

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

**3/2/3/15**

**C Le Roux**

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**Corporate Head Office**

**17 October 2016**

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**1. Executive Summary**

The purpose of this report is to inform Council on the status of the implementation of mSCOA (Standard Chart of Accounts) for Overstrand Municipality.

**2. Service Delivery and Budget Implementation Plan - IGNITE**

Directorate: Finance

**3. Compliance with Strategic Priorities**

Provision of democratic, accountable and ethical governance

Provision and maintenance of municipal services

Creation and maintenance of a safe and healthy environment

The encouragement of structured community participation in the matters of the municipality

Promotion of tourism, economic and social development

**4. Delegated Authority**

None

**5. Legal Requirements**

Local Government: Municipal Finance Management Act (Act 56 of 2003)

Local Government: Municipal Systems Act (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**

Section 216 of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards.

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), determines those measures for the local sphere of government and

enables the Minister of Finance to further prescribe, by regulation, such measures in terms of section 168 thereof.

In terms of section 169(1)(b) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), the Minister of Finance has signed into effect and subsequently published the Municipal Regulations on a Standard Chart of Accounts (mSCOA) in terms of Notice 312 of 2014, Government Gazette No. 37577 subsequent to formal consultation.

Overstrand Municipality was selected by National Treasury as a vendor pilot site for the implementation of mSCOA on the SAMRAS financial system of Bytes Universal Systems.

The mSCOA regulation is, in the viewpoint of National Treasury, the biggest reform in Local Government since the implementation of the MFMA. It is not just a financial reform, but an organisational reform.

### **Governance**

The following governance structures have been established:

- Overstrand Municipal mSCOA Steering Committee
- Overstrand Municipal mSCOA (Project) Steering Committee now renamed Overstrand Municipal mSCOA (Working Group) Committee;
- SAMRAS mSCOA Committee;
- A mSCOA Integrated Consultative Forum (mSCOA ICF) has been established by National Treasury in August 2014 consisting of all the Metros, pilot municipalities, vendors, National Treasury and the Provincial Treasuries; and
- A Western Cape mSCOA Technical Committee has been established by Provincial Treasury represented by all the Western Cape Pilot sites, Provincial Treasury and the Department of Local Government.

### **Current Status**

In collaboration with Bytes Universal Systems, Overstrand has taken a three-phased approach to the system development and piloting processes. Two further phases have been adopted in order to implement the mSCOA regulations by 01 July 2017.

Phase 1 – Budgeting Module

Phase 2 – Transactional Posting Levels

Phase 3 – Reporting Modules

Phase 4 – mSCOA Piloting Implementation

Phase 5 – Full mSCOA Operational Compliance

Overstrand Municipality has been implementing Phase 1 to Phase 4 and piloting mSCOA from 01 July 2015.

The project plan for the WebEnablement roll-out of the Beta system (Annexure B) as received from Bytes Universal Systems (service provider of the SAMRAS Financial System) provides an indication of the dates envisaged for the roll-out of the respective modules/core elements.

The service provider advised that the *start* dates as indicated on the plan, should be regarded as an indication of the release date for further testing by municipalities, whilst the *finish* dates should by no means be regarded as the final release dates into the live production environment. It is to be noted that a number of the dates have already passed and the municipality is awaiting further communication from the service provider in this regard.

### **MFMA Circulars**

#### *i. MFMA Circular*

MFMA Circular No. 80 - Municipal Finance Management Act No. 56 of 2003 - Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA) –

This is a follow-up Circular to MFMA Circular No. 57 that replaces MFMA Circular 57 (financial systems and processes) and updates municipalities and municipal entities on the review of local government financial systems and business processes subsequent to the ‘piloting’ of the mSCOA classification framework. It is important to read this Circular in conjunction with MFMA Circular No. 57, all the Municipal SCOA Circulars, and all documentation posted on the National Treasury website as it relates to mSCOA (i.e. project summary document, presentations of the mSCOA Integrated Consultative Forum etc.).

#### *ii. MFMA mSCOA Circulars*

National Treasury also issued mSCOA Circulars in order to assist and guide municipalities with their mSCOA implementation:

- Circular 1 - Implementation: This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by 1 July 2017. This is the first in a series of mSCOA circulars.
- Circular 2 - This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by 1 July 2017. This is the second in a series of mSCOA circulars.
- Circular 3 - This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by the outer implementation date of 1 July 2017. This is the third in a series of mSCOA circulars.

