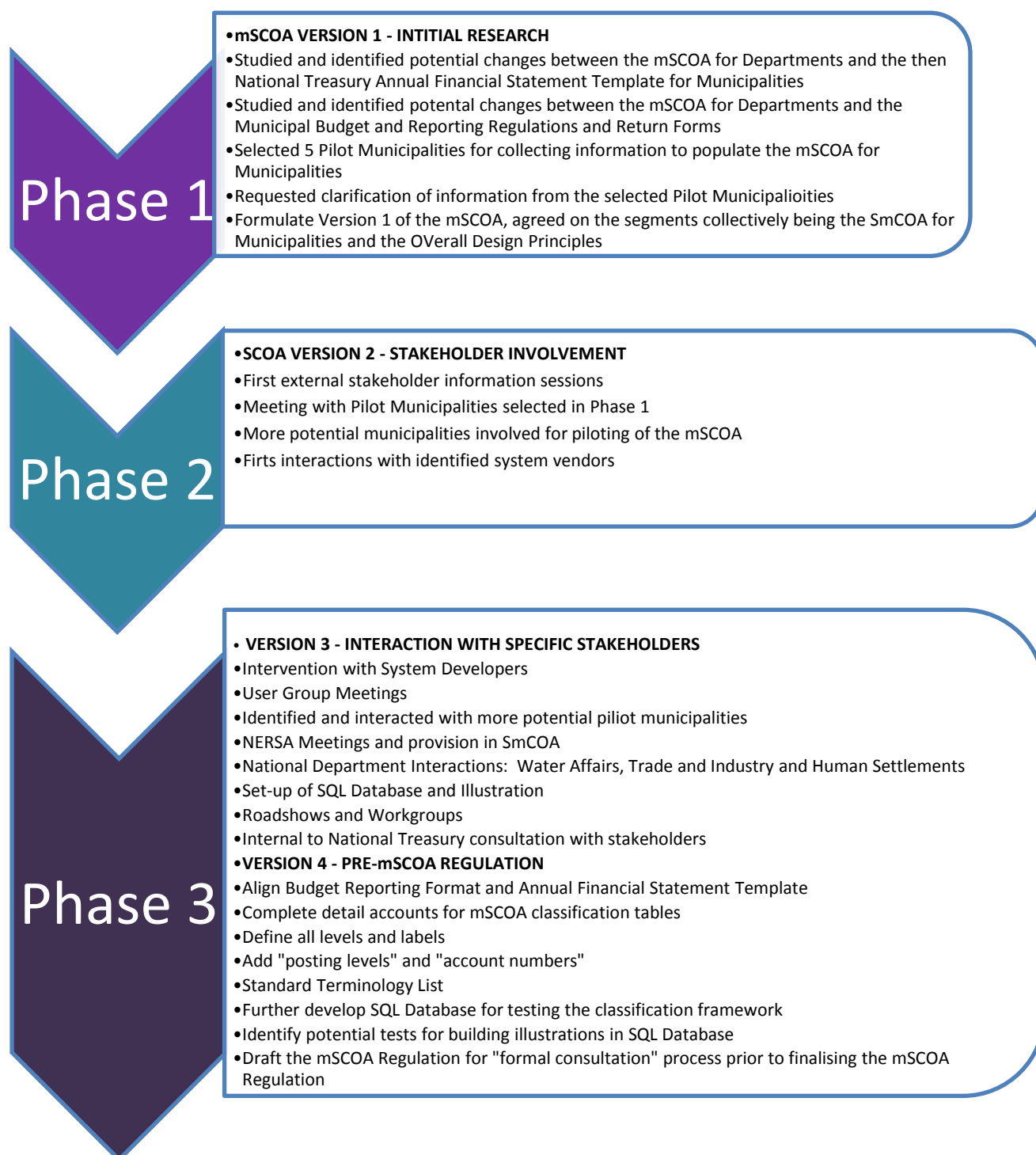


# Annexure D: MFMA mSCOA Circular No. 2

## mSCOA Technical Work Stream Progress

### Process followed and Scope of Research Conducted to date

1. The initial research on the project commenced in October 2009 marked by three continuous and integrated phases of development. These stages in the development process are described as distinct phases and are depicted as follows:



2. Extensive stakeholder consultation was undertaken during the development process, as required in the MFMA. Furthermore, financial practitioners will be supported by the National Treasury's mSCOA Technical Committee post implementation. Preliminary indications are that the stakeholder groups would include those tabulated below.

