Municipal SCOA Circular No. 6 – 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** (**pilots and non-pilots**) to implement the Municipal Regulations on a Standard Chart of Accounts (*m*SCOA) in preparation for full *m*SCOA compliance by the outer compliance date of 1 July 2017. This is the sixth in a series of *m*SCOA circulars. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving *m*SCOA implementation.

CONTENTS:

1. *'mSCOA Chart version 5.5'* and the way forward

1.1 High level key changes in 'version 5.5' *compared to version 5.4*

mSCOA Version 5.5 was approved by the National Treasury *m*SCOA Project Steering Committee. This version was released on the National Treasury *m*SCOA website to stakeholders for technical review before it will be locked-down as *mSCOA Chart Version 6.0* to guide the 2017/18 MTREF budget preparation process. *mSCOA Chart Version 6.0* will be available on the National Treasury *m*SCOA website from early August 2016.

'*mSCOA Chart Version 6.0'* can be accessed at the following link: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

The table included in **Annexure A** of this Circular, provides a high-level summary of the changes made in *'mSCOA Chart Version 5.5'* compared to the previous '*mSCOA Chart Version 5.4 take 5'.* This version of the chart is the precursor to *'mSCOA Chart Version 6.0',* which includes queries raised up to 31 July 2016[1] and which were logged on the FAQ.

The FAQ Database can be accessed as "04. *m*SCOA FAQ" at the following link: http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

Municipalities should make use of this opportunity to acquaint themselves with the final version as it will be used for budget preparation in October/ November 2016, and transacting as from 1 July 2017. Queries can still be logged on the FAQ and updates will be considered for release with the annual budget circular.

1.2 Way forward

The National Treasury confirms that '*mSCOA Chart Version 6.0'* (as released on the National Treasury web page) is the final version in lieu of compliance by 1 July 2017. (NO further changes will be made for implementation purposes at this stage).

Municipalities must prepare their integrated development plan (IDP) and Budget as part of the 2017/18 MTREF process, already in October/ November 2016 using *'mSCOA Chart Version 6.0'.*

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[1] All queries raised until 31 July 2016 were included in this version update, except queries that have not been completed or where consultation (relating to the query) is still in progress.

	The issue of FURTHER updated mSCOA Chart Versions during 2016/17?
	When the National Treasury:
	(i) Revises the various reporting formats; and
	(ii) Completes a final review of *m*SCOA's capacity to provide sufficient information to extract financial statements (fully compliant to the Standards of Generally Recognised Accounting Practice (GRAP)),
	There **may arise matters requiring** additional **changes to '*m*SCOA Chart Version 6.0'**. This could result in an updated version to be released with the MFMA Budget Circular towards the latter part of 2016.
	The future annual maintenance of the *m*SCOA Chart, if applicable, will follow on the release of the annual MFMA Budget Circular to coincide with the guidance for the budgeting process for every year.

It is therefore important that every municipality continues to post any requests and clarifications relating to *m*SCOA, to the *m*SCOA Frequently Asked Questions (FAQ) Database, since the National Treasury will periodically consider all such to effect any necessary changes/ improvements to the *m*SCOA CORE for release once a year in time for municipalities' budget preparation.

1.3 The use of *m*SCOA Chart Versions older than '*mSCOA Chart Version 5.5'*

To date various versions of the *m*SCOA Chart have been issued as part of the piloting process to refine and improve the chart through a rigorous process of testing. This means that different municipalities, already transacting on the chart, may be using any of the older versions issued to date. In this regard it is crucial to note the following general guidance:

	A municipality must use the exact same version of the 'mSCOA Chart Version' for transacting throughout the year, (including for reporting, conclusion of reporting and the restatement of audit figures), in which it prepared its budget.

- This means that generally pilot municipalities that are transacting 'live' are doing so on *m*SCOA Chart Version 5.3 (There are a few exceptions that the National Treasury is aware of);

- All municipalities that went 'live' on 01 July 2016, prepared their budgets using *'mSCOA Chart Version 5.4 take 5'* and should, for the full 2016/17 financial year continue to transact on this version; and

- All other municipalities (that are not transacting 'live' as at 01 July 2016), including all the newly demarcated municipalities, must budget for the 2017/18 MTREF on *'mSCOA Chart Version 6.0'*.

