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PROVINCIAL TREASURY CIRCULAR 3 OF 2010

TO:

**DIRECTOR-GENERAL
HEADS OF DEPARTMENTS**

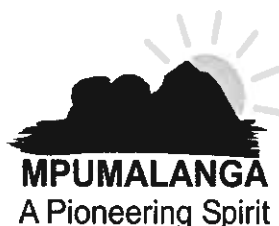
AWARDING AND MANAGEMENT OF VARIATION ORDERS (VO) BY INFRASTRUCTURE DEPARTMENTS

The Public Finance Management Act, No. 1 of 1999 (PFMA), provides a financial management framework that is comparable to the world's best and requires the highest level of discipline in the management of public funds.

The Auditor-General's reports continuously expose financial management weaknesses in many institutions of Government, which implies that they are failing to meet the standards set out in the PFMA and other legislation. Whilst audit reports focus on root causes and audit opinions, infrastructure departments are experiencing difficulties in rectifying problems associated with Variation Orders (VO).

Variations are blamed for cost overruns, delays and disputes; while often the problem lies deeper in ineffective organization and management as well as starting work which is not properly planned.

In monitoring the awarding and management of VO, the Provincial Treasury has determined that Departments do not plan properly for the work to be done, and/or contractors do not provide a fair quotation or price for the work to be done. Variations are likely to cause disturbance of the contractors work plan, Departments budget, and thus may cause delays in the implementation of projects.



A variation order is an order to alter, amend, omit, add, or vary any part of the work that may occur at anytime from the signing of the contract to the delivery of the work.

A variation order should at least:

- Be in writing (submission should be made by the consultant in writing to the relevant department),
- Have the exact amount of the variation,
- Contains a description of the variation or the variation required,
- Be discussed and approved by the paying Department,
- Give full motivation why a VO is required, and why not included in the original scope of work.


It should be noted that a variation cannot be executed before it is approved. Any granting of the stipulated time for the performance of a contract, agreeing to any substantial modification of the scope of the services, waiving the conditions of contracts or making any changes in the contract that would increase the amount (price) of the contract by more than 15% up to 20% will be subjected to authorization of the Accounting Officer of the paying (client) Department in consultation with the Accounting Officer of the implementing Department.

Any modification of contracts in relation to any case where the Rand value is more than 20% of the contract amount or price, the application shall be subjected to authorization by the Provincial Treasury in consultation with the Accounting Officers of the paying (client) and implementing Departments.

No unauthorized additions and changes on the scope of work may be included in the payment certificates without prior approval.

It will be appreciated if the content of this Circular could be distributed to the relevant role-players in your Departments.

Regards



MR. M. MAZIBUKO
HEAD OF DEPARTMENT
DATE: 29/01/2010