

 <b>Eskom</b>	<b>Policy</b>	
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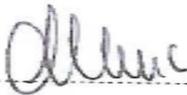
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## **Content**

	Page
1. Introduction.....	3
2. Policy Content .....	3
2.1 Legislative Framework .....	3
2.2 Policy Principles or Rules.....	4
2.3 Core Functions.....	5
3. Supporting Clauses .....	6
3.1 Scope .....	6
3.2 Normative/Informative References.....	6
3.3 Definitions.....	7
3.4 Abbreviations.....	8
3.5 Roles and Responsibilities .....	8
3.6 Process for Monitoring .....	8
4. Acceptance .....	9
5. Revisions .....	9
6. Development Team .....	9
7. Acknowledgements .....	9

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## **1. Introduction**

This Policy creates the governance framework for all procurement and supply chain management activities within Eskom Holdings SOC Limited (Eskom).

The Technology and Commercial Group within Eskom has been mandated to align its operations with the strategic objectives of Eskom, and to moreover create a world class commercial organisation.

In order to achieve this, Group Technology and Commercial will carry out its mandate as a single centre-led procurement and supply chain management entity within Eskom, and will ensure standardisation of procedures and processes across procurement and supply chain operations, in order to meet customer requirements and minimise operational risks to Eskom.

Training and accreditation of the procurement fraternity with Eskom, standardisation and simplification of procedures and processes, and consistent application and decision-making is pivotal in order to ensure that the purchase, disposal and/or leasing of assets, goods and services are conducted legally, safely and ethically, in the shortest possible lead times and with the best possible financial and operational outcome for Eskom, while at all times upholding the constitutional principles of fairness, equitability, transparency, cost-effectiveness, and competitiveness, and the PFMA principles of avoiding wasteful and irregular expenditure.

## **2. Policy Content**

### **2.1 Legislative Framework**

As a wholly state-owned entity, Eskom is classified as an "organ of state" in accordance with the Constitution of the Republic of South Africa, Act 108 of 1996 (the Constitution).

As an organ of state, Eskom is legally obliged, in terms of Section 217 of the Constitution to create and maintain a procurement system enabling the contracting of goods and services in a manner that is fair, equitable, transparent, competitive and cost-effective. It is furthermore a legal requirement that the procurement of goods and services by organs of state be regulated by law - (S217 (3)) of the Constitution.

The Preferential Procurement Policy Framework Act (PPPFA) 5 of 2000 and its associated Regulations give effect to S217 (3) of the Constitution by prescribing the legislative and regulatory framework to give effect to standardised tendering processes in the procurement of goods and services by organs of state. The PPPFA is intrinsically linked to the Public Finance Management Act (Act 1 of 1999), by subjecting all Schedule 2 PFMA entities (including Eskom) to the applicability of the PPPFA Regulations.

Both the Constitution and the PPPFA require organs of state to develop procurement policies that align with the prescribed framework set out in the PPPFA.

Eskom, as a Schedule 2 PFMA entity was previously exempt from the PPPFA and its Regulations, until December 2012. It thereafter became mandatory in terms of the law for Eskom to fully comply with all provisions of the PPPFA and its Regulations, with exemption only being received with respect to procurement authorised by Development Funding Institutions (DFIs).

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This revised Policy, and the revised Procedure (32-1034) therefore seeks to ensure constitutional and PPPFA alignment in all procurement processes.

Further to this, Eskom as an organ of state is further governed by the PFMA in the management of public funds. On this basis, in terms of Chapter 6 of the PFMA, regarding Public Entities, Eskom is obliged to have an 'accounting authority' which must be accountable for the obligations set out therein. Within Eskom, this accounting authority is its Board of Directors.

One of the responsibilities of the Eskom Board is to have and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective, and in giving effect to this, the core fiduciary duties of the Eskom Board is to exercise the duty of utmost care to ensure reasonable protection of the assets and records of the public entity; act with fidelity, honesty, integrity and in the best interests of the public entity in managing the financial affairs of the public entity; and to seek to prevent any prejudice to the financial interests of the state.

These obligations of the Eskom Board are further augmented by the provisions of the Companies Act, 71 of 2008 (as amended) and the principles of the King Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2009 (King III Report).

In accordance with the legislative framework and the required governance practices, Eskom's Delegation of Authority Policy 240-62072907 (as approved by the Eskom Board of Directors and updated from time to time) creates the financial and commercial parameters for decision-making, approvals and consents across Eskom and specifically within the procurement and supply chain environment, whereby purchases, disposals and/or leasing of assets, goods or services are authorised and approved strictly in accordance with the Delegation of Authority Policy, in order to ensure that the legal obligations of the Eskom Board are formalised and maintained at each and every transactional level.