Municipalities can use the Municipal SCOA Circulars to assess whether they are on track in achieving mSCOA implementation.

- Circular 4 - This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the fourth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.
- Circular 5 - This circular provides support to all municipalities to implement the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the fifth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.
- Circular 6 - This circular provides support to all municipalities (pilots and non-pilots) to implement the Municipal Regulations on a Standard Chart of Accounts (mSCOA) in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the sixth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.

Circulars 5 and 6 provide guidance to municipalities to perform an ICT due diligence exercise on its current package of financial management and internal control systems, as follows:

*Every municipality, to effectively evaluate its current financial management and internal control system(s), must:*

- Assess its current systems in accordance with MFMA Circular 80;
- Task its mSCOA project steering committee (representing senior officials from the respective business units) to evaluate/conduct a due diligence of the municipality's current financial systems. The role of this committee for this activity, is to evaluate the system functionality of the municipality's current system vendor(s) in accordance with the system and business processes functionality assessment;
- The municipality, to complete the ICT due diligence may request all its existing service provider(s) to complete the system and business processes functionality assessment for the municipality, including to workshop and demonstrate such functionality to the municipality, but at no additional cost to the municipality;
- Where any item is a mandatory minimum for the category of municipality and is not available in the existing package, the service provider should clearly indicate the way forward, including indicating any cost (initial and

thereafter) to the municipality to procure such additional functionality(s) from its existing package of service providers.

*Process after completion of the ICT due diligence:*

Once the municipality and/or its vendor(s) have completed the ICT due diligence, the municipality's mSCOA project steering committee must:

- (i) Assess whether the municipality's existing system(s) as a package, meets the majority of the functional requirements for its category;
- (ii) Consider the cost of any additional functionality the municipality will have to procure from its existing package of service provider(s) to be able to conduct the minimum mSCOA transacting for its category by 1 July 2017 and the affordability thereof to the municipality considering its 2016/17 MTREF;
- (iii) Compare the total cost of its existing 'package of system(s)', including the cost for any additional functionality (refer to paragraph (ii) above) with the other available service offerings for its category, included in the RT25-panel of service providers;
- (iv) Determine whether its existing 'package of service provider(s)' will be able to provide and implement any and all of the outstanding functional areas by 1 July 2017, including up-skilling affected municipal officials;
- (v) Consider any penalties and reason(s) for contract termination in any of its contract(s) with existing service provider(s); and
- (vi) The project steering committee must document its decision and recommendation(s) on the way forward for the municipality (on the municipality's "package of existing system(s)"), clearly setting out its findings on each of the above five points it considered.

At a SAMRAS (financial system) user group meeting, the majority of municipalities agreed that it was not possible to complete the ICT due diligence assessment due to the fact that the 512 system functionality areas completed/developed (as per the National Treasury transversal tender, RT25-2016, for ERP systems) could not be verified for mSCOA compliance and that Provincial Treasury facilitate a workshop whereby the service provider can demonstrate its compliance to the system and business processes functionality assessment already completed by the vendor for the SAMRAS system.

Before-mentioned also implies that Overstrand Municipality is not in a position to consider the guidance as provided in MFMA Circular No. 80 - Municipal Finance Management Act No. 56 of 2003 and MFMA mSCOA Circulars 5 and 6 respectively.

Council will be informed in a subsequent report on the outcome of this matter.

