

**AGENDA OF THE MAYORAL COMMITTEE MEETING: 27 SEPTEMBER 2017**

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**6. MUNICIPAL REGULATIONS ON A STANDARD CHART OF ACCOUNTS (mSCOA): POST IMPLEMENTATION STATUS OF THE mSCOA IMPLEMENTATION PROJECT**

3/23/15

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12 September 2017

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Corporate Head Office

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**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) Report to Council on progress made to date with the implementation of mSCOA at the Overstrand Municipality since the previous report to Council in July 2017;
- 3) Maintain an on-going awareness of specific mSCOA initiatives in the Overstrand Municipality; and
- 4) Considerations on the way forward with the core financial system, being SamrasClassic, currently in use by the Overstrand Municipality.

**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 based on the mSCOA Release Version 6.1. Although the core financial system is currently fully operational and functional, there still remain some material issues and constraints to achieve full mSCOA compliance.

### **6.1. National Treasury Directives and Technical Specifications**

Due to the continuous changes in directives and amendments to the initial mSCOA implementation frameworks and technical system design specifications as issued by National Treasury since July 2015, it is fair and reasonable to accept that the sum total and impact of all the scope changes introduced by National Treasury to the initial scope of mSCOA implementation project plan, and in such a fragmented fashion, will still impose certain potential risks to the successful implementation of mSCOA in totality.

### **6.2. Vendor Technical Systems Design and Development Strategies**

During the piloting process, based on circumstances, the vendor decided to retain its current legacy system and database architectures for all transactional processing, and to develop a separate Web-portal architecture as required by National Treasury for Budgeting and Reporting purposes for the mSCOA implementation phase up to 1 July 2017.

Development of the remainder of the mSCOA functional requirements for implementation was envisaged by not later than 31 September 2017, to coincide with the commencement of Budget planning cycle for the next financial year: 2018/2019, which, at the time made good business sense, given the scope of the transversal tender, RT25-2016 functional requirements as well.

It was thus also the intent of the vendor to decommission its legacy system and database architectures and to migrate all the municipal financial data to a new Web-enabled systems and database architecture, to also coincide with the commencement of the budget planning cycle for 2018/2019.

However, the Vendor only informed the municipality during the User Acceptance Testing phase prior to 1 July 2017, that they will not be able to fulfil it's commitment regarding this intended migration strategy to the new Web-enabled architecture. To date the vendor also cannot provide a revised project plan inclusive of time-frames, or confirm a migration date to achieve this objective, leaving the Overstrand municipality as well as all its other local government clients with hybrid systems and database architecture framework, for the foreseeable future.

### **6.3. National Treasury: The Way Forward With mSCOA**

The latest communication from National Treasury, dated August 2017 stated that: *The next version of the chart, version 6.2, will be released on 7th December, with the budget circular.*"

The exact scope and extent of this latest mSCOA release Version 6.2 and the potential impact on the Budget: 2018/2019, is still not yet known, but Council will be kept informed once the details are made available by National Treasury.

### **6.4. Considerations on the Way Forward**

Up to the end of August 2017 it remained the primary objective of the municipality to achieve mSCOA compliance on a commercially best effort basis, and in full cooperation with our current Service Provider. To date the core financial system of the municipality is functional and operational, primarily due to the collective efforts and competence of the Overstrand municipal officials involved with the implementation of mSCOA.

However, given the inability of the Vendor currently to:

- Provide the Municipality with an acceptable and clearly defined revised strategy, inclusive of time-lines, to decommission its current legacy systems architecture (being SamrasClassic) and to fully migrate to an Industry Best Practice Web-enabled Architecture; that
- Will enable the Municipality to achieve full mSCOA compliance as per all the functional requirements.

The current position leaves the Municipality no other option than to research and assess the service offerings of alternative Service Providers.

A request for information (RFI) was communicated to three service providers who successfully participated on the National Treasury transversal tender (Appointment of service providers for an Integrated Financial Management and Internal Control System for Local Government, Tender RT25), to afford the Overstrand Municipal mSCOA (Working Group) Committee the opportunity to consider their progress with implementation of mSCOA, this process also involved service provider demonstrations presented to a core team of the municipality during August 2017. Before-mentioned process will also be followed up with site visits, to ensure assessment of progress with mSCOA implementation in a production environment.

