



Municipal SCOA Circular 2 - 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 second in a series of *mSCOA* circulars.

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1. Municipal SCOA (mSCOA) reading material:

1.1 The Regulations on a Municipal Standard Chart of Accounts

By now you should already be familiar with the Municipal Regulations on a Standard Chart of Accounts (mSCOA). If not, please prioritise reading the regulations that can be located at:

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

1.2 Project Summary Document (PSD)

Secondly, it would assist any municipal official to be familiar with the Project Summary Document (PSD). The PSD provides background to the mSCOA project since inception and explains the basics of each of the seven (7) mSCOA segments. It also compares the national and provincial SCOA processes and the resultant need for a municipal SCOA.

The purpose of the PSD is to:

- Capture the purpose for having each of the seven (7) segments;
- Explain the key design principles applied when each segment was designed and structured;
- Discuss the high-level classification relevant to each specific segment (with reference to its subject matter); and
- Provide some guidance for the implementation of each segment.

The information provided in the current PSD is supplemented by information shared on the “lessons learned” from mSCOA piloting municipalities. The PSD, issued on 1 October 2014, can be accessed at:

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

1.3 The National Integrated Consultative Forum (ICF) Documentation

The National Integrated Consultative Forum (ICF) is the platform where piloting municipalities, system vendors, the National and provincial treasuries, and stakeholders such as NERSA, the Department of Water Affairs and Sanitation (DWA) and the South African Revenue Services (SARS) engage. The Auditor-General, Accounting Standards Board (ASB) and the Institute of Municipal Financial Officers (IMFO) attend the ICF’s as observers to the process. The documentation of every ICF is published on the mSCOA website. The idea is that every provincial treasury share these at the relevant provincial ICF or related forum. However, every municipal practitioner can access the ICF documentation from the mSCOA website (refer the link above in paragraph 1.2).

2. Municipal Standard Chart of Accounts Training / Skills Programme:

The National Treasury is developing unit standards for the Municipal Regulations on a Standard Chart of Accounts (*mSCOA*). Concurrent to this process, the published version of the *mSCOA* chart is being refined as the *mSCOA* piloting process unfolds. It is unlikely that the unit standards will be finalised before the *mSCOA* chart is locked for issuing and implementation to all non-pilot municipalities.

Currently no *mSCOA* unit standards exist and as a result no institutions are accredited to provide *mSCOA* training. Once the unit standards have been issued, the National Treasury will issue accredited training material that aligns to these unit standards. This training will address the needs of financial practitioners and non-financial managers. At the same time, the National Treasury will issue criteria for the accreditation of *mSCOA* (training) facilitators and assessors. Only *mSCOA* accredited facilitators will be able to provide *unit standard aligned* accredited *mSCOA* training to local government.

In this context, we confirm that the National Treasury *mSCOA* Project Team is currently best placed to provide training to municipalities that are informative, correctly aligned and continuously updated with ongoing *mSCOA* chart refinements. Municipalities are therefore cautioned to “not waste valuable time and resources” on *mSCOA* training offerings that are potentially at high risk in misrepresenting *mSCOA*. A next round of National Treasury *mSCOA* training will commence soon. The detail will be communicated to all provincial treasuries/ and non-piloting municipalities.

3. How to structure the municipality’s *mSCOA* Project Plan:

It is important to understand that a project is a temporary ‘structure’ established in the municipality with a specific purpose. A project ceases to exist on completion of the assignment. This means that the municipality’s *mSCOA* project should not continue forever, but end on completion of successful *mSCOA* implementation in the municipality. At that point in time *mSCOA* should be embedded in the daily activities of the municipality and therefore the need for the project support structure would no longer exist.

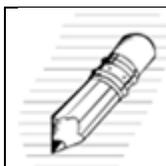
	<p>Example 1: <i>mSCOA</i> Implementation will typically be an operational project created within the <i>mSCOA</i> “Project Segment” for tracking operational expenditure against envisaged budgeted resources.</p>
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3.1 Piloting municipalities

Pilot municipalities are currently somewhere between project inception and transacting on the seven *mSCOA* segments. These municipalities should be preparing for the first *mSCOA* aligned quarterly reports.

During pilot implementations the goal posts are moved as lessons are learnt, issues addressed and risks mitigated. However, this does not mean that healthy project governance should not exist.

Often the leaders and lagers in a group attract the most attention and *mSCOA* implementation is no exception. Therefore now is an opportune time for all piloting municipalities to address any outstanding governance items in preparation for the annual external audit.



