



AUDITOR-GENERAL  
SOUTH AFRICA



*Auditing to build public confidence*

**AGSA ROLE ON mSCOA**

## Reputation promise/mission

The Auditor-General of South Africa has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, exists to strengthen our country's democracy by **enabling oversight, accountability and governance** in the public sector through auditing, thereby **building public confidence**.





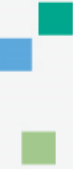
## A. Background

Currently, municipalities manage and report on their financial affairs in accordance with their own organisational structures and unique charts of accounts. The result is a disjuncture amongst municipalities and municipal entities and between municipalities and the other spheres of government as to how they classify transactions and balances and consequently report thereon.

As a result, the Minister of Finance specified national norms and standards for the recording and collection of local government budget, financial and non-financial information. This was achieved through the municipal SCOA regulations, which were gazetted on 22 April 2014, making the application of the mSCOA in local government a legislated requirement. The mSCOA will take effect on 1 July 2017, thus impacting the 2017/18 financial statements and audits of all local government auditees. The implementation will be piloted at 26 municipalities from 1 July 2015



# Purpose



**National Treasury (NT) is the owner of the mSCOA project, and as such is responsible for the implementation of the project. As a role-player in the public sector, the AGSA was approached by NT to discuss the manner in which the AGSA is able to support this project.**

**We have previously presented on how The AGSA plans to support and respond to the mSCOA reforms.**



# Risks



The mSCOA is a significant project, and as such poses various risks to local government, with the more important risks including the following:

- a. Inability of some of the current system vendors to accommodate the technical specifications of the mSCOA, which will result in **significant changes to current systems** and/or the **implementation of new systems**.
- b. **Capacity and skill constraints** on the part of the **municipalities** to manage the change to the mSCOA classification framework.
- c. **Funding constraints** related to implementation of the mSCOA.
- d. **Technical complexity** of the mSCOA classification framework.
- e. **Capacity constraints within NT** to ensure that adequate and timely support and implementation assistance is available to local government entities and to properly maintain the municipal SCOA.
- f. Constraints regarding the quality, timeliness and attendance of **training programs**.
- g. Possible impact of unfavourable outcomes from the **test implementation** of the mSCOA at 26 pilot municipalities.
- h. **Insufficient support and action from provincial treasuries** in the roll-out and implementation of the mSCOA.
- i. Budget constraints from a **project assurance** perspective (internal or external audit)
- j. **Tight implementation timeframe** of 1 July 2017.
- k. Possible errors in the migration of the current financial information to the new the mSCOA classification framework, which may also include migration to a new system; **e.g. incorrect take-on balances, user errors, system failures/ errors, etc.**



# Lay of the land

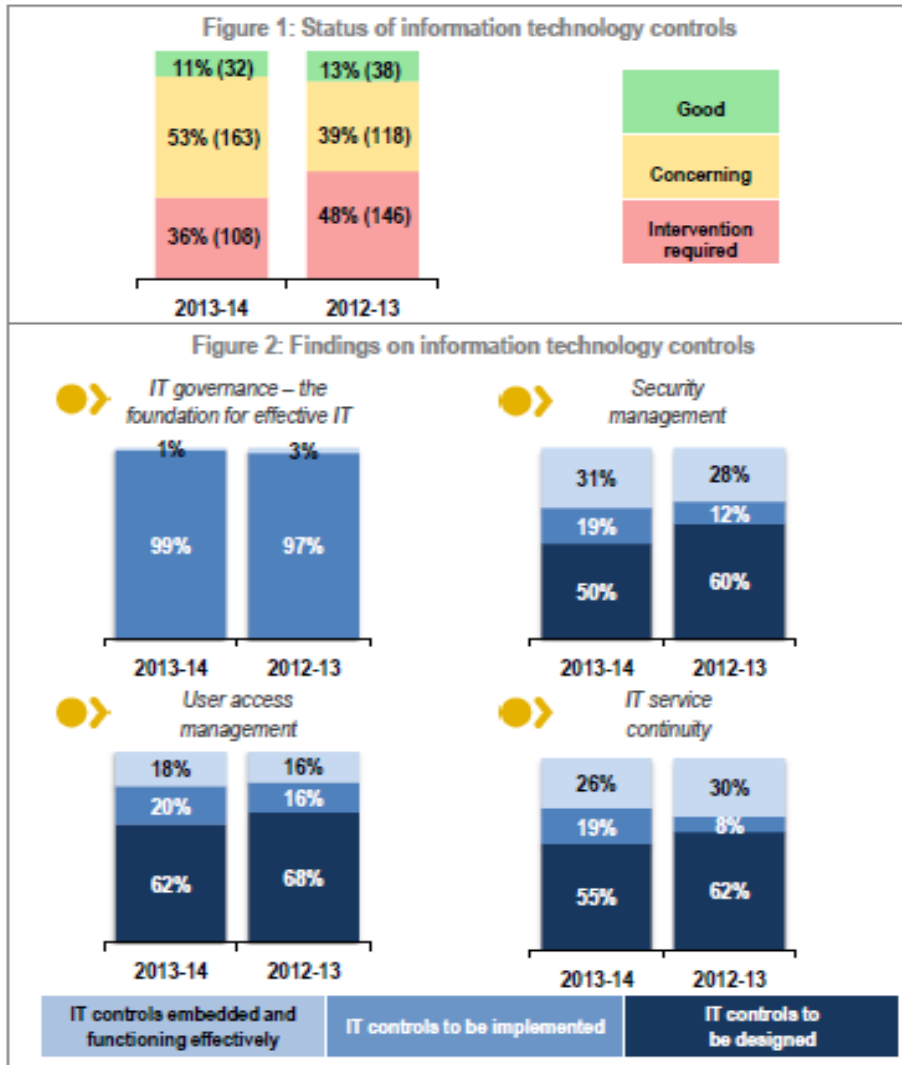


## Various factors affecting the roll out of MSCOA in South Africa:

- Different types of municipalities
- Various systems that currently exist
- Ability for vendors to support MSCOA
- Contractual obligations in terms of SLA's
- Financial resources available to municipalities
- Staff resources and adequate skills availability
- Challenges of location
- Infrastructure (External and Internal)
- Sustainability of the system
- Timelines that will be agreed to
- Roll out plans and the ability to streamline this



