



Making Higher Education Procurement Work



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services to our Higher
Education sector



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The recent Higher Education Amendment Bill of 2015 is proposed to provide the Minister with far reaching powers to direct the policies and procedures of our universities in South Africa. This has been driven by recognition of the need to accelerate our countries transformation goals. Our institutions of higher education will be under increased pressure to manage scarce resources whilst ensuring that wherever possible the social responsibilities towards supplier development are met. In addition, universities will face intensified pressure to procure in a way that is fair, equitable, transparent, competitive and cost-effective. Such pressures have been amplified by the recent *#Feesmustfall* campaigns and the strong calls for insourcing at universities. With the Commission of Inquiry into Higher Education and Training underway and having regard to the submissions received so far, one thing is clear: Universities will have to adopt a new and innovative approach to Supply Chain Management (SCM) that can withstand public scrutiny.

Top of mind issues for the University Executive management teams and Council:

- Are we managing our spending capacity to optimal effect?
- Are we meeting our societal obligations in relation to supplier development as part of the wider B-BBEE imperatives?
- Do our SCM practices deliver fair, equitable, transparent, competitive and cost-effective results?

KPMG has extensive experience in providing services to our Higher Education sector. We have experience in improving universities' SCM policy and practices in a manner that helps address the challenges above.

A real-life University Case Study



Section 217 of the Constitution governs the procurement activities of a SCM unit, which obliges a fair, equitable, transparent, competitive and cost-effective procurement process. Universities can sometimes have a mechanical approach to SCM that is not only contrary to the spirit of the Constitution, but also does not maximise cost-efficiency in a legally compliant manner

This case study is based on a real life example of a university engagement that resulted in:

- Better spend and cost savings for the university;
- Enhanced supplier development for the University's suppliers;
- Improved legal compliance with the B-BBEE, PPPFA and the Constitution; amongst other things.

The scenario confronting the KPMG procurement team was one where there was an established SCM process within the university, an abundance of suppliers, high level of spend across a wide range of generic products and services and a large number of departments applying the SCM policy and procedures across the entire university.

KPMG deployed our SCM best practice methodology and our Data Analytics tools and methodology to answer, *inter alia*, the following questions with the associated results.



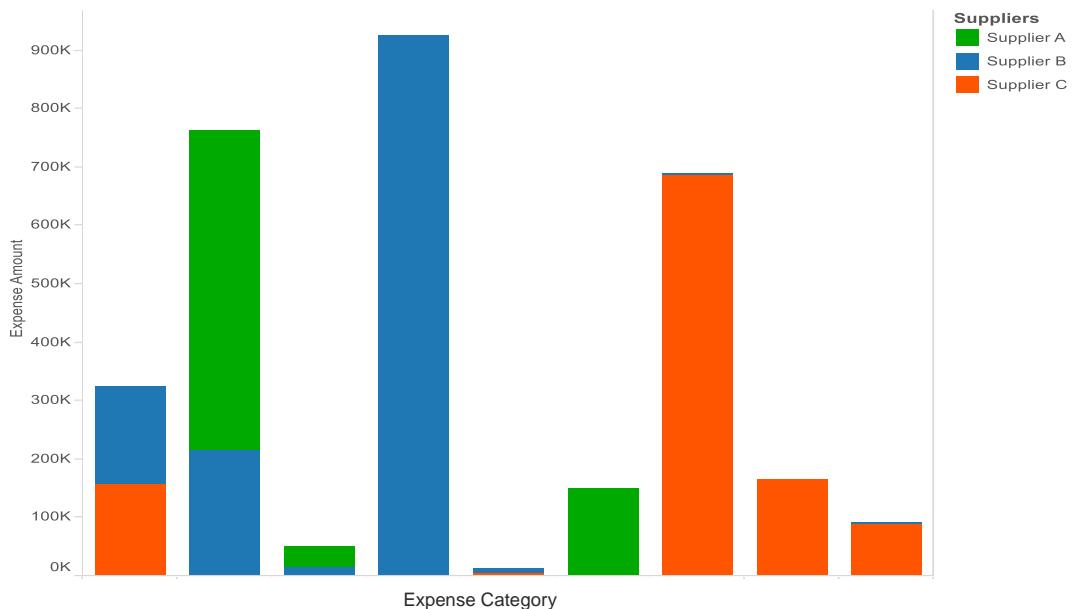
1. The Questions: Transparency, Competitiveness and Cost Efficiency of supplier management

- For which commodities, products or services are you committing a high amount of money without considering value for money or making use of economies of scale?
- Are certain suppliers given preferential treatment to supply a wide range of goods and services not part of the ordinary catalogue of goods/services?
- Is there increased risk of fronting and/or costs due to middlemen?
- Are you concentrating on high-value procurement while taking value for money on the cumulative effect of smaller transactions for granted?

The KPMG response

By doing a commodity analysis, we determined and illustrated the proportion of the total amount spent on the different category of items.

Using our Data Analytics tools and methodology we found that the University placed a major focus on high value tender and procurement processes, but did not fully understand the cumulative value of smaller individual purchases (which at times comprised in excess of 70% of the total spend). The diagram below shows how one supplier (supplier A) was supplying stationary, furniture, gifts, entertainment and building repairs, whilst another (supplier B) was providing all these services as well as maintenance. On further investigation we found that the buyer departments were given wide discretion when it came to buying low value items. The buyers tended to use the most convenient suppliers without giving specific regard to the value for money offered by such supplier.



Caption: the graph shows the expense amount on the Y axis and the category of item on the X axis.

