Municipal SCOA Circular No. 5 – 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 provides support to all municipalities to implement the Municipal Regulations on a Standard Chart of Accounts (mSCOA) in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. This is the fifth in a series of mSCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.

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1. The Regional Segment

1.1 Background and purpose

The budget reform process includes that government and parliament require information on the allocation of resources at a regional level and also actual spending that occurs at a regional level to improve its allocation of resources and the monitoring thereof nationally. To enable this, the regional indicator was introduced on 1 April 2008 for national and provincial government resource allocation and spending. In 2014, the Municipal Regulations on a Standard Chart of Accounts (mSCOA) introduced the same requirement (regional indicator) for local government resource allocation and spending. The purpose of the regional indicator is to enable government and/ or Parliament to actually identify the communities that benefit from government spending.

What is the core-principle and intention of the Regional segment?

- To ensure that expenditure is assigned to a geographic area.
- To identify the lowest relevant geographical region of the intended beneficiaries of the service or capital investment that is being financed by the particular expenditure.

The mSCOA Regional segment therefore requires a municipality (at its discretion) to budget for (assign) some revenue to the lowest relevant geographical region to identify the communities that benefit from the municipality's spending.

This means that actual expenditure must also be recorded against this regional indicator so that the final impact of such spending is measurable by region in order to get a regional view of the economic impact of government spending.

When a municipality captures its budget and actual spending against the mSCOA Regional Segment, it provides information that will enable and improve the analysis of:

- Whether the municipality provides its services impartially, fairly, equitably and without bias, as envisaged in the Constitution;
- The municipality’s progress in addressing regional backlogs in social infrastructure and access to services;
- Whether government spending by different departments (national and provincial) and municipalities are being properly sequenced and coordinated;
- Whether actual spending by government is aligned to the relevant plans of the three spheres of government;
- Assist councillors and mayors to account to their communities for the allocation of resources and actual spending of the municipality to specific communities and wards; and
- Provide specific ward information to councillors to assist in decision-making.

1.2 Presentation of the high-level classification inherent to the mSCOA Regional Segment
1.3 Unpacking the high-level classification structure of the Regional Segment

1.3.1 No Regional Indicator
Use this classification to record transactions that are not relevant to this segment. The account is at a posting level with no further breakdown required by National Treasury.

Examples of transaction types that will default to the “No Regional Indicator” classification are assets (excluding capital expenditure), liabilities and net assets. The municipality currently has a discretion on whether to allocate Revenue to region (it is not a current mSCOA requirement).

1.3.2 Regional Identifier
This classification provides “regional” indicators to record transactions and distinguish at the highest-level between national, provincial or local government. This is a non-posting level account with the underlying classification structure fixed unless otherwise indicated.

1.3.2.1 National Functions
- A national function is the posting level for all transactions made within the borders of the Republic of South Africa.
- The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be “municipal functions” performed as part of a national strategy and executed as co-operative government. At present the only such identified function is “Implementation of Environmental Policy Impact”.
- This is a non-posting level account. If a posting-level is required the municipality has to submit its motivated request to the National Treasury.

1.3.2.2 Provincial Functions
- Provincial functions are the posting level for all transactions made within the provincial borders and not contributing to a specific community.
- The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be municipal functions performed as part of a provincial strategy and executed as co-operative government, for example the non-core functions provided for as agency services in the Function segment.
- This is a non-posting level account. If a posting-level is required the municipality has to submit its motivated request to the National Treasury.
1.3.2.3 Local Government by Province

- The Regional segment indicators relevant to beneficiaries at a local government-level are set-up by province. The classification structure makes provision for the nine provinces with their metro’s and municipalities.

- **This is a non-posting level account** with the underlying classification structure fixed unless otherwise indicated. The underlying classification structure further breaks down into the following posting levels:

(i) Metropolitan Municipalities

- This classification provides for the metropolitan municipalities within the boundaries of the province.

- The regions set-out for metropolitan municipalities as part of this classification, provide for the service-delivery arrangement introduced by the respective municipalities that might be a service area, geographical area, regional area or townships and settlements.

- Metropolitan municipalities have the discretion to provide regional information or even if needed, regions by functions or service delivery.

