

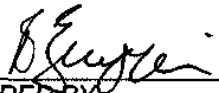


PRACTICE FOR THE SELECTION OF CONTRACTUAL SOURCES

SUMMARY: THIS DOCUMENT ESTABLISHES THE PRACTICE FOR SELECTING CONTRACTORS IN A MULTI-SOURCE OFFER PROCESS

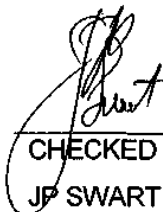
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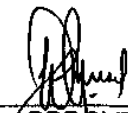
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ON 2006-06-05



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TO BE APPROVED BY MANAGEMENT BOARD

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LIST OF CONTENTS

1	SCOPE	7
1.1	Overview.....	7
1.2	Need for an Audit Trail and Accountability.....	7
1.3	Quality In Source Selection	8
1.4	Practice Flow Diagram	8
1.5	Applicability	10
1.6	Tailoring	10
2	DOCUMENTATION.....	10
2.1	Applicable Documents.....	10
2.2	Reference Documents.....	10
3	DEFINITIONS/ABBREVIATIONS	11
3.1	Definitions	11
3.1.1	CAIV (cost as an independent variable)	11
3.1.2	Cost and price.....	11
3.1.3	Critical criteria	11
3.1.4	Discriminating criteria	11
3.1.5	Expected value	11
3.1.6	FICMINT	11
3.1.7	Performance	12
3.1.8	Points system	12
3.1.9	Risk.....	12
3.1.10	Request for Offer (RFO) and Request for Proposal (RFP).....	13
3.1.11	Utility functions.....	13
3.1.12	Value functions	13
3.1.13	Value system	13
3.1.14	Value tree	13

3.2	Abbreviations.....	13
4	RESPONSIBILITIES	15
4.1	Process Owner	15
4.2	Communication	15
4.3	Implementation	15
4.4	Review and Continuous Improvement	15
4.5	Training	15
4.6	Data Management.....	15
5	PRACTICE.....	16
5.1	Key Implementation Components	16
5.1.1	Processes to be managed	16
5.1.2	Activities to be performed	17
5.1.3	Information to be managed.....	17
5.2	Team Organization: Roles and Responsibilities	17
5.2.1	Senior manager	18
5.2.2	Arm Scor programme manager.....	18
5.2.3	Process assurors	19
5.2.4	Independent consolidator	19
5.3	Evaluation Panels.....	20
5.3.1	Competence	20
5.3.2	Size.....	20
5.3.3	Chairpersons	20
5.3.4	Criteria and weighting panel	20
5.3.5	Evaluation panel	21
5.3.6	Financial evaluator.....	21
5.3.7	DIP Evaluation	21
5.3.8	BEE Evaluation.....	21
5.3.9	Other roles	21
5.3.10	Contractors	22

5.4	Evaluation Criteria	22
5.4.1	Prioritizing criteria	22
5.4.2	Criteria weightings	22
5.4.3	Characteristics of evaluation criteria (FICMINT).....	22
5.4.4	Scoring evaluation criteria	23
5.5	Generating the Request for Offer	23
5.5.1	General practice	24
5.5.2	RFO content	25
5.6	Generating the Evaluation Questionnaire	26
5.6.1	Team Organization	26
5.6.2	Adjudication instructions.....	26
5.6.3	Undertaking by the evaluators	26
5.6.4	Evaluation criteria	26
5.6.5	Scoring and points system.....	26
5.6.6	Risks.....	27
5.6.7	Critical criteria assessment.....	27
5.6.8	Cost assessment	27
5.6.9	Adjudication sheets.....	27
5.7	Evaluation of Offers	27
5.7.1	General procedures	27
5.7.2	Filtering offers using critical criteria	27
5.7.3	One tender is received that meets critical criteria.....	28
5.7.4	Considerations concerning risk assessment	28
5.7.5	Evaluating discriminating criteria (points for functionality taking risk into account)	29
5.7.6	Cost analysis	30
5.7.7	Uncertainty relating to cost	30
5.7.8	Determination of final points	31
5.7.9	Consolidating scores	31
5.8	Inconclusive Results	32
5.9	Cancellation and Re-invitation of Offers	32
5.10	Recommendation	32

1 SCOPE

This document sets out the practice for the selection of contractors:

- That can best meet Armscor's and its client's requirements as described in the relevant Request for Offer.
- In a manner that ensures an impartial, equitable and comprehensive evaluation of each offer, in line with applicable legislation.
- In a manner that minimises the cost of the selection process.

1.1 OVERVIEW

The contractor source selection process is performed by evaluating offers against a weighted value system, using an appropriately qualified panel.

The contractor source selection process is initiated in Armscor on receipt of a valid requirement, and rests on several fundamental precepts:

The weight allocation process, as well as the process for evaluation of offers, must prevent (as far as possible) any bias towards any specific contractor or undue pressure on any individual panel member. Hence, panel members performing the evaluation of offers may not have access to the weights of criteria until their evaluation is complete.

Panel members are knowledgeable in the appropriate technical, financial, quality or other relevant field.

Panel members provide individual and confidential input and do not wilfully influence other members.

