

**8.
LATE SUBMISSION OF ANNUAL FINANCIAL STATEMENTS: 2017/2018**

3/2/3/15

**S Reyneke-Naude
18 September 2018**

(028) 313 8040

Corporate Head Office

1. Executive Summary

The purpose of this report to Council is to:

- 1) Inform Council of the submission of the Annual Financial Statements on 1 September 2018 at 03:44, subsequently noted as a late submission by the Office of the Auditor-General in terms of section 126(1)(a) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (MFMA) which states as follows:

“The accounting officer of a municipality must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements tot the Auditor-General for auditing;”

- 2) Comply with Section 133 of the MFMA, in tabling in Council a written explanation setting out the reasons for the failure in submitting the Annual Financial Statements before 24:00 on 31 August 2018, but only a few hours later at 03:44, on Saturday, 1 September 2018.

The detailed reasons, however not exhausted, are also substantiated in a condensed version (Annexure A, excluding sub-annexures) of the municipality’s official response to COMAF 1 submitted to the Auditor-General.

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

Compliance to the MFMA with regard to the submission of the Annual Financial Statements of the municipality by 31 August annually finds application in this report to Council.

Section 126(1)(a) of the MFMA states the following:

“The accounting officer of a municipality –

(a) must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing; and”

The report serves to inform Council of the submission of the Annual Financial Statements only on Saturday, 1 September 2018 at 03:44 which is noted as a late submission by the Office of the Auditor-General in terms of Section 126(1)(a) of the MFMA.

This matter was officially raised by the Auditor-General on 4 September 2018 with Communication of Audit Finding No. 1 (COMAF 1), on late submission of the Financial Statements, formulated as follows:

“DETAILED AUDIT FINDING

Late Submission of the Annual Financial Statements

Audit finding

The Municipal Finance Management Act (MFMA) Section 126 states that:

“(1) The accounting officer of a municipality

(a) Must prepare the annual financial statements of the municipality and, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-General for auditing”

During the audit of compliance with laws and regulations relating to the annual financial statements, it was identified that the accounting officer did not submit the financial statements within two months after the end of

financial year which is 31 August 2018. The financial statements were submitted for audit purposes on the 1st of September 2018 (03:44 am).

Consequently, the accounting officer did not comply with section 126(1)(a) of the MFMA, which constitute a material non-compliance that is reportable the municipality's audit report.

Internal control deficiency

Leadership- *Exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls*

The financial statements were issued late as a result of technical issues which could not be resolved in time.

Recommendation

The accounting officer should ensure that the annual financial statements are finalised before the 31st of August in order to avoid late submission resulting from technical difficulties which might arise during the finalisation process.”

The updated status of the mSCOA Project also served before Council in August 2018, emphasizing the challenges with the implementation of the mSCOA version of the SAMRAS Financial System, still up to date an ongoing process which involves the migration of all the municipal financial data to a new Web- enabled systems and database architecture.

This project, now substantially overdue in terms of the original Project Implementation Plan, has placed, and is still placing severe strain on the day to day operations involving the core financial system.

As confirmed previously, to date the 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.

This mission is managed with utmost dedication and perseverance by the Finance Team, due to the fact that the development of the web enabled system has been rolled out only to some extent thus far, over and above the fact that deployment is managed in a haphazard approach by the service provider.

Therefore it is evident that the submission of the AFS was delayed with a few hours, due to technical challenges outside the control of the Overstrand Municipality, as can be supported by comprehensive evidence of technical challenges experienced, regardless of almost two hundred scheduled meetings involving senior staff of the municipality, members of the Vendor's

Project Team and Provincial and National Treasury, where the mSCOA financial systems and related risks were discussed and reported.

From 1 July 2017 to 31 August 2017, the vendor has released 78 system changes, many of which consisting of multiple program changes. The Municipality experienced numerous instances where one issue is resolved just to discover that another has occurred. A total of 14 system changes were implemented from 1 July 2018 to 31 August 2018, effectively equating to one change every three working days.

Section 133 of the MFMA provides *inter alia* that the Council must request the Speaker or any other councillor to investigate the reasons for the failure and report to the Council.

The Municipal Public Accounts Committee (MPAC) can of course also be requested to undertake a section 133 investigation.