The following are some of the valuable lessons learnt from piloting municipalities:

- mSCOA is an organisational reform involving all departments. It is not limited to the administration and/ or finance and/ or IT;
- Change management within the organisation is crucial. Do not underestimate the emphasis on change management that is required within the municipality to make a success of the mSCOA project;
- Do not underestimate the amount of work needed to successfully own and implement mSCOA in the municipality;
- Each municipality need to develop mSCOA local expertise within the municipality;
- The local expert has to develop his/ her own understanding and be willing to share the information. These are important qualities to consider when assigning officials to your project implementation team;
- Discuss your municipality's mSCOA challenges regularly with the provincial treasury/ and compare with similar questions/ challenges raised on the Frequently Asked Questions (FAQ) database. If your challenges are not speedily resolved, please address them to the National Treasury mSCOA help desk; and
- Ask for help – that is the reason for the helpdesk being incorporated into the Frequently Asked Questions (FAQ) database.

3.2 Non-piloting municipalities

Municipal SCOA Circular 1 highlighted the need for every non-pilot municipality to compile a high level project plan to implement mSCOA in the municipality. It is important that this plan focus on the responsibilities of the municipality and, as a minimum, include the list of activities already provided for in Municipal SCOA Circular 1.

Ideally the required project plan only needs to cover the activities of the municipality at a high level (not that of its system vendor(s)). The project plan remains a working document for the duration of the project, meaning the project team will update and expand the plan as the project unfolds.

It is recommended that the following activities (additional to those listed in Municipal SCOA Circular 1) be included in the plan:

3.2.1 Commissioning an mSCOA steering committee and project management team:

- if you have not done so already, include appointment of the mSCOA steering committee and implementation teams (work streams) e.g. IT work stream, Change management and transition work stream, etc;
- Draft a charter for each of these implementation teams to clarify their responsibilities and scope; and
- Amend the performance agreements of all officials and senior managers involved in the steering committee and/ or implementation teams to ensure mSCOA is adequately prioritised among other work responsibilities;

3.2.2 Set up the project governance structure and project management office (PMO):

- The 'governance structure' refers to the mSCOA steering committee, internal audit and risk management departments, all of whom should:

- (a) schedule regular reviews of the municipality's mSCOA project implementation; and
- (b) add a standing mSCOA item to their meeting agendas.

- The project management office (PMO) provides the administrative support to the project. At least one full time resource should be assigned to the PMO as the project takes off. This official will have to provide dedicated support to the project implementation teams (work streams) with administrative duties such as taking minutes at meetings, maintain project documentation, compile consolidated progress reports from the individual work stream progress reports, etc;

3.2.3 Skills development:

- Improve the skills of the project implementation teams by considering and adopting the Kotter or other project management methodology (e.g. search on line for material); and
- Every member of the project implementation teams must familiarise themselves with the mSCOA Regulations and the Project Summary Document (PSD);

3.2.4 *Review the current municipal chart of accounts* - the purpose of this review is to understand the municipality's individual municipal chart of accounts structure, current projects and the items frequently used. This will be very important later-on when the municipality embarks on an exercise to break down/ allocate every one of its existing municipal departments to the standardised GFS functions (or sub-functions and sub-sub-functions);

3.2.5 *Conduct an "as is" analysis/ or review of IT infrastructure, network and archiving:* The work stream assigned with this responsibility should -

- Draw up a list of the current Information Technology infrastructure in the municipality, the municipality's network capacity, archiving policy, procedures and capability. All of these are impacted by the mSCOA implementation;
- Calculate the current cost of ownership of the core system. This will include a review the current annual license fees, the annual cost of consultants required to maintain these systems, and all additional fees like training, user group attendance, updates and small changes to the system;
- Calculate the current cost of ownership of any additional or sub-systems. Similar to what was done for the core system, identify who are the key vendors, and costs associated with these system(s);

3.2.6 *Change management and transition:* Appoint a change management/ or communication committee to assist with on boarding of officials across the municipality and its municipal entities;

3.2.7 *Document the current business processes in the municipality:* During this exercise it will be useful to refer to the mSCOA regulations for guidance on affected business processes;

3.2.8 *Start with data purification:* mSCOA cannot fix historic incorrect information. This means that if the municipality inputs "garbage" into mSCOA its reporting will still provide "garbage" output. It is therefore important that all data captured in mSCOA are "clean" and that appropriate documentation regarding these corrections are maintained in the audit file for the period under review; and

3.2.9 *The mSCOA Frequently Asked Questions (FAQ) database:* It is important that every member of the municipality's mSCOA implementation teams/ work streams register on

the FAQ database (refer paragraph 1.2 above for the website link) to review the questions and answers posted by the pilot municipalities. This is a valuable tool for learning and fast tracking official's mSCOA implementation.