1.2 NEED FOR AN AUDIT TRAIL AND ACCOUNTABILITY

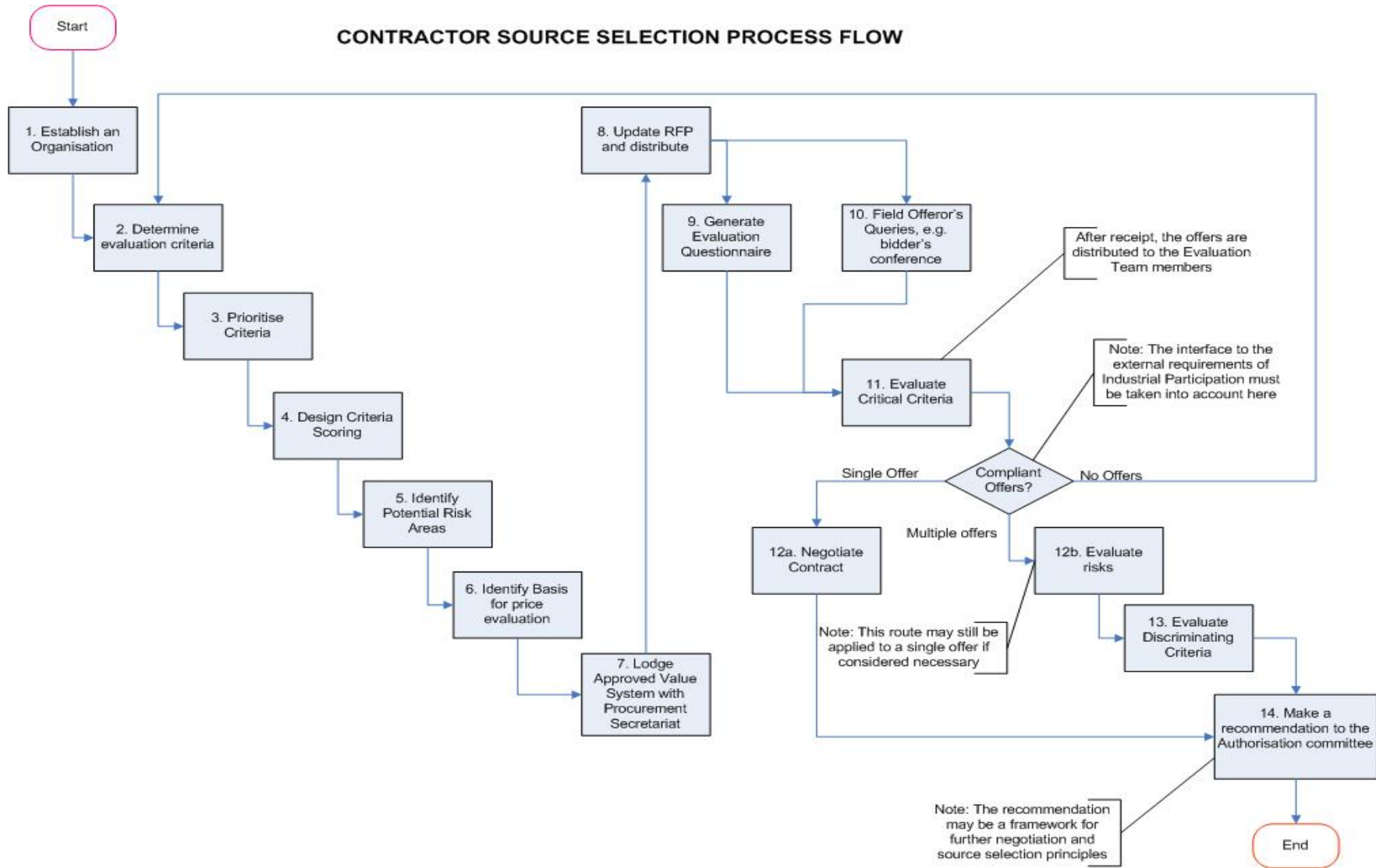
The legal and other consequences for Armscor if the source selection process is questioned can be dire.

Pay specific attention throughout the process to ensure a proper audit trail and accountability. This means that formalities such as recording the minutes of all meetings, obtaining written and signed authorisations are vital.

1.3 QUALITY IN SOURCE SELECTION

Experience has shown that the quality of the decision-making process largely rests on the ability and balanced expertise of the team selected, and on the conformance of the criteria chosen to best decision analysis practice. Paying specific attention to these aspects will significantly contribute to achieving a satisfactory result.

1.4 PRACTICE FLOW DIAGRAM



1.5 APPLICABILITY

Armcor's Contractual Source Selection Practice is applicable to:

- All acquisition and procurement personnel dealing with to contractor source selection of Defence products and services by Armcor for the Department of Defence (DoD) and other State Departments, and
- The procurement of items in terms of Armcor's operating budget where a value system may be required.

This Practice is not applicable to:

- Single-source contracting or
- The procurement of goods and services where functionality is not evaluated and the decision is based on price and preference points alone.

1.6 TAILORING

The Practice cannot be tailored without jeopardizing integrity.

2 DOCUMENTATION

2.1 APPLICABLE DOCUMENTS

- 2.1.1 A-POL-1000, Armcor Policy, Acquisition and Weapon Systems Management Support.
- 2.1.2 A-Prac-4011, BEE Practice, issue 1 dated 10 April 2006
- 2.1.3 KP 021, Armcor Practice, Request for Proposals, Quotations, Submissions, and Orders. (Note the superseding document will be applicable as soon as it has been approved.)
- 2.1.4 A-POL-9000, Armcor Policy, Security.
- 2.1.5 A-CORP-001, Armcor Directive: Directives relating to decision-making powers.
- 2.1.6 A-POL-6000, Defence Industrial Participation (DIP) Policy
- 2.1.7 A-Prac-6030, Defence Industrial Participation (DIP) Practice

2.2 REFERENCE DOCUMENTS

Department of Defence, Defence Review Chapter on the Defence Industry: The Acquisition Management Process, Sixth Draft, 7 May 1997.

- 2.2.1 JDP/ACQ/00002/2004, Process and Procedure for the Acquisition of Armaments – DAP 1000

- 2.2.2 A-HDBK-0195, Armscor Handbook for Contractor Source Selection.
- 2.2.3 K-STD-0010, Rules Applicable to Prospective Contractors (issued 1/12/90).
- 2.2.4 A-PROC-6031, Armscor Procedure: Defence Industrial Participation (DIP) procedures.
- 2.2.5 Preferential Procurement Regulations pertaining to the Preferential Procurement Policy Framework Act No 5 of 2000.

3 DEFINITIONS/ABBREVIATIONS

3.1 DEFINITIONS

3.1.1 CAIV (cost as an independent variable)

The concept that - in assessing the merit of an item - cost is not an integral part of the value system is used to assess the functionality of the item. Instead, its cost is weighed against the merit of the item after assessment. This concept is supported by the fact that in any contract negotiations, what one party brings to the table is weighed independently against what the other has to offer quid pro quo. Hence, points can be given to price independently.

3.1.2 Cost and price

For the purposes of this document, the concepts of price and cost mean the same.

3.1.3 Critical criteria

The criteria that determine whether an offeror complies with certain crucial requirements to perform a task or not.

