



## Municipal SCOA Circular 1 - Implementation

*mSCOA is a business reform - it is therefore important that this circular is distributed to all senior managers and other relevant officials throughout the municipality*

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (mSCOA) to non-pilot municipalities in preparation for full mSCOA compliance by 1 July 2017. This is the first in a series of mSCOA circulars.

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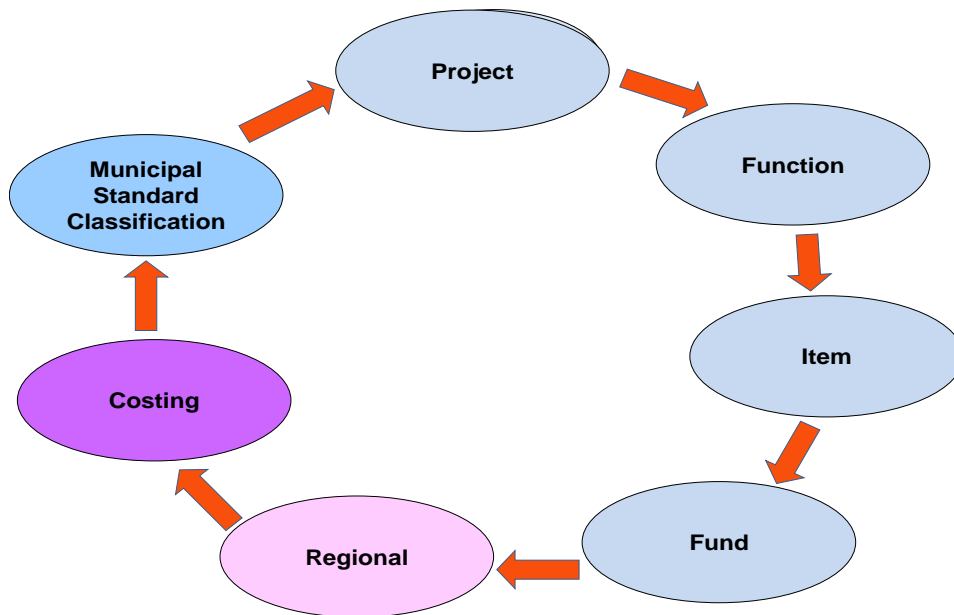
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# 1. What is Municipal SCOA (mSCOA):

mSCOA stands for “standard chart of accounts” and provides a uniform and standardised financial transaction classification framework. Essentially this means that mSCOA prescribes the method (the how) and format (the look) that municipalities and their entities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting. mSCOA is a “proudly South African” project researched by National Treasury based on municipal practices, reporting outcomes, policy implementation and review, etc.

## 1.1 mSCOA is multi-dimensional in nature

mSCOA is a business reform rather than a mere financial reform and requires multi-dimensional recording and reporting of every transaction across the following 7 segments:




Funding	Function	Item	Project	Costing	Regional	Municipal Standard Classification
What source of Funding will be used for the transaction and from which source is the revenue received?	Against which function or sub-functions should the transaction be recorded?	What is the nature of the transactions to be recorded either being an asset, liability, net asset, gain or loss, revenue or expenditure?	Does the transaction relate to a specific project and if so, what type of project?	Impact of the transaction on secondary costing?	What is the relevant geographical location for capital investment or the appropriate service delivery area for operational expenditure?	Against which organisational vote or sub-vote should the transaction be recorded?

This affects municipal officials across the municipality and at all levels (also in user departments). In practice it means that if municipality A classify a transaction in one-way or


another, municipality B would classify the similar transaction in exactly the same way within the Item Segment Classification.

mSCOA does not prescribe specific business processes in a municipality. However, purely by way of its design principles (the 7 segments depicted above) mSCOA influences the municipality's business processes. In a nutshell, all the steps in the municipality's business processes that receive or draw financial information from the municipality's system(s) will be affected. It will therefore be impossible for a municipality to successfully implement mSCOA if it does not have business processes in place.

