

SCOA Integrated Consultative Forum - 18 & 19 September 2014

SCOA Project Phase 4 – Pilot municipalities, MOU's, MFMA Circular 57, and NT position prior to piloting

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 19 September 2014



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Pilot municipalities (1)

- Considering the deployment of a technical resource to selected pilots (as per previous presentation), it was necessary to reconsider the selected pilot municipalities based on, among others:
 - Selection of a pilot based per province
 - This also needed to cover each of the nine system vendors across nine municipalities
 - While its still expected of each respective metro to pilot and actively participate in the SCOA ICF, there will be no deployment of a technical resource to metro's – sufficient institutional and technical capacity to proactively deal with the reform
 - The applied methodology is informed by, among others:
 - Technical resource to support the pilot municipality during the piloting process envisaged engagement period Nov 2014 to Oct 2015 – informed by the TCF
 - Link between the NT, PT, pilot municipality and vendor
 - Provides objectivity in relation to the piloting process and management of stakeholders
 - Attendance of all SCOA ICF Forums
 - Attendance of all vendor user groups (across the vendor landscape)
 - Attendance of all provincial CFO Forums in providing feedback to non-piloting municipalities
 - Provides a central repository for all technical issues – Consistent messaging
- Capacitation of PT's for broader rollout to non-piloting municipalities (subsequent to Oct 2014 technical resource to be deployed to PT for assistance in broader rollout)



Pilot municipalities (2)

System Vendor	Financial Application	Pilot Municipalities	Province	Provincial Treasury Advisor	Pilot Municipality Advisor
Sage Evolution	Pastel ERP	uMgungundlovu district and Giyani local municipalities	KwaZulu-Natal & Limpopo	Limpopo	Greater Giyani Local Municipality
CISC	Munsoft	Nkangala district & Elias Motsoaledi, & Setsoto local municipalities	Mpumalanga, Limpopo & Free State	Free State	Setsoto Local Municipality
Sebata	Sebata	Victor Khanye, Senqu & local municipalities	Mpumalanga, Eastern Cape & Free State	Mpumalanga	Victor Khanye Local Municipality
Fujitsu	Abacus & Promis	uMhlathuze, Richmond & Bergrivier local municipalities	KwaZulu-Natal & Western Cape	Kwazulu-Natal	uMhlathuze Local Municipality
Bytes Technologies	Samras	Overstrand Local Municipality	Western Cape	Western Cape	Overstrand Local Municipality
Rdata	ProMun	Knysna & Camdeboo local Municipalities	Western & Eastern Cape	Eastern Cape	Camdeboo Local Municipality
BIQ	Quill	Merafong Local Municipality	Gauteng	Gauteng	Merafong Local Municipality
Business Connexion	Venus, eVenus & Solar	Drakenstein, Hessequa, Sol Plaatje local municipalities & Ekurhuleni Metro	Western Cape, Gauteng & Northern Cape	Northern Cape	Sol Plaatje Local Municipality
Vesta	Phoenix	Tlokwe Local Municipality	North West	North West	Tlokwe Local Municipality

Pilot municipalities (3)

- While currently SCOA Project Phase 4 incorporates all nine system vendors as part of the piloting process (as per the previous slide), it's ultimately up to the pilot municipality to decide if they will pilot the SCOA classification framework
- There have been pilot municipalities that have indicated their dissatisfaction with recent developments as it relates to the piloting process on the side of the vendor. Issues raised include among others:
 - Lack of confidence instilled on the part of the vendor to ensure system functionality can fully accommodate the SCOA classification framework
 - Weak project plan - limited milestones, poorly defined roles and responsibilities, communication gaps, no tangible and measurable outcomes etc.
 - Exorbitant pricing in executing piloting
- These pilot municipalities have raised the following issues and questions with the National Treasury:
 - Why should they pilot considering the extensive pain associated with the process if their current system vendor cannot ensure full compliance to the Municipal Regulations on the Standard Chart of Accounts (SCOA); and
 - Based on the abovementioned, is their contention that piloting and funding the associated costs will lead to fruitless and wasteful expenditure – limited value add!

