

EMERGENCY PROCUREMENT AND NT MEASURES TO PREVENT CORRUPTION

JOINT MEETING: STANDING COMMITTEE ON FINANCE AND SELECT COMMITTEE ON FINANCE

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



EMERGENCY PROCUREMENT INSTRUCTIONS DURING COVID-19

The National Treasury issued various instructions since the Disaster was declared for both PFMA and MFMA organs of state:

- Instruction No. 8 of 2019/20 : EMERGENCY PROCUREMENT IN RESPONSE TO NATIONAL STATE OF DISASTER (19 March 2020)
MFMA Circular No. 100 - Emergency procurement in response to Covid-19
- Instruction No. 3 of 2020/21: COVID-19 DISASTER MANGEMENT CENTRAL EMERGENCY PROCUREMENT STRATEGY FOR PFMA ORGANS OF STATE (15 April 2020)
MFMA Circular 101 – Covid-19 Bulk Procurement Strategy for Government Institutions
- Instruction No. 5 of 2020/21: EMERGENCY PROCUREMENT IN RESPONSE TO NATIONAL STATE OF DISASTER (5 May 2020)
MFMA Circular 102 – Emergency Procurement in Response to National State of Disaster

NT INSTRUCTION NO. 8 OF 2019/20

MFMA CIRCULAR NO. 100

- National Treasury's first response to the disaster.
- Issued on 19 March 2020
- This instruction facilitated procurement of PPE items that were already on National Treasury Transversal Contracts.
- Also provided a list of Suppliers (from previous transversal contracts) who gave NT quotations on bulk supply for items not on Transversal Contracts

Limitations:

- Demand overshadowed the supply (Countries were competing against each other).
- Prices on Transversal Contracts were no longer reflective on the new market conditions
- Available stock quickly ran out

NT INSTRUCTION NOTE NO. 3 2020/21

MFMA CIRCULAR NO. 101

Instruction No.3 was the second instruction which advocated a central procurement agent approach.

- PPE products were experiencing unprecedented and global demand, resulting in significant price increases and global shortages.
- Some of these products could be locally produced in South Africa, but at the time ramping up domestic production would take some time, and possibly not be able to deliver most required products immediately.
- In trying to secure PPE products like surgical and other masks, gloves, bodysuits,. many manufacturing countries had also imposed export bans, where the items were available, prices rose sharply, made worse by the depreciation and volatility of the rand.
- Further, even where such products had been secured, immediate up-front payments were required, and suppliers faced a huge challenge in arranging immediate delivery of such stock to SA.
- Hence the need to engage a **Central Implementing Agent** to provide a system for the procuring, warehousing and distributing of such products.

NT INSTRUCTION NOTE NO. 3 2020/21

MFMA CIRCULAR NO. 101

Limitations:

- Upfront payments required to procure in bulk
- Government do not have the central systems in place, hence required the intervention of a central procurement agent.
- Negative perceptions and mis-information
- Thus, a decision for a public and private sector central procurement strategy was made at the National Joint Operational and Intelligence Structure (NATJOINTS). The NATJOINTS accepted voluntary support from Business South Africa (BSA) to provide the services of Imperial Health Sciences (IHS) as a Central Implementing Agent for the public and private sectors to utilise its logistical expertise and capabilities on a non-profit basis.
- Mis-information about the process, issues of local participation and process followed in appointing the private sector service provider, interference by interest parties and negative media publicity made this approach impossible to implement.

NT INSTRUCTION NOTE NO 5 OF 2020/21

MFMA CIRCULAR 102

- Instruction No. 5 of 2020/21 is the last and valid emergency procurement instruction.
- National Treasury returned to Emergency Procurement regulations as described earlier having also extensively engaged with a wide range of stakeholders
- 4 Conditions applied:
 1. PPE items must be to the specifications of WHO, NDOH and DTIC (for cloth masks)
 2. The Prices must be equal or lower than the benchmark prices set by NT
 3. Suppliers / Manufacturers must be registered on the Central Supplier Database; and
 4. Items must meet the stipulated minimum threshold % for local production for Textiles, clothing, leather and footwear sector.
- This instruction provided lists of possible suppliers/ manufacturers supplied by the Department of Small Business as well as from the National Bargaining Council for the Clothing Industry.

NT INSTRUCTION NOTE NO 5 OF 2020/21

MFMA CIRCULAR 102

Limitations:

- Emergency procurement sits at the heart of government's reaction to the pandemic, and is particularly prone to exploitation.
- Controls were set so as not to be a barrier to responding to the pandemic and decentralising the procurement of PPE to respond to the COVID-19 crisis. Good financial management procurement procedures remain in place.
- However rampant misuse and abuse of public resources in COVID 19 related procurement has manifest.
- In addition to law enforcement responses, NT is considering additional preventative measures and updating this instruction note.

NT INSTRUCTION NOTE NO 7 OF 2020/21

MFMA CIRCULAR NO. 103

The National Treasury issued PFMA Instruction 7 and MFMA Circular 103 that deals with Preventative Measures in response to the Covid-19 pandemic.

- These instructions were issued to give **Accounting Officers/Authorities** proactive guidance on how to revisit their control environment in response to COVID-19.
- As requested by FOSAD an emergency procurement working group of large PPE procurers was established under the chairpersonship of DG NT to provide input into this process

PURPOSE

- Provide for preventative measures as a result of COVID 19 emergencies and the need to be responsive and flexible, whilst ensuring value for money and minimising the risk of fraud, corruption, negligence, error and incapacity
- Ensure that internal control systems of a department, constitutional institution and public entity consider, amongst others:
 - the change in operating activities of the existing control environment;
 - risk assessment processes;
 - designing and/or amending control activities to address new or elevated risks;
 - identifying information required to support the effectiveness and efficiency of controls;
 - reassessing internal and external communication; and
 - identifying any additional internal control monitoring activities.
- Reporting remains critical for a transparent control environment and monthly, quarterly and annual reports must be in place.