	<p><b>Example 1:</b> Municipality A decided to run a one-year electricity project “Know what you use” to convince some customers to change to pre-paid electricity. When selling such pre-paid electricity not only the total value of sales must be recorded as <i>revenue</i> (item segment), but mSCOA also requires that the <i>funding</i> (Electricity tariffs), <i>function</i> (Electricity) and <i>project</i> (“Know what you use”) and <i>region</i> (“poor-paying area 3”) where the sale was made be reflected.</p> <p>This means that the municipality must put business processes in place to enable it to capture all the 7 segments' information, if it does not have this information already available.</p>
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## 2. Why mSCOA:

The SCOA transaction classification reforms already commenced in 1998 for national and provincial government and since 2004, the Economic Reporting Format (ERF) and SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting. However, when incorporating municipal information for whole-of-government reporting and decision making, the misalignment in municipal reporting (discussed below) prevented informed decision making and affected the credibility of our reporting.

	<p>Let's illustrate the current challenge by way of an example.</p> <p><b>Example 2:</b> Municipalities A, B and C each buy food for a function. Municipality A expenses it as “Catering expenses”, municipality B expenses it as “Entertainment expenses” and municipality C expenses it as “Mayoral Special projects – Community Braai”.</p> <p><b>Example 3:</b> The Municipal Manager travels in his car to a business conference. Municipality A expenses it as “Subsistence and Travel”, municipality B expenses it as “travelling expenses” and municipality C expenses it as “conference fees” and municipality D as “meetings”.</p> <p>Although each of the three municipalities acquired exactly the same item/ travel it is difficult for a user of their financial records to compare or determine how much each municipality spend on the same type of item/ travel.</p>
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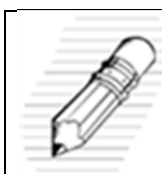
Consider now that each municipality currently manages and reports on its financial affairs according to its own organisational structure and unique classification framework. It is a reality then that this type of misalignment happens throughout the majority of transactions across 278 municipalities. It is very difficult to compare financial information across all municipalities due to them having a non-standardised chart of accounts. The challenge left is how to reliably assess Municipality A, B or C's financial performance relative to one another? Furthermore it becomes very difficult to determine what government as a whole spent on a particular project if we have to assimilate the information across national departments, provinces and municipalities.

The National Treasury ultimately has the responsibility for compiling national whole-of-government accounts, including consolidated local government information for national policy and other purposes. This information is obtained from all municipalities and their entities. It is therefore necessary for National Treasury to specify a national standard (Municipal SCOA (mSCOA)) that aligns with SCOA used by national and provincial government to enable the collection of local government financial information across municipalities and their entities.

## 2.1 Benefits of mSCOA

mSCOA -

- *Standardise all municipal- and the whole-of-government reporting.* Seamless alignment in reporting;
- *Relieves reporting fatigue and the cost of reporting.* By enforcing mSCOA from transaction inception to data extraction in a municipality's systems ensures a credible, reliable and timely database of municipal information at a very detailed level. This information can be used in multi-dimensional reporting. mSCOA therefore focus on data extraction making reporting possibilities endless which will eliminate current excessive user requests to municipalities, resulting in endless templates asking for the same information in different formats. mSCOA does not fix historic information but going forward it forces credible information through its validation principles;
- *Bring officials in the municipality together on topical matters,* e.g. engineers and accountants / accountants versus budget office, etc.