3.1.4 Discriminating criteria

The criteria that are used in determining the functionality of an offer.

3.1.5 Expected value

The preferred risk perspective used in decision-making as applied to source selection. References in this document may refer to 'expected functionality', 'expected performance' or the like. It is defined as the sum or integral of all possible values of a random variable or any given function of it, multiplied by the respective probabilities of the values of the variable.

3.1.6 FICMINT

An acronym to assist in remembering the desirable characteristics of selection criteria, namely:

- Familiarity
- Importance
- Completeness
- Measurability

- Independence
- Non-redundancy
- Traceability

3.1.7 Performance

In terms of contractual requirements performance is a combination of technical functionality, programme management, system engineering, system integration, acquisition logistics, schedule and financial proficiency, and/or other criteria as may be relevant for the successful completion for the specific order, where:

- technical functionality relates to the ability to produce goods and services in accordance with specifications;
- programme management is the process of administering and coordinating those facets of the acquisition process that are aimed at establishing, delivering and operating a products system in accordance with a contract;
- system engineering is an interdisciplinary, collaborative approach that derives, evolves, and verifies a life cycle balanced system solution which satisfies customer expectations and meets public acceptability;
- acquisition logistics include all the technical and management activities conducted to ensure that supportability implications are considered early and throughout the acquisition process in order to minimize support costs and to provide the user with the resources to sustain the system in the field;
- schedule proficiency relates to the ability to keep to deadlines, milestones or delivery dates;
- financial proficiency relates to financial management expertise as it affects project cash flow, and should not be confused with the cost of an offer.

For the purposes of this document, Performance is the expected performance, i.e. it takes risk into account expressed as the probability of outcome (refer to reference document 2.2.2 (A-HDBK-0195)).

3.1.8 Points system

The Preferential Procurement Regulations and applicable document 2.1.2 (A-Prac-4011) prescribe that contracts shall be awarded to offerors on the basis of the highest points scored for assessed functionality (herein referred to as performance), price and compliance with a set of preference goals.

3.1.9 Risk

The uncertainty surrounding the outcome of the technical, financial, and schedule

performance, as well as the uncertainty surrounding the ultimate cost to the customer. Usually described in terms of the probability of specified possible outcomes.

3.1.10 Request for Offer (RFO) and Request for Proposal (RFP)

RFO refers to the complete set of documents that is provided to offerors, which includes various forms required by Procurement Secretariat. An RFP is an internal Armscor document which excludes these prescriptions and refers to the document containing the essence of the technical and programme requirements. There may be some limited commercial requirements specified as well, but these may not be in conflict with the standard Armscor conditions without prior approval.

3.1.11 Utility functions

A scale which quantifies a decision-makers risk preference.

3.1.12 Value functions

A scale or rating system by which the value of a specific outcome is determined and through which the dependence of the value on relevant parameters is defined.

3.1.13 Value system

A value tree consisting of a set of weighted criteria – referred to as discriminatory criteria in this document – with associated structure (hierarchy), rules and processes used as a framework in rationalizing the decision-making process. (The relative preferences for the criteria are indicated, in the form of a numerical point sequence or relative weights.)

3.1.14 Value tree

A graphical representation showing the interrelationship of discriminating criteria in a value system.

3.2 ABBREVIATIONS

ADM	Armscor Documentation Management
APM	Armscor programme manager
CAIV	Cost as an independent variable
DAPD	Departmental Acquisition and Procurement Division
DIP	Defence industrial participation
IC	Independent consolidator
IP	Industrial participation
IPT	Integrated project team (as defined in A-POL-1000)
NIP	National industrial participation
PA	Process assesor

RFI	Request for information
RFO	Request for offer
RFP	Request for proposal
SOW	Statement of work
URS	User requirement statement

4 RESPONSIBILITIES

4.1 PROCESS OWNER

The process owner of this document is the General Manager: Acquisition.

4.2 COMMUNICATION

The management of Armscor Documentation Management (ADM) is responsible for communicating this document to Armscor by means of the electronic mail system. The effective communication of this practice to the wider defence industry as required will be effected through the normal project and business structures implied by the practice.

4.3 IMPLEMENTATION

The senior managers of the various divisions shall be accountable to their departmental General Manager for the effective implementation of this practice within their respective divisions.

4.4 REVIEW AND CONTINUOUS IMPROVEMENT

This practice will be reviewed and updated as required, especially taking cognisance of the continuous improvements that are expected to take place in all acquisition work methodologies. For this purpose the General Manager: Acquisition will mandate a review committee.

4.5 TRAINING

Training of personnel to achieve proper alignment with this practice will be the responsibility of the General Manager: Acquisition.

The complexity of this practice coupled with the serious governance issues with which it deals make it imperative that proper training be provided.

Since technical competence is a key requirement for participation on the panels, specific attention shall be given to developing the skills and expertise of historically disadvantaged employees so that the composition of the evaluation panels can be demographically representative.

4.6 DATA MANAGEMENT

The data generated through the execution of this practice will be managed in accordance with the policies and practices of the department responsible for the specific project.

5 PRACTICE

Figure 1 indicates the main implementation components of the source selection process.

