

10. MUNICIPAL REGULATIONS ON A STANDARD CHART OF ACCOUNTS (mSCOA): PROGRESS ON STATUS OF THE mSCOA IMPLEMENTATION PROJECT

3/2/3/15

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Corporate Head Office

1. Executive Summary

The purpose of this submission to Council is to:

- 1) Inform Council on specific initiatives to date by National Treasury to enable a full and complete understanding of the scope and extent of the SCOA implementation as applicable to all municipalities and municipal entities;
- 2) Maintain an on-going awareness of the mSCOA initiative in the Overstrand Municipality;
- 3) Report to Council on progress made to date with the implementation of mSCOA at the Overstrand Municipality since the previous report to Council in May 2017.

2. Service Delivery and Budget Implementation Plan - IGNITE

Directorate: Finance
Department: Finance

3. Compliance with Strategic Priorities

Provision of democratic, accountable and ethical governance
Provision and maintenance of municipal services

4. Delegated Authority

None

5. Legal Requirements

Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA)
Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
Local Government: Municipal Regulations on a Standard Chart of Accounts (mSCOA), Notice 312 of 2014, Government Gazette No. 37577

6. Background/Discussion

As required by National Treasury, The mSCOA Project went live on 01 July 2017. The latest communication from National Treasury states:

*“Please note that the deadline to comply with the mSCOA Regulation will **NOT be extended beyond 01 July 2017**. All those municipalities that are not compliant by this date will be at risk that Section 38 of the MFMA will be invoked and that all transfers will be withheld until such time that they comply with the Regulations.”*

6.1 Minimum Implementation Requirements for Compliance

To ensure full compliance to all the mSCOA requirements, the core Financial System and associated business processes of the municipality must conform to the following minimum control objectives:

- i) Provide for the hosting of the seven (7) defined mSCOA segments;
- ii) Be able to seamlessly transact across all seven (7) mSCOA segments;
- iii) Must provide for data extract across all seven (7) mSCOA segments;
- iv) Seamless upload to the Web-enabled LG Database as hosted at National Treasury;
- v) May not apply methodologies of data mapping or data extrapolation;
- vi) Must provide for full seamless integration between the core financial system with any 3rd Party systems impacting on the General ledger;
- vii) Must have ICT Infrastructure services and systems sufficient to process the required financial systems’ solution.

6.2 mSCOA Project Implementation *since 01 July 2015, up to date*

The mSCOA pilot implementation was done at mSCOA Version 5.3. The implementation of mSCOA for full compliance by 01 July 2017 has now been locked down at mSCOA Version 6.1.

The potential risks of achieving full mSCOA compliance by 01 July 2017 are clearly illustrated by the continuous directives and changes to the initial mSCOA implementation frameworks and technical system design specifications, issued by National Treasury since July 2015:

- i) Since July 2015, six (6) mSCOA Circulars have been issued by National Treasury, each Circular stating an additional series of mSCOA functional requirements for compliance, the latest Circular 6 only being issued in August 2016, in total resulting in more than 200 additional changes to the initial scope of the mSCOA pilot implementation project;
- ii) In October 2016, MFMA Circular 80, were issued by National Treasury listing more than 500 system functionalities and mSCOA compliance requirements to be assessed by municipalities for full mSCOA compliance of the core financial system and/or 3rd party systems impacting on the General Ledger;
- iii) MFMA Circular 80 also states that: *“the municipality and municipal entity remains ultimately responsible and accountable to implement mSCOA across its organisation.”*

AGENDA OF THE SPECIAL MAYORAL COMMITTEE MEETING 27 JULY 2017

- iv) On 08 October 2016, an addendum to the initial MFMA Circular 80 was issued stating additional mandatory budgetary requirements to be achieved leading up to 30 June 2017;
- v) mSCOA Circulars 1 to 6 issued since July 2015 to October 2016 also provided additional guidelines and frameworks to assist municipalities to establish project governance and management structures and forums based on industry best practice principles;
- vi) MFMA Circulars 85 and 86 as previously mentioned in this report also provided additional budgetary compliance requirements which was not announced previously by National Treasury.

In view of all the above, it is fair and reasonable to accept that the sum total and impact of all the above scope changes by National Treasury to the initial scope of mSCOA implementation project plan, and in such a fragmented fashion, will impose certain potential risks to the successful implementation of mSCOA by 01 July 2017.

mSCOA User Acceptance Phase (UAT) up to 30 June 2017

As required by National Treasury all municipalities, in cooperation with their respective vendors, had to participate in a User Acceptance Testing (UAT) of its core financial systems to ensure full mSCOA compliance by 01 July 2017. The Overstrand municipality and its vendor, Bytes Universal Systems also participated in this UAT process.

- During the System User Acceptance Testing phase (UAT), various unforeseen problems have been encountered which could not be resolved by the Vendor timeously before the mSCOA Go-Live date of 01 July 2017;
- After going live on 01 July 2017 the functionality of the Samras system was found to be a challenge in various areas, as identified by the mSCOA Working Group involved in implementation over the past two years. Additional measures were implemented immediately there-after, to ensure that controls are monitored and corrective measures are continuously implemented;
- The corrective measures applied by the vendor were primarily due to the proficiency and full understanding of the officials in the Overstrand municipality of all the relevant functional requirements and associated business processes as applicable to the various sub-modules in the Samras system.

Outcomes and lessons learnt from all the other municipalities will soon be known and this will assist Overstrand Municipality in making an informed decision going forward.

Municipalities and vendors have a mutual responsibility to ensure the implementation of a successful and fully compliant mSCOA financial system/s solution implemented from 01 July 2017.

AGENDA OF THE SPECIAL MAYORAL COMMITTEE MEETING 27 JULY 2017

The mSCOA Project Risk Register for 2016/2017 was included as an Annexure to the report to Council in May 2017.

6.3 mSCOA and the Way Forward

It is the intent of the mSCOA Project team to keep council informed on progress with the mSCOA Implementation project at the scheduled council meetings.

The primary objective of the Overstrand Municipality remains to be focused to achieve full compliance with all legislative and regulatory requirements.

An updated detailed mSCOA Project Implementation Plan for the remainder of the project was requested from the vendor, this is still outstanding.

Should alternative options be considered, the municipality will keep the Council and National Treasury informed accordingly.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

None

RECOMMENDATION TO THE COUNCIL:

that the mSCOA Progress Report for the implementation of the mSCOA Regulations, **be noted.**

RESPONSIBLE OFFICIALS:

**S REYNEKE-NAUDE
C LE ROUX
B KING
E HOONEBERG
H VORSTER**

TARGET DATE FOR IMPLEMENTATION :

1 AUGUST 2017