

# **AMMENDED ANNUAL REPORT ON THE IMPLEMENTATION OF THE SUPPLY CHAIN MANAGEMENT POLICY FOR THE 2023/ 2024 FINANCIAL YEAR**

## **REPORT OF THE MUNICIPAL MANAGER**

### **1. STRATEGIC GOAL**

Sound financial Management.

### **2. PRIORITY ISSUE**

Financial Viability.

### **3. LEGISLATIVE CONTEXT**

In terms of the Supply Chain Management Regulations, Section 6(2) (a), Council must maintain an oversight role over the implementation of the municipal supply chain management policy. The accounting officer is mandated to report to Council on the implementation of the Supply Chain Management Policy. This report is tabled to Council for consideration

Furthermore, Paragraph 6(2) (a) 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 30 days after the end of the financial year 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 comment.

### **4. PURPOSE OF THE REPORT**

The purpose of the report is to submit annual reports for consideration by Management and reporting to the Provincial Treasury, submission of annual report for consideration by the Mayoral Committee, and report to Council at 30 days after the end of the financial year in line with the MFMA Act and Regulations.

### **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 30 days after the end of the financial year in line with the MFMA Act and Regulations.

### **6. DISCUSSION**

- 6.1 Municipalities are required to purchase products and services in a way that is fair, equal, transparent, cost effective, and competitive. These principles serve as the foundation for any procurement of products and services in the municipal domain, which is then reinforced by the MFMA standards, the Municipal Supply Chain Management Regulations, and the SCM Guide for Accountants. The National Treasury has issued laws that serves as the guidelines and foundation for the municipal SCM system.

### 6.1.1

## IMPLEMENTATION

### Demand Management

The goal of demand management is to assist the municipality to plan for the procurement of goods, works, or services in a proactive manner rather than solely responding to purchasing requests. Certain aspects of demand management implemented the procurement plan, encompassing both capital and operational projects. The planning document assists departments on the timely planning for the procurement of capital goods and projects, requiring them to commit budgeted capital expenditures through appropriate supply chain tender processes. The accounting officer is in charge of capital expenditures throughout the financial year. Attached is a detailed tender register as Annexure "A".

### Acquisitions Management

The SCM Division processed a total of 192 orders above the threshold of R10,000.00 for the 2023/2024 financial year. The total value of the orders that were processed amounted to R 10,120,363.79. The total expenditure incurred on purchase orders appointed through tenders for a period of three years amount to R15,340,773.72. Attached is the list of all purchase orders raised during the 12 months as Annexure "B".

### Policy amendments and standard operating procedures

Council reviewed the SCM Policy during the 2023–2024 financial year and approved it in May 2022. In response to the amendments to the MFMA Act 56, 2003, which included a threshold increase from R200,000 to R300,000 for quotations and competitive bids exceeding R301,000,000, Council approved the second amendment.

### Prospects for the 2023/2024 financial year

On a continuous basis, the SCM Division of the municipality aims to improve on the operational processes and procedures pertaining to supply chain management, including demand and contract management processes and also reduce the UIFW expenditure.

## 6.3 Summary of expenditure incurred

### Summary of orders raised

Threshold	Quantity	Rand value of the awards
R 0 – R199 999/ R200 000 and above	192	R 25,461,137.51

#### 6.4 Deviation report

The accounting officer circumvented 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 128 110.68. The reported amount to the council was R5 123 099.77, 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”**.

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

#### 6.5 Unauthorized expenditure

The municipality did not incur any unauthorized expenditures during the 2023–2024 fiscal year.

#### 6.6 Fruitless expenditure

The municipality incurred fruitless and wasteful expenditures during the 2023-2024 fiscal year. Due to the Eskom interest charge, the municipality did not incur R766.40 of fruitless and wasteful expenditures. Attached is the detailed list of fruitless and wasteful expenditure as **Annexure “D”**.

As of July 1, 2023, the opening balance of fruitless and wasteful expenditure amounts to R4, 421,892.00, while the identified fruitless and wasteful expenditures for the current financial year 2023-2024 amount to R766.40. The closing balance amounts to R4,422,658.40.

#### 6.7 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 R5,818,014.50. Consequently, the expenditure is understated by R105,693.49. 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
R5,818,014.50	R5 712 321.01	R105,693.49

#### 6.8 Procurement Plan Processes:

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 "F"**.

