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**ALL ACCOUNTING OFFICERS
ALL CHIEF FINANCIAL OFFICERS
ALL HEADS OF PROVINCIAL TREASURIES**

PROVINCIAL TREASURY PRACTICE NOTE NO 1 OF 2008

SUPPLY CHAIN MANAGEMENT: THRESHOLD VALUES FOR THE PROCUREMENT OF GOODS, WORKS AND SERVICES BY MEANS OF PETTY CASH, VERBAL / WRITTEN PRICE QUOTATIONS OR COMPETITIVE BIDS

1. PURPOSE

This practice note is issued in terms of section 76 (4) (c) of the Public Finance Management Act and is intended to regulate the threshold values within which accounting officers / authorities may procure goods, works and services by means of petty cash, verbal / written price quotations or competitive bids.

2. INTRODUCTION

2.1 The threshold values for the procurement of goods, works and services either by way of petty cash, price quotations or through a competitive bidding process have been reviewed.

2.2 **With effect from 1 February 2008**, accounting officers / authorities are required to apply the following threshold values when procuring goods, works or services, hiring or letting anything, acquiring or granting any right or disposing of movable state property:

3. RANGE OF PROCUREMENT PROCESSES

3.1 UP TO A TRANSACTION VALUE OF R 2 000 (VAT INCLUDED)

Accounting officers / authorities may procure requirements without inviting competitive bids or price quotations by means of petty cash. Accounting officers / authorities must establish their own internal procedures to ensure sound financial management of funds when goods and / or services are obtained by means of petty cash.

3.2 ABOVE THE TRANSACTION VALUE OF R 2 000 BUT NOT EXCEEDING R 10 000 (VAT INCLUDED)

Accounting officers / authorities may procure requirements by obtaining at least three (3) verbal or written quotations from, where applicable, a list of prospective suppliers. The order should, however, be placed against written confirmation from the selected supplier if the quotation was submitted verbally.

3.3 ABOVE THE TRANSACTION VALUE OF R10 000 BUT NOT EXCEEDING R 500 000 (VAT INCLUDED)

3.3.1 Accounting officers / authorities should invite and accept written price quotations for requirements up to an estimated value of R500 000 from as many suppliers as possible, that are registered on the list of prospective suppliers.

3.3.2 Where no suitable suppliers are available from the list of prospective suppliers, written price quotations may be obtained from other possible suppliers.

3.3.3 If it is not possible to obtain at least three (3) written price quotations, the reasons should be recorded and approved by the accounting officer / authority or his / her delegate.

3.4. ABOVE THE TRANSACTION VALUE OF R 500 000 (VAT INCLUDED)

- 3.4.1 Accounting officers / authorities should invite competitive bids for all procurement above R 500 000.
- 3.4.2 Competitive bids should be advertised in at least the Government Tender Bulletin and in other appropriate media should an accounting officer / authority deem it necessary to ensure greater exposure to potential bidders. The responsibility for advertisement costs will be that of the relevant accounting officer / authority.
- 3.4.3 Should it be impractical to invite competitive bids for specific procurement, e.g. in urgent or emergency cases or in case of a sole supplier, the accounting officer / authority may procure the required goods or services by other means, such as price quotations or negotiations in accordance with Treasury Regulation 16A6.4. The reasons for deviating from inviting competitive bids should be recorded and approved by the accounting officer / authority or his / her delegate. Accounting officers / authorities are required to report within ten (10) working days to the relevant treasury and the Auditor-General all cases where goods and services above the value of R1 million (VAT inclusive) were procured in terms of Treasury Regulation 16A6.4. The report must include the description of the goods or services, the name/s of the supplier/s, the amount/s involved and the reasons for dispensing with the prescribed competitive bidding process.
- 3.5 Goods, works or services may not deliberately be split into parts or items of lesser value merely for the sake of procuring the goods, works or services otherwise than through the prescribed procurement process. When determining transaction values, a requirement for goods, works or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.
- 3.6 Accounting officers / authorities should apply the prescripts of the Preferential Procurement Policy Framework Act, Act 5 of 2000 and its associated Regulations for all procurement equal to or above R 30 000 (VAT included). However, these prescripts may be applied for procurement with a value of less than R 30 000, if and when appropriate.

4 AMENDMENT OF THE THRESHOLD VALUES

Accounting officers / authorities may –

(a) lower, but not increase, the different threshold values specified in paragraphs 3.1 to 3.4; or

(b) direct that –

- (i) verbal or written quotations be obtained for any procurement of a transaction value lower than R2000;
- (ii) written price quotations be obtained for any procurement of a transaction value lower than R10 000; or
- (iii) a competitive bidding process being followed for any procurement of a transaction value lower than R500 000.

5 COMPILATION OF THE LIST OF PROSPECTIVE SUPPLIERS PER COMMODITY AND TYPE OF SERVICE

- 5.1 Accounting officers / authorities should compile a list of prospective suppliers to be used for the procurement requirements in terms of paragraphs 3.1 to 3.3 above. This list should also be used effectively to promote Black Economic Empowerment through the participation of black owned enterprises, black empowered enterprises, black women-owned enterprises (as defined in the Strategy for Broad-Based Black Economic Empowerment issued by the Department of Trade and Industry) as well as the promotion of businesses owned by other Historically Disadvantaged Individuals (HDIs).
- 5.2 Accounting officers / authorities should at least once a year, through local representative newspapers or by any other means, invite prospective suppliers to apply for evaluation and listing as prospective suppliers. The list should be updated at least quarterly in order to accommodate especially newly established black owned and empowered businesses and other newly established HDI suppliers.

- 5.3 Once the list has been compiled per commodity and type of service, price quotations should be invited there from. The invitation of price quotations from the compiled list of prospective suppliers per commodity or service should be done on a rotation basis in such a manner that ongoing competition amongst suppliers is promoted. Prospective suppliers must be allowed to submit applications for listing at any time.

6 TAX CLEARANCE CERTIFICATES FOR PRICE QUOTATIONS AND COMPETITIVE BIDS

- 6.1 The Accounting officer / authority must be in possession of an original valid tax clearance certificate for all price quotations and competitive bids exceeding the value of R30 000 (VAT included).
- 6.2 If an accounting officer / authority is in possession of a supplier's original valid tax clearance certificate, it is not necessary to obtain a new tax clearance certificate each time a price quotation or bid is submitted from that specific supplier. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the tax clearance certificate that is in the accounting officer's / authority's possession. Whenever this ruling is applied, cross-reference must be made to the original tax certificate for audit purposes.

7 REPLACEMENT OF PRACTICE NOTE NUMBER SCM 2 OF 2005

This practice note replaces practice note number SCM 2 of 2005 issued by National Treasury on 10 May 2005.

8 DISSEMINATION OF INFORMATION CONTAINED IN THIS PRACTICE NOTE

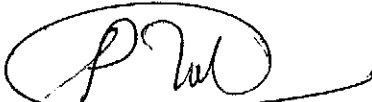
- 8.1 Heads of Provincial Treasuries are requested to bring the contents of this practice note to the attention of accounting officers of their provincial departments.
- 8.2 Accounting officers of national and provincial departments are requested to bring the contents of this practice note to the attention of accounting authorities of Schedule 3A and 3C public entities reporting to their respective executive authorities.

9 CONTACT PERSON

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10 EFFECTIVE DATE

This practice note takes effect from 01 February 2008.



Ms P. ZULU
ACCOUNTANT-GENERAL
DATE: 31/01/2008