in procurement reform initiatives in the different spheres of government. This includes the need to replace old and inefficient procurement and provisioning patterns in government with a supply chain management function and a systematic competitive system and the appointment of consultants that are fully integrated into the financial management processes in government, and who conform to internationally accepted best practices (NT, 2003b:3). The need to monitor value-for-money performance was also identified.

The second issue identified was the implementation of the PPPFA and its associated regulations. The PPPFA, as well as the associated regulations were identified as complex, which hampered the full implementation thereof. The procurement policies were not clearly formulated and targets not set for the introduction of sunset and graduation provisions once these targets had been achieved (NT, 2003b:4). The procurement personnel were not fully equipped in terms of skills and training in the application of PPPFA. There is also inadequate provision for capacity building for

disadvantaged enterprises to successfully compete for government contracts (NT, 2003b:4).

The government had to formulate a policy to address the above aspects through an accurate policy intervention to promote uniformity in supply chain management practices in order to ensure good governance. The supply chain management functions were introduced to address the current outdated procurement and provisioning processes in government that cause the system to be inefficient in its methods of procurement, contract management, inventory/asset control and obsolescence planning (NT, 2003b:4). The systematic competitive procedure for the appointment of consultants was introduced as part of addressing procurement challenges. This was also implemented to ensure that the advice that being solicited is unbiased, being delivered by the consultant independently from affiliation, and to close the gap between consultant's interests and those of government. A national legislative framework was enforced to ensure that norms and standards are uniform in respect of supply chain practices and the interpretation of policy.

2.3.2 Good governance in public procurement in South Africa

According to Roos and De La Harpe (2008:1), the principle of good governance that states that effective legal remedies should be available in the case of a breach of legal duty by a procuring entity is generally accepted. It is important that government enforces good governance in procurement to ensure accountability, equitability and the integrity of the procurement regime.

According to the Secretary General of the United Nations, good governance simply means creating well-functioning and accountable institutions – political, juridical and administrative – that citizens regard as legitimate, and through which they can participate in decisions that affect their lives, thereby empowering them (Roos & De La Harpe, 2008:4). Good governance also requires admiration for human rights and the rule of law in general. The Organisation for Economic Development (OECD) defines good governance as transparency, openness, respect for the rule of law, fairness and equity in dealing and accountability to democratic institutions, which

includes mechanisms for consultation and participation with citizens; transparent and applicable laws; and clear, service effective, efficient, and high consistency and coherence in, policy formation, regulations and standards of ethical behaviour (Roos & La De Harpe, 2008:5). The United Nations Economic and Social Commission for Asia and the Pacific defines good governance as responsiveness, transparency, the rule of law, anticipation, effectiveness and equity and inclusiveness, being consensus oriented, efficiency and accountability.

According to the United Nations Commission for Global Governance, governance is defined as the sum of the many ways that individuals and institutions, public and private, manage their common affairs. It is further defined as a process through which conflicting or diverse interests may be accommodated and co-operative action may be taken, which includes formal institutions and regimes empowered to enforce compliance as well as informal arrangements that people and institutions either have agreed to, or perceive as in their interest (Roos & De La Harpe, 2008:5). According to the study conducted by Lewis (2005), the World Bank (as cited in Cloete, 1999a:10) defines governance as the manner in which power is exercised in the management of a country's economic and social resources for development.

The concept of good governance was again raised in a 1989 report by the World Bank on the economic and development problems of Sub-Saharan Africa (Roos & De La Harpe, 2008:2). According to Roos and De La Harpe (2008), the report reflected on why structural adjustment programmes had failed to create economic growth. In this report the president of the World Bank, Barber Conable, indicated that a root cause of weak economic performance in the past has been the failure of public institutions (Roos & De La Harpe, 2008:3). Roos and De La Harpe (2008:3) further argue that the concept of good governance also means that international organisations, in particular those involved in development, must ensure that any financial assistance be properly directed.

Resolution 2000/64 of the UN (as cited in Roos & De La Harpe, 2008:5) defines the principles of good governance as follows:

- Openness

- Participation
- Accountability
- Effectiveness
- Coherence

According to the European Union (EU) (as cited in Roos & De La Harpe, 2008:5), the commission has identified the five principles of good governance as follows: openness, participation, accountability, effectiveness, and coherence. It is therefore safe to state that there is an agreement on the core principles of good governance: transparency, accountability and participation, the rule of law, effectiveness, efficiency, proportionality, consistency and coherence. Roos and De La Harpe (2008:5) further argue that these principles are also applicable to public procurement.

Good governance in public procurement was also addressed by the World Bank and international organisations like the OECD and Asia-Pacific Economic Cooperation, which later became referred to as APEC (Roos & De La Harpe, 2008:6). Roos and De La Harpe (2008:6) state that the purposes of these discussions were only to deal with the requirement of accountability in public procurement in greater detail.

2.3.3 The importance of public procurement practices

Procurement plays an important role as it ensures that the right goods and services are procured in order to deliver services to citizens. These procurement practices should be in place to ensure the effective and efficient functioning of the procurement section to meet the needs of the citizens. Best procurement aims to maximise equal opportunities within the supply chain and ensure that the right procedures are followed when goods are procured. Procurement practices help to address the challenges of corruption and poor financial management. Using best procurement practices also helps to achieve effective services. According to Bolton (2006) and Thai (2006, as cited by Ambe & Badenhorst-Weiss, 2012a:244), beside the main objective of procurement to deliver goods and services, public procurement

has also been used by government to promote socio-economic objectives as it stimulates economic activities, protects national industries from foreign competition and improves the competitiveness of certain industrial sectors. Public procurement determines how the country spends its money and requests goods and services to deliver to citizens. Government must ensure that procurement systems in all institutions promote good governance by ensuring that it is fair, equitable, transparent, competitive and cost-effective.

2.3.4 Public procurement best practises

Procurement guidelines and principles are issued by government as a statement of the government's commitment to the procurement system, which enables the emergence of sustainable small, medium and micro businesses. These add to the common wealth of the country, the achievement of enhanced economics, and the social well-being of all South Africans (NT, 2003a:3). According to scholars, value for money, open and effective competition, accountability and reporting, ethics and fair dealings, and equity are the five pillars of procurement and should be considered when assessing procurement best practices. The reasons for this are explored below.

Value for money

Value for money is the most important principle in public procurement as it entails a consideration of the contribution to be made for advancing government policies and priorities while achieving the best return and performance for money being spent (Bauld & McGuinness, 2006). According to Cummings and Qiao (2003), as cited by Raymond (2008), sometimes the government is at liberty to consider criteria other than lowest price. The procurement function itself must also provide value for money and must be carried out in a cost-effective way (NT, 2003a:4). The procurement institutions, whether centrally located or devolved to individual departments, should be able to avoid any unnecessary costs and delays for themselves or suppliers (NT, 2003a:4). Institutions must ensure the continuous improvement of the efficiency of

the internal process as well as systems. The organisation must also have proper financial planning and a clear understanding of what needs to be purchased and the funds to be allocated according to the category of the items.

Open and effective competition

The procurement procedures, laws and policies must be transparent and accessible to the public. The process must be as open as possible. The methods that are used to advertise must be able to promote effective competition, and there must be no bias or favouritism in the system, as these will not promote the principles of good governance. The departments must also ensure that if there is a cost of promoting competition, it is at least commensurate with the benefits received (NT, 2003a:4). Transparency in procurement systems minimise the risk of corruption, which is rampant in government procurement in both developing and developed countries (Raymond, 2008:785). Transparency in government procurement will provide assurance for both domestic and foreign investors that contracts will be awarded in a fair and equitable manner (Raymond, 2008:785). The Department of Health makes use of an electronic procurement system to advertise goods and services. This system is designed to address the past challenges of apartheid, as well as seeks to address issues such as inequality and broad-based black economic empowerment.

Accountability and reporting

Accountability is crucial in procurement to ensure that people account for their plans, actions and outcomes. Accountability is an important principle of government procurement on both a national and international level (Raymond, 2008:786). At international level, governments are often involved in trading activities and procuring goods and services (such as defence equipment), providing or receiving aid, and operating diplomatic posts in other nations (Department of Foreign Affairs and Trade, 2006). These activities result in exposure to financial risks and accountability problems (Raymond, 2008:786).

Administrative openness and transparency through external scrutiny by public reporting is an essential element of accountability (NT, 2003a:7). All people exercising procurement functions must be accountable for the overall management of procurement activities; from the heads of departments to the ministers.

Ethics and fair dealing

Ethics play a huge role in promoting the respect and mutual trust of all parties involved in procurement activities. It also crucial to ensure that the business is conducted in a fair and reasonable manner. All government staff dealing with procurement, particularly those dealing directly with suppliers, are expected to recognise and deal with conflicts of interest and to deal with suppliers even-handedly (NT, 2003a:6). The General Procurement Guidelines issued by the National Treasury (2003a) state that all government staff dealing with procurement may not compromise the standing of the state through the acceptance of gifts from suppliers. (NT, 2003a:6).

Equity

Equity is vital to public sector procurement in South Africa as it ensures that government is committed to economic growth by implementing measures to support industry generally, and to advancing the development of small, medium and micro enterprises and historically disadvantaged individuals (NT, 2003a:8). It is important that procurement policies promote local enterprises in specific provinces, in a particular region, in a specific local authority, or in rural areas (NT, 2003a:8).

The government has implemented the Preferential Procurement Policy Framework Act with an aim to advance small, medium and micro enterprises (SMMEs) and historically disadvantaged individuals (HDIs) (NT, 2003a:8). The Preferential Procurement Policy Framework Act aims to create new jobs as well as promote women and physically handicapped people.

2.4 Environmental Factors Effecting the Procurement Process

Government has the responsibility to accomplish goals and objectives by ensuring the service delivery of the acquisition process, which includes functional opportunities, trends and constraints (Pauw, 2011:64). According to Pauw (2011:64), the government acquisition process is influenced by a number of basic environmental forces, such as:

- **Market forces** – These are the mechanisms which enable people to trade, and are usually governed by the theory of supply chain and demand. Pauw (2011:65) believes that the market forces and conditions mainly determine whether or not government is able to meet the needs at all and the quality that can be achieved. The law of supply and demand is another factor that affects the procurement process. The law of demand is characterised by commercial specifications and industry standards, the availability of commercial products to meet government needs, trends in technology, products and delivery lead time.
- **Political forces** – The political environment plays a role in the procurement process. Pauw (2011:7) argues that various forces from the political environment impact on public financial management.
- **Legal forces** – The procurement process is based on legal requirements. It is important that the procurement official takes legislation into account that governs procurement as it is the legal right of the supplier and institutions.

2.5 International Procurement Practices

Public procurement is important as government uses it to acquire goods and services to meet the needs of its citizens. According to a study conducted by the UK government in 2005, all products and services create social environmental impacts throughout their lifespans, from employment and waste, to emissions and changing the land (Securing the Future: UK Government Sustainable Development Strategy, 2005:9). It is also revealed in the study that the UK government spends over \$150 billion a year on procurement, sourcing goods and services from around the world. This represents a huge opportunity for enhancing the environment and quality of life by choosing the right goods and services (Securing the Future: UK Government Sustainable Development Strategy, 2005:9). It is important that the right products are procured to help government deliver services to citizens.

Effective national procurement policies have an important developmental effect in both developed and developing countries (Kaspar & Puddephatt, 2012:5). Kaspar and Puddephatt (2012:5) further argue that effective procurement policies in developing and developed countries attract foreign investment and provide local economic opportunities through their employment-generating activities. In the developed world, public procurement makes up an average 12 per cent of GDP in OECD countries, and most industrialised countries spend at least 10 per cent of their GDP on public procurement (Kaspar & Puddephatt, 2012:5). In developing countries, these figures are approximately 15-20 per cent of GDP and the public procurement sector is often the largest domestic sector (Kaspar & Puddephatt, 2012:5).

Kaspar and Puddephatt (2012:5) further state that in Sub-Saharan Africa, for example, the procurement market could be worth between US\$30 and US\$43 billion. Public procurement in Egypt follows this trend by taking up an estimated 13.3 per cent of national GDP, and the Egyptian government remains the country's largest consumer (Kaspar & Puddephatt, 2012:5). The implementation of public procurement principles differs, depending on the economic, social, and political context of a country.

Strong procurement systems for developing and developed countries are clear legal frameworks, consistent policies, transparency, and a review of awards. The

developed country has a strict adherence to good procurement principles, which also ensures commitment to their economic growth. Kaspar and Puddephatt (2012:5) also indicate that part of the push from public procurement reform in developing countries has come from international donors and multilateral organisations. These tend to be in the form of conditions for providing developing aid (Kaspar & Puddephatt, 2012:6). The adverse effects of inefficient public procurement on local stakeholders have effectively strengthened the argument of public procurement reform in the developing world. Bad public procurement practices open room for the misallocation of resources, which has an effect on infrastructure, and inefficient services that make local businesses miss out on the growth opportunities that public procurement offers (Kaspar & Puddephatt, 2012:6).

In developing countries, public procurement is increasingly recognised as essential in service delivery and it accounts for a high promotion of total expenditure (Hunja, 2003). Consequently, developed and developing countries have a need for a well-functioning public procurement system (Agaba & Shipman, 1998:373). Agaba and Shipman (1998) further motivate that this is true for developing countries, where procurement usually accounts for a high promotion of total expenditure, e.g. 40% in Malawi and 70% in Uganda, compared with a global average of 12-20% (Development Assistance Committee, 2005:18). In most developed countries public procurement takes place within a framework of international obligations, such as the World Trade Organisations Agreement on Government Procurement or the European Union or the North America Free Trade Agreement (Agaba & Shipman, 1998:373). Though, in most developing countries, public procurement is not obligated to meet these international requirements.