### **Phase I**

3. During Phase 1 initial research were conducted by collecting information from municipalities, national treasury legislation, regulations, circulars and guidance to formulate the legislative framework and extract compliance criteria for guiding the mSCOA development. Updating the legislative framework is an ongoing activity due to new guidance provided throughout the development period. As indicated in the overview hereunder this framework will be updated and checked for compliance prior to concluding on Phase 3.
4. The departure point for defining a classification framework for municipalities was the mSCOA for Departments. The Economic Reporting Format defined for national and provincial Departments set the principles for moving towards the whole of government budget and annual financial statement reporting in the future. Critical to this consideration is that the mSCOA for Departments are based on the cash basis of accounting whilst the municipalities need to be based on accrual accounting principles and in compliance with the GRAP Reporting Framework.
5. Specific attention has been given to the accounts required to bridge the differences between the cash basis of accounting and accruals basis of accounting in compliance with the GRAP Reporting Framework. To the maximum extent possible, the high level classification defined by the Economic Reporting Framework had been retained for consolidation purposes.
6. Given the impact of providing for the high level classification identified by the Economic Reporting Format, the impact of this approach had to be reflected in the annual financial statements, reporting tables and the budget reporting formats.
7. Five municipalities were engaged for their participation into this research. Financial practitioners from these municipalities then participated in consultations, workgroups and sharing of information. Selected municipalities included:
  - a. Steve Tshwete;
  - b. Knysna;
  - c. City of Cape Town;
  - d. Polokwane; and
  - e. eThekweni.
8. These municipalities provided their chart of accounts to assist in the development of Version 1 of SCOA.
9. Account descriptions and definitions were only available from one of the above Municipalities – the City of Cape Town.
10. The research conducted in this Phase predominantly resulted in concluding on the segments collectively being the mSCOA for municipalities and the overall design principles to be adhered to throughout the detailed development of mSCOA.

### **Phase II**

11. Phase 2 commenced with meeting all external stakeholders. The table below shows a summary of all engagements with brief comments on the activity.

Stakeholder Group	Date	Description and Remarks
<b>A. Provincial Treasuries</b> <ul style="list-style-type: none"> <li>• Eastern Cape</li> <li>• Free State</li> <li>• Gauteng</li> <li>• Kwazulu-Natal</li> <li>• Mpumalanga</li> <li>• North West</li> <li>• Northern Cape</li> <li>• Limpopo</li> </ul>	26 Jan' 2011 7 Mar' 2011	<p><i>The MFMA Coordinators and Head of Departments are responsible for the coordination and communication with the municipalities in the province.</i></p> <ul style="list-style-type: none"> <li>• Information session held followed by a workshop on the detail accounts provided for in the chart of accounts.</li> <li>• Requested comments to be provided following the detail discussions.</li> <li>• Next interaction: to be scheduled post April 2012.</li> </ul>
<b>B. National Departments</b> <ul style="list-style-type: none"> <li>• Agriculture, Forestry and Fisheries</li> <li>• Cooperative Governance and Traditional Affairs</li> <li>• Energy</li> <li>• Home Affairs</li> <li>• Human Settlements</li> <li>• Mineral Resources</li> <li>• National Treasury</li> <li>• Public Works</li> <li>• Rural Development and Land Reform</li> <li>• Statistics South Africa</li> <li>• The Presidency</li> <li>• Tourism</li> <li>• Transport</li> <li>• Water Affairs</li> </ul>	14 Feb' 2011	<p><i>The national departments having an interest in the chart of accounts are invited to the Introduction/Information Session. Depending on their interest and information requirements we foresee that separate meeting with some or all of the departments might be needed due to the diverse nature of those invited.</i></p> <ul style="list-style-type: none"> <li>• Not well attended and no feedback or response on call for forwarding information requirements from local government.</li> <li>• Communication received from STATS SA and discussion meeting held in March 2011.</li> </ul>
<b>C. Professional and Oversight Bodies</b> <ul style="list-style-type: none"> <li>• IMFO</li> <li>• AGSA</li> <li>• ASB</li> <li>• SAICA</li> <li>• SALGA</li> </ul>	15 Feb' 2011	<p><i>A meeting will be hold to inform these professional and oversight bodies on the project and project activities and seek their comments/input on the standard chart of accounts. Depending on the involvement of the 'stakeholder' separate workshops may be required.</i></p> <ul style="list-style-type: none"> <li>• Attended by SARB, AGSA, IMFO, ASB and CQS.</li> </ul>
<b>D. Regulators</b> <ul style="list-style-type: none"> <li>• NERSA</li> <li>• SARB</li> </ul>	23 Feb' 2011	<p><i>"NERSA" and the "SARB" have unique and specific requirements that might pose challenges to accommodate in the standard chart of accounts. We do foresee intensive interactions to address the requirements of these stakeholders.</i></p> <ul style="list-style-type: none"> <li>• Attended by NERSA. Awaiting</li> </ul>

