

mSCOA Regulations

Breakaway 8: Regulations – Business Processes The Midvaal Experience



Presentation outline

- Progress made with review of business processes
- mSCOA implementation impact on the organisation
 - HR
 - Finance
 - Organisation
- Conclusion
- Recommendations to NT



Progress made with the review of business processes

- Very limited business process documentation available at the municipality
- Reliant on BCX system procedure manuals
- National Treasury appointed Mobesco in 2015 to document business processes in municipalities and Midvaal participated as a pilot municipality
- Various sessions were held with the consultants and business processes of all sections were workshopped with the expectation that the consultants would provide the draft standard operating procedures (SOP's) as per the brief received from National Treasury



Progress made with the review of business processes

- Provincial Treasury approached the municipality in June 2016 with a request to work with them to document the business processes, at which time we indicated that we are already participating in the NT process
- At this point we were advised that the NT process has been terminated and we were advised to in future work with the PT team
- Midvaal could not participate in the PT process due to labour unrest, community protests, financial year end as well as the compilation of Annual Financial Statements
- Same people doing MFMA reporting and AFS, also responsible for the mSCOA implementation

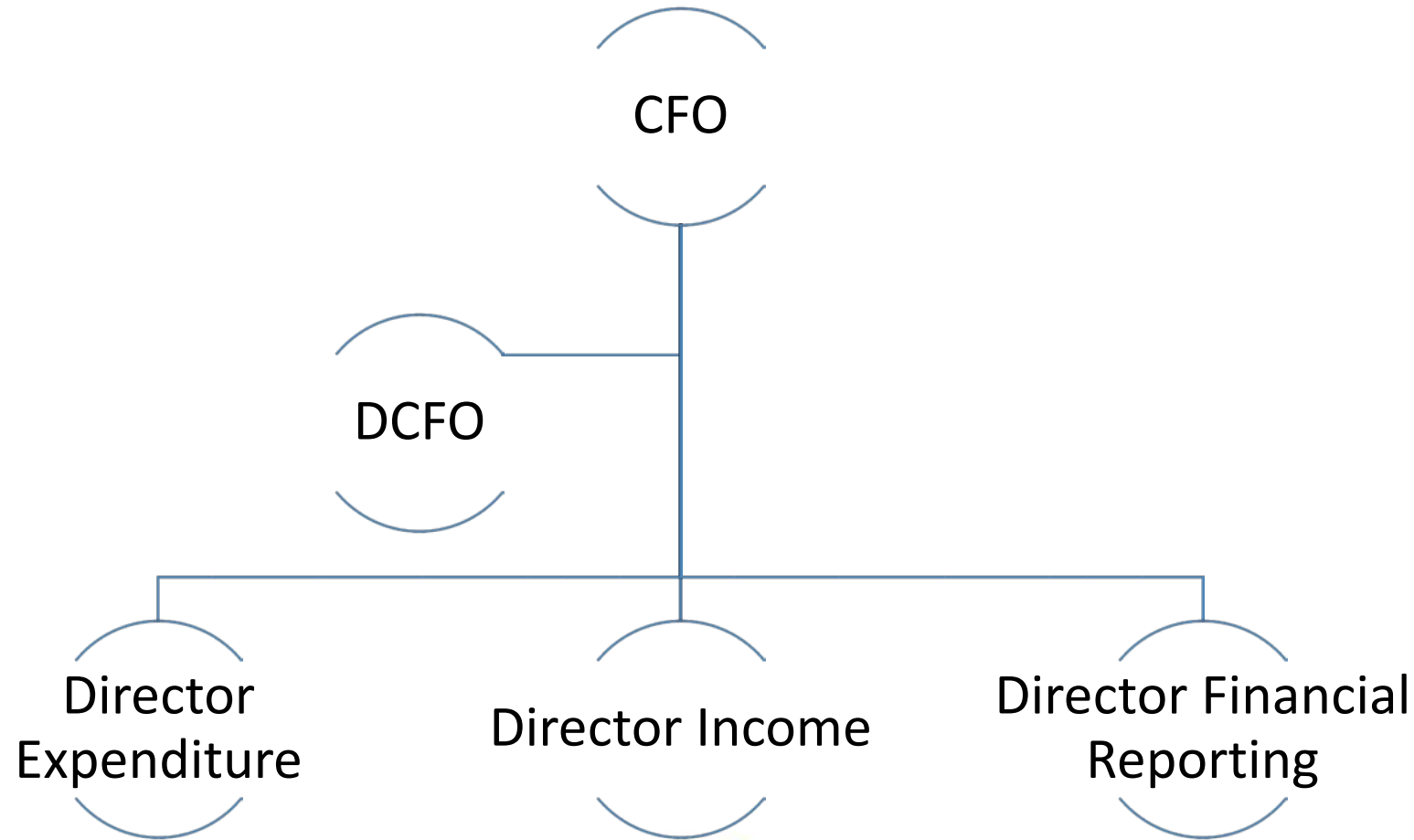


Progress made with the review of business processes

- Provincial Treasury process re-embarked upon in September 2016 – currently busy with GL mapping but concerned about duplication of processes as this will also be undertaken with BCX as from early October 2016
- Initially PT agreed to have a single process, but later insisted on doing two separate mapping exercises
- Requested PT to share draft generic business processes with the municipality but no progress to date



mSCOA implementation impact on the organisation: Human Resource Capacity



mSCOA implementation impact on the organisation:

Human Resource Capacity

- Insufficient in-house capacity to implement the 7 segment mSCOA compliant General Ledger AND review all business processes AND ensure seamless integration of all sub-systems into the GL by 1 July 2017
- mSCOA implementation (GL) is the responsibility of the Director Financial Reporting. She is also responsible for the compilation of AFS, the annual audit currently underway and ALL NT MFMA reporting / compliance
- Director Financial Reporting has only 2 staff members, one assistant director also responsible for asset management, budget virements and cash management as well as one chief clerk also responsible for the physical bar-coding of all movable assets as well as the capturing of all asset movements