Procurement in Uganda was centralised in 1997 by the Ministry of Finance with contracts above a threshold value of US\$1 000 being awarded by the Central Tender Board, provided the regulations had been approved (Agaba & Shipman, 1998:374). This Central Tender Board offered the advantages of consolidated purchasing and central control, but was ultimately unable to keep pace with the expansion of government activities and their attendant procurement requirements (Agaba & Shipman, 1998:374). As a result there was a consequential backlog of tender submissions and the procurement process was protracted (Agaba & Shipman,

1998:374). In 1999 a study was conducted to bring change to procurement systems. In 1999 the Task Force on Procurement Reform revealed that guidance for the current procurement system was scattered among various outdated regulations and procedures (Agaba & Shipman, 1998:1998). The study indicated that there was little intervention to ensure compliance. There were no clear lines of public accountability in current procurement and there was less intervention to promote transparency. The study also indicated that there was little in the institutions to coordinate the process of procurement.

In remedies of the above findings, the task force considered the desired outcome to be well-defined and clear regulations in terms of public scrutiny to ensure transparency. The tender documents must be clear and standard. Equality must be promoted; opportunity must be equal for bidders. More interventions were needed into the problem of corruption in procurement to improve financial accountability. Public procurement systems also needed to be integrated into national budgeting (Agaba & Shipman, 1998:375). A country must be governed by a clear legal framework that establishes rules for transparency, efficiency and mechanisms of enforcement, coupled with institutional implementation (Hunja, 2003).

The constitution of India does not contain any direct provisions dealing with public procurement; however article no. 299 stipulates that all contracts made in the exercise of executive power of union or state shall be supposed to be made by the president or governor (Malhora, 2012:46). Public procurement in India is a major activity within the government, not merely for meeting its day-to-day needs, but also for underpinning various services that are expected from the government, e.g. infrastructure, national defence and security, utilities, economic development, employment generation and social services (Malhora, 2012:46).

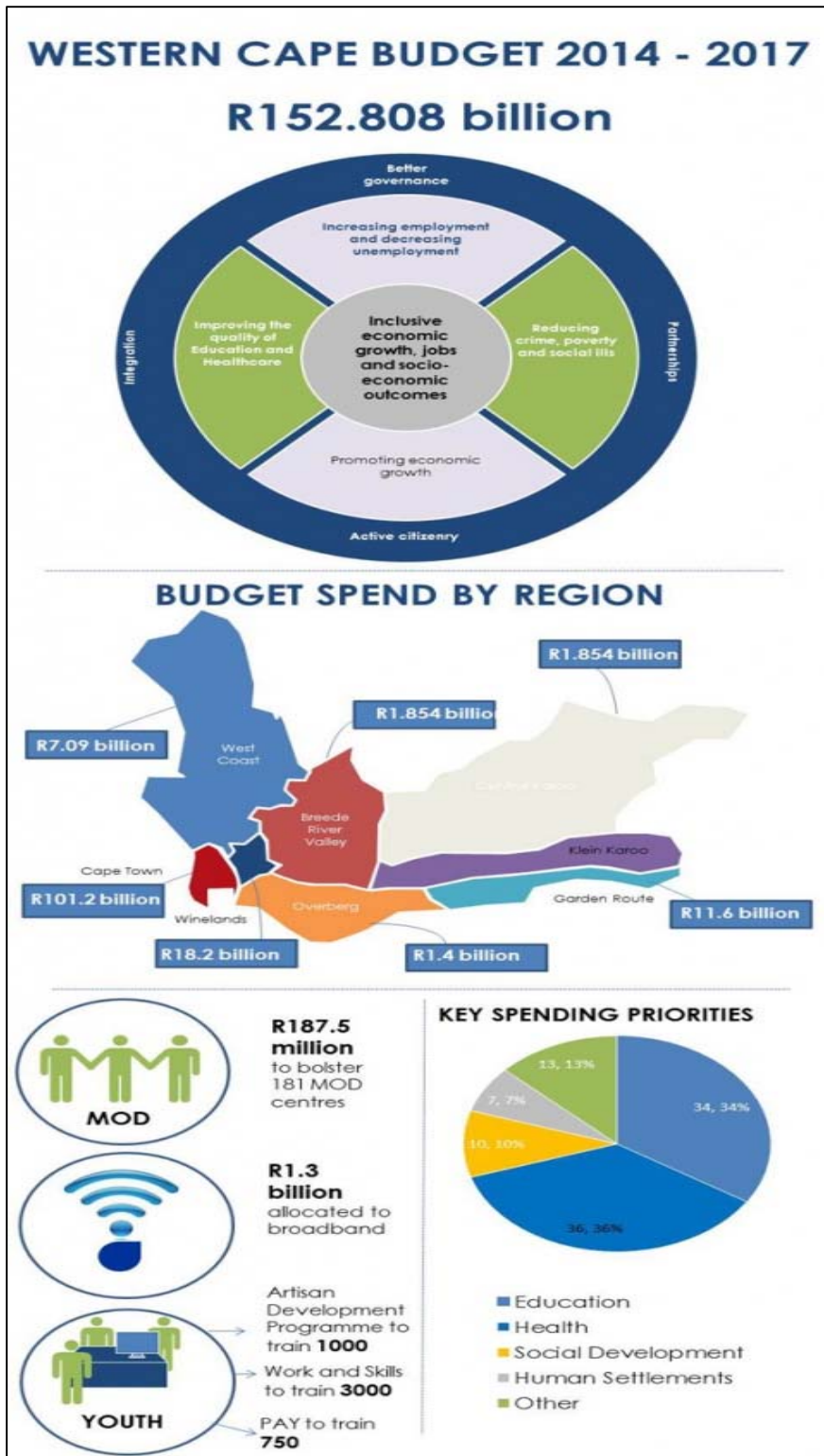
Public procurement has grown phenomenally over the years – in volume, scale, variety and complexity (Malhora 2012:46). Malhora (2012) further indicates that there is no definitive total size of India's public procurement available at any place; an OECD quick estimate puts the figure at 30 per cent of GDP. Malhora (2012) also indicates that the competition commission of India estimated in a paper that annual public procurement in India would be of the order of Rs. 8 lakh crore while a rough

estimate of direct procurement is between Rs. 2.5 lakh crore to Rs.3 lakh crore with the total of Rs. 11 lakh crore per year. Though procurement is a major widespread activity in government, it is noted that regulatory and institutional frameworks for public procurement are, in several respects, weak and incomplete and do not provide a sufficient basis for ensuring the essential qualities of transparency, accountability, efficiency, economy competition, and professionalism are achieved (Malhora, 2012:47).

2.6 Financial Management

The PFMA's main objective is to ensure the proper utilisation of public funds in order to prevent fruitless and wasteful expenditure when dealing with public monies. Finances play a huge role in procurement as the institutions need funding to accomplish the goal of service delivery. Budget allocation is critical to ensure policy implementation in government, with a budget being an estimate of income or expenditure. In order for government to implement the public policies, the budget must be allocated to promoting service delivery. The Western Cape Department of Health receives the biggest portion of the budget, due to the services that it needs to render. For the 2013/2014 financial year, the Department of Health received 15.872 billion rand, 16.97 billion for 2014/2015, and 17.940 billion for 2015/2016, amounting to 50.781 billion over the 2013 Medium-Term Expenditure Framework (MTEF). The total budget for 2014 is 153.826 billion rand for the next period of three years, and the Department of Health has been allocated the biggest portion of 54.73 billion. The budget is allocated to the Department of Health to meet their goals and address certain service challenges, as well as to improve the quality of care and patient experience. The department is committed to the goal of prevention and treatment of priority conditions, which consists of child health, mental health, women's health, and chronic diseases.

Figure 2.1: Western Cape Budget Allocation



Source: Western Cape Government (2014)

Budget allocation is divided into different stages, which are discussed below.

2.6.1 Medium-term expenditure

Medium-term expenditure is a budget format whereby the budget for the specific financial year is presented for approval in the context of planning for the next two to four years, and the expenditure of previous financial years (Pauw, 2011:33). This budget can be generated in two forms: revenue (income) planning and expenditure planning. It is important that government institutions have a strategic goal of what they need to achieve and how they are going to achieve these goals.

2.6.2 Current expenditure

This is the current expenditure report of goods and services consumed during the current year, which need to be made recurrently to sustain the production of services.

2.6.3 Capital expenditure

This is defined as expenditure that will last more than one year and will produce economic benefits for the entity (Pauw, 2011:35). According to Pauw (2011:35), government has strategic goals that cut across many departments. These are broad-based black economic empowerment and the promotion of local production and content.

2.7 Impact of Corruption on the Economy

Bad procurement will increase the socio-economic problems of poverty and inequality that South Africa has been facing, by diverting funds from the purpose of social needs. Corruption in procurement has a great financial impact, which results in

the unnecessarily high cost of purchases. It also has an economic impact as it burdens a government with operational, maintenance and debt servicing liabilities. Procurement also has an impact on economic development because, if government permits corruption in the context of purchasing and investment, projects are frequently not selected on merit, but by the bribes being paid. On the basis of this a country may soon end up squandering investment opportunities and external development assistance and seriously retard their economic development (SASSD World Bank, 2005).

Procurement should be economical, resulting in the best quality goods and services for the price paid. The impact of corruption on the economy is devastating; corruption makes it possible for many grossly inefficient public enterprises to remain in operation at the expense of public subsidy (Uneke, 2010:118). Corruption promotes inefficiency at both macro and micro level (Uneke, 2010:119).

Uneke (2010) further states that another effect of corruption on economic development is that the cost of supporting the public service is significantly increased. For example, the cost of public projects is usually inflated in order to generate kickbacks for members of the tender's board, based on a pre-determined percentage of the contract value (Uneke, 2010:119). A concern of public projects is that costs have previously been paid in advance but the projects have then been abandoned when incomplete.

2.8 Procurement Challenges in South Africa

As indicated above, it is important to note that SCM is an integral part of procurement in the South African public sector. It is used as a tool for the management of public procurement practices (Ambe & Badenhorst-Weiss, 2012a:249). Challenges to public procurement include the following:

- Lack of proper knowledge, skills and capacity
- Non-compliance with SCM policy and regulation
- Accountability , fraud and corruption

- Too much decentralisation of the procurement system
- Ineffectiveness of black economic empowerment (BEE) policy

These challenges are further discussed below.

Lack of proper knowledge, skills and capacity

Adequate capacity in the form of appropriate structures with fully skilled and professional SCM personnel is a key success factor for proper SCM implementation (Ambe & Badenhorst-Weiss, 2012a:11012). According to the National Treasury (2005) the National Treasury provides support by facilitating the development of appropriate training materials to government departments as well as municipalities and municipal entities in order for government to fully achieve SCM objectives. Ambe and Badenhorst-Weiss (2012a) further urge that shortages of skills have been a recurrent theme in public discussions. According to Sheoraj (2007), skills and capacity shortages have been identified as the single greatest impediment to the success of public procurement in South Africa. Migro and Ambe (2008:240) state that many SCM actors in the South African public sphere have attended a number of training workshops on SCM, but yet they still appropriate knowledge for proper implementation. McCarthy (2006), as cited by Ambe and Badenhorst-Weiss (2012a:250), contends that there is a lack of capacity and knowledge by SCM actors to handle procurement processes, leading to bad governance.

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Inadequate monitoring and evaluation of SCM

Monitoring and evaluation is a significant facet of SCM implementation. Inadequate monitoring and evaluation is linked to the absence or poor presence of a control environment and government entities are placed in a difficult position to give effect to or implement SCM, as required by policy (Ambe & Badenhorst-Weiss, 2012a:252). Strong monitoring and evaluation systems provide a means to compile and integrate this valuable information into the policy cycle, thus providing the basis for sound government and accountable public policies (Acevedo, Rivera, Lima & Hwang,

2010). It is vital that proper monitoring and evaluation be implemented into SCM to prevent any possibility of corruption.

Unethical behaviour

Ethics and conflicts of interest have a huge impact on the implementation of SCM. According to Ambe and Badenhorst-Weiss (2012a:252), analysis suggests that there is enormous power wielded by some chief financial officers and a lack of proper consultation with other senior officials. While the National Treasury's guide to accounting officers prescribes a standard approach towards the SCM procedure, in many instances there is a lack of compliance and application to the guidelines (Ambe & Badenhorst-Weiss, 2012a:252). The process of completing the tender documents should be verified to prevent corruption.

Accountability, fraud and corruption

Accountability is the most crucial practise that constitutes public procurement. Without accountability and transparency in the procurement system, there will be a huge increase in corruption and misuse of public funds. Corruption costs South African tax payers millions. Mahlaba (2004), as cited by Ambe and Badenhorst-Weiss (2012a:251), indicates that, over the last few years, the impact of fraud and corruption has led to the promulgation of special legislation and improvements to existing legislation that has led to the creation of, amongst others, the Directorate of Special Operations (commonly known as the Scorpions), the Asset Forfeiture Unit, the public protector, the special investigation unit, commercial crime units, internal audit units, special investigation units within departments, and the appointment of forensic consultations.

According to Boateng (2008), as cited by Ambe and Badenhorst-Weiss (2012a:251), since 1994 South Africa has enjoyed unprecedented social and infrastructural programmes, yet the majority of its people who hoped that freedom would bring with it relative social-economic liberation and improvement are feeling increasingly bitter

towards government over issues that include a lack of perceived quality of governance, service delivery, fraud and corruption in some spheres of the economy, and disillusionment with empowerment policies.

Non-compliance with policies and regulations

Although government has set policies and regulations to guide procurement processes, there is still a lack of appropriate bid committees, use of unqualified suppliers, passing over of bids for incorrect reasons, utilisation of the incorrect procurement processes in respect of thresholds, extensions of validity periods, and incorrect utilisation of the limited bidding process (Ambe & Badenhorst-Weiss, 2012a:250). According to Ambe and Badenhorst-Weiss (2012a:250), there are inadequate controls and procedures for the handling of bids, the appointment of bid committee members (who are often not aligned to policy requirements), and insufficient motivation for deviations from SCM procedures.

Inadequate planning and linking demand to the budget

Demand management plays a crucial role in the SCM process as it defines the decision-making process that allows the department to purchase or procure at the right time, right place, and at an affordable price. However, many government departments are still faced with bad planning and the linking of demand to their budget. Cost-effective procurement depends on a specialist's skills to ensure that buying requirements are reliably determined, appropriate contract strategies are developed, contracts are well managed and opportunities are seized to secure the best deals at the right time and right price (Ambe & Badenhorst-Weiss, 2012a:251).

