

THLM – MB AMMENDED FOURTH QUARTER REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT POLICY FOR THE MONTH ENDING 30 JUNE 2024

REPORT OF THE MUNICIPAL MANAGER

1. STRATEGIC GOAL

Sound financial Management.

2. PRIORITY ISSUE

Financial Viability.

3. LEGISLATIVE CONTEXT

In terms of the Local Government Municipal Finance Management Regulations, Section 3 stipulates that the Accounting Officer must within 10 days of the end of each quarter, submit report on the implementation of the supply chain management policy to the mayor of the municipality or board of directors of the municipal entity as the case may be.

Furthermore, Paragraph 6 (3) of Council's Supply Chain Management Policy requires the Accounting Officer to submit a report on the implementation of the said policy to the Executive Mayor within 10 days of the end of each quarter in line with the MFMA Act and Regulations.

Section 21 A of the Municipal Systems Act (Act 32 of 2000) is also applicable. In complying with the above provisions, the following quarterly reports on the implementation of the Supply Chain Management Policy are available for public comments.

4. PURPOSE OF THE REPORT

The purpose of the report is to submit monthly reports for consideration by Management and reporting the Provincial Treasury, submission of quarterly for consideration by the Mayoral Committee, and report to Council at the end of each financial year.

5. BACKGROUND

The Supply Chain Management Policy requires the Accounting Officer to submit a report on the implementation of the said policy to the Executive Mayor within 10 days of the end of each quarter in line with the MFMA Act and Regulations.

6. DISCUSSIONS

6.1. PROCUREMENT OF GOODS AND SERVICES THRESHOLD

By the seventh day of each month, the Chief Financial Officer receives a report on all monthly purchased goods and services that fall within the R2 000.00–R300 000.00 threshold values. The MFMA Act and Regulations, Act 56 of 2003, Section 18, which provides guidance on the procedures for procuring goods and services through written or verbal quotations and formal written quotations (VAT inclusive), regulates the MFMA compliance report.

Attached hereto as **Annexure “A”** is the list of all transactions from April 1, 2024, to June 30, 2024. The total purchase orders issued for the quarter, excluding the contracted services, amount to **R3 914 599.19**.

Threshold	Rand value of the awards
R1 – R300 000.00 (April 2024)	R 1 487 416.52
R1 – R300 000.00 (May 2024)	R 474 472.57
R1 – R300 000.00 (June 2024)	R 1 952 710.10
Total	R 3 914 599. 19

Attached hereto as **Annexure “B”** is the list of all transactions from April 1 ,2024 to June 30, 2024, for contracted services (competitive bidding process) that were issued through purchase orders as and when required amount to **R 3 637 689.38**.

Threshold	Rand value of the awards
R1 – R300 000.00 (April 2024)	R 0.00
R1 – R300 000.00 (May 2024)	R 1 547 782.45

R1 – R300 000.00 (June 2024)	R 2 089 906.93
Total	R 3 637 689.38

6.2 COMPETITIVE BIDDING

The municipality is only allowed to acquire goods and services through a competitive bidding procedure for transactions that exceed a value of R300,000.00, including VAT, and for long-term contracts. The municipality appointed a total of eighty-three service providers and consultants where in fifty-two are local contractors, service providers and supplier of material June 30, 2024.

The municipality enhanced its internal control measures to prevent the recurrence of the issues identified by the Auditor General during the audit of the 2022-2023 financial year in the subsequent audit of 2023-2024. Attached is a detailed list of contractors, consultants and suppliers of materials (Tender Register) as of June 30, 2024.