## **7. Financial Implications**

None

**8. Staff Implications**

None

**9. Comments from other Departments, Divisions and Administrations**

None

**10. Annexures**

Annexure A: Overstrand mSCOA Risk Register

Annexure B: WebEnablement V3 Project Plan

**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 JULY 2017**

## Overstrand Municipality

## Risk Assist: Report

Risk Item	Risk Type	Risk Category	Risk Level	Risk Description	Cause of risk	Risk Background	Current Controls	Directorate	Risk Status	Financial Year	RBAP Ref	Reasoning for mitigation
R 64	Internal	Compliance	Project Risks	Organisation not understanding the mSCOA requirements	Improper/ insufficient training (unskilled staff). Human error.	System not functioning as intended from 1 July 2015 - Organisation not understanding the mSCOA requirements and therefore incorrect data capturing	Budget Workshops  _mSCOA Information session_mSCOA Budget Book_mSCOA Support provided during implementation	Finance - Director: Finance	Addressed	2015/2016		"Unsuccessful implementation of mSCOA  Data integrity and classifications compromised. Potential interruption of business processes, halting service delivery (Business Continuity) Qualified audit opinion if data scrambled."
R 65	Internal	Compliance	Project Risks	Transactional processing	Inability of system vendor to develop applications conforming to the technical specifications of mSCOA.	System not functioning as intended from 1 July 2015 -Readiness of the solution to actually cope with transactional processing	mSCOA Project Plan  _User Acceptance Testing and sign-off before implementation - Service	Finance - Director: Finance	Addressed	2015/2016		"Unsuccessful implementation of mSCOA  Data integrity, and classifications compromised.  Potential interruption of business processes, halting service delivery (Business Continuity) Qualified audit opinion if data scrambled."
R 66	Internal	Compliance	Project Risks	mSCOA Project not meeting the needs of internal and external stakeholders	Tight implementation timeframe of 1 July 2017	System not functioning as intended from 1 July 2015 - mSCOA project not meeting the needs of internal and external stakeholders	mSCOA ICF engagements  _mSCOA Provincial Forum  _Vendor User Group Meetings_mSCOA Information Session _mSCOA Support provided during initial implementation	Finance - Director: Finance	Addressed	2015/2016		Reputational Risk Data integrity compromised and not aligned to business processes Interruption of business processes impacting negatively on service delivery  Non compliance with regulations  Business continuity  Qualified audit opinion if data scrambled
R 67	Internal	Compliance	Project Risks	Inadequate assurance reviews	Piloting phase mSCOA implementation approach -- National	Inadequate assurance reviews - Independent assessment that system meets minimum mSCOA requirements and is fully compliant	Quarterly reporting to Council _Monthly reporting to mSCOA Steering Committee	Finance - Director: Finance	Addressed	2015/2016		Unsuccessful implementation of mSCOA  Data integrity and classifications compromised. Potential interruption of business processes, halting service delivery (Business Continuity) Qualified audit opinion if data scrambled.

R 68	Internal	Compliance	Project Risks	Version changes and related impact on business processes and resources	"Pilotage phase mSCOA implementation approach – National	- Ability to influence and interpret new mSCOA versions that will be issued on a regular basis, requiring changes and/or need for clarification	mSCOA Project Plan	Finance - Director: Finance	Addressed	2015/2016	Delays in mSCOA implementation time lines Potential interruption of business processes due changes implemented Qualified audit opinion if data scrambled due NT retracting any already implemented requirement Dependency on NT task team to provide version management tool
R 69	Internal	Compliance	Project Risks	ICT Network capacity	Unforeseen funding requirements for the implementation of mSCOA	- Capital budget availability to ensure appropriate hardware implementation and to accommodate the "web-based" system required to effectively run the SCO compliant solution. User licences and Web environment, Disk Space	Utilising Existing network _ICT strategy and planning _Budgetary Process	Finance - Director: Finance	Addressed	2015/2016	Budget implications Inability to comply with mSCOA reporting requirements. Will put a tremendous strain on the processing speed of the network.
R 70	Internal	Compliance	Project Risks	Human resource capacity constraints	Capacity constraints to ensure that adequate and timely support and implementation assistance is available	Human resource capacity constraints	Human resource and project management _Multi-skilling / optimisation of resources	Finance - Director: Finance	Addressed	2015/2016	Increase working hours leads to low staff morale Ineffectiveness Lack of accountability Adverse influence on service delivery
R 71	Internal	Compliance	Project Risks	mSCOA budgets prepared on spreadsheets	Inability of system vendor to develop applications conforming to the technical specifications of mSCOA.	mSCOA budgets prepared on spreadsheets	Each directorate submits a consolidated budget with control totals. Each Director is responsible for ensuring that their directorate's budget is complete. The consolidated budget is then imported into the system and control totals are verified against	Finance - Director: Finance	Addressed	2015/2016	Human error leading to insufficient budget provision Lack of audit/version trail Compromised data integrity
R 72	Internal	Compliance	Project Risks	Service delivery expectations - Vendor	Quality of current service delivery standards Statistical project failures Poor Planning	Up scaling with a mSCOA compliant system at other municipalities early adopting (Delivery existing client base) - Impact of Bytes resources capacity	Monthly meetings	Finance - Director: Finance	Addressed	2015/2016	Financial, audit, legal implications Adverse influence on service delivery Reputational Damage
R 73	Internal	Compliance	Project Risks	IDP is not prepared on a project basis	Inability of system vendor to develop applications conforming to the technical specifications of mSCOA.	IDP is not prepared on a project basis	Each directorate submits a consolidated budget with control totals. Each Director is responsible for ensuring that their directorate's budget is complete, inclusive of IDP link. The consolidated budget is then imported into the system and control totals	Finance - Director: Finance	Addressed	2015/2016	Unsuccessful implementation of mSCOA Data integrity and classifications compromised. Qualified audit opinion