As part of the National Treasury mSCOA project team's support, an mSCOA project plan framework is attached (refer Annexure A). The municipality and/ or provincial treasury is welcome to use the framework and to align it with the municipality's specific circumstances. Should any non-pilot municipality require additional support to develop their mSCOA implementation plan, or assistance to start off in the municipality, we urge you to consult your provincial treasury team, who are coordinating the mSCOA effort in your province. The contact details of the relevant provincial treasury official(s) responsible for mSCOA is attached (refer Annexure B).

3.3 Submission of mSCOA Project Plan to the Treasuries

A number of municipalities have raised challenges in submitting their mSCOA project plans to the Treasuries for review. These challenges are discussed below:

	<p><i>It is annual financial statements (AFS) time. There is no time for mSCOA now:</i></p> <p>It is the Treasuries' view that not all senior officials in a municipality are responsible for compiling annual financial statements. It is therefore recommended that the development of the project plan is assigned to a senior official(s) that is not consumed in the annual financial statement process.</p>
	<p><i>Municipalities are hesitant to submit a project plan at this stage. The mSCOA project plan will bind the municipality to a vendor and there is uncertainty regarding the vendor status at this stage:</i></p> <p>It is not true that the project plan binds a municipality to a vendor. There are a number of things a municipality can and should do long before any vendor is engaged.</p> <p>The vendor is responsible for the system. In the municipality's project plan, the "vendor activities", at this stage, only need to be indicated at a high level as "system activities". Whereas, all the other activities that the municipality are required to do, should be unpacked.</p> <p>It is crucial to understand that a project plan is a living document and as such it will develop as the project progresses. However, every municipality is encouraged and urged to make a start somewhere.</p>

Municipalities that have not yet submitted their mSCOA project plans to the Treasuries are encouraged to do so. A review by the Treasuries is part of the support offered that could assist the municipality to, at an early stage in the process, identify gaps and possible challenges.

As such we confirm that only project plans submitted before Monday, 5 October 2015, will be processed by the Treasuries. After this date, the support will focus on the next phases of mSCOA implementation. Municipalities that do not submit their plans by this extended date

would therefore have lost the opportunity to benefit from the review and could potentially jeopardise their implementation at their own risk.

The municipality's mSCOA project plan (addressing also mSCOA implementation for all its municipal entities and associated activities) can be submitted to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury (refer Annexure B for the relevant contact details). The mSCOA project plan must clearly identify the name and contact details of the project sponsor in the municipality.

4. mSCOA - Project Work Streams:

To ensure adequate support for the successful implementation of mSCOA, the National Treasury mSCOA Project Team's activities are structured into five (work streams). These work streams are introduced below to create a better understanding amongst municipalities of the mSCOA Project: Phase 4 – Change Management & Transition.

4.1 Work Stream – Technical

<p>Purpose</p>	<p>This work stream commenced at inception of the mSCOA project in October 2009, its purpose being to:</p> <ul style="list-style-type: none"> • Research, compile and maintain the mSCOA Classification tables; • Research, draft and finalise “Position and Discussion Papers” on topical mSCOA related matters; • Electronically upload SQL mSCOA releases; • Prepare and continuously update a Project Summary Document (PSD) to support the mSCOA tables. The PSD document incorporates: <ul style="list-style-type: none"> ○ the design principles applied in the compilation of the mSCOA Tables; ○ existing reference source(s) available and the impact of mSCOA on these requirements; ○ the revision of high-level classifications resulting from frequently asked questions; ○ discussions of mSCOA implementation requirements and related matters. • Define the necessary changes to the local <i>government reporting requirements</i> that will result in the: <ul style="list-style-type: none"> ○ optimal use of the mSCOA classification tables; and ○ streamlining of local government reporting to all the identified stakeholders. • Respond to the frequently asked questions (FAQ), posted to the FAQ database. This function contributes to knowledge management and provides a useful audit trail of changes made to the mSCOA tables as the project progresses; • Develop relevant proposals relating to the abovementioned activities to the mSCOA Technical Work Group for recommendation to the mSCOA Project Steering Committee for formal adoption into the
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	<i>mSCOA</i> chart.
Progress	Since project inception, this work stream has made significant progress that is documented and explained in Annexure D.
Documentation	This work stream developed: <ul style="list-style-type: none"> the Municipal Regulations on a Standard Chart of Accounts, 2014 (<i>mSCOA</i>); and Respond to the frequently asked questions (FAQ) database that can be accessed at: http://mscoafaq.treasury.gov.za/Logon.aspx
Going forward	To do - non-pilot municipalities should follow the guidance provided in the Project Summary Document at the end of each of its sections. This is a standing item that will be addressed ongoing in the forthcoming Municipal SCOA Circulars as each of the seven (7) segments are discussed.

