MSCOA ARTICLE: MANAGING THE TRANSITION

All municipalities and their respective municipal entities will have to have implemented a new classification framework otherwise known as the Municipal Standard Chart of Accounts (mSCOA) by 1 July 2017 in order to comply with Government Gazette 37577. The implementation of mSCOA, if done correctly, will have numerous benefits at both a macro and micro level.

The implementation of mSCOA is not simply an information technology project, but a business transformation project that will fundamentally transform how the municipality carries out its operations. A mSCOA compliant implementation will:

- Enable a Trial Balance to be drawn in each of the applicable segments;
- Have an IDP and projects budget, compiled in mSCOA segments resulting in few virement adjustments;
- Enable daily transactions to be captured in the correct accounts and the municipality to perform its daily operations;
- Have portal function for input into national data warehouse.

The mSCOA design is based on the use of seven segments each of which should be populated when a transaction is recorded. National Treasury has identified 15 Business processes that are impacted to various degrees by each of the 7 mSCOA segments.

The 7 mSCOA segments work together to provide the transactional view of the General Ledger as shown in the diagram with the Outer-core setting out the 15 Business processes and the Inner-core setting out the 7 mSCOA segments:

* mSCOA = Uniform collection of Local Government transactional information
National Treasury has identified the following 9 work streams through which the project should be implemented. Each of the work streams should have their own detailed project plan with activities and milestones which feeds into the overall project plan:

1. Commissioning an mSCOA steering committee (governance);
2. IT infrastructure and network;
3. Verification of current vote structure to mSCOA vote structure & prepare annual budget on the structure;
4. Data cleansing;
5. HR & payroll;
6. Planning (IDP, Budget, SDBIP, PM);
7. Core system and additional systems;
8. Real estate, land use and grant management; and
9. Document management

mSCOA Multi-dimensional complexity

The multi-dimensional chart together with all the affected business processes results in a mSCOA project being complex, necessitating a comprehensive and well thought out project plan, various key skills and strong management team to ensure all the milestones are identified and coordinated.

The implementation of mSCOA needs to follow a structured approach in which the defined nine Work streams consider the applicable impact of each of the 7 mSCOA segments and 15 Business processes as shown in this diagram, ranging from understanding the mSCOA requirements, designing and development of solutions, processes and procedures, followed by testing and realignment, concluded by implementation and maintenance.

Ducharme approach on mSCOA Integration

As is normally the case with a project of this nature, certain of the business processes have a natural fit in one of the work streams. This grouping and allocation of work helps ensure better coordination of work and less duplication. It also makes it easier from a governance perspective to monitor the project, identify dependencies and take corrective action.

Our approach to mSCOA high level work streams and business processes is that this can be broken down and managed is shown in the diagram below. The final mSCOA Project plan and Work streams will need to take into account the size and risk of the work to be performed as well as existing reporting structures, project methodology and capacity of the municipality. Importantly each segment of the classification framework will have to be considered for how it impacts each business process.
mSCOA Implementation workstreams & considerations

mSCOA vote & mSCOA budget Structures (I/S, B/S)

mSCOA vote & mSCOA budget Structures (I/S, B/S)

mSCOA Programme Assurance

Governance: Council & Internal Audit

Risk management

mSCOA Implementation workstreams & considerations

mSCOA Steering Committee

Performance Management

Planning (IDP & SDBIP) & Budget

Financial Accounting: Ledgers, Revenue & Procurement cycles, HR & payroll, Asset management

Cost accounting: Indirect cost capturing & reallocation

Project accounting: Direct costing per project element

HIGHER RISK IMPLEMENTATION PHASES

ALIGNMENT & LINKING

Procedures realign & design: Standard Operating Procedures

Supply Chain Management

Asset Management

Revenue Management

PROJECTS

Municipal Project & Programmes oversight

Performance Management

IT infrastructure and network / integration

Data management & migration (payroll, debtors & creditors)

Organisational structure, design & resource

Change management & training

Document management System; Policies & procedures

Budget Statements

In-year reporting (S71 & S72)

Annual Financial Statements

Predictive Analytics & modelling

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**Transition to mSCOA: Overview of some the key considerations**

In Circular 57 National Treasury basically places a moratorium on the purchase of Information Technology Systems. A revised Circular 57 is expected in the first semester of 2016. The circular will lift the restrictions and provide municipalities guidance on how to evaluate their current systems, minimum system specifications, as well as the implementation going forward.

However, the municipality cannot rely on the Information Technology System provider for the complete implementation of the mSCOA project. In order for the mSCOA project implementation to be a success, the municipality needs to take ownership of the project and play a key role throughout the project. There are numerous questions municipalities should be asking and actions that municipalities should be considering in the meantime.