Stakeholder Group	Date	Description and Remarks
		information to be considered for chart and follow-up meeting confirmation.
<b>E. Municipalities</b> <ul style="list-style-type: none"> <li>• Pilots</li> <li>• Wider Group</li> </ul>	28 Feb' 2011 17 to 18 Mar' 2011	<p><i>At the initial research phase five municipalities were selected for participation in the development of the standard chart of accounts. Broadly the selections consist of metros, high/medium capacity municipality and a district municipality. Further to the selection we requested participation from some of the City of Johannesburg Agencies due to their expertise and experience in some specialised areas.</i></p> <p><i>Phase 3 consultations involved the "wider group" of municipalities. The Provincial Treasuries assisted in engaging the municipalities within the provinces.</i></p> <ul style="list-style-type: none"> <li>• The meeting was attended by the selected municipalities and Ekurhuleni volunteered. The City of Johannesburg was also invited for purposes of gleaning views from agencies during the design process.</li> <li>• Collecting updated chart of accounts information for mapping to Version 1 of the Chart of Accounts and resolving accounts where further clarity is required from municipalities. The outcome of the mapping process will inform the update of the Chart of Accounts and revised Project Summary Document by end of May 2011.</li> <li>• Further engagements were undertaken with the City of Cape specifically relating to their chart of accounts, structure of their integrated processing system and potential impact of SCOA on the Metro. Interactive workshops were also conducted to clarify certain mismatches in relation to SCOA.</li> </ul>
<b>F. System Vendors</b>		<p><i>Introducing the chart of accounts to the system vendors will be integrated with the Special Project on the Local Government System Specification.</i></p> <ul style="list-style-type: none"> <li>• Phase I and II dedicated meetings were held with the system vendors at the inception of the project.</li> </ul>
<b>G. Internal Stakeholders – National Treasury</b>		Internal stakeholders to be briefed on the development to date and the way forward to seek their comments on their

Stakeholder Group	Date	Description and Remarks
		field of interest. A comprehensive list of representatives to be compiled.
<b>H. Advisory and Consulting Firms</b>		Consulting firms functional within the municipal environment to be involved information session to share the SCOA development.

12. The municipalities identified in Phase I as potential pilot sites have been visited to discuss the analysis of their account information and seeking further explanations and clarity in understanding the use of a specific account. The information gathered assisted in defining all the accounts provided for in SCOA.
13. Some additional municipalities expressed an interest to participate in the development and piloting process through their respective system vendors. Critical to the successful implementation would be to ensure that 'pilots' are broadly representative of at least the System Vendors in the market. As a result we performed a comparison of the municipal chart of accounts and version 1 of SCOA for the following municipalities:
- Overberg Municipality;
  - Saldanhabaai Municipality;
  - Umahlutuze Municipality; and
  - eThekweni Metro Municipality.
14. Phase II of the SCOA for municipalities represented completion of a more refined version of the chart of accounts after having undertaken specific consultation. Version II of the SCOA was completed during the third quarter of 2011.