mSCOA implementation impact on the organisation:

Human Resource Capacity

- MFIP II advisor is currently assisting as project manager
- Concerns about the possible restructuring of the programme – if the current advisor is not available as project manager the project will lose momentum
- No budget available to appoint an external project manager
- Salary scales of the municipality (level 8) hampers the appointment of senior staff (example of Director Income / Director HR – vacant for months without any suitable candidates applying (Salary per month offered is R50 000 – take-home pay of R29 000)
- Vacant position has been advertised nationally three times already



mSCOA implementation impact on the organisation:

Cost implications

OPTION 3

Convert to Solar system
mSCOA implementation
New hardware procurement
(Existing hardware doesn't have capacity to host mSCOA)
Basic compliance to mSCOA Regs (only GL conversion)
Includes budget module
Includes reporting module
All data on one server

	2015/2016	2016/2017	Total
Software			
SOLAR Financials	-	-	-
BPM	-	176 400	176 400
SOLAR Budgeting Module	422 500	-	422 500
Advance Reporting Services	-	265 440	265 440
Qlik View	-	207 500	207 500
Project Cost			
Transform & Normalise	-	874 500	874 500
Implementation & Testing	913 040	-	913 040
License & Maintenance			
SOLAR Financials	-	1 026 300	1 026 300
BPM	-	38 808	38 808
SOLAR Budgeting Module	84 500	92 950	177 450
Advance Reporting Services	-	33 528	33 528
Qlik View	-	44 700	44 700
Hardware Upgrade			
New Server (adj budget)	1 560 000	-	1 560 000
	2 980 040	2 760 126	5 740 166

- Total cost for mSCOA GL conversion cost – R5 740 166 (4% of assessment rates increase)
- This EXCLUDES all costs required for business process mapping
- Also EXCLUDES costs required to ensure seamless integration of systems (no clarity on this yet)
- Busy engaging with service providers – intention is that the service provider of the financial system be responsible for this
- Highly reliant on BCX to ensure compliance



mSCOA implementation impact on the organisation:

Cost implications

- No additional funding allocated to municipalities for mSCOA implementation
- NT advises that municipalities must use Finance Management Grant, but the FMG is not sufficient to deal with all of the conditions of the FMG
- Allocation for 2016/2017 – R1 475 000
 - 5 x Interns – R555 960
 - BCX Support – R379 040 – This was questioned by NT stating we spent funds in the previous year and this must be allocated to other priorities
 - MFMA Training – ongoing expenditure in terms of succession planning – R540 000



mSCOA implementation impact on the organisation:

Cost implications

- Nothing for SCM and audit committee capacitation
- Nothing for AFS review
- Nothing for corrective measures of AG findings
- Nothing for Financial Management Capability Maturity Model

These are all high priority areas for the municipality – FMG can't deal with issues listed as CONDITIONS in the FMG, let alone mSCOA implementation



mSCOA implementation impact on the organisation:

Cost implications

Conditions

- FMG funds can be used towards the following:
 - establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel
 - establishment of SCM capacity, an Internal Audit unit and Audit Committees
 - at least five interns appointed over a multi-year period
 - on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management
 - acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts
 - review and adoption of a delegation system
 - support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007
 - preparation and timely submission of annual financial statements for audits
 - support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions
 - technical support in financial management to municipalities must include the transfer of skills to municipal officials
 - the preparation of a financial recovery plan and the implementation thereof, where appropriate
 - implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality
 - ensuring timely submission of the FMG support plan consistent with the conditions of the grant
- Regular, timely submission of reports with completed information
- Expenditure must be maintained at appropriate levels



mSCOA implementation impact on the organisation:

Cost implications

>>> "Thiloshnee Sukdeo" <Thiloshnee.Sukdeo@treasury.gov.za> 2016/07/06 04:25 PM >>>

Good day all

Thank you for the submission of the 2016/17 FMG support plan

An analysis of the plan was under taken and the following was noted, the municipality:

Allocated funds towards BXC support. Please provide more detailed information in this regard. Furthermore is was also noted that the FMG was used in the prior year to fund this item. We request that the funds be reallocated to address other pertinent matters.

Allocated funds towards training of officials and interns towards attaining the minimum competency levels. Please can you provide the names of the individuals that will be attending the training as well as their date of appointment, position appointed at the municipality, cost per individual and name of the service provider providing the training

It was noted that the Auditor General raised concerns on Electricity distribution losses in the municipality's 2014/15 audit report. Furthermore, the FMCMM and financial ratios assessment undertaken by National Treasury also raised concerns on the Electricity distribution losses as well as Human Resources and Repairs and Maintenance. The FMCMM and Ratio Assessment report was sent to the municipality in December 2015.

No funds were allocated to address these areas of concern. How will the municipality be addressing this? Will the municipality be using their own funds? **It is advised that the municipality revise their support plan accordingly to address these concerns.**

Furthermore the municipality was requested to develop an action plan to address findings arising from the FMCMM and ratio assessment. Was the action plan developed?

Please provide a response to the queries raised above supported by the signed revised support plan, where applicable to fmg@treasury.gov.za by 15 July 2016. The plan will be approved and the funds will be transferred only once these areas of concern have been addressed.



mSCOA implementation impact on the organisation:

Organisation

- Steering committee established and various project stream leads appointed
- Limited progress as a result of workload on staff – technical staff focussed on service delivery and writing of business processes remain incomplete
- All departments involved in mSCOA project committee and all have similar constraints – impact on service delivery



Conclusion

- Midvaal from day one said that we understand and recognise the importance of mSCOA and would be supportive of the process although not selected as a pilot site
- As the reality of the implementation requirements dawned on us, we realised that the expectations and the reality are not aligned and therefore sent an urgent letter to the Minister
- If it is understood that the reforms in terms of the MFMA took 13 years, and there are still many municipalities with negative audit opinions regarding MFMA compliance, the short implementation period allowed for mSCOA poses a major risk to municipalities
- mSCOA's implementation is not yet understood in totality by Midvaal as the business process are not yet concluded
- Change management that are implemented in a big bang approach have never been successful



Recommendations to National Treasury

- Municipalities to be categorised High / Medium / Low as with the MFMA implementation
- Only high capacity municipalities and pilot municipalities to fully implement mSCOA on 1 July 2017
- Once pilots have proven success in full compliance, it be rolled out to medium and low capacity municipalities
- Require ONLY 7 segment GL to be operational for transactions as from 1 July 2017 and business processes and seamless integration be phased in
- No new regulations on business processes – municipalities will not be in a position to comply with any new regulations