- **This is a non-posting level** since a metropolitan municipality has to provide the posting levels that it requires to the National Treasury for inclusion. If the municipality did not provide information, the set-up for posting-level will be default according to the demarcated wards.

(ii) District Municipalities

- District municipality’s set-up for posting-level is default in accordance with the municipal demarcated areas and code structures. Local municipalities (within the district municipality area) are also listed here for recording of capital and operational expenditure to the direct benefit of communities within these local municipalities.

- The Demarcation Board Classification for 2014 was used to include wards by municipality as posting level. It is recognised that these boundaries may change every 5 years due to demarcation changes done for municipal elections. An alternative to using ‘ward’ may be to use townships or the logistical area defined by the municipality for providing services to the community.

- **District Municipalities**¹ – this category is set-up to provide a structure for the respective local municipalities with a break-down for: administrative or head office, wards and whole of the municipality. Accordingly, the requirements for this section can be customised for the municipality based on the information the municipality provided.

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¹ mSCOA Project Summary Document - Design Principle 18.
• **Ward**\(^2\) - Allocation to “wards” have been provided for as a standard although recognition is given to changes in the demarcation area over time.

• **Whole of the Area for Wards, Metro, Municipality and District Municipality or Municipality**\(^3\) – this category provides a classification for recording transactions not to the benefit of a specific community but the “whole of an area”. Accordingly, the requirements for this section need to be customised for the metro/ municipality based on the information the municipality provided.

(iv) Metro, District or Local Municipality: Administrative or Head Office

1. Some expenditure (both capital and operational), contributes to the effective running and management of the municipality throughout the demarcated area. The smooth operation of the municipality necessitates the use of a head/ administrative office for co-ordination and management of the municipality, with a contribution from various cost-drivers, such as building maintenance, water, electricity, sanitation, waste removal, staff compensation, insurance cost, consumption of stationery, cleaning materials, etc.

2. These allocated costs do not necessarily benefit any specific region or ward and these are considered to be to the benefit of the whole of the metro/ municipality. Therefore, these transactions are recorded within this account, for example the municipality appointed an external computer services company to update the Information Technology: Back-up and Recovery Policy. The development of this policy is considered to be part of the risk management strategy of the municipality in protecting the “information technology of the municipality” but not directly to the benefit of a specific regional area or ward and is considered to be of a purely administrative nature.

3. Transactions directly relating to the administration of the municipality and to the direct benefit of the community.

4. Metropolitan municipalities have the discretion to make use of a single indicator or may expand the indicator.

5. Administrative or Head Office\(^4\) – this classification provides for the set-up of satellite offices within the Service/ Function or Area structure based on the needs of the metro, district or local municipality. Accordingly, the requirements for this section can be

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\(^2\) mSCOA Project Summary Document - Design Principle 19.

\(^3\) mSCOA Project Summary Document - Design Principle 20.

\(^4\) mSCOA Project Summary Document - Design Principle 17.
customised for the district, local or metropolitan municipality based on the information the municipality provided to the mSCOA Technical Committee. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

(v) Metro, District or Local Municipality: Whole of the Area

1. A posting-level breakdown (whole of the metro, district or local municipality) is provided to be used in instances where transactions should be classified to specific municipalities or wards, but not enough information is available to effect such a breakdown. Furthermore, this category will include all transactions that benefit more than one service area.

2. Allocation to this posting-level account should be distinguished from the “administrative or head office” being transactions specifically associated with the running and operation of a municipal administrative office or head office structure versus the “benefit of the transaction being to the whole of the municipality”.

3. Metropolitan municipalities have the discretion to expand this indicator to provide for multiple administrative centres or service points.

1.4 The Regional Indicators – Way Forward

It is clear from the information above that the Regional Indicator will be expanded as mSCOA implementation and transacting refines. It is therefore important to note that the Position Paper explains that: Reporting attention will be given in phase 2 of the report development process to specific reporting requirements to provide emphasises on regional indicators. The local government budget reform process will also further expand on the regional indicator to monitor resource allocation and spending at the local sphere of government along the same design principles for national and provincial government. This perspective is not yet fully provided for by the analysis of the “Function” and “Item” segments in mSCOA.

