Municipal Standard Chart of Accounts

Action Plan: Compliancy

Cederberg Municipality
Index

Chapter 1: Introduction: P. 2

Chapter 2: Implementing Mscoa: P. 3

Chapter 3: Modules to be implemented: P. 4

Chapter 4: Activities in the project P. 5

Chapter 5: IT Findings and Costs P. 8

Chapter 6: Final thoughts P. 10

Chapter 7: Work streams Progress P. 11
Chapter 1: Introduction to mSCOA

The concept of mSCOA came about when Government realised the need for comparability of financial statements and reporting of different municipalities. mSCOA will thus ensure comparability of budgets and in year reports of municipalities and municipal entities.

mSCOA aims to strengthen the link between policy priorities, planning, budgeting, implementation and reporting.

It is governed by legislation which consists of:

- The constitution of South Africa;
- The Municipal Structures Act;
- Municipal Systems Act (Councillors Code of Conduct);
- MFMA no 56 of 2003;
- Municipal Fiscal and Functions Act and
- Municipal Property Rates Act.

The MFMA contains certain regulations on SCOA (Gazette 37577), the key objectives of which are:

- Improved data quality and credibility;
- Achievement of greater level of standardisation;
- Standardisation and alignment of the LG accountability cycle i.e. standardisation of reporting formats with that of NT;
- Improved transparency & accountability;
- Standardisation of accounts classification to ensure that financial skills can be transferred- both within LG and between LG and other spheres; and
- To enhance the ability of LG to attract and retain skilled personnel.

The objective of the regulation is to provide for a national standard for the uniform recording and classification of the municipal budget and financial information at a transaction level.

mSCOA consist of 7 segments:

1. Project
2. Function
3. Item
4. Fund
5. Regional
6. Costing
7. Municipal Standard Classification
Chapter 2: Implementing mSCOA

**STEPS IN IMPLEMENTING mSCOA**

The following activities to be prioritised by the municipality:

1. Tabling the Municipal Regulations on a Standard Chart of Accounts in the municipal council to bring awareness; **Yes**

2. Engage the provincial forums which will be used to provide feedback on the piloting process. **Yes**

3. Attend any sessions scheduled by the National mSCOA Project Team, such as the provincial one day mSCOA introductory sessions and two/three day non accredited training, which will provide further clarity as it relates to the mSCOA classification framework. Attendance of these sessions by relevant officials, including the municipal mSCOA project manager or coordinator. **Yes**

4. Study the Regulation, mSCOA Project Document, associated Segments and Frequently Asked Questions website; **Yes**

5. Register a formal mSCOA project in the municipality with a project sponsor, steering committee (with terms attached as ‘Annexure A’ and a suitable governance structure to oversee the implementation; **Yes**

6. Identify a project manager or coordinator within the municipality (preferably within the finance department at a senior level). **Yes**

7. Identify a multi-disciplinary mSCOA project team for the municipality. The project team should include skills of finance, budgeting, engineering, risk management, information technology and human resources. **Yes**

8. Compile a high level mSCOA project plan, including a mSCOA risk register, for the municipality. **Yes**

9. Undertake an exercise to match the existing municipal chart to the regulated Municipal SCOA classification framework. **Completed**

   a. Matching the existing vote, cost centre and budget structures operational in the municipality to the Function Segment of the Municipal SCOA classification framework. Identify and document any anomalies; **Completed.**

   b. The municipality is urged to review its IT infrastructure, network and archiving (‘as is’ analysis), **Yes**
Chapter 3: Modules to be implemented

1. MSCOA System Modules to be implemented

MSCOA System is a fully Integrated Financial Management System which is 100% South African, developed on the latest development trends and based on international open standards. MSCOA System consists of the following major and sub-modules:

- **Financials / Expenditure – Included**
  - General Ledger, which is "SCOA ready"
  - Budgets
  - Supply Chain Management, which includes:
    - Supplier/Creditors Management
    - Requisition Management
    - Quotations, Tenders/Bids and Contracts
    - Purchase Orders
    - Goods Received & Returned Notes
    - Invoices and Credit Notes
    - Payments
- **Stores & Inventory Management**
- **Asset Register**
- **Asset Management**
- **Project/Job Management**
- **Fleet Management**
- **Cash Management (Bank reconciliation)**
- **Statutory Reporting**
  - Annual Financial Statements
  - National Treasury & MFMA Reporting
- **Management Reporting, including Segmental SCOA reporting**

