Municipal SCOA Circular 3 – Implementation

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

This circular introduces the Municipal Regulations on a Standard Chart of Accounts (*m*SCOA) to non-pilot municipalities in preparation for full *m*SCOA compliance by the outer implementation date of 1 July 2017. This is the third 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.

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1. Introduction

The Municipal Regulations on a Standard Chart of Accounts, 2014 (*m*SCOA), requires a significant change in municipal business processes. Consequently, *m*SCOA implementation involves system conversion and/ or re-implementation with all the typical risks associated with any system conversion or implementation.   Implementing *m*SCOA therefore requires **organisational change across the municipality** since **not only** financial and budget orientated practitioners are involved. **A common misconception among municipalities and other stakeholders relates to the fact that the *m*SCOA Regulation is perceived to be a finance reform only, an extremely dangerous assumption**.

This content of this circular address:
- the role, responsibility and involvement of the Auditor-General in the *m*SCOA project;
- confirms the role of risk management and internal audit;
- provides clarification on *m*SCOA and the impact on municipal entities;
- provides a synopsis of frequently asked questions and explains the use of the FAQ Database;
- clarifies roles and responsibilities as it relates to project management support within the municipality and provincial treasury;
- dismisses the notion of 'early adoption'; and
- provides guidance on *m*SCOA training.

2. mSCOA and the audit value chain:

2.1 Internal Audit, the Audit Committee and Risk Management

"A conversion to a new system is one of the highest risks that any organisation can face[1]."

Internal auditors should evaluate both the information technology (IT) and organisational aspects of the *m*SCOA system conversion projects. Auditing these conversions provides assurance to management and the municipal council that '*all that can be done is being done'*. The internal auditor's involvement and independent assessment of *m*SCOA project plans provides value that far outweighs the audit's costs.

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[1] The Institute of Internal Auditors.

Internal audit has an important role to play in ensuring good *m*SCOA project governance, including achieving *m*SCOA project goals and to create and maintain particular organisational values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and the processes used to monitor their achievement.

Risk management is a key responsibility of management and the accounting officer (municipal manager). It is crucial that the municipality manages its *m*SCOA project risks as part of its normal risk management processes, including assigning clear responsibility for the management of *m*SCOA project risks. Internal auditors assist both management and the audit committee by examining, evaluating and reporting on the adequacy and effectiveness of the municipality's overall and particularly *m*SCOA project risk management process.

Risk management is an essential part of effective *m*SCOA project governance and whilst it is a management responsibility, management can expect the audit committee to oversee and provide advice on the risk management of such a significant reform in the municipality. The audit committee needs to review:

- Whether management has a comprehensive risk management framework guiding the management of *m*SCOA project risks;
- Whether a sound and effective approach has been followed in developing the strategic risk management plan for the *m*SCOA project;
- The impact of the municipality's risk management framework on particularly the control environment of the *m*SCOA project; and
- The municipality's "*m*SCOA project' - fraud prevention plan to be satisfied that the municipality has appropriate processes and systems in place to capture, monitor and effectively investigate any fraudulent activities related to the project.

Management is responsible for ensuring the establishment of effective risk management in the municipality and in this case, also specifically for the *m*SCOA project. The approach followed provides a mechanism of formalising the responsibility and establishing accountability for management activities. For this project, it is crucial that either the established "Risk Committee" function or alternatively, the *m*SCOA steering committee oversee the *m*SCOA project risk management. These committee(s) efforts should identify further actions that may be needed to reduce *m*SCOA project risk to an acceptable level.

National Treasury is in the process of developing an *m*SCOA position paper providing guidance to internal auditors of piloting and non-piloting municipalities on specific areas of importance in the context of a municipality's annual audit plan. The position paper will formally be communicated to all municipalities once it is finalised.

