



## **FIRST QUARTER REPORT ON THE IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY**

**FINANCIAL YEAR 2019-2020**

**PERIOD: OCTOBER – DECEMBER 2019**

### **1. INTRODUCTION AND BACKGROUND**

In terms of the Local Government Municipal Finance Management Regulations section 6.3 stipulated that the Accounting Officer must with 10 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 board of directors of the municipal entity as the case may be.

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 Supply Chain Management Policy are available for public comment.

### **2. PROGRESS AND COMPLIANCE**

The Supply Chain Management Unit (SCM) is fully established and functional. SCM unit operates under the direct supervision of the Chief Finance Officer (CFO). SCM Manager is responsible for the day to day management of the unit. The position of Senior clerk has been advertised however it has not yet been filled.

Bid committee are fully functional and discharging their duties effectively

## **2.1 COMPLIANCE AND REPORTING**

Procurement of goods and services still takes place through the utilisation of service providers who are registered in the Central Supplier Database. However, there is still a challenge with linking the Central Supplier Database with the municipal financial system. Only suppliers registered on the Central Suppliers Database are doing business with Thembisile Hani Local Municipality.

## **2.2 QUARTERLY REPORTS**

Monthly procured goods and services in the R30 000.00 – R 200 000.00 threshold are reported to the Chief Financial Officer by the 7<sup>th</sup> of each month. The MFMA compliance report is regulated in the MFMA Act and Regulations, Act 56 of 2003, Section 18 which gives guidance on the procedures for procuring goods and services through written or verbal quotations and formal written quotations. The section stipulates the following:

- That all requirements in excess of R30 000.00 (VAT included) that are to be procured by means of formal written quotations must, in addition to regulation 17, be advertised for at least seven days on the municipal website and in the official notice boards of the municipality.
- That when using the list of accredited prospective providers the accounting officer must promote on-going competition amongst providers, including by inviting providers to submit quotations on a rotation basis
- That the accounting officer must take all reasonable steps to ensure that the procurement of goods and services through written or verbal quotations or formal written price quotations is not abused.
- That the accounting officer or chief financial officer must on a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation; and
- Requirements for proper record keeping.

**Table 2.2.1 Summary of goods and services through written or verbal quotations and formal written price quotations from Oct to Dec 2019**

Threshold	Quantity	Rand value of the awards
R1 – R200 000.00	75	R 3 080 804.04

**Notes:** Suppliers are appointed on a rotational basis, however suppliers that are appearing more than two times are appointed for a period of one year and others for three years as and when required that is,

- Zitho Travel - Accommodation and meals
- Basadzi – Advertising Services

Accommodation and travel requests are the biggest contributors to the quarterly expenditure that is incurred.

The following suppliers were the biggest contributors to the expenditure incurred (procurement through public notices of seven days and some which were done through SCM processes i.e University of Pretoria) to the quarterly expenditure that is incurred:

- Databox Technologies –Corporate Services
- University of Pretoria- Corporate Services
- Nokwanda Group- Technical Service
- STANAK-Technical Services
- Eyasekethe Building-Technical Services
- Singavuyeni Holdings- Technical Services
- Artsosgay – Technical Services
- Megaworks- Technical Services
- Shikara Holdings- Technical Services

Attached hereto is the SCM implementation reports for the period: Oct – Dec 2019 as annexure “A”.

A competitive bidding process specifies that goods and services above the transaction value of R200 000.00, VAT included and long term contracts may be procured by the municipality only through a competitive bidding process. Attached hereto is the tender register as Annexure “B”.

**Table 2.2.2 Summary of goods and services procured through a competitive bidding process for 2019/2020**

Threshold	Quantity	Rand value of the awards
200 000 above	1	1 Evictions project appointed based on rates
	4	R 28 839 783.69
	44	Appointed based on rates

The accounting officer has dispensed with the official procurement process established by the policy and procured required goods and services through Regulation 36 of the MFMA. Attached hereto is the deviations register as annexure "C".

**Table 2.2.3 Summary of goods and services procured through deviation process**

Threshold	Quantity	Rand value of the awards
0 – 200 000	6	R 393 971.50

The accounting officer must promptly inform the Mayor, the MEC for Local government and Auditor General in writing of any Unauthorised, Irregular, Fruitless and Wasteful expenditure incurred.

