Quarter 1 2023 REPORT on mSCOA IMPLEMENTATION in terms of Government Gazette No. 37577 Municipal Regulations on SCOA

This report outlines the progress made to date regarding the municipal standard chart of accounts for the period ending 30 September 2023. This report will outline what progress has been made with regards to the implementation and compliance status of mSCOA at Dr Beyers Naudé Local Municipality for the first quarter of the financial year. Please read below for all the events and procedures that has taken place.

Background:

What is mSCOA? It is an acronym for Municipal Standard Chart of Accounts which is a national reform that has been promulgated by Gazette No. 37577 dated 22 April 2014, called the Standard Chart of Accounts for Local Government Regulations, 2014.It is an organisational reform, and its aim is to standardise reporting across all municipalities in the country. This is where the challenge is, as although systems had to be amended to comply, our human behaviour also had to adapt, to ensure full compliance is achieved. For now, we may be "green" or compliant in other areas, but it does not mean we are mSCOA compliant. This report outlines as an overview, the procedures and processes followed to ensure compliance was reached. The 1st of July 2017 marked the day that all municipalities in the country will have to operate against and transact live on mSCOA.

Progress to date:
Compliance

1. There have been challenges faced during the financial year to comply with the standards and requirements put into place by National Treasury. As you may or may not know, at this stage, the Chart of Accounts used by National Treasury is changing on an annual basis. Just to emphasise the point above, the aim of NT with mSCOA, is to provide a uniform and standardised financial transaction classification framework. This means that all municipalities in the country, must make use of the same chart for budgeting and transaction purposes.

   It has previously been mentioned that all submissions made to the online portal, goes through validation processes which at the end would give a result of the whether the item submitted meets the requirements of not. This will indicate whether the status is green, yellow, orange or red. No municipality would want to be classified red.
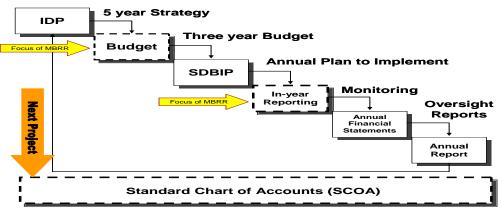
   Apart from this, there are a host of other things, non-financial, that must be for the project to be seen as being compliant. This includes that there be a project implementation team as well as a project steering committee. These are in place; there is a project implementation team meeting monthly, through management meetings chaired by the MM. The report then is presented to the Finance standing committee chaired by the Finance portfolio councillor, who then presents it to the Executive committee of council, and then finally to council.

   To conclude on this section, up until this stage, we are reasonably compliant in terms of our submission, meaning, that although Treasury has been, sometimes, threatening to withhold our equitable share, it has not happened. A major challenge though, is the aligning of the data string to the schedule. Improvement has been seen in this regard, as there have been

minimal variances over the last year. Controls are in place to resolve variances, however, there are still schedules that does not align 100%, meaning the data strings submitted to Treasury via the portal, does not agree to the schedule ran from the same system (and data). This is also due to the system validations that may vary from the Treasury rules and validation criteria. This therefore remains a work in progress. We are again going to be faced with this challenge, as we prepare and submit budgets for the upcoming financial year, and our monthly and quarterly submissions. The municipality is committed to reaching 100% alignment between data strings and budget schedules soon.

2. Project based budgeting and transacting remains an area where improvement is required. It cannot be emphasised more, that every transaction is a project, and should therefore be treated as such. Planning is key in this regard. When therefore not budgeted for correctly, will result in incorrect spending and therefore incorrect reporting. In fact, where inadequate budgeting was performed, you are not allowed to transact. This is emphasised in the mSCOA regulations. When done right, this could have a significant positive impact on the municipality's cash-flow management, as well as improve incurring unplanned expenditure. Blocking expenditure not included in the IDP, and therefore not budgeted for. This challenge is still experienced to date.

   Below is the local government accountability cycle, which further emphasises the importance of project-based budgeting and transacting.

3. Municipalities has been live for 7 years now. Although reasonable strides have been taken, there are still roadblocks that is to be overcome, as the road to successful implementation is being travelled. Key challenges remain the resistance or fear of change and the unknown. Embracing transformation in the way of thinking and feeling will go a long way in the successful implementation of mSCOA.

4. Taking the above into account, it is still to be noted that mSCOA is a business reform, subject to fifteen business process. It can therefore not be relied upon one department (BTO) to make it work. Everyone within the municipality, no matter where you are in the organisational structure, has a responsibility ensuring the municipality's compliance. All HOD's are urged to drive the importance of mSCOA within their respective departments. As mentioned earlier in the report, everything starts with the IDP, therefore planning plays a very key role in ensuring a better outcome of our compliance status.

5. There is currently a signed MOU ensuring that a legal obligation exist with the service provider to deliver that which was promised. This also allows for certain cost-containment as certain functions are governed by the transversal tender process.

6. We are currently complying with regards to monthly and quarterly submissions; however, this does not end there, and variances are only picked up at verification stage. This is sometimes the result of variances in the setups or linkages for budgeting and transacting purposes. This was mentioned at a recent mSCOA workshop and confirmed with service provider.

7. Below is an extract of the latest status of submission on the portal. There is a new portal, Go-Muni which is assisting us as municipalities to have instant access to the status of the submissions and allow us to make the necessary changes and update again once errors are identified and corrected. This was not possible on the old LG Portal.

System integration

1. The financial system, Promun, has been found to be meeting the requirements of NT in the sense that whenever errors has occurred, they were able to assist in correcting them in terms of NT's requirements. However, much must be done from both our sides, the municipality as well as the service provider. We must also take ownership of the project, to ensure its success.
   To date, no further integration testing has been done to see whether our sub-systems can integrate with the financial system. Seamless integration means that there should be no human intervention required when data is being loaded into the system.