Ambe and Badenhorst (2012a:251) further indicate that the importance of drawing up accurate and realistic strategic plans cannot be overestimated as at times there is an absence of coherent plans. Poor planning of the budget has an impact on the implementation of SCM policies. It is important that service delivery is monitored to

ensure that scarce resources are effectively and efficiently procured (Ambe & Badenhorst-Weiss, 2012a:251).

Too much decentralisation of the procurement system

According to President Zuma in his State of the Nation Address (2014), the centralisation of tender systems will root out corruption. In South Africa, government procurement this is a problem since as there is too much decentralisation to award tenders. It is not easy to monitor the process. According to Handfield, Monczka, Guinipero and Patterson (2011), as cited by Ambe and Badenhorst-Weiss (2012a:252), centralisation leverages scales to reduce cost, it also has an advantage as it leverages due to the volume, reduces the duplication of purchasing efforts, offers better control and development of specialised expertise for purchasing personnel.

Ambe and Badenhorst-Weiss (2012a:252) further state that, on the other hand, decentralisation leads to better responsiveness to purchasing needs, a better understanding of the service required and is closer to suppliers and taking ownership of decisions that impact on one's own budget. However, if the advantages of centralisation are to be realised, efficient contract management and supplier's relationship management is a pre-condition (Ambe & Badenhorst-Weiss, 2012a:253). The textbook saga in the Limpopo province in 2012, during which textbooks were not delivered to schools by the third term of the school year is an example of what can happen when there is no proper contract management in place.

Ineffectiveness of broad-based black economic empowerment

South Africa has adopted the Broad-Based Black Economic Employment Act (BBBEEA) to empower and address the problems experienced by historically disadvantaged people. The Broad-Based Black Economic Employment Act serves to expand opportunities for growth to small businesses and create more jobs for the public. According to Ambe and Badenhorst-Weiss (2012a:253), "current BEE

provisions have, however, failed to ensure a broad-based approach, instead imposing significant costs on the economy without supporting employment creation or growth”.

One of the major problems that small, medium and micro enterprises (SMMEs) experience with regard to public procurement is a lack of transparency in the procurement process. This occurs when there is no strong accountability mechanism and a lack of scrutiny over the allocation of public funds, and manifests itself in the form of obscure tenders and decision-making processes, bolstered by a culture of corruption (Kaspar & Puddephatt, 2012:7). Corruption is one of the major constraints to the implementation of public procurement. Corruption is defined as the abuse of public office power for private benefits, and is inevitably harmful for the overall economy and Small Medium and Micro Enterprises (SMMEs) in particular (Kaspar & Puddephatt, 2012:10).

For more than four decades, corruption has spread like wildfire throughout post-independent Africa (Uneke, 2010:112). Apart from repelling foreign direct investment, it also distorts the size of government expenditure, as well as negatively impacts on the decision-making process for public investment projects (Kaspar & Puddephatt, 2012:10).

According to Kaspar & Puddephatt (2012:10), there are two perception indices on the corruption point. Firstly, small, medium and micro enterprises (SMMEs) worldwide are more vulnerable than large firms to corrupt practices for winning government contracts. Secondly, although corruption is a worldwide problem, opportunities for corruption increase in transition governments because former elites lose the monopoly over corruption and a weak central government, leaving the door open for government agencies to engage in corrupt practices (Kaspar & Puddephatt, 2012:10).

Major challenges facing small, medium and micro enterprises (SMMEs) in the different stages of procurement

- Pre-bidding phase – a lack of a clear regulatory framework and guidelines open to public scrutiny and supported by adequate enforcement mechanisms (Kaspar & Puddephatt, 2012:7). A weak national regulatory framework is mainly the cause of challenges to public procurement. There must be strong enforcement to ensure that the process of procurement is fair, equitable, transparent, competitive and cost-effective.
- Discovery of contract opportunities – poor accessibility to contracts, and inadequate advertising of opportunities (Kaspar & Puddephatt, 2012:7). The system used to advertise the tenders and contract should be accessible to the public. Government should ensure that they are making use of all means of advertising so that processes are open and transparent.
- Applying for contract opportunities – there exists excessive bureaucracy and documentation when applying for contract opportunities. There is also a lack of capability on the procurer's side and unclear selection criteria (Kaspar & Puddephatt, 2012:7).
- Winning contracts – a lack of competition, preference is only given to larger bidders who are putting price before quality (Kaspar & Puddephatt, 2012:7). The UK government laid out plans in 2011 to award 25 per cent of all its contracts to SMMEs, but in reality this figure is still closer to 16 per cent. This is also affected by problems of race that some countries are still struggling to address.
- Post-bidding/reviews of awards and appeals – this involves a lack of clarity. Post-bidding and reviewing is characterised by the lack of a regulatory framework and the absence of rationale for awards.

2.9 Management of Public Procurement in South Africa

Through its economic and sector work, the World Bank developed its Country Procurement Assessment Report. This report is intended as an analytical tool to diagnose the health of existing public procurement systems in a country (Roos & De La Harpe, 2008:6). The purpose of country procurement assessment reports (CPARs) is to promote dialogue with governments on how to strengthen their public procurement systems (Araujo, 2002:1).

Ambe and Badenhorst-Weiss (2012a:246) believe that SCM is an important tool in South Africa for managing public procurement. According to Office of Government Commerce (OGC 2005:11) Supply chain management is a vital facet of prudent financial management in South African public sector management (OGC, 2005:11). The aim of SCM is to add value to each stage of the procurement process, from the demand for goods or services, to their acquisition, managing the logistics process, and finally, after use, to their disposal (Ambe & Badenhorst-Weiss, 2012a:246). SCM also aims to address deficiencies in current practises relating to procurement, contract management, inventory and asset control and obsolescence planning (Ambe & Badenhorst-Weiss, 2012a:246).

National Treasury regulations aim to strengthen the provisions of the PFMA and MFMA, finalising the devolution of the SCM function to the accounting officer, and formalising the integration of various functions into a single SCM (Ambe & Badenhorst-Weiss, 2012a:246). Ambe and Badenhorst-Weiss (2012a:246) state that National Treasury regulations provide the broad legislative framework for SCM by defining its various elements, such as demand management, acquisition management, logistics management, disposal management, and SCM performance. Government must ensure that each and every department is fully implementing the procurement policies.

There are measures that government can use to combat procurement corruption, and administrative regulatory and social measures (Williams & Quinot, 2007:343). Restrictions can be placed on obtaining government patronage, licensing, approvals, or permits upon persons who are adjudged corrupt, (for example, those who refuse to register a company, or other legal persons experiencing bankruptcies, or who has

criminal or fraud convictions against him) (Williams & Quinot, 2007:343). The Auditor-General must tighten the audit requirements and ensure that there is action taken against departments found to be non-compliant. These actions are explored below.

2.9.1 Policy implementation strategy

The measuring of the implementation of policies forms part of the role of the accounting officer. The government should adopt a consistent policy strategy for the supply chain, as well as enforce a consistent legislative framework to ensure that the policy strengthens uniformity, and monitoring systems. The publishing of regular practise notes by the relevant treasuries is essential in order to address relevant supply chain management topics, such as performance specifications, procurement documentation, targeted procurement procedures and integrity management (NT, 2003b:46).

2.9.2 Training

To fully achieve the supply chain management policy objectives, it is necessary to introduce dedicated, well-trained, professional supply chain management into government (NT, 2003b:47). Institutions of higher learning and other service providers have the critical role to equip learners and practitioners with appropriate skills and knowledge (Ambe & Badenhorst-Weiss, 2012a:254). The professionals will at least have a better understanding of the knowledge of the South African public sector and its regulations. The training should include all aspects pertaining to the supply chain such as financial management training, general management training and specialist supply chain management training. It is important that all supply chain personnel have general procurement skills, which include knowledge into the purchasing and supply environment, sourcing strategies, purchasing and supply tasks, integrated supply management, globalisation, and technology advancement (Ambe & Badenhorst-Weiss, 2012a:254).

2.9.3 Monitoring and evaluation

The supply chain management office that is established in the treasury will oversee the implementation of these policies, in conjunction with the National Treasury (NT, 2003b:46).

2.9.4 Instructional reform

Accounting officers must assume direct responsibility for supply chain management processes and come to grip with this entirely new concept, which ensures appropriate planning and management for success (NT, 2003b:47). It is necessary for accounting officers to ensure that they adopt the practices and procedures stipulated in the PFMA.

2.9.5 Stakeholder involvement

According to Ambe and Badenhorst-Weiss (2012a:255), public procurement malpractices could be limited through the employment of stakeholders as part of the procurement process, such as civil society organisations. Involving the stakeholders will ensure openness and transparency in the procurement system. Open governance creates conditions for effective collaboration between government and citizens in a process that enhances the legitimacy and accountability of public decision-making (Ambe & Badenhorst-Weiss, 2012a:255). Corruption will therefore also be limited if stakeholders are involved.

2.9.6 Strategic sourcing (centralisation versus decentralisation)

According to Ambe and Badenhorst-Weiss (2012a:255), another improvement strategy for public procurement is the use of decentralised and centralised strategies for different categories of goods and services. This is also supported by President Zuma's State of the Nation address (2014), which supports the centralising of tender systems to remedy corruption. Ambe and Badenhorst-Weiss (2012a:255) further argue that public procurement practises should be rather be sought in strategies

sourcing and the analysis of public procurement requirements should be done and high risk-low cost items and high risk-high cost items should be purchased on a centralised basis with longer-term contracts and high levels contract and supplier management.

2.10 Conclusion

SCM is an integral part of the procurement process and it is important that the concept of procurement be clearly defined and understood by all SCM personnel. Procurement is regarded as the process to be followed when purchasing goods and services in the public sector and is crucial for addressing socio-economic issues resulting from apartheid. Procurement determines how public funds are, and have been, utilised to procure goods and services. Best procurement practices should be followed to ensure good governance and enhance service delivery, and government must ensure that procurement practices are fully implemented to fulfil the goals of service delivery. Public procurement must be fair, equitable, transparent and cost-effective to promote good governance. According to Ambe and Badenhorst-Weiss (2012a), it is evident that public procurement practitioners in South Africa require specific knowledge about procurement objectives, SCM policy, preference procurement policies, and so forth in order to manage the procurement process effectively. SCM personnel must be equipped through specialised training programmes. The SCM policies should be clearly defined to ensure that procurement practices are followed.

CHAPTER THREE: SUPPLY CHAIN MANAGEMENT LEGISLATION AND POLICIES

3.1 Introduction

The previous chapter described SCM and procurement practices. This chapter serves to describe the SCM policies that govern public procurement. National and provincial SCM policies are described to act as a guide on how public procurement should function in the public sector. SCM policies are complex and control the operation of government and its competitive position. The SCM policy plays a major role in providing direction to political representatives so that they can make well-informed decisions. The internal guidelines of procurement and policies are used as primary data to give insights into the supply chain and public procurement. The policies are used to identify practises that should be utilised in the promotion of good governance in procurement.

3.2 Framework of Supply Chain Management and Policies

The supply chain is governed by a number of policies that give direction to how supply chain practises should be carried out. Poor government purchasing could encourage uncompetitive practises in those parts of the economy where the public sector consists of significant customers, leading to difficulties in selling to a world market (Behan, 1994:4). Government policies are used to influence purchases and to help develop the competitiveness of suppliers (Behan, 1994:4). Accounting Officer's System

According to the National Treasury, Western Cape Accounting Officer's System for procurement, Supply Chain and Asset Management (2006) issued in terms of section 38(1)(a)(iii) of the PFMA, supply chain management can be defined as a collaborative strategy that aims to integrate procurement and provide a process in order to eliminate non-value added costs, infrastructure, time and activities to competitively serve end customers better. According to Hadley (2004), SCM is the

management of processes that are used to integrate and manage the activities and resources that impact on the supply chain. Supply chain management is an integral part of financial management which intends to introduce international best practices (NT, 2003b:19). According to the Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003), supply chain management seeks to breach the gap between traditional methods of procuring goods and services and the balance of the supply chain and at the same time address procurement-related matters that are of strategic importance.

As discussed above, the South African Cabinet adopted an SCM policy in 2003 to replace the outdated procurement and provisioning practices. The main focus was to implement a SCM function across all spheres of government, which would be an integral part of financial management and conform to international best practices (NT, 2005a). The SCM policy framework aims to promote uniformity and consistency in the application of SCM processes throughout government, to facilitate the standardisation and uniform interpretation of government's preferential procurement legislation and policies, and to complete the cycle of financial management reforms introduced by PFMA by developing full responsibility and accountability for SCM-related functions (Ambe & Badenhorst-Weiss, 2012b:11005). The National Treasury is established by section 5 of the PFMA with the purpose of managing the government finances and regulations as whole. It is important that the National Treasury conducts audits to ensure compliance with the implementation of the PFMA.

3.2.1 National policies

The Constitution of the Republic of South Africa (Act No 108 of 1996)

Section 217(1) of the Constitution of the Republic of South Africa (1996) provides the basis for procurement and determines that when an organ state in the national, provincial or local sphere of government, or any other institution identified in national legislation, is awarded contracts for goods or services, it must do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

The Public Finance Management Act (No. 1 of 1999)

South Africa's Public Finance Management Act (PFMA) (No. 1 of 1999, as amended by 29 of 1999) is one of the most important pieces of legislation passed by the first democratic government of South Africa (Ambe & Badenhorst-Weiss, 2012b:11008). The objective of this act is to promote good financial management in order to maximise service delivery through the effective and efficient use of limited resources (Ambe & Badenhorst-Weiss, 2012b:11008). The main objective of this act is to modernise the system of financial management in the public sector; enable public sector managers to manage effectively, and to be held accountable; ensure timely provision of quality information; and to eliminate waste and corruption in the use of public assets (Ambe & Badenhorst-Weiss, 2012b:11008). According to the Western Cape Department of Health: Accounting Officer's System (AOS) for procurement, Supply Chain and Asset Management (issued in terms of Section 38 (i)(a)(iii) of the PFMA), the PFMA also set a broad requirement of a procurement and provisioning system to be in place to allocate responsibilities to the relevant spheres of government and to the accounting officer or accounting authority.

