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DIRECTORATE
OFFICE OF THE
CITY MANAGER

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Your Ref: D Kotze
Room 201, Bram Fischer Building

Our Ref: 12/1/9/4/2
Date: 25 July 2022

Clr D Kotze

D.A Councillor

Mangaung Metropolitan Municipality

**RESPONSE TO RULE 38. MANGAUNG COMMITTEE SYSTEM FOR COMPETITIVE BIDS.
PROCUREMENT AND CONTRACT MANAGEMENT – BID EVALUATION AND ADJUDICATION
COMMITTEE COMPOSITION.**

Your E-mail dated 20 June 2022, with regard to the above-mentioned matter refers.

Kindly find attached a self- explanatory comprehensive response from the Supply Chain
Management sub-directorate, addressing all the questions raised.

Yours faithfully

Tebogo Motlasuping
Acting City Manager

22/08/2022

Our Ref: Mr. Fundani Molaba

Your Ref: Dirk kotze

[Tel:051 4113200](tel:0514113200) / 3208

Date: 22th July 2022

Dear Councillor: Dirk Kotze

RULE 38 QUESTION: MANGAUNG COMMITTEE SYSTEM FOR COMPETITIVE BIDS

PROCUREMENT AND CONTRACT MANAGEMENT – BID EVALUATION AND ADJUDICATION COMMITTEE COMPOSITION.

1. Management confirms that all bid committees were properly constituted in terms of SCM regulation 27,28 and 29 namely:
 - Bid Specification Committee
 - Bid Evaluation Committee
 - Bid adjudication Committee
2. That the quorum of the said committees is in compliance with circular 34 as issued by the National Treasury.
3. Management confirms that exception on non-compliance on composition of bid committees was withdrawn by the office of the Auditor General after consultation and clarification by National Treasury.
4. Attached is self-explanatory audit response on the composition of bid committees.

We hope you find this in order.

Yours faithfully

Submitted by:



F MOLABA
GM: SUPPLY CHAIN MANAGEMENT



The Acting City Manager
Mangaung Metro Municipality
Bloemfontein
9300

26 October 2021

Reference: Communication No. 109 of 2021

Dear, Mr. Sello More

COMMUNICATION OF FINDINGS IDENTIFIED DURING THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Background

1. In performing the audit of the financial statements we identified misstatements as described in the annexure. We have recorded the internal control deficiency that gave rise to the misstatements and our recommendation for correcting the misstatements for your consideration.
2. The finding will be included in the management report including your comments and our final response.

Required

3. You are requested to indicate whether you agree with the facts stated in the annexure including whether you agree with the identified internal control deficiency. Should you disagree, please provide us with documentary evidence to the contrary within five [5] days from the date of this communication, as agreed in the engagement letter.
4. Should you agree, you are hereby requested to make the necessary corrections.
5. Should you choose not to make the necessary corrections, kindly communicate your reasons for this within five [5] days from the date of this communication, as agreed in the engagement letter.
6. Should you choose to make the necessary corrections, kindly refer the point(s) described below and provide us with the necessary information within five [5] days from the date of this communication, as agreed in the engagement letter:
7. Please provide us with the supporting documentation that was previously not available.
8. Once we have received the documentation, we will perform the original audit procedures on the documentation.
9. If we identify misstatements in the documentation provided we will provide you with a separate communication of audit findings.

Yours sincerely

Sue-Ellen Steenbok
Senior Manager: BLM 8

Enquiries: Vincent Motubatsi
Email: VincentM@agsa.co.za

Acknowledgement of receipt by management:

Received by

Date

DETAILED AUDIT FINDING

Irregular expenditure

1. (R2) Irregular expenditure - Issues identified

Audit Finding

In terms of section 62(1)(d) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

(d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented;

Section 122 (1) (a) of the Municipal Finance Management Act states that every municipality must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.

During the audit of irregular expenditure, the following issues were noted:

(a) From inspection of the irregular expenditure register, confirmed that management did not identify any specific payment as being irregular and reported this as such. The irregular reported in the current year relates to the following:

Councillors whose remuneration was overpaid contrary to the requirements of the Remuneration of Public Office Bearers Act 20 of 1998	132 380,23	
Expenditure items due non-compliance within the Bid Adjudication Committee composition	909 992 786,97	Note N1
	910 125 167,20	

Notes:

N1 - Per the supporting irregular expenditure register, a total amount of R4 376 874,86 does not relate to the BAC composition, but it is indicated that no contract is in place and three quotations were not requested, therefore remains irregular. This amount should be included under a separate heading "Supply chain processes not followed"

(b) National Treasury issued a communication that the audit of BAC composition requirement should take into consideration the 50 +1 quorum requirement. This created a problem because the quorum requirement is prescribed by the MFMA circular 34 and the circular is not a legislation. Based on this and until National Treasury issue updated guidance in this regard, all contracts awarded during the year under review that was included in the irregular expenditure register and note 64 to the AFS based on the BAC composition, will not be regarded as irregular in the current financial year and should be removed. The following is a list of such contracts to be removed:

Contract nr	Irregular amount
C587/A4	236 955,50
C587/B2	494 012,80
C587/B3	73 415,00
C587/B6	2 601 655,00
C587/B8	6 900,00
C587/C1	33 483,00

C587/C4	208 000,00
C609/A	1 890 641,00
C609/A3	796 521,74
C609/C4	404 000,00
C609/C5	511 850,00
C609/D1	1 023 760,88
C609/E1	1 556 000,00
C609/E2	312 942,00
C609/E3	565 010,00
C609/E4	17 972,00
C637/A1	298 682,50
C637/B1	4 153 968,30
C637/B2	2 362 410,85
C637/C1	8 061 710,37
C637/C2	2 192 299,29
C637/D1	3 476 237,28
C637/D2	9 596 965,79
C637/D3	2 029 374,00
C637/F	18 127 463,38
C637/F1	815 206,90
C637/G1	10 225 626,18
C637/G2	1 450 004,07
C637/H1	2 241 487,59
C637/H2	11 280 413,89
C637/I1	460 347,74
C637/J1	1 614 151,65
C637/L	28 214 762,54
C637/M1	3 190 691,66
C637/M2	882 976,30
C637/N1	3 447 048,27
C637/N2	746 140,75
C637/O	1 333 098,41
C639/B1	1 782 206,48
C639/C	1 938 838,37
C639/C1	608 605,69
C639/D1	475 823,64
C639/E1	640 184,53
C639/E2	754 512,36
C639/J1	3 010 212,20
C639/Q1	2 062 105,91
C639/S1	537 500,00
C639/U1	93 434,84
C639/U2	2 213 168,77
C639/W1	4 260 340,53
C639/W2	1 985 497,57
C639/X1	2 025 896,73
C639/X2	98 429,92
C640/A1	3 025 413,18
C640/A2	559 804,51
C640/AA1	490 314,59
C640/AAA2	461 555,90
C640/CCC	1 797 877,54
C640/DD2	65 280,00
C640/FFF1	134 229,00
C640/FFF3	1 701 907,10

C640/HHH1	36 000,00
C640/HHH2	249 751,00
C640/HHH7	46 504,00
C640/I1	2 584 928,25
C640/I2	742 765,86
C640/J1	314 630,20
C640/JJ	1 069 518,07
C640/K1	63 388,80
C640/K2	236 844,00
C640/L1	1 953 590,09
C640/LL	235 171,20
C640/LL1	413 388,91
C640/LL2	720 495,23
C640/N	1 178 101,42
C640/NN	345 600,00
C640/PPP1	2 907 059,00
C640/PPP2(A)	401 137,50
C640/PPP2(B)	1 404 609,50
C640/PPP4	1 203 074,60
C640/QQQ1(A)	544 378,15
C640/QQQ1(B)	619 185,98
C640/QQQ1A	210 276,08
C640/RRR2	1 003 925,68
C640/S1	1 294 183,00
C640/TT1(A)	579 261,00
C640/TT1(B)	225 255,00
C640/TT2	303 191,37
C640/TTT1	2 103 717,66
C640/VV1	1 362 156,01
C640/VVV1	4 172 263,34
C640/WWW1	1 585 657,10
C640/XX	1 053 970,73
C640/XX2	104 190,40
C640/Y1(A)	869 600,86
C640/Y1(B)	239 849,25
C640/ZZ	5 441 049,37
C649	5 205 367,63
C650	739 256,35
C651	4 433 853,06
C652	16 557 238,58
C653	47 857 433,29
C654	1 835 419,00
C655	396 085,83
C656	158 360,00
C658	20 310 214,13
C659	17 464 951,36
C660	3 406 374,67
C661	505 642,83
C663/M	197 470,70
C664/A	1 940 239,14
C664/B	2 665 549,25
C665	1 279 504,80
C666/D	18 835 576,87
C666/E	5 611 424,86
C666/F	3 851 188,28

C666/H	1 773 893,61
C666/I	2 341 529,10
C666/L	77 971,56
C666/N	407 140,93
C666/O	4 286 310,70
C667	1 861 791,17
C669	885 052,31
C670/B	21 132,40
C672	203 795,48
	360 585 762,49

(c) Currently National Treasury MFMA Circular 68 is silent on whether irregular expenditure should be disclosed inclusive or exclusive of VAT. National Treasury recently confirmed that irregular expenditure should be disclosed inclusive of VAT and National Treasury is in the process of updating MFMA Circular 68, which will include providing for the disclosure of irregular expenditure inclusive of VAT.

Seeing that the metro is currently disclosing irregular expenditure exclusive of VAT, and to ensure fair presentation the 2020/21 financial year, a narrative should be included under the irregular expenditure disclosure amount indicating that irregular expenditure is always calculated inclusive of VAT while the figures disclosed above have been presented in this set of AFS exclusive of VAT. This is to ensure the users of the AFS understand the disclosure.

The main cause for this is lack of controls to ensure accurate financial information is submitted for audit purposes.

(a) Irregular expenditure presentation is not accurate in note 64 to the financial statements.

(b) This will result in irregular expenditure being overstated in note 64 to the financial statements.

Internal control deficiency

Financial and Performance Management:

Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

Recommendation

Management should:

(a) investigate the above differences and make the necessary amendments to the financial statements

(b) ensure that the annual financial statements are reviewed in order to identify and correct errors prior to submission for audit purposes & to ensure adherence to the requirements of Section 122 of MFMA 56 of 2003.

Management response

Management acknowledges work done by the National Treasury and the Office of the Auditor General to resolve the said long outstanding matter.

It will be important for National treasury to addressing legislative requirement on Bid adjudication committee quorum, as this has affected all municipalities in the country.

Name: Fundani Molaba

Position: General Manager: SCM

Date: 28 October 2021