EXPENDITURE ON THE COVID-19 RESPONSE

- The 2020 Supplementary Budget Review proposes R145 billion for the COVID-19 relief package, of which R122.4 billion was allocated
- To date, national and provincial departments have recorded R10.4 billion in spending against these allocations, within their financial systems
- All spending reports are extracted directly from the financial systems, in order to provide an audit trail and eliminate audit queries
- However, the expenditure report underestimates substantive portions of the allocated resources, these include the following:
 - Social grant payments are not recorded against the appropriate line items in the system and must still be separated through appropriate journals
 - Departments of Defense and Police will only provide expenditure data for July in the first week of August
 - Higher education payments and support to entities must still be paid and identified within the financial systems
 - Support to municipalities included in equitable share payments, these transactions must still be separated within the system

SPENDING TO DATE: APRIL TO JULY

- Data for July extracted 12 July, no data for Defense, Police and Free State province for July
- Transactions for numerous departments not captured correctly in April and May, journals will be passed within the next months

Allocations for COVID Response: 2020/21

R million	2020 Supplementary Budget	National: Expenditure April to July	Provinces: Expenditure April to July	Total expenditure April to July
Support to vulnerable households for 6 months	40 891	938		938
Health	21 544	93	3 514	3 607
Support to municipalities	20 034	151		151
Other frontline services	13 623	2 250		2 250
Basic and higher education	12 541	–	1 278	1 278
Small and informal business support, and job creation and protection	6 061	18		18
Support to public entities	5 964	–		–
Other COVID-19 interventions	1 766	132	2 044	2 176
Allocated for COVID-19 fiscal relief package	122 425	3 581	6 836	10 417
Land Bank equity investment	3 000			
Provisional allocations for COVID-19 fiscal relief package	19 575			
Total	145 000			

Source: National Treasury

NATIONAL DEPARTMENTS

National departments: Expenditure recorded for 2020/21 for COVID Response

R'000	April	May	June	July	Year to date
Support to vulnerable households for 6 months	–	7 938	929 628	–	937 566
S A Social Security Agency: Social grants	–	7 938	929 628	–	937 566
Health	–	64 467	13 213	15 143	92 823
Vote 18: Health	–	64 467	13 213	15 143	92 823
Support to municipalities	–	150 970	–	–	150 970
Vote 4: Cooperative Governance and Traditional Affairs	–	150 970	–	–	150 970
Other frontline services	1 143 326	618 248	460 657	27 540	2 249 771
Vote 05: Home Affairs	–	10 876	3 072	955	14 904
Vote 19: Defence and Military Veterans	86 694	233 827	401 352	–	721 873
Vote 22: Correctional Services	21 337	64 783	27 009	26 585	139 714
Vote 23: Police	1 035 295	308 761	29 224	–	1 373 280
Basic and higher education					
Small and informal business support, and job creation and protection	6 453	4 815	6 073	625	17 967
Support to public entities	–	–	–	–	–
Other COVID-19 interventions	11 885	52 559	51 354	16 301	132 099
Total	1 161 665	898 996	1 460 926	59 608	3 581 196

PROVINCES

Provinces: Expenditure recorded for 2020/21 for COVID Response

R'000	April	May	June	July	Year to date
Health	462 467	858 404	1 327 531	865 320	3 513 721
Eastern Cape	4 875	15 256	78 663	24 146	122 940
Free State	4 233	2 460	614	–	7 306
Gauteng	92 298	355 438	526 321	530 074	1 504 131
KwaZulu Natal	121 079	242 481	290 169	107 411	761 139
Limpopo Province	159 168	128 892	150 459	82 853	521 372
Mpumalanga	15 903	79 966	142 965	30 784	269 618
North West	455	3 550	13 093	5 807	22 905
Northern Cape	1 034	255	2 824	460	4 574
Western Cape	63 421	30 106	122 423	83 785	299 736
Basic education	3 483	70 844	807 945	395 348	1 277 619
Other COVID-19 interventions (all provinces)	135 004	411 761	1 292 962	204 564	2 044 290
Total	600 953	1 341 008	3 428 438	1 465 232	6 835 631

NEW CONTROLS BEING CONSIDERED FOR PPE PROCUREMENT

- AGSA with NT publishing Preventative Control Guides. Preventative controls assist management to identify the risks of misappropriation, fraud and corruption before a transaction takes place. It provides accounting officers with a toolkit of possible solutions to make preventative controls a reality
- Emergency procurement for PPE and Protective Clothing is ended and institutions revert back to open procurement processes.
- Procurement must be compliant with all existing instructions for procurement.
- Instruction
 - NT will lock an absolute price for all PPE and listed Protective Clothing procurement. Permission to be sought for any amount above the absolute price.
 - Institutions to provide NT with the names of all PPE and Protective Clothing appointed service providers for publishing on the NT website and analysing aggregated data across all procuring agencies

PUBLIC PROCUREMENT –ISSUES TO CONSIDER

- New Procurement Bill process is underway
- Review of the PFMA and MFMA including and regarding emergency procurement procedures and strengthening the accountability by accounting officers/authorities

Also

- Modernising public procurement including automating public procurement system with enhanced due diligence and increased efficiency in processing requests
- Continuous information exchange between prevention, investigation and prosecution so that future preventative measures are informed by investigation lessons learnt and prosecution outcomes so to close gaps
- PEPs participation in public procurement will require a more stringent review including age of business and history of same/similar type of service provision
- Hybrid model of for national procurement and local distribution for listed services to allow for economies of scale and increased anti-corruption measures

THANK YOU



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