

mSCOA Workshop: Technical Work Stream

22 September 2016 – Breakaway 4 – Discussion of Position Papers



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Program

Workshop	Content
Breakaway 4	<ul style="list-style-type: none">• Changes Version 5.5 to 6R (Final for 2017/18)• Status FAQ DB• PSD – Design Principles<ul style="list-style-type: none">• Specific Focus – Fund Segment• Position Papers:<ul style="list-style-type: none">• Internal Audit• Restatements, Historical Information and Errors

PSD – Design Principles

Summary of Design Principles – Version 5.5 for Discussion

Position Paper: Internal Audit

- Background

- mSCOA is more than a financial reform - Instrument to facilitate organisational change
- Involvement of Internal Auditors and Risk Managers
- Internal Audit Activities towards mSCOA Implementation
 - National Treasury Internal Audit Framework (2009) deals comprehensively with complying with the Constitution and MFMA
 - IIA - International Standard for the Professional Practice of Internal Auditing
 - Committee of Sponsoring Organizations of the Treadway Commission on Internal Control and Risk Management Framework
- Internal Audit positioned to add value – project assurance and governance and early identification of Project Risks
- Evaluating Information Technology and Organisational Aspect of System Conversions – assurance to Management and Council

Position Paper: Internal Audit (Continue)

- Legislative Requirements
 - MFMA Section 165
- Why Involve Internal Audit?
 - ISPPA defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations.”
 - “It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”
 - Areas of Involvement:

Position Paper: Internal Audit (Continue)

– Assurance or Advice on:

- Project Governance (Policies, Procedures and Controls)
- Business Case Validity, Viability, Worthwhile and Feasible
- Project Planning – critical path, completeness and suitability
- Change Managements – control, process and timeliness
- Risk and Issue Management – depth, coverage and resolution
- Project Cost
- Sign-off and Criteria
- Approach to Vendor Management
- Business Readiness
- Project Communication

Position Paper: Internal Audit (Continue)

- When should Internal Audit be Involved?
 - Earlier the Better
 - Better Organisational Readiness
 - Early Identification, Greater Understanding and Improved Resolution of Issues
 - Increased Likelihood of delivering the Project on Scope, Time and within Budget
 - Better Change Management embracing New Systems
 - Increased Project Control to Maximise Efficiency
 - Improved ability of the Internal Audit and Risk Management Functions to Provide a thorough Assurance Solution

Position Paper: Internal Audit (Continue)

- The Role of Internal Audit through the Project Lifecycle
 - Planning
 - Execution and Control
 - Completion
 - Benefits
- How can Internal Audit help?
 - Are we doing the right things?
 - Initial Risk Assessment of the Project
 - Performing ongoing “Health Checks
 - Are we doing them in the right way?
 - Risks becoming Major Issues

Position Paper: Internal Audit (Continue)

- Project Implementation:
 - Process
 - People
 - Technology
 - Management Perspective (Risk Management)
- The Role of Internal Audit in System Conversion or Re-implementation
 - Valuable Role
 - Implementations are well Managed and have a Positive impact on the Environment
 - Converting Old to New Systems poses Significant Risks
 - Lessons Learned

Position Paper: Internal Audit (Continue)

- Audit Objective: System Conversion/Re-implementation
 - Reviewing and Assessing Overall Project Plan
 - Budget Adequacy
 - Accuracy and Completeness – System/Data Requirements
 - Evaluate and Monitor – *Project Plans for System Changes*
 - Data Cleaning – *Clean Data gets moved to the New System*
 - Assessing Completeness and Appropriateness – *System and Database Design including Security Aspect*
 - Review User-acceptance and Testing Planning – *Demonstrate Successful end-to-end System Operations and Preparedness for Implementation*
 - Review Start-up of Production Systems and Associated Client Data – *Integrity of Data and “Back-out Plans*
 - Assess the Accuracy and Completeness of Start-up Operational Responsibilities

Position Paper: Internal Audit (Continue)