Promotion of Administrative Justice Act (No. 3 of 2000) (PAJA)

This act aims to established fair administrative procedures, permits those affected by unfair administrative action to request reasons for such administrative actions, and requires administrators to respond to such requests (Ambe & Badenhorst-Weiss, 2012a:248). Ambe and Badenhorst-Weiss (2012a:248) further indicate that the Promotion of Administrative Justice Act, No. 3 of 2000 sets out to provide procedures for the judicial review of administrative actions and remedies in proceedings for judicial review, including the prohibition of an administrator from acting in particular manner, setting aside administrative action, correcting defective action, and ordering the administrator to pay compensation.

Promotion of Equality and the Prevention of Unfair Discrimination Act (No. 4 of 2000)

The Promotion of Equality and the Prevention of Unfair Discrimination Act, No. 4 of 2000 prohibits the state or any person from discriminating unfairly against any other person on the grounds of race or gender through the denial of access to contractual opportunities for rendering services or by failing to take steps to reasonably accommodate the needs of such a person (Watermeyer, 2011:3).

Preferential Procurement Policy Framework Act (No. 5 of 2000)

The Preferential Procurement Policy Framework Act, No. 5 of 2000 established the manner through which preferential policies are to be implemented. Parliament approved this act in February 2000 to adhere to the requirements of the constitution. This act is a step forward in the process of procurement reforms (Ambe & Badenhorst-Weiss, 2012b:11008), and is applicable to all government departments, including national, provincial and local government. The act sets out to promote historically disadvantaged individuals (HDIs) and a broad set of development objectives by means of allocating preference points to these various policy objectives (NT, 2003b). Pauw (2011:68) believes that preferential procurement means that the public and private sector targets certain bidders, products, and industrial sectors.

Broad-Based Black Economic Empowerment Act (No. 53 of 2003) (BBBEE)

This act aims to promote the realisation of the constitutional rights to equity and equality. The Broad-Based Black Economic Empowerment Act was signed on the 9 of January 2004 (NT, 2003b). The other objective of this act is to promote economic transformation in order to enable meaningful participation of black people's economy (NT, 2003b). This act was set to increase the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises and to increase their access to economic activities, infrastructure and skills training (NT, 2003b).

Municipal Finance Management Act (No. 56 of 2003) (MFMA)

Local government aims to modernise budget and financial management practices in order to maximise the capacity of municipalities to deliver services to all its residents, customers, users and investors (MFMA, 2003; NT, 2005). This act sets in place a sound financial framework, clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors and officials (NT, 2003b). The principles and reforms encourage a stronger, better and more accountable local government sphere, one that is better placed to meet the emerging demands and challenges of the different communities that it serves in a more consistent and sustainable manner (NT,2005b:1).

Prevention and Combating of Corrupt Activities Act (No. 12 of 2004)

This act makes corruption and related activities an offense, establishes a register in order to place certain restrictions on persons and enterprises convicted of corrupt activities relating to tenders and contracts, and places a duty on certain persons holding a position of authority to report certain corrupt transactions (NT, 2005a).

Preferential Procurement Policy Framework Regulation Act (No. 5 of 2000) (PPPFA)

The Preferential Procurement Policy Framework Regulation controls the implementation of the act. According to Hanks, Davies & Perera (2008:46)they argue that regulations describe the preferential points system for evaluating tenders. The 90/10 point system applies to tenders over R500 000 in value (Hanks, Davies & Perera, 2008:46). This point system allocates 90 per cent of the evaluation points to the price and functionality of a product or service and 10 per cent to preferential procurement criteria (Hanks, Davies & Perera , 2008:46). Hanks, Davies & Perera (2008:47) further indicates that the 80/20 point system is used for tenders below the threshold of R500 000, whereby 20 per cent of evaluation points are allocated to the price and functionality of a product or service and 20 per cent to preferential

procurement criteria. This regulation also defines the requirements for awarding the preference points and the process involved for verification.

Hanks, Davies & Perera (2008:47) state that the preferential points awarded for procurement from enterprises owned by historically disadvantaged person, can be allocated on the basis of the following criteria:

- The promotion of South African-owned enterprises;
- The promotion of export-oriented production to create jobs;
- The promotion of small, medium and micro enterprises (SMMEs);
- The creation of new jobs or intensification of labour absorption;
- The promotion of enterprises located in a specific province for work to be done or services to be rendered in that province;
- The promotion of enterprises located in a specific region for work to be done or services to be rendered in that province;
- The promotion of enterprises located in a specific municipal area for work to be done or services to be rendered in that municipal area;
- The promotion of enterprises located in rural areas;
- The empowerment of the work force by standardising the level of the skills and knowledge of the workers.

National Treasury Supply Chain Regulations (2005)

The National Treasury regulations reinforce the provisions of the PFMA and MFMA, finalise the devolution of the supply chain management function to the accounting officer, and formalise the integration of various functions into a single supply chain management function (Hanks, Davies & Perera , 2008:47). The function of the National Treasury regulation is to provide the broad legislative framework of supply chain management by defining its various elements, such as demand management,

acquisition management, logistic management, disposal management, and supply chain performance (Hanks, Davies & Perera, 2008:47). Hanks, Davies & Perera (2008:47) believes that this regulation also provides the institutionalisation of the creation of a supply chain management unit in the office of the chief financial officer. It also specifies the role of the accounting officer in the management of the bidding process. Hanks, Davies & Perera (2008:47) indicates that the National Treasury aims to provide processes and procedures in any instance of abuse of the supply chain management system within a department and requires that the National and Provincial Treasury and Municipal Finance Department establish a system to collect and report on the performance of the supply chain management system within their defined jurisdictions.

3.2.2 Provincial policies

The Western Cape Department of Health: Accounting Officer's system (AOS) for procurement, supply chain and asset management, 2003 (issued in term of Section 38 (i)(a)(iii) of the PFMA, 1994).

The Western Cape Department of Health: Accounting Officer's System (AOS) for procurement, Supply Chain and Asset Management (issued in terms of Section 38 (i)(a)(iii) of the PFMA) exists to create an operational framework for procurement and provisioning in the Western Cape Department of Health. This policy describes the process that must be followed in the SCM.

The Western Cape Department of Health: Accounting Officer's system (AOS) for procurement, supply chain and movable asset management, 2014 (issued in terms of section 38 (i)(a)(iii) of the PFMA, 1994).

This policy aims to update the Western Cape Department of Health's Accounting Officer's system for procurement, supply chain and asset management.

National Treasury, Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government, 2003.

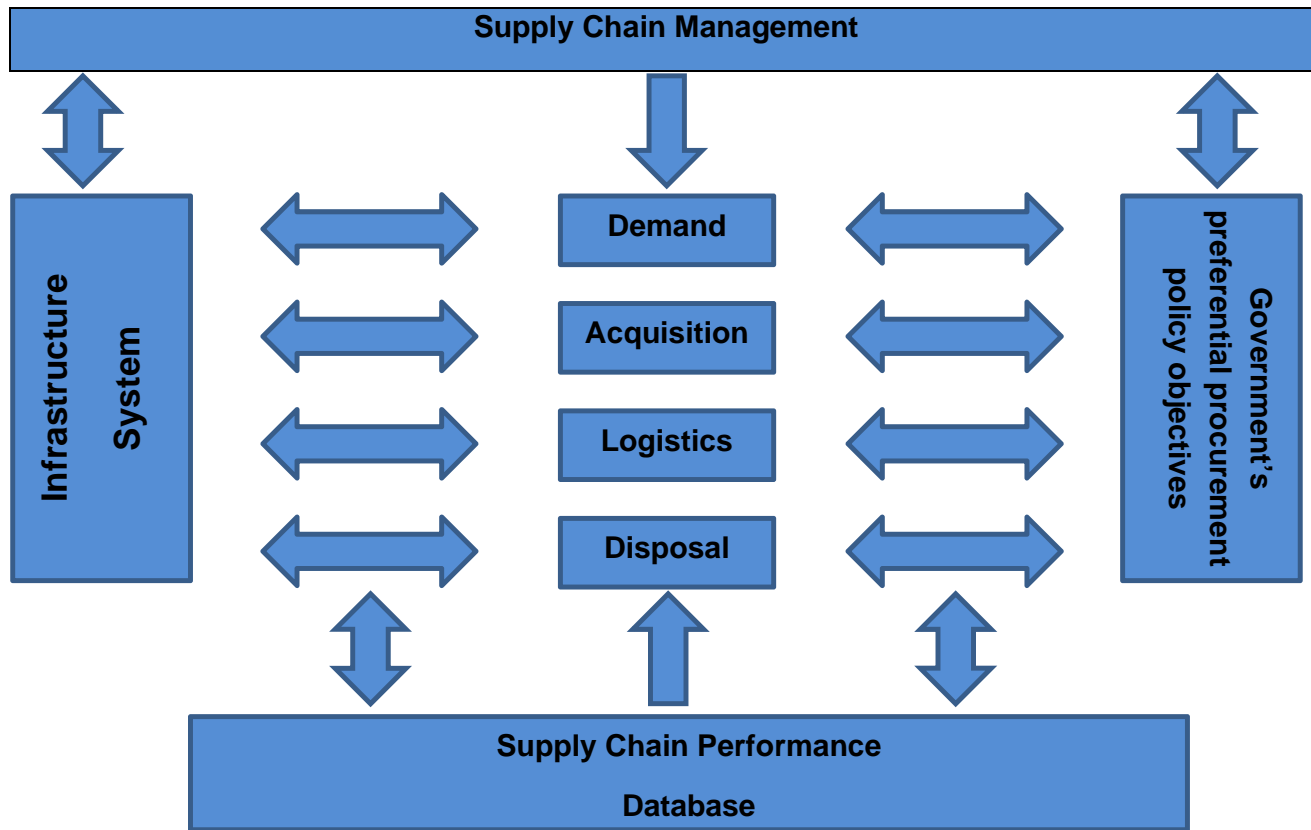
The Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (NT, 2003b) intends to help government achieve objectives in terms of the promotion of good governance and the introduction of a preference system to address certain socio-economic objectives (NT, 2003b:2).

Western Cape Provincial Government – Preferential Procurement Policy 2004

The Western Cape Provincial Government – Preferential Procurement Policy (2004) aims to improve policy. It also marks the consolidation of a number of initiatives of the provincial tender board to reform provincial procurement and to enhance the participation of historically disadvantaged communities/persons in provincial procurement.

3.2.3 The elements of SCM as described by legislation

Figure 3.1: Framework of supply chain management (NT, 2005a)



3.2.3.1 Demand management

Demand management is the initial phase of SCM. The purpose of demand management is to ensure that the goods and services that are delivered comply with specifications. It ensures that the goods delivered satisfy the need, and are also delivered within the correct time and at the correct price, quantity and quality. This requires the setting of goals and targets. Demand management is the beginning of the cycle and involves proper research and planning for the acquisition of goods, services and assets (NT, 2006; issued in terms of section 38 (1)(a)(iiii) of the PFMA, 1999:12).

According to the National Treasury's Policy Strategy to Guide Uniformity in Procurement reform processes in Government (2003b), a needs assessment deals with issues such as:

- Understanding future needs;
- Identifying critical delivery dates;
- The frequency of needs;
- Linking the requirement to the budget;
- Doing an expenditure analysis based on the passed expenditure;
- Doing a commodity analysis, checking for alternatives; and
- Doing an industry analysis.

The above needs assessment helps to bring the supply chain practitioner closer to the end user and ensures that value for money is achieved (NT, 2003b:21).

3.2.3.2 Acquisition management

Acquisition management provides guidelines for the management of procurement. This is also regarded as the process of inviting, evaluating and awarding bids (NT, 2014:89). Acquisition management ensures that bid documentation is complete and includes the correct evaluation criteria, and ensuring that proper documentation is

signed. During this step preferential procurement policy objectives are identified to be met through the specific contract (NT, 2003b:21). The strategy of how the market is to be approached is also determined, along with applicable depreciation rates (NT, 2003b:21). The total cost of ownership (TCO) principle is applied, for example: life cycle cost and inventory carrying cost (NT, 2003b:21). The bid document must be compiled, all necessary required documentation and giving conditions attached, the bid evaluation criteria determined and the bid evaluated and recommendations tabled (NT, 2003b:21). The contract documents must be compiled and signed, contract administration done and contract information used to kick-start the logistics management process (NT, 2003b:21).

3.2.3.3 Logistics management

Logistics management is the process of planning, implementing and controlling the efficient, cost-effective flow and storage of raw materials, in-process inventory, finished goods, and related information from point of origin to point of consumption for the purpose of conforming to consumer requirements (Basu, 2011:8). According to Ambe and Badenhorst-Weiss (2012b:11006), logistics is the process of strategically managing acquisition, movement, and storage of materials (inventory) through the organisation and its marketing channel in such a way that profitability is maximised through the cost-effective fulfilment of orders.

Logistics management is part of the supply chain process that implements, controls and ensures an effective flow of stored goods and services (Ambe & Badenhorst-Weiss, 2012b:11006). The NT, Policy Framework to Guide Uniformity in Procurement Reform Processes in Government (2003) indicates that for stock or inventory items the following functions will, amongst others, be performed:

- Coding of items;
- Setting of inventory levels;
- Placing of orders;
- Receiving and distribution of materials;

- Stores/warehouse management;
- Expediting orders;
- Transporting management; and
- Vendor performance.

The disposal of assets that are no longer needed to render the services must also be performed. This includes unsearchable, redundant or obsolete assets. According to the NT's Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003b:23), at this stage:

- A database of all redundant material is kept;
- Material is inspected for potential re-use;
- A strategy is determined on how the items are to be disposed of; and
- The physical disposal process is executed.

In the supply chain performance stage the monitoring process takes place through a retrospective analysis to determine whether the proper process is being followed and to monitor whether the desired objectives have been achieved (NT, 2003b:23). The National Treasury's Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003b:23) indicates that some of the issues may be reviewed during this stage:

- Achievement of goals;
- Compliance to norms and standards;
- Savings generated;
- Cost variance per item;
- Contract breaches;

- Cost efficiency of the procurement process, that is the cost of the process itself;
- Whether supply chain objectives are consistent with government's broader policy focus; and
- That the material construction standards are increasingly aligned with those standards that support international best practises.

