

# Annexure B – Process forward with municipal integrated Financial Management and Internal Control systems

This Annexure B provides the step-by-step process every municipality must follow when remaining with its existing package of systems or upgrading its existing package of systems or procuring components of additional functionality for its existing package of systems or procuring a new system.

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**The way forward in Integrated Financial Management and Internal Control Systems in Local Government.**


Based on the discussion in *mSCOA Circular No. 6*, it is crucial that **every municipality, going forward, note and follow in detail the process, set-out below, step-by-step, including maintaining relevant supporting documentation (evidencing each step of the process) as part of its audit file:**

This process applies to:

- All municipalities (pilot, non-pilot, and amalgamating municipalities);
- Throughout this process ‘**municipality**’ must be read and understood as to refer to a **municipality, including all its municipal entities;**
- The procurement of a new system(s), procurement of components of additional functionality and/ or an upgrade of an existing system(s); and
- A municipality that will remain with its package of existing system(s) with or without requiring components of additional functionality.

## **1. Step 1 – ICT due diligence of a municipality’s existing package of system(s)**

**Every municipality** (pilot, non-pilot and irrespective of whether remaining/ upgrading with its existing package of systems) must evaluate (conduct an ICT due diligence of) **all the existing ICT system(s)** used by the **municipality and its municipal entities**. *This is irrespective of whether the existing service provider(s) was included in the RT25 transversal panel of service providers:*

	<p><b><i>The municipality’s service provider is on the ‘RT25-panel of service providers’. Is the municipality also required to do an ICT due diligence (step 1)?</i></b></p> <p>It is important that the municipality understands that even though its existing package of service provider(s) may be included on the RT25 - panel of providers, it does not mean that the municipality’s existing ICT package is actually <u>exactly the same</u> as what the service provider presented as part of its RT25 transversal offering.</p> <p>This means that the ‘package of system(s)’ the municipality currently has may</p>
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	<p>possibly NOT enable the minimum <i>m</i>SCOA transacting for the municipality's category.</p> <p>Furthermore, some municipalities may have service offerings that were modified specifically for use only by that individual municipality. These service offerings may be vastly different from the transversal contract offering of its existing service provider and may not enable minimum <i>m</i>SCOA transacting.</p>
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The ICT due diligence (assessment) must be done using the guidance provided in MFMA Circular No. 80 in conjunction with the RT25-tender specifications relevant to the category of the municipality. In the case of a municipality amalgamating with another municipality(s), the due diligence must be done using the category of the 'to be' **amalgamated municipality**.

**Municipal SCOA Circular No. 5** deals in more detail with what is expected from a municipality in this regard and also provides the template (**Annexure C**) a municipality must use when conducting its ICT due diligence.

In essence, the ICT due diligence must assess whether the **municipality's** (including its municipal entities) **existing package of systems is fully *m*SCOA enabling**, including that the existing package of systems:

- (i) Can host the full *m*SCOA chart;
- (ii) Allows the municipality and its municipal entities to budget and transact in the chart;
- (iii) Seamlessly integrates; and
- (iv) Can submit data strings, across the 7 segments to the National Treasury upload portal (within the reporting deadline timeframes).

***Process to evaluate the municipality's existing package of service providers:***

The municipality, to complete the ICT due diligence may request all its existing service provider(s) to complete **Annexure C**<sup>1</sup> for the municipality and its municipal entities, including to workshop and demonstrate such functionality to the municipality in a 'live' environment, **but at no additional cost to the municipality**.

Where any item in **Annexure C** is a mandatory minimum for the category of municipality/ amalgamated municipality and is not available in the existing package, the service provider should clearly indicate the way forward (using the options in **Annexure C**, including indicating

<sup>1</sup> Municipal SCOA Circular No. 5 – Annexure C.

any cost (initial and thereafter) to the municipality/ amalgamated municipality to procure such additional functionality(s) from its existing package of service provider(s) for the municipality/ amalgamated municipality, including for its municipal entities.

## 2. Step 2 – The municipality’s *m*SCOA Project Steering Committee’s decision and recommendation

Once the municipality and/ or its vendor(s) has completed the ICT due diligence (**Annexure C** - assessment) **for the municipality and its municipal entities**, the municipality’s *m*SCOA *project steering committee*<sup>2</sup> must:

- (i) Assess whether the municipality’s existing system(s) as a package, meets the majority of the functional requirements for its category<sup>3</sup> as per **Annexure C**<sup>4</sup>;
- (ii) Consider the *cost of any additional functionality* the municipality will have to procure from its existing package of service provider(s) to be able to conduct the minimum *m*SCOA transacting for its category by 1 July 2017 and the *affordability thereof* to the municipality/ (amalgamated municipality) considering its 2016/17 MTREF;
- (iii) Compare the *total cost of its existing ‘package of system(s)’*, including the cost for any additional functionality (refer to paragraph (ii) above) with the *other available service offerings for its category, included in the RT25-panel of service providers*;
- (iv) Determine whether its existing ‘package of service provider(s)’ will be able to provide and implement any and all of the outstanding functional areas by 1 July 2017, including upskilling affected municipal officials in the municipality and its municipal entities (*in the case of amalgamation*, across all the municipalities that are amalgamating);
- (v) Consider any penalties and reason(s) for contract termination in any of its contract(s) with existing service provider(s); and
- (vi) The project steering committee must **document its decision and recommendation(s)** on the way forward for the municipality and its municipal entities (on the municipality’s ‘package of existing system(s)’), clearly setting-out its **findings on each of the above five points** it considered.

