

FINANCIAL MANAGEMENT: REPORT ON THE IMPLEMENTATION OF THE
SUPPLY CHAIN MANAGEMENT POLICY DURING THE FOURTH QUARTER
PERIOD OF THE 2022/2023 FINANCIAL YEAR

REPORT OF THE CHIEF FINANCIAL OFFICER:

1. INTRODUCTION / BACKGROUND TO REPORT

Regulation 6(3) of the Supply Chain Management Regulations, 27636 of 30 May 2005 issued by National Treasury states that: *“The Municipal Manager must, within ten days of the end of each quarter, submit a report on the implementation of the Supply Chain Management Policy to the Mayor of the Municipality or the board of directors of the Municipal Entity”.*

2. PURPOSE OF REPORT

The purpose of the report is:

- (a) To inform the Council about the performance on the implementation of the approved Supply Chain Management Policy;
- (b) To inform Council about bids awarded during the fourth quarter period of 2022/2023 financial year;
- (c) To inform Council about bids awarded in terms of Regulation 36 of the Supply Chain Management Regulations;
- (d) To inform Council about the irregular expenditure incurred during the fourth quarter of the 2022/2023 financial year.
- (e) To inform Council about the implementation of the approved Annual Procurement Plan; and;
- (f) To inform Council about the state and effectiveness of the Municipal Stores;

3. IDP LINK AND LOCATION

To ensure legally sound financial management and viability

4. MOTIVATIONS AND OPTIONS (DISCUSSION)

4.1 SUPPLY CHAIN MANAGEMENT POLICY

Supply Chain Management had in the first and second quarter reported that the Preferential Procurement regulations of 2017 were revoked by the Constitutional court and subjected to further guidelines by the National Treasury. The Preferential Procurement regulations number 47452 of 2022 were provided by National Treasury to all organs of state on 04 November 2022.

The regulations were provided to serve as guidelines to review the Supply Chain Management policy.

The policy was adopted by Council on 16 January 2023 as per Resolution A (2). The Supply Chain Management (SCM) Policy adopted by the City was drafted based on the provisions of the Preferential Procurement Regulations of 2022. A separate policy named the Preferential Procurement Policy for the City of Mbombela was adopted on the same date as per resolution A(1). The above mentioned two policies were implemented with immediate effect.

4.2 ESTABLISHMENT OF SUPPLY CHAIN MANAGEMENT UNIT

The Supply Chain Management Unit has been established to implement the Supply Chain Management Policy as per section 7(1) of the policy. The unit operates under the direct supervision of the Chief Financial Officer as required by section 7(3) of the policy.

4.3 IMPLEMENTATION OF THE PROCUREMENT PLAN

The Annual Procurement Plan for the 2022/2023 financial year was approved by the City Manager for the implementation on the 15th July 2022 and further amended in line with the Adjustment Budget on the 14th of April 2023. The implementation of the procurement plan is monitored on a regular basis by the City Manager. Both the plan and the amended plan were respectively submitted to the Provincial Treasury for the purpose of monitoring the progress on the implementation thereof. Council exercises an oversight role on the implementation of the Procurement Plan.

The Procurement Plan is flexible to allow projects which are ready for implementation prior their planned advertisement date to be advertised earlier. The processes are implemented under a controlled environment taking into consideration its implications to the cash flow management.

It be noted that the implications of the moratorium on advertising of new bids issued by National Treasury on 25 February 2022 had a huge negative impact on the planning for the procurement plan for the 2022/2023 financial year. Projects that were not advertised during the

implementation of the moratorium were included into the new plan of the 2022/2023 financial year.

Measures have been put in place by the City Manager to improve on the performance of the implementation of the Annual Procurement plan.

4.4 TRAINING OF SUPPLY CHAIN MANAGEMENT OFFICIALS

The Provincial Treasury conducted a workshop on the implementation of the Preferential Procurement Regulations of 2022 to all the provincial organs of state. The workshop was held on 30 November 2022. The City of Mbombela was represented in the workshop by relevant officials.

4.5 COMPOSITION OF BID COMMITTEES

A committee system for competitive bids consisting of at least three Committees, namely; Bid Specification Committee, Bid Evaluation Committee and Bid Adjudication Committee were established as per regulation 26(1) of the Municipal Supply Chain Management Regulations. The bid committee system is consistent with Regulation 27 that regulates the establishment of the Bid Specification Committee, Regulation 28 that regulates the establishment of Bid Evaluation Committee and Regulation 29 that regulates the establishment of Bid Adjudication Committee.

