



**treasury**

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Date: 14 June 2016

**TO: MUNICIPAL MANAGERS  
CHIEF EXECUTIVE OFFICERS  
CHIEF FINANCIAL OFFICERS  
KWAZULU NATAL MUNICIPALITIES AND MUNICIPAL ENTITIES**

### PROVINCIAL TREASURY CIRCULAR TC-RM 10 OF 2015/16

#### **MUNICIPAL REGULATIONS ON STANDARD CHART OF ACCOUNTS – EVALUATION OF CURRENT FINANCIAL MANAGEMENT AND INTERNAL CONTROL SYSTEMS AND IMPLEMENTATION REQUIREMENTS**

The Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), on 22 April 2014. Municipalities and their respective entities will be required to transact in compliance with the requirements of the Regulation **from 1 July 2017**.

Municipalities and their respective entities are reminded that the mSCOA Regulation has been gazetted, and is therefore legislation. Compliance with this Regulation by 1 July 2017 is therefore not an option, but rather a **legislative requirement** by all municipalities and municipal entities. Non-compliance with this Regulation by 1 July 2017 could result in National Treasury implementing the necessary punitive measures until the municipality fully meets the compliance requirements.

In order to transact in accordance with mSCOA requirements on 1 July 2017, municipalities and their entities need to adopt a mSCOA compliant budget prior to the commencement of the 2017/18 financial year. Municipalities and their respective entities have **effectively less than 10 months** to table draft mSCOA compliant budgets in Council **by 31 March 2017**.

National Treasury has issued MFMA Circular No. 80, Municipal Financial Systems and Processes requirements in support of mSCOA, which replaces MFMA Circular No. 57 and provides the minimum mSCOA requirements of a financial management and internal control system. It further stipulates the procedures that municipalities and their respective municipal entities need to adhere to when changing financial systems.

In accordance with the delegated functions of Provincial Treasury, Provincial Treasury is required to support National Treasury in the roll out and compliance of these regulations by municipalities. Provincial Treasury hereby issues Provincial Treasury Circular TC-RM 10 of 2015/16 to supplement MFMA Circular No. 80, and to provide further guidance to municipalities and their municipal entities in readiness for mSCOA implementation.

This circular, in summary, provides an overview of the following:

- A. MFMA Circular No. 80 Municipal Financial Systems and Processes;
- B. Impact of local government elections on mSCOA implementation;
- C. Appointment of external service providers; and
- D. Provincial Treasury support.

## **A. MFMA Circular No. 80 Municipal Financial Systems and Processes**

### **Evaluation of current financial management and internal control systems**

National Treasury issued MFMA Circular No. 57, Municipal Financial Systems and Processes, which has been effective from 20 October 2011, informing municipalities of National Treasury's investigation in local government financial systems and processes, and further outlined the procedures that municipalities needed to follow when considering the replacement of core financial management systems.

MFMA Circular No.80, Municipal Financial Systems and Processes, replaces MFMA Circular No. 57, **with effect from 8 March 2016**, and formalizes the system functionality and business process requirements of a financial management and internal control system that meets the mSCOA and other legislative frameworks.

**Municipalities are reminded that MFMA Circular No. 80 requires a municipality to evaluate the system functionality and business process requirements of their current financial management and internal control systems prior to entering into written agreements with any system vendor to upgrade or change systems.**

In order to effectively evaluate the current financial management and internal control systems, municipalities are required to:

- **Assess their current systems in accordance with Annexure B of MFMA Circular 80.** Due to Annexure B including the system requirements for all categories of municipalities, Provincial Treasury has further modified this Annexure to indicate the specific requirements by category of municipality, which has been appended to this Circular.
- **Municipalities are required to utilise a bid evaluation committee or mSCOA project steering committee representing senior officials from the respective business units in**

**evaluating current financial systems.** The role of this committee is to evaluate the system functionality of their current system vendors in accordance with the above mentioned system and business processes functionality assessment.

- **Due to the significant number of requirements, municipalities shall request current system vendors to complete the Annexure by indicating the following options:**
  - ✓ **“Comply –Demo is available”**–This would apply in instances where the functionality is available and the system vendor is able to demonstrate such functionality;
  - ✓ **“Third Party Integration – Demo is available”** – 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;
  - ✓ **“Proof of Concept is available – Implemented by 30 June 2017”** –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.
  - ✓ **“Future Development – Proof of Concept by December 2016”** – 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.
  - ✓ **“Not available”**–System vendors may have not considered the required functionality, and cannot implement the functionality by 30 June 2017.
  
- **As the completion of the above mentioned assessment by a system vendor is not adequate to make an informed decision, municipalities are required to request the system vendors to demonstrate the above mentioned functionality to the bid evaluation committee or mSCOA project steering committee.** Municipalities are required to note that a demonstration is not a slideshow presentation but rather a live demonstration on budgeting, transacting and reporting on a municipal environment.
  