**Table 2.2.4 IRREGULAR EXPENDITURE FOR 2019-2020 AS AT 31 DECEMBER 2019**

Supplier Name	Expenditure incurred	Legislation transgressed against	Reason for Transgression	Services
Zembeleni	2,795,600.00	SCM Regulation 19(b)	Non Attendance of CFO in BAC	Repair and Maintenance of Fleet
Mamolato Construction	1,003,111.18	SCM Regulation 19(b)	Non Attendance of CFO in BAC	Delivery of Portable water
Thobela Attorneys	2,183,797.32	Constitution 111, SCM Reg 32,19	Reg 32 instead of following bidding	Provision of Debt Collection Services
Bidvest Bank	1,322,920.66	SCM Regulation 32		Provision of fleet maintenance service (Full Maintenance Lease)
Nedfleet	39,514.08	Constitution 111, SCM Reg 32,19	Reg 32 instead of following bidding	Petrol Card
<b>TOTAL</b>	<b>7,344,943.24</b>			

**Table 2.2.5 IRREGULAR EXPENDITURE FOR 2018-2019 IDENTIFY DURING 2018/2019 AUDIT PROCESS**

	Amount	Compliance
<b>COMAF 15</b>		SCM regulation 18
<b>1. Request for written price quotations not advertised.</b>		
Tshwele Construction CC	31,050	
<b>COMAF 7</b>		
<b>1. Non compliance with SCM Regulation 32 and SCM policy</b>		
Thobela Attorneys and LMK Consulting JV	501,785	
<b>2. Non compliance with SCM Regulation 32</b>		
Bidvest	1,321,078	
<b>COMAF 35</b>		Noncompliance with SCM regulation 19
<b>1. Petrol card service provider for Mayor's car, did not have Bidding documents to prove that Bid process was followed</b>		
Nedfleet	203,812	
<b>COMAF 38</b>		
<b>1. Bidding process not followed for Fidelity contract</b>		
Fidelity cash solutions	167,458.39	
	<b>2,225,184.72</b>	

**Table 2.2.6 IRREGULAR EXPENDITURE FOR 2017-2018 IDENTIFY DURING 2018/2019  
AUDIT PROCESS**

No	Expenditure incurred	Legislation transgressed against	Services
1	2,305,598.80	SCM Regulation 19(b)	THLM/SW1/C/WP1/2016- 2019 Papasaul Construction
2	2,761,094.28		THLM/W10/C/WP2/2016 Mbanga Trading Enterprise
			<b>5,066,693.08</b>

No	Services /Service Provider	Expenditure incurred	Legislation transgressed against
1	J P Trading and Projects	90,000.00	SCM Regulation 43

No	Services /Service Provider	Expenditure incurred	Legislation transgressed against
1	Mdubane Plant hire and projects	29,840.00	SCM regulation 19b)
2	Exquisite Royalty Design	12,650.00	
3	Tsotetsi Construction and Dev	195,310.00	
4	Alleah Construction	29,600.00	
5	Greenrim Traning	29,940.25	

No	Services /Service Provider	Expenditure incurred	Legislation transgressed against
1	MTP Practical refrigeration Co	696,220.80	SCM regulation 19b)
2	Witbank Mining Imbizo	331,056.00	
3	Star Jay's Construction	317,715.89	
4	Mega Works trading enterprise	1,145,916.22	
5	Hlophe Njabulo enterprise	1,027,764.60	

No	Service provider	Expenditure amount	Legislation transgressed against
1	3789 - MANDLAKANDALA TRADING AND PROJ	687,351.60	SCM regulation 15
		4,593,365.36	
		R9,660,058.44	



**Table 2.2.7 FRUITLESS AND WASTEFULL EXPENDITURE FOR 2019-2020 AS AT 31 DECEMBER 2019**

Fiscal	Trans Date	Journal No	Amount	Description (Explain what happened)
30-Aug	21/08/2019	EF010544	339.24	Billed to the wrong email address
30-Sep	1/10/2019	EF010805	230.8	Billed to the wrong email address
30-Oct	1/11/2019	EF010905	12.09	Billed to the wrong email address
30-Nov	2/12/2019	EF011026	114.92	Billed to the wrong email address
<b>TOTAL</b>			<b>697.05</b>	

**Table 2.2.8 FRUITLESS AND WASTEFULL EXPENDITURE FOR 2018-2019 IDENTIFIED DURING THE 2018-2019 AUDIT PROCESS**

Other transactions	Amount	Legislation transgressed against
<b>COMAF 36</b>		
Claim for services not rendered for Upgrading of Vlaklaagte and Kwaggafontein Water Infrastructure project	247,281.00	Section 1 of MFMA
<b>COMAF 37</b>		
Non-compliance with indigent subsidy and free basic services provision policy	566,044.86	Section 1 of MFMA
<b>Total</b>	<b>813,325.86</b>	

**Table 2.2.9 FRUITLESS AND WASTEFULL EXPENDITURE FOR 2017-2018 IDENTIFIED DURING THE 2018-2019 AUDIT PROCESS**

Finding no	Finding	Supplier	Amount
1	Employee absent without leave	Employees	R119,511.54
6	Amount paid more than the quoted amount	Hlophe Njabulo ENT	R248,012.54
			<b>R367,524.08</b>

Attached hereto is a detailed list of the UIF and W in the second quarter as annexure "D".