The City has two (2) bid specification committees, three (3) bid evaluation committees and one (1) bid adjudication committee. One bid evaluation committee evaluates all tenders for general goods and services and the other two evaluate projects for infrastructure projects as required by National Treasury Standard for Infrastructure Procurement and Delivery Management.

The City Manager appointed bid committee members in writing in line with the Supply Chain Management Regulations for the 2022/2023 financial year with effect from 01 July 2022.

The annual schedule for the bid committee' meetings for the 2022/2023 financial year was approved by the City Manager on 01 July 2022. All Supply Chain Management bid committees' schedules were included in the City's corporate calendar.

4.6 FUNCTIONALITY OF BID COMMITTEES

It be noted that adherence to the approved bid committee schedule is still a challenge. The non-adherence to the schedule contributes to slow approval of bids and underspending. The City Manager is currently restructuring the bid committees to improve in terms of quality and outcomes. The bid committees should be capable to deliver planned outcomes at the time that complies with legal prescripts.

4.7 ESTABLISHMENT OF SUPPLY CHAIN MANAGEMENT PROCESS AWARENESS

To ensure Supply Chain Management processes in line with the policy of the municipality are institutionalized, a Supply Chain Management forum has been established by the City Manager. During the fourth quarter, two (2) supply chain management capacity building and awareness workshop sessions were scheduled and were well attended. The purpose of the workshops are among others to update all stakeholders regarding the amendments of the Supply Chain Management policy and Preferential Procurement Regulations of 2022 which were approved as per above mentioned date. It is also for continuous awareness and capacity development to all stakeholders.

The target group ranges from Manager, Senior Managers, and General Managers and bid committee members. Some training sessions are for the City officials occupying the ranks below the managerial positions.

4.8 SUPPLY CHAIN MANAGEMENT SYSTEM OF DELEGATIONS

The delegated powers or authority conferred to all relevant stakeholders responsible for the implementation of the Supply Chain Management Policy are effective and consistent with the Municipal Finance Management Act No 56 of 2003. The approved delegated powers are applicable for the entire financial year.

4.9 LOGISTICS MANAGEMENT

The City has three fully established stores, namely Mbombela Municipal Stores, White River Municipal stores and Barberton Municipal Stores. The inventory balances as at the reporting date were **R 29 273 460.52**, **R 14 990 738.79** and **R 8 995 154.30** respectively. The total amounts to **R 53 259 353.61**

There was no theft case or material damages reported in this reporting period. All municipal stores are fully operational and supporting the strategic objectives of the City by providing adequate store materials as and when required.

4.10 IRREGULAR EXPENDITURE INCURRED DURING THE IMPLEMENTATION OF THE APPROVED SUPPLY CHAIN MANAGEMENT POLICY IN THE FOURTH QUARTER PERIOD

4.10.1 Irregular expenditure incurred during the normal implementation of the SCM processes

The irregular expenditure incurred under this category was mainly on the overuse of MSCM regulation 36. The maintenance of the Electrical Infrastructure and maintenance of general building are implemented on deviations from the normal bidding processes.

The Auditor General declared the overreliance on regulation 36 as irregular due to inadequate planning.

The City incurred an irregular expenditure to the amount of **R 3 731 786.28** Details are contained in **Annexure 055/2023**.

4.10.2 Irregular Expenditure identified by the Auditor General

During the annual audit of 2021/2022 financial year by the Auditor General, irregular expenditure was identified and disclosed on the notes to the annual financial statements of the City ending 30 June 2022.

The City incurred an irregular expenditure to the amount of **R 29 180 545.52** Details are contained in **Annexure 056/2023**.

The amount reflected in the annexure was incurred as from the first quarter and up to end of third quarter of 2022/2023 financial year. The amount includes adjustments and corrections of the irregular expenditure incurred in the two previous quarters.

4.11 CONTRACTS AWARDED DURING THE FOURTH QUARTER PERIOD

Contracts awarded between the threshold of R30 000.00 to R200 000.00 amounts to **R 438 552.00** inclusive of VAT
Details are contained on table SCM 001.