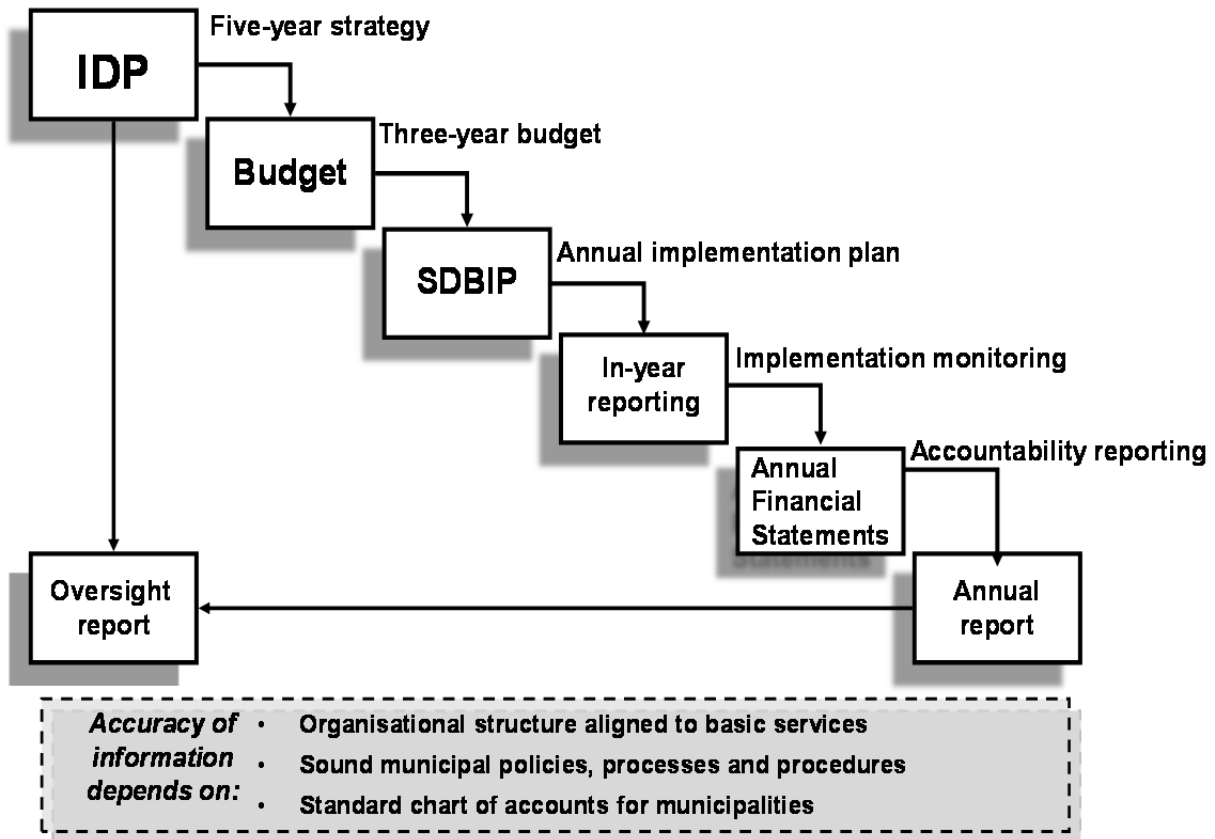
**Example 4:** Historically planning for the budget was done by the budget manager in one office. The engineer (implementing the project) was not necessarily involved. mSCOA brings about a business change and when planning e.g. repairs and maintenance everyone (budget manager, engineer and accountant) will do joint planning.

- *Guides minimum leading business processes in a municipality* through the use of multiple segments. It therefore reforms the business of the municipality and not just its finances. This means:
  - less need for the use of consultants, since municipal officials themselves implement business processes on-the-job;
  - consistent and unique skills development across municipalities that enables transition of resources between municipalities and across spheres of government;
  - the cornerstone of mSCOA is proper planning and budgeting. mSCOA requires a municipality to budget in a particular way (for projects) across the segments, which means that what council approved in the budget and what is implemented (spend) across the municipality's systems will align ensuring

spending discipline (economy, efficiency and effectiveness). This improves transparency and accountability;

- *Modernise financial management through updated systems and technology.* There is a general improvement of systems offerings since vendors are upgrading systems to align with mSCOA;
- *Improves transparency and accountability leading to a high level of service delivery;*
- *Brings higher levels of cooperative government.* mSCOA makes it easier to navigate across municipal systems to prioritise support. National and provincial government can now provide pro-active and preventative support because we will have credible, reliable and timely municipal information;
- *Provides for evidence-based financial management in municipalities.* This means improved municipal benchmarking, policy making and interventions;
- *Improves the audit process in municipalities.* By improving accruals, audit opinions should improve. Furthermore the Auditor-General currently has to audit the multiple charts of accounts of municipalities. Standardising the chart of accounts for all municipalities:
  - Reduces Auditor-General interpretations across multiple charts of accounts;
  - Thereby reducing audit costs and auditing time; and
  - Provides a standard for the Auditor-General to audit consistently across all 278 municipalities.
- *Opened discussions around the “same interpretation” of accounting principles* between municipalities, vendors and other stakeholders;
- *Creates stability and consistency by providing a defined structure in the standard set of accounts.*
- Currently there is a mismatch between the municipality’s budget, service delivery and budget implementation plan (SDBIP), in-year reporting (MFMA section 71 and 72) and the annual financial statements. mSCOA because of the multi-dimensional reporting across segments, *brings seamless alignment in the accountability cycle of a municipality.* This is because all the reports across the accountability cycle will be compiled from the same mSCOA information:

# Municipal Accountability Cycle and mSCOA



These are just a few benefits of mSCOA, more are discussed in the Project Summary Document that can be accessed on the website mentioned below as part of the mSCOA Integrated Consultative Forum (mSCOA ICF) documentation.