2. Discussion- Frequently Asked Questions (FAQ)

The mSCOA website includes a direct link to the mSCOA Frequently Asked Questions (mSCOA FAQ) Database “04. mSCOA FAQ”:
In this section we discuss a selection of questions from the mSCOA frequently asked questions (FAQ) Database, relating to the regional segment.

<table>
<thead>
<tr>
<th>Why is regional segment information required from Local Government, and what is the relevance and use of the regional indicators?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The regional indicator enables government and/ or Parliament to identify the communities that benefit from government spending.</td>
</tr>
<tr>
<td>• Assigning government expenditure in line with the regional indicators identifies the lowest relevant geographical region of the intended beneficiaries of the service that is being financed by the particular expenditure.</td>
</tr>
</tbody>
</table>

- ‘The lowest relevant geographical region’ refers to the province, metro, district or ward where the intended beneficiaries normally live or are located. Note that the ‘lowest relevant geographical region’ is not necessarily restricted to the municipality where the service or capital investment is located, since the intended beneficiaries may be from neighbouring municipalities, even neighbouring provinces, depending on the nature of the service or investment (for further details see below).
- ‘Intended beneficiaries’ refer to the individuals or entities (such as businesses) that are intended to benefit directly from the given service or capital investment.
- The service or investment refers to the output that is being delivered or produced by the government department; and
- ‘The particular expenditure’ refers to the expenditure that is being captured. Note that in nearly all instances this expenditure will only constitute a part of the cost of the service or capital investment.

To assist municipalities to use the Regional Segment consistently when allocating expenditure at a regional level, the National Treasury has developed allocation principles. The allocation principles are included in the Project Summary Document and include guidance on the following specific matters:
- Service benefiting multiple regions or wards;
- Methods of allocating expenditure to multiple regions;
- Allocating personnel expenditure;
• Head office expenses;
• Regional office expenses;
• Allocating bulk purchases; and
• Allocating expenditure in capital.

<table>
<thead>
<tr>
<th>Why is the regional indicator for ward at a non-posting level?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only once the municipality or metro provide the National Treasury with the information, can the posting-level be defined. As a consequence, for municipalities that did not provide information (refer Municipal SCOA Circular No. 4) the next mSCOA version release include as a posting-level, the default wards for these municipalities, as defined in the Demarcation Act.</td>
</tr>
</tbody>
</table>

3. Linking Projects to the Budget and IDP

The mSCOA research, underpinning the development of the chart, included a review of the information municipalities submitted to various stakeholders. The research revealed that municipalities, historically, combine various detailed accounts for project related expenditure in various line-items with differentiation made in the account description. This resulted in duplication of accounts for the purpose of extracting project related information. This made it difficult for the municipality itself, and even more so for other spheres of government and other stakeholders, to obtain and analyse financial information on important or strategically relevant projects using the existing account structure of the majority of municipalities.

Furthermore, the Municipal Systems Act, 2000 requires a municipality to develop an integrated development plan (IDP) that directly impacts on the development of the municipality’s budget. The MFMA, 2003 strengthens this requirement in that the MFMA also requires the municipality’s IDP and budget to be directly linked. Despite these enabling clauses few municipalities can demonstrate that their budgets are strategically linked to their IDP’s.

For amongst other, to address these challenges, the mSCOA Project Segment enables a municipality to set-up operational and capital projects by way of linking its integrated development plan (IDP) with its annual budget. This provides in-time management information on project performance, spending against the annual budget, including to report on project funding.
For this reason, a municipality is urged to (when preparing its budget in the mSCOA classification) commence with populating the Project Segment. This means that all activities of the municipality has to align to “projects” including institutional costs associated with the functioning of the municipality such as administration and staff.

### 3.1 Linking Projects: challenges across municipalities (operational projects)

#### 3.1.1 Authorisation of expenditure

As municipalities progressively transact in mSCOA, driven from a project perspective, operational projects can be problematic when the ‘authorisation of expenditure’ – levels sits with more than one function (department) in the municipality. For example:

A particular Constitutional function (such as electricity distribution) vests across various municipal functions, including marketing and communication, public safety, emergency management and recreational facilities but the actual project enlightenment is (in terms of the IDP) the responsibility of the ‘office of the Mayor’.

A municipality needs to review its system of delegations and the ‘authorisation – responsibilities’ therein, to ensure that, irrespective of where a particular project resides in the municipality, all functions that should be consulted for approval, are required to be consulted according to the municipality’s system of delegations.