<table>
<thead>
<tr>
<th>Understanding mSCOA Regulatory framework, guidance &amp; mSCOA Governance</th>
<th>mSCOA Transition</th>
<th>mSCOA Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Treasury has issued a wealth of information and guidance on mSCOA which municipalities can consult. The Government Gazette and mSCOA circulars contain various requirements and recommendations for the implementation of the project, such as 1:</td>
<td>Ensure you have a complete understanding of the mSCOA initiative which would include at the very least:</td>
<td></td>
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<tr>
<td>• The mSCOA project summary document providing an overview of the project and the segments</td>
<td>• The legal requirements of the mSCOA Gazette</td>
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<tr>
<td>• The classification framework itself (currently version 5.4)</td>
<td>• The seven segments</td>
<td></td>
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<tr>
<td>• mSCOA circulars providing an array of guidance (Internal audit and risk, Auditor-General, FAQ, project roles, terms of reference and governance, mSCOA training)</td>
<td>• Current business process</td>
<td></td>
</tr>
<tr>
<td>• Training material – demystifying mSCOA</td>
<td>Ensure the right mSCOA governance structures and processes are place:</td>
<td></td>
</tr>
<tr>
<td>• Feedback &amp; presentations for the Integrated Consultative Forums (ICF)</td>
<td>• Council resolution to support &amp; approve mSCOA project</td>
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<tr>
<td>• Government Gazette 37577</td>
<td>• Identified the mSCOA steering committee &amp; TOR</td>
<td></td>
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<tr>
<td>• MFMA Circular 57</td>
<td>• Identified a mSCOA project manager and multidisciplinary project team together &amp; TOR</td>
<td></td>
</tr>
<tr>
<td>In order for the municipality to implement the project properly the proper governance processes and structures as well as planning should be in place.</td>
<td>• Formalised a high level project plan</td>
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<td></td>
<td>• Compiled a mSCOA specific risk register</td>
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<td></td>
<td>• Compiled a resource plan</td>
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<td></td>
<td>• Table mSCOA regulations to Council for awareness</td>
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<td></td>
<td>• Evaluate the role and capacity of internal audit and program assurance</td>
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</tbody>
</table>

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1 (http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx)

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## MSCOA: MANAGING THE TRANSITION

<table>
<thead>
<tr>
<th><strong>Current state of the IT environment</strong></th>
<th><strong>mSCOA Transition</strong></th>
<th><strong>mSCOA Consideration</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The largest risk is that the implementation of the <a href="#"><strong>system fails</strong></a> and <a href="#"><strong>service delivery comes to a complete standstill</strong></a>, resulting in no payments can be made (including staff) and no invoices issued. This is impacted by the number and nature of systems and interfaces &amp; state of the IT infrastructure. Another risk is that the system used does not meet all NTs requirements of a mSCOA compliant system through either implementation or not complying with the minimum systems specifications. <strong>NOTE:</strong> The municipality should not change its systems / affect any system changes in accordance with MFMA Circular No. 57.</td>
<td></td>
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</tr>
<tr>
<td><strong>Comparison of existing chart of account with mSCOA, document management &amp; audit logs</strong></td>
<td>The multi-dimensional classification framework required that each of the seven segments should be populated when a transaction is recorded. Typically, a standard chart of accounts will only have three dimensions. Municipalities will need to understand the impact on how transactions are captured to ensure all the relevant accounts are updated compared to the chart of accounts currently in place. This in turn affects business processes, policies and procedures. This can take anywhere between 3 and 12 months due to the increased complexity <strong>(in excess of 40,000 accounts)</strong> with millions of permutations. In instances where account are consolidated to slit up a fully documented audit trail will need to be kept for the auditors and for the compilation of comparative figures in the Annual Financial Statements. <strong>As noted in relation to the budgeting process below, the comparison of the existing chart of accounts and mSCOA is a key dependency which will feed into the budget process which will need to start in October 2016.</strong></td>
<td></td>
</tr>
<tr>
<td>Know the state of your current IT environment:</td>
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<tr>
<td>• Identify the number of IT systems in use and their respective interfaces (particularly as it relates to Annexure C of mSCOA circular 2)</td>
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<tr>
<td>• Know the cost of IT</td>
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<tr>
<td>• Understand the ramifications of Circular 57</td>
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<tr>
<td>• Understand the IT service provider’s proposed implementation plan</td>
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<tr>
<td>• Be prepared to evaluate the IT service provider against the minimum systems specifications per the updated Circular 57</td>
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## MSCOA Transition

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<th>MSCOA impact on processes, policies and procedures</th>
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<tr>
<td>The increased <strong>complexity</strong> (in excess of 40,000 accounts with millions of permutations) will also impact the policies, processes and procedures. For instance, in the procurement process, <strong>demand management</strong> (amended purchase requisitions), <strong>logistics management</strong> (indirect costs shared between programmes / projects), stores / consumables will all be effected. <strong>Internal cost allocation</strong> between departments / segments will be very topical. SCM aspects of acquisition of capital expenditure. <strong>Asset register details / hierarchy levels</strong> may need to be updated to the MSCOA levels and linked to programs &amp; projects. With the impact of complexity of MSCOA on <strong>budgets</strong>, SCM will also ensure that necessary budget &amp; funding is available prior to the acquisition process.</td>
</tr>
</tbody>
</table>

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<tr>
<th>MSCOA Consideration</th>
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<tr>
<td><strong>Understanding which business processes and related policies and procedures link to each items in the current chart of accounts typically through process mapping</strong></td>
</tr>
<tr>
<td><strong>Align and update of</strong> <strong>Processes, policies and procedures</strong></td>
</tr>
<tr>
<td><strong>Controls</strong> will have to be built into the municipality’s chart, and SCM processes. E.g. bulk purchases should not be allowed against the finance and administration or internal audit for example but only against electricity and water.</td>
</tr>
<tr>
<td><strong>mSCOA training for all effected staff together with change management initiatives (not just finance staff)</strong></td>
</tr>
</tbody>
</table>

## Resourcing capacities & constraints

<table>
<thead>
<tr>
<th>Data considerations</th>
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<tbody>
<tr>
<td>In the new classification framework, there are no “<strong>suspense”, “other” and “miscellaneous</strong> accounts, resulting in such accounts to be cleared before it is carried over to the new financial year. Due care needs to be taken in the use of and <strong>documentation of journals to correct errors</strong> (specifically virement journals). <strong>Data migration</strong> is also a major risk. As Data Migration is more than just extracting and loading data, it is important to have a dedicated ‘Data Management’ Work stream.</td>
</tr>
</tbody>
</table>

Consider your current capacities, capabilities and constraints particularly with respect to:

- **Financial resources**
- **Human resources**
- **IT Resources**
- **Project management**
- **Change management**
- **mSCOA Champion / Technical support**
- **Oversight**

## Consider the quality of your data

- Understanding the nature and materiality of any suspense/ clearing accounts & the link to each process
- Data migration strategy
- Data purification sign-off & dependent milestones (e.g. clearing suspense accounts)
- Assessment if municipality will be audit-ready after the migration, and whether the AGSA will accept / rely on...
## mSCOA: MANAGING THE TRANSITION

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<td>Some of the activities include defining the data migration methodology strategy, data validation, data cleansing and data migration audit.</td>
<td>the work that has been done</td>
</tr>
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- **mSCOA alignment of budget, planning, reporting & performance management**

Once the IDP/MTREF is linked to programs, projects and activities. mSCOA facilitates expenditure to be better classified into the project, item and function segments resulting in more consistent identification of **capital expenditure and repairs and maintenance**. This is further enhanced by the region segment.

Successful mSCOA implementation needs to start with the implementation of the **project segment**. This aligns the IDP/MTREF, the project and function segment and will result in strategic & organisational alignment (as staff across the municipality will need to work together to build what is effectively a zero based budget).

The ability to draw information per segment view and the improved financial systems will aid financial information integrity & the ability to obtain granular information which is aligned to the strategic objectives of the municipality.

In addition the costing segment will impact on the way tariffs are set. The management information provided on the electricity and water function linked to costing and region will also allow the municipality to better account for technical and non-technical losses and indigent services which will directly impact planned maintenance on the reticulation network.

**Municipalities should note that in order to comply with the 1 July 2017 deadline the budget for the 2017/18 financial year will need to be compiled in mSCOA. This need to be taken into account when the budget cycle starts in October 2016 and should be completed by April 2017.**

- **Change management**

  Effective **Change management** will be key in mSCOA implementation. Personnel from strategy, budget office, finance and engineers/technical are all involved in the project as it is a business transformation project not just a IT or finance project

  - Identify and engage all **stakeholders** to obtain buy-in and support on all levels (oversight, executive, operational). This includes compiling a change management plan, awareness, benefits tracking and progress communications, and facilitation on the various processes and work streams.
How can we help you with your mSCOA project?

Ducharme provides specialist public sector support within financial management, accounting and governance. Our focus is to improve the ability and capacity of the public sector entities to comply with all relevant finance legislation and best practice requirements. Over the past decade, we have assisted more than 100 Public organisations with accounting, financial management and governance support. Our support includes the preparation and compilation of Annual Financial Statements, GRAP compliant budgets, asset registers, financial management implementation plans, and training & capacity building. Our team consists of highly skilled and public sector experienced staff which includes Chartered Accountants, Professional Accountants, asset specialists, technicians and other graduates.

In terms of mSCOA, our support and participation in National Treasury’s Integrated Consultative Forums (ICF) as well the Accounting Standard Board’s mSCOA working group provides us with great insight into the mSCOA challenges. Our mSCOA lead, Sean Collins, gave a presentation on the role of internal audit and program assurance at the ICF held in Durban.

Implementation of mSCOA will be a daunting task, to which we feel passionately about the change it would bring within the local government arena and improvement in managing, oversight and reporting it brings. We are walking this road with you in what has to be the largest local government financial reform in South Africa’s history.

In application of our experience and mSCOA insights, we will be able to assist you, in amongst other mSCOA tailored solutions, with the following. As each municipality is unique and how it uses its financial management system is unique, our support will be tailored accordingly to the specific requirements.

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<tr>
<th>mSCOA phase</th>
<th>Ducharme tailored MSCO support</th>
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<tbody>
<tr>
<td><strong>Design and Requirements phases of the mSCOA project</strong></td>
<td></td>
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<tr>
<td>• Compiling a high level mSCOA project plan including conducting high level capacity and current state assessments</td>
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<tr>
<td>• Comparing your current chart of accounts to mSCOA using various tools, and ensuring a valid audit trail is maintained</td>
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<tr>
<td>• Mapping your current processes and help you understand how they link to your current chart of accounts and to the Annual Financial Statements (particularly unbundling of assets, inventory and travel costs)</td>
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<tr>
<td>• From an understanding of your processes and exiting chart of accounts, support with:</td>
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<tr>
<td></td>
<td>o evaluating the impact on these processes and the changes required to each process to accommodate mSCOA and</td>
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<tr>
<td></td>
<td>o developing new process maps, policies and procedures (particularly the expenditure cycle/ SCM and the asset cycle)</td>
</tr>
<tr>
<td>• Design the controls which should be built into the municipality’s chart of account</td>
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<tr>
<td>• Identify and clearing suspense accounts while maintaining a complete audit trail</td>
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<tr>
<td>• Perform a pre-audit on the supporting documentation and audit trail for the comparison of the old chart of accounts and mSCOA</td>
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<tr>
<td>• Assist in evaluating the asset register and hierarchy levels for mSCOA compliance mapped to mSCOA and Annual Financial Statements</td>
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</tr>
<tr>
<td>• Reconciling individual personnel and their related costs to the Function Segment through the subsystem the municipality uses for personnel costs. This would also include reconciling and comparing the current municipal structure (Municipal Standard Classification Segment) and budget to the Function Segment.</td>
<td></td>
</tr>
<tr>
<td>• Conduct mSCOA introductory sessions as part of broader change management initiatives</td>
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<tr>
<td>• Aligning the IDP and MTREF to the project segment and funding sources</td>
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## mSCOA phase | Ducharme tailored mSCOA support
--- | ---
**Assist in compiling the 2017/18 budget** which includes the mSCOA segments (particularly Project, Item, Function and Region)  
**Assist municipalities consider the region segment available data** and its relation to **GRAP 18 on segment reporting**  
**Help the municipality develop and refine its costing methodologies** which would be used as the basis for the costing segment

## mSCOA Testing & Post Implementation phases
- **Preforming pre-audit reviews** of the supporting documentation and audit trail likely to affect the preparation of AFS  
- **Compile interim AFS** for reasonableness as well as final AFS  
- **Perform analytical procedures** to assist the municipality on the reasonableness of how the new system is operating  
- **Assist the compilation of S71 reports** on the new Chart of Accounts  
- **Review of journals** for reasonableness both virement and allocation journals

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**Contact us for more details on mSCOA challenges and tailored support**

If you want to find our more on mSCOA and the challenges related thereto, or would like to discuss tailored and practical solutions to the implementation challenges, please give us a call or send us an email:

- **Sean Collins CA(SA)**  
  082 373 4428  
  secollins@ducharmeconsulting.co.za

- **Luyanda Mbekeni CA(SA)**  
  083 261 9684  
  lmbekeni@ducharmeconsulting.co.za

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As at issue of this article, the information in this article is correct in considerations of these matters. These may change over time with new requirements and information. This article does not represent a legal opinion or professional advice, and it is advised that due consideration be given to all the applicable facts on the application of accounting standards, with necessary professional guidance, prior to its application.