### 3. Who must implement mSCOA:

The *Municipal Regulations on a Standard Chart of Accounts (mSCOA)* is applicable to all municipalities and municipal entities with effect from 1 July 2017. This means that as of 1 July 2015, a non-pilot municipality still has a 16 month preparation and readiness window remaining to enable it to capture all transactions (at posting level) in accordance with mSCOA within its respective financial applications (systems). This is calculated from the assumption that the municipality should prepare its 2017/18 budget during October/ November 2016 as required by the Municipal Budget and Reporting Regulations.

#### 3.1 Municipality ultimately accountable

Even when mSCOA is implemented, the municipality remains ultimately responsible and accountable for the capturing and submission of all the legislated information and reports to the National Treasury Local Government Database (the push of information) as was the status before mSCOA.

Additionally mSCOA will enable the National Treasury and other user departments to pull information directly from the municipality's system(s). This means that the National Treasury

and any other national or provincial user departments will have one central point of access to the detailed municipal financial information used for monitoring and oversight. This will limit user requests for information in other formats or of different detail levels to municipalities.

### 3.2 Can the municipality's system(s) implement mSCOA

Not all existing municipal systems are able to implement mSCOA. The National mSCOA Project Team is currently engaging all systems vendors active in local government to assess their systems' functionality to accommodate mSCOA. If a specific technology and system solution is assessed as deficient in its functionality of accommodating the mSCOA Regulations, such findings will be communicated to municipalities.

During October and November 2015 the National mSCOA Project Team will engage all non-pilot municipalities on the way forward. It is therefore crucial that **a municipality only change its systems or affect any changes to its current systems in accordance with MFMA Circular No. 57** to align with mSCOA once the National mSCOA Project Team's work is concluded. Premature spending on systems may prove to be in vain.

Please refer to paragraph 4.3 below relating to the funding of any systems development.

## 4. How to implement mSCOA:

### 4.1 Piloting municipalities

Piloting of mSCOA has already commenced in 19 local, 2 district and 8 metropolitan municipalities phased over the 2015/16 and 2016/17 financial years. Piloting is done in close cooperation with the National Treasury mSCOA Project Team and the provincial treasuries. Lessons learnt are shared amongst the provinces through the mSCOA National Integrated Consultative Forum (mSCOA ICF) which documentation is available at the below mentioned link to the National Treasury website.

### 4.2 Non-piloting municipalities

There are a host of immediate activities that all municipalities should do concurrently to the piloting process in preparation for implementation by July 2017. We recommend the following activities be prioritised in July 2015, if it has not been done already by the municipality:

- 4.2.1 Tabling the Municipal Regulations on a Standard Chart of Accounts in the municipal council to bring awareness;
- 4.2.2 Engage the provincial forums which will be used to provide feedback on the piloting process. In addition, attend any sessions scheduled by the National mSCOA Project Team, such as the provincial one day mSCOA introductory sessions and two/ three day non accredited training, which will provide further clarity as it relates to the mSCOA classification framework. Attendance of these sessions by relevant officials, including the municipal mSCOA project manager or coordinator, will be essential if the municipality is to proactively manage any hurdles to ensuring most benefit is derived from mSCOA implementation;
- 4.2.3 Study the Regulation, mSCOA Project Document, associated Segments and Frequently Asked Questions which can be accessed at the below mentioned website;
- 4.2.4 *mSCOA project kick off*: Register a formal mSCOA project in the municipality with a project sponsor, steering committee (with a terms of reference) attached as 'Annexure A' and a suitable governance structure to oversee the implementation;

4.2.5 *mSCOA project implementation*: Identify a project manager or coordinator within the municipality (preferably within the finance department at a senior level). Identify a multi-disciplinary mSCOA project team for the municipality. The project team should include skills of finance, budgeting, engineering, risk management, information technology and human resources if these skills are available in the municipality:

- Compile a high level **mSCOA project plan**, including a **mSCOA risk register**, for the municipality (including any municipal entities and associated activities), that address at least the following activities:
  - Draft a terms of reference for the municipality's mSCOA project team. Consider the example draft terms of reference attached herewith as 'Annexure B';
  - Develop a SCOA project delivery strategy, including the assignment of responsibilities, Key Performance Indicators (KPI's) and performance targets for the project and provide for regular project monitoring and reporting;
  - Across all the mSCOA project activities ensure proper document management for the mSCOA project and municipal records;
  - Undertake an exercise to match the existing municipal chart to the regulated Municipal SCOA classification framework. Identify and document any anomalies;
  - Matching the existing vote, cost centre and budget structures operational in the municipality to the Function Segment of the Municipal SCOA classification framework. Identify and document any anomalies;
  - Considering mSCOA is a business reform, incorporate all senior managers across the municipality into the project through internal awareness and information sharing;
  - Incorporate the project plan and associated milestones as part of a standing agenda item at senior management meetings;
  - Tabling a progress report, including the updated risk register with the municipal council on a quarterly basis;
  - The municipality is urged to review its IT infrastructure, network and archiving ('as is' analysis), but only after the National mSCOA Project Team's October/November engagement with the municipality as discussed above.

*The following activities should form part of the mSCOA project plan activities and prioritised once the abovementioned activities have been completed. We will elaborate on these in future mSCOA Circulars.*

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- Establish a position on the municipality's system(s):
  - (i) who are the key vendors; and
  - (ii) are these seamlessly integrated?
- Calculate the current total cost of ownership of the core system;
- Undertake a data cleansing exercise and effect the relevant reconciliations;
- Undertake a Human Resources and payroll review and allocation verification;
- Review the full planning process and project segments; and
- Review the business process and mSCOA impact on real estate, land use and grant management; etc.

#### 4.3 Submission of mSCOA Project Plan to the Treasuries

Every municipality must submit its mSCOA Project Plan (addressing also mSCOA implementation for all its municipal entities and associated activities) to the National Treasury ([Jan.Hattingh@treasury.gov.za](mailto:Jan.Hattingh@treasury.gov.za)) and the relevant provincial treasury for review **on/before**



**Monday, 31 August 2015.** The mSCOA Project Plan must clearly identify the name and contact details of the project sponsor in the municipality.

#### **4.4 Funding the implementation of mSCOA**

Each municipality is ultimately accountable to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control (section 62 of the MFMA). The National Treasury will not be paying for any systems development. Consequently, over-and-above the municipality's own revenue the following resources are available to fund the implementation of mSCOA:

4.4.1 *The equitable share allocation;*

4.4.2 *The Municipal Systems Improvement Grant (MSIG)* has been amended to enable municipalities to use the MSIG to fund information systems that support the Municipal Standard Chart of Accounts (mSCOA);

4.4.3 *The Financial Management Grant (FMG)* conditions provide for the acquisition upgrade and maintenance of financial management systems and automated financial management practices including the municipal Standard Chart of Accounts (mSCOA).

For more detail on these conditional grant frameworks, please refer to Annexure W3 of the 2015 Division of Revenue Bill (DoRA Bill No. 5 of 2015) available at:

<http://www.treasury.gov.za/legislation/bills/2015/Default.aspx>

## **5. How to get familiar with mSCOA:**

Should you have any queries related to Municipal SCOA the following information and assistance is available:

5.1 The following information related to the mSCOA Regulation is available on the National Treasury Website:

- Government Gazette 37577 – Municipal Regulation on Standard Chart of Accounts;
- GFS Classification Framework;
- Project Summary Document;
- Segment Detail – Item, Fund, Function, Project, Regional Indicator, Costing;
- Comments Register; and
- List of Terminology.

All of the abovementioned information can be accessed at:  
<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

5.2 A database of Frequently Asked Questions has been compiled and all piloting municipalities have been granted access. Non-pilot municipalities will be provided access to the FAQ Database with the next mSCOA Circular which will include a user manual.

5.3 The provincial MFMA Coordinator or such other person as the province formally communicated can also be approached;

5.4 The lessons learnt from pilot municipalities will formally be shared going forward. Please do not contact these municipalities individually;

5.5 The National Treasury is currently rolling-out a non-registered training programme to 42 district municipalities. It is envisaged that the rollout will commence at the later part of August 2015 and extend for a period of 8 to 10 weeks. The programme will be 3 days, as it will be addressing mainly the non-pilot sites and is a programme for participants with little or no knowledge of mSCOA.

5.6 mSCOA Circulars. This is the first in a series of Municipal SCOA Circulars aimed to assist municipalities in getting mSCOA ready. The mSCOA Circulars will be issued monthly and can be accessed at:

<http://mfma.treasury.gov.za/Circulars/Pages/default.aspx>

The next mSCOA Circular will elaborate on mSCOA available reading material, how to structure the municipality's mSCOA project and explain the "Function" and "Municipal Standard Classification" segments.

## Contact



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