### **2.3 IMPROVEMENTS AND COMPLIANCE TO INTERNAL CONTROLS**

The SCM committees are fully established and have been discharging their responsibilities in the form of meeting timeously to ensure the turn-around times for procurement of good and services is improved. The committees are as follows:

- Bid specification committee
- Bid evaluation committee
- Bid adjudication committee

Internal controls within the SCM unit have been strengthened and improved significantly by introducing the following measures to ensure compliance with the policy and regulations.

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- Register for deviations which ensures that all deviations are tracked evaluated by SCM and recorded to ensure completeness.
- Search works which scans company directors to detect those in the service of the state
- SCM officials now do have access to the CIDB website to advertise infrastructure projects, however we have challenges to advertise on E Tender.

### **2.4 RISK MANAGEMENT**

The following measures are in place to mitigate risks in the SCM processes

- Officials are made aware and have signed the SCM code of conduct
- All staff and councilors declare all business interests that they may have
- Supplier database is regularly updated to ensure that it contains credible information
  - Quotations received are approved prior to being processed.
- CSD report is used to vet service providers to ensure that no awards are made to people in the service of the state.

### **2.5 CHALLENGES AND CONSTRAINTS**

The following are the challenges that are currently encountered by the unit:

- Supply Chain Management officials and bid committees are currently not sufficiently trained to implement the Infrastructure Procurement Model and all regulations that have been amended or added, e.g. PPPFA.
- The unit is not fully-fledged due to one vacant post which is not yet filled thus far which results in the unit being under-staffed.

- The SCM is under capacitated and pose challenge to full comply with all relevant legislations and delays on appointing grant funded projects

## **2.6 POSSIBLE SOLUTIONS**

- To request further assistance and request a budget from the Provincial Treasury for training of SCM officials and role players to strengthen SCM compliance.
- To fill in the vacant position before the end of third quarter.

## **2.7 PROCUREMENT PLAN**

- The objective of the procurement plan is to assist municipalities and municipal entities with the planning for the procurement of goods, works or services in a pro-active manner and to move away from merely reacting to purchasing requests. Demand Management is the first element of the SCM function. The objective is to ensure that the resources required to fulfil the needs identified in the Integrated Development Plan (IDP) of the institution are delivered at the right time, price and place and that the quantity and quality will satisfy those needs of the user (ultimately the provision of services to the community). As part of this element of SCM, a total needs analysis must be undertaken. This analysis must be included as part of the strategic planning process of the institution and will, therefore, incorporate future needs. See attached procurement plan progress as per circular 33 of 2018 (Annexure E).

## **2.8 CONTRACT 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 municipality 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. Municipalities are requested to their contract register to the provincial treasury to ensure uniformity on contract management as per circular 35 of 2019. See attached contract register as Annexure F.

## **2.9 RECOMMENDATIONS**

- a) Supply Chain Management first quarter report for the quarter ending 31<sup>st</sup> December 2019 be noted as per section 6 (3) of the MFMA Act and Regulations.
- b) The supply chain management tenders awarded be noted for the second quarter ending 31<sup>st</sup> December 2019.
- c) Supply Chain Management deviations report for the quarter ending 31<sup>st</sup> December 2019 be noted as per section 36 (2) of the MFMA Act and Regulations. (Attached)

- d) Irregular expenditure 2019-2020 amounting to **R 7 344 493.24** be noted. In terms of MFMA section 32(5) Attached.
- Irregular expenditure 2018-2019 amounting to **R 2 225 184.72** be noted. In terms of MFMA section 32(5) Attached.
- Irregular expenditure 2017-2018 amounting to **R 9 660 058.44** be noted. In terms of MFMA section 32(5) Attached.
- Fruitless and wasteful expenditure 2019-2020 amounting to **R 697.05** be noted. In terms of MFMA section 32(5) Attached.
- Fruitless and wasteful expenditure 2018-2019 amounting to **R 813 325.86** be noted. In terms of MFMA section 32(5) Attached.
- Fruitless and wasteful expenditure 2017-2018 amounting to **R 367 524.08** be noted. In terms of MFMA section 32(5) Attached.
- e) The procurement plan for second quarter progress ending 31st December 2019 be noted circular 33 of 2018. (Annexure E).
- f) The contract register update for the first quarter ending 31<sup>st</sup> December 2019 be noted as per circular 35 of 2019. (Annexure F).