Feedback on mSCOA Project Phase 4 (Change management and piloting)

Sebata User Group

Root cause analysis... *what are the problems?*
That the **WHOLE** local government fiscal framework is designed to finance municipalities.
At the heart of local government is managing finances to deliver services.

Non-priority wants
- Assignment of functions
- Allowed taxes
- Priority of LG in vertical divisions
- Design of ES Formula
  - Revenue lost due to lack of fiscal effort
  - Revenue forgone
  - Poor debt management
  - Low tariffs
  - Poor billing

Policy constraints on fiscal potential
- Conditional transfers
- Borrowing
- Service charges
- Rates and taxes
- Equitable share
  - Conditional transfers
  - Borrowing
  - Service charge revenue
  - Rates and taxes
  - Equitable share

Non-priority wants
- Theft and graft
- Bad management
- Inefficient procurement
- Under-spending

“Leakages”
- Effective and efficient expenditure

Demand for other important services
- Conditional transfers
- Borrowing
- Service charges
- Rates and taxes
- Equitable share

National and provincial mandates
- Rates and taxes
- Service charge revenue
- Conditional transfers
- Non-priority wants

Demand for basic services
- Conditional transfers
- Borrowing
- Service charges
- Rates and taxes
- Equitable share

Institutional set up
- Rates and taxes
- Service charge revenue
- Conditional transfers
- Non-priority wants

Institutional set up
- Rates and taxes
- Service charge revenue
- Conditional transfers
- Non-priority wants

Community needs and wants
- LG Fiscal Framework
- Revenue choices and collection
- Budgeted expenditure choices
- Managing delivery
- Actual service delivery
Constitutional Requirements

Section 216(1) of the Constitution states that:

National legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing -

(a) Generally recognised accounting practice
   \( (GRAP – OAG) \)

(b) Uniform expenditure classifications; and
   \( (Standard \ Chart \ of \ Accounts / General \ Leger) \)

(c) Uniform treasury norms and standards
   \( (MFMA, \ Regulations, \ Circulars \ and \ Guidelines) \)
MFMA Requirements

Section 168 (1) of the MFMA states that:

The Minister (of Finance), acting with the concurrence of the Cabinet member responsible for local government, may make regulations for, among other things –

(a) any matter that may be prescribed …and…

(p) any other matter that may facilitate the enforcement and administration of the Act
Local Government: Municipal Finance Management Act (56/2003): Municipal Regulations on Standard Chart of Accounts (Gazette No. 37577)

- Key Objectives in preamble

  - improved data quality and credibility;
  - the achievement of a greater level of standardisation;
  - the development of uniform data sets critical for 'whole-of-government' reporting;
  - the standardisation and alignment of the 'local government accountability cycle' by the regulation of not only the budget and in-year reporting formats but also the annual report and annual financial statement formats;
  - the creation of the opportunity to standardise key business processes with the consequential introduction of further consistency in the management of municipal finances;
  - improved transparency, accountability and governance through uniform recording of transactions at posting account level detail;
  - enabling deeper data analysis and sector comparisons to improve financial performance; and
  - the standardisation of the account classification to facilitate mobility in financial skills within local government and between local government and other spheres as well as the private sector and to enhance the ability of local government to attract and retain skilled personnel.
Regulations

• Object of the regulations
  – to provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which
    • are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and
    • enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere
Regulations

• The regulations apply to all municipalities and municipal entities
  – For municipal entities the reporting in annual financial statements and annual reports may differ due to commercial nature of some of the municipal entities.
  – There is no exemption from the regulation for the application of mSCOA to municipal entities.

• Chapter 2
  – Segments and classification framework for standard chart of accounts
    • 7 Segments
  – Implementation requirements
    • 7 Segments
    • must accurately record all financial transactions and data in the applicable segment.
    • may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity
  • Financial and business application
    – hosting of the general ledger structure
    – capable of accommodating and operating mSCOA
    – portal allowing for free access, for information purposes, to the general ledger of the municipality or municipal entity, by any person authorised by the Director-General or the Accounting officer of the municipality
Regulations