- 6.9 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. Please see the attached Contract Register as at 30<sup>th</sup> June 2024 as **Annexure "G"**.

The register is accentuated with a combination of yellow and red highlights. The yellow highlights reflect projects that will expire in the next six months and the red highlights, for projects that have already expired.

- 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 the July 14<sup>th</sup>, 2024, however the tender closed on the June 11<sup>th</sup>, 2024. The adjudication procedure has been concluded, and the letter of intention will be issued no later than July 12<sup>th</sup>, 2024.
- b) The panel of consultants for infrastructure projects listed on point number 3,12 and 15 to 22 expired on June 30<sup>th</sup>, 2023. A new panel of consultants for infrastructure projects was appointed on June 14<sup>th</sup>, 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 24<sup>th</sup>, 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 12<sup>th</sup>, 2024. The new consultant, I@ Consulting, was appointed on July 3<sup>rd</sup>, 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 12<sup>th</sup> and 14<sup>th</sup>, 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 30<sup>th</sup>, 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 10<sup>th</sup>, 2024. The tender has been advertised and will close on July 18<sup>th</sup>, 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 10<sup>th</sup>, 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 29<sup>th</sup>, 2024. The specifications will be submitted on July 31<sup>st</sup>, 2024.

#### 6.9 Capacitation of SMME's

The municipality conducted a workshop on the processes of Supply chain Management for the procurement of goods and services. It then hosted a Supply Chain Indaba, which focused on the procurement processes for goods and services, with the exception of those hosted by Local Economic Development.

#### 6.10 Information accessibility

In Supply Chain Management (SCM), access to information is essential in a variety of aspects, including transparency, visibility, and to foster trust and accountability, the municipality publishes quotations and tenders on the municipal website, e-tenders portal, and CIDB website. Additionally, the municipality has informed the public about numerous attempts at procurement fraud. Information accessibility is a critical component of the supply chain management process. Information availability fortifies the relationship between the municipality and the community.

## **7. ENVISAGED IMPACT TO MUNICIPALITIES**

Failure to deliver basic services.

## **8. STAKEHOLDERS CONSULTED**

While the report is intended to serve at Council, it serves at Management, Section 80, Mayoral Committee and at the Audit Committee.

## **9. HUMAN RESOURCE IMPLICATIONS**

None.

## **10. LEGAL IMPLICATIONS**

Contravention of Section 217 of the Constitution, Local Government Municipal Finance Management Regulations (Section 6.3) and Section 21A of the Municipal Systems Act (Act 32 of 2000) section 21A.

## **11 OTHER IMPLICATIONS**

Potential/ possible litigations against the Municipality.

## **12 RECOMMENDATIONS**

**It is therefore recommended:**

- 12.1 **THAT** the Supply Chain Management Annual Report for the year ending 30<sup>th</sup> June 2024, be considered as per Section 6 (2) of the Local Government: Municipal Finance Management Regulations published in terms of Act No. 56 of 2003.
- 12.2 **THAT** the procurement of goods and services through competitive bidding report (Tender Register) be considered as at 30<sup>th</sup> June 2024 in terms of Section 19 of the MFMA.
- 12.3 **THAT** the Supply Chain Management Deviations Report amounting to R R8 128 110.68 as at 30<sup>th</sup> June 2024 be considered as per section 36 (2) of the Local Government: Municipal Finance Management Regulations published in terms of Act No. 56 of 2003.
- 12.4 **THAT** the Irregular Expenditure amounting to R5,818,014.50 as at 30<sup>th</sup> June 2024 be considered in terms of MFMA Section 32(5).
- 12.5 **THAT** Fruitless expenditure amounting to R 766.40 as at 30<sup>th</sup> June 2024 be considered in terms of the MFMA Section 32(5).
- 12.6 **THAT** the Unauthorized Expenditure amounting to R 0.00 as at 30<sup>th</sup> June 2024 be considered.

- 12.7 **THAT** the Procurement Plan Progress Report as at 30<sup>th</sup> June 2024 be considered in terms of the Municipal Finance Management Act Circular No. 62.
- 12.7 **THAT** the Contracts Register as at 30<sup>th</sup> June 2024 be considered as per Circular No. 35 of 2019.