	Prohibition on the use of <u>'mSCOA Chart Version 5.5'</u> for transacting during 2016/17 It is clear from this discussion that NO municipality may use the *'mSCOA Chart Version 5.5'* for transacting purposes during 2016/17 or any year thereafter. Municipalities should transact in the version of the chart that they budgeted in. Since *'mSCOA Chart Version 5.5'* was not available during the 2016/17 MTREF budget process, no municipality would have been able to prepare its budget using this version and therefore also cannot use it to transact during 2016/17.

The National Treasury Local Government Database has to consistently upload all municipalities' information irrespective of the *m*SCOA Chart Version used. To facilitate a smooth process in this regard, the transitional arrangement will include that a municipality (when uploading its information to the portal), will in its upload file, communicate the *m*SCOA Chart Version it used, via the data string. This will alleviate any challenges across versions in this final testing phase before the locked '***mSCOA Chart Version 6.0***' is issued for use by all municipalities for the 2017/18 MTREF.

Municipalities will be asked to identify the version of *m*SCOA used during the uploading of the batch files through the LG Upload portal but will also be required to state the version used to prepare the batch files as an additional parameter in the file. The National Treasury will communicate the final instruction when the reporting package is released with *m*SCOA version 6.0.

2. Local Government integrated financial management and internal control systems – *the RT25 transversal procurement process and what it means*

MFMA Circular 80 (issued on 8 March 2016), advised municipalities and municipal entities that the National Treasury, through the Office of the Chief Procurement Officer, advertised a Request for Proposal (RFP) on 4 March 2016 for the appointment of service providers for *an integrated financial management and internal control system for local government* (RT25-2016 on page 115 of Tender Bulletin No. 2906).

The procurement process was structured as a transversal contract and differentiation applied to the technical specifications and business process in accommodating for all categories of municipalities i.e. metropolitan municipalities, secondary cities, large towns, small towns, district municipalities with billing, and districts without billing.

We confirm that the procurement process has been completed and the outcome is available at the following link:

http://www.treasury.gov.za/divisions/ocpo/ostb/contracts/default.aspx

Vendors have been successful per category of municipality as follows:

Bidder Name	Municipal Categories	Guideline pricing
Altron TMT (Pty) Ltd T/A Bytes Universal Systems (Pty) Ltd	A on site;	R 34 325 006.00
	A hosted off site;	R 34 114 078.00
	B1 on site;	R 22 759 164.00
	B1 hosted off site;	R 24 493 722.00
	B2 on site;	R16 032 103.00
	B2 hosted off site;	R 16 908 888.00
	B3 on site;	R 9 880 062.00
	B3 hosted off site;	R 10 282 161.00
	B4 on site;	R 8 219 640.00
	B4 hosted off site;	R 8 835 619.00
	C1 on site;	R 6 142 138.00
	C1 hosted off site;	R 6 816 420.00
	C2 on site;	R 9 131 295.00
	C2 hosted off site	R 9 594 329.00

Camelsa Consulting Group (Pty) Ltd	B2 on site;	R 14 740 810.00
	B2 hosted off site;	R 14 296 047.00
	B4 on site;	R 6 493 192.00
	B4 hosted off site;	R 6 611 592.31
	C2 on site;	R 8 346 490.80
	C2 hosted off site	R 8 523 737.80
OS Holdings (Pty) Ltd	C1 on site;	R 5 793 373.40
	C1 hosted off site	R 5 655 147.24
Munsoft	A on site;	R 45 308 139.19
	B1 on site;	R 29 012 367.19
	B2 on site;	R 20 199 711.13
	B3 on site;	R 13 908 830.41
	C2 on site	R 12 945 573.65
Sage Pastel (Sage South Africa (Pty) Ltd	A on site;	R 104 995 004.00
	A hosted off site	R 106 199 881.00
Sebata Municipal Solutions (Pty) Ltd	A on site;	R 103 234 991.75
	A hosted off site;	R 96 052 636.86
	B1 hosted off site;	R 31 765 351.86
	B4 hosted off site;	R 9 085 187.35
	C2 on site;	R 12 521 264.25
	C2 hosted off site	R 8 050 045.28
Vesta Technical Services (Pty) Ltd	A on site and hosted off site;	R 76 150 320.45
	B2 on site and hosted off site;	R 20 122 553.16
	B3 on site and hosted off site;	R10 397 281.47
	B4 on site and hosted off site;	R 6 812 245.63
	C1 on site and hosted off site	R 7 437 506.74
	C2 on site and hosted off site	R 13 831 376.17

Municipalities should take note that this was a PROCUREMENT process and not an accreditation of systems or vendors.