Pilot municipalities (4)

- The position of the National Treasury regarding the willingness of municipalities to pilot is as follows:
 - Ultimately the decision to pilot rests with each respective municipality as they are the direct custodians of the process and are also funding the cost implications
 - Should a municipality decide to withdraw from the piloting process, such decision needs to be communicated in writing to the NT (Chief Director: Local Government Budget Analysis) and respective vendor as a matter of urgency - including reasons to such effect
 - In such cases, it will be the responsibility of the system vendor to identify an alternative pilot site and reach an agreement with the municipality as it relates to the piloting process – In the absence of an alternative municipality, NT will not pilot against the functionality of that respective system vendor
 - The respective municipality will have to inform the NT (Chief Director: Local Government Budget Analysis) of their willingness to pilot – Municipal manager needs to direct request to CD: LGBA
 - The proposed alternative site should still reside in the province as indicated in the above table

Importantly, as part of SCOA Project Phase 4, NT is still of the opinion that it would be beneficial to all parties if piloting takes place across the broader vendor landscape (currently nine system vendors)

Memorandum of Understanding - Pilot sites

- The Memorandum of Understanding (MOU) as it relates to the piloting process needs to incorporate the following:
 - The MOU needs to be informed by the piloting of the SCOA classification framework (Municipal Regulations on Standard Chart of Accounts) against the system functionality of respective system vendor
 - Outcomes of the piloting process can not be limited to the general ledger (**this does not provide for SCOA compliance**) – The SCOA Regulation is based on multidimensional segments and must provide for associated segmental reporting
 - Roles and responsibilities need to be clearly defined (the system vendor/service provider against that of the pilot municipality)
 - Costing needs to be limited to time and material (consulting fees, disbursements, travel, accommodation etc.)
 - The MOU needs to provide for clear milestones against which performance can be measured
 - The MOU needs to be finalised and signed by the respective parties by the latest 31 October 2014
 - A copy of the MOU needs to be provided to NT (SCOA Project Team) and PT's for comments subsequent to conclusion
- **The finalisation of a MOU is not negotiable. Importantly, the MOU provides the basis for a collective understanding of the piloting process**

MFMA Circular 57 and SCOA Project Phase 4 (1)

- In terms of MFMA Circular 57: *Municipal Financial Systems and Processes* all municipalities were informed of the investigation into local government financial management systems, work processes and appropriate reporting needs
- This project was commissioned by the National Treasury in preparation of the pending regulation on the SCOA
- MFMA Circular 57 clearly states that all municipalities are required to follow a very specific process before inviting proposals for a new financial system
- **It must be emphasized that this Circular is still in effect**
- Reasons to this effect include:
 - It remains the contention of the NT that only through successfully piloting the SCOA classification framework and associated segmental reporting will system vendors (service providers) be in a position to demonstrate their system functionality being compliant to the Regulation
 - Go live of the piloting process will only take place in the 2015/16 financial year (1 July 2015) and only after the conclusion of the first quarter (end of September) will the National Treasury be in a position to evaluate the respective system functionality in support of the SCOA classification framework
 - NT will release the assessment (evaluation) findings to all 278 municipalities in a MFMA Circular

MFMA Circular 57 and SCOA Project Phase 4 (2)

- **Importantly, to date there is no vendor that could comprehensively demonstrate that their system functionality supports the SCOA classification framework; hence the need to pilot the SCOA classification framework against the financial system functionality currently operational within municipalities**
- Consequently, NT is totally taken aback by the recent activities by various vendors in promoting a SCOA compliant financial application – This is not factual and no vendor can currently claim SCOA compliance including metros
- In addition, all system vendors have repeatable been warned by the National Treasury to refrain from, among others:
 - Pronouncing SCOA compliance prior to the formal evaluation of the outcome of the piloting process;
 - Engaging with municipalities with the intention of sourcing new business and clients prior to demonstrating full compliance to the Municipal Regulations on Standard Chart of Accounts (this process will only be concluded with the outcome of the formal piloting process);
 - Misrepresenting and quoting the National Treasury out of context as it relates to various forums and engagements currently underway with the system vendors; and
 - Pronouncing that the SCOA reform is limited to a classification framework (GL).
- Unfortunately it's has come to the attention of the NT that some vendors have been aggressively engaging with municipalities in sourcing new business. In addition, NT has been quoted out of context by some vendors during their user group meetings.

MFMA Circular 57 and SCOA Project Phase 4 (3)

- All stakeholders and role players are reminded that the initiation of SCOA Project Phase 4, proposed piloting process, and subsequent establishment of the SCOA ICF **is to the benefit of all stakeholders and role players - Especially the vendor.**
- Considering the above mentioned, it's the contention of NT that all role players and stakeholders contribute to the broad objectives as outlined in SCAO Project Phase 4 in a **collective, cooperative and professional manner.**
- Unfortunately the recent actions of some vendors has compromised this position and placed the entire piloting process at risk.
- Subsequent to the formal evaluation and assessment of the respective system's functionality, it's the intention of the National Treasury to issue an expression of interest and request RFP's from potential service providers as it relates to financial applications (systems). In addition, the NT will issue a moratorium against Section 32 of the Supply Chain Management Regulations pending the finalisation of the above mentioned processes.
- The intention is to issue a transversal contract through the Office of the Chief Procurement Officer against which municipalities can procure financial systems subsequent to the finalisation of the assessment and evaluation process.
- In the interim, municipalities must refrain from investing in new financial systems as this could lead to fruitless and wasteful expenditure and is not in the best interest of the municipalities.