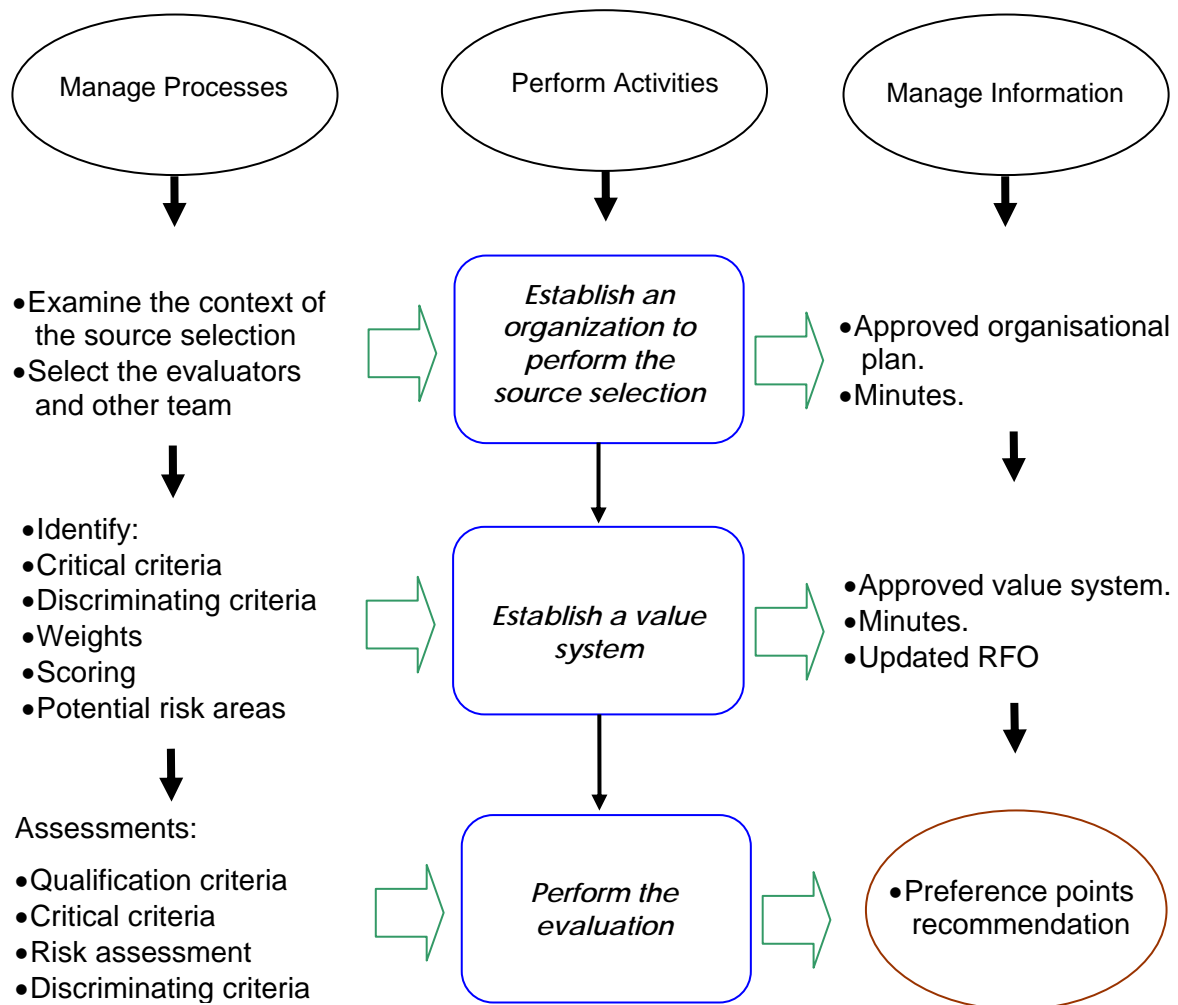


FIGURE 1: COMPONENTS OF THE SOURCE SELECTION PROCESS

5.1 KEY IMPLEMENTATION COMPONENTS

Three key components summarize the source selection implementation: Processes, Activities and Information.

Use these components and processes to develop an implementation plan and to record the information.

5.1.1 Processes to be managed

On the left side of the figure are the typical processes that must be managed in accordance with the prescripts of this practice.

5.1.2 Activities to be performed

The main activities and their sequence are:

- Establishing an evaluation team
- Developing a value system
- Performing the evaluation.

5.1.3 Information to be managed

Every activity or procedure produces data or information that needs to be processed so that decision-making becomes possible, and that must be stored for accountability and transparency purposes.

5.2 TEAM ORGANIZATION: ROLES AND RESPONSIBILITIES

This section describes the team that is required to perform contractor source selection and must consist of at least the following:

- the senior manager of the relevant division
- the Armscor programme manager
- process assurers
- the independent consolidator, and
- technical and financial evaluators
- BEE representative
- DIP representative

All members of panels or committees involved with the Contractor Selection process shall sign a formal declaration of:

- Confidentiality and non-disclosure
- No vested interest in the outcome of the process
- No engagement in discussions of future employment or business opportunities directly or indirectly related to any of the offers.
- Undertaking to provide inputs based on independent own judgement and best objective effort based on own knowledge and experience – without duress or instruction from any party.
- Acceptance of the process prescribed by A-PRAC-1034 and final results obtained from prescribed rational decision-making process.
- Commitment of adherence to the process.
- Undertaking not to provide inputs on aspects where the content or impact of the element or criterion are – based on own judgement – not sufficiently understood.
- Undertaking to attend all required scheduled meetings or arrange for a formally appointed

delegate, whose inputs are considered to be final.

5.2.1 Senior manager

The senior manager of the division responsible for the project shall approve the team organisational plan, value system, RFP, the recommendation, and all other related outputs resulting from the application of this practice.

5.2.1.1 External approvals and support

The written approval or acceptance or support of the DAPD (as nodal point for the SANDF user/client) or his counterpart from within other users (e.g. Armscor internal acquisition, South African Police Service, Department of Correctional Services) may be required for the outputs of any activity in this practice as determined from time to time.

5.2.2 Armscor programme manager

On confirmation of the valid need for an RFO the APM shall motivate and establish the team necessary to draw up the value system and the evaluation questionnaire, and to evaluate the offers.

- The APM shall clearly indicate the responsibilities of each panel member.
- The APM shall consolidate the final evaluation and apply the weights in order to obtain the scores (this task may be delegated to the IC or other third party).
- The APM shall ensure that all participants are properly briefed in terms of the aims of the source selection, the process, the process requirements and their roles in the process.
- The APM shall draw up an evaluation report approved by the senior manager to be submitted to the relevant authorising body.
- The APM may participate actively in the adjudication. The team shall as far as possible, be designed to accommodate this requirement through the role of the independent consolidator and the process assurers.
- The APM shall ensure that the RFO correctly reflects the requirements.
- The APM shall keep full and proper records of all activities associated with the practice as described in this document. Records shall include (but not be limited to):
 - Minutes of all meetings
 - Appointment of members and their acceptance of responsibilities
 - Approval of outputs e.g. value system, RFP etc.
 - Delegation of functions
 - Evaluation reports
 - Reports of the independent consolidator and process assurers

5.2.3 Process assurors

An authority (identified individuals) – appointed by Armscor Quality Department – must oversee the processes, activities and information generated.

