

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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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 May 2018 (Final Budget Report 2018/2019, Annexure I);
- 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

Updated status of the mSCOA Project since the previous report in May 2018:

Municipalities are now at the beginning of year 2 (implementation on a national level on 1 July 2017) of mSCOA transacting (on version 6.2 from 1 July 2018) and it is important to assess where municipalities are currently with their mSCOA Implementation. All municipalities were expected to complete a Self-Assessment again during July 2018.

In order for the Western Cape Provincial Treasury to gauge progress on mSCOA Implementation from a municipal perspective, they also regularly engage with all municipalities to identify any shortcomings or delays with the implementation process in order to develop strategies to assist municipalities with their progress.

Information now following in this report attempts to provide the background to requirement for this report to Council, and has already previously been reported to Council:

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.

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.

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.

The Vendor informed the municipality during the User Acceptance Testing phase prior to 1 July 2017, that they will not be able to implement in accordance to the time frames as indicated for the intended migration strategy to the new Web-enabled architecture.

At a user group meeting held in October the vendor informed the meeting that the migration to a Web-enable architecture will not take place before 01 July 2018. The Overstrand Municipality as with various other municipalities on a national basis, are currently functional with hybrid systems and database architecture framework.

As also previously reported to Council, the mSCOA Project went live on 01 July 2017 based on the mSCOA Release Version 6.1 and although the core financial system is currently fully operational and functional, there still remain some material issues and constraints to achieve full mSCOA compliance.

A meeting with the service provider took place in Cape Town on 16 November 2017, where a number of municipalities discussed the most critical challenges with Bytes to ensure that these matters receive the necessary attention. It is crucial that the financial system provides for technical requirements timeously to enable the administration to comply with relevant legislation.

A subsequent meeting, as arranged by the Western Cape Provincial mSCOA Project Manager with the service provider and the municipalities involved, took place on 11 January 2018. The purpose of this meeting was to obtain feedback from Bytes regarding the status update per municipality that details the outstanding activities and planned delivery dates.

The service provider was also notified at the same time that the Western Cape Provincial Treasury, together with municipalities, are working towards 31 March 2018 to ensure that all modules are fully functional and that all 3rd Party Integrations are complete and operational.

It is not foreseen that before-mentioned time-line will be achievable, taking into account the outstanding issues regarding most critical modules which still have to be addressed up to the end of March 2018.

The national and provincial treasuries have communicated on various occasions over the past year with municipalities around the successful submissions of data strings and the alignment of the C-Schedules, as the next stage of the mSCOA implementation.

National Treasury intensified efforts to encourage municipalities to meet the following priorities by 31 May 2018:

- 1) Submission of TABB (Tabled Budget) data strings for 2018/19: Deadline was 5 April 2018 (as per budget circular);
- 2) Submission of PRTA (Project Detail Tabled Budget) data strings for 2018/19;
- 3) Submission of M01 to M10 (Monthly, cumulative) for 2017/18: Deadline is 10 working days after the end of the month.

The requirement is 100% compliance in respect of the successful submission (stage 1 and 2) of the above data strings by 31 May 2018.

Overstrand Municipality has already complied to a large extent, to these requirements and will continue to focus on these submissions that still reflect an error validation status.

The implementation of mSCOA Regulations from 01 July 2017 revealed some of the challenges with version 6.1 of the chart that had to be addressed. As a result of this, the chart was updated and version 6.2 was released with the 2018/19 MFMA Budget Circular no. 89. Version 6.2 of the chart will be effective from 2018/19 and must be used to compile the 2018/19 MTREF.

National Treasury: The Way Forward With mSCOA

As confirmed previously, 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.

The National Treasury has not embarked on testing of system functionality from vendors since the last ICT Due Diligence exercise more than a year ago, in order to provide feedback and guidance to municipalities in this regard. It is however envisaged by National Treasury that some testing will be scheduled in the near future, but no further details are currently available as to the scope of the review.