3.3 Procurement Plan

In order to meet demands the institutions must have a procurement plan consisting of the goods and services procured, the method used to procure the goods and services, the time frame to execute the procurement action, estimated value including all application taxes, and confirmation that funds are available (NT, 2014:71). The procurement plan is developed as a response to the departmental strategic plan and to give effect to the service delivery mandate of the department. The procurement plan builds a connection between the departmental objectives and the detailed operational budget (NT, 2014:71). It is critical that the procurement plan reveals the main areas of obligation of service delivery within the department. The procurement plan should be submitted at the earlier stages of the budget to ensure proper allocation. The procurement plan should indicate the method of procurement that will be used to procure goods and service. The plan should also contain timelines to accomplish the procurement action, and the estimated value including taxes. The procurement plan is crucial to guarantee that procurement activities are carried out timeously and contracts are in place before the beginning of the new financial year.

Advantages and disadvantages of not having a procurement plan

According to the National Treasury Accounting Officer's System for Supply Chain and Movable Asset Management (2014:73), the links between the end users, finance and SCM teams do not exist at the beginning of the procurement plan. Developing procurement plans benefits the economic scale by detailing overall requirements. Developing a procurement plan helps in terms of managing the budget and goods being procured. The plan increases value for money as it is cost-effective and allows the SCM section to plan and thus meet the needs of users. It also helps stakeholders to plan and schedule resources for the coming year. The procurement plan is critical in terms of advanced planning, preparation, and consolidation of requirements, which assists in cost saving, being more effective and efficient, as well as increasing value for money.

The disadvantage of not having a procurement plan is that the SCM team is not able to plan and allocate resources effectively to meet the needs of institutions. The accounting officer is not able to have control over the budget as there is plan on how to spend the money. Users become frustrated as there is no strategy regarding the resources needed to ensure effective service delivery. The stakeholders, and finance and SCM team become unaware of individual needs in the institution. Planning becomes difficult and the economies of scales are lost because individual requirements are processed separately (NT, 2014:75).

3.4 Contract Management

According to the National Treasury Accounting Officer's System for Supply Chain and Movable Asset Management (2014:138), a contract is defined as the legal binding agreement for the supply of goods and services, which exists between the department and contractor, regardless of the value of the contract. Contract management is the process that allows the parties to a contract to meet their commitments in order to deliver the objectives required from the contract". Contract management is crucial as it is a process that helps to ensure compliance. The purpose of contract management is to acquire goods and services as per the

agreement between the service provider and institution. The performance of the contractor must be measured as per the service level agreement. Contract management aims to maintain control of, or influence, the contractual arrangement with the service provider and includes administering and regulating such an agreement.

The provider should be paid according to the service level agreement and monitoring and evaluation should be done on regular basis to ensure full compliance of the service provider. Regular checks should be conducted to ensure that the service provider adheres to the agreed terms and conditions. It is also important to ensure best value for money for quality control purposes, and to ensure that the provider is offering the service required and it is a quality service being rendered. If there is unsatisfactory performance by the provider, the contractor must be informed before action is taken, to give them time to comply. The contract management section should ensure that the necessary documentation sets out the rights and obligations of both parties and that this is signed by both.

3.4.1 Contract management activities

Contract management is divided into three main sections, as follows:

- Service agreement – this process that ensures that the service provider performs according to a service level agreement, ensuring compliance.
- Relationship management – contract management exists to retain the relationship between supplier and institution. This ensures that the relationship between the service provider and the institution is open and constructive with the aim of being able to resolve any problem that may arise during the period of the contract.
- Contract administration – this deals with the formal governance of the contract, and changes to contract documentation.

3.5 Conclusion

The supply chain policies and legislation play a huge role in how public procurement should function as they describe the legal process that should be followed. The importance and understanding of public procurement should be promoted to ensure that there is full implementation of the policies to encourage good governance in government. A strong and well-functioning procurement system is one that is governed by a clear legal framework establishing the rules for transparency, efficiency and mechanisms of enforcement coupled with an institutional arrangement that ensures consistency in overall policy formulation and implementation (Hunja, 2003:2). South Africa is still facing challenges to the implementation of public procurement, such as a lack of proper knowledge, skills and capacity, non-compliance to National Treasury policies and regulations, inadequate planning and linking of demand to budget, lack of proper accountability, fraud and corruption, inadequate responses to and inconsistency in risk management/irregularities in SCM, inadequate measures for monitoring and evaluation of SCM, unethical behaviour, too much decentralisation, and ineffectiveness of the BBBEE policy (Ambe & Badenhorst-Weiss, 2012a:257).

CHAPTER 4: WESTERN CAPE PUBLIC PROCUREMENT

4.1 Introduction

The previous chapter explored the supply chain policy framework and legislation that guides the procurement practices. This chapter serves to explore current Western Cape public procurement and the system being used at Victoria Hospital, to bring understanding to the current system that the hospital is using. The current provincial procurement process is discussed to give insight to the process that public hospitals should follow. The best procurement practices, which are value for money, equity, open and effective competition, accountability and reporting, were discussed in chapter three and are used in this chapter to assess the current practices at Victoria Hospital. This chapter aims to answer the research question of which procurement system Victoria Hospital uses, in order to make recommendations to improve this current system at the hospital.

Research question and objectives

The purpose of this study is as follows:

- To provide a theoretical framework of the supply chain in public procurement.
- To provide a theoretic framework of good procurement practises in the public sector.
- To assess the procurement practices at Victoria Hospital.
- To identify the system used to promote good governance in procurement practises.
- To identify strategies to address procurement challenges to improve service at Victoria Hospital.
- To provide recommendations of the best practises that Victoria Hospital can use to improve service delivery.

The theoretical background of supply chain and procurement was covered in chapter two. This chapter aims to identify the current system used at Victoria Hospital in order to give recommendations to improve and promote service delivery. This research is guided by the following research question:

How does Victoria Hospital practice public procurement?

The study is also guided by the following sub-questions:

- What is public procurement?
- What are good procurement practises?
- What are the procurement practices at Victoria Hospital?
- What system is used to promote good governance in procurement?
- What are the challenges that this hospital experiences in procurement?

4.2 Western Cape Provincial Procurement

The starting point in the development of any procurement system is to determine the objectives of the system (Watermeyer, 2011:6). Watermeyer (2011:6) further indicates that the objectives associated with procurement systems are to promote good governance, particularly in developed countries; and to promote social and national agendas or non-commercial objectives. Procurement systems are increasingly being challenged to address sustainable development objectives in order to reduce negative impacts on the environment and contribute to the alleviation of poverty (Watermeyer, 2011:6).

Planning is a crucial step to ensure value for money in the procurement process. It is also important to have an annual procurement plan as a guide for how to spend the budget. At this stage the officials of different sections will determine what goods and services are needed. This is easy to plan when purchasing capital equipment. During this stage the officials will also identify what kind of procurement process is to be

followed, as well as tender or non-tender items. There are two bidding process used, namely informal bidding and open bidding. Informal bidding involves the acquisition of goods and values to the value of R100 000.

4.3 Procurement Process used by Public Hospitals

4.3.1 Items not on tender process

The National Treasury Policy Strategy to Guide Uniformity in Procurement Reform Processes in Government (2003:25) indicates that, in order to achieve the ideas of good governance and address deficiencies in supply chain management, fundamental institution reforms will have to be implemented. Such reforms need to promote efficient and effective procurement and provisioning systems and practices that enable government to deliver the required quality and quantity of services to its clients (NT, 2003b:25).

A needs assessment is performed to identify the goods and services required by the section department within the hospital. This is done in the form of stocktaking in order to identify the need. The chief user completes a log 1 form, which is a requisition form. He/she must indicate the required amount, and maximum and minimum stock level. He/she must then sign the log 1 form and ensure that someone else in the section also signs it; the form must include three signatures before leaving the section to the supply chain department.

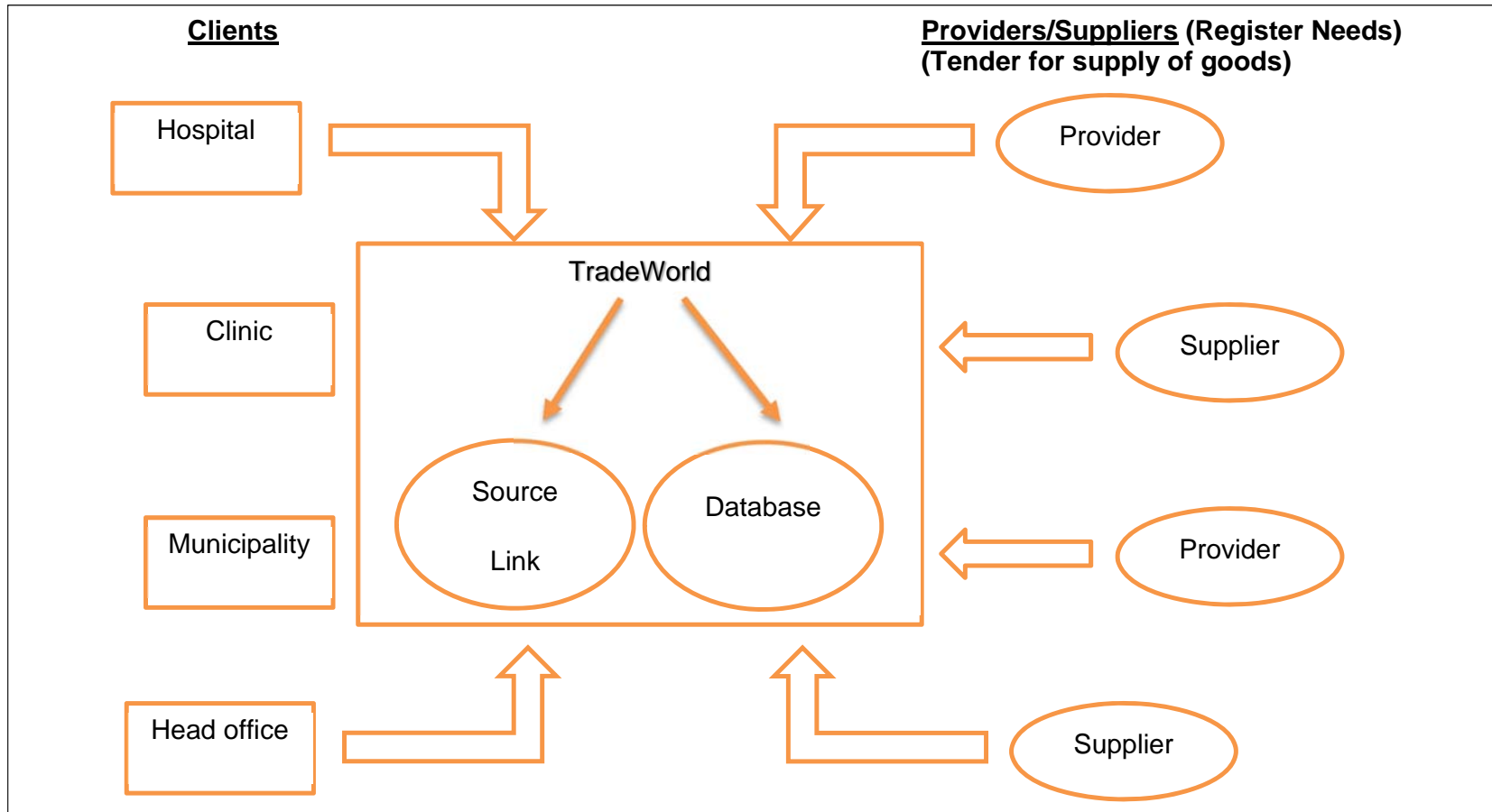
The form is then submitted to the supply chain administrative officer who determines whether the items are store items or bought out items. Store items are items of stock that are kept in stores. Buy out items are those that the hospital does not keep, these must be procured using an electronic purchasing system called the TradeWorld system.

TradeWorld is a private company who won the tender from the Western Cape Health Department to provide a facilitation function between clients (e.g. hospitals) and suppliers during the procurement and provisioning process (Lewis, 2005:84). The enquiry is loaded by the procurement clerks onto the TradeWorld system, the items

that are on tender are not loaded on TradeWorld as the hospital already has existing contracts with the supplier.

The TradeWorld system takes 24 hours to give feedback on the enquiry. After the closing date it takes a few hours before the report can be loaded. TradeWorld must provide a quarterly summary report to the WCHD (TradeWorld, 2004). These quarterly reports enable the WCHD to track all transactions that have transpired between its clients and suppliers (Lewis, 2005:85). Hospitals also have the right to load their suppliers who cannot afford to use TradeWorld. The clerks prepare the documentation, after which the senior administrative officer will check it before delivery to the vetting committee. The vetting committee will once again check the documentation, and scrutinise it to verify the need assessment. After this they will approve or disapprove the requisition. If the requisition is not approved, the user will be informed of the outcome and a reason will be given for it not being approved.

Figure 4.1: TradeWorld's facility function in terms of tenders (Lewis, 2005:85)



4.3.2 Informal bid

According to the National Treasury Accounting Officer's System (AOS) for procurement, Supply Chain and Asset Management (2006:32) an informal bid involves the acquisition of construction and construction-related projects to the value of R200 000.

4.3.3 Threshold value

The National Treasury Accounting Officer's System (AOS) for Procurement, Supply Chain and Asset Management (2006:32) indicates that an acquisition to the value of R5 000 of goods and services can be procured by verbal quotations (preferably at least three), accepting the lowest satisfactory offer and then placing an order on the condition that the successful supplier has confirmed the offer in writing. TradeWorld's system can also be used to get the quotations, to test the market to ensure that the best value for money has been practiced and achieved. All the information regarding the quotation must be recorded for auditing purposes.

4.3.4 Acquisition of goods and services to the value of R100 000

According to the National Treasury Accounting Officer's System (AOS) for Procurement, Supply Chain and Asset Management (2006:32) goods and services to the value of R100 000 can be procured by obtaining quotations through an electronic purchasing system (TradeWorld). This system decides on the acceptable offer, scoring the highest number of points, depending on the preference point, gender and equality (e.g. historically disadvantaged groups).