#### 3.1.2 The relationship between the Project-, Function- and Item Segments

The piloting phase revealed that the relationship between the Project-, Function- and Item Segments can be challenging for a municipality when it must identify its operational projects. The current way most municipalities budget, means that they make use of a function/ cost centre and item when developing the budget.
The municipality should identify each and every one of its projects in relation to its strategic objectives (set out in the integrated development plan (IDP)). mSCOA allows for breakdown of project level and the specific project name can then be used on that level to suit a specific municipality. For example:

Currently, the Expanded Public Works Programme (EPWP) can be budgeted for on a line item. However, mSCOA regards the EPWP as a project (to be budgeted for in the Project Segment).

Consequently, the EPWP-project (going forward) for example may include basic salaries, uniforms (overalls) gloves, brooms, etc. (as line items). The project itself (“EPWP-project”), can however not be a line item anymore, but should be reflected as a project in the Project Segment.

Budgeting should also enable the analyses of project performance. This means that the project activities should be catered for (broken down) in the item segment (for all item expenditure within this project).

The following question was raised on the FAQ Database and relates to budgeting, using the Project Segment:

Special social projects are not a function of the Sunrise Municipality. These special projects consist of various expenditure line items, including event management, printing and stationery, the transport of people to events, catering, travelling and subsistence, donations to people/ organisations for specific purposes. The municipality generally funds these social projects from its equitable share allocations. Please advise how other municipalities links these projects on mSCOA?

It is clear from the question that the municipality identifies these as special projects but do not relate/ link these projects to specific strategic objectives of the municipality.

Municipalities have to ensure that any project, identified in its mSCOA Project Segment, links to a specific strategic objective in the integrated development plan (IDP) of the municipality.
To further assist municipalities, the mSCOA Project Segment allows for a further breakdown from the parent level (of each identified project). The municipality can use this breakdown option to choose/reflect meaningful and informed project names, relevant to the municipality. In the above example, the typical work stream could be used to identify this operational project.

3.1.3 More examples – linking the IDP, Budget and Project

<table>
<thead>
<tr>
<th>Example 1</th>
<th>IDP objective in the 2016/17 Budget (MTREF)</th>
<th>Operational Project identified in the Project Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDP objective 5 – The creation of sustainable jobs through municipal service delivery.</td>
<td>Linked to IDP objective 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>11. Expanded Public Works Programme (EPWP):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Project 11.1 - Local economic development (LED) initiatives to involve street collectors in recycling and re-use activities.</td>
<td></td>
</tr>
<tr>
<td>IDP objective 6 - Promote good governance and active citizenry.</td>
<td>Linked to IDP objective 6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Project 33 - Mayoral campaign to improve public participation in wards 23 and 58 in the budget process.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Project 34 – Mayoral project: Freedom Day campaign</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example 2</th>
<th>An example operational project in the mSCOA classification, that involves various activities across functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDP objective 6 - Promote good governance and active citizenry, is linked with Project 34 – Mayoral project: Freedom Day campaign:</td>
<td></td>
</tr>
<tr>
<td>Sunrise Municipality has the following project under the Mayor’s Office: Freedom Day campaign, involving a celebration of Freedom day on 27 April 2017. The project includes various activities across functions, including:</td>
<td></td>
</tr>
<tr>
<td>(a) The event will be communicated via the local newspapers.</td>
<td></td>
</tr>
<tr>
<td>Project</td>
<td>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</td>
</tr>
<tr>
<td>Function</td>
<td>Core function: Marketing, Customer Relations, Publicity and Media Co-ordination</td>
</tr>
<tr>
<td>Item</td>
<td>Advertisement, newspaper, graphic designer</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
</tbody>
</table>
(b) On the day of the event, internal security services (of the municipality) will ensure the safety of participants:

<table>
<thead>
<tr>
<th>Costing</th>
<th>Default transaction</th>
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</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Public Safety: Core Function: Police Forces, Traffic and Street Parking Control</td>
</tr>
<tr>
<td>Item</td>
<td>Default</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identifier: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Activity Based Recoveries: Security Services</td>
</tr>
</tbody>
</table>

(c) The municipality will avail free transport to all citizens wanting to participate in the event:

<table>
<thead>
<tr>
<th>Costing</th>
<th>Default transaction</th>
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</thead>
</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Finance and Administration: Core Function: Fleet Management</td>
</tr>
<tr>
<td>Item</td>
<td>Transport provided by department activities: events</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identify: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Default transaction</td>
</tr>
</tbody>
</table>

(d) The event will include refreshments and performing artists and a big screen for people that are not close to the stage.