6.3 DEVIATION FROM, AND RATIFICATION OF MINOR BREACHES PROCUREMENT PROCESSES (REGULATIONS 36)

The accounting officer passed the standard procurement procedures specified in the policy and instead acquired the required goods and services by utilizing Regulation 36 of the Municipal Finance Management Act (MFMA) Act 53, 2003. The total amount as of June 30th is R8 152 397. The reported amount to the council was R8 128 110.68, resulting in an understatement of the deviation amount of R3 005 010.91. The primary factor contributing to the divergence in the quantity is Minozest, which is responsible for the provision of fuel. This deviation occurred due to the failure of the chosen service provider to complete their duties. Nevertheless, the contract was canceled after completing a thorough competitive process to select a Service Provider for Fueling and Supply of Lubricants for the Municipal Fleet as needed over a 36-month period. Ultimately, New Dawn was chosen for the appointment. The Deviations Register is attached hereto, labelled as Annexure "C".

Annual corrected deviation Amount	Deviation reported as of 30th June 24	Understated Amount
R8 128 110.68	R5 123 099.77	R3 005 010.91

6.4 UNAUTHORISED EXPENDITURE

During the fourth quarter unauthorised expenditures for the 2023–2024 financial year. The municipality did not incur any fruitless or wasteful expenditures.

6.5 FRUITLESS EXPENDITURE

For the fourth quarter, fruitless and wasteful expenditures for the 2023–2024 financial year. The municipality incurred fruitless or wasteful expenditures of R766.40 for Eskom bulk interest charged.

6.6 IRREGULAR EXPENDITURE

The municipality's irregular expenditure resulted from using SCM Regulation 32 instead of the competitive bidding process to lease the municipal fleet, as identified in the previous financial year. The Audit General discovered instances of irregular spending resulting from a failure to adhere to PPR (4) 2 of 2017 for projects awarded between July 1, 2022, and January 16, 2023. In some cases, the contractors provided a COIDA certificate that actually belonged to different organizations.

The total amount of irregular spending reported to council from July 1, 2023, to June 30, 2024, is R5 712 321.01 (without VAT). After receiving invoices from Bidvest, a journal entry of R105,693.49 was made to account for the VAT difference, resulting in a total irregular expenditure of R 5,737,447.98 Consequently, the expenditure is understated by R25 126.98. Enclosed is Annexure "D", which provides a detailed account of the irregular expenditure.

Annual corrected irregular exp Amount	Irregular expenditure reported as of 30th June 24	Understated Amount
R5,737,447.98	R5 712 321.01	R25 126,98

6.8 PROCUREMENT PLAN PROGRESS

In the terms of the Municipal Finance Management Act, Circular No. 62, municipalities are required to submit procurement plans in respect of goods, works and services in excess of R 300 000.00 (inclusive of applicable taxes). The accounting officer must approve the plan. Attached hereto is the Procurement Plan Progress Report as “**Annexure E**”.

6.9 CONTRACTS REGISTER

Contracts and contract management are of significance to ensure completeness of all contractual agreements. In terms of Section 116 of the Municipal Finance Management Act, No. 56 of 2003 "a contract or an agreement procured through the Supply Chain Management system of a municipality or municipal entity must be in writing and stipulate the terms and conditions of the contract or agreement, which must include provisions providing for the termination of the contract or agreement in the case of non or underperformance". The Accounting Officer of a municipality or municipal entity must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced. See the attached Contract Register as at 30th June 2024 as **Annexure “F”**.

- a) Mpumamanzi Group is an accredited laboratory for water sampling and analysis that has a contract with the municipality. Their contract was extended, and the extension will expire on July 14th, 2024, however the tender closed on June 11th, 2024. The adjudication procedure has been concluded, and the letter of intention will be issued no later than July 12th, 2024.
- b) The panel of consultants for infrastructure projects listed on point number 3,12 and 15 to 22 expired on June 30th, 2023. A new panel of consultants for infrastructure projects was appointed on June 14th,2023.