### Phase III

#### *Interaction with Specific Stakeholders*

15. During this phase the following consultations were undertaken:

Stakeholder	Entity	Period	Purpose
<b>System Vendors</b>	Samras User group	September 2011 February 2012	To discuss the proposals for segments for SCOA and presented to their user groups on envisage changes
	Fujitsi User group	October 2011 November 2011	
	Sebata	February 2012	
	Vesta	November 2011	
	SAP SA and City of Cape Town	February 2012	
<b>Municipalities</b>	Overstrand	November 2011	To discuss SCOA proposal and map account detail.
	Saldanha	February 2012	To discuss SCOA proposal
	eThekweni	October 2011	To discuss SCOA proposal and do mapping of account detail. This municipality subsequently decided to

Stakeholder	Entity	Period	Purpose
			withdraw as a pilot.
	Umhlatuze	October 2011	To discuss SCOA proposal and do mapping of account detail.
	City of Cape Town	February 2012	Follow-up meeting from April 2011 to get views from SAP as introduced at the City of Cape Town during March 2011.
<b>National Departments</b>	Water Affairs	December 2011	Quarterly meeting to update and discuss the progress made on the development of SCOA.
	Trade and Industry	February 2012	To introduce the principles of SCOA and discuss the requirements. Waiting for input on the requirements of the department.
	Human Settlement	February 2012	To introduce the principles of SCOA and discuss the requirements. Waiting input on the requirements of the department.
<b>Professional Bodies</b>	IMFO	September 2011	High level presentation given at the IMFO Conference on SCOA
<b>Regulators</b>	NERSA	September 2011 – February 2012	Held various meetings to address the NERSA Regulatory Reporting Requirements in SCOA. Resulted in a discussion document to resolve differences that will be the subject of a future meeting with NERSA to agree on the Principles for including their requirements.

16. Version 3 of the SCOA was completed to the end of July 2012. This version was then broadly consulted with external stakeholders; through a series of information sessions, workshops and stakeholder-specific workgroups.
17. Specific attention was directed towards engagements with all stakeholders utilising local government financial information. The focus on National and Provincial Departments has yielded mixed results to date. At this point in time the project team only had ongoing engagements with the Department of Water Affairs, Human Settlement and Trade and Industry. Attempts to work with provincial departments yielded limited success.
18. Definitions had been added to accounts to clarify the use and assist in clearly defining the accounts and the use thereof.
19. Initial work commenced to prepare a SQL database for the purpose of testing the completeness of the classification framework and testing report extraction based on the fields populated within the sample database. This database will assist in ensuring that the classification framework provides for all dimensions required by stakeholders and specifically focus attention on the extraction of the budget reporting tables, annual financial statements, secondary cost allocation reports and management account information.

### *Pre-SCOA Regulation*

20. Phase III represents the final phase prior to implementation of the SCOA for local government; hence requiring intensive consultation with a wider audience. These engagements included

system developers, potential 'pilot' sites, users of local government information, regulators, professional bodies, advisors and consultants and other stakeholders active in the local government sphere.

21. Information sessions with key-stakeholders and practitioners were hosted between August and October 2012.
22. Specific attention was given in providing SALGA and COGTA with the progress and outcomes of the SCOA development process.
23. All advisors and consultants providing services to local government were given the opportunity to directly engage with National Treasury; this session was well attended.
24. The main objective for hosting these sessions was to seek specific and general comments from practitioners and other stakeholders in finalising and concluding the SCOA tables to inform the drafting of the regulation.
25. The comments received were considered and resulted in SCOA Version 4 informing the drafting of the regulation, developing the SQL Database and testing the classification framework as it relates to the extraction of reporting information. Annexure A, attached, summarises the comments received, actions taken and revision made to SCOA where applicable.
26. The successful testing of the SQL Database by simulating a small and medium size municipality from a budget, accounting and financial modelling perspectives is the first step towards formulating the specifications for the system implementation of SCOA.
27. This "simulation" will assist in bringing more specific information to practitioners, stakeholders and advisors as part of the "formal consultation process" to finalise the regulation.
28. This phase of the project further resulted in finding "alignment" between the BRF and the AFS template resolving some concerns raised by practitioners through the comments process. This principle contributed to significant changes being made to SCOA Version 3 being the subject of the pre-engagement information sessions.
29. The Financial Modelling Project advanced to the stage where the outcomes resulted in an outline for classification and recording "secondary costing" in a uniform manner through introducing a further segment in SCOA, referred to as the "Financial Modelling Segment".
30. During this period the following information sessions were undertaken:

Stakeholder Group	Date	Stakeholder	Information Session/ Direct Engagement
<b>A. Provincial Treasuries and Municipalities</b>	20 Aug' 2012	Free State Municipalities and Provincial Treasury	SCOA Version 3 Information Session
	4 Sep' 2012	North West Municipalities and Provincial Treasury	
	5 Sep' 2012	Gauteng Municipalities and Provincial Treasury	
	6 Sep' 2012	Northern Cape Municipalities and Provincial Treasury	
	11 Sep' 2012	Western Cape Municipalities and Provincial Treasury	
	27 Sep' 2012	Mpumalanga Municipalities and Provincial Treasury	

Stakeholder Group	Date	Stakeholder	Information Session/ Direct Engagement
	1 Oct' 2012	Kwazulu-Natal Municipalities and Provincial Treasury	
	2 Oct' 2012	Limpopo Municipalities and Provincial Treasury	
	3 Oct' 2012	Eastern Cape Municipalities and Provincial Treasury	
<b>B. National Departments</b>	24 Sep' 2012	All national departments invited but limited attendance at the session	SCOA Version 3 Information Session
	13 Sep' 2012	Cooperative Governance and Traditional Affairs	SCOA Version 3 Information Session
<b>C. Professional and Oversight Bodies</b>	17 Sep' 2012	SALGA	SCOA Version 3 Information Session
	21 Sep' 2012	IMFO, ASB and SAICA	
	25 Oct' 2012	AGSA	
	8 Oct' 2012	IMFO Conference	Overview of Information Sessions
<b>D. Regulators</b>	20 Oct' 2012	NERSA and SARB	SCOA Version 3 Information Session
<b>E. Municipalities</b>	See A above	Wider Group	
	29 – 30 Oct' 2012	City of Cape Town	SCOA Version 3 Workshop Invitation from the municipality
<b>F. System Vendors</b>	26 Oct' 2012	Invited all “vendors” known to National Treasury and engaged through the “Business Process Project”.	SCOA Version 3 Information Session
<b>G. Internal Stakeholders – National Treasury</b>	After National Budget announcement		Meeting pending draft regulation, updated tables and project summary document.
<b>I. Advisory and Consulting Firms</b>	25 Oct' 2012	All known to National Treasury and from ASB Forum attendance list	Consulting firms functional within the municipal environment to be involved information session to share the SCOA development.

### *Public Participation on the Municipal Regulations on a Standard Chart of Accounts (SCOA)*

#### **Structure of the consultation process subsequent to publication**

31. As part of the formal consultation and awareness campaign engagements were hosted as follows:

Engagement Date	Stakeholder / Role-player
25 September 2013	National Treasury and respective chief directorates
26 September 2013	Provincial treasuries, national departments and TCF Working Committee



<b>Engagement Date</b>	<b>Stakeholder / Role-player</b>
3 October 2013	Consultants, advisors and professional bodies
4 October 2013	System vendors
7 October 2013	Metropolitan municipalities
8 October to 11 November 2013	District level engagement with municipalities
6 to 13 November 2014	Engagement with the respective pilot municipalities and system vendors

32. The formal sessions hosted in the districts (local and district municipalities) between 8 October and 11 November 2013 were each held for an entire day and the agenda included a formal briefing session on the Regulation, Project Summary Document and classification framework.