- **Once the assessment is complete, the committee shall determine whether the system meets the majority of the functional requirements and whether the outstanding functional areas can be implemented by 1 July 2017.**
  
- **The completed system functionality assessment, as per the Annexure to this Circular, together with the recommended decision on whether the municipality shall be remaining with their current systems or changing systems shall then be submitted to National Treasury and Provincial Treasury for feedback and such feedback must be considered by the municipality prior to making a final decision in this regard.**

**Municipalities are further cautioned not to incur any costs for system vendors to complete the system functionality assessment, provision of information, conducting of any presentations or demonstrations to the municipality that are required for a municipality to make an informed decision on whether to remain with the current system or change financial systems.**

Provincial Treasury is in a position to assist your municipality should you require any further assistance in completing the attached system functionality assessment or support during the demonstration of the municipality's current systems. **However, please be advised that Provincial 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 in this regard.**

**Municipalities are further required not to engage with any system vendors outside their current system vendors during the evaluation process of their current system functionality.**

**Municipalities that have already upgraded or changed financial systems and are planning to GO LIVE on 01 July 2016 must submit their budget string codes and detailed repairs and maintenance plan to [andre.bossert@treasury.gov.za](mailto:andre.bossert@treasury.gov.za) for review. National Treasury will provide the final authority for municipalities to proceed to GO LIVE on 01 July 2016 based on the assessment of the budget string codes and detailed repairs and maintenance plan.**

#### **[Transversal Contract for the Supply of an Integrated Financial Management and Internal Control System for Local Government](#)**

In instances where the outcome of the above mentioned assessments are **unfavourable**, municipalities may need to change financial management and internal control systems in order to achieve system functionality as required by the mSCOA Regulation. Due to the timing of required compliance and the limited technical skills within municipalities to effectively assess and evaluate current financial management and internal control systems in the market, National Treasury issued a transversal tender which caters for the technical specification and business processes for all categories of municipalities.

The tender processes are currently underway at the National Treasury and the panel of service providers is anticipated to be finalized toward the latter part of June 2016.

In accordance with MFMA Circular No. 80, municipalities are **highly recommended** to utilise the transversal contract and associated panel of service providers for the supply of financial management and internal control systems. Should a municipality decide otherwise, it is required that the municipality **formally communicates the reasons and provides a detailed motivation** to the Chief Directorate: Local Government Budget Analysis at National Treasury **prior to going out on tender for such systems.**

**Importantly, municipalities must note that transversal tender process is not an accreditation process for systems, but rather a process to determine a panel of service providers that municipalities may utilise when changing financial management and internal control systems.**

Whilst system functionality is part of the tender evaluation process, it is not the only criteria, and system vendors that are not successful on the panel of service providers **should not be viewed as**

being non-compliant in terms of the mSCOA Regulation as it could be the result of other supply chain management compliance matters.

Additionally, municipalities have until 1 July 2017 in order to meet mSCOA requirements, hence, the system functionality development in certain areas may not have been finalized by the time of evaluation.

**It is therefore critical that municipalities conduct the system functionality assessment prior to undertaking the decision to upgrade or change financial management and internal control systems and therefore not rely solely on the results of transversal contract or panel of service providers when making the decision.**

## **B. Impact of local government elections on mSCOA implementation**

With the imminent local government elections taking place on 3 August 2016 and subsequently new Councillors being elected, such Councillors may not necessarily have the required understanding of the mSCOA Regulation or the processes undertaken by the municipality in readiness for the implementation of the Regulation. This understanding is considered necessary to enable Council to perform its oversight functions and responsibilities to enable compliance by 1 July 2017.

It is therefore advised that municipalities, together with their respective entities, prepare a detailed report on the implementation of mSCOA for tabling at the **first Council meeting**.

Provincial Treasury will be conducting engagements on a district level during the **month of July 2016** in order to determine the progress made by municipalities and their entities in implementation of mSCOA, provide guidance and to review the draft report that will be tabled to Council at their first meeting.

The municipal engagements will be conducted individually for each municipality, where a time slot will be allocated for the municipality to present on mSCOA implementation to the Provincial Treasury. It is required that the Project Sponsor, Project Manager and members of the municipal operational task team attend this session.

**Municipalities and their respective entities are required to present on the following:**

- 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.

Further communication on the logistical arrangements will be forwarded to your municipality during the month.

### C. Appointment of external service providers

National Treasury and Provincial Treasury are aware that municipalities are engaging service providers to conduct mSCOA training, preparation of project implementation plans, risk registers and comparison of the current chart to mSCOA requirements.

Municipalities and their entities are reminded that National Treasury is still in the process of finalizing the accreditation of training material and are further in the process of developing a panel of trainers to facilitate the roll out of mSCOA training. As a result, municipalities must **refrain from incurring such training costs**, as such training may be deemed to be fruitless and wasteful expenditure.

National Treasury is in a position to assist municipalities and municipal entities with additional training as required, with no financial implications, and municipalities are encouraged to contact the Provincial Treasury for such assistance.

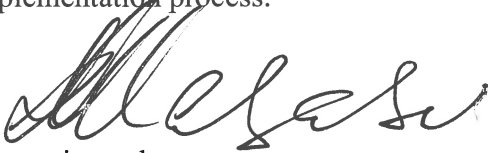
It is further necessary to bring attention to the availability of templates for project implementation plans, risk registers, and terms of reference for Committees on the Provincial Treasury website. In addition, presentations on mSCOA implementation and comparison of chart guidance are available on the Provincial Treasury websites. National Treasury has further issued mSCOA Circulars No. 1 to No.4 which provides detailed guidance and templates that may be used by municipalities.

Municipalities and their entities are therefore **cautioned when appointing service providers** to assist them in implementation of mSCOA and to ensure that they are not incurring unnecessary costs for templates and guidance that is readily available.

## **E. Further Provincial Treasury Support**

Provincial Treasury is committed to supporting all municipalities and their respective entities in implementing mSCOA to ensure compliance by 1 July 2017. Municipalities and entities are requested to forward all documentation and requests for support to [mscoa@kzntreasury.gov.za](mailto:mscoa@kzntreasury.gov.za).

Municipalities and their respective entities are further requested to table this Provincial Circular to Council or Board of Directors, as applicable, for noting and oversight in terms of the mSCOA implementation process.



Yours sincerely

**MR L.S. MAGAGULA**

**HEAD OF DEPARTMENT**

**CC MEC FOR FINANCE –KZN  
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