



Internal Audit Review – mSCOA Regulations

Kashnee Sewnarain

Director: Inspired FMS | NT Preferred mSCOA Trainer

06 March 2024



CIGFAR

Chartered Institute of
Government Finance, Audit & Risk Officers



1929 - 2024

SAQA Recognised Professional Body

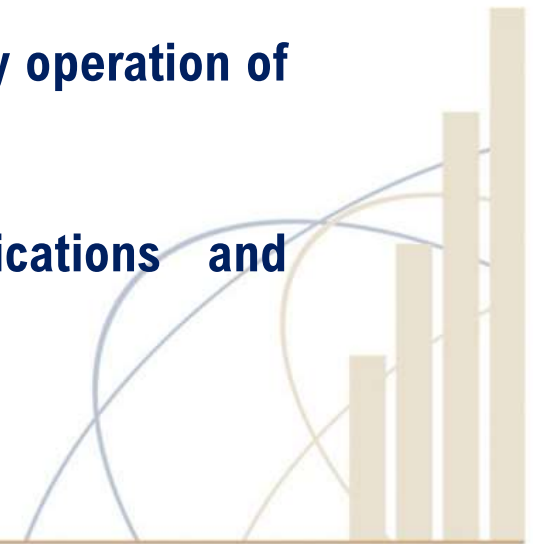
The mSCOA Journey



The Minister of Finance has, in terms of section 168 of the MFMA and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs, promulgated the mSCOA Regulations on 22 April 2014 (Government Gazette No. 37577)

The mSCOA Regulations are not limited to a standardised financial classification but incorporates:

- ✓ **Modernisation of Local Government business processes (regulation of minimum business processes and system specifications);**
- ✓ **Application of basic processes and procedures for the daily operation of the municipality; and**
- ✓ **Improvement of the municipal Information Communications and Technology (ICT) and control environment**



Where should we be with the implementation?

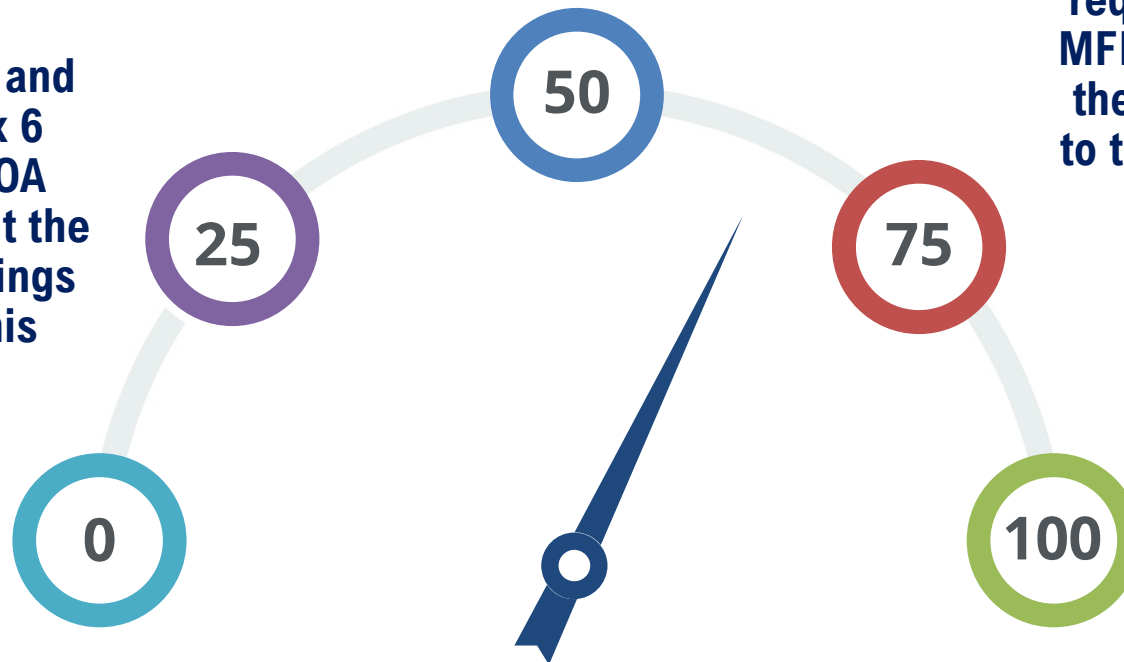


Lock down the budget adopted by Council on the core municipal financial system before submitting the budget data strings to the Portal