33. The CD: LGBA also hosted all the IT system vendors currently operating in the space of local government from the 6 to 13 November 2013. In addition to discussing and presenting the SCOA classification framework, these engagements were structured to evaluate the technical readiness of the various technologies applied by the system vendors in piloting the SCOA classification framework; these engagements were well attended by both the vendors and identified pilot municipalities. There is no doubt that some of the IT system vendors are going to struggle to comply to the minimum requirements of the Regulations. Although the Regulations will place pressure on the IT system of vendors and their respective technical solutions, this can however not be used as an excuse not to implement this strategic reform.

34. The following table provides a breakdown of each of the respective district engagements as well as attendance numbers:

<b>District Municipality</b>	<b>Date of Workshop</b>	<b>Attendance</b>	<b>District Municipality</b>	<b>Date of Workshop</b>	<b>Attendance</b>
Alfred Nzo	9 Oct 2013	14	NgakaModiriMalema	29 Oct 2013	36
Amajuba	Joint session	n/a	Nkangala	Joint session	n/a
Amathole	21 Oct 2013	25	OR Tambo	8 Oct 2013	32
Bojanala	4 Nov 2013	53	Overberg	Joint session	n/a
Cacadu	4 Nov 2013	25	PixleyKaSeme	17 Oct 2013	26
Cape Winelands	22 Oct 2013	57	Sedibeng	6 Nov 2013	44
Capricorn	17 Oct 2013	32	Sekhukhune	11 Oct 2013	21
Central Karoo	Joint session	n/a	Sisonke	Joint session	n/a
Chris Hani	22 Oct 2013	21	Siyanda	10 Oct 2013	31
Dr Kenneth Kaunda	14 Oct 2013	24	Thabo Mofutsanyane	21 Oct 2013	18
Dr Ruth Segomotsi Mompati	30 Oct 2013	21	Ugu	Joint session	n/a
Eden	28 Oct 2013	50	Umgungundlovu	10 Oct 2013	74

District Municipality	Date of Workshop	Attendance	District Municipality	Date of Workshop	Attendance
Ehlanzeni	31 Oct 2013	37	Umkhanyakude	Joint session	n/a
Fezile Dabi	8 Oct 2013	8	Umzinyathi	22 Oct 2013	24
Frances Baard	16 Oct 2013	23	Uthukela	Joint session	n/a
Gert Sibande	25 Oct 2013	17	uThungulu	29 Oct 2013	70
iLembe	16 Oct 2013	18	Vhembe	16 Oct 2013	23
Joe Gqabi	23 Oct 2013	22	Waterberg	18 Oct 2013	25
John Taolo Gaetsewe	31 Oct 2013	18	West Coast	23 Oct 2013	43
Lejweleputswa	15 Oct 2013	19	West Rand	11 Nov 2013	29
Mopani	15 Oct 2013	19	Xhariep	25 Oct 2013	40
Namakwa	9 Oct 2013	32	Zululand	Joint session	n/a

35. In total 1,071 officials attended the engagements. While participation and interaction varied between engagements, the general attitude of local government finance practitioners was that the SCOA is a welcomed reform. Salient concerns during these engagements included:

- Relatively short timeframes for implementation being 1 July 2016;
- Inability of some of the current system vendors to accommodate the technical specifications of the SCOA classification framework;
- Capacity and skill constraints on the part of the municipalities to absorb the reform shock associated with change management;
- Funding constraints; and
- Technical complexity of the SCOA classification framework.

#### *Comments received and impact on the SCOA classification framework*

36. In total 995 comments were received; if these comments are unpacked into individual comment items, submissions exceed 2,000. Stakeholders that commented, made recommendations and raised concerns included:

- 35 municipalities. Importantly, of the 8 metropolitan municipalities, 7 commented and the remaining municipalities included both local and district municipalities. This provides for coverage across all categories of municipalities;
- Professional bodies included the South African Local Government Association (SALGA), Accounting Standards Board, and Institute of Municipal Finance Officers (IMFO);
- Five system vendors that are active within the local government space; and
- Four consulting and advisory service providers.

37. The following table provides for the detail of stakeholders that provided comments, made recommendations and raised concerns.