It is vital that the practice is adhered to, and discrepancies or shortcomings must be highlighted in the final evaluation report. It is also necessary to foster individual and group ethics.

The process assurance role must at all times remain independent of the evaluation process.

On significant programmes, a committee may be established.

Specific attention shall be given to confirming inter alia the following:

- That evaluation panels have been structured appropriately, taking into account a balance of stakeholders and competence.
- That appropriate decision-making processes are applied and that best practices are used in decision-making.
- That the panels properly consider that the evaluation criteria satisfy the necessary characteristics.

5.2.4 Independent consolidator

Appoint an independent consolidator to confidentially consolidate the inputs of the members who allocate weights to the criteria.

The independent consolidator shall consolidate the inputs on the weights of the discriminatory requirements and shall reveal the quantitative results only to the process assurors and the relevant divisional senior manager for confirmation and acceptance.

Only the relative importance of the criteria shall be made available to the APM for inclusion in the RFO. The quantitative results may however be revealed to the APM after the evaluation is complete.

The IC shall lodge the weighted evaluation criteria and scoring methods with Procurement Secretariat before the RFO may be issued.

Where the consolidated weightings reflect inconsistencies, only these inconsistencies are to be reviewed by the criteria and weighting panel. The IC shall not disclose the other detailed

quantitative results. If the inconsistency remains, the IC shall in consultation with the Process Assuror consider dropping the relevant criteria from the value system.

5.3 EVALUATION PANELS

5.3.1 Competence

Members of the criteria weighting and evaluation teams shall be competent in terms of training and experience so that they understand the relevance of criteria to the successful completion of the contractor selection process and contract execution for the area on which their inputs are required.

5.3.2 Size

The size of the evaluation panel(s) described below will generally relate to the complexity and sensitivity of the requirement, which is usually, but not necessarily, related to the preponderance of technical, financial or other factors, e.g. industrial development.

Whilst a panel shall not consist of fewer than two persons, give particular consideration to the specialist requirements that may be necessary to perform the task adequately, as well as to ensuring a balanced opinion.

5.3.3 Chairpersons

Meetings may only be chaired by persons having a complete understanding of the source selection process.

Chairpersons may also participate in the decisions of the panel being chaired by them, but shall not have any unique authority such as a casting vote.

5.3.4 Criteria and weighting panel

The criteria and weighting panel shall obtain consensus on the critical and discriminatory criteria (value tree) and on the scoring techniques (value functions) to be used.

The panel shall obtain consensus on the price basis to be used for the evaluation.

In order for the evaluation panel to perform their task, such as ascertaining the risks involved in the source selection decision, the panel shall as far as possible identify all the information that will be required from offerors.

Whilst it may be necessary to discuss criteria and weights to obtain clarity on issues, the criteria and weighting panel members shall provide individual, written and confidential input

to the independent consolidator concerning the weights of the criteria. Members may not wilfully influence each other.

The panel members shall only allocate weights to those criteria that lie within their area of expertise.

5.3.5 Evaluation panel

The evaluation panel shall evaluate the offers by completing the evaluation questionnaire

The panel members shall only evaluate those aspects of the offers that lie within their area of expertise.

Apply sufficient technical expertise to evaluate all specialist areas. Use independent specialists where required to assist the evaluators in formulating technical opinion.

Using all information provided to all panel members, evaluators shall acquaint themselves with the offerors sufficiently to be able to assess the offeror's ability to comply with the requirements of the RFO as stated in the offer and to ascertain the risks involved in the source selection decision.

5.3.6 Financial evaluator

Appoint a team member to perform an accurate analysis of the price offerings. Seek assistance from Armscor Finance Division on specific aspects such as long-term capital budgeting, financing methods and similar complex issues if necessary.

5.3.7 DIP Evaluation

In order to ensure that Armscor DIP objectives are met the DIP division shall nominate a representative to participate in the source selection process with the specific objective of determining whether DIP objectives have been taken into account in accordance with the Armscor DIP practice. Should any irregularities be observed, such irregularities should be brought to the attention of the responsible manager for rectification.

5.3.8 BEE Evaluation

In order to ensure that Armscor BEE objectives are met the BEE division shall nominate a representative to participate in the source selection process with the specific objective of determining whether BEE objectives have been taken into account in accordance with the Armscor BEE practice. Should any irregularities be observed, such irregularities should be brought to the attention of the responsible manager for rectification.

5.3.9 Other roles

Identify other functional evaluation roles and include in the team, as required.

5.3.10 Contractors

Advisory personnel contracted to assist with the evaluation process shall not rate or rank offers, assign numerical scores or act in any decision-making capacity, nor may they be associated with any offer in any manner..

5.4 EVALUATION CRITERIA

5.4.1 Prioritizing criteria

When determining the weighting, establish and classify criteria as critical or discriminating.

5.4.1.1 Critical criteria

Critical criteria are important compliance issues. Note that the failure by an offeror to comply with these will result in immediate elimination from the evaluation process, hence avoid critical criteria and other requirements that may purposefully preclude or compromise a specific offeror.

A minimum score for discriminating criteria may be applied as a critical criterion, in which case the motivation shall be clearly recorded.

5.4.1.2 Discriminating criteria

Discriminating criteria are used in determining the points allocated for the value associated with the expected performance.

5.4.2 Criteria weightings

The weighting panel shall prioritise the discriminating criteria through a process known as weighting. Use approved techniques for performing this (refer to reference document 2.2.2 (A-HDBK-0195)).

5.4.3 Characteristics of evaluation criteria (FICMINT)

The evaluation criteria shall satisfy the following characteristics:

- *Familiarity*: Each of the criteria shall be understandable to the evaluators in the sense that they shall be able to clearly express their evaluation of each.
- *Importance*: Each of the criteria shall have a clear and meaningful objective of discerning certain specific relevant differences between bids. The selected criteria shall represent the most significant aspects of the source selection decision in that it has the potential to affect the rank order of the offers.
- *Completeness*: The set of evaluation criteria (which includes critical criteria) shall characterize all important source selection aspects to be considered. Everything that can influence the decision shall be included. After the offer has been scored and the total weighted score calculated, there should be no need to apply intuition – all intuition should have been integrated in the set of evaluation criteria. (It is advisable to avoid a

proliferation of criteria as the analysis complexity increases exponentially and there is increasing resistance to eliciting response from the evaluators. Avoid excessive subdivision of factors to preclude an unnecessarily detailed assessment that obscures significant differences amongst offers.)