- Chapter 3
  - Minimum business process and system requirements
    - These are still to be published
- Chapter 4
  - Technical committee for standard chart of accounts
    - Composition of committee
    - Function of mSCOA committee
- Chapter 5
  - Responsibilities of municipal functionaries
    - Responsibilities of municipal councils and board of directors
    - Responsibilities of accounting officers
- Chapter 6
  - General
    - Access by National Treasury
    - Postponement of implementation and exemption
mSCOA Project Phases: *The journey to the checkered flag...*

- **Kick off engagements with municipalities, vendors and other stakeholders**

- **Vendors were briefed as to development of mSCOA and initial evaluations of system functionality.**

- **Ensuring that piloting municipalities and system functionality is aligned to the compliance requirements of the Regulation will create an enabling environment for the roll out to non-piloting municipalities**

- **Regulation issued and commissioning of mSCOA Project Phase 4: Change management and piloting including identification of pilots**

- **Piloting commencement with 9 pilot municipalities (local and districts) and 4 Metro’s (City of Cape Town, Ekuruleni, Mangaung and Buffalo City) – Phased over 2015/16 and 2016/17**

- **Remaining metro’s to implement (pilot) mSCOA and project initiation for the non-piloting municipalities**

- **278 municipalities fully mSCOA compliant**
mSCOA in the broader FM landscape

Strategic input

Service delivery
Fiscal Outcomes
IDP/SDBIP

mSCOA Objectives

Financial

Non Financial

Region
Project
Function
Input
Activity
Output
Outcome
Project Management Requirements

Sustainable LG - Evidence based FM
Local government financial management accountability cycle – mSCOA alignment

- **IDP**
- **5 year Strategy**
- **Three year Budget**
- **Budget**
- **SDBIP**
- **Annual Plan to Implement**
- **Monitoring**
- **In-year Reporting**
- **Oversight Reports**
- **Annual Financial Statements**
- **Annual Report**
- **Focus of MBRR**
- **Next Project**

**Standard Chart of Accounts (SCOA)**
SCOA change management resistance

**Design Phase**
- Stability
- Denial
- Immobilization

**Alignment**
- Anger
- Bargaining
- Depression

**Piloting and testing**
- Acceptance
- Testing

- 3 years leading to 22 April 2014
- May 2014 to Dem 2014
- Jan 2015 to Dec 2015
mSCOA – Multi dimensional classification framework
Overall design principles for SCOA – Recap

- Classification framework limited to financial information
- International standards, guidance and best practices
- Comply with legislative framework for local government
- Labels and accounts to be clearly defined
- Comprehensive framework (grid) to satisfy stakeholders needs
- Information to be easily extracted
- Alignment of financial and budget reporting formats
- Integration of GRAP standards
- Standardisation of terminology
- Standardisation of transaction classification
- Reporting on “whole-of-local government and government”
- Simple classification
- Financial system integration with optimised business and programme rules
Project work streams...
## mSCOA Work Stream 1: Technical (Internal)

### mSCOA Project Phase 4

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<thead>
<tr>
<th>Activity</th>
<th>July - Dec 2014</th>
<th>Jan - June 2015</th>
<th>July 15 – June 16</th>
<th>July 16 – June 17</th>
<th>1 July 2017........ 37 months and beyond...</th>
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<tbody>
<tr>
<td>1) Mobilise Project</td>
<td>Completed</td>
<td>In progress...</td>
<td>13 – 24 months</td>
<td>25 – 36 months</td>
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<tr>
<td>2) SCOA V5 Scoping</td>
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<td>5) BRF, IYM &amp; AFS format testing</td>
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<td>3) Position papers</td>
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<td>6) Building capacity (NT &amp; PT’s)</td>
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<td>4) BRF &amp; AFS</td>
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### Actual Output & and Planned Activities Leading to 1 July 2017