- c) The appointment of a service provider to conduct training on job evaluation and perform organizational re-engineering for a period of 36 months has expired and it was advertised twice without receiving any submissions.
- d) The repairs and maintenance of municipal heavy equipment and white plant as and when required for a period of 36 months contract expired on January 24th, 2024. Currently, all heavy equipment and white plant are repaired through the quotation process and done directly by the relevant dealership.
- e) The contract for maintenance and update of the GRAP-compliant and MSCOA-aligned asset register expired on March 12th, 2024. The new consultant, I@ Consulting, was appointed on July 3rd, 2024.
- f) The contract for the appointment of a professional service provider for the provision of fully automated electronic performance management, audit and risk systems, as well as E-PMS support for 36 months expired. The adjudication process has been completed, and the letter of intention will be sent between July 12th and 14th, 2024.
- g) The project for the appointment of a panel of service providers for repairs and maintenance of municipal buildings and facilities for a period of 36 months as and when required has expired on June 30th, 2024. The tender advertisement will be published in July 2024.
- h) Appointment of a service provider for the employee wellness assistance programme for Thembisile Hani Local Municipality for a period of 36 months expired on June 10th, 2024. The tender has been advertised and will close on July 18th, 2024.
- i) Appointment of a panel of 6 service providers to render disinfecting, deep cleaning services, supply and delivery of Covid-19 materials for a period of 36 months the project expired on June 10th, 2024. The municipality will not proceed with the project.
- j) The appointment for a panel of service providers to provide financial advisory and debt collection services for a period of 36 months contract expires on December 29th, 2024. The specifications will be submitted on July 31st, 2024.

7. ENVISAGED IMPACT TO MUNICIPALITIES

Poor service delivery.

8. STAKEHOLDERS CONSULTED

User department.

9. HUMAN RESOURCE IMPLICATIONS

10. LEGAL IMPLICATIONS

- i. Contravening of Section 217 Constitution, Local Government Municipal Finance Management Act, No. 56.
- lii. Management Regulations (Section 6.3) and Section 21A of the Municipal Systems Act, No. 32 of 2000.

11. OTHER IMPLICATIONS

Potential community protests.

12. RECOMMENDATIONS

It is therefore recommended:

- a. **That** the Supply Chain Management fourth quarter report for the quarter ending 30th June 2024, be considered as per section 6 (3) of the Local Government: Municipal Finance Management Regulations published in terms of Act No. 56 of 2003. Attached hereto as Annexure "A" is the list of all transactions from July 2023 to June 30, 2024 .to be considered by council.
- b. **That** the procurement of goods and services through competitive bidding report (Tender register) as of 30th June 2024, be considered by council in terms of Section 19 o of the Local Government: Municipal Finance Management Regulations published in terms of Act No. 56 of 2003. Attached hereto as Annexure "B".

- c. **That** the Supply Chain Management Deviations Report amounting to R 8 128 110.68 as of June 30, 2024, considered as per section 36 (2) of the Local Government: Municipal Finance Management Regulations published in terms of Act No. 56 of 2003. Attached hereto as Annexure “C”.
- d. **That** the Supply Chain Management Irregular Expenditure Report amounting to R 5,737,447.98 as of June 30, 2024, be considered as per section 32 (5) of the Local Government: Municipal Finance Management Act published in terms of Act No. 56 of 2003. Attached hereto as Annexure “D”.
- e. **That** the Supply Chain Management Fruitless and Wasteful Expenditure Report amounting to R776.40 as of June 30, 2024, be considered as per section 32 (5) of the Local Government: Municipal Finance Management Act published in terms of Act No. 56 of 2003.
- f. **That** the Supply Chain Management Unauthorised Expenditure Report amounting to R0.00 as of June 30, 2024, be considered as per section 32 (5) of the Local Government: Municipal Finance Management Act published in terms of Act No. 56 of 2003.
- g. **That** the Supply Chain Management Procurement Plan Progress Report as of June 30, 2024 be considered as per Circular no. 62 of the Local Government: Municipal Finance Management Act published in terms of Act No. 56 of 2003. Attached hereto as Annexure “E”.
- h. **That** the Supply Chain Management Consolidated Contract Register Report as at June 30, 2024 be considered as per Circular no. 35 of the

Local Government: Municipal Finance Management Act published in terms of Act No. 56 of 2003. Attached hereto as Annexure "F".