4.2 Work Stream – Pilot and Vendor Management

Purpose	This work stream was the initial <i>mSCOA</i> research team since project inception with ongoing vendor engagement since 2010. Its functional pilot work commenced in April 2014. This work stream is focussed to: <ul style="list-style-type: none"> Determine what is the level of implementation of the <i>mSCOA</i> classification framework; and Develop minimum specifications for business processes and system(s) that will enable successful <i>mSCOA</i> implementation.
Progress	Since project inception, this work stream has: <ul style="list-style-type: none"> Evaluated municipalities to determine the most representative and feasible selection of municipalities for piloting <i>mSCOA</i>; Engaged system vendors operating in local government to: <ol style="list-style-type: none"> Review the initial findings resulting from the initial municipality review; and Establish a gap probability analysis. Presented its work and research at the ICF's, including an <i>mSCOA Position Paper: Mapping Coding and Short Codes</i> (tabled at the June 2015 ICF).
Documentation	All presentations made by this work stream (to date) can be accessed as part of the 4 th and 5 th ICF'S at the following link: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Documents/Forms/AllItems.aspx?RootFolder=/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Documents/02.%20mSCOA%20ICF&FolderCTID=&View={C96C9F53-8A90-4584-BDF6-E04838D2AF6B}
Going forward	It is crucial that a municipality obtain a conceptual view of its current ICT infrastructure, including its ' <i>Core Financials</i> ' and <i>all other solution offerings</i> . This exercise normally reveals massive duplications and gaps

	<p>in the current system(s) environment of the municipality.</p> <div data-bbox="459 235 630 539" style="border: 1px solid black; padding: 5px; display: inline-block;">  </div> <div data-bbox="646 235 1356 539" style="border: 1px solid black; padding: 5px; display: inline-block; vertical-align: top;"> <p>For example at several municipalities it was found that a core financial system is in use of which only the General Ledger, Debtors and Cashbook, and creditors modules are used. Despite the system providing for prepaid, supply chain, projects, reporting, etc. the municipality pay extra to 3rd parties to provide these functions separate from the existing core financial system.</p> </div> <p>To do –</p> <p>(i) the <i>mSCOA</i> Project Plan must require the municipality's ICT department to compile a map with descriptions of:</p> <ul style="list-style-type: none"> • what functions are included in the current core financial licencing fee; • what functions of the core financial system is not used; and • what functions available on the core financial system is outsourced. <p>To assist with this exercise, a municipality should as a minimum use the template included as Annexure C.</p> <p>(ii) Each municipality must submit its completed Annexure C to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury (refer Annexure B for the relevant contact details) on/ before Friday, 13 November 2015.</p>
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4.3 Work Stream – LG Database Development and Reporting

<p>Purpose</p>	<p>The work stream was formally established on 1 June 2015, although research and discussions took place before this date. Its purpose is to:</p> <ul style="list-style-type: none"> • Design a new database for <i>mSCOA</i>; • Define validation rules for datasets; • Develop the portal for submission of datasets and documents to the local government database; • Test validation rules on pilot datasets, and • Translate piloting datasets into old reporting formats for testing and quality checks.
<p>Progress</p>	<p>This work stream has already:</p> <ul style="list-style-type: none"> • Designed a new database version 1 , to be implemented; • Defined validation rules, to be refined and formally tested; • Implemented portal (lguploadportal.treasury.gov.za) for submission of datasets and <i>mSCOA</i> format documents; • Supported pilot municipalities with registration, access approval and the upload processes for the new portal; • Mapped and tested the Municipal Budget and Reporting Regulations (MBRR), In-year monitoring (IYM) and annual financial statements (AFS) formats; • Informally tested municipal SCOA data received from pilot municipalities and provided feedback to vendors and municipalities; • Provided support to resolve <i>mSCOA</i> frequently asked questions