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<th>Activity</th>
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<tbody>
<tr>
<td>1) Project mobilisation and initiation complete</td>
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<td>6) Build capacity of NT and PT</td>
<td>✓ Awareness campaign completed</td>
<td>✓ Structuring of NT and PT critical</td>
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<tr>
<td>2) SCOA V5 Scoping</td>
<td>✓ Issued mSCOA Version 5.1 and 5.2 (Tables / Segments)</td>
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<td>✓ Develop SQL version manager</td>
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<td>✓ Est. mSCOA Technical Working Committee</td>
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<td>✓ Internal testing</td>
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<td>3) Draft position papers – Still need to be finalised and adopted</td>
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<td>5) BRF, IYM &amp; AFS – Report format testing</td>
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<td>4) BRF, IYM &amp; AFS alignment</td>
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<td>7) AFS - mSCOA format</td>
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<td>8) Migration: All munis</td>
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<td>mSCOA Project Phase 4</td>
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<td>High Level Planned Activities</td>
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<td>In progress…</td>
<td>13 – 24 months</td>
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<td>37 months and beyond…</td>
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<tr>
<td>1) Identify pilots</td>
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<td>2) Est. position on pilots</td>
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<td>3) Define report formats for system output</td>
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<td>4) Piloting and progress management</td>
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<td>5) Municipal risk register</td>
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<tr>
<td>6) Engage with broader municipal environment</td>
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**Actual Output & and Planned Activities Leading to 1 July 2017**

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<tr>
<td>1) Identify pilots:</td>
<td>Completed</td>
<td>In progress…</td>
<td>13 – 24 months</td>
<td>25 – 36 months</td>
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<tr>
<td>✓ 8 Metros</td>
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<td>✓ Currently 16 munis across 9 systems</td>
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<td>2) Est position on pilots:</td>
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<td>✓ 4 SCOA ICF’s</td>
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<tr>
<td>✓ Numerous workshops and engagements (vendors &amp; pilot munis)</td>
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<td>✓ Currently assessing progress &amp; readiness</td>
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<td>✓ Will rationalize numbers down</td>
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<td>3) Define report formats for system output:</td>
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<td>✓ Current engagements underway – Vendors and LG Database</td>
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<td>✓ Formulating a position to be issued</td>
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<td>✓ Testing of data /report extraction</td>
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<td>4) Piloting and progress management:</td>
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<td>✓ Assessment of compliance</td>
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<td>✓ Issue formal position (NT)</td>
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<td>5) Municipal Risk Register – Continuous</td>
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<td>6) Engage broader municipal environment – Continuous</td>
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<tr>
<td>1) Est. programme strategy</td>
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<tr>
<td>2) Develop non-accredited training materials for pilot munis</td>
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<tr>
<td>3) Train the trainer</td>
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<td>4) Rollout of training to pilot munis</td>
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<td>5) Develop the unit Standards for SCOA for Local Government</td>
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<tr>
<td>6) Roll out of accredited training materials to all munis</td>
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**Actual Output & and Planned Activities Leading to 1 July 2017**

1) Est. programme strategy:
   - Strategy completed
   - Adopted by mSCOA SteerCom

2) Develop non-accredited training material
   - Material to be finalised – 1 April

3) Train the trainer

4) Rollout of non-accredited training material
   - 9 sessions in each province of between 25 and 30 delegates – Scheduled for April 2015
   - 2 Sessions scheduled May 2015

5) Develop the unit standards for SCOA

6) Roll out of accredited training materials (Unit standards based)

Addition: Develop information material for councilors including rollout strategy through SALGA
<table>
<thead>
<tr>
<th>mSCOA Work Stream 4: Transition (External)</th>
<th>mSCOA Project Phase 4</th>
<th>July - Dec 2014</th>
<th>Jan - June 2015</th>
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<tr>
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<tr>
<td>1) Communications and Change Mgt.</td>
<td>4) Communications and Change Management Strategy roll-out</td>
<td>Completed</td>
<td>In progress...</td>
<td>13 – 24 months</td>
<td>25 – 36 months</td>
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<tr>
<td>Strategy development</td>
<td>5) Establish capability gaps throughout process</td>
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<td>2) Engage on database</td>
<td>6) Standardise practice for issuance of circulars</td>
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<td>3) Support business processes</td>
<td>7) SCOA Technical Committee Integration</td>
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<td>8) Scale-up interface with municipalities</td>
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<td>9) Develop and roll-out capacitation plan based on gaps identified</td>
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<td>1) Communications and Change Mgt. Strategy development:</td>
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<td>✓ PT site visits</td>
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<td>✓ Other forum such as PAG &amp; CFO Forum</td>
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<td>2) Engage on database adjustments</td>
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<td>4) Communication and change management roll-out:</td>
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<td>✓ mSCOA ICF, PT engagements, CFO Forums, etc.</td>
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<td>✓ Develop and distribute mSCOA Chart</td>
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<td>✓ Develop and implement FAQ SQL Database (Web based)</td>
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<td>✓ 9 provincial sessions (2014) Demystifying SCOA</td>
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<tr>
<td>mSCOA Work Stream 5: LG Database</td>
<td>July - Dec 2014</td>
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<td>July 15 – June 16</td>
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<td>1) Configuration and amendments to the LG Database – SCOA aspects</td>
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<td>2) Define report formats for system output</td>
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<tr>
<td>1) Configuration and amendments to the LG Database – Informed by testing during piloting</td>
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<td>2) Define report formats for system output:</td>
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<tr>
<td>✓ Current engagements underway – Vendors and LG Database</td>
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<td>✓ Formulating a position to be issued</td>
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<td>✓ Testing of data/report extraction</td>
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<td>3) Engage on database adjustments</td>
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<td>4) Testing: SCOA, in-year reporting framework and functionality of LG Database</td>
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Critical deliverables (path) aligned to mSCOA Project Phase 4 work streams...*next ten months!*
Work Stream 1: Technical