The Provincial Treasury is currently considering the system implementation status reports of the municipalities in the province and feedback to municipalities in this regard is awaited.

Feedback is awaited from the service provider on the status of system development in terms of mSCOA compliance, to determine progress made up to, and included in the version of the system delivered and installed in June 2018, inclusive of an updated Project Implementation Plan.

The municipality will keep the Council and National Treasury informed of any changes to the current status.

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 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 SEPTEMBER 2018

Overstrand Municipality

Risk Assist: Report

Risk Item	IDP / SDBIP Alignment	Risk Status	Risk Type	Risk Level	Risk Category	Risk Description	Risk Background	Cause of Risk	Consequences	Impact Rating	Financial Exposure	Financial Exposure Rating	Likelihoods	Likelihood Ratings	Inherent Risk Exposure Rating	Inherent Risk Rating	Current Controls	Perceived Control Effectiveness	Control Rating	Cost of Control	Residual Risk Exposure	Residual Risk Rating	Directorate	Financial Year
R 225		Addressed	Internal	Project Risks	Compliance	Transactional processing in version 6.2	System not functioning as intended from 1 July 2018 - Readiness of the solution to actually cope with transactional processing.	Vendor's inability to implement the annual updated mSCOA Chart issued by NT.	Unsuccessful implementation of mSCOA. Data integrity and classifications. Potential interruption of business processes, halting service delivery. (Business Continuity)	Significant	0	[Unspecified]	Expected (80%)	Medium	56	Outdated mSCOA Project Plan being followed up. Contingency Plan to remain on 6.1. Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions.	Moderately Effective	0.75	0	High	42	Finance - mSCOA	2018-2019	
R 226		New	Internal	Project Risks	Compliance	Vendor's inability to maintain a mSCOA compliant system.	Vendor's capacity and ability to service all its clients with its available personnel.	Quality of current service delivery standards. Lack of proper communication and feedback. Statistical project failures. Poor Planning	Qualified audit opinion: if data is scrambled. Misstated financial statements and PDOs. Implementation of an alternative compliant ERP system. Litigation (Municipality and the service provider)	Major	0	[Unspecified]	Almost Certain (90%)	High	72	Outdated mSCOA Project Plan being followed up. Contingency Plan to remain on 6.1. Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions. CIMS incident reporting	Moderately Effective	0.75	0	High	54	Finance - mSCOA	2018-2019	
R 227		New	Internal	Project Risks	Compliance	Failure to integrate systems	Inability to integrate systems with mSCOA solution.	Vendor's human resource capacity constraints. Changing requirements from NT. Lack of proper communication and feedback. Inadequate change management procedures. Statistical project failures	Non-compliance with mSCOA. Increased risk for fraud. Data integrity and classifications. Implementation of an alternative compliant ERP system.	Major	0	[Unspecified]	Almost Certain (90%)	High	72	Outdated mSCOA Project Plan being followed up. Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions. CIMS incident reporting. Monitoring by NT in terms of set due dates.	Moderately Effective	0.75	0	High	54	Finance - mSCOA	2018-2019	
R 228		New	Internal	Project Risks	Compliance	Human resource capacity constraints due to the implementation and maintenance of mSCOA and the related financial system modernisation.	Increased workload for finance departments due to mSCOA and the related financial system modernisation.	Continuous uncertainty regarding final mSCOA requirements to be gazetted. Additional segments for journal entries. Complexity of the financial system. Required knowledge of mSCOA.	Increased working hours leads to low staff morale and impact on staff wellbeing. Insufficient permanent staff. Ineffectiveness due to system design. Lack of accountability	Major	0	[Unspecified]	Almost Certain (90%)	High	72	Human resource and project management. Multi-skilling. Optimisation of resources	Moderately Effective	0.75	0	High	54	Finance - mSCOA	2018-2019	