What does it mean if a service provider is on the panel or is not on the panel of service providers awarded the *RT25 transversal contract*?

It is crucial to note that the RT25 – 2016 transversal process was a procurement process and NOT an accreditation process. The purpose of the RT25 – 2016 transversal process was to procure a *panel of mSCOA enabling systems* that a municipality may use to fast track and simplify its system(s) procurement process (**should it** be in the municipality's best interest to procure a new system or components thereof or upgrade its existing system(s)). The RT25- 2016 transversal

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process at NO stage attempted to evaluate ALL systems available in the affected environment and the process could only evaluate systems that submitted a bid through the process described in the table below:

	1. **Mandatory requirements**	**What does this mean?**
	To be appointed to the *RT25-panel of service providers*, a provider 1st had to meet the mandatory requirements of the bid specification. For example: (i) A valid tax certificate was submitted; (ii) Attend the compulsory briefing session; and (iii) The technical response and pricing were submitted in the prescribed format; etc.	If a provider did not meet any of the mandatory requirements, the provider was disqualified from the entire procurement process already in this 1st phase. For example, if the bidder did not attend the briefing session or did not respond in the prescribed formats.
	Conclusion – No stakeholder is able to state that a *service provider's offering* **enables** **or does not enable** *m*SCOA transacting*, if the service provider was* disqualified from the procurement process because it did not meet any of the mandatory RT25 - requirements.	

	2. **Functional evaluation**	**What does this mean?**
	If a service provider passed the 'mandatory requirements' of the procurement process: The provider (to be appointed to the *RT25 - panel of service providers)*, had to be successful in a functional self-evaluation *(that had to be submitted as part of the bid documentation) and a desk-top evaluation considering municipal experience and implementation methodology).* For example: (i) The proposed system offering meets *all the mandatory requirements* and minimum business processes (in terms of RT25) for the category of municipality it wants to service; (ii) The system will be available for purchase by a municipality of that category; (iii) It is more beneficial if the vendor has experience of IT implementations in municipalities in South Africa; and (iv) The vendor has proposed an implementation methodology which clearly indicates a good understanding of the challenges within municipalities and the requirements of *m*SCOA; etc.	If the proposed solution did not meet any of the *m*SCOA functional self-evaluation criteria, the provider was disqualified from the entire procurement process. If a proposed solution passed all the *m*SCOA functional self-evaluation criteria but is **not for sale** to municipalities **outside its existing customer base**, it was also disqualified from the process.
	Conclusion – No stakeholder is able to state that a *service provider's offering* **enables** **or does not enable** *m*SCOA transacting*, if the service provider was* disqualified from the procurement process because it did not meet any of the RT25 – functional evaluation requirements, at the time of the RT25-functional evaluation. Some of the service providers (disqualified at the time of evaluation) have	

since made significant investment to enable *m*SCOA transacting and there is a possibility that these do actually NOW enable *m*SCOA transacting. These service providers will **NOT be included** in the RT25-panel of providers, since at functional evaluation phase, the required functionality was not present.

Or, for example:
The service provider was disqualified because it only intends to serve its existing customer base, rendering it futile to be on a 'panel of **potential providers'** available to municipalities. However, its service offering could possibly enable *m*SCOA transacting but is **NOT included** in the RT25-panel of providers.[2]