7. Financial Implications

None

8. Staff Implications

None

9. Comments from other Departments, Divisions and Administrations

None

10. Annexures

Annexure A: Response to COMAF 1

Annexure B: Council Report: August 2018 – Progress on Status of the mSCOA Implementation

Annexure C: mSCOA Risk Register

RECOMMENDATION TO THE COUNCIL:

- 1) that the report in terms of section 133(a) of the Local Government: Municipal Finance Management Act, No 56 of 2003 for the late submission of the 2017/18 financial statements to the Auditor-General **be noted**; and
- 2) that the Speaker or the Chairperson of the Municipal Public Accounts Committee (MPAC), assisted by the councillors serving as members of MPAC, investigate the reasons for the non-compliance referred to in 1 above and that the outcome of such investigation **be reported** to Council.

AGENDA OF A MAYORAL COMMITTEE MEETING 26 SEPTEMBER 2018

RESPONSIBLE OFFICIALS: S REYNEKE-NAUDE

TARGET DATE FOR IMPLEMENTATION : 1 NOVEMBER 2018

Management response – COMAF 1**Management comment on audit finding:**

Noted

Management comment on internal control deficiencies:**Oversight Responsibility**

Key financial statement preparation control procedures were implemented to ensure that the financial statements produced are accurate and complete and comply with GRAP financial reporting standard. (i.e. review of reconciliations, consistency reviews, etc.)

Comprehensive financial year-end / AFS Programme, inclusive of weekly meetings to monitor progress (Annexure A);

Consistency reviews by Drakenstein Municipality (Annexure B1) & Provincial Treasury (Annexure B2)

The Draft Annual Financial Statements was distributed to the Audit Committee on Friday, 17 August 2018 for their oversight (Annexure C1). The Audit Committee meeting with Executive Management subsequently took place on Wednesday, 22 August 2018, to discuss the draft AFS (Annexure C2).

Further reviews were conducted up to 31 August 2018 by Finance Directorate Management.

Management comment on recommendation:

Execution on the comprehensive financial year-end / AFS Programme, inclusive of weekly meetings to monitor progress was duly implemented and concluded, notwithstanding technical factors which impacted severely on timeframes. A comprehensive **set of Annexures** (Annexures A to J) attached hereto, in order to provide the necessary evidence in this regard.

During the 2017/2018 financial year many mSCOA related challenges arose. As a result, the municipality encountered, and had to mitigate several challenges, also leading up to and in preparing the AFS.

See attached annexure D, for a few examples of system error logs for evidence there-of.

Furthermore, competing processes for system resources availability in finalising on the supposed system driven process to update the Adjustment Budget (approved by Council on Wednesday 29 August 2018, with resolution implementation date 31 August 2018) also had an impact on the timeframes, since the system had to be halted with the roll over budget process that had to be concluded at the same time.

Since the inception of mSCOA, there have been 5 versions to date that Overstrand have had to contend with as a Pilot Site, and as well as part of a group of municipalities that had to implement on a national level as from 1 July 2017, all of them bringing new challenges with regards to chart of accounts changes. Overstrand, as a pilot site and having implemented mSCOA since July 2015, starting on version 5.3, have experienced more challenges than others, especially since non-pilot municipalities started to implement with only the relevant and latest version of the mSCOA Chart, on a clean slate. Before-mentioned historic implementation in the instance of Overstrand, as a Pilot, lead to new challenges as from 1 July 2018.

As a pilot site we already had, in conjunction with the service provider, a system chart structure in place, which was not taken into account with the official implementation for the 2017/2018 financial year, for all other municipalities. Instead of the service provider building onto the existing system chart structure, they created a new structure in the system for all users. Now items that were already in use in our current structure were given other designations, eg. Item codes that were being used by us for contracted services were now being used for Employee cost etc., creating an incomparable chart between the current year (2017/18) and the previous year (2016/17) for our AFS software.

This came under our attention with the initial preparation of the 2017/18 AFS and demanded that we create a brand new set of AFS in Caseware, importing the previous year's TB into system and mapping all the accounts to the appropriate places then importing the current year's TB (after giving each cost code a unique numbering) and doing the mapping all over again in order for a 100% comparable set of accounts. All of this, added additional time to the AFS preparation, causing challenges with each instance of updating the trial balance from the Samras system to Caseware, during the process of compilation and re-reviewing of the draft AFS.

Therefore it is evident that the submission of the AFS was slightly delayed with a few hours, due to technical challenges outside the control of the Overstrand Municipality.

Remedial action: The AFS was submitted to the Auditor General, 3 hours 45 minutes after 31 August 2018.