ID	Task Mode	Task Name	Duration	Start	Finish	Predecessors	Notes	ter
1	★	Web Enablement	188 days	Fri 16/08/05	Tue 17/04/25			Aug
2	★	User Acceptance Testing	188 days	Fri 16/08/05	Tue 17/04/25			
3	★	GL and Budget	10 days	Mon 16/08/15	Fri 16/08/26			
4	★	Citizen Portal read Only	5 days	Tue 16/08/23	Mon 16/08/29			
5	★	NT Extract	3 days	Fri 16/09/16	Tue 16/09/20			
6	★	CSD	5 days	Fri 16/08/05	Thu 16/08/11			
7	★	IDP	10 days	Thu 16/09/15	Wed 16/09/28			
8	★	Debt Management	4 days	Wed 16/09/21	Mon 16/09/26			
9	★	Citizen Portal Transactional	5 days	Wed 16/09/28	Tue 16/10/04			
10	★	Meter Readings	5 days	Wed 16/10/05	Tue 16/10/11			
11	★	Document Management	3 days	Mon 16/10/10	Wed 16/10/12			
12	★	Tariff modelling	5 days	Fri 16/10/07	Thu 16/10/13			
13	★	Expenditure	20 days	Fri 16/11/04	Thu 16/12/01			
14	★	Reporting Portal	5 days	Fri 16/11/11	Thu 16/11/17			
15	★	Stores	5 days	Fri 16/11/18	Thu 16/11/24			
16	★	Inventory	5 days	Fri 16/11/25	Thu 16/12/01			
17	★	SCM	15 days	Thu 16/12/22	Wed 17/01/11			
18	★	Creditors	5 days	Thu 16/12/29	Wed 17/01/04			
19	★	HR	20 days	Thu 17/01/26	Wed 17/02/22			
20	★	Payroll	15 days	Wed 17/02/22	Tue 17/03/14			
21	★	AFS	5 days	Wed 17/03/01	Tue 17/03/07			
22	★	Billing	20 days	Wed 17/03/29	Tue 17/04/25			
23	★	Budget Estimating	10 days	Wed 17/03/15	Tue 17/03/28			