<table>
<thead>
<tr>
<th>Costing</th>
<th>Default transaction</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Executive and Council: Core Function: Mayor and Council</td>
</tr>
<tr>
<td>Item</td>
<td>Contracted Services: Contractors: Catering Services</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors: Stage and Sound Crew</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors: Artists and Performers</td>
</tr>
<tr>
<td></td>
<td>Contracted Services: Contractors : Audio-visual Services</td>
</tr>
<tr>
<td>Fund</td>
<td>Revenue: non exchange: property rates: levies</td>
</tr>
<tr>
<td>Region</td>
<td>Regional identify: local government by province: district: local municipality: ward 1</td>
</tr>
<tr>
<td>Costing</td>
<td>Default transaction</td>
</tr>
</tbody>
</table>

(e) The Sunrise Municipality would like to hire a large soccer stadium for the event from its neighbouring municipality:

<table>
<thead>
<tr>
<th>Costing</th>
<th>Default transaction</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Project</th>
<th>Operational: typical work stream: Communication and Public participation: Freedom Day campaign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Function</td>
<td>Community and Social Services: Core Function: Community Halls and Facilities</td>
</tr>
<tr>
<td>Item</td>
<td>Market Related: Rental of fixed assets.</td>
</tr>
<tr>
<td></td>
<td>(*If the rental is not market related, the item should be: Non-Market Related: Rental of fixed assets.)</td>
</tr>
</tbody>
</table>
4. Data set preparation – general considerations

Data purification is not a once-off event, but an on-going process to ensure the quality and integrity of the municipality's information.

However, for successful mSCOA implementation, municipalities are advised to put immediate focus on those aspects, that have a direct impact on mSCOA. This includes the identification of areas in the municipality’s current data set that requires alignment, and that will ensure reliable and accurate information when translating to mSCOA. For example, high-priority data purification tasks at this stage should include at least:

- Linking tasks/ activities to the GFS functions and allocating these functions to an approved position(s) on the organogram (which should link to an employee(s) in the payroll);
- Non-current assets should be aligned to the Function Segment. This will assist to ensure that depreciation of these non-current assets is correctly allocated to the respective function areas and relative projects;
- Emphasis on the correct ‘category of use’ in the valuation roll will lead to the accurate allocation of property rates tax to the Item Segment; and
- mSCOA does not cater for suspense accounts, therefore all suspense accounts need to be correctly allocated and closed-out.

The mSCOA implementation team of the municipality plays a crucial role in data-set preparation:

Each work stream in the implementation team should focus on the preparation of the dataset (for which that particular work stream is responsible), and which will be migrated to the mSCOA platform. The end deliverable is to produce, a dataset within each work stream that has accurate attributes and is able to be translated to the mSCOA segments. In our experience, strong skills in navigating the mSCOA chart and Excel are important to prepare the data-set of each work stream successfully.

The municipality’s purified data set (consolidated from the effort of each of its work streams) will form the basis for the conversion of the municipality’s trial balance into the mSCOA classification and subsequently feed in to produce its 2017/18 MTREF.
5. Impact of local government elections on mSCOA implementation

With the imminent local government elections scheduled for the 3rd of August 2016 and subsequently new municipal councillors being elected, such councillors may not necessarily have the required understanding of the mSCOA Regulation or the processes undertaken by the municipality, to date, in readiness for the implementation of the Regulation. It is crucial that the newly elected council does understand this to enable informed oversight functions and responsibilities to enable successful transacting in the mSCOA classification by 1 July 2017.

Municipalities, together with their municipal entities, are therefore urged to prepare a detailed report on the implementation of mSCOA for tabling at the first meeting of the newly elected council.