Procurement and supply chain operations within Eskom are furthermore governed normatively by the latest revisions of Eskom's Conflict of Interest Policy, the Eskom Code of Ethics (The Way – Standard), and the Eskom Lifesaving Rules with respect to ethical and safe conduct, and all procurement and supply chain related activities must be managed in strict accordance with the aforementioned policies and standards, with a zero-tolerance approach to unethical and unsafe practices.

The development of the Approved Procurement Framework is based on the aforementioned legal and policy considerations. The specific processes and operational aspects of the procurement and supply chain environment within Eskom are set out in detail for use by its Procurement Practitioners within the latest revision of Eskom's Procurement and Supply Chain Management Procedure (32-1034) and the various Process Control Manuals (PCMs).

## **2.2 Policy Principles or Rules**

Group Technology and Commercial will therefore seek to execute its mandate in accordance with the following policy principles:

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- 2.2.1** Avoid wasteful and irregular expenditure, and promote and maintain good corporate governance through a procurement system which is fair, equitable, transparent, competitive and cost effective, including with respect to its Internal Suppliers. This entails complying with Eskom's normative legislative, regulatory and policy frameworks, operating with simplified and streamlined procurement and supply chain management processes and procedures, designing appropriate delegations of authority, internal controls and segregation of duties, providing adequate spend visibility and providing an audit trail of procurement processes.
- 2.2.2** Ensure value for money when procuring assets, goods and services. This entails achieving continuous improvement in value for money as measured through savings and TCO (Total Cost of Ownership) reduction whilst reducing process cycle time and costs.
- 2.2.3** Acting as a customer-centric Group with its different stakeholders, by specifically providing adequate input for budget planning, rendering effective contract and supplier management and measuring stakeholder satisfaction.
- 2.2.4** Implement and monitor Supplier Development and Localisation initiatives (such as B-BBEE, New Growth Path and CSDP) and targets in accordance with Eskom's normative legislative, regulatory and policy frameworks. This entails managing adequate supplier evaluation hierarchies and non-exclusive procurement processes and procedures.
- 2.2.5** Act as a platform for learning as well as growing Eskom's skills and core competencies within the procurement and supply chain management profession.

The cumulative impact of the aforementioned policy framework must result in delivery of the right assets, goods and services at the right time, in a legal, ethical, safe and cost-effective manner, in order to meet Eskom's primary strategic objective of supplying electricity to its customers while still remaining financially sustainable.

### **2.3 Core Functions**

Group Technology and Commercial is accountable and responsible for the effective control and management of the following core procurement and supply chain functions for and behalf of Eskom:

- a) Sourcing of Primary Energy
- b) Project Sourcing
- c) Nuclear Sourcing
- d) Commodity Sourcing
- e) Tactical Sourcing
- f) Business Enablement
- g) Supplier Development and Localisation
- h) Supply Chain Operations, comprising:
  - Materials Management

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- Shipping Management
- Investment Recovery (Asset Disposals)
- Supply Chain Planning
- Business Support

The aforementioned core functions will in turn be supported by a Risk and Governance Department within Group Technology and Commercial.

### **3. Supporting Clauses**

#### **3.1 Scope**

##### **3.1.1 Purpose**

The purpose of this Policy is to establish the broad governance framework and principles to enable legal compliance, alignment, standardisation of procedures and processes, and consistency in decision-making, of all stakeholders involved in procurement and supply chain operations.

##### **3.1.2 Applicability**

This Policy applies throughout Eskom Holdings SOC Limited, its Divisions, wholly owned subsidiaries and entities wherein Eskom has a controlling interest, operating in terms of South African law, which are subject to the provisions of the PFMA.

#### **3.2 Normative/Informative References**

Parties using this document shall apply the most recent edition of the documents listed in the following paragraphs.

##### **3.2.1 Normative**

- [1] ISO 9001 Quality Management Systems.
- [2] The Constitution of the Republic of South Africa, Act 108 of 1996
- [3] The Companies Act, 71 of 2008
- [4] Public Finance Management Act, 01 of 1999
- [5] The Preferential Procurement Policy Framework Act, 05 of 2000 and Regulations
- [6] Delegation of Authority Policy 240-62072907
- [7] The Eskom Code of Ethics (Standard 32-527)
- [8] Conflict of Interest Policy (32-173)
- [9] The Eskom Lifesaving Rules (240-62196227)
- [10] Eskom Disciplinary Code (Eskom Standard 32-1112).

##### **3.2.2 Informative**

- [1] PFMA Framework for Supply Chain
- [2] King Code and Report on Corporate Governance for South Africa 2009 (King III Report).