Close the core financial system at month end as required in terms of the MFMA before submitting the monthly data string to the Local Government Portal

Budget, transact and report on all six 6 legislated mSCOA segments - submit the required data strings directly from this system

Acquired, upgraded and maintain the hardware, software and licenses



Generate the regulated Schedules (A, B, C) directly from the core municipal financial systems

Where a municipality makes use of a stand alone third party sub system or certain functionality is provided by a third party sub system provider, such a third party subsystem should hold the relevant part of the mSCOA chart to seamlessly integrate with the core financial system without manual intervention

Where should we be with the implementation?



What should we NOT be doing?

- × **The manual correction of data strings by municipal officials or system providers are not allowed in terms of the mSCOA Regulations.**
- × **The manual postings of journals from the sub module/sub-systems into the core general ledger**
- × **Correcting journals on errors identified directly on the general ledger and not in the sub system/module**
- × **Changing A, B and C schedule numbers and amending reporting subsequent to being extracted from the core system**
- × **Manual preparation of excel schedules outside the financial system for core system functionality, such as grant registers, investment register, asset registers etc**



Where are we going with the implementation?

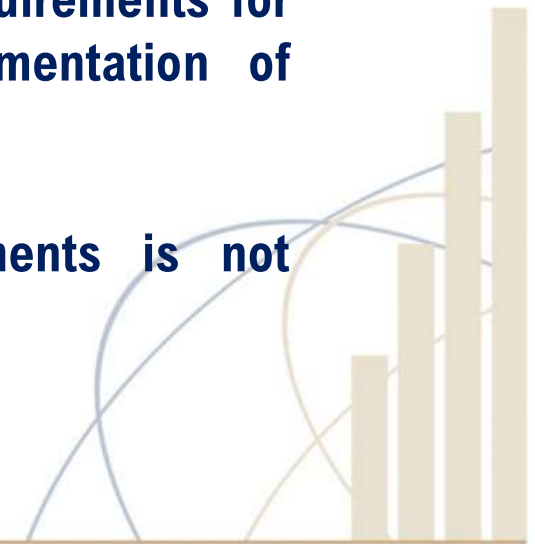


Minimum business process requirements

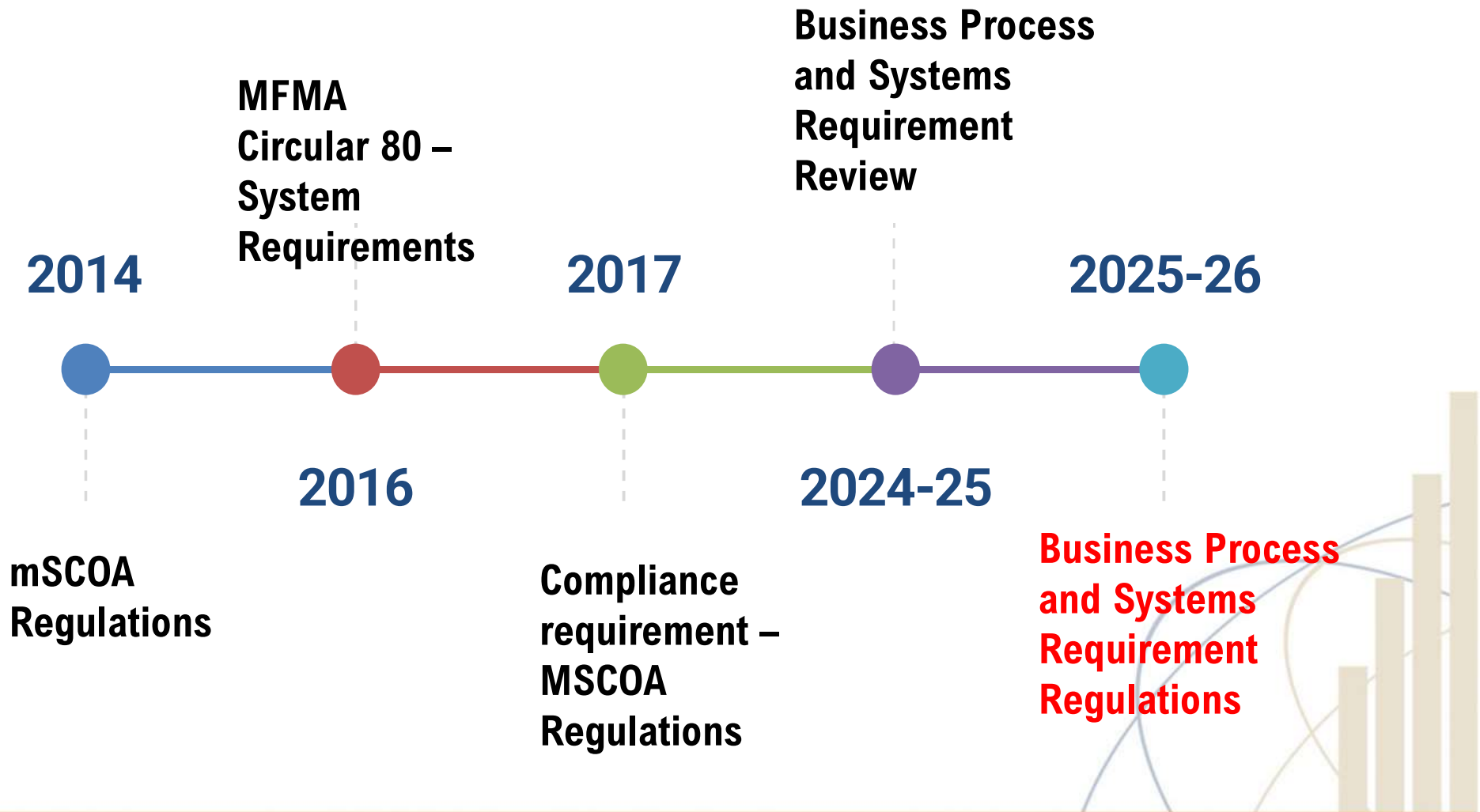
- ✓ Section 168 of the MFMA states that the Minister may, by notice in the Gazette, determine minimum business process requirements for municipalities and municipal entities to enable implementation of regulations 4 and 5.

Minimum system requirements

- ✓ Section 168 of the MFMA further stipulates that the Minister may, by notice in the Gazette, determine the minimum system requirements for municipalities and municipal entities to enable implementation of regulations 4 and 5.
- ✓ The minimum business process and system requirements is not Regulated to date.



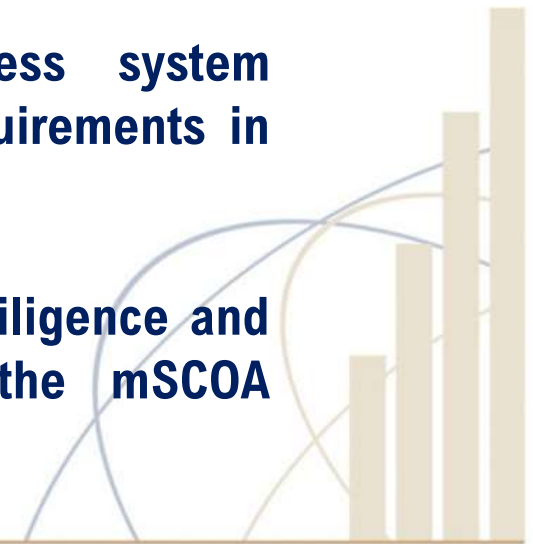
Where are we going with the implementation?



Where are we going with the implementation?