4.3.5 Acquisition of construction to the value of R200 000

According to The National Treasury Accounting Officer's System (AOS) for Procurement, Supply Chain and Asset Management (2006:33), the rule is that

all construction projects will be executed in terms of the agency agreement between the Department of Health and Transport and Public Works. As per service level agreement the sole procurer for construction works on behalf of the Department of Health.

In certain circumstances a deviation to the rule will be accepted provided a formal agreement is obtained from the Department of Transport and Public Works. This also relates to minor construction projects. The director of engineering must approve the agreement and will be accountable for such decision. It is important that the three-quotation system be followed to promote best value for money. Less than three quotations can be utilised but there must be a motivation attached for auditing purposes. The successful contractor will be awarded the project. There must be a quarterly report submitted to the accounting officer via the directorate supply chain management.

4.3.6 Open/competitive bid

The procurement of goods and services above R200 000 must be advertised in the government tender bulletin. If necessary the bids can also be advertised in the media, this allows for unfettered competition and equally provides an opportunity for the public to make an offer. The competition should provide all prospective bidders with enough time and adequate notifications with all the department's specifications and requirements of goods and services.

4.3.7 Bidding process stage

This stage includes the drafting of proper and unambiguous bidding documents and criteria.

The documents should consist of the following:

- A formal cover letter which should contain the bid number, specific details of the requirements, and who requires the services or

goods. The delivery address and closing time should also be included in the documents.

- The WCBD form or price form should be attached.
- The form (bid form, WCBD) must be signed as consent to enter the contract under the conditions specified in the documents.
- A form that stipulates the important conditions or additional requirements that aim to ensure that the bid submitted conforms to the prescripts of validity.
- Preferential procurement certificates must be attached.
- A tax clearance certificate must be attached.
- The declaration of interest must be completed.

4.3.8 Calling for bids to test the market

According to The National Treasury Accounting Officer's System (AOS) for Procurement, Supply Chain and Asset Management (2006:36), when you decide on the advertising period the monetary value as well as the complexity of the bid must be taken into consideration. In the case that the advertisement period is shorter than two weeks, such an amendment should be published via an electronic purchasing system as well as local newspaper depending on the system that was used to advertise the bid.

The bid must be advertised from 15 December until 15 January, as many companies close for the holidays. The period of validity of bids must not exceed a period of 60 days. Should an extension be needed, approval must be obtained from the head office of Health.

It is also crucial that a cut-off time be established to ensure fairness, uniformity, as well as to maintain order and bidder confidence in the system. Bids can be cancelled if an error is discovered before the closing date, such

as if specifications are incorrect. The bidders should be notified if there is a fresh bid issued. Bidders are permitted to deposit completed bids into the bid box, by post it, or hand it to a SCM practitioner.

- Receiving of bids – Bidders are permitted to deposit completed bids into the bid box, via post, or hand it to a SCM practitioner. Bids that are collected by post must be received in a relevant register. The bid number should be captured, along with the closing date of the bid, and the date and the time that the bid was received by the officials. The name of the company and how the bid was received must also be captured, whether through courier or registered post. It must also be indicated if the bid was received in time. The signature of the person who received the bid must be indicated.
- Consideration of bids and evaluation – The factors that can be considered during evaluation include the bid price and the quality of the work that the bidder is offering. It should be checked that the document has been correctly completed. The bid must be signed by the bidder. It is important that the signature and certificates be valid. No late bid will be accepted. The entire relevant document must be attached including the SARS certificate. It is also important to consider the financial standing of a bidder to ensure that they will be able to render the service required should anything happen. The bidder's financial capability to deal with possible legal action from the department in respect of non-compliance with specific bid if so being awarded (NT, 2006:36). It is important to check if the bidder complies with the minimum wage of the Basic Condition of Employment Act.
- After the evaluation the bid can be awarded to the successful bidder who meets the requirements as per the department's set specification and guidelines. After the bid has been signed by the delegated authorities, the bidder must be informed. The successful bidder must be notified of the acceptance of the bid by registered

post. The bidder must also be published in the government tender bulletin to ensure transparency.

Local production and content should be promoted by the government department. This is in compliance with the preferential procurement regulation 9(1) (2011), which indicates that the organ of state must, when adjudicating tenders and in the case of designated sectors, give preference to local production and content should be given a preference. According to the Provincial Treasury's accounting officer's system for supply chain and movable asset management (2014:102), the WCG experienced various challenges in implementing local and content from a practical perspective, such as the readiness and availability of the market to respond to requirements from the Western Cape Department of Health.

4.4 Capturing of the Requisition

After the requisition has been approved by the vetting committee it is handed over to the transit clerk who has to capture it on the LOGIS system. LOGIS is an electronically logistical information system that some government hospitals use to capture requisitions. This system is mainly used by district hospitals. Tertiary hospitals use the SYSPRO system. According to the National Treasury (Logistical information system, LOGIS literacy manual V1), LOGIS is a system that aims to provide government with a fair, equitable, transparent and cost-effective system, thus ensuring economical, effective and efficient operation. This system is built on the fundamentals of supply chain management. LOGIS is adaptable and flexible in use, enabling it to be implemented by government departments in order to support their procurement procedures.

After a requisition has been captured on LOGIS, the procurement advice will be printed. This is prepared by the clerks who recapture it on LOGIS with all the details of the item, its price, and supplier. The order will be printed and the

senior administrative officer will sign the order and the clerks fax the order to the supplier.

4.5 Victoria Hospital's Procurement Process

During the current internal procurement process at Victoria Hospital, the user must complete a log 1 form and submit it to the administrative officer. The user must first ensure that they conduct a proper stocktake before requesting the goods. After the need has been identified, the request can be submitted to the supply chain. The administrative officer will then split the forms and issue them to the procurement clerks to load the enquiries into the integrated procurement system (IPS).

4.5.1 IPS electronic system

The IPS electronic system is used to facilitate the procurement of goods and services up to R500 000. This electronic system is used to promote value for money and enhance the competitiveness of suppliers. It also provides business communities with a convenient and effective medium through which companies and individuals alike identify and exploit business opportunities TradeWorld system. The Western Cape has a database that allows suppliers to be registered. The Western Cape requires all existing and future suppliers to register on its database with complete profile information. Victoria Hospital makes use of the electronic system to advertise the bids. This system is used to facilitate the procurement of goods up to the value of R500 000.

The system is used to promote value for money as it enables institutions to test the market and promotes competitiveness of suppliers. The system allows the government to interact with suppliers, and suppliers thus become aware of the needs required by the institutions. After the requisition has been approved by the vetting committee the order is generated. In the situation where a formal written contract exists an order should be placed with that

particular supplier. The SCM unit is responsible for informing the user to send the approved order to the supplier. The SCM officials are responsible for receiving the goods and, upon delivery, the SCM officials must ensure that the goods meet the requirements and ensure that the correct goods are delivered. The SCM official accepts the goods and signs the delivery note or the invoice. After the quotation, once the committee has approved the requisition, the requisition is transferred to the supply chain clerk for capturing. The vetting committee is responsible for checking the requisition, meeting the requirements, and checking if the right procurement process has been followed. The logistic system is used to capture the requisition.

4.5.2 LOGIS

LOGIS stands for logistical information system. This is an electronic system that is used to capture requisitions on the system, generate orders and to process payments. To impact on SCM in its totality, it is critical that the operating systems for SCM are fully aligned with policies to ensure service delivery. “[The] LOGIS system is designed to identify the key areas for development that speaks to data integrity, internal control and segregation of duties, standardise of mandatory systems and reporting requirements” (The Western Cape Department of Health: Accounting Officer’s System (AOS)) for procurement, Supply Chain and Movable Asset Management (2014:60).

4.5.3 SCM committees

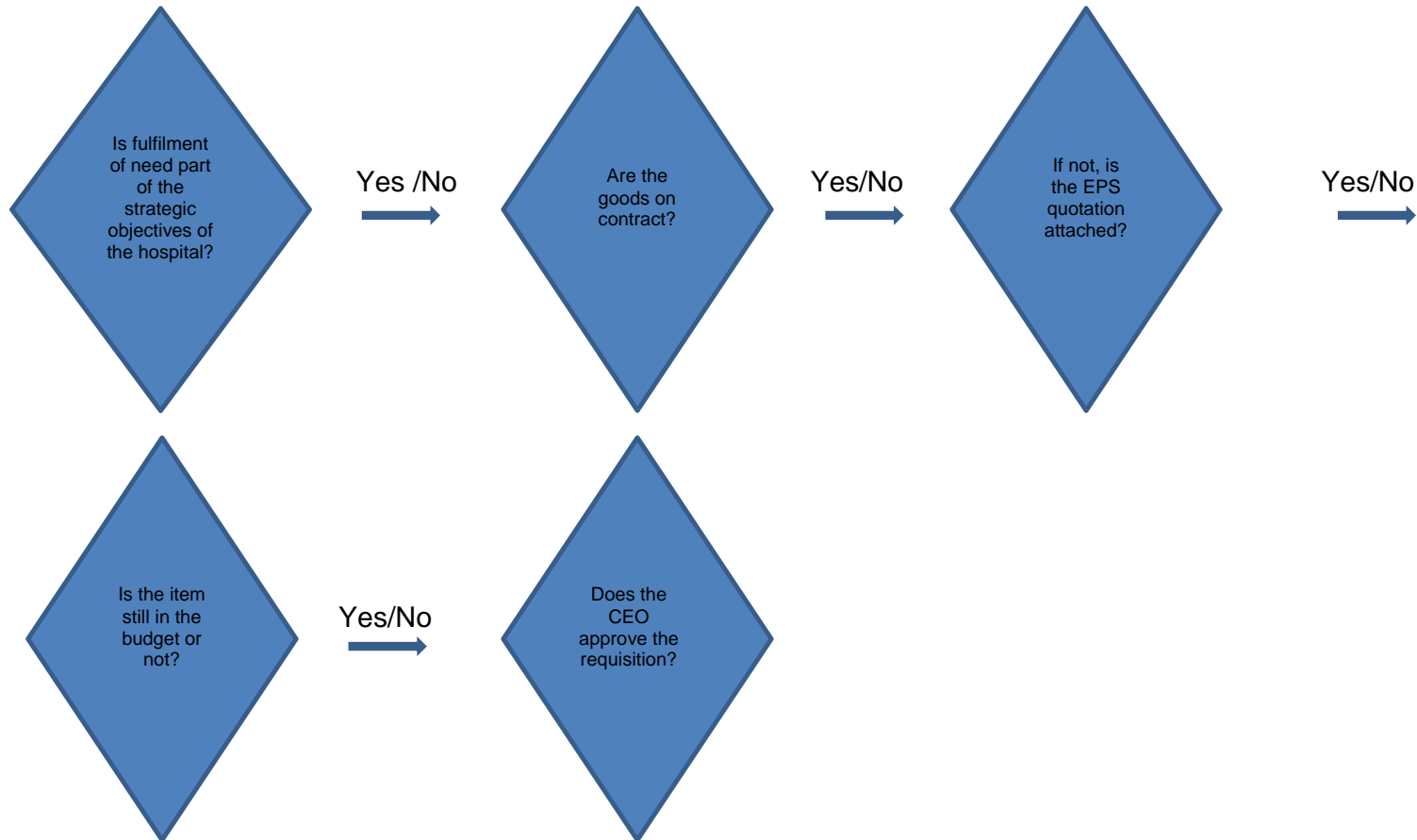
Quotation committee (QC)

Victoria Hospital has established a quotation committee as a panel that assesses all requisitions. Quotations usually occur on each Wednesday. The CEO of the institution chairs the meeting. The committee is there to ensure that the correct system is followed and that the budget is properly managed. The quotation committee has a responsibility to ensure that the hospital does not overspend and to ensure that the goods requested are a necessity for

patient care. This committee was established to ensure that the procurement process is fair, equitable, transparent, cost-effective and competitive. It is the responsibility of the accounting officer to ensure good governance is being followed during this process and that the process is not biased. The quotation committee serves to evaluate and adjudicate all procurement between R10 000 and R500 000. The responsibility of the QC is to check if all the documentation is attached to ensure that the disqualification of suppliers is justified and a valid reason is given. According to The Western Cape Department of Health: Accounting Officer's System (AOS) for procurement, Supply Chain and Movable Asset Management (2014:46), the QC is there to ensure that the scoring system is fair, consistent and correctly calculated. The committee has to ensure that minutes of the decision are recorded. The chairperson of the QC must sign these minutes.

The following diagram is applied.

Figure 4.2: Diagram of the quotation committee process



4.5.4 The bid evaluation committee

The bid committee serves to evaluate the bid at more than R500 000 (vat inclusive). The bid evaluation committee is established to promote good governance by ensuring that the best procurement practices are being followed. The bid evaluation committee must be unbiased to give opportunities for potential suppliers to render their goods and services.

4.5.5 Ethical standards

The Department of Health promotes high standards and ethics. The department expects all officials involved in procurement to hold high standards of integrity and professionalism. The department expects all institutions to comply with the preferential procurement policy to ensure that there is no misuse of the procurement systems. The SCM officials must be open, honest and have business relations and customer skills. The officials should be able to keep information confidential to avoid conflicts of interest and to ensure good governance at all times. The SCM officials should have mutual respect and trust and ensure that business is conducted with integrity. SCM officials must eliminate corruption dealings. The hospital also has an internal policy on gift acceptance – any gift with a value of more than R300 must be declared to the chief executive officer.

4.6 The Hospital Budget

The public budget is defined as the financial plan for work to be done with public money in a specific period, estimating revenue and authorising expenditure of public money in the public interest (Pauw, 2011:31). The National Treasury is responsible for compiling the budget for government. Pauw (2011:31) believes that the public budget must always be viewed in a political context. Money allocation is voted on by parliament and the legislature to achieve the goals of government. The budget is valid for the

specific period of 1 April of one year, to 30 March of the next year. A budget has different stages, which include planning, approval, spending and internal control, and control after the fact. The budget is allocated at the beginning of each financial year for each and every hospital to be able to function. The budget allocation is determined by the R210 million for 2014/2015. The budget is divided into category sections, depending on the functions. The hospital management has a set committee that is responsible for approving any requisition. The vetting committee consists of the CEO of the hospital as he is the accountable officer for the budget, the head of the supply chain, the administrative clerk supply chain, the head of medicine, administrative officer procurement, finance administrative officer and the head of nursing. The procurement plan is required to ensure the fair allocation of funding to different sections to ensure service delivery. Victoria Hospital makes use of the equipment list system. This system is normally submitted towards the end of the financial year to help management allocate resources to meet the needs of the institution.