What actions will be taken:	By whom:	By when
N/A		

If the above finding affects an amount(s) disclosed in the financial statements		
Please give an indication of whether a correcting journal entry shall be processed	YES	NO X
If yes, please indicate the accounting entry N/A		
If no, please provide the reason why such a conclusion has been reached: No amount(s) disclosed in the financial statements affected		

Name: Bernard King

Position: Senior Manager: Financial Services

Date: 11 September 2018

Auditor's conclusion

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

3/2/3/15

S. Reyneke-Naude
14 August 2018

(028) 313 8040

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) 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)

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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.

AGENDA : MAYORAL COMMITTEE MEETING**29 AUGUST 2018**

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 / SDiP Alignment	Risk Status	Risk Type	Risk Level	Risk Category	Risk Description	Risk Background	Cause of Risk	Consequences	Impact	Impact Rating	Financial Exposure Rating	Likelihoods	Likelihoods 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	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	7	0	Expected (80%)	8	Medium	56	Outdated mSCOA. Project Plan being followed up. Contingency Plan to remain on E.I. Bi-weekly mSCOA Working Committee Meetings to monitor status and consider appropriate remedial actions. CIMS incident reporting	Moderately Effective	0.75	0	High	42	Finance - mSCOA	2018-2019
R.226	New	Internal	Project Risks	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. Vendor's human resource capacity constraints.	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	8	0	Almost Certain (90%)	9	High	72	Outdated mSCOA. Project Plan being followed up. Contingency Plan to remain on E.I. 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	Project Risks	Compliance	Failure to integrate systems	Inability to integrate systems with mSCOA solution.	Inadequate change management procedures. Statistical project failures. New business processes need to be implemented to comply with regulations. Continuous uncertainty regarding final mSCOA and requirements to be gazetted.	Data integrity and alternative compliant ERP system. Potential interruption of business processes, halting service delivery. (Business Continuity)	Major	8	0	Almost Certain (90%)	9	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	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. Insufficient staff in relation to daily core functions.	Additional segments for Journal entries. Complexity of the financial system. Required knowledge of mSCOA.	Insufficient permanent staff. Ineffectiveness due to system design. Lack of accountability	Major	8	0	Almost Certain (90%)	9	High	72	Human resource and project management. Multi-jilling. Optimisation of resources	Moderately Effective	0.75	0	High	54	Finance - mSCOA	2018-2019

Overstrand Municipality
mSCOA Risk Register - 18 September 2018

Finance - mSCOA

Risk Item	Risk Status	Risk Type	Risk Level	Risk Category	Risk Description	Risk Background	Cause of Risk	Consequences	Impact	Impact Rating	Financial Exposure	Likelihoods	Likelihood Ratings	Inherent Risk Exposure	Inherent Risk Rating	Current Controls	Perceived Control Effectiveness	Control Rating	Cost of Controls	Residual Risk Exposure	Residual Risk Rating
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 compromised. Potential interruption of business processes, halting service delivery. (Business Continuity) Qualified audit opinion if data is scrambled.	Significant	7	0	Expected (90%)	8 Medium	56	Moderately Effective	0.75	0 High	42			
R 226	New	Internal	Project Risks	Compliance	Vendor's capacity and ability to service all its clients with its available personnel.	Vendor's inability to maintain a mSCOA compliant system.	Quality of current service delivery standards. Lack of proper communication and feedback. Statistical project failures Poor Planning Vendor's human resource capacity constraints.	Unsuccessful implementation of mSCOA and PDOs. Implementation of an alternative compliant ERP system. Litigation (Municipality and the service provider) Adverse influence on service delivery. Reputational damage	Major	8	0 Almost Certain (90%)	9 High	72	Moderately Effective	0.75	0 High	54				
R 227	New	Internal	Project Risks	Compliance	Failure to integrate systems	Inability to integrate systems with mSCOA solution.	Changing requirements from NT. Lack of proper communication and feedback. Inadequate change management procedures. Statistical project failures New business processes need to be implemented to comply with regulations.	Non-compliance with mSCOA Increased risk for fraud. Data integrity and classifications compromised. Implementation of an alternative compliant ERP system. Potential interruption of business processes, halting service delivery. (Business Continuity)	Major	8	0 Almost Certain (90%)	9 High	72	Moderately Effective	0.75	0 High	54				
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. Insufficient staff in relation to daily core functions.	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	8	0 Almost Certain (90%)	9 High	72	Moderately Effective	0.75	0 High	54				