- March 2015: Finalise mSCOA Version 5.3 (all segments) – Lock down for piloting
- April 2015: Update SQL Version Manager
- May 2015: Capacitation of NT Directorates – Two one day engagement including other stakeholders
- June 2015: Initial design framework for LG Database aligned to mSCOA
- July to Sep 2015 (3 months): Continuous testing of LG Database mSCOA Version including SQL configuration and change management
- August to Oct 2015 (3 months): Finalise mSCOA Version 6 (all segments)

Work Stream 2: Piloting

- March 2015: Evaluation & assessment of pilots: System vendor and pilot municipality readiness (site visits)
- April 2015: Develop position paper on pilot assessment findings (possible TCF Paper)
- May 2015: Refine municipal risk register as a management tool
- June 2015: Engagements with pilot sites – Site visits to share findings and monitor pilot readiness
- July to Sep 2015 (3 months): Piloting by selected municipalities
- August to Oct 2015 (3 months): Compliance testing - Budgets, transacting and reporting

All work streams running concurrently!
All work streams running concurrently!
<table>
<thead>
<tr>
<th>Work Stream 5: LG Database</th>
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<tbody>
<tr>
<td><strong>March 2015</strong></td>
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<tr>
<td>Mapping of current IYM to</td>
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<td>SCOA classification</td>
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<td>Defining data and report</td>
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<td>extraction formats</td>
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<td>Development of parallel LG</td>
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<td>Database informed by data</td>
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<td>and report extraction</td>
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<td>formats</td>
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<td><strong>April 2015</strong></td>
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<td><strong>May 2015</strong></td>
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<td><strong>June 2015</strong></td>
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<td><strong>July to Sep 2015</strong></td>
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<td>(3 months)</td>
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<td>Testing of refined and</td>
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<td>amended reporting</td>
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<tr>
<td>structures i.e. MBRR, IYM</td>
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<td>and AFS</td>
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<td><strong>Oct to Dec 2015</strong></td>
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<td>(3 months)</td>
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</table>

All work streams running concurrently!
Stakeholder engagement in achieving consensus is of the utmost importance!

Engagements will be informed and aligned to the project work streams and associated outputs.
Stakeholders and role players include...among others:

- Internal units of the National Treasury (i.e. Public Finance and Budget Office)
- DCoG
- Sector departments (i.e. DWA)
- South African Local Government Association
- FFC
- ASB
- Financial system vendors
- Pilot municipalities
- Broader municipal environment
- LG SITA and SAQA
Progress by financial system vendors as informed by piloting process
Top design flaws based on initial assessment of financial systems

- Back to short code Item level transacting (flat structure).
- Cumbersome processes will cause resistance (end user acceptance).
- Limited reporting.
- Navigation to budget & transacting is cumbersome.
- The chart is intimidating owing to limited business & validation rules.
- Projects not center stage.
- Alignment not clearly visible.
- Default projects excessively used.
- User departments excluded.
- Dependency on consultants is entrenched by the system configuration.
- System functionality only proven in 2016 on budgets.
- Non Alignment to IDP/SDBIP
- Flat file / Short code
- Excel Budget
- Transactional Environment and reporting
Top financial system design principles

Transaction is driven by tree structure whereby next level is chosen based on first choice and available budget – Limited to applicable accounts (not entire chart)