4.7 Conclusion

Government institutions should have a procurement system in place to promote best practices and ensure good governance. The procurement process should be used as a guide to procure goods and services in order to provide services to citizens. The procurement system should promote the procurement practices of value for money, equity, open and effective competition, ethics and fair dealings, and accountability and reporting. The institutions must have a procurement plan for goods and services needed to provide services. The hospital budget should be managed properly to prevent wasteful and fruitless expenditure.

CHAPTER 5: DATA ANALYSIS AND FINDINGS

5.1 Introduction

The previous chapter described the procurement processes in Western Cape public hospitals as well as the procurement process for Victoria Hospital. The previous chapter's aim was to describe the methodology that was used to collect the data of the study. This chapter serves to interpret this collected data. The data was collected in the form of interview questions in order to gather information from the experts on whether the best procurement practices are being followed at Victoria Hospital. The literature review aims to bring insight into the theoretical background of the study conducted on the issue of procurement practices. The audit report was reviewed to determine and assess how Victoria Hospital has been practicing procurement policies.

5.2 Population

This case study only focuses on procurement staff and management. The researcher's aim is to assess the procurement practices at Victoria Hospital. The study consists of six respondents, which consist of two procurement employees, one management representative, one quotation representative, one compliance officer (head office) and one manager, which is the end user. The respondents were selected based on the people involved in the procurement section. As discussed in chapter 4, the quotation committee was established to ensure compliance before an order has been procured and approved. This committee checks all the eligible documentation to ensure good governance. The CEO is responsible for signing and approving the procurement transactions submitted to the vetting committee. The compliance officer was interviewed to gain knowledge on procurement matters identified at Victoria Hospital. The end user, who is one of the section managers in the hospital, was also interviewed to give more understanding on how the procurement section is frustrating service delivery.

5.3 Data Collection

The information was gathered in the form of interview questions, which aim to answer the research question of how Victoria Hospital has been practicing procurement policies. The questions' aim is to draw information from the participants and the experts as well as management involved in the procurement section at Victoria Hospital. The data was collected in the same way, using the different methods discussed below.

5.3.1 Methods of data collection

- The observation method was used to study the procurement processes. Through this observation the procurement practises were identified and the quotation committee was observed to see how they conduct their vetting for the promotion of good practises of public procurement. The researcher was able to observe the current system and able to give recommendations based on the findings.
- Interview guide questions were used to gather information from the supply chain staff, but with a main focus on procurement personnel. Open-ended questions with structured questions were used in order to allow for free responses. Descriptive questions were asked to determine how Victoria Hospital is practising procurement policies.

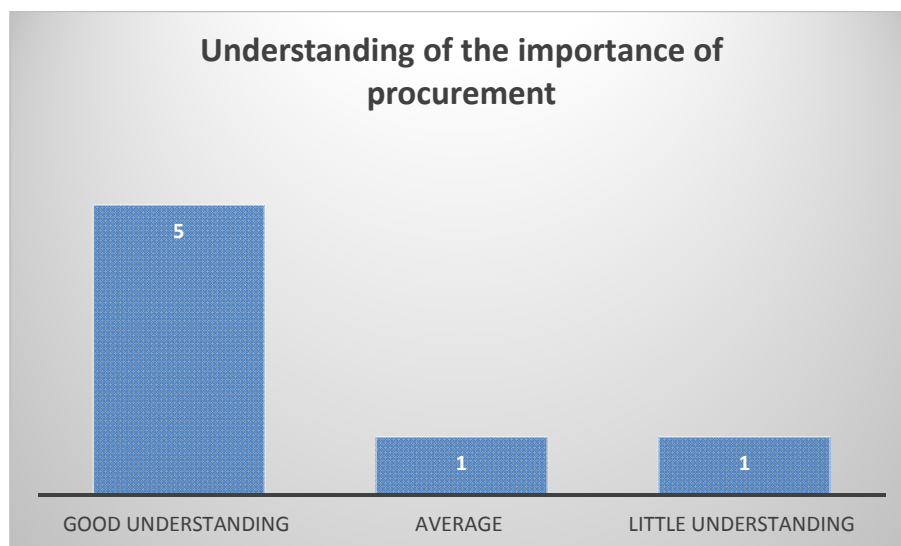
5.3.2 Data interpretation

An excel spreadsheet was used to interpret the findings and to apply the findings to the problem. Different graphs were used to analyse results.

5.3.2.1 Understanding of public procurement

This study included of six respondents. Out of the six people interviewed, the results indicated that the majority of staff understands the importance of procurement as a system used to provide service delivery. Procurement staff indicated their understanding of procurement as a tool used to provide service delivery more specifically to patients.

Figure 5.1: Understanding of the importance of procurement

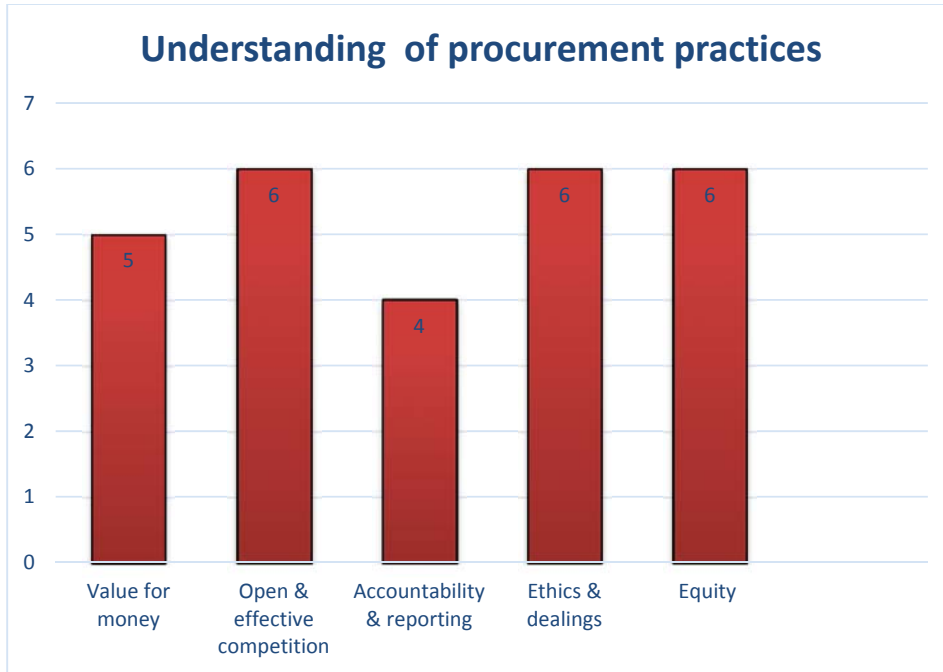


5.3.2.2 Importance of procurement practices

This question aimed to gather knowledge and experience of the staff on procurement practices. The electronic integrated procurement system (IPS) is designed to support value for money, but it is also revealed that this is not consistent but depends the preference point, which is mainly guided by

previous historically disadvantaged groups and aims to promote equity and fair dealings. The IPS system provides effective competition and openness.

Figure 5.2: Understanding of procurement practices



5.2.3.3 Procurement system

The IPS system as indicated above is the main system used in Victoria Hospital. It is an electronic system that is already programmed to promote equity, and value for money. The quotation committee is used as a procurement management system to check all the requisitions to ensure that it promotes the best procurement practices. The AOS policy is used as a guide to procure goods and services and as guidelines. The budget monitoring instrument (BMI) is the control management system used to manage the budget to avoid overspending and wasteful expenditure.

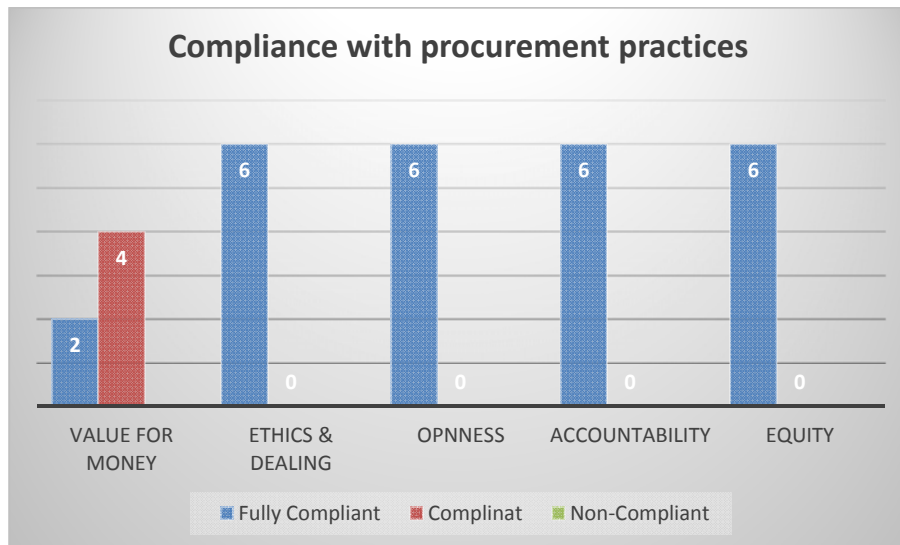
Table 5.1: The procurement system

IPS (integrated Procurement System)	QC (Quotation Committee)	BEC (Bid Evaluation Committee)	AO delegation	Reporting system	BMI (Budget Monitoring Instrument)
This is a web-system that Western Cape Supply Database utilised to request quotations.	Established to ensure compliance with the preferential procurement policy.	Bid evaluation committee.	Accounting Officer delegation and SCM policies.	A system established to ensure that any irregular expenditure is reported to head office.	Aims to monitor the budget and ensure any reported irregularities are dealt with.

5.2.3.4 Procurement practices

The results show that this hospital is fully compliant in terms of procurement practices as it follows the SCM legislation and the Western Cape database system. The results reveal that value for money is not always achieved as the system does the calculation based on the preference points and BEE status.

Figure 5.3: Compliance with procurement practices



5.2.3.5 Procurement plan

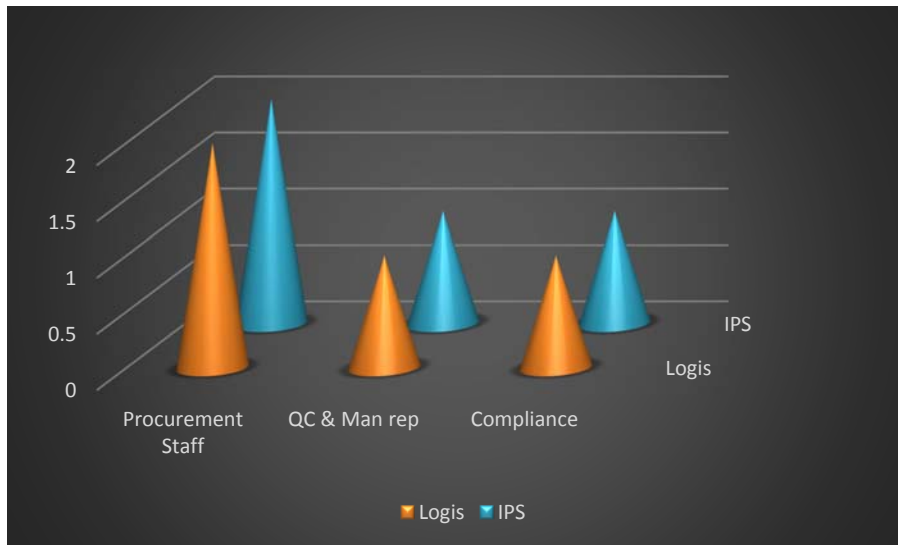
The study revealed that Victoria Hospital does have a procurement plan and an understanding of the procurement plan.

Figure 5.4: Procurement plan



5.2.3.6 Training of the staff

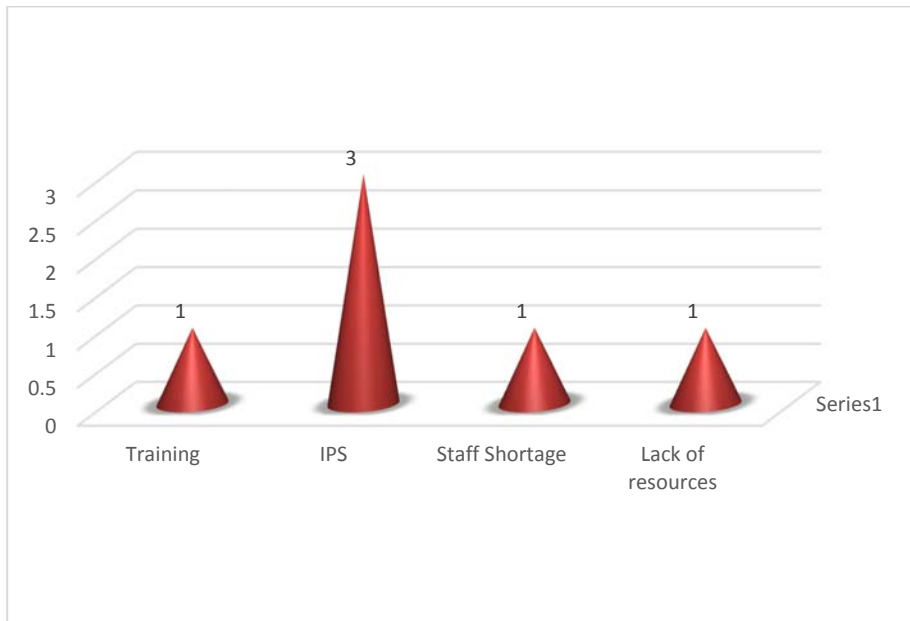
The results indicate that the employees in procurement are trained but the QC and management representative feels that there must be additional training provided.