SCM 001					
No	Description	Department	Amount	Appointed service provider	Award date
1.	Appointment of a service provider to transport members to Mayoral Imbizo	Strategic Management & Support	R 50 160.00	K21 Development & Projects	16-May-23
2.	Appointment of a service provider for audio visual services for Mayoral Imbizo	Strategic Management & Support	R 40 000.00	K21 Development & Projects	16-May-23
3.	Appointment of a service provider to render a catering service for Mayoral Imbizo.	Strategic Management & Support	R 69 100.00	K21 Development & Projects	16-May-23
4	Appointment of a consultant for a high level review of an asset register for migration to a new asset management system	Financial Services	R 194 292.00	RCA & Company inc	23-Jun-23
5	Appointment of a catering service provider for mayoral Imbizo	Strategic Management & Support	R 85 000.00	Olethu Trading	26-Jun-23
	Total		R 438 552.00		

No contracts were awarded between the threshold of R200 000.00 and below R 10 million

Contracts awarded above the threshold of R10 million within the reporting period amount to **R 44 655 890.00** which excludes contracts appointed on rates basis.

Details are contained on table SCM 002 below:

SCM 002					
No	Description	Department	Amount	Appointed service provider	Award date
1.	Triennial tender for the appointment of a panel of electrical contractors to public lighting maintenance work	Technical Services	Rates based	Various service providers	5-May-23
2.	Framework agreement for electrical service providers for supply, delivery and installation of high mast lighting as and when required for three years	Technical Services	Rates based	Various service providers	5-May-23
3.	Framework agreement for electrical service providers for construction of the 132kv	Technical Services	Rates based	Various service providers	5-May-23

	backbone infrastructure projects for three years				
4.	Appointment of a service provider for the provision of ICT service for a period of 36 months	Corporate Services & Support	R 44 655 890.00	Gijima Holdings Pty Ltd	08-JJun-23
Total		R 44 655 890.00			

4.12 DEVIATIONS FROM NORMAL SUPPLY CHAIN MANAGEMENT PROCESSES

Regulation 36 of the Supply Chain Management Regulations states that a supply chain management policy may allow the Municipal Manager –

- (a) to dispense with the official procurement processes established by the policy and to procure any required goods and services through any convenient process, which may include direct negotiations, but only-
 - (i) in an emergency;
 - (ii) if such goods or services are produced or available from a single provider only;
 - (iii) for the acquisition of special works of art or historical objects where specifications are difficult to compile.
 - (iv) acquisition of animals for zoos; or
 - (v) In any other exceptional cases where it is impractical or impossible to follow the procurement processes; and
- (b) To ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are technical in nature.

The City Manager must record the reasons for any deviations in terms of sub-regulation (1) (a) and (b) and report them to the next meeting of Council, or board of directors in the case of a municipal entity, and include as notes to the annual financial statements.

In line with the Supply Chain Management Regulation 36, the municipality incurred, through the deviations from normal supply chain management processes, an actual expenditure amount of **R 2 662 087.32** attached as **Annexure 054/2023** and an amount of **R 913 672.30** as commitments attached as **Annexure 053/2023**.

5. LEGISLATIVE CONSIDERATIONS (INCLUDING PUBLIC PARTICIPATION)

Municipal Finance Management Act, 56 of 2003.
Municipal Supply Chain Management Regulations, 27636 of 30 May 2005.

6. FINANCIAL IMPLICATIONS AND FUNDING

Not applicable

7. COMMENTS OF DEPARTMENTS

Not applicable

RECOMMENDATIONS BY THE CITY MANAGER

THAT:

- (a) Council takes note of the contents of the report;
- (b) The deviations from the normal Supply Chain Management processes amounting to **R 2 662 087.32** (actual deviations) (commitments) **R 913 672.30** detailed in a report attached as **Annexure 054/2023 and 053/2023** respectively be noted;
- (c) The irregular expenditure amounting to **R 3 731 786.28** attached in **Annexure 055/2023** incurred in the fourth quarter of 2022/2023 financial year be referred to the Municipal Public Accounts Committee for investigation and recommendation of appropriate measures to be implemented by Council in accordance with Regulation 74 of the Municipal Budget and Reporting Regulations; and
- (d) The irregular expenditure amounting to **R 29 180 545.52** attached in **Annexure 056/2023** identified by the Auditor General in 2021/2022 financial year be noted;
- (e) The irregular expenditure referred to in (c) above be reported by the City Manager to the MEC for Co-operative Governance and Traditional Affairs and Auditor-General in accordance with Section 32(4) of the Municipal Finance Management Act.