- ✓ **MFMA Circular No. 80 dated 08 March 2016 provided detailed guidance on the minimum business processes and system requirements for mSCOA.**
- ✓ **This Circular was issued as guidance to the municipalities and their entities, to enable the revision of business processes and system functionality implementation, in readiness of the Regulation.**
- ✓ **Municipalities were required to assess system functionality prior to changing and upgrading to systems.**
- ✓ **Municipalities are still required to continually assess system functionality to enable complete compliance with the requirements in MFMA Circular 80.**
- ✓ **This is done through regular completion of the ICT Due Diligence and considering the impact of weaknesses as part of the mSCOA Implementation.**



mSCOA Circular 80 Requirements



- ✓ **Cognisance should be taken that the category of municipality determines functionality requirements.**

- ✓ **Municipalities are divided into the following categories:**
 - a) **Category A Metros**
 - b) **Category B 1 Secondary cities**
 - c) **Category B 2 Large towns**
 - d) **Category B 3 Small towns**
 - e) **Category B 4 Mostly rural**
 - f) **Category C 1 Districts without billing**
 - g) **Category C Districts with billing**

- ✓ **MFMA Circular 80 and its Annexure B (dated 18 October 2016 provides further details on the minimum system functionality and business process requirements that should be incorporated in the municipality's financial management system to enable successful transacting in the mSCOA classification**



mSCOA Circular 80 Requirements



1929 - 2024

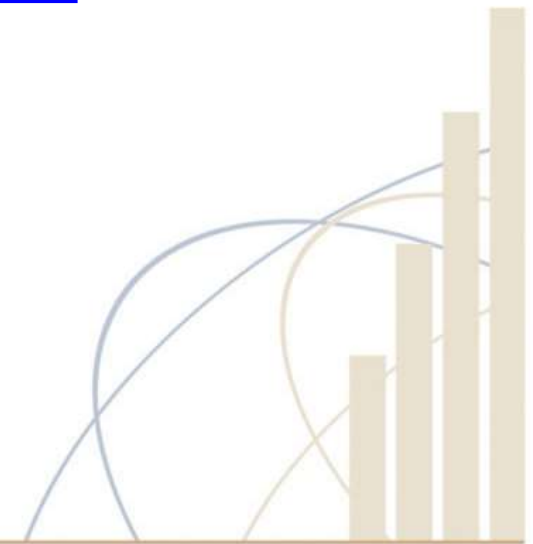
MFMA Circular 80 Business Processes

Corporate Governance	Grant Management
Municipal Budgeting, Planning and Modelling	Real Estate and Resources Management
Financial Accounting	Human Resource and Payroll Management
Costing and Reporting	Valuation Roll Management
Project Accounting	Land Use Building Control
Treasury and Cash Management	Customer Care, Credit Control and Debt Collection
Procurement Cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable	Full Asset Life Cycle Management including Maintenance Management
Revenue Cycle Billing	



Practical review of MFMA Circular 80 Business Processes and Sub-Processes

03. Annexure C ICT due diligence - mun code Name - 15 July 2016



Regulating Business Processes & System Specs



1929 - 2024

The National Treasury will regulate the minimum business processes and system specifications for mSCOA towards the end of 2025/26. The project further includes the following outputs:

- ✓ Review and update the set of minimum business processes and system specifications for mSCOA (currently articulated in MFMA Circular No. 80) to incorporate new legislative requirements that have been issued since the circular was published;
- ✓ Update and develop the standard operating procedures (SOPs) for mSCOA;
- ✓ Align the current ICT due diligence assessment for mSCOA to the new Regulations;
- ✓ Consultation with key stakeholders on draft regulations; and
- ✓ Training on the new Regulations to ensure that there is a fair understanding of the new regulation by stakeholders.