<b>Municipalities</b>	
eThekweni Metropolitan Municipality	City of Johannesburg Metropolitan Municipality

Nelson Mandela Bay Metropolitan Municipality	City of Tshwane Metropolitan Municipality
Mangaung Metropolitan Municipality	City of Cape Town Metropolitan Municipality
Buffalo City Metropolitan Municipality	Emakhazeni Local Municipality
Cacadu District Municipality	Mafikeng Local Municipality
uMhlathuze Local Municipality	Thaba Chweu Municipality
Sol Plaatjie Local Municipality	Nkangala District Municipality
Mogale City Local Municipality	Witzenberg Local Municipality
Midvaal Local Municipality	Joe Gqabi District Municipality
Thembisile Hani Local Municipality	Gert Sibande District Municipality
Mossel Bay Local Municipality	Bitou Local Municipality
Msunduzi Local Municipality	Witzenberg Local Municipality
Stellenbosch Local Municipality	Saldanha Bay Local Municipality
Theewaterskloof Local Municipality	Breede Valley Local Municipality
Langeberg Local Municipality	Overstrand Local Municipality
Knysna Local Municipality	George Local Municipality
Beaufort West Local Municipality	Drakenstein Local Municipality
City of Cape Town International Convention Centre (CTICC)	
<b>Professional Bodies</b>	
South African Local Government Association	Accounting Standards Board
Institute of Municipal Finance Officers	
<b>System Vendors (Financial Applications)</b>	
Business Connexion	BIQ Quill
Payday	Fujitsu
SAMRAS	
<b>Consultants and Advisory Services</b>	
Altimax – Accounting, Advisory and Training	Mubesko Africa
CQS Caseware	Ducharme Consulting

38. In summary, the 995 comments were sorted and categorised as follows:

- a. 10 comments were categorised as possible impacting on the formal Regulations;
- b. 217 comments were categorised as possibly impacting on the classification framework (SCOA tables);
- c. 277 comments were related to the Project Summary Document (PSD);
- d. 404 comments categorised as frequently asked questions; and
- e. 87 were general observations relating to the policy intent of the reform.

***Key issues raised and changes made to the regulations***

39. Many of the comments were valuable for refining the SCOA classification framework (SCOA tables). The categorisation of frequently asked questions will also assist immensely with the upcoming change management and implementation phase (Phase 4) of SCOA Project.
40. In terms of the 10 comments received directly impacting on the Regulations, most of the comments were related to grammatical considerations; only two comments required consideration in terms of the design principles.
41. Several matters of a technical nature emanated from the comments received. These have been summarised in the table below:

<b>Technical Consideration</b>	<b>Direct impact on SCOA classification framework (SCOA Tables)</b>
Impact of IAS 12 on SCOA	Yes
Overall compliance to accounting framework pending finalisation of reporting tables	Yes
Consultation with SARS in relation to VAT	Yes
<b>Technical discussion and resultant position papers:</b>	
• Accrued Leave	Yes
• Agency Services	Yes
• Bad debt written-off	Yes
• Capitalisation Threshold	Yes
• Catering versus Entertainment	Yes
• Correction of prior period errors	Yes
• Detail to be included in the general ledger	Yes
• Discount received	Yes
• Self-Insurance reserve and related transactions	Yes
• Reserves and funds	Yes
• Transfers and subsidies	Yes
• External stakeholders i.e. NERSA, DWA etc.	Yes
• Month and year-end closure	No
• Portal access	No
• Transitional arrangements	No

<b>Technical Consideration</b>	<b>Direct impact on SCOA classification framework (SCOA Tables)</b>
<ul style="list-style-type: none"> <li>✓ Comparative and historical Information</li> <li>✓ Reporting requirements – phased approach</li> </ul>	

42. The above technical issues will be addressed as part of SCOA Phase 4 (change management and piloting of the SCOA classification framework) in consultation with the Office of the Accountant General. It needs to be noted that although the technical considerations will in most cases impact on the SCOA classification framework (SCOA tables), it's not envisaged to have a material impact. In most instances it's envisaged that the position papers will provide guidelines for the consistent application by all municipalities and not result in extensive changes to the actual classification framework.