Position on metro and vendor presentations: 18 Sep 2014 (1)

- Based on the presentations of 18 September 2014, it's the opinion of the NT SCOA Project Team that, among others:
 - Progress by some vendors in ensuring SCOA compliance to the overall SCOA Regulation is weak;
 - The understanding of the SCOA classification framework is limited to the GL and does not incorporate broader SCOA objectives (flat structure);
 - There remains an element of mapping by some vendors in attempting to accommodate SCOA – This will not achieve SCOA compliance;
 - There is a limited understanding of the 'municipal accountability cycle' and linkage to the SCOA Regulations;
 - Limited measurable milestones as part of the overall project plans; and
 - Limited ownership of this process by pilot municipalities – It's the responsibility of the pilot municipality to ensure the project is managed in a coherent and responsible manner and that the overall objectives are achieved as part of the project plan.
 - Little technical queries raised (limited to a few vendors), slow return on follow-up requests and clarification requests directed at pilot municipalities
- Extremely concerning is the limited progress (almost non existent) by some of the metropolitan municipalities
- **Importantly, the above position is a generalised comment and there are exceptions with some metros, pilot municipalities and vendors demonstrating good performance**

Position on metro and vendor presentations: 18 Sep 2014 (2)

- It needs to be noted that some of the pilot municipalities have indicated to the SCOA Project Team that:
 - There is limited consistent messaging. Progress provided by the vendor (presentations 18 Sep 2014) and the feedback of the pilot municipalities is different stories
 - Friction between the vendor and the pilot municipalities
 - Vendors dictating SCOA objectives and project plan to pilot municipalities. Municipalities have limited say in the project approach
 - Communication short comings
- There are however two sides to every story i.e. Municipality against the vendor perspective. Not conducive to the overall project objectives and detracts from the task at hand
- Limited ownership of the overall project by municipalities – While its acknowledged that municipalities are making use of service providers and consultants in executing some of the activities associated with SCOA – **Accountability relating to SCOA compliance rests with municipalities; not service providers and consultants**
- **Similar requests for “vendors” to inform/prepare project plans for non-piloting municipalities – much more involved and require institutional support**

Financial application (system) high-level compliance criteria

- Priority segments from BRF/AFS & IY reporting addressed:
- Functions / Funding / Project / Item / Costing??
- PPE Register/Module linked to SCOA
- Customer accounts module and links to SCOA
- Control/Clearing and Interface Account – defined
- Report automation enabled including Management Reports
- Budget/Planning Tool
- Opening Balance Conversion and audit trail
- Upload of changes functionality – SQL or Excel
- VAT modules and reporting?
- Checks and balances to assist in classification
- Access to definitions and SCOA documentation by users
- COA comparison and outcomes – pilot(s)
- Repairs and Maintenance

Upcoming activities (1)

- SCOA Technical Work Group established and meetings scheduled for:
 - 3, 17 & 31 October 2014
 - 7 & 21 November 2014
 - Agenda Matters:
 - FAQ (technical of nature or impacting on structure – not clarification questions)
 - Subject matters linked to reporting and budget “how’s?” (focus – cover Fixed/ Intangible Assets, Inventory, Customer Billing (Revenue and Asset), Employee Related Cost, Provision, Liabilities and Contingent Liabilities, any other matters identified)
 - ASB Work Plan Topics, i.e. accounting for losses/housing (agents/principle) outcomes from the “revisions project” appropriately considered.
 - Outcome – inform AGSA (responsibility of the OAG)
- Meeting with Vendors/Pilots – response to criteria and any matters of concern including pilot municipality linking/classification (approximately 3 week process!)

Upcoming activities (2)

- Previous SCOA ICF – Proposed meeting dates for the remainder of the year:
 - 28 and 29 October 2014: KZN
 - 2 and 3 November 2014: Gauteng
- SCOA ICF to consider a proposal to limit to one more engagement for the year
- Engagement proposed for the first/second week of November 2014. Probably a three day engagement covering, among others:
 - VAT indicators
 - Expanding Function (reliant on information to be provided to take an holistic view at requests)
 - NERSA links to Reports
 - DWA Reporting
 - Output formats – LG DB
 - Illustration on Regional Indicators (reliant on information to be provided to take an holistic view at requests)
 - Reporting Formats (depending on progress and queries received)