2. Features

The following are some of the feature of MSCOA System:

- **It is 100% web based** - Access via multiple browsers (MS Explorer, Firefox, Google Chrome, etc.),
- Customer specific configurability,
- **Process and Role based security and functionality access,**
- Single interface for internal and external users due to the web deployment,
- Easy and fast accommodation of changes or additional functionality,
- Simple and fast technical deployment,
- A Business Rules Engine for front-end data validation as well as management of parameters that enables process logic (i.e. enabling and controlling business logic workflow),
- A set of configurable standard UI components (i.e. Grid Forms, Tree-View Forms, Tabs, Filters, Sorts, etc.),
- Management of document attachments & unique identifiers to any record and data field,
- Encryption of data that can be controlled through the business rule engine,
- Rich Base Data (i.e. units of measure, place names, classification hierarchy, currencies, etc.),
Chapter 4: Activities in Project & Current Status

FINDINGS OF REVIEW REGARDING CEDERBERG MUNICIPALITIES READINESS

Function Segment

- Per inspection of the vote structure, it was found that the GL was broken down into Departments per the Organisational Structure; however the organisational Structure of the Municipality has **not been broken down into sufficient detail** in terms of mSCOA.

- Per inspection of the vote structure, the Municipality has started to divide its vote structure into mSCOA functions; however we were unable to verify that the relevant mSCOA coding has been incorporated into the structure. **100% Completed**

Funding Segment

- Per inspection of the “A1 Schedule”, it was found that the Municipality is able to identify its funding sources; however it **has not yet broken down its funding sources into sufficient detail** in terms of mSCOA. **100% Completed**

- We were unable to verify that the Municipality has started to classify all its Funds with the relevant mSCOA coding.

Project Segment

- Per inspection of the IDP and SDBIP, it was found that the Municipality would be able to identify its Projects; however it has not yet broken down the Projects into sufficient detail in terms of mSCOA.

- Per inspection of the GL, the **current structure does not accommodate a Project segment**, as required by mSCOA.

- We were unable to verify that the Municipality has started to classify all its Projects with the relevant mSCOA coding. **100% Completed**
**Item Segment**

- Per inspection of the 2015/2016 Draft Budget, prepared based on the current GL structure, it was found that the Municipality would be able to identify its mSCOA Items, however it has not yet broken its Items down into the detail required by mSCOA.

- We were unable to verify that the Municipality has started to classify all its Items with the relevant mSCOA coding. **100% Completed**

**Costing Segment**

- Per discussion with the Financial Manager, during the on-site visit of 30 November and 1 December 2015, the Municipality does not make use of cross-functional costing in the current structure and is unlikely to start doing so within the mSCOA environment. **Default utilised**

- We were unable to verify that the Municipality has started to classify all its Costings, as default, with the relevant mSCOA coding.

**Regional Segment**

- Per discussion with the Financial Manager, the Municipality has not yet divided its activities into Ward-level Regions within the current GL structure, a distinction has been made between towns at this point

- We were unable to verify that the Municipality has started to classify its activities into Ward-level Regions with the relevant mSCOA coding. **Whole of Municipality utilised.**
RECOMMENDATIONS/ ACTIONS TO IMPLEMENT

Based on the Findings above, the following KPI'S will be implemented:

Recommendation 10:

- Planning (IDP, SDBIP and Performance Management) 80%
- A review should be conducted of the current GL structure. The goal is to understand the current structure in the context of mSCOA, to enable a breakdown of the structure to accommodate mSCOA 100%
- Verification of current vote structure to mSCOA segments 100%
- Compilation of a Budget Excel Based tool to assist management in the pre work for the 16/17 budget –
  - to map the current trial balance structure to the MSCOA items structure;
  - to link each item and function to a KPI and to a project;
  - To first compile our Revenue budget and truly cash backed/ funded.

Recommendation 11:
An analysis of the existing IT infrastructure, network and archiving should be conducted, to establish the total cost of core system ownership (mSCOA Circular No. 2)  COMPLETED

Recommendation 12:
A Change Management / communication Committee should be established to assist with the on boarding of officials across the Municipality. ONGOING

Recommendation 14:
Start with data purification. ONGOING

Recommendation 15:
Preparation of a detailed project implementation plan for data conversion and movement to the mSCOA compliant system once the service provider is appointed, with input from all the relevant stakeholders; and

Finalize Service Level Agreement (SLA) for approval by the municipal manager;

Establish vendor target dates for converting data and implementation - incorporate into the mSCOA project implementation plan;
Chapter 5: IT Findings

FINDINGS AND RECOMMENDATIONS: REGARDING IT INFRASTRUCTURE

WINDOWS:

- Cederberg Municipality should look at upgrading to Windows Server 2012 R2 in the near future.