2.2 The External Audit Process

Depending on the system application used by a municipality, the implementation of *m*SCOA may result in a system conversion/ or re-implementation. Furthermore, *m*SCOA implementation impacts significantly on the municipality as a whole as well as the business processes developed to assist in the smooth running of the municipality. These changes pose a high risk to the municipality if the contributing risk factors are not responsibly addressed by management. These risks will be considered by the Auditor-General when planning and conducting the annual audit of municipalities and their entities.

Municipalities, system vendors and consultants raised concerns on how mSCOA implementation will affect the audit process and potentially audit qualifications:

The Auditor-General prepared a position paper to explain their external audit consideration in the context of their Constitutional Audit Mandate. The main conclusions from the paper are that:

- The auditing process before and after *m*SCOA remains the same;
- Data conversion will be a risk and main focus in audits conducted during *m*SCOA implementation. As in the case of all systems changes, the Auditor-General will look in its IT grouping at access controls and general controls;
- mSCOA should not have an impact on GRAP reporting requirements;
- the Auditor-General does not foresee that *m*SCOA will have any impact on audit opinions, unless the entire system conversion/ or re-implementation is done in a manner that eliminates any audit trail. Also "Incorrect information" input into the system, before or after *m*SCOA will result in "incorrect output" and consequently have a possible negative impact on the audit outcome. As in the past, what an auditee does and the manner it conducts its business results in its audit opinion; and
- It is crucial that all municipalities now already map their respective

	business processes to align with *m*SCOA requirements and processes. The *m*SCOA project team will soon release a *National Treasury mSCOA Position Paper* to formally communicate the position taken by the Auditor-General towards auditing the implementation, system application and way forward on auditing municipalities.

2.3 Reporting

One of the key design principles of *m*SCOA is to enable a central point of access for all local government information for usage by/ reporting to various stakeholders. Furthermore, *m*SCOA, being a classification framework for financial information, will improve data quality and integrity, by requiring the classification of transactions consistently across municipalities and from one financial year to the next. *m*SCOA necessitate the modernisation of existing systems, also those that produce/ contribute to municipal reports.

As part of *m*SCOA, the Local Government Database (LG Database) plays a crucial role to host and present (report) local government information. The *m*SCOA work stream: LG Database and Reporting is currently conducting a review of existing internal and external local government reporting.

The review follows a staged approach and only minimal changes will be effected during phase 1 of the 'report design phase'. Major *m*SCOA required changes, will only affect reporting in phase 2 of the reporting review. This approach provides municipalities the opportunity to fully adopt the *m*SCOA tables prior to the introduction of *m*SCOA aligned, revised reporting requirements. Any proposed updates to the various reports, including their content and presentation will be consulted on, before release.

Currently, only reports containing primarily financial information are being reviewed and include:

- Budget reporting formats 2015/16;
- In-year reporting formats as at 31 March 2015;
- Monthly section 71 returns;
- Illustrated annual financial statements (as published on the 'Office of the Accountant-General's (OAG)' – website on www.treasury.gov.za;
- Cities Infrastructure Delivery Management Systems (CIDMS);
- NERSA reporting tables (2012);

- DWA reporting tables (December 2013); and

- Management reports (defined by municipalities) to be customised by the various system developers.

Once the review is completed, the National Treasury will issue a position paper on reporting.

3. *m*SCOA and municipal entities:

In 2003, the MFMA established minimum financial management practices and reporting requirements for municipalities and municipal entities.   Over-and-above the MFMA requirements, all the requirements of the *m*SCOA regulations apply to a municipal entity with effect 1 July 2017.   When preparing to implement *m*SCOA and when aligning/ amending any system(s) specifications it is crucial that the parent municipality and its municipal entity(s) consider the following:

3.1 Current system(s) situation in municipal entities

The mSCOA pilot process revealed that most municipal entities have completely separate and often entirely different financial- and other system(s) from those used by their parent municipalities.

