

Reference: 12/10/7

TREASURY CIRCULAR MUN NO 21/2015

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THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HT PRINCE

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THE HEAD OFFICIAL: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN)
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THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN) (PRO TEM)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
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THE SENIOR MANAGER: FISCAL POLICY (MS C HORTON) (ACTING)
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THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MR T MADONDILE) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MS L MCCARTNEY)
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THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

GENERIC RISK FOR RISK MANAGERS AND INTERNAL AUDITORS TO CONSIDER WITH REGARDS TO MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA)

1. PURPOSE

- 1.1 This circular serves to advise Chief Risk Officers (CROs) and Chief Audit Executives (CAEs) to be cognisant of the potential risks facing municipalities with regard to the implementation of mSCOA.

2. BACKGROUND

- 2.1 Section 216 of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards.
- 2.2 Government Gazette No. 36806 (Notice 892 of 2013) on the draft regulations on SCOA was published for public comment on 3 September 2013 for a period of 90 days. The Minister of Finance has, in terms of section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs gazetted Municipal Regulations on SCOA into effect on 22 April 2014.
- 2.3 Provincial Treasury presented the impact of mSCOA at the Chief Risk Officer Forum held on 17 March 2015, to raise awareness of possible risks facing municipalities with regards to the implementation of mSCOA.
- 2.4 Provincial Treasury, with the input of a few municipalities, created a generic risk register to further guide the event identification in this regard. The generic risk register is hereby attached. See Annexure A.
- 2.5 In light of the above the following minimum actions are recommended:
- 2.5.1 The responsible official in the municipality, be it the CRO or CAE, should prompt the risks for mSCOA, using Annexure A as a guide.
- 2.5.2 PT municipal circular 38 of 2014 should be read and noted.
- 2.5.3 The municipal risk register should be updated accordingly.
- 2.5.4 Mitigating strategies should be implemented.

- 2.5.5 The Internal Audit Activity should review the internal audit plan to ensure the necessary assurance is provided in respect of mSCOA implementation.
- 2.5.6 Municipal Managers are advised to bring this to the attention of the Risk Management Committee, Audit Committee and any other internal committee that requires this information.
- 2.5.7 The risk conversation needs to be taken into the municipalities individual business processes, to determine which of these processes are impacted on by MSCOA. Additional risks identified during this process should be included in the risk register of the relevant business process.

A handwritten signature in black ink, appearing to be 'Bazil Vink', written over a horizontal line.

BAZIL VINK

SENIOR MANAGER: FINANCIAL GOVERNANCE

DATE: 29/05/2015

Annexure A

Risk Title	Consequence	Contributing Factors
Continuity of ERP resource availability	Not reaching mSCOA target implementation date/milestones	<ul style="list-style-type: none"> • Consultants contracts ending • Over reliance on skills of key consultants
mSCOA Project changes un-implementable	Not reaching mSCOA target implementation date/milestones	<ul style="list-style-type: none"> • Communication unclear and not confirmed with clear written instructions • Complexities of GRAP and mSCOA requirements • mSCOA implementation project breakdown
Lack of Implementation plan	<ul style="list-style-type: none"> • Management reporting may exist, but may not be deliverable driven or appropriately monitored to ensure progress made • Project deliverable timeframes may be pushed out • Lack of accountability of project managers 	<p>The following is not formalised in the implementation plan:</p> <ul style="list-style-type: none"> • Preparation of a draft budget complaint to mSCOA • Aligning the current vote to mSCOA • cleaning of information data • MOU and SLA not in place with 3rd parties, etc • Lack of reporting back to stakeholders
Organisation not understanding the mSCOA requirements and therefore incorrect data capturing	<ul style="list-style-type: none"> • Unsuccessful implementation of mSCOA • Data integrity and classification compromised • Potential interruption of business processes, halting service delivery • Qualified audit opinion if data scrambled 	<ul style="list-style-type: none"> • Organisation not adequately understand mSCOA classification • Resistance to change by organisation
mSCOA Project not meeting the needs of internal and external stakeholders	<ul style="list-style-type: none"> • Reputational Risk • Data integrity compromised and not aligned to business processes • Interruption of business processes impacting negatively on service delivery • Non compliance with regulations • Business continuity • Qualified audit opinion if data scrambled • Result could have an impact on project implementation 	<ul style="list-style-type: none"> • IGR • Internal Oversight Requirements • Lack of synergy • Unknown stakeholder expectation