3. **Practical demonstrations**	**What does this mean?**
If a service provider passed the 'functional evaluation (2nd phase)' of the procurement process: The provider (to be appointed to the *RT25 - panel of service providers),* had to practically <u>demonstrate</u> the minimum functional self-evaluation criteria <u>in a live systems environment,</u> to successfully pass this phase of the procurement process. For example: (i) In the live environment the service offering allows budgeting, transacting and reporting in addition to the hosting of the *m*SCOA chart in all seven (7) *m*SCOA segments; and (ii) In the live environment the service offering enables transacting in *m*SCOA without mapping/ extrapolating/ any manual intervention; etc.	If a provider failed to demonstrate practically, in a live systems environment, that its service offering meets the functional self-evaluation criteria, the provider was disqualified from the entire procurement process.
Conclusion – At the time of the RT25-practical demonstration phase, the *provider's offering* could not demonstrate that it enables *m*SCOA transacting in a live systems environment. However, some of the service providers (disqualified at the time of this phase) have <u>since made significant investments</u> to enable *m*SCOA transacting in a live environment and it is possible that these systems can actually NOW enable *m*SCOA transacting in a live systems environment. These providers are **NOT included** in the RT25-panel of providers (because at the time of evaluation they could not demonstrate such).	

4. **Pricing negotiations**	**What does this mean?**
If a service provider passed the 'practical demonstrations in a live environment (3rd phase)' of the procurement process: The pricing per category as proposed by the provider (to be appointed to the *RT25-panel of*	Some service providers were disqualified from the procurement process due to them not being able to adequately address the concerns raised by the

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[2] Some service provider's offerings were identified as not being for sale to new municipalities clients, during the demonstration phase and were disqualified from proceeding further with the procurement process.

service providers) was compared to the current market prices, utilising a *pricing bell curve* (statistical evaluation) for the relevant category(s).	evaluation panel during this 4th phase of evaluation.
For example: (i) Some service offerings were priced significantly <u>above</u> or <u>below</u> the bell curve of the price range for that category of service offerings; (ii) Such service providers were requested to reconsider their bid(s) for completeness/ accuracy; etc.; and (iii) Make the necessary updated proposal(s)/ clarification/ confirmations to the evaluation panel for consideration.	

Conclusion – No stakeholder is able to state that *a service provider's offering* **enables** or **does not enable** *m*SCOA transacting, if it was disqualified from the procurement process because it did not pass the pricing negotiations phase.

This is because this step of the process may have revealed that the offering is incorrectly priced and this could not be adequately addressed during the negotiations in this 4th phase.

5. **Bid Adjudication Committee (BAC) evaluation**	**What does this mean?**
If a service provider passed the 'pricing negotiations (4th phase)' of the procurement process: The provider was recommended to be appointed to the *RT25-panel of service providers* by the Bid Evaluation Committee (BEC). The Bid Adjudication Committee (BAC), based on the submission and recommendations of the Bid Evaluation Committee (BEC), evaluate all the supporting evidence and make a final decision on the award of RT25 to every individual service provider that submitted a bid. The BAC may also disqualify service providers at this stage of the process for various reasons.	Service providers could have been disqualified from the procurement process by the Bid Adjudication Committee (BAC), during its final review, if they were not convinced that a service provider passed any one/ some/ all of the abovementioned procurement phases of the evaluation process.

Conclusion – No stakeholder is able to state that a service *provider's offering* **enables** **or** **does not enable** *m*SCOA transacting*, if they were* <u>disqualified from the procurement process</u> and therefore was not included in the panel of RT25-service providers. This is because the Bid Adjudication Committee (BAC) may have disqualified the offering based on any/ some/ all of the evaluation phases discussed above.

A service provider may also have, <u>since being disqualified</u>, addressed the shortcomings that *disqualified it at that stage of the evaluation* in the procurement process. These providers are not included in the panel, because at the evaluation they could not demonstrate such.

Based on the conclusions above, it is crucial that *every municipality,* **going forward***, note and follow in detail the process, set-out in Annexure B, step-by-step,* *including maintaining relevant supporting documentation (evidencing each step of the process) as part of its audit file.*

*Annexure C to this circular, includes an example mSCOA systems decision tree to assist municipalities.[3]

The process in **Annexure B** applies to:

- All municipalities (pilot, non-pilot, and amalgamating municipalities);
- A 'municipality'**, including all its municipal entities**;
- The procurement of a new system(s), procurement of components of additional functionality and/ or an upgrade of an existing system(s); and
- A municipality that will remain with its package of existing system(s) with or without requiring components of additional functionality.