The MFMA, amongst other, requires that every municipality with a municipal entity(s) must *monthly prepare consolidated reporting* reflecting the combined information for the municipality plus all of its municipal entities. The different system(s) used in parent municipalities and their municipal entities significantly complicates consolidated reporting. As a consequence, several municipalities are not adhering to the MFMA and only consolidate the information of its municipal entity(s) annually as part of the annual financial statements.   Other parent municipalities do monthly consolidated reporting but are often only able to include the information of their municipal entity(s) by using mapping[2] or other manual techniques. In all these cases there is a high risk that information is incorrectly consolidated and differently classified/ reported across the parent municipality and its municipal entity(s).

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[2] Mapping – often the 'chart of accounts' used by the parent municipality differs from the 'chart of accounts' used by the municipal entity to classify transactions in their respective accounting records. Mapping means that the municipal entity's 'chart of accounts' is interpreted/ translated to the 'standard chart of accounts' of the parent municipality to enable consolidation of information into the accounting records of the parent municipality.

The *m*SCOA regulations provide the platform for parent municipalities and municipal entities to resolve this challenge. In this regard, the *m*SCOA regulations specify that the 'standard chart of accounts' of both the parent municipality and its municipal entity(s):

- must fully align to *m*SCOA;
- must accurately record all budget and financial transactions and data in the applicable segments; and
- may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity.

This means that the *m*SCOA regulations requires seamless integration[3] between the system(s) implemented by the parent municipality and those system(s) implemented in the municipal entity(s). Parent municipalities are therefore urged to **integrate the system(s) implemented by their municipal entity(s) at a core level** to ensure that seamless *m*SCOA integration is achieved for the municipality as a whole. Below we discuss some questions relating to the integration of system(s) between parent municipalities and their entities, posed during the piloting process:

	Does mSCOA seamless integration between financial system(s) mean one set of accounting records for the parent municipality and its municipal entity(s)? A municipal entity is a legal entity in its own right, separate from its parent municipality. As such the MFMA requires that every municipal entity keeps and maintains separate accounting records from its parent municipality that meets the prescribed minimum requirements. Seamless integration allows that the parent municipality and municipal entity continue to transact on their separate sets of accounting records (books). However, the MFMA is clear therein that should a municipality elect to provide services to the community using an external mechanism such as a municipal entity, the parent municipality remains fully accountable to the community for such municipal entity. In this context, the MFMA requires that the parent municipality in its reporting present consolidated positions for the budget, in-year reporting, the annual financial statements and the annual report that includes all the information of its municipal entity(s).

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[3] All hands out/ no interpretation (mapping) allowed in any communication required between systems.

Integrating system(s) where the parent municipality and municipal entity(s) have the same system(s):

In this case the parent municipality and municipal entity will each run their respective activities as separate businesses / (organisations) on a daily basis. However, monthly, every municipal entity's separate transactional data (on a high level) has to be rolled up/ integrated to reflect in its parent municipality's general ledger. The integration would typically reflect in the parent municipality's accounting records as a system journal.

Since *m*SCOA explicitly prohibits manual interaction, the detail information of the municipal entity should be accessible (able to be viewed) using the source document number from the municipal entity's system and/ or sub-system.

Integrating systems where the parent municipality and municipal entity(s) have different system(s):

In this case the parent municipality and municipal entity by the nature of using different systems, each, run their respective activities as separate businesses / (organisations) on a daily basis. However, monthly, when integrating/ (rolling up) the municipal entity's separate transactional data in its parent municipality's general ledger this will need to be done via web services or/ interface/ or similar technologies since *m*SCOA outlaws any human intervention.

Most pilot, parent municipalities in this situation elected to consolidate their separate information and that of their municipal entity(s) into one (1) platform / system solution. This allowed for seamless financial integration and also non-financial information such as Human Resources head counts, debtor analysis from sub systems, and asset information.

3.2 Preparing for *m*SCOA implementation in a municipal entity

When a parent municipality and its municipal entity(s) plan for the implementation of *m*SCOA across their respective organisations it is important to consider that for *m*SCOA purposes detailed transactional integration is required. No translation tables may be used between the different charts of entities and core financial systems. The standardised *m*SCOA chart must be embedded in both/ all systems and as such the data string originating from the municipal entity will inform the allocation to the receiving 'parent municipal' core system. In addition to this the budget allocations from the parent municipality's core system will inform the budget level and allocation on its municipal entity's system(s).

It is **crucial that** the **parent municipality and/ or municipal entity's system specifications is very clear in this regard** of what is required.

4. *m*SCOA Frequently Asked Questions:

To date various *m*SCOA related queries have been addressed through the *m*SCOA frequently asked questions (FAQ) database. The query numbers of some important queries and responses raised through the FAQ database are listed in **Annexure A** for non-pilot municipalities' consideration. The responses contain valuable information that can assist non-pilot municipalities to better understand the *m*SCOA tables and how similar challenges have been resolved by pilot - municipalities. All the information can be accessed from the FAQ database.

You can access the database or (if you have not yet registered as a user) register on the FAQ database at the following link: http://mscoafaq.treasury.gov.za/Main.aspx

We have included guidance on how to extract queries or register a new query on the FAQ database in **Annexure B** to this circular.

5. *m*SCOA Project Management Support:

5.1 *m*SCOA Project Sponsor: Role and responsibility

In Municipal SCOA Circular No.1, municipalities were advised as part of the *mSCOA project kick off* to register a formal *m*SCOA project in the municipality with a project sponsor, steering

committee (including a terms of reference) and a suitable governance structure to oversee the implementation. It is of course equally important that the provincial treasury (supporting municipalities with *m*SCOA implementation) also has a project sponsor for its "*m*SCOA support" - project.

A number of stakeholders have asked us, what is a project sponsor and what does his/ her responsibilities entail? In this part we will be discussing the generic role and responsibilities of the *m*SCOA project sponsor. Depending on the circumstances in your municipality, you may want to align the project sponsor's role and responsibilities to your specific circumstances.

Ideally the project sponsor is an active senior manager within the municipality/ or provincial treasury that is well respected and has a lot of influence within and outside the organisation. The sponsor ensures that the project remains a viable proposition and that benefits are realised. The project sponsor will typically resolve any issues outside the control of the project manager.

The project sponsor is responsible to the municipality/ or provincial treasury for the success of the *m*SCOA project. The project sponsor should therefore be a senior executive in the municipality/ or provincial treasury that understands and can identify the business need to have *m*SCOA in the first place. The project sponsor must be a person that can explain the business problem or current situation (situation 'as is' without *m*SCOA) and the opportunities or advantages of the project to the organisation (when *m*SCOA will be 'business as usual' in the municipality after its implementation).

The project sponsor acts as the advocate or lead supporter of the project and also has a role in the management of the *m*SCOA project. Usually the project sponsor is a senior member of the *m*SCOA project steering committee (often the chairperson).

	Responsibility – The project sponsor acts as the ***mSCOA representative of the organisation*** to the world 'outside' of the municipality/ or provincial treasury and plays a ***vital leadership role*** through: • providing 'championship' for the project, including selling and marketing *m*SCOA throughout the organisation; • providing business expertise and guidance to the *m*SCOA project manager; • acting as the link between the *m*SCOA project, the business community

(internal and external to the organisation) and perhaps most importantly, management decision making groups;

- acting as an arbitrator and making key decisions that may be beyond the authority of the project manager; and
- acting as chairperson of the *m*SCOA Steering Committee.

The project sponsor has a number of
interfaces and responsibilities
for the mSCOA project

Responsibility – The project sponsor is ***accountable to the municipal council/ or provincial executive*** (in the case of a provincial treasury project sponsor) *for*:

- Providing leadership on culture and values to the *m*SCOA project;
- Owning the *m*SCOA business case;
- Keeping the *m*SCOA project aligned with the municipality/ or provincial treasury's strategy and direction;
- Governing project risk;
- Working with other sponsors;
- Realising the benefits of *m*SCOA for the organisation;
- Recommending opportunities to optimise cost/ benefits;
- Ensuring continuity of sponsorship;
- Providing assurance; and
- Providing regular feedback and lessons learnt.

