

Budget & Treasury

Your ref: Annual Financial Statements re Tenders greater than R10 million (Vat Incl)

Our ref: Tenders Greater than R10m

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TO : ALL BID COMMITTEE MEMBERS & SCM PRACTITIONERS
FROM : ACTING CHIEF FINANCIAL OFFICER / BAC CHAIRPERSON
DATE : 19 AUGUST 2024

GUIDANCE RELATING TO THE REQUIREMENT FOR BIDDERS TO AVAIL THE AUDITED ANNUAL FINANCIAL STATEMENTS (AFS) WHEN BIDDING FOR PROJECTS WITH TRANSACTION VALUE ESTIMATED TO BE GREATER THAN R10 MILLION (VAT INCL)

Section 21(8) of the Supply Chain Management Policy (Version 7) states inter-alia that, *“If the value of the transaction is expected to exceed R10 million (VAT included), require bidders to furnish –*

- (i) *if the bidder is required **by law** to prepare annual financial statements for auditing, his audited annual financial statements -*
 - (a) *for the past three years; or*
 - (b) *since establishment, if established during the past three years....”.*

It is important for us to understand that the above Section of the SCM Policy came about to protect the Municipality from potential financial risk. The critical question for us to respond to is *“How will we know which company / bidder is required, **“by law”**, to prepare the annual financial statements”.*

The following points are the guidelines in responding to the above question: -

- (i) It should be noted that a company with a Public Interest Score (PIS) of 350 and above is required, by law, to have its AFS audited.
- (ii) The company with a PIS of between 100 and 349 can have its AFS independently reviewed, unless it voluntarily chooses to have its AFS audited. Accordingly, those companies with a PIS between 100 – 349, are not obligated, by law, to prepare audited AFS.
- (iii) We must also understand that the calculation of public interest scoring is determined as follows (at the end of each financial year): -
 - a. Number of employees (or average over a financial year, if this number varies from year to year) – 1 point per employee,
 - b. Third party liabilities – 1 point per R1 million (or portion of)
 - c. Turnover – 1 point per R1 million (or portion of) and
 - d. Number of shareholders – 1 point per shareholder (irrespective of how many shares they hold individually).

- (iv) As it relates to the SCM requirements as stated above, it would therefore mean that bidders with a PIS of between 100 and 349 can submit reviewed AFS **or choose not to submit AFS** as the policy is silent on **what to be submitted by those bidders that are not required "by law" to have their AFS audited.** Bid Committees must please note that bidders who fall in this category **must** not be disqualified for not submitting their audited annual financial statements.

We must also note that when the AFS are confirmed to have been audited, they **must** be accompanied by an Audit Report from an independent external auditor who must be **qualified** to give an expression or an Audit Opinion as it relates to the Annual Financial Statements that have been audited.

To ensure that bidders are not unfairly eliminated in the bidding process, due to the non-submission of the audited annual financial statements, the following verification process must be undertaken by our Bid Committees and or SCM practitioners: -

- The bidder **must** submit an **affidavit**, together with a confirmed calculation of the bidder's Public Interest Score (PIS), independently verified by the bidder's Accountant that the company is not required, by law, to prepare the audited annual financial statements due to the PIS Score that is less than 350.
- The bidder whose Public Interest Score is greater than 350 (with evidence thereto, verified by the bidder's Accountant) **must** submit the audited annual financial statements in compliance with section 21(8) of the Supply Chain Management Policy, accompanied by the audit report from an independent & registered auditor.
- NB: The attachment of the portfolio of evidence will assist during the audit process of the transaction by any external party (e.g. Auditor General South Africa, etc.), accordingly the portfolio of evidence must always be availed by the bidder/s.

I hope the above will be of assistance in avoiding unfairly eliminating the bidders in the bidding process.


MJ NGCELWANE
CHAIRPERSON – BID ADJUDICATION COMMITTEE

cc. Acting City Manager
cc. Chief Operating Officer
cc. Senior Director: Supply Chain Management Sub Directorate