Risk Title	Consequence	Contributing Factors
Inadequate assurance reviews	<ul style="list-style-type: none"> • Unsuccessful implementation of mSCOA • Data integrity and classification compromised • Potential interruption of business processes, halting service delivery • Qualified audit opinion if data scrambled 	Unsuccessful system changes and inadequate change management
Capital budget availability to ensure appropriate hardware infrastructure for mSCOA implementation and spend in correct financial year	<ul style="list-style-type: none"> • Budget implications • Inability to comply with mSCOA reporting requirements 	<ul style="list-style-type: none"> • mSCOA requirements could impact system data volumes which would require additional hardware and licencing • Outstanding confirmation regarding the purchase of the hardware and software
Inadequate Budget	<ul style="list-style-type: none"> • Financial Impact • Non Compliance • Deadline not met • Budgetary provisions are not necessarily appropriate to meet service delivery demands • Exorbitant cost paid for service from preferred service providers • Delay in project due to procuring of a new service 	<ul style="list-style-type: none"> • Insufficient budget for costing of the champion, computer hardware and new system in the event the current system is not compatible • High implementation cost due to reliance on vendors - cost unknown cannot predict number of hours that will be spent • Uncertain whether current service provider e.g. Samras will be chosen as a preferred service provider • Current state of financial affairs - not feasible to go over to complete new system
Ability to influence and interpret new mSCOA versions that will be issued on a regular basis, requiring changes/or need for clarification	<ul style="list-style-type: none"> • Delays in mSCOA implementation time lines • Potential Interruption of business processes due changes implemented • Qualified audit opinion if data scramble due national treasury retracting any already implemented requirements 	Not all SCOA regulations detailed requirements have been specified and finalised

Risk Title	Consequence	Contributing Factors
Human resource capacity constraints	<ul style="list-style-type: none"> • Increase working hours leads to low staff morale • Ineffectiveness • Lack of accountability • Adverse influence on service delivery 	<ul style="list-style-type: none"> • Lack of designated and dedicated champion • Insufficient individuals in certain divisions to attend to mSCOA matters other than the financial department • Additional duties not included in job descriptions of role players • Key indicators not added to role players • Affordability factor for additional capacity in terms of additional duties regarding mSCOA process not determined or budgeted • ITC capacity and knowledge uncertainty • Limited office space and resources for the additional capacity
Lack of Awareness	<ul style="list-style-type: none"> • Uninformed stakeholders • Low priority given to business activity • Resistance to change management • Failing to stay abreast in terms of changing environment 	<ul style="list-style-type: none"> • Project plan not communicated to all stakeholders • Information sessions not held with other stakeholders e.g. Councillors • Change management not being addressed and no capacity and resources • Lack of buy inn from all relevant stakeholders, i.e. councillors, management • Training municipal wide, i.e. transaction base and process base • Current mSCOA knowledge limited of role players • Municipalities are excluded when piloting municipalities meet to discuss mSCOA process at the various mSCOA steering committees
Ageing ICT infrastructure	<ul style="list-style-type: none"> • Loss of data • Low staff morale • Unproductivity 	<ul style="list-style-type: none"> • Loss of data from old system to the new system • Insufficiency of cleaning of old data • Slow network and internet speed • Size of back ups unknown • Lack of SLA with service providers • Lack of back up of all systems and data

Risk Title	Consequence	Contributing Factors
Lack of enterprise resource management system	<ul style="list-style-type: none"> • Unreliable data • Lack of integrated information • Failure to achieve business objectives 	<ul style="list-style-type: none"> • Study on system integration and interface assessment not a priority • Compatibility of current system • Lack of migration plans or the testing process before going live or disaster recovery fall over plan
Non compliance with mSCOA	<ul style="list-style-type: none"> • Reputational Risk • Unreliable financial information • Potential audit opinion • Non compliance with legislative requirements 	<p>In terms of the following:</p> <ul style="list-style-type: none"> • Grap • Municipal Reporting Requirements • Budget reporting • Deadlines not met • Annual report and SDBIP new format • Financial reporting by 2016 not completely ready in the mSCOA format
Lack of a SCOA committee	<ul style="list-style-type: none"> • Inconsistencies • Milestones cannot be monitored • Red Flags not identified at an early stage • Lack of accountability of the project managers 	<ul style="list-style-type: none"> • Roles and responsibilities not clearly defined • Lack of clear formalised terms of reference • Lack of implementation plan with clearly defined deliverables with proposed due date, etc