- Risk Management Process – Project Management applied throughout the project

Position Paper: Internal Audit (Continue)

- Eight-steps to Consider in the Internal Audit Process
 1. Understand the IT Initiative and Project Plan
 2. Complete a Risk Assessment of the Operational Changes Planned relating to the mSCOA System Implementation
 3. Assess the Project and Implementation Plans
 4. Assess the Data Mapping efforts and the Operational Changes Planned
 5. Assess the Adequacy of Testing Plans
 6. Complete and Implementation Readiness Assessment
 7. Develop and Execute the Audit Verification Plan
 8. Complete the Overall Audit Analysis of the Implementation
 9. Reporting and Concluding

Position Paper: Internal Audit (Continue)

- Eight-steps to Consider in the Internal Audit Process
- Recommendation
- Sources of Reference
- Annexure A: Specific Consideration for the Attention of the Internal Auditors in Planning Audit Activities
- Annexure B: Key Concepts and Principles Extracted from the National Treasury Internal Audit Framework

Position Paper: Restatements, Historical Information and Errors

- Background
- Legislative and Standard of GRAP References
- Problem Statement Refined in the Context of the Requirements set-out in the Standards of GRAP
 - GRAP 1 Presentation of Financial Statements
 - Fair Presentation and Compliance
 - Consistency of Presentation
 - Comparative Information
 - Impracticability
 - GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
 - Impracticability
 - GRAP 24 Presentation of Budget Information in Financial Statements

Position Paper: Restatements, Historical Information and Errors (Continue)

- Position of mSCOA in the Context of the Problem Statement
 - Problem Statement 1: Fair Presentation and Compliance
 1. Comparability of Information in the Financial Statements in the year if Implementation
 2. Disclosures Required to Comply with the Standards of GRAP
 - Problem Statement 2: Consistency of Presentation
 1. Implementation of mSCOA may have resulted in Information Disclosed Pre-mSCOA implementation not being available to maintain the presentation and classification made in the prior reporting period
 2. Presentation changes resulting from mSCOA Implementation may not necessary be driven by a requirement from the Standards of GRAP
 3. Guidance is needed in designing another presentation being more appropriate as per the guidance from the Standard of GRAP

Position Paper: Restatements, Historical Information and Errors (Continue)

- Problem Statement 3: Comparative Information
 1. Availability of Information relating to the Preceding Period not been based on mSCOA.
 2. Possibility for converting mSCOA Information back to the Classification applied in the Preceding Period?
 3. Guidance needed to assist in Presenting Comparable Information in the Municipalities Financial Statements?
- Problem Statement 4: Impracticability
 1. Will the implementation of mSCOA in totality qualify for claiming impracticability in restating comparatives?
 2. If the above is the case how should this be disclosed in the financial statements?
 3. Would the above consideration have an impact on fair presentation of the financial statements and potentially result in an adverse or disclaimed audit opinion by the Auditor-General of South-Africa?
 4. National Treasury to propose wording to be for claiming impracticability to assist municipalities?

Position Paper: Restatements, Historical Information and Errors (Continue)

- Problem Statement 5: Impracticability
 1. Defining elements of mSCOA requirements that may potentially qualify as a change in “accounting policy”?
 2. Impracticability to restated preceding period information?
- Problem Statement 6: Presentation of Budget Information
 1. Budget may be prepared on a different version of mSCOA than the Version implemented and used for transacting?
 2. At the time of preparing the municipalities budget uncertainty existed, little experience where available and the full impact of some aspect of mSCOA may not have need correctly articulated in the budget tables. Information available to assist in the budget preparation where extracted on classification not correctly or completely aligned to mSCOA classifications and Design Principles?
 3. The comparison of actual and budget information in the budget statement reveal significant variances, apparently due to mSCOA Implementation?

Position Paper: Restatements, Historical Information and Errors (Continue)

- National Treasury Documents to be revised following the adoption of the Position Paper
- Conclusion
- Recommendation

Analysis of matters outstanding consisting of Queries with status “In-progress” and Consultation In-progress”