Figure 5.5: Training of staff

5.3 Challenges to Implementing the Procurement Practices

The challenge that was highlighted as most dominant was the time frame of the system. The time frame of the procurement process is long as the IPS takes 72 hours to give quotations after these are loaded. After this the paperwork must be prepared and submitted to the quotation committee (QC). The whole process takes about two to three weeks, which affects the services as end users must wait to get their goods.

The study also reveals that, with the new system in place, the procurement employees need more training to gain confidence in what they must do. Staff shortages were also identified as a problem.

Figure 5.6: Challenges to implementing procurement practices

5.4 Content Findings

Content analysis was used to explore the previous year's audit reports to identify how Victoria Hospital has been practising procurement policies. The report helped to highlight how well the procurement policies have been followed and to highlight the underlying challenges that the hospital faces in procurement policy practises. The report that the researcher had access to was the 2010 audit findings and the audit finding of March 2014.

5.4.1 Victoria Hospital audit report, 2010

The audit reports were studied with the purpose of assessing how the auditors experienced the underlying issues in procurement systems. According to the report findings, procurement and tendering were insufficient support documents. The report also indicates that the procurement procedure was inadequate. The procurement practices were not followed, and some orders were generated with only one supplier quotation being obtained. The report also indicated that outstanding orders were not properly followed up. A lack of

paperwork was one problem identified in the report. The documentation was missing, and the internal control system must be improved.

Lack of proper management

Orders were generated without the proper management signature. Some orders did not go through the vetting committee. The report indicated that there was no proper management control in the procurement system.

5.4.2 Financial Management Report, March 2014

The financial management report to the Accounting Officer on the audit of the WC Department of Health for the year ended March 2014. This is a comprehensive report for the Western Cape, and for the purpose of this study the researcher only selected the findings from Victoria Hospital. The financial management report is an internal management tool used to audit the institutions in order to enforce compliance with the policies. This report indicates that there is irregular expenditure on one of the suppliers. The report indicates that the procurement process was not followed as the value of goods and service rendered was over R500 000 and the tender process should have been followed. The report indicates that there is a deficiency in internal control and that the quotation committee approved this requisition without considering the threshold values as determined by the National Treasury. The report indicates that the quotation committee does not function effectively.

5.5 Conclusion

This chapter revealed and answered the research question, which aims to assess procurement practices at Victoria Hospital. The study reveals that there have been challenges to compliance in this hospital. The research reveals that there has been an improvement since the appointment of the new

administration in 2014. The hospital does conduct procurement practices, although there is a challenge in promoting value for money as it is not always cost-effective. It is also highlighted that this hospital does have a procurement plan. The IPS system has been identified as one of the most challenging in procurement as the system takes 72 hours to give feedback after loading an enquiry. The research also reveals that employees understand the importance of procurement and procurement practices, yet there is still a gap of further training to ensure effective service delivery.

CHAPTER 6 SUMMARY AND RECOMMENDATIONS

The previous chapter explored the findings of the study. This chapter aims to summarise the study and offer recommendations and conclusions. Chapter one introduced the study and the reason why this study is conducted. Chapter two described SCM and public procurement as well as the importance of promoting good governance in procurement. Public procurement is described in chapter two as the purchasing process of goods and services, which are required for hospitals to function and public welfare to be pursued (Williams & Quinot, n.d:339). Public procurement is also as defined in chapter two as the acquisition of goods, services and works by a procuring entity using public funds (World Bank, 1995). In chapter two the study highlighted that procurement is crucial for promoting past socio-economic apartheid matters, and is regarded as the process that should be followed when purchasing goods and services in the public sector. Best procurement practices, which are value for money, ethics and fair dealing, openness, accountability, and reporting, should be followed to ensure good governance to enhance service delivery. Chapter two also emphasises that it is important that SCM personnel be equipped to improve effectiveness in order to provide best service delivery. Public procurement must be fair, equitable, transparent and cost-effective to promote good governance.

Chapter three gave an overview of SCM policies and regulations that govern the public procurement. These policies are established to ensure that best procurement practices are promoted and supported. The PFMA becomes an engine with which this goal can be achieved as it explains how public funds should be utilised. Corruption is one of the challenges that government faces that hampers service delivery. The concept of good governance, as described in chapter two, must be promoted in all spheres of government. The SCM system must be strengthened to tighten the gap created by corruption in government.

Chapter four described the procurement system used in public hospitals as well as the system used in Victoria Hospital. The summary in chapter five

revealed that procurement processes should be used as a guide to procure goods and services in order to provide services to citizens. The institutions must have a procurement plan to budget the goods and services needed to provide the services. The hospital budget should be managed properly to prevent wasteful and fruitless expenditure and ensure accountability and reporting.

6.1 Recommendations to Improve Procurement practices

Value for money

Although government is at liberty to consider criteria other than lowest price, this is not always possible as the electronic system is designed to also promote equity and address past socio-economic issues and promote the PPPFA and SMMEs. This recommendation is based on figure 5.2 and figure 5.3 in the results. The IPS should be designed in conjunction with departmental policies to ensure consistency and compliance. Best procurement aims to maximise equal opportunities within the supply chain and ensure that the right procedures are followed when goods are procured. The procurement system should support value for money and have proper financial planning. The hospital should also have a clear understanding of what needs to be purchased and the funds must be allocated according to the category of the items. It is important that the right products be purchased. As discussed in chapter two, the study conducted in the UK in 2005 indicated that all products and services create a social environmental impact which promotes a sustainable environment to ensure proper management of resources.

Open and effective competition

This research reveals that Victoria Hospital has a procurement system in place and follows the procurement procedures, laws and policies to ensure

transparency, and be accessible to the public. The study highlighted that the process is open as it is guided by the SCM policies and procedures. The method used to advertise (IPS), promotes effective competition to the public. The system is designed to prevent bias and favouritism in the system and promote the principles of good governance.

Accountability and reporting

Based on table 5.1, the research highlights that there is a reporting system in place, such as the budget monitoring instrument meeting that is held in the sub-structure office to monitor the budget and reporting of any irregular expenditures that may have occurred in the previous month. Accountability is crucial in procurement to ensure that people account for their plans, actions and outcomes. Accountability is an important principle of government procurement as it plays a role on both a national and international level (Raymond, 2008:786). As discussed in chapter two, openness and transparency in administration by external scrutiny through public reporting is a vital element of accountability. It is of outmost importance that all personnel involved in procurement practices be accountable, starting from the heads of departments to ministers for the overall management of procurement activities.

From this study it can be recommended that internal control be strengthened. Strong procurement systems will ensure commitment to economic growth. The audit report results indicate that procurement processes were not followed. The report indicates that there was insufficient documentation and non-compliance with the policies. The hospital should ensure that procurement not be compromised. The report also highlights poor management control. Irregular expenditure must be reported and measures should be taken to correct it and ensure that it does not happen in future. Government should have more interventions to promote compliance. The study recommends that awareness be established in the public institution to

ensure that even the end-user manager is aware of the policies and procedures to be followed.

Equity

As previously discussed in chapter two, equity is vital in public sector procurement in South Africa as it ensures that government is committed to economic growth by implementing measures to support industry and to advance the development of small, medium and micro enterprises and historically disadvantaged individuals (NT, 2003a:8). It is important that procurement policies promote local enterprises in specific provinces, in a particular region, in a specific local authority, or in rural areas (NT, 2003a:8).

The government has implemented the Preferential Procurement Policy Framework Act with an aim to advance small, medium and micro enterprises (SMMEs) and HDIs (NT, 2003a:8). The Preferential Procurement Policy Framework Act aims to create new jobs as well as to promote women and physically handicapped people.

Although Victoria Hospital has a quotation committee, it is recommended that the quotation committee members be trained in SCM policies; this will increase effectiveness during the evaluation of the bids. The quotation committee should ensure that they scrutinise each and every requisition to ensure good governance is fully implemented. The quotation committee members should be trustworthy and ensure that they are not biased in evaluation. It is also recommended that the quotation committee be well represented in terms of equity.

Central tender board

Based on information discussed in chapter two, it will be beneficial for the institutions to have a central tender board with a head office. This central tender board will offer the advantage of consolidated purchasing and central

control. The Tender Board was unable to keep pace with the expansion of government activities and their attendant procurement requirements (Agaba & Shipman, 1998:374). As discussed in chapter 2, centralisation leverages scales to reduce cost, it also has an advantage as it leverage due to the volume, reduction of duplication of purchasing effort, better control and development of specialised expertise of purchasing personnel. This will also promote openness and transparency as the bid evaluation will be conducted by the central tender board.

6.2. Recommendations to Combat Challenges to Procurement

Lack of resources

In order to provide effective and efficient services, the supportive equipment must be available. Figure 5.6 indicates that a lack of resources is one of the contributing challenges to procurement. It is recommended that the necessary equipment be purchased for the effective functioning of the institution.

Staff training

Figure 5.6 indicates that there is still an existing skills gap in terms of the training of employees working procurement. As discussed in chapter 2, the training should include all aspects that pertain to the supply chain, such as financial management training, general management training, and specialist supply chain management training. According to Ambe and Badenhorst-Weiss (2012a:254), it is important that all supply chain personnel have general procurement skills, which includes knowledge of the purchasing and selling environment, sourcing strategies, purchasing and supply tasks, integrated supply management, globalisation, and technologies advancement. Staff should be trained to produce the service required.

6.3 Conclusion

In conclusion to this study, service delivery is at the core of government objectives. Government has the role to ensure that there is a proper system in place to support the goal of good governance in the public sector. It is important that government enforces the SCM policies. It is important that a procurement system is set to serve the purpose of service delivery. The procurement system should be designed to bring balance when promoting the procurement practices and to ensure that it promotes value for money. The SCM employees must be well trained on a regular basis in order to provide services to the clients. It is important that the procurement section be managed properly as bad procurement will increase the socio-economic problems that South Africa faces of poverty and inequality by diverting funds from the purpose of social needs. Corruption in procurement has a great financial impact, which results in unnecessarily high costs of purchases, it is therefore important that institutions practice the PPPFA.

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APPENDICES: INTERVIEW QUESTIONS

Appendix A: Interview with two procurement employees

Question 1: In your opinion what is the importance of procurement in the hospital?

Response 1: Procurement is important, as it is required to provide services to the patient and to ensure that proper goods and services are procured by following the procurement system.

Response 2: Procurement is important as it supports the goal of service delivery to the patient.

Question 2: What is your understanding of promoting value for money, openness and effectiveness, competition, accountability and reporting, ethics and fair dealing and equity?

Response 1: Unsure about the answer.

Response 2: To prevent fraud and enhance fruitless and wasteful expenditure.

Question 3: What systems do you have to promote these principles and how are these systems are being used?

Response 1: AO system, which is a guideline for procurement.

Response 2: Much financial instruction that guides procurement.

Question 4: Do you have a procurement plan?

Response 1: Yes.

Response 2: Yes.

Question 5: Why do you think it is important to have a procurement plan?

Response 1: It is a guideline assisting in the planning process of deciding what to buy, and when to buy.

Response 2: To follow policies and financial instructions.

Question 6: Have you have been trained?

Respondent 1: Yes.

Respondent 2: Yes.

Question 7: What kind of training have you received?

Response 1: LOGIS and IPS training.

Response 2: LOGIS and IPS training.

Question 8: What is the time frame of the procurement system?

Respondent 1: Eight weeks.

Respondent 2: Eight weeks.

Question 9: How does the time frame affect service delivery?

Respondent 1: Procurement process becomes long.

Respondent 2: Not really affect the service as we accommodate the emergency orders.

Question 10: What are the challenges that you currently facing that frustrate service delivery?

Respondent 1: A new system implemented on the 1st of September, I am not that clued up with the system.

Respondent 2: Staff shortage, lack of equipment, new system takes long and system problems.

Appendix B: Interview with a management representative and a quotation committee member

Question 1: What is your understanding of the importance of procurement?

Response from manager: Procurement is the engine that plays a huge role in the procuring of goods and services to provide the service to the patient.

Response from QC: It is a system used to ensure fair dealings in procurement and ensure that goods and services are procured according to the SCM policies.

Question 2: What management system do you have to promote best procurement practices?

Response from manager: The hospital has a budget monitoring system (BMI). It is established to monitor the budget and eliminate fruitless and wasteful expenditure. The quotation committee is also established to ensure compliance with legislation and policies. Reporting all irregular expenditure that occurs due to non-compliance with procurement policies must be reported to head office to ensure accountability. All goods and services are monitored by the quotation committee to ensure that only necessary and required goods are procured.

Response from QC: Quotation committee, IPS system, MBI.

Question 3: Do you think the staff is well trained in the procurement system of LOGIS and IPS?

Response from manager: Yes.

Response from QC: Yes.

Question 4: What are the challenges that you experience in procurement?

Response from manager: New system implemented on the 1st September 2014.

Response from QC: Long waiting period of QC system.

Appendix C: Interview with the compliance advisor

Question 1: Do you think Victoria Hospital understands the importance of procurement, and why?

Response: Yes, there have been challenges in the past, but things have improved with the new management in place.

Question 2: Why do you think it's important for hospitals to follow the procurement practices?

Response: To ensure good governance and to promote service delivery to the patient. To ensure that public funding is being utilised correctly.

Question 3: What system does this hospital have to ensure good procurement practices?

Response: IPS, QC and BMI.

Question 4: Do you think the staff is trained in the procurement system which is LOGIS, IPS?

Response: Yes.

Question 5: In your understanding, how do you rate the compliance of this hospital in terms of procurement?

Response: Not all of them, as you still experience problems such as not having all sufficient documentation when conducting an audit.

Question 6: What are the challenges that you have experienced in this hospital?

Response: Not many challenges when compared to previous years. You can see the difference in the management, things are in place.

Appendix D: Interview with one of the end users (manager of a section in the hospital)

Question 1: Do you think the procurement system is working at Victoria Hospital?

Response: Yes but the new system takes too long.

Question 2: Do you think the staff working in procurement is trained in LOGIS and IPS?

Response: Yes.

Question 3: What is the waiting time frame and how is it affecting service delivery to the patient?

Response: The new system takes too long and sometimes we run short of stock and it affects the service to the patient as we must wait on stock or borrow from another institution.

Question 4: What are the challenges that you are currently facing?

Response: The waiting period is too long.