- **Measurability:** Each of the criteria shall be capable of being evaluated and scored on a value scale, either as a probability distribution, or – in the extreme case – as a point value. Criteria should preferably be objective (e.g. speed) so that they are easily scored, although some subjective criteria usually cannot be avoided.
- **Independence:** Changes in score for one criterion shall not affect the score for any other criteria.
- **Non-redundancy:** No two criteria shall measure the same aspect, as that would result in double counting and problems in allocating weights.
- **Traceability:** All criteria and their relative importance must flow from the user's requirement, RFO, SOW or specifications. These requirements are not just operational requirements.

In fact, for the purposes of source selection, the operational requirements have been stipulated clearly as compliance issues. Focus on other aspects as well, such as programme requirements (timescales, cash flow) or commercial aspects (terms and conditions, IPR).

These other criteria might well be the important ones. Once all the criteria have been decided upon, check bi-directionally for traceability.

5.4.4 Scoring evaluation criteria

In order to perform the evaluation, various scoring techniques shall be applied to normalise each attribute so that they can be compared. Use scoring techniques that are easily understood and unambiguous, and which reflect the true values and risk preferences of the evaluation panel.

Scoring techniques shall preferably provide for the criteria to be evaluated over a specified range of requirement (denoted by a minimum and a maximum). This range, and the specific scoring principles, shall be indicated in the RFO. Specifications not indicating a range shall be regarded as minimum requirements and the associated scoring techniques shall not provide for criteria to be evaluated higher than this minimum requirement.

5.5 GENERATING THE REQUEST FOR OFFER

In addition to generating the RFO in accordance with the prescribed reference documentation, legislation dictates that procurement must be performed in a manner that is

fair, equitable, transparent, competitive and cost-effective. This places the onus on Armscor to ensure that potential contenders are not compromised.

5.5.1 General practice

5.5.1.1 Offer submission periods

Avoid very short offer submission periods that may exclude some candidates.

5.5.1.2 Time for completion of value systems

Ensure that value systems are complete before offers are invited.

5.5.1.3 Demonstrating ethical and professional conduct when communicating with offerors

Armscor can easily be placed in a compromising situation if protocols are not strictly observed from the point of issue of the RFO until contract award. The following minimum guidelines must be observed (this list is not necessarily exhaustive, and each situation must be dealt with on its own merits and in its own context):

- Avoid informal communication with the offerors.
- Perform any unavoidable communication on an equitable and formal manner with all offerors. This should preferably be done by way of a bidders conference arranged in conjunction with Procurement Secretariat. The purpose of a bidders conference is to clear any questions, ambiguities, lack of information, interpretation, etc. which may arise from the RFO.
- Minute all such communication formally.
- Information on offerors' capabilities should be included in their formal offers, but if unavoidable, perform site visits before the offer closing date. If unexpected offers are received that require a visit after the offer has closed, make special arrangements with the approval of Procurement Secretariat and the process assurers.
- Members of the evaluation panels may under no circumstances, during presentations or otherwise, state their views on the success prospects of any offeror.
- Respect and protect the commercial confidentiality of offerors. In this regard offerors are not at liberty to discuss or divulge to any other unauthorized party the contents of their presentations or responses.
- Answer only questions from the offerors relating to the clarification of questions raised by the panel performing the site visit.
- Point out that the team has no decision-making powers and has been appointed to extract information from any presentations and responses only.

5.5.1.4 Non-disclosure and confidentiality of offers

Protect the commercial confidentiality interests of offerors by adequate means, including

control of all documentation and ensuring that all persons associated with the Contractor Selection process sign undertakings of non-disclosure.

5.5.2 RFO content

To ensure that the RFO conforms to the evaluation requirements, explain the relevant issues in the RFO. Ensure that the RFO contains at least the following:

5.5.2.1 Offer preparation instructions

It must be borne in mind that in a multi-source situation, the RFO must be written discerningly so that apples-for-apples comparisons can be made. In this section of the RFO give clear instructions to the offerors as to what to include in their offer. Provide guidance to offerors on limit of number of pages, numbers of copies as well as details on required structure and content. The instructions are an important part of the RFO as this will guide the offeror in giving information in a standard format and with the required level of detail, thus making it easier to evaluate.

Point out to offerors that the onus is on them to produce an offer that is clear and concise. Make it clear to them that any vagueness or ambiguity in their offers will increase the uncertainty surrounding their offer and that they consequently risk not scoring as well as they should.

5.5.2.2 Evaluation criteria

Specify which criteria will be evaluated as critical criteria or as discriminating criteria, or both.

Indicate clearly in the offer that if the offer does not satisfy any one of the criteria (or a logical combination of the critical criteria as determined by the panel), then it shall be rejected immediately.

Specify the discriminating criteria that will be used to evaluate any offers that satisfy the critical criteria. If, to qualify for further adjudication, a minimum number of points for functionality has been decided upon, then this stipulation shall be a critical criteria.

Scoring techniques shall preferably provide for the criteria to be evaluated over a specified range of requirement, given by a minimum and a maximum. This range, and the specific scoring principles, shall be indicated in the RFO. Specifications not indicating a range shall be regarded as minimum requirements and the associated scoring techniques shall not provide for criteria to be evaluated higher than this minimum requirement.

5.5.2.3 Weights

Indicate the relative importance of the discriminating criteria on which the offers will be

judged in the RFO. This enables the offerors to better understand the RFO requirements.

5.5.2.4 Information to evaluate risks

Request the offerors to provide relevant, current and sufficient information (as identified by the weighting panel) regarding risk areas.

5.5.2.5 Industrial security

The facility security clearance (FSC) status of potential contractors must be determined upfront when an RFO and the order itself are security classified. The FSC status of the contractor must correspond/be equal to or higher than the level of security classification of the RFO.

In cases where security is a critical element it can be included or made part of the critical or discrimination criteria in the selection process.