KPMG solution and benefits:

By recommending the use of panel procurement and the establishment of price points for certain items, the University was able to better manage the risks of fronting as well as improve the cost effectiveness through economies of scale and the better exploitation of its purchasing power.

2. The Questions: Competitiveness, Fairness & Equitability toward suppliers

- Over a period of time which suppliers consistently win or consistently lose the University tenders?
- Who got disqualified and what were the reasons for disqualification?
- Would there be merit in developing suppliers in the mutual interest of both the supplier and the university?

The KPMG response

Our SCM procedures uncovered the following result depicted in the graph below:



Caption: the graph shows the number of records on the Y axis and different individual suppliers on the X axis with the colour legend depicting the outcome of tender award or reason for non-award

KPMG concluded that many suppliers get disqualified on administrative grounds based on 'trivial policy rules' whilst other suppliers have unfairly high success rates.

KPMG solution and benefits:

By recommending certain supplier management initiatives, we were able to decrease administrative disqualifications over time. This resulted in the University increasing competitiveness amongst its suppliers as well as increasing equitability in the SCM process. The result was more choice in suppliers and better pricing for the University

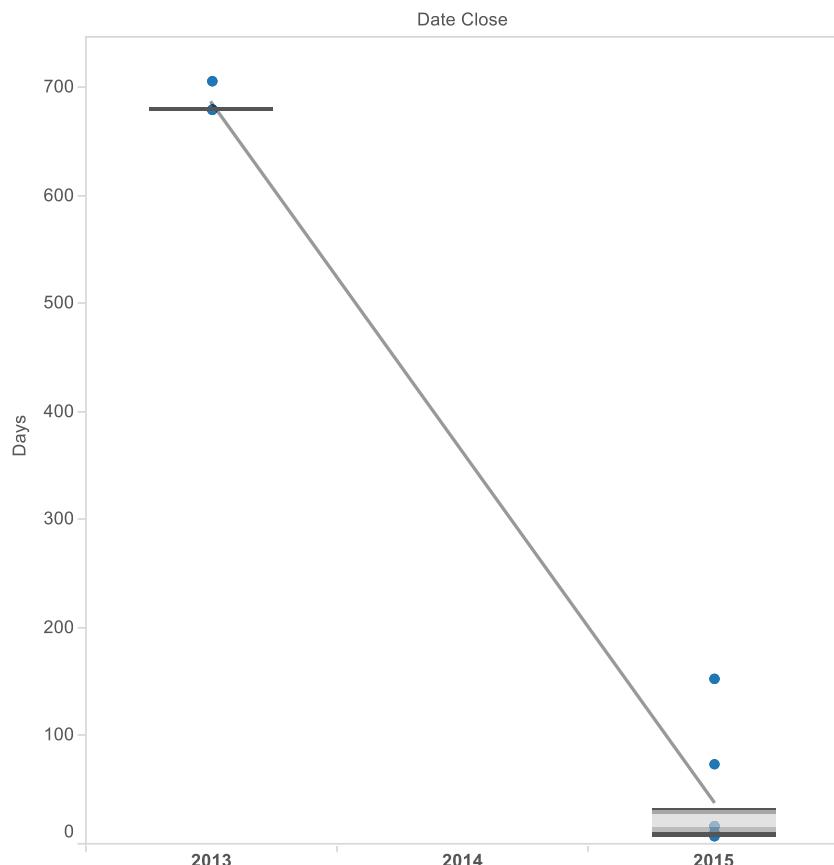
3. The Questions: Fairness and Equitable treatment of suppliers

- How long does the University take to finalise a tender process?
- How much time lapses between delivery and supplier payment?

The KPMG response

Our results reflected below show the improvements made by the University over a three-year period regarding the time lapsed from the initiation of a procurement process to the finalisation thereof (in days). In 2013 (the first column) data shows that a tender process can run in excess of a year prior to finalisation and award.

This was caused by inefficiencies in the SCM process and a lack of proper planning, coupled with an over-restrictive SCM policy which lead to long turnaround times.



Caption: the graph shows the number of days on the Y axis and the corresponding year on the X axis. Each individual dot indicates an event (or cluster of events) where the business days from the start to the finish of the procurement process was calculated.

KPMG solution and benefits:

The above graph shows how the cumulative time lapse in days from when a procurement process was initiated to when it was finalised. By using information from data analysis, we were able to identify the main causes of delays in the SCM process. We were able to recommend legally compliant alternatives to the existing SCM policy, to ensure maximum efficiency while still complying with the principles of procurement.

By doing this, we saw a decrease in turnaround time and overall efficiency of procurement, and hence operations, increased. The third column in the above graph shows how the high cumulative time lapses contracted to more reasonable delays following implementation of our recommendations.





Making SCM work for the University

Universities face a multitude of issues that are becoming increasingly complex and require nuanced and strategic solutions. Pressures to insource services and select the most equitable service provider in terms of B-BBEE while curbing over-expenditure and remaining compliant with rules often places universities in the position of balancing competing forces.

KPMG Regulatory Compliance services, with our team of lawyers and analysts using cutting edge Data Analysis tools and techniques, can assist the University to identify and address:

- i. Compliance risk areas for procurement (tender compliance)
- ii. Expenditure on items where value-for-money was not adequately considered;
- iii. Opportunities for cost-reduction, optimisation and efficiency.

Improving and optimising SCM will improve the financial fortunes of the University, decrease the risks of non-compliance and better position the University to defend its policy direction as a good corporate citizen with its various stakeholders.





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