SERVER:

- This server has reached its End of Live Service. Parts replacement and break/fix services are still performed on a commercially reasonable basis per contracted service level based on parts availability.

- Based on the Findings above, Fujitsu recommends the following:
  - Cederberg Municipality should look at replacement as soon as possible.
  - All laptops and the majority of the desktops are on an acceptable level;
  - The mainstream support for Windows 7 will only end in 2020;

  **100% New Server order placed**

WORKSTATIONS:

- Cederberg Municipality should look at replacing the Windows XP workstations as soon as possible as Microsoft has stopped support for Windows XP.

- This means there is no more security updates or technical support for these devices.

**WORKSTATION (PERSONAL) PRINTER ENVIRONMENT OF ALL WORKSTATIONS THAT WILL BE USED TO ACCESS THE MSCOA FINANCIAL MANAGEMENT SYSTEM**

- All devices found to be acceptable

**BACK UP ABILITY:**

- Both backup devices are currently insufficient for the intended purpose.
- Cederberg Municipality should look at an alternative hardware solution for backups in conjunction with setting up a written and approved Business Continuity Plan, which should include a Backup Strategy and a Disaster Recovery Plan.
  
  - Will be off site Back up with the new Financial System – Promis V50

**What is Promis V50**

ProMIS V50 can host the full mSCOA chart;

ProMIS allows the municipality and its municipal entities to budget and transact in the chart;

ProMIS seamlessly integrates; and

ProMIS can submit data strings, across the segments to the National Treasury upload portal.

**Reasons to upgrade to ProMIS V50**

Management believes that the following compelling reasons will provide Cederberg Local Municipality with the required reassurance to continue with an upgrade to ProMISV50 as its preferred mSCOA Solution:

1. ProMIS V50 being mSCOA READY;

2. ProMIS V50 can host the full mSCOA chart;

3. ProMIS V50 allows the municipality to budget and transact in the mSCOA chart;

4. ProMIS V50 seamlessly integrates with sub-systems;

5. ProMIS V50 facilitates the submission of mSCOA data strings to the National Treasury portal;

6. A ProMIS V50 Upgrade will have the least disruption on Service Delivery;

7. A ProMIS V50 Upgrade will result in the least resistance to change from the System Users;

8. A ProMIS V50 Upgrade is an implementation of mSCOA only, and not an implementation of both a new system and mSCOA;

9. Fujitsu’s Costing is significantly lower than that of the lowest “successful bidder”;

10. Fujitsu's Costing can be further reduced based on specific circumstances of the Municipality as well as the Municipalities willingness to participate with other Municipalities utilizing ProMIS;
Chapter 6:
THE STANDARD CHART OF ACCOUNTS

SO WHAT IMPACT/ AFFECT WILL IT HAVE ON THE USER DEPARTMENTS:

1. A total new way of thinking – no more votes – projects;

2. Detail, detail, detail breakdown of each and every Revenue and Expenditure item, transaction;

3. Detail in the Budget Process – IDP...KPI’s....Projects....Functions....Items under Functions....Items break down as much as possible....Items will make up Trial Balance.

4. No more departments – Functions;

5. **mSCOA requires an Asset Maintenance Plan** – with reporting in Actuals vs Budget. This will require significantly more Planning by “User Departments” as “Planned Maintenance” will have to be done against specific Assets, as well as when this will take place during the FY.

6. **mSCOA requires an Annual Procurement Plan** – with reporting in Actuals vs Budget. This will also require significantly more Planning by the entire Municipality as all Tenders will have to be planned for in terms of
   i. Date of Advertisement,
   ii. Closing Date of Bid, and
   iii. Date of Award.

7. As mSCOA enforces the formal SCM process:
   The existing requisition processes will change since requisitions will have to be captured directly on the System
   The System will not allow Purchase Orders to be captured without a Requisition.

8. **Monthly reconciliations will have the be completed** in order the System to “open” the following month for transactions (Receipting excluded)

9. All Managers and Staff involved in the Budgeting Process will need to understand how their specific MSP’s are funded, seeing as different mSCOA Funding Segments can be used within an MSP.
CHAPTER 7:

WORKSTREAMS PROGRESS REPORT:

SEE ATTACHMENT A