## 3. Step 3 – Soliciting the comments of the National Treasury and/ or Provincial Treasury

<sup>2</sup> In the case of municipalities amalgamating, the *joint m*SCOA project steering committee.

<sup>3</sup> In the case of municipalities amalgamating, each individual municipality must conduct this process against the **category of the amalgamated** (‘to be’) **municipality**.

<sup>4</sup> Municipal SCOA Circular 5 – Annexure C.

Once the municipality's *m*SCOA project steering committee has made its decision and recommendation(s) envisaged in step 2 above, the municipality must, **before Friday, 2 September 2016**, solicit the comments of the National Treasury [LG.SCOA@treasury.gov.za](mailto:LG.SCOA@treasury.gov.za) and the relevant Provincial Treasury (this can be done simultaneously). **The municipality's request must, as a minimum, be supported by:**

1. The municipality's completed system(s) functionality assessment (ICT due diligence completed using the Municipal SCOA Circular No. 5 - Annexure C<sup>5</sup>) that covers **the entire existing package of systems** used by the municipality, *including the cost for any additional functionality the municipality will have to procure to enable minimum *m*SCOA transacting for its category by 1 July 2017; and*
2. The municipality's ***m*SCOA (joint)<sup>6</sup> project steering committee's decision and recommendations** (covering all the points for consideration in step 2 above) on whether the municipality should (a) remain with its current package of system(s) 'as is' or (b) change system(s) or (c) upgrade its existing package of system(s) or (d) procure additional components of functionality for its existing package of systems (Refer Municipal SCOA Circular No. 5 in this regard for more information).

#### **4. Step 4 – Municipal Council approval for the municipality's key decision**

**Only after** the municipality has received the comments of the National Treasury and/ or the Provincial Treasury, the *m*SCOA (joint) project steering committee should assist the Municipal Manager to consider such comments and prepare a recommendation to the Municipal Council in this regard.

Any such memo making recommendations to the Municipal Council (for a final decision) on the way forward with the municipality's 'package of system(s)' should clearly advise Council on whether the municipality/ amalgamated municipality should:

- (a) Remain with its existing package of ICT system(s) **with** or **without** having to procure additional components of functionality; **or**
- (b) Change to a completely different 'package of system(s)'; **or**
- (c) Upgrade its existing package of systems;

<sup>5</sup> Municipal SCOA Circular 5 – Annexure C.

<sup>6</sup> In the case of municipalities amalgamating, the joint *m*SCOA project team of all the municipalities amalgamating, will have to make this decision and recommendations.

- (d) Cover all the points of consideration discussed in step 2 (paragraph 2 above), substantiating the recommendation, for Council's consideration;
- (e) *must include as an attachment*, the actual comments received from the National Treasury and/ or Provincial Treasury; and
- (f) **The municipal manager must submit a copy of the municipal council's decision** to the National Treasury [LG.SCOA@treasury.gov.za](mailto:LG.SCOA@treasury.gov.za) and Provincial Treasury within five (5) working days after the meeting during which the Municipal Council has made the decision in this regard.

## 5. Step 5 – Implementing the municipal council's decision

Informed by the decision of the Municipal Council, the municipality will have to select from the following options for implementation:

### 5.1 The municipality will remain with its existing package of system provider(s) and does not need to procure any additional functionality

In this case the municipality's system(s) were assessed and found to be fully *m*SCOA enabling 'as is', including that the existing package of systems:

- Can host the full *m*SCOA chart;
- Allows the (amalgamated) municipality and its municipal entities to budget and transact in the chart;
- Seamlessly integrates; and
- Can submit data strings, across the 7 segments to the National Treasury upload portal (within the reporting deadline timeframes).

In this instance it is important that the municipality as part of the **mandatory MFMA section 116 routine review** of all its existing contracts, review the contract(s) with all its current ICT service provider(s), including the service level agreement (SLA) and plan, and also ensures a regular review of and reporting in terms of its contract and service level agreement (SLA) with its service provider(s), including to consider whether it needs the support of the National Treasury and/ or Provincial Treasury in this regard.