	<p>(FAQ) website <i>user access queries</i>,</p> <ul style="list-style-type: none"> • Finalised the <i>URS of functional changes</i> to the mSCOA FAQ website. These changes are effective from 25 August 2015; • Requested assistance from National Treasury IT to host an mSCOA Risk Matrix website on the National Treasury server, and • Provided input to the City Support Portal's (CSPs) design and assisted with links to the relevant municipal information on the CSP portal.
Documentation	<p>At this stage there are no documents available to municipalities relating to this work stream's activities.</p> <p>It is suggested that municipalities familiarise themselves with item: "4. mSCOA Guidelines", provided on the current link: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx</p>
Going forward	<p>To do –</p> <p>(i) Once mSCOA is implemented on the municipality's system(s), non-piloting municipalities are requested to submit data files for mSCOA testing purposes and quality assurance to lguploadportal.treasury.gov.za.</p> <p>(ii) Municipalities are still legally required by the MFMA and must continue submitting the existing in-year reports (MFMA Sections 71 and 72) to lgdatabase@treasury.gov.za. These reports must be submitted in the format(s) prescribed in the Municipal Budget and Reporting Regulations (MBRR).</p> <p>The submission of reports (as is) will remain a legislative requirement even once the National Treasury has an open portal to information directly on the municipality's systems.</p>

4.4 Work Stream – Transition and Change Management

Purpose	<p>This work stream formally commenced on 1 July 2014 with its purpose being to:</p> <ul style="list-style-type: none"> • support transition and change management in provincial treasuries; • enable adequate capacity and support for the roll out and implementation of mSCOA in Non-Pilot Municipalities.
Progress	<p>Over the past seven (7) months, this work stream has:</p> <ul style="list-style-type: none"> • Developed a strategy for the roll out of Change and Transition over the duration of mSCOA Project Phase 4; • Engaged all provincial treasuries extensively; • Engaged and worked closely with other stakeholders relevant to mSCOA implementation to further change and transition, including SALGA, DCoG, IMFO, ASB, PSAF and vendors, etc; • Engaged Pilot Municipalities, early adopting municipalities and municipalities requiring additional training, change support and strategic interventions to sustain their mSCOA efforts;

	<ul style="list-style-type: none"> Weekly <i>mSCOA</i> training of Municipalities with a clear focus on change and enablement so that a municipality (after training) knows what to do next in terms of <i>mSCOA</i>; and Ongoing, working closely with provincial treasuries to assist with the on boarding of early adopter municipalities and change and transition interventions in provinces.
Documentation	<ul style="list-style-type: none"> Documents and examples created by this work stream are available under the Integrated Consultative Forum (ICF) folder on the National Treasury website (refer the link in paragraph 1 above); Once the knowledge base on the FAQ database is up-and-running, the work stream's documentation will also be made available as part thereof; Some documentation has already been circulated as attachments to the Municipal SCOA Circulars.
Going forward	<p>To do – At this stage all Non-Pilot municipalities should already have in place:</p> <ul style="list-style-type: none"> A municipal council resolution supporting and approving the <i>mSCOA</i> project for the municipality; A <i>mSCOA</i> Project Steering Committee and a <i>mSCOA</i> Project Team (both with approved Terms of References (refer Municipal SCOA Circular 1); and Be in the process of compiling an <i>mSCOA</i> Project Plan and risk register for the municipality.

4.5 Work Stream – Training

Purpose	<p>The training work stream commenced in September 2014 with its purpose being, to:</p> <ul style="list-style-type: none"> Demystify <i>mSCOA</i> across all municipalities, municipal entities, national and provincial treasuries; Train financial practitioners at pilot municipalities and their respective system vendors; Develop a unit standard based accredited <i>mSCOA</i> training programme aimed at both financial- and non-financial <i>mSCOA</i> practitioners; and Develop and facilitate an accredited “train the trainer” – <i>mSCOA</i> programme.
Progress	<p>In the past year this work stream has:</p> <ul style="list-style-type: none"> Developed and presented the one (1) day “Demystifying <i>mSCOA</i>” programme across all 9 provinces; Developed and implemented a two (2) day non-accredited training programme for pilot municipalities and their respective system vendors (focussing on financial practitioners).
Documentation	<p>This work stream's documentation can be accessed on the National Treasury website (refer the link in paragraph 1 above):</p> <ul style="list-style-type: none"> Presentations made at the Integrated Consultative Forums (ICF's); The “Demystifying <i>mSCOA</i>” one (1) day training programme.

Going forward	<ul style="list-style-type: none"> • 3 day non-accredited mSCOA training for non-pilot municipalities. With an expected start date of 28 September 2015 for 10 weeks. Your provincial treasury will soon communicate in this regard. • Accredited training - envisaged roll out from January 2016.
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