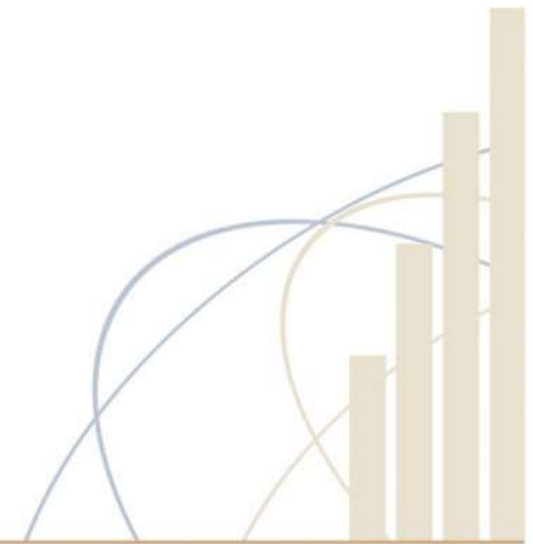
Effectiveness of Oversight Responsibility



The effective implementation of mSCOA and readiness for the Regulations at a municipal level depends largely on the efficiency of the oversight structures in place to oversee and report on the implementation.

In a mSCOA environment, these governance structures include:

- ✓ The Project Steering Committee;
- ✓ Internal Audit;
- ✓ Risk Management function and committee;
- ✓ External Audit;
- ✓ Audit Committee;
- ✓ Municipal Councillors;
- ✓ National and Provincial Treasuries



Effectiveness of Oversight Responsibility



1929 - 2024

Governance in a mSCOA environment involves the oversight and alignment of:



Effectiveness of Oversight Responsibility



Questions to ask ourselves:

- ✓ **Do we understand the requirements of Circular 80 for the 15 Business Processes?**
- ✓ **Are we implementing the requirements of MFMA Circular 80?**
- ✓ **What are the gaps that still need to be addressed in order to achieve these requirements?**
- ✓ **How do we get there in order to ensure that we are fully complying with these requirements?**



Strengthening the Role of Internal Audit



1929 - 2024

- ✓ Review policies, procedures and controls to ensure it is aligned to mSCOA;
- ✓ Ensure that due diligence and project management were followed when financial system was changed and is still being assessed;
- ✓ Ensure that the ICT environment is maintained to ensure continued mSCOA compliance;
- ✓ Ensure that proper contract management between vendors and municipalities was maintained and that corrective action have been taken if milestones have not been met;
- ✓ Review if planning, budgeting, transacting and reporting is being done directly in and from the financial system;
- ✓ Provide assurance on the credibility of the data on the financial system that are submitted to management, council and the National Treasury Upload portal; and



Strengthening the Role of Internal Audit



- ✓ Evaluate and report on the adequacy and effectiveness of mSCOA project risk process.
- ✓ Pro active auditing - A municipality does not have to wait for new systems to be implemented before Internal Audit provides insight on whether the resulting controls and system functionality will be adequate.

01

Continuous audit - ongoing risk and control assessments, enabled by technology. This type of audit significantly increases efficiency and must be coordinated with continuous monitoring programs in the organisation and management's oversight functions

02

Probity (Integrity) audits - an independent scrutiny of a procurement process to determine if the prescribed probity requirements have been adhered to. This type of audit encourages better accountability, integrity and compliance with processes.

03

Spot audits - an examination of an activity or process to make sure that rules are being adhered to, without warning the people involved that this is going to happen. Spot check reviews give assurance to management on the adherence to policies

Effective mSCOA Project Steering Committee



Each municipality should establish a functional and effective mSCOA Project Steering Committee (PSC) that considers the progress and challenges with mSCOA implementation at the municipality.

This oversight committee must:

- ✓ Meet at least quarterly, unless the municipality is experiencing implementation challenges in which case they should meet more often;**
- ✓ Must be chaired by the Accounting Officer or his/her delegated representative and**
- ✓ Must consist of representatives from all business units as mSCOA is organisation and not financial reform.**