3. *m*SCOA - Training

3.1 Accredited *m*SCOA Training

The National Treasury, in partnership with IMFO have developed accredited *m*SCOA training. This process included the accreditation of service providers that may provide the *m*SCOA accredited training, with effect 1 August 2016.

The accredited training material provides an introduction and theoretical information on the Municipal Standard Chart of Accounts and includes testing of a candidate on these aspects. A person that participated in this training will have a good grounding knowledge of the *m*SCOA chart but will not necessarily be practically equipped to implement the entire *m*SCOA project in a municipality.

Please note that the panel of accredited training providers can be accessed from the IMFO website, www.imfo.co.za

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[3] The decision tree was adapted from the information developed by the KwaZulu-Natal Provincial Treasury.

All municipalities interested in accredited *m*SCOA training can contact:

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Website link: http://www.imfo.co.za/

3.2 Non-Accredited Training

The National Treasury *m*SCOA project team, as part of its project implementation support to Provincial Treasuries and municipalities is continuously developing training material and rolling it out across the affected environment. This material and training initiatives are not accredited, but are *practical support* geared specifically to assist and guide municipalities in their *m*SCOA project implementation. For example, how to convert the municipality's existing trial balance into the *m*SCOA classification.   It is therefore **different** and **not a duplication** of the accredited training (or covered in the accredited training).

If your municipality has not already been involved in non-accredited training, please contact your Provincial Treasury *m*SCOA Coordinator for more information and availability.

3.3 System(s) Training

There are numerous systems available in local government. Each of these may be quite unique with different operating rules, requirements and how modalities and function(s)/ interact.

It is important that, subject to the municipality's decision on the way forward with its system offering, it involves all affected officials across its environment in relevant systems training offered by its service provider(s). This means (a) training from its existing systems providers (if it will remain with such provider or a systems upgrade thereof) or (b) training on the system functionality by its new system provider(s) should it be changing systems.

The *m*SCOA reform included that all piloting vendors must include budgeting functionality across all the regulated (6) six segments from an integrated development plan (IDP) perspective.   This reform was incorporated into the minimum *m*SCOA compliance requirements.

Utilising the vendor-developed functionality instead of the antiquated excel templates [4], across its entire municipal departments will be very useful, especially considering that the municipality must capture its integrated development plan (IDP) and budget in the *m*SCOA classification on its system as soon as October/ November 2016 to enable the municipality to follow a public consultation process and tabling of an *m*SCOA compliant budget in March 2017 for full *m*SCOA transacting with effect 1 July 2017.

The municipality should contact its system provider(s) in this regard.

4. What should a municipality (pilot and non-pilot) be doing during August/ September 2016

Every municipality, during August / September 2016, should:

1. Download 'mSCOA Chart Version 6.0', review the chart, and familiarise itself with the content, for implementation by October/ November 2016 for use in budget compilation;

2. Familiarise itself with the content of Municipal SCOA Circulars 5 and 6 and implement these circulars;

3. Participate in non-accredited training with its Provincial Treasury, geared at converting its existing trial balance to the *m*SCOA chart;

4. **Unpack its "repairs and maintenance" and "all new capital projects" into the *m*SCOA Project Segment;**

5. Identify officials that should attend the accredited and non-accredited *m*SCOA training and make arrangements for such;

6. Submit all *m*SCOA related information, requested by the National Treasury in Municipal SCOA Circulars 5 and 6 to the National Treasury and Provincial Treasury;

7. Conduct the assessment (due diligence) of the existing package of systems used by the municipality and all its municipal entities to make a final decision on whether to remain with its existing package of systems or to upgrade systems or to change systems **(Annexure B)**; and

8. Submit any *m*SCOA related queries to the *m*SCOA Frequently Asked Questions Portal: http://mscoafaq.treasury.gov.za/Main.aspx

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[4] This refers to the practice of some municipalities to budget in excel. This does not refer to the Annexure A1 schedules of the Municipal Budget and Reporting Regulations (MBRR), 2009.

You can access the FAQ Database or (if you have not yet registered as a user) register on the FAQ database at the link provided in the discussions above (also refer to Municipal SCOA Circular No. 3 in this regard).

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