### 5.2 The municipality will change its existing package of system provider(s) and/ or needs to procure additional functionality

Should the municipality have decided to **change or upgrade** its existing system(s) and/ or procure additional components of functionality, it is crucial that the municipality familiarise

itself again with the content of its existing contract(s) with any current service provider(s), including in particular:

- Notification of cancellation to the vendor, its service level agreement (SLA), project agreement and plan, any reviews and reporting in terms of its existing contract, and whether it needs any support from the National Treasury and/ or Provincial Treasury in this regard;
- **It is important that the municipality consider this BEFORE cancelling/ giving notice to its existing service provider(s); and**
- Consider the paragraphs below, depending on the municipality's particular choices.

#### **5.2.1 Procuring a completely new system(s) or upgrading an existing system or procuring additional functionality for an existing system(s) – using the RT25-transversal contract panel of service providers**

If Council approved the procurement of a completely new system(s) or upgrading the existing package of systems or the procurement of additional functionality for its **existing** package of system(s) –

It is **highly recommended** that the municipality use the National Treasury RT25- transversal contract to (in terms of its Supply Chain Management policy) obtain quotations from service providers on the RT25-panel of providers for its category (amalgamated municipality's category).

Once the municipality has received these quotations, it should consider such in terms of its normal supply chain management procedures, including the cost of the proposed system(s), the implementation plan and methodology, and the timeframes for implementation considering the final date of 1 July 2017 for compliance, and then only make a decision/ award.

***The municipality remains responsible for entering into a service level agreement (SLA), management of the SLA, providing budget and the settlement of all invoices within the legislative framework governing local government with its selected service provider from the RT25-panel of providers. Please ensure that the template Service Level Agreement (SLA) (issued as part of the transversal contract), is used as a basis for the municipality's SLA with the preferred service provider.*** Should the price(s) for any item in the SLA deviate from the transversal contract:

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- (a) The service provider must provide a clear explanation in writing (and as part of the SLA) for the reason(s) for the deviation(s) and basis of calculation of the cost for such deviation(s); and
- (b) The municipality must **submit such deviations**, the reason(s) for such and the basis of calculation of the cost thereof to the National Treasury: [LG.SCOA@treasury.gov.za](mailto:LG.SCOA@treasury.gov.za) and Provincial Treasury (simultaneously), **and obtain the comments** in respect thereof **from the National Treasury and the Provincial Treasury before signing-off on the SLA** with the service provider.

Municipalities are also reminded that ICT, financial management and internal control systems, and associated expenditure already forms part of existing budgets. Municipalities will have to reprioritise existing budget allocations to provide funding for the implementation of this strategic and necessary financial management reform.

#### **5.2.2 Procuring a completely new system(s) or additional functionality for an existing system(s) or upgrading an existing system – using a service provider NOT on the RT25-transversal contract panel of service providers**

If the Municipal Council approved the procurement of a completely new system(s) or upgrading the existing package of systems or the procurement of components of additional functionality for its **existing** package of system(s), **from any service provider(s) NOT on the National Treasury RT25-transversal contract panel of providers**, the municipality must take note that the National Treasury confirms its guidance and instruction issued as part of MFMA Circular No. 80:

The National Treasury acknowledges that metropolitan municipalities and secondary cities, in most instances, have the necessary skills and ability to deal with not only procurement but also highly technical aspects of financial management and internal control systems. ***In this regard, and with the exception of metropolitan municipalities and secondary cities, all other municipalities are highly recommended to make use of the transversal contract and associated panel of service providers for the supply of a new/ additional functionality components/ upgrade of financial management and internal control systems once finalised. Should a municipality decide not to do so, it is required of them to formally write to the National Treasury (Chief Directorate: Local Government Budget Analysis) prior to going out on a supply chain management process, supplying clear reasons and motivation in support of the decision after which National Treasury will provide a written response and clear recommendations.***



In this case it is also crucial that *the municipality* notes that it **must ensure that the template Service Level Agreement (SLA) (issued as part of the RT25-transversal contract), is used as a basis for the municipality's SLA with its preferred service provider also where a service provider (not on the RT25-transversal contract panel) is used.**

**The municipality should also require its preferred service provider to sign an implementation plan that clearly sets-out how the provider will be able to support the municipality considering all the municipalities for which the service provider is responsible. This is to create accountability for timely implementation by 1 July 2017.**

It is also important that a municipality, falling within the ambit of this paragraph, use the RT25-panel of service providers (for the municipality's/ amalgamated municipality's category) as an indication of pricing. Procuring additional functionality from or upgrading with a service provider that is not part of the transversal contract at an amount excessively higher or lower than what is deemed reasonable in terms of the transversal may result in fruitless and wasteful expenditure.

The National Treasury considered fair market prices, amongst other factors, when evaluating the price bands (statistical bell curve of prices) of service offerings as part of the RT25-transversal evaluation process. In the National Treasury's view there is a potential risk that an excessively lower priced offering could result in other challenges, including that the vendor is not able to fulfil its responsibilities at that price, resulting in price increases and amendments to the service level agreement (SLA).