Municipalities and their municipal entities are advised, as a minimum, to address the following as part of the mSCOA detailed report and presentations to council:

- Establishment of an mSCOA project steering committee and the effective functioning of this Committee, including resolutions taken by the Committee to date;
- The project implementation plan and progress made in terms of deliverables in the project plan;
- The risk register and implementation of mitigating strategies to address such risks;
- Change management strategy to implement the required knowledge of mSCOA within the organization;
- Comparison of the current chart of accounts to mSCOA and the breakdown of general ledger account balances into mSCOA requirements;
- Data cleansing and reconciliation of long outstanding balances and suspense accounts;
- Assessment of system functionality of current financial management and internal control systems and the status of system implementation;
- Current challenges and assistance required in order to resolve such challenges; and
- The draft report for tabling to the new Council on mSCOA implementation.

6. Training support
It should be noted that there is a host of available material on the topics of change management and project management. Municipalities and Provincial Treasuries are welcomed to develop themselves using the methodology(s) and/or material they find best suited to their circumstances. However, to support municipalities and provincial treasuries, the National Treasury change team work stream has developed training that can be customised to suit your organisation’s specific mSCOA needs, should you wish to make use thereof:

6.1 Change Management training
In essence the proposed training addresses organisational issues, the nature of change and how to lead others through change.

6.2 Project Management training
This training discusses the project life cycle from project inception till project closure and how to ensure a successful project.

The Change Management- and Project Management training slides is not mandatory and may be customised by the municipality or Provincial Treasury should it wish to make use of such. The training is included in Annexure A (Change Management) and Annexure B (Project Management), respectively. Municipalities can also contact their Provincial Treasury should it specifically require any of this training, over-and-above what is currently being rolled-out in their province.

7. MFMA Circular 80 – request to conduct an ICT due diligence: all municipalities

Few months remain for all municipalities to prepare the 2017/18 MTREF in the mSCOA classification. The majority of municipalities make use financial systems as enablers to transact, including capturing their budgets in the mSCOA classification.

**MFMA Circular 80 - Municipal Financial Systems and Processes**, replaces MFMA Circular No. 57, with effect 8 March 2016, and formalises the minimum system functionality and business process requirements a municipality’s financial management and internal control system(s) should meet to enable successful transacting in the mSCOA classification by 1 July 2017.

MFMA Circular 80, to prevent fruitless and wasteful expenditure, requires a municipality to evaluate the system functionality and business process requirements of its current
package of financial management and internal control system(s) before it enters into any agreement(s) with any system vendor to upgrade or change system(s). This is irrespective of whether the existing service provider(s) was included in the RT25 transversal panel of service providers.

Every municipality, to effectively evaluate its current financial management and internal control system(s), must:

- Assess its current systems in accordance with MFMA Circular 80 (Annexure B). However, Annexure B includes the system requirements for all categories of municipalities. To support municipalities we attach a modified Annexure (Annexure C)\(^5\) that reflects for each category of municipality, the specific requirements.
  - In the case of amalgamating municipalities, each of the individual municipalities must conduct this ICT due diligence of its package of existing ICT systems against the requirements of the category of the amalgamated municipality (NOT the category of the individual municipality (before amalgamation)).
- Task its mSCOA project steering committee (representing senior officials from the respective business units) to evaluate (conduct a due diligence) of the municipality’s current financial systems. The role of this committee for this activity, is to evaluate the system functionality of the municipality’s current system vendor(s) in accordance with the system and business processes functionality assessment (Annexure C):
  - The municipality, to complete the ICT due diligence may request all its existing service provider(s) to complete Annexure C for the municipality, including to workshop and demonstrate such functionality to the municipality, but at no additional cost to the municipality; and
  - Where any item is a mandatory minimum for the category of municipality and is not available in the existing package, the service provider should clearly indicate the way forward (using the options in Annexure C, including indicating any cost (initial and thereafter) to the municipality/ (amalgamated municipality) to procure such additional functionality(s) from its existing package of service provider(s).

| Due to the significant number of requirements, municipalities are advised to involve/ request its current system vendor(s) to complete the attached Annexure C by indicating for each requirement one of the following options: |
|---|---|
| 1. “Comply – Demo is available” | This would apply in instances where the functionality is available and the system |