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### 3.3 Definitions

Definition	Explanation
<b>Accredited Procurement Practitioner</b>	An Accredited Procurement Practitioner is a Procurement Practitioner who has been trained, assessed and accredited to execute, support and/or approve procurement strategies; and the awarding / modification of orders /contracts, and who has been formally delegated with such authority in writing. The exercise of delegated authority is done strictly in accordance with the Approved Procurement Framework.
<b>Approved Procurement Framework</b>	The Approved Procurement Framework refers to the approved Delegation of Authority Policy 240-62072907, this Policy (32-1033), Eskom's Procurement and Supply Chain Management Procedure (32-1034), approved internal PCMs, Standard Operating Procedures and Work Instructions governing the procure-to-pay processes within Eskom, and any other mandatory legislative and policy frameworks that govern and have a direct impact on Eskom's procurement and supply chain management operations.
<b>Internal Supplier</b>	A Division, wholly-owned or partly-owned subsidiary of Eskom Holdings SOC Limited that is a supplier of assets, goods or services to Eskom Holdings SOC Limited.
<b>Procurement Practitioner</b>	A Procurement Practitioner is an employee within Eskom appointed to manage and/or execute a procedure or process as contained in Procedure 32-1034, or within any of the approved PCMs relating to procure-to-pay processes forming part of the Approved Procurement Framework. A Procurement Practitioner is required to be trained, assessed and accredited within a reasonable time period as agreed to with his/her Procurement Manager, to become an Accredited Procurement Practitioner. A Procurement Practitioner does not have any delegation of authority to support or approve commercial transactions, but may still execute commercial transactions and make recommendations in respect thereof.

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### 3.4 Abbreviations

Abbreviation	Explanation
B-BBEE	Broad-Based Black Economic Empowerment
CSDP	Competitive Supplier Development Programme
DOA	Delegation of Authority
DFI	Development Funding Institutions
EXCO	Executive Committee
PCM	Process Control Manual
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
SOC	State Owned Company
TCO	Total Cost of Ownership

### 3.5 Roles and Responsibilities

**Group Executive: Technology and Commercial:** The executive and member of the EXCO appointed by the Eskom Board of Directors to lead and manage Group Technology and Commercial within Eskom. In order to give effect and accountability to decision-making within the procurement and supply chain management environment, the Eskom Board of Directors has delegated the Group Executive: Technology and Commercial with the authority for all consents / approvals related to procurement and supply chain management activities across Eskom. This delegation will in turn be further delegated in writing to various general managers, senior managers, tender committees, and other Accredited Procurement Practitioners within Group Technology and Commercial.

The authority to bind Eskom into contracts for the supply, disposal, leasing of assets, goods and services is governed strictly by the Board-approved Delegation of Authority Framework for Procurement.

Only delegated individuals and specifically formed tender committees will have the authority to grant approvals for the awarding of contracts / orders.

**Risk and Governance Department:** Responsible for implementing the Approved Procurement Framework, including implementation of effective internal controls and measures to ensure risk mitigation and compliance thereto, and to facilitate investigations into related non-compliance.

### 3.6 Process for Monitoring

The Risk and Governance Department residing within Group Technology and Commercial will implement the necessary checks and balances on various aspects of the procurement and supply chain processes in order to manage and monitor compliance to the Approved Procurement Framework.

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Where analysis and audits reveal non-compliance to the Approved Procurement Framework, effective remedial corrective and / or disciplinary measures will be recommended by the Risk and Governance Department to ensure compliance thereto, and to prevent future non-compliance.

Group Technology and Commercial will ensure that all Procurement Practitioners and other relevant stakeholders involved in the procure-to-pay processes and other procurement and supply chain management operations of Eskom are regularly trained on the Approved Procurement Framework and any revisions / amendments relating thereto.

Once the necessary training has been received by Procurement Practitioners and other relevant stakeholders, serious and material breaches of the Approved Procurement Framework will be subject to investigation and, based on the outcome of these investigations, employees acting in contravention of the Approved Procurement Framework may be subject to disciplinary action based on the PFMA and Eskom's Disciplinary Code.

Internal Audit within Assurance and Forensics will conduct regular audits to ensure compliance with this Policy.

#### **4. Acceptance**

This document has been seen and accepted by:

<b>Name</b>	<b>Designation</b>
EXCO	
Business Improvement Project	
Eskom Legal Department	
Internal Audit (Assurance and Forensics)	
Group Technology and Commercial Management Committee	

#### **5. Revisions**

<b>Date</b>	<b>Rev.</b>	<b>Remarks</b>
October 2010	0	Back 2 Basics Programme (As-Is Phase).
April 2011	1	Revised to align to Back2Basics (To Be Process)
April 2014	2	Revised to align with revised Delegations of Authority, PPPFA application and revised supplier reconsideration processes

#### **6. Development Team**

The following people were involved in the development of this document:

- Vishala Panday (Middle Manager: Risk and Governance)

#### **7. Acknowledgements**

None

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