# Current status of IT in South Africa

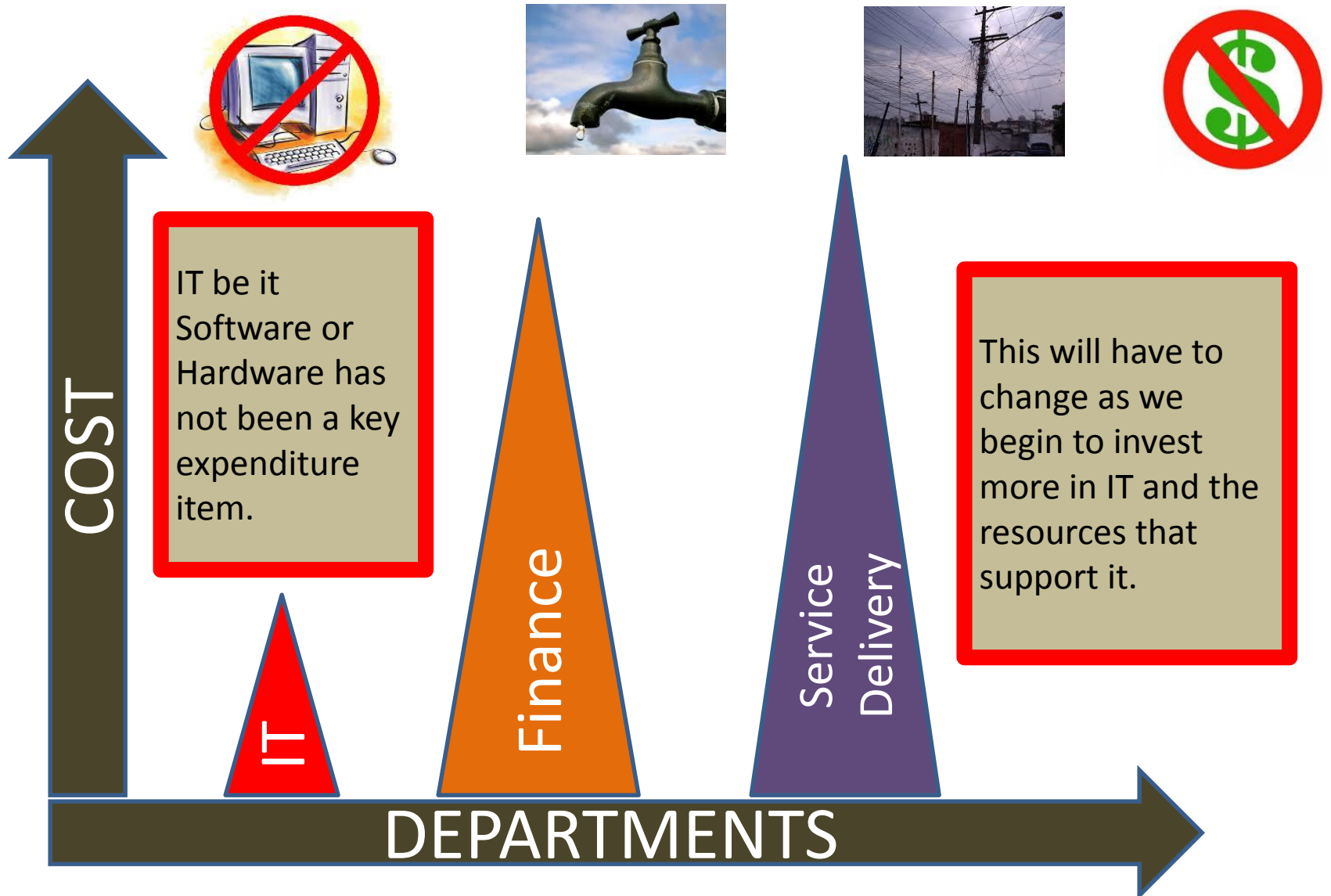


## Current state of IT

- Majority of municipalities do not have adequate controls designed across major focus areas
- There is a lack of adequately qualified staff to design these controls
- We must consider the impact of MSCOA on Municipalities with no IT controls
- Most municipalities do not have adequate business processes mapped to be aligned to MSCOA



# Think about this and how we spend as government





# What AGSA is doing this cycle

The AGSA (ISA BU) developed a checklist to get an idea of how far municipalities and other local government organisations are;



Microsoft Word  
Document



# Our approach (To be discussed with NT)



## Approach

- AGSA has selected a pilot municipality
- The approach taken by the municipality will be studied and the AGSA will gain a full understanding of what this means to the municipality from a financial and IT perspective

## Key to this process:

- Define what MSCOA is to the municipality and what impact it will have
- Defining the extent of the change and the impact thereof
- Gaining and understanding of how this will affect the business processes of the municipality
- Understanding to what extent data will be:
  - Changed
  - Created
  - Imported
  - Exported



## Cost of MSCOA

- Changing a financial system is very costly and time consuming
- Municipalities need to understand what the cost structure is and what the potential benefits are
- Municipalities should be aware of the following costs:
  - Software
  - Hardware
  - Business process alignment
  - Data preparation
  - Data conversion
  - Project management
  - Implementation and assurance reviews

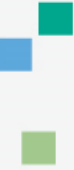


# Our audits - after pilot phase

The following will be required for the year of implementation:

No	Action	Responsible BU/ person	Timeline
1.	Data conversion audits at all auditees that changed to a new system or had major upgrades.	ISA	As agreed with RA
2.	Perform normal financial audits, but with increased risks to be considered and where possible interim audits to be performed to early identify problems.	ABUs (with guidance from ISA & ARD)	2017/18 audits





# Questions?