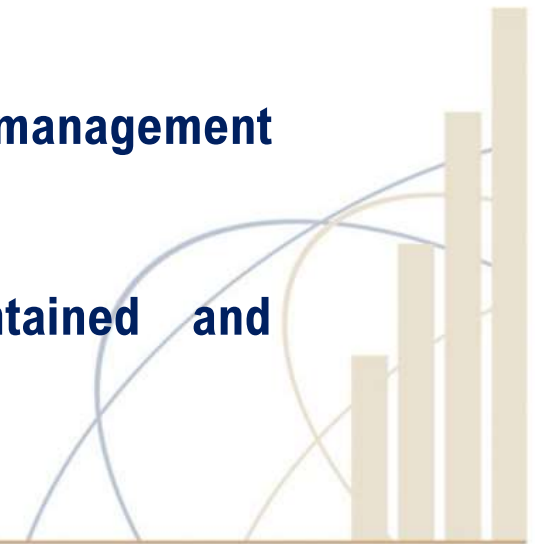
Feedback on mSCOA implementation and issues raised at the PSC meeting should be reported on at regular Executive Committee EXCO meetings and mSCOA should be a standing item on the agenda of the EXCO and Council.



Greater Internal Audit Focus



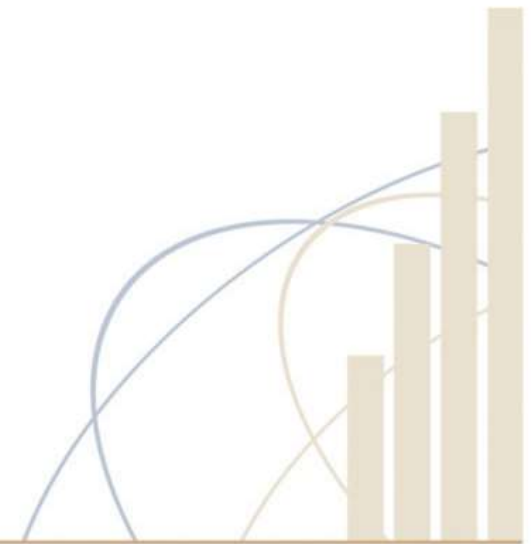
- ✓ **Review policies, procedures and controls to ensure it is aligned to mSCOA;**
- ✓ **Review the adequacy and effectiveness of internal controls brought by mSCOA project risk management processes;**
- ✓ **Review the establishment and functioning of mSCOA governance structures;**
- ✓ **Review full implementation of mSCOA reform, including Circular 80 Requirements;**
- ✓ **Determine the level of the ICT environment and financial management systems integration for mSCOA compliance;**
- ✓ **Validate that proper contract management is maintained and appropriately implemented according to milestones;**



Greater Internal Audit Focus



- ✓ **Review if planning, budgeting, transacting and reporting is being done directly in and from the financial system;**
- ✓ **Provide assurance on the credibility of the data on the financial system that are submitted to management, council and the National Treasury Upload portal; and**
- ✓ **Report to Audit committee on the extent of implementation of mSCOA project.**

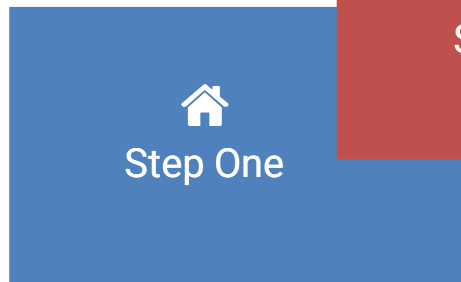


Update Road map and Monitoring

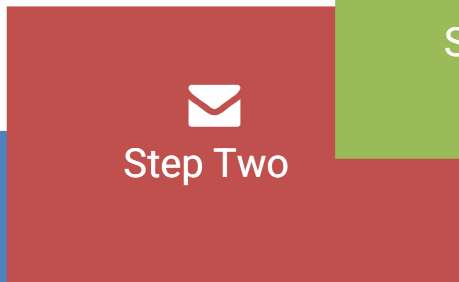


The municipality’s mSCOA Project Steering Committee must meet at least quarterly or more often) to track the progress against the road map and take corrective action where required