Responsibility – There are several ***governance activities*** that should take place between the *m*SCOA project sponsor and the *m*SCOA project manager, including:

- Providing timely decisions;
- Clarify the decision making framework for the *m*SCOA project;
- Clarify the municipality/ or provincial treasury's business priorities and strategy;
- Communicate business issues;
- Provide resources (funding, human – and other);

	• Engender trust; • Manage relationships; • Support the *m*SCOA project manager's role; and • Promote ethical working.
	Responsibility – In addition, the project sponsor should be involved in the following ***activities with other stakeholders***: • Engaging stakeholders; • Governing stakeholder communications; • Directing client/ community relationships; • Directing the governance of *m*SCOA users and (ultimately the impact of *m*SCOA on the service delivery to) the community; • Directing the governance of suppliers (impacted by *m*SCOA); and • Arbitrating between stakeholders as challenges may arise with the implementation of *m*SCOA.

The project sponsor definitely has a 'problem solving' role within the *m*SCOA project and often needs to be able to exert pressure within the municipality/ or provincial treasury to overcome resistance to the *m*SCOA project. For this reason a successful project sponsor will ideally be a person with five personal attributes - **understanding**, **competence**, **credibility**, **commitment** and **ability to engage**.

	"Appointment of an mSCOA project sponsor – To assist municipalities and provincial treasuries, an example "*m*SCOA project sponsor" – agreement is included in **Annexure C**. It is important that any municipality/ provincial treasury that uses the example, aligns the example to the specific circumstances in the particular organisation. ***Additional information*** – There is a host of information available on the role of "project sponsors", and you may also wish to refer to these, including for example the following link: http://philrichardson.co.uk/pa450/teamwork/sp_inout.htm

5.2 Charter for each work stream

From the pilot process, it is recommended that the *m*SCOA implementation project in every municipality should, as a minimum, include nine (9) work streams to support the project manager and execute the implementation of *m*SCOA in the municipality. In this regard the proposed nine (9) work streams are:

- Commissioning an *m*SCOA steering committee (governance structure);
- IT infrastructure and network;
- Verification of current vote structure to *m*SCOA segments;
- Data cleansing;
- Human Resources (HR) & payroll;
- Planning (Integrated Development Plan (IDP), Budget, Service Delivery- and Budget Implementation Plan (SDBIP), Performance Management (PM));
- Core system, additional or sub systems;
- Real estate, land use and grant management; and
- Document management.

Every work stream should have a charter. A charter for the work stream establishes the work stream's authority and right to make decisions; execute the activities necessary to deliver agreed work and communicates support from the steering committee and project sponsor. The charter does not have to be a complicated document and should contain the following minimum information:

5.2.1   The name and purpose of the work stream, and a statement of support from the issuer (Municipal Manager);

5.2.2   A short description of what needs to be done by the work stream;

5.2.3   The benefits to be achieved by the deliverables;

5.2.4   Who will need to be involved/ has been assigned to this work stream;

5.2.5   How and when the activities will be undertaken; and

5.2.6   The quality expectations or acceptance criteria for the deliverables.

The work stream charter is not a detailed work plan for the team, but rather represents the mandate for this team to become involved and initiate the assigned work activities.

5.3 *m*SCOA Project Governance Structure

Project governance ensures that the *m*SCOA project is done well and includes policies, regulations, functions, processes, procedures and responsibilities that generally should define the establishment, management and control of projects. In this regard the municipality's *m*SCOA steering committee play an important role in executing project governance and this can be illustrated as follows:

Source: www.gov.uk/government

The main project governance activities include:
- Providing direction to the project;
- Project ownership, sponsorship and oversight;
- Ensuring the effectiveness and efficiency of the project management functions; and
- Reporting and disclosure (including consulting with internal and external stakeholders).

