

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

3/2/3/15

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15 January 2018**

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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 mSCOA 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 September 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

Background/Discussion: Previously 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.

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. 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. 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.

Background/Discussion: Latest Update

As 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-Mar-18 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 within the next few weeks.

Based on the lack of progress by the service provider with regard to further roll-out of the Web based modules of the system post 1 July 2017, and the fact that the vendor has still not provided the municipality with a revised project plan inclusive of time-frames, or confirm a migration date to achieve this objective, the contract appointment of the Overstrand mSCOA Project Manager was not renewed after September 2017. Subsequent national and provincial government assessments will be coordinated by the Overstrand mSCOA champion. The regular mSCOA working group meetings will be sustained in order to give effect to mSCOA project management and governance issues.

National Treasury: The Way Forward With mSCOA

The implementation of mSCOA Regulations from 01 July 2017 revealed some of the challenges with version 6.1 of the chart that must 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.

Considerations on the Way Forward: Status Unchanged

It remains 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 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.

It was decided that site visits will be conducted at municipalities who implemented the respective vendors mSCOA systems in order to assess progress with mSCOA implementation in a production environment.

After subsequently visiting a local municipality towards the end of 2017, it was agreed that none of the vendors have a site where a mSCOA system is deployed and fully operational.

It is envisaged that further site visits will be conducted once confirmation is received from other municipalities that they have successfully deployed and implemented a mSCOA system. Outcomes and lessons learnt from these municipalities will also assist Overstrand Municipality in making an informed decision going forward.

The municipality will keep the Council and National Treasury informed accordingly should alternative options be considered.

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 FEBRUARY 2018

Overstrand Municipality
mSCOA Project Risk Register 11 December 2017

Risk Item	Risk Status	Risk Type	Risk Level	Risk Category	Risk Description	Risk Background	Cause or Risk	Consequences	Impact	Impact Rating	Likelihoods	Likelihood Ratings	Inherent Risk Exposure	Inherent Risk Rating	Current Controls	Perceived Control Effectiveness	Control Rating	Residual Risk Exposure	Residual Risk Rating	Directorate	Financial Year
R 140	In Progress	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	Outdated mSCOA Project Plan being followed up, Contingency Plan, Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions, CIMIS incident reporting	Moderately Effective	0.75	Medium	30	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	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.	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	In Progress	Internal	Project Risks	Compliance	Service delivery expectations - Vendor's capacity	Vendor's ability to service all its clients during the implementation of mSCOA and the impact that this will have on the vendor's capacity.	Quality of current service delivery standards. Statistical project failures Poor Planning Vendor's human resource capacity constraints Changing requirements	Misstated financial statements and PDOs. Litigation Adverse influence on service delivery. Reputational damage	Major	8	Probable (80%)	8	High	64	Contingency Plan, Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions, CIMIS incident reporting	Moderately Effective	0.75	High	48	Finance - Director: Finance	2017/2018
R 181	In Progress	Internal	Project Risks	Compliance	Failure to integrate systems	Inability to integrate systems with mSCOA solution.	Inadequate change management procedures. New business processes need to be implemented to comply with.	Non-compliance with mSCOA 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	Outdated mSCOA Project Plan being followed up, Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions.	Moderately Effective	0.75	High	48	Finance - Director: Finance	2017/2018
R 196	In Progress	Internal	Project Risks	Compliance	Human resource capacity constraints due to the implementation of the financial system	Increased workload for finance departments due to mSCOA.	Insufficient permanent staff Additional segments for journal entries. Required knowledge of	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