MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA)

TIME TO IMPLEMENT!

MUNIMEC PRESENTATION
Date: 03 December 2015

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• Overview of mSCOA
• Benefