

Reference: RCS/C.5

TREASURY CIRCULAR MUN NO. 25/2016

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THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS
THE MAYOR, MATZIKAMA MUNICIPALITY: MS G STEPHAN
THE MAYOR, CEDERBERG MUNICIPALITY: MR J BARNARD
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR M KOEN
THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN
THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY: MS H VON SCHICHT
THE MAYOR, WITZENBERG MUNICIPALITY: MR BC KLAASEN
THE MAYOR, DRAKENSTEIN MUNICIPALITY: MR CJ POOLE
THE MAYOR, STELLENBOSCH MUNICIPALITY: MS G VAN DEVENTER
THE MAYOR, BREEDE VALLEY MUNICIPALITY: MS A STEYN
THE MAYOR, LANGEBERG MUNICIPALITY: MR HM JANSEN
THE MAYOR, OVERBERG DISTRICT MUNICIPALITY: MR FE ANDRIES
THE MAYOR, THEEWATERSKLOOF MUNICIPALITY: MS CJM VOSLOO
THE MAYOR, OVERSTRAND MUNICIPALITY: MR RJ SMITH
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THE MAYOR, EDEN DISTRICT MUNICIPALITY: MR M BOOYSEN
THE MAYOR, KANNALAND MUNICIPALITY: MS M BARRY
THE MAYOR, HESSEQUA MUNICIPALITY: MR G RIDDELS
THE MAYOR, MOSSEL BAY MUNICIPALITY: MR HJ LEVENDAL
THE MAYOR, GEORGE MUNICIPALITY: MR MG NAIK
THE MAYOR, OUDTSHOORN MUNICIPALITY: MR CF SYLVESTER
THE MAYOR, BITOU MUNICIPALITY: MR MP LOBESE
THE MAYOR, KNYSNA MUNICIPALITY: MS EB SPIES
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THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR M MEMANI (ACTING)
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THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR M MEMANI (ACTING)
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THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA)

1. PURPOSE

This circular requires of municipalities to assess their progress in the implementation of the Municipal Regulations on a Standard Chart of Accounts (mSCOA) and to provide municipalities with the required tools to complete the ICT Due Diligence in terms of MFMA Circular 80 and mSCOA Circulars 5 and 6 issued by National Treasury; and to follow through on the requirements of the circulars.

The aim is to assist municipalities in preparation for full mSCOA compliance by the outer compliance date of 1 July 2017. Municipalities can use the Municipal SCOA circulars to assess whether they are on track in achieving mSCOA implementation.

The following Annexures accompany this circular:

- Annexure A – WC Municipal Self-Assessment
- Annexure B – Transversal Tender RT25-2016 Summary Pricing Schedule
- Annexure C – ICT Due Diligence required by mSCOA Circular 5
- Annexure D – Guidelines to be followed in the recommendation to Provincial and National Treasuries
- Annexure E – Data Purification Process (Extract from mSCOA Circular 4)

2. mSCOA SELF-ASSESSMENT 2 - MUNICIPALITIES

Provincial Treasury has to regularly engage with municipalities to gauge progress on mSCOA implementation from a municipal perspective and to identify any shortcomings or delays. This enables the Treasury to develop strategies, interventions and non-accredited training programmes to assist municipalities with their progress.

One of these engagements is to take an overall view of the implementation through a quarterly self-assessment. The last Self-assessment was issued by National Treasury as part of mSCOA Circular 4 and was due 15 April 2016. This means that the next quarterly self-assessment is overdue.

Provincial Treasury has developed a self-assessment tool to assist municipalities to evaluate their progress in terms of their role and responsibilities with mSCOA implementation. The assessment tool is included in **Annexure A** to this circular.

ALL municipalities (Pilot and non-delegated municipalities included) were requested to complete this self-assessment by 31 August 2016 as some municipalities have taken a phased approach to mSCOA Implementation and we would like to gauge how you have progressed to date.

Provincial treasury will review every municipality's completed municipal readiness assessment, together with the municipal mSCOA implementation plan and mSCOA project risk register.

The Self-Assessment (Annexure A) together with the Municipality's updated **mSCOA Project Implementation Plan** and **mSCOA Risk Register** was due for submission on 31 August 2016. Municipalities who have not submitted the aforementioned documentation are therefore requested to submit theirs to MFMA.SCOAHelpdesk@westerncape.gov.za by **20 September 2016**.

3. ICT DUE DILIGENCE AND THE WAY FORWARD IN SELECTING A MUNICIPAL INTEGRATED FINANCIAL MANAGEMENT AND INTERNAL CONTROL SYSTEM

3.1 Introduction

All municipalities must prepare an mSCOA aligned 2017/18 MTREF by end October 2016. The majority of municipalities make use of financial systems as enablers to transact, including capturing their budgets in the mSCOA classification.

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

This process applies to:

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

Executive Summary

The municipality must do the following:

1. **Complete the ICT Due Diligence**, issued as part of mSCOA Circular 5 by National Treasury, of the Municipality's existing Integrated Financial Management and Internal Control System.
2. The mSCOA Steercom must **evaluate the municipality's current financial systems**, based on the outcome of the ICT Due Diligence, and make a recommendation to the Municipal Council (subject to points 3 and 4 below) to either continue using their existing system or replace the existing system. This evaluation must include a financial analysis and comparison to the outcomes of the Transversal Tender RT25.
3. The Municipality must **solicit comments** from National and Provincial Treasury **before the recommendation is tabled at the Municipal Council for decision.**
This was due before Friday, 2 September 2016. Municipalities that have not submitted their ICT Due Diligence and recommendations on the way forward should, as a matter of urgency, submit the required documentation.
4. Only after the municipality has received the comments from the National Treasury and/or the Provincial Treasury, should the mSCOA project steering committee assist the Municipal Manager to consider such comments and prepare a recommendation to the Municipal Council in this regard.
5. Implement the Municipal Council Decision.

3.2 ICT Due Diligence

Every municipality (pilot, non-pilot and irrespective of whether remaining/upgrading with its existing package of systems) must evaluate (conduct an ICT due diligence of) all the existing ICT systems used by the municipality and its municipal entities. This is irrespective of whether the existing service provider(s) was included in the RT25-transversal panel of service providers.

The ICT due diligence (assessment) must be done using the guidance provided in MFMA Circular No. 80 in conjunction with the RT25-tender specifications relevant to the category of the municipality.

mSCOA Circular 5 specifies what is expected from a municipality in this regard and also provides the template (Annexure C) a municipality must use when conducting its ICT Due Diligence.

In terms of mSCOA Circular 5, this ICT Due Diligence was due by 1 August 2016. Municipalities are therefore urged to complete their ICT Due Diligence on or before 2 September 2016.

3.3 The municipality's mSCOA Project Steering Committee's decision and recommendation

Once the municipality and/or its vendor(s) have completed the ICT due diligence for the municipality and its municipal entities, the municipality's mSCOA project steering committee must:

- (i) **Assess** whether the municipality's **existing systems as a package**, meets the majority of the functional requirements for its category as per Annexure C;
- (ii) **Consider the cost of any additional functionality** the municipality will have to procure from its existing package of service providers to be able to conduct the minimum mSCOA transacting for its category by 1 July 2017 and the affordability thereof to the municipality considering its 2016/17 MTREF;
- (iii) **Compare the total cost of its existing 'package of systems', including the cost for any additional functionality** (refer to (ii) above) with the other available service offerings for its category, included in the RT25-panel of service providers;
- (iv) Determine whether its existing 'package of service providers' 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 municipality and its municipal entities;
- (v) Consider any penalties and reasons for contract termination in any of its contracts with existing service providers; and
- (vi) **Document its decision and recommendations** on the way forward for the municipality and its municipal entities (on the municipality's 'package of existing systems'), clearly setting-out its findings on each of the above five points it considered.

3.4 Soliciting the comments of the National Treasury and/or Provincial Treasury

Once the municipality's mSCOA Project Steering Committee has made its decision and recommendations, the municipality must solicit the comments of the National Treasury, LG.SCOA@treasury.gov.za, and the relevant Provincial Treasury, MFMA.SCOAHelpdesk@westerncape.gov.za, (this can be done simultaneously).

This was due before Friday, 2 September 2016. Municipalities that have not submitted their ICT Due Diligence and recommendations, should as a matter of urgency submit the required documentation.

The municipality's request must, as a minimum, be supported by:

- (i) The municipality's **completed systems functionality assessment** (ICT due diligence completed using the Municipal SCOA Circular No. 5 - Annexure C) that covers the entire existing package of systems used by the municipality, including **the cost for any additional functionality** the municipality will have to procure to enable minimum mSCOA transacting for its category by 1 July 2017 (see **Annexure B** relating to the agreed costs in terms of the Transversal Tender RT25); and
- (ii) The municipality's mSCOA Project Steering Committee's decision and recommendations (covering all the points for consideration in 2 above) on whether the municipality should -
 - (a) Remain with its current package of system(s) 'as is'; or
 - (b) Change system(s); or
 - (c) Upgrade its existing package of system(s); or
 - (d) Procure additional components of functionality for its existing package of systems (refer Municipal SCOA Circular No. 5 in this regard for more information).

3.5 Municipal Council approval for the municipality's key decision

Only after the municipality has received the comments of the National Treasury and/or the Provincial Treasury, the mSCOA Project Steering Committee should assist the Municipal Manager to consider such comments and prepare a recommendation to the Municipal Council in this regard.

Any such memo making recommendations to the Municipal Council (for a final decision) on the way forward with the municipality's 'package of systems' should clearly advise Council on whether the municipality should:

- (a) Remain with its existing package of ICT system(s) with or without having to procure additional components of functionality; or
- (b) Change to a completely different 'package of systems'; or
- (c) Upgrade its existing package of systems;
- (d) Cover all the points of consideration discussed in step 2 (paragraph 2 above), substantiating the recommendation, for Council's consideration;
- (e) Must include as an attachment, the actual comments received from the National Treasury and/or Provincial Treasury; and

- (f) The municipal manager must submit a copy of the municipal council's decision to the National Treasury, LG.SCOA@treasury.gov.za, and Provincial Treasury, MFMA.SCOAHelpdesk@westerncape.gov.za, within five (5) working days after the meeting during which the Municipal Council has made the decision in this regard.

3.6 Implementing the municipal council's decision

Informed by the decision of the Municipal Council, the municipality will have to select from the following options for implementation:

3.6.1 The municipality will remain with its existing package of system provider(s) and does not need to procure any additional functionality

In this case the municipality's systems were assessed and found to be fully mSCOA enabling 'as is', including that the existing package of systems:

- (a) Can host the full mSCOA chart;
- (b) Allows the municipality and its municipal entities to budget and transact in the chart;
- (c) Seamlessly integrates; and
- (d) Can submit data strings, across the 7 segments to the National Treasury upload portal (within the reporting deadline timeframes).

In this instance, it is important that the municipality as part of the mandatory MFMA Section 116 routine reviews all its existing contracts, review the contracts with all its current ICT service providers. This includes the SLA and plan, and ensures a regular review of, and reporting in terms of its contracts and SLAs with its service providers, including to consider whether it needs the support of the National Treasury and/or Provincial Treasury in this regard.

Where the mSCOA Steering Committee recommends that the municipality remain with its current system(s), the decision and item to their councils or delegated authority should include the following:

- i. Comparison of the transversal pricing against the current pricing and indicate:
 - (a) If there are savings taking their whole environment into account;
 - (b) If there are systems are going to be pruned from their current environment and replace with the integrated portions;
 - (c) What new functionality will be added and by when it will be implemented e.g. the IDP Budget Module, etc.; and

- (d) Penalties added to the current SLA's for non-compliance with mSCOA implementation.
- ii. Note that the National Treasury Transversal Tender is being formalised with a standard MOU and SLA and that the municipality will be leveraging from the new MOU, SLA as well as Transversal Tender pricing.

3.6.2 The municipality will change its existing package of system providers and/or needs to procure additional functionality

Should the municipality have decided to change or upgrade its existing system(s) and/or **procure additional** components of functionality, it is crucial that the municipality familiarise itself again with the content of its existing contracts with current service providers, including in particular:

- (a) Notification of cancellation to the vendor, its SLA, project agreement and plan, any reviews and reporting in terms of its existing contract, and whether it needs any support from the National Treasury and/or Provincial Treasury in this regard;
- (b) It is important that the municipality consider this BEFORE cancelling/giving notice to its existing service providers; and
- (c) Consider paragraphs 3.6.3 and 3.6.4 below, depending on the municipality's particular choices.

3.6.3 Procuring a completely new system(s) or upgrading an existing system or procuring additional functionality for an existing system(s) – using the RT25-transversal contract panel of service providers

If Council approved the procurement of a completely new systems or upgrading the existing package of systems or the procurement of additional functionality for its existing package of systems – It is highly recommended that the municipality use the National Treasury RT25-transversal contract to obtain quotations from service providers on the RT25-panel of providers for its category.

Once the municipality has received these quotations, it should consider such in terms of its normal supply chain management procedures, including the cost of the proposed systems, the implementation plan and methodology, and the timeframes for implementation considering the final date of 1 July 2017 for compliance, and then only make a decision/award.

The municipality remains responsible for entering into an SLA, management of the SLA, providing budget and the settlement of all invoices within the legislative framework governing local government with its selected service provider from the RT25-panel of providers. Please ensure that the template SLA (issued as part of the transversal contract), is used as a basis for the municipality's SLA with the preferred

service provider. Should the prices for any item in the SLA deviate from the transversal contract:

- (a) The service provider must provide a clear explanation in writing (and as part of the SLA) for the reason(s) for the deviation(s) and basis of calculation of the cost for such deviation(s); and
- (b) The municipality must submit such deviations, the reason(s) for such and the basis of calculation of the cost thereof to the –
 - National Treasury: LG.SCOA@treasury.gov.za, and
 - Provincial Treasury: MFMA.SCOAHelpdesk@westerncape.gov.za, (simultaneously), and obtain the comments in respect thereof from the National Treasury and the Provincial Treasury before signing-off on the SLA with the service provider.

Municipalities are also reminded that ICT, financial management and internal control systems, and associated expenditure already forms part of existing budgets. Municipalities will have to reprioritise existing budget allocations to provide funding for the implementation of this strategic and necessary financial management reform.

3.6.4 Procuring a completely new systems or additional functionality for an existing system or upgrading an existing system – using a service provider NOT on the RT25-transversal contract panel of service providers

If the Municipal Council approved the procurement of a completely new system or upgrading the existing package of systems or the procurement of components of additional functionality for its existing package of systems, from any service provider NOT on the National Treasury RT25-transversal contract panel of providers, the municipality must take note that the National Treasury confirms its guidance and instruction issued as part of MFMA Circular No. 80:

“The National Treasury acknowledges that metropolitan municipalities and secondary cities, in most instances, have the necessary skills and ability to deal with not only procurement but also highly technical aspects of financial management and internal control systems. In this regard, and with the exception of metropolitan municipalities and secondary cities, all other municipalities are highly recommended to make use of the transversal contract and associated panel of service providers for the supply of a new/additional functionality components/upgrade of financial management and internal control systems once finalised. Should a municipality decide not to do so, it is required of them to formally write to the National Treasury (Chief Directorate: Local Government Budget Analysis) prior to going out on a supply chain management process, supplying clear reasons and motivation in support of the decision after which National Treasury will provide a written response and clear recommendations.”

In this case it is also crucial that the municipality notes that it must ensure that the template SLA (issued as part of the RT25-transversal contract), is used as a basis for the municipality's SLA with its preferred service provider also where a service provider (not on the RT25-transversal contract panel) is used.

The municipality should also require its preferred service provider to sign an implementation plan that clearly sets-out how the provider will be able to support the municipality considering all the municipalities for which the service provider is responsible. This is to create accountability for timely implementation by 1 July 2017.

It is also important that a municipality, falling within the ambit of this paragraph, use the RT25-panel of service providers (for the municipality's category) as an indication of pricing. Procuring additional functionality from or upgrading with a service provider that is not part of the transversal contract at an amount excessively higher than what is deemed reasonable in terms of the transversal tender may result in fruitless and wasteful expenditure.

The National Treasury considered fair market prices, amongst other factors, when evaluating the price bands (statistical bell curve of prices) of service offerings as part of the RT25-transversal evaluation process. In the National Treasury's view there is a potential risk that an excessively lower priced offering could result in other challenges, including that the vendor is not able to fulfil its responsibilities at that price, resulting in price increases and amendments to the SLA.

4. mSCOA SUPPORT

Municipalities are requested to log any mSCOA related matters on the Frequently Asked Questions (FAQ) database on the National Treasury website or email Provincial Treasury on MFMA.SCOAHelpdesk@westerncape.gov.za for project management, implementation or training related matters.

5. REQUEST

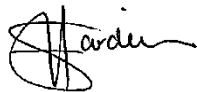
- 5.1 Municipalities to note the contents of the circular including the Annexures.
- 5.2 Municipalities to complete the **Self-Assessment (Annexure A)**, together with the Municipality's **updated mSCOA Project Implementation Plan** and **mSCOA Risk Register** and return to Provincial Treasury by **20 September 2016**.
- 5.3 Municipalities that have not submitted their **ICT Due Diligence (Annexure C)** with its documented decision and recommendations on the way forward are requested to submit the required documentation to Provincial Treasury as a matter of urgency as this was due for delivery by 2 September 2016 in terms of mSCOA Circular 6.

5.4 The following Provincial Treasury official can be contacted for further information:

Name: Mr Donovan Stuurman

Tel: (021) 483-5646

Email: Donovan.Stuurman@westerncape.gov.za

A handwritten signature in black ink, appearing to read 'A Hardien', with a stylized flourish at the end.

MR A HARDIEN

PROVINCIAL ACCOUNTANT GENERAL

DATE: 14 September 2016