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

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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**

Annexure A: mSCOA Risk Register

**RECOMMENDATION TO THE COUNCIL:**

that the mSCOA Post Implementation Progress Report, as well as the intentions of the Municipality going forward, **be noted**.

**RESPONSIBLE OFFICIALS:**

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

**TARGET DATE FOR IMPLEMENTATION :**

**1 OCTOBER 2017**

Overstrand Municipality  
mSCOA Risk Register - 19 September 2017

| Risk Item | Risk Status | Risk Type | Risk Level    | Risk Category | Risk Description  | Risk Background   | Cause of risk  | Consequences  | Impact   | Impact Rating | Likelihoods      | Likelihood Ratings | Inherent risk Exposure | Inherent risk rating | Current Controls  | Perceived Control Effectiveness | Control Rating | Residual Risk | Residual Risk exposure | Directorate                 | Financial Year |
|-----------|-------------|-----------|---------------|---------------|---|---|--|---|----------|---------------|------------------|--------------------|------------------------|----------------------|---|---------------------------------|----------------|---------------|------------------------|-----------------------------|----------------|
| R. 140    | New         | Internal  | Project Risks | Compliance    | Transactional processing in version 6.1   | System not functioning as intended from 1 July 2017 - Readiness of the solution to actually cope with transactional processing.                     | Inability of system vendor to develop applications conforming to the technical specifications of mSCOA.                                | Unsuccessful implementation of mSCOA. Data integrity and classifications compromised. Potential interruption of business processes, halting service delivery (Business Continuity). Qualified audit opinion if data is scrambled. | Moderate | 6             | Probable (80%)   | 8                  | Medium                 | 48                   | mSCOA Project Plan_Dedicated mSCOA project manager_Contingency Plan                                       | Moderately Effective            | 0.75           | Medium        | 36                     | Finance - Director: Finance | 2017/2018      |
| R. 179    | Addressed   | Internal  | Project Risks | Compliance    | Organisation not understanding the mSCOA requirements.  | System not functioning as intended from 1 July 2017 - Organisation not understanding the mSCOA requirements and therefore incorrect data capturing. | Improper/insufficient training (unskilled staff) Human error   | Data integrity and classifications compromised. Potential interruption of business processes, halting service delivery (Business Continuity). Qualified audit opinion if data scrambled.  | Moderate | 6             | Occasional (40%) | 4                  | Low                    | 24                   | Budget Workshops_mSCOA Information session_mSCOA Budget Book_mSCOA support provided during implementation | Effective                       | 0.4            | Low           | 9.6                    | Finance - Director: Finance | 2017/2018      |
| R. 180    | New         | Internal  | Project Risks | Compliance    | Service delivery expectations - Vendor's capacity   | Up scaling with a mSCOA compliant system at other municipalities (Delivery existing client base) - impact on Bytes resources capacity.              | Quality of current service delivery standards. Statistical project failures Poor Planning Vendor's human resource capacity constraints | Financial, audit, legal implications Adverse influence on service delivery. Reputational damage   | Major    | 8             | Probable (80%)   | 8                  | High                   | 54                   | Active enforcement of implementation plan.  | Moderately Effective            | 0.75           | High          | 48                     | Finance - Director: Finance | 2017/2018      |
| R. 181    | New         | Internal  | Project Risks | Compliance    | Failure to integrate systems with mSCOA solution.   | Inability to integrate systems with mSCOA solution.   | Changing requirements Inadequate change management procedures. New business processes  | Data integrity and classifications compromised. Potential interruption of business processes, halting service delivery (Business Continuity). Increased working hours leads to low staff morale.                                  | Major    | 8             | Probable (80%)   | 8                  | High                   | 64                   | Regular interaction with service providers_User acceptance testing.                                       | Moderately Effective            | 0.75           | High          | 48                     | Finance - Director: Finance | 2017/2018      |
| R. 196    | New         | Internal  | Project Risks | Compliance    | Human resource capacity constraints due to the implementation of the financial system .. modernisation. | Increased workload for finance departments due to mSCOA.  | Insufficient permanent staff Additional segments for journal entries. Required knowledge of mSCOA.                                     | Ineffectiveness Lack of accountability  | Major    | 8             | Probable (80%)   | 8                  | High                   | 64                   | Human resource and project management. Multi-skilling_Optimisation of resources                           | Moderately Effective            | 0.75           | High          | 48                     | Finance - Director: Finance | 2017/2018      |

ANNEXURE A