2. Integration has been limited over the past couple of years, thus allowed the municipality to focus on other compliance issues that were pressing at the time. Therefore, from hereon, more attention is to be given to identifying all the sub-systems and its ability to integrate seamlessly into the main financial system.

Capacity Building

1. There still might be uncertainty regarding the capacity of the network's ability to carry the load once we are live and operating in terms of mSCOA. It has been identified that network coverage in the remote towns is not as strong as in Graaff-Reinet, which makes transacting on the system challenging. A project to strengthen the connectivity has been completed in quarter 4. During Q1 the project hasn't had the desired outcomes, however the effectiveness of the project is being assessed throughout the 2023/2024 financial year.

2. Engagement sessions were had with both Provincial Treasury and the service provider, as well as other municipalities, to try and find ways to minimise and eliminate all remaining issues. It was found that the challenges experienced are similar. The onus of equipping oneself with knowledge regarding mSCOA, remains with the individual, as no accredited courses are yet available for this. However, National Treasury in partnership with the School of Government have provided an mSCOA e-Learning Course for both financial & non-financial officials.

3. It is noted that there may be a need for further engagements with officials and council to drive home the need of adherence to the regulations governing mSCOA. This may lead to identifying the need have workshops again and refresh the understanding of mSCOA.

4. There has been limited workshops over the past two years. However, we should be considering a refreshing and or introduction course, through the mSCOA technical advisor in the province, especially due to changes in personnel and council that has taken place. This is to ensure understanding amongst all stakeholders involved, and especially in terms of governance.

Challenges

1. One of the challenges remains is being compliant in meeting all the requirements set out by National Treasury. As mentioned before, the chart of accounts is still changing on an annual basis, and Treasury itself is still working on mSCOA as we speak. In the meantime, we just need to adapt to the changes and requirements as it occurs.

2. The budget and IDP modules have been loaded onto the menu of the financial system. The Budget and IDP modules are fully functional. Training has been provided in this regard. We are currently importing the projects ourselves and all functions still resides in the BTO office and has always seen to be the responsibility of the mSCOA champion, which should not be the case. We are to be reminded again that mSCOA is an organisational reform, and therefore, all stakeholders have a role to play in it.

3. Although a certain level of acceptance with regards to the new reform has been shown, there is still considerable work to be done on change management. It must be noted that currently, constant monitoring by the BTO staff is done to ensure compliance. This is contrary to the reason mSCOA was introduced. HOD's should assist BTO in this regard to improve the internal control environment.

4. The costs involved are significant, however the municipality is currently applying the cost benefit approach in its implementation of this reform. The 2023/24 SLA licence fees for the entire financial system amount to just over R1 million while support and maintenance fees are just over R700 thousand. The cost of mSCOA included in the above-mentioned costs is R362 thousand, while additional costs are projected to be R200 thousand. This is funded through the Municipal Finance Management Grant (FMG).

5. Limited access has been granted to all departments to ensure that procurement transactions are recorded on the financial system from when it is requested and approved by department head. This is then followed up by budget approval before the request is captured as an official purchase order. Notifications are sent via email to the department head, as well as BTO to ensure that transactions are dealt with effectively and efficiently.

6. There are still outstanding matters to be addressed in terms of system challenges. Implementation plans are in place to bring the HR module on to the system to enable the population of the organogram on the financial system. During this quarter a quotation

was received from the service provider. This is to ensure seamless integration minimising non-compliance issues. The Assets module is an on-going project, which we trust will be concluded soon. The municipality must take ownership and ensure compliance as the consequences of non-compliance and its financial impact.

Other Matters arising

The following needs to be highlighted in addition to the progress that has been made thus far:

1. The issue of the CSD integration is currently being addressed. The authorisation levels have been finalised and the individuals required, has been added. All that is required is training on how to implement on daily SCM procedures.

2. There is still an issue in terms of balance sheet and cashflow budgeting, where there were constant changes made to the requirements. These have now been mitigated to an extent, where we previously had to manually provide for it, the system now automates the calculation, in line with the NT requirements. We have made use of this during the budget process. It has been a challenging and time-consuming process, but necessary to ensure compliance and alignment. This was due to setups in the background as well as correction of errors.

3. National treasury has released version 6.7 for implementation in 2023/24 (as from 1st July 2023) of which the municipality compiled its annual budget on. The municipality started transacting on this version during this quarter.

4. MFMA budget circular 115 indicates that a web-based eLearning course on *m*SCOA will be available on the National School of Government (NSG) website from April 2022. This is a self-paced course aimed at all government and municipal officials, especially new employees, and interns to on-board them on *m*SCOA. The municipality has enrolled fifteen employees, including interns of which most have completed successfully. Management also enrolled and successfully completed the Financial and Non-Financial modules of mSCOA.

Reflecting on the above, it is to note that mSCOA is reliant on proper planning. As portrayed in the accountability cycle above, it starts with the IDP and ends with the annual report. This indicates that mSCOA also influences the audit action plan, plays a role in achieving clean audit status. The success of this is that mSCOA should not only be looked at from a compliance point of view but adhered to from a daily transactional point of view.

CONCLUSION AND WAY FORWARD

In conclusion, it just needs to be highlighted and mentioned again, that the success of the implementation of the project, is the responsibility of each one of us. Budget and treasury are continually striving to ensure compliance; however, it cannot be done in isolation from the rest of the institution. Hard work still needs to be done, but it will depend on our attitudes towards the implementation thereof.

As always, we are optimistic that we will reach full compliance at one stage or another. Let us continue to work together and ensure we get there.

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Simthembile Mbotya
Budget and Treasury Manager