These activities, together with the size and complexity of the *m*SCOA project in the municipality, should inform the *m*SCOA steering committee structure in your specific municipality.

The project governance structure (*a temporary structure* established for the duration of the *m*SCOA project *within the mSCOA steering committee*) should ideally be chaired by the project sponsor. As discussed above the project sponsor could be the Municipal Manager or a Councillor or other senior person in the municipality. Furthermore, the project governance

structure should include members of senior management (heads of departments) and portfolio committee members.

The project manager should attend meetings of the project governance structure to report progress with the implementation of the *m*SCOA project. The Chief Internal Auditor and Risk Manager should provide advisory and assurance services to the project governance structure. It is crucial that the project governance structure is adequately trained to perform the duties required of them.

The Treasury Department of the United Kingdom published: "Project Governance: a guidance note for public sector projects", which can be accessed at www.gov.uk/government for further reading on this topic.

6.   Early Adopting of *m*SCOA

The National Treasury received several requests from non-pilot municipalities wanting to early adopt *m*SCOA.   During the pilot phase some municipalities that requested this were supported. However, we have passed the stage where "early adopting" is a possibility since all municipalities are by the nature of the current timing in the stage of "*preparing for mSCOA implementation*". It is therefore crucial to understand that 1 July 2017 is the outer compliance date for going live with *m*SCOA across the municipality's organisation and in its IT system(s). All municipalities are therefore urged at this stage to prepare for their implementation of *m*SCOA and to do so at an earlier date to ensure all implementation challenges are resolved by 1 July 2017.

While it is acknowledged that the positioning of the various financial systems (vendors/ service providers) in support of the *m*SCOA classification framework is an important consideration, it is only one aspect in creating an enabling environment for *m*SCOA implementation. Municipalities are strongly advised to revert back to Municipal SCOA Circulars No. 1 and 2 for guidance as to what can be done immediately and not hold the project at ransom on the premise that the current status of financial systems is unknown.

The National Treasury is in the process of releasing a follow-up circular to MFMA Circular No. 57 which will provide the necessary business process requirements as it relates to the financial system functionality.

To support municipalities, the National Treasury are training officials and issuing Municipal SCOA Circulars in anticipation of the work that municipalities are required to conduct prior to being able to "go live" with *m*SCOA across the organisation and on the respective IT system(s).

7.   *m*SCOA Training: what is available

It is important that officials across the business of the municipality as well as broader role players understand the usefulness of standardising the classification framework in local government (*m*SCOA).   Consequently, as part of *m*SCOA project phase 4: Change Management and Transition, both non-financial and financial officials are prioritised for training. Training initiatives rolled out to date to: (a) create *m*SCOA awareness across all nine (9) provinces and (b) prepare pilot municipalities for *m*SCOA implementation, have been discussed in previous Municipal SCOA Circulars. It is important to note that none of the training provides for or include IT system based training.

Currently **a three (3) day non accredited training programme** is offered specifically to non-pilot municipalities. This training programme is funded by the National Treasury and is clustered around municipal districts. 44 of these training sessions are currently being rolled out since 13 October 2015 until 4 February 2016. The respective provincial treasuries will contact municipalities (the chief financial officers) to nominate individuals for the training. Municipalities are urged to make use of this opportunity as it will not be repeated.

It is envisaged that accredited *m*SCOA training (fitting within the existing competency framework) will be available from February 2016. The National Treasury has partnered with the Institute of Municipal Finance Officers (IMFO) for this purpose. Once the unit standards have been finalised and the accreditation process of trainers' institutionalised municipalities will be guided on training in future Municipal SCOA Circulars.

Although the National Treasury recognise the significant interest to capacitate officials in mSCOA, municipalities are again urged, to only make use of existing National Treasury non-accredited training as explained in Municipal SCOA Circular No. 2. Municipalities can liaise with their respective provincial treasuries to facilitate the necessary arrangements for these training sessions.

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