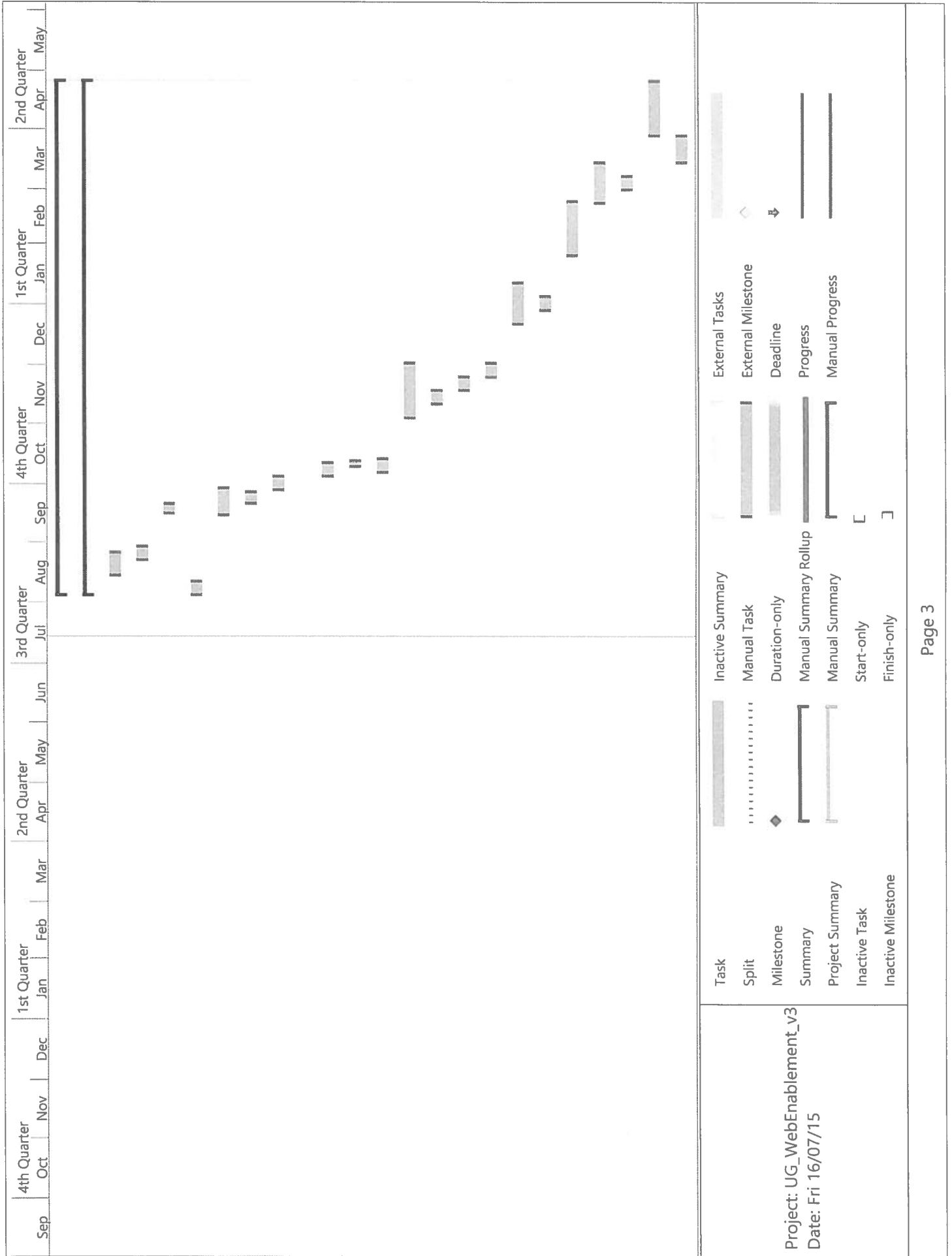
  

Project: UG_WebEnablement_v3 Date: Fri 16/07/15	<ul style="list-style-type: none"> <li>Task</li> <li>Split</li> <li>Milestone</li> <li>Summary</li> <li>Project Summary</li> <li>Inactive Task</li> <li>Inactive Milestone</li> </ul>	<ul style="list-style-type: none"> <li>Inactive Summary</li> <li>Manual Task</li> <li>Duration-only</li> <li>Manual Summary Rollup</li> <li>Manual Summary</li> <li>Start-only</li> <li>Finish-only</li> </ul>	<ul style="list-style-type: none"> <li>External Tasks</li> <li>External Milestone</li> <li>Deadline</li> <li>Progress</li> <li>Manual Progress</li> </ul>
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ID	Task Mode	Task Name	Duration	Start	Finish	Predecessors	Notes	ter
24	★	Final Debt Management	15 days	Wed 17/04/05	Tue 17/04/25			Aug
25	★	Investments and Funding	5 days	Wed 17/04/12	Tue 17/04/18			
26	★	Assets	10 days	Wed 17/03/15	Tue 17/03/28			
27	★	Jobs and Vehicles	15 days	Wed 17/04/05	Tue 17/04/25			
28	★	MI	5 days	Wed 17/04/12	Tue 17/04/18			
29	★	Update final audit trail manual	3 days	Mon 17/04/17	Wed 17/04/19			