5.6 GENERATING THE EVALUATION QUESTIONNAIRE

The APM shall draw up the evaluation questionnaire (this is usually done in parallel with the generation of the RFO).

Ensure that the document is ready before the offer closing date.

Include the following in the evaluation questionnaire:

5.6.1 Team Organization

An overview of the organisational aspects of the evaluation, specifying panel members and their roles, and a schedule of events, e.g. meetings, timescales for reports and evaluations.

5.6.2 Adjudication instructions

Give clear instructions to the evaluators as to how to complete the adjudication sheets. Include the description of the scoring methods, how to interpret questions or statements, and the type of comments expected from the evaluator.

5.6.3 Undertaking by the evaluators

Protect the commercial confidentiality interests of offerors by adequate means, including control of all documentation and ensuring that all persons associated with the Contactor Selection process sign undertakings of non-disclosure.

5.6.4 Evaluation criteria

Indicate the evaluation criteria without weights.

5.6.5 Scoring and points system

Indicate the scoring and points system to be used.

5.6.6 Risks

Indicate the risks identified as potentially impacting on the evaluation.

5.6.7 Critical criteria assessment

Provide adjudication sheets for the evaluation of the critical criteria. Alternatively, the programme manager shall provide an assessment of the critical criteria for the other panel members to peruse and comment on.

5.6.8 Cost assessment

Provide cost assessment sheets. Alternatively, the financial evaluator may include a completed cost assessment for the other panel members to peruse and comment on.

5.6.9 Adjudication sheets

Provide adjudication sheets for the risk assessment and discriminating criteria by the panel members.

5.7 EVALUATION OF OFFERS

5.7.1 General procedures

Use **sound statistical** methods to interpret the data.

There is always **uncertainty** surrounding any predicted outcome. This **risk** element is usually represented by a statistical probability and a consequence concerning the assessment of outcome. Handle this in accordance with acceptable decision analysis techniques.

Evaluate the offers **against the RFO as a baseline** (criterion referenced evaluations), and not with respect to each other (normative evaluations).

The final results of the weighting and evaluation panels must be used for the recommendation to the tender board (the Armscor authorization committee or the Armscor board of directors).

5.7.2 Filtering offers using critical criteria

Assess the compliance of candidates against the critical criteria. Critical criteria are go/no go criteria (they may comprise a logical combination of these). Eliminate offerors who clearly cannot comply. It is not necessary to evaluate them further.

If there is any doubt as to whether an offeror complies or not, give them the benefit of the doubt.

5.7.3 One tender is received that meets critical criteria

Should only one tender be received that meets the critical criteria (through a formal evaluation process), then with approval in accordance with the commitment value as specified in applicable document 2.1.5 (A-Corp-001), the APM shall proceed with negotiations with the supplier to establish a contract.

5.7.4 Considerations concerning risk assessment

The evaluators shall consider all factors that affect the uncertainty in the outcome of the technical, financial and schedule performance of the offeror. These include, but are not limited to:

5.7.4.1 Management

- Key management personnel: Experience, academic qualification, management expertise, current commitments and availability.
- Organisational structure: Board members, equity structure (who owns whom), accountability for this programme at senior management level, project organization and manpower planning.
- Risk management: e.g. risk abatement strategies of the company for this project, and the company risk attitude. Attitudes and strategies, perceptions and preferences towards defence.
- Financial management: Current financial stability, cash-flow considerations, project funding and capital outlay.
- Project management and subcontractor management capability.

5.7.4.2 Track record

- Current contracts: nature of, and performance on, current contracts.
- Previous contracts: nature of, and performance on, previous contracts.
- Customer satisfaction: Feedback regarding customer satisfaction, both on current and previous contracts.
- DIP/NIP performance in terms of previous and current contracts.

5.7.4.3 Resources

- Infrastructure and facilities: Access to specialized equipment, processes and infrastructure.
- Special expertise: The level of manpower skills in-house and the ability to outsource other specialized expertise. Access to international expertise.
- Strategic technologies: Access to key technologies.
- Current or potential commitments: Affecting the availability and adequacy of all the necessary resources.

5.7.4.4 Quality

- Quality system: The quality system shall be certified as appropriate and required for Armscor registration.
- Quality performance: The latest quality performance of the organisation with respect to the quality of their products and/or services.
- Quality audits: The results of the latest quality audits performed by Armscor Quality Department or other certified auditors.

5.7.4.5 Technical

- Approach: The soundness of the technical approach on the basis of its feasibility, and
- Reasonableness: The reasonableness of the level of resources in terms of quantity and skills mix, material used, as well as subcontractors and other indirect inputs.

5.7.4.6 Other considerations

Other considerations could include the following:

- Foreign content: foreign legislation, permits, exchange rate exposure.
- Geographic location: may have an impact on schedule and cost.
- Legal/Labour issues: laws and disputes, union action.
- Industrial development: the selection of certain contractors may place long-run strategies at risk by the creation of monopolies, fragmentation of industry, duplication of resources, etc.
- Impact on strategic technologies: the selection of certain contractors may place long-run strategies at risk by creating, duplicating or eliminating important technologies.
- Assumptions and interdependencies: any assumptions that the offeror has made, specifically concerning their interdependency on other companies or the customer.

These general issues will influence the technical, financial and schedule requirements.

Request that the required information relating to each of these risk considerations in the RFO is included as part of the offer.

5.7.5 Evaluating discriminating criteria (points for functionality taking risk into account)

The panel members shall evaluate the offers against the discriminating criteria using the scoring techniques as determined. The evaluation shall take into account the risk assessment in accordance with accepted decision analysis techniques. In terms of current best practice, risk shall not be separately quantitatively assessed as an independent figure of merit but integrated into the functionality assessment (refer to reference document 2.2.2 (A-HDBK-0195)). *To this end the offerors shall be evaluated in terms of both their stated compliance with requirements as well as their potential to meet the compliance as stated.*

Whilst it is usually necessary to jointly discuss functional and financial issues to obtain clarity, all panel members shall provide written individual and confidential input to the final evaluation result.

5.7.6 Cost analysis

Financial evaluators must examine the responses and develop a costing model that:

- Accommodates all cost elements and their related terms and conditions.
- Is valid for the period over which the contract is to be adjudicated.
- Is valid for all offerors.