\(^5\) The National Treasury thanks the KwaZulu-Natal Provincial Treasury’s support in modifying MFMA Circular 80 (Annexure B) to reflect the minimum specifications, per category of municipality.
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<td>2. “Third Party Integration – Demo is available”</td>
<td>System vendors will select this option when they are utilising a third party system to perform the function, and a demonstration is available in this regard.</td>
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<tr>
<td>3. “Proof of Concept is available – Implemented by 30 June 2017”</td>
<td>System vendors may have the proof of concept available, however, full functionality may still be currently ‘work-in-progress’. However, the functionality shall be fully implementable by 30 June 2017.</td>
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<td>4. “Future Development – Proof of Concept by December 2016”</td>
<td>In this instance, system vendors may still be in the process of developing a proof of concept, and such will be completed by December 2016. Full functionality will be in place by 30 June 2017.</td>
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<td>5. “Not available”</td>
<td>System vendors may have not considered the required functionality, and cannot implement the functionality by 30 June 2017.</td>
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7.1 Process after completion of the ICT due diligence

Once the municipality and/ or its vendor(s) has completed the ICT due diligence (Annexure C - assessment), the municipality’s mSCOA project steering committee (in the case of amalgamation: the joint mSCOA project steering committee) must:

(i) Assess whether the municipality’s existing system(s) as a package, meets the majority of the functional requirements for its category/ (amalgamated municipality’s category) as per Annexure C;

(ii) Consider the cost of any additional functionality the municipality/ (amalgamated municipality) will have to procure from its existing package of service provider(s) to be able to conduct the minimum mSCOA transacting for its category by 1 July 2017 and the affordability thereof to the municipality/ (amalgamated municipality) considering its 2016/17 MTREF;

(iii) Compare the total cost of its existing ‘package of system(s)’, including the cost for any additional functionality (refer to paragraph (ii) above) with the other available service offerings for its category/ (amalgamated municipality’s category), included in the RT25-panel of service providers;

(iv) Determine whether its existing ‘package of service provider(s)’ will be able to provide and implement any and all of the outstanding functional areas by 1 July 2017, including upskilling affected municipal officials (in the case of amalgamation, across all the municipalities that are amalgamating);

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6 Municipal SCOA Circular No. 5 – Annexure C.
(v) Consider any penalties and reason(s) for contract termination in any of its contract(s) with existing service provider(s); and

(vi) The project steering committee must document its decision and recommendation(s) on the way forward for the municipality (on the municipality’s ‘package of existing system(s)’), clearly setting-out its findings on each of the above five points it considered.

Every municipality must, before Monday, 1 August 2016, submit to the National Treasury LG.SCOA@treasury.gov.za and to the relevant Provincial Treasury, a request for their comments, supported by:

1. The municipality’s completed system(s) functionality assessment (ICT due diligence), as per Annexure C;
   a. The file should be submitted to LG.SCOA@treasury.gov.za using the following naming convention:
      For example: LIM 332_Greater Letaba_Annexure C – 1 August 2016; and

2. The municipality’s mSCOA project steering committee’s (amalgamation: the joint project steering committee’s) recommended decision on whether the municipality/ (amalgamated municipality) should remain with its current system(s) or change system(s).

A municipality must consider the feedback of the National Treasury and Provincial Treasury before making any final decision to remain with its current system(s) or to change system(s).

A copy of the feedback must be placed on the municipality’s audit file.

Municipal SCOA Circular no. 6 (soon to be released) will provide further guidance on the process after soliciting the comments of the National Treasury and Provincial Treasury.

7.2 National Treasury and Provincial Treasury assistance to conduct an ICT due diligence

Should any municipality require assistance to complete the attached system functionality assessment (Annexure C) or related support, you can request the Provincial Treasury
(delegated municipalities) and the National Treasury (Non-delegated municipalities and pilot municipalities) to assist your municipality.

It should be noted, however, that Provincial Treasury and National Treasury will play an advisory role limited to functionality requirements of the current systems in this regard, and cannot proclaim or pronounce compliance by any system vendor. The decision to remain with the current systems or change systems remains the responsibility of the municipality.

It is important to note that **failure to submit** the completed ICT due diligence **(Annexure C)** together with the project steering committee’s decision in this regard, may cause a delay in the transfer of the municipality’s equitable share tranche.

**Contact**

**JH Hattingh**  
Chief Director: Local Government Budget Analysis  
15 July 2016