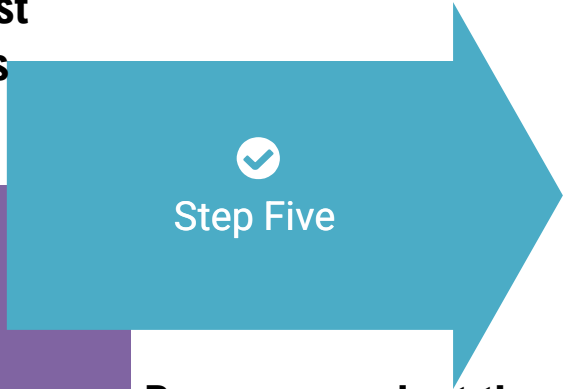
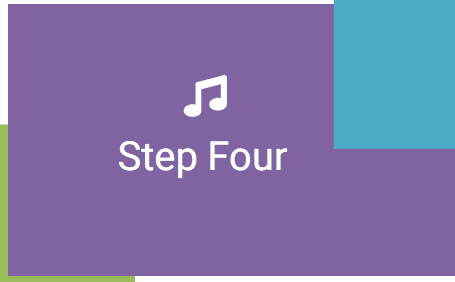
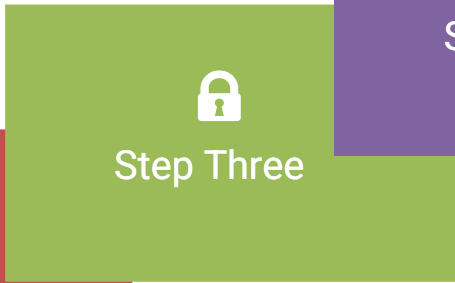
The municipality must develop a road map to indicate how and by when it will be become mSCOA compliant.



Is there a road map with milestones and time frames in place to monitor mSCOA implementation and address the gaps?



Does the mSCOA steering committee/dedicated structure review the road map on a regular basis and report progress and challenges to EXCO and Council at least on a quarterly basis?



Progress against the roadmap must be reported to Council, National and the respective Provincial Treasury for oversight purposes

The Road Map must be drafted by the municipality based on an internal due diligence – Not done by System Vendor

Update Road map and Monitoring



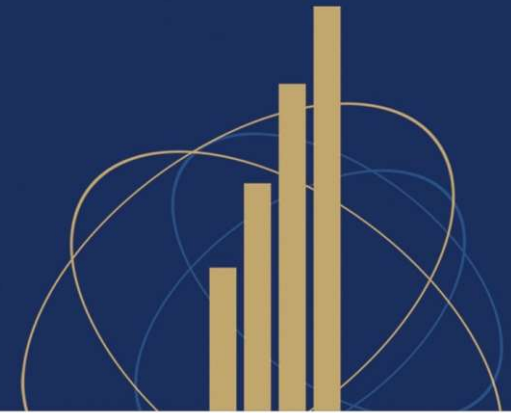
The road map should include the following priority areas, as applicable to the municipality:

Minimum system functionality & business process – Circular 80 and Annexure B	System Functionality
Integration with 3 rd party systems – Circular 80 and Annexure B	Integration
Initiatives to ensure institutionalization of mSCOA – organizational reform	Change Management
Use of systems, processes, transactional changes	Training





Q & A



CIGFAR

Chartered Institute of
Government Finance, Audit & Risk Officers

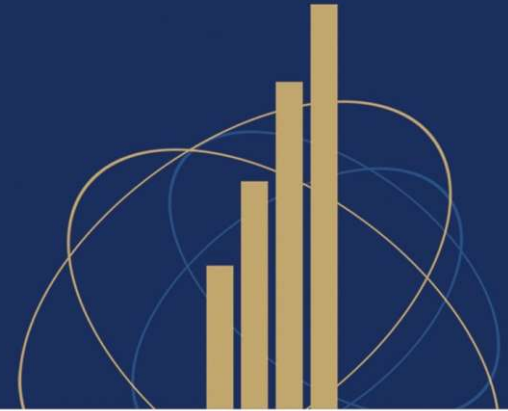


1929 - 2024

SAQA Recognised Professional Body



Thank You!



CIGFAR

Chartered Institute of
Government Finance, Audit & Risk Officers



1929 - 2024

SAQA Recognised Professional Body