All assumptions must be noted and motivated.

The RFO shall obtain cost information on a basis that makes apples-for-apples comparisons easy. Offerors will always attempt to create some form of perceived price discrimination. It is therefore imperative that the financial evaluator determines the relevant costs associated with an element, as well as the risks surrounding the cost.

The evaluation questionnaire should focus, inter alia, on the following factors that determine costs and cost deviations:

- Direct fixed costs (usually as quoted)
- Ceiling costs for indeterminate or ad hoc work
- Costs associated with options
- Indirect costs associated with customer furnished items or work
- Cost-plus items
- Hidden or ignored costs often associated with long-run costs, life-cycle costs or attempted buy-ins.
- Duplication, not only between elements, but also between overhead costs/tariffs and direct costs.
- Escalation, price increases, foreign exchange.
- Costs associated with advance payments, deposits, etc.
- Costs, hidden or otherwise associated with doing business with foreign countries, e.g. travel, project office costs, translation, etc.

5.7.7 Uncertainty relating to cost

In the event that there are costs that cannot accurately be determined, the cost to be used for comparison purposes may be established by an assessment of the cost (usually a

minimum) that has no uncertainty surrounding it, plus a cost at risk. This cost can then be assessed in terms of, inter alia:

- Affordability.
- Accuracy/fixed/firm/rigidity (i.e. under/over-estimate, excess 'fat').
- Acceptability of tariffs and mark-ups in terms of Armscor norms. This includes the quantity and quality of the proposed resources, as well as the skills mix, subcontract costs and other indirect input.
- Reasonableness. The test for reasonableness ensures that the client does not pay more than what is fair, considering system effectiveness and suitability, as well as efficiency in the conduct of the design and manufacturing phases.
- Realism. The test for realism ensures that risk is taken into account to preclude a buy-in that promises low cost, but cannot be substantiated as being credible by either the level of the proposed effort, or the efficiency with which the work is to be carried out.
- Impact of external events, e.g. political, macro-economic.
- Negotiation boundaries.
- Long-term impact with respect to operational support requirements and associated cost.

5.7.8 Determination of final points

Calculate the final points in the following manner:

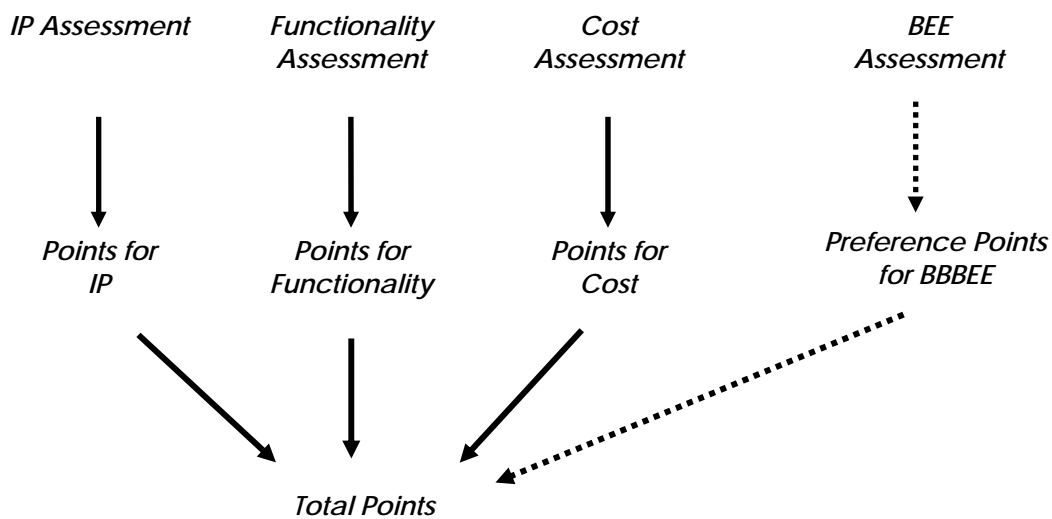
- Calculate the points for functionality in accordance with acceptable decision analysis techniques. Scale the results (without normalizing) to the appropriate preferential points system.
- Apportion the points for price to each offer in accordance with the value function prescribed by the relevant Armscor Practice.
- Obtain the points for DIP/NIP from the relevant evaluation committee as and when required.
- Establish the points for preference in accordance with the relevant Armscor Practice (refer applicable document 2.1.2 (A-Prac-4011)).
- Establish the final points in accordance with the points system used.

5.7.9 Consolidating scores

Perform the calculation of the scores in accordance with the points for price, functionality and IP in terms of annexure 2 of applicable document 2.1.2 (A-Prac-4011). The allocated points shall be shared amongst price, functionality and industrial participation as applicable.

The programme manager shall collect the points for BEE and IP from the responsible departments and add them to the points for FUNCTIONALITY and COST to arrive at the final

TOTAL points.



5.8 INCONCLUSIVE RESULTS

If problems are experienced in validating the results of the criteria and weighting panel or the evaluation panel such that a conclusive result cannot be achieved, the relevant panel must be reconvened or the process must be restarted after appointing new panel members.

5.9 CANCELLATION AND RE-INVITATION OF OFFERS

An RFO may be cancelled if no acceptable tenders are received.

5.10 RECOMMENDATION

This usually takes the form of a concise evaluation report to be submitted along with the contract submission to the authorising committee.

Address the following in the evaluation report:

- Scope
- Background
- Team Organization
- Value system and value functions (state the critical criteria and the main discriminating criteria)
- Results
- Critical criteria assessment
- Risk assessment – comment quantitatively on the risk profiles of offerors and how this has impinged on their outcomes.
- Discriminating criteria assessment (points for functionality)
- Cost analysis (points for price)

- Points for preference results
- Final points
- Summary of results
- Recommendation, with approval

The process assurers shall comment on all aspects of the conformance of the evaluation to the approved practice (this document), and ensure that the recommendations are traceable to the relevant calculations. The process assurers shall highlight any discrepancies, shortcomings or irregularities.

Keep the assessment detail (calculations, evaluator's questionnaires etc.) on file for future audit purposes in accordance with Armscor policies and procedures.