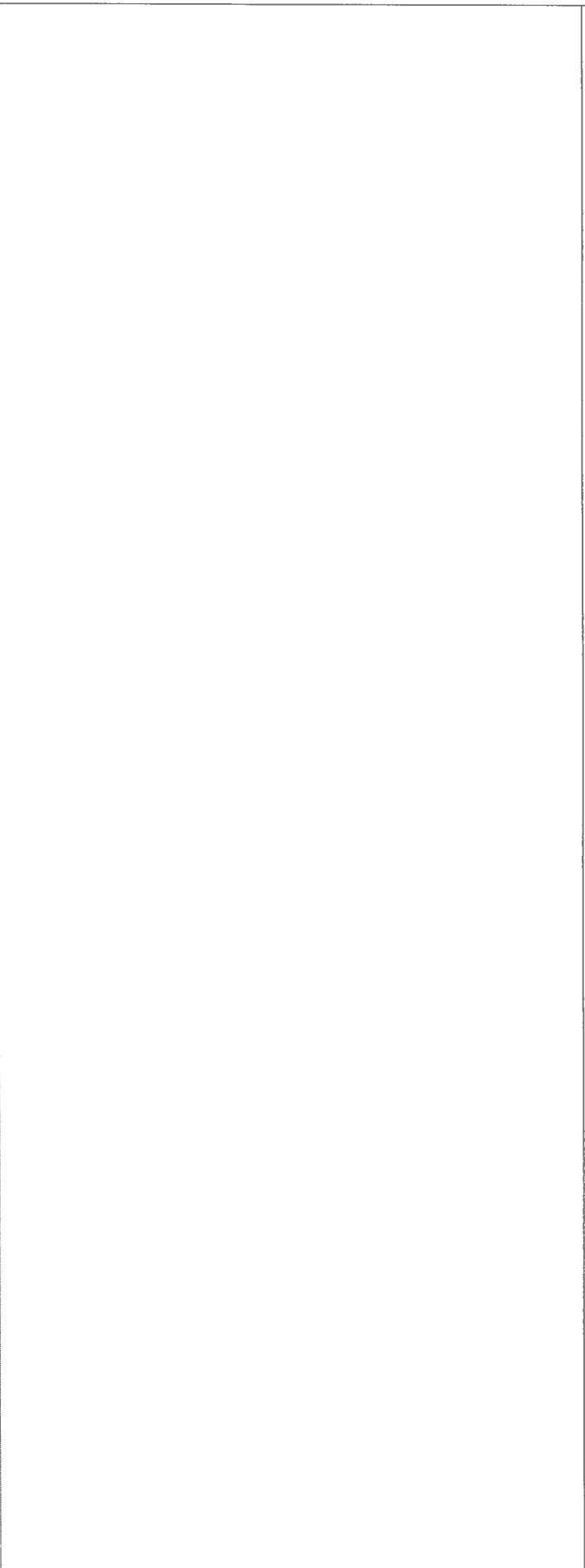
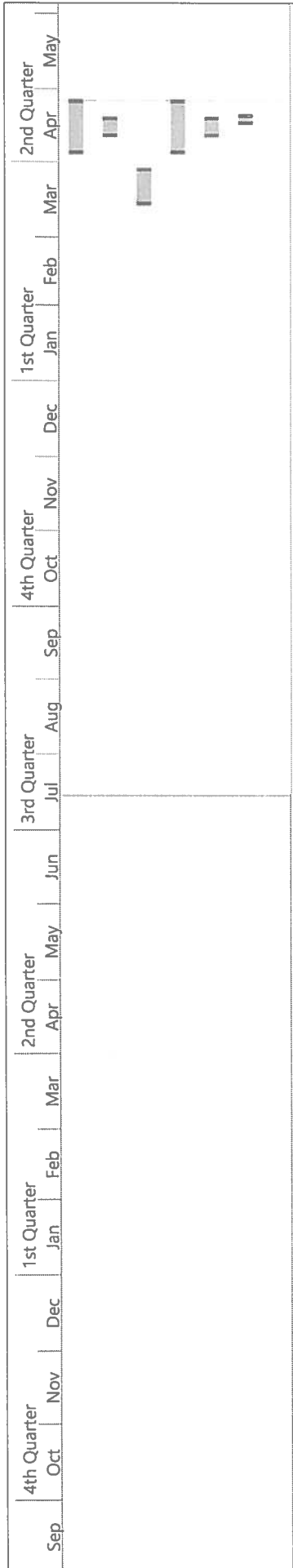
<p>Task</p> <p>Split</p> <p>Milestone</p> <p>Summary</p> <p>Project Summary</p> <p>Inactive Task</p> <p>Inactive Milestone</p>		      	<p>Inactive Summary</p> <p>Manual Task</p> <p>Duration-only</p> <p>Manual Summary Rollup</p> <p>Manual Summary</p> <p>Start-only</p> <p>Finish-only</p>	<p>External Tasks</p> <p>External Milestone</p> <p>Deadline</p> <p>Progress</p> <p>Manual Progress</p>	    
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Project: UG\_WebEnablement\_v3  
 Date: Fri 16/07/15



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- Task
- Split
- Milestone
- Summary
- Project Summary
- Inactive Task
- Inactive Milestone
- Inactive Summary
- Manual Task
- Duration-only
- Manual Summary Rollup
- Manual Summary
- Start-only
- Finish-only
- External Tasks
- External Milestone
- Deadline
- Progress
- Manual Progress



Project: UG\_WebEnablement\_v3  
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Task		Inactive Summary		External Tasks	
Split		Manual Task		External Milestone	
Milestone		Duration-only		Deadline	
Summary		Manual Summary Rollup		Progress	
Project Summary		Manual Summary		Manual Progress	
Inactive Task		Start-only			
Inactive Milestone		Finish-only			