

FINANCIAL MANAGEMENT: REPORT ON THE AMENDMENT OF CONTRACT OF SUPPLY CHAIN MANAGEMENT CONTRACT

REPORT OF THE CHIEF FINANCIAL OFFICER:

1. INTRODUCTION / BACKGROUND TO REPORT

The Supply Chain Management, Enhancing compliance and accountability, MFMA Circular No 62 states that contracts may be expanded or varied by not more than twenty percent (20%) for construction related goods, services and/or infrastructure projects and fifteen percent (15%) for all other goods and/or services of the original value of the contract.

In terms of Section 116 (3) (a) of the Municipal Finance Management Act No 56 of 2003, a contract or agreement procured through the Supply Chain Management policy of the municipality may be amended by the parties, but only after the reasons for the proposed amendment have been tabled in the council of the municipality.

Section 116 (3) (b) of the Municipal Finance Management Act No 56 of 2003 further states that a contract or agreement procured through the Supply Chain Management policy of the municipality may be amended by the parties, but only after the local community has been given reasonable notice of the intention to amend the contract or agreement and has been invited to submit representations to the municipality.

2. PURPOSE OF REPORT

The purpose of the report is to request Council to approve the reasons and processes to amend the following contracts in terms of the Municipal Finance Management Act 56 of 2003 as per table:

No.	Contract Number	Name of the Service Provider	Description	Amount	Date of Appointment	Termination Date
1.	152/2017	12x Various services	Provision of Security Services for the City of Mbombela	R 4 000 000,00	01-Feb-18	30-Jan-21
2.	79/2017	Arms Audit and Risk Management Solutions	Co-sourcing of Audit Functions for the City of Mbombela	R 5 995 620,00	01-Jul-18	30-Jun-21

3. IDP LINK AND LOCATION

Good Governance

4. MOTIVATIONS AND OPTIONS (DISCUSSION)

PROVISION OF SECURITY SERVICES FOR THE CITY OF MBOMBELA.

The municipality in October, 27, 2017 advertised on public platforms calling for bids from competent Security Service Providers for both physical for the city of Mbombela.

The City appointed a total of twelve Security Service providers for physical security in a rate base format, as follows; Unarmed Security Guard for R12 000.00 whilst Armed Security Guard at a rate of R13 000.00 vat exclusive. The City concluded agreements with all twelve Security Service providers consistent with Bid number 152/2017.

In June 2018 the employees of Rand water embarked on an unprotected strike that threatened peace and security in the City of Mbombela's jurisdiction especially in the Central, Eastern and Northern Regions. The industrial action was motivated by the fact that the municipality terminated the service delivery contract with the bulk water service provider Rand Water. The municipality had to react in a swiftly to ensure that the assets of the Municipality are safeguarded.

The termination of the agreement with Rand Water resulted in the need for the municipality to ensure that the additional 13 sites which were the responsibilities of Rand Water had to be absorbed by the municipality.

The contract was awarded on the basis on rates per physical guard provided to the municipality. The rates will remain fixed and only the cost of living adjustment as outlined in the bid document will apply. The proposed amendment will only be applicable to the number of guard, more personnel will needed to cover the additional sites absorbed from Rand water.

The municipality had recently been affected negatively by the theft of power supply cables. The theft has left critical service delivery infrastructure incapable to provide basic service to the community. The Public Safety Department had on numerous occasions requested by the service delivery departments to intervene by providing physical security guards on temporary basis to ensure that service delivery machinery is not hampered.

The other compelling reason to amend the contract was the involuntary adjustment of the VAT legislation. The VAT was adjusted from 14% to 15%. The adjustment had an impact on the final bid price.

CO-SOURCING OF AUDIT FUNCTIONS FOR THE CITY OF MBOMBELA

This project was advertised through the supply chain management processes on 03 July 2017 and closed on 03 August 2017. The contract was awarded to Messrs Arms Audit and Risk Management Solutions. The contract was awarded on rates based on the value of R 5 995 620, 00 VAT inclusive. The contract amount was based on an estimated 18 000 hours applicable for a period of 36 months. The table below contains the list of professionals and the rate charged per hour. It should be noted that the rate will remain constant and adjustments are only permissible in line with the cost of living adjustment rate determined by Stats SA.

Resource Description	Required qualification	Required experience	Rate per hour
Project manager	CA/CIA	5 year of experience in managing similar projects	R 969,00
Senior Internal Auditors	Post graduate qualification in Auditing/ Accounting /CIA	5 years of experience in Internal Auditing	R 480,00
Senior Forensic Auditor	Post graduate qualification in Auditing/ Accounting/ Law /CFE	5 years of experience in Forensic Auditing	R 480,00
Senior IT auditor	Post graduate qualification in Auditing/ Computer Science/ Accounting /CISA	5 years of experience in Information Systems Auditing	R 480,00
Senior Performance Auditor	Post graduate in Auditing/ Accounting /CIA	5 years of experience in Internal and or Performance Auditing	R 480,00
Internal Auditor	Degree/Btech in Auditing or Accounting	3 years' experience in Internal Auditing	R 260,00
Forensic Auditor	Degree/Btech in Auditing or Law	3 years' experience in Forensic Auditing	R 260,00
Performance Auditor	Degree/Btech in Auditing/ Performance management/ Accounting	3 years' experience in Performance Auditing	R 260,00
Junior Internal Auditor	Under graduate Diploma in Auditing	1 year experience in Internal Auditing	R 210,00
Junior Forensic Auditor	Under graduate diploma in Auditing or forensic auditing	1 year experience in Forensic Auditing	R 210,00
Junior Performance Auditor	Diploma in Auditing	1 year experience in Performance Auditing	R 210,00

The internal audit unit will be requested from time to time by various portfolio committees, Audit Committee and the Office of the Municipal Manager to conduct investigations on various issues including ad hoc investigation relating to good government and clean administration. The total estimated hours of 6000 per annum spread through all the

professionals as indicated in the table above becomes an impediment to conduct a well-researched investigations.

The other compelling reason to amendment the contract was the involuntary adjustment of the VAT legislation. The VAT was adjustment form 14% to 15%. The adjustment had an impact on the final bid price.

Inferring from the motivations above, it is likely that the variation orders are might exceed the 15% percent threshold as prescribed by MFMA Circular 62. it is against that background ta request for approval is forwarded to Council approve the amendments of the contracts and invoke the processes outlined in Section 116 of the Municipal Finance Management Act No 56 of 2003.

The process requires that for any contract to be amended by the parties, the reasons thereof must have been tabled before Council and the local community must have been given reasonable notice of the intention to amend the contract or agreement and has been invited to submit representations to the municipality.

The Section 116 (3) of the Municipal Finance Management Act No 56 of 2003 process is recommended in order to allow the service delivery projects to continue.

5. LEGISLATIVE CONSIDERATIONS
(INCLUDING PUBLIC PARTICIPATION)

Municipal Finance Management Act, 56 of 2003.
Municipal Supply Chain Management Regulation 868 of 30 May
MFMA Circular No 62

6. FINANCIAL IMPLICATIONS

7. COMMENTS OF DEPARTMENTS

8. RECOMMENDATION BY THE MUNICIPAL MANAGER

THAT

- (a) The contents of the report be noted
- (b) Council approved the variation orders exceeding the threshold of twenty percent in order to allow the service delivery projects to continue.
- (c) Council to follow the Section 116 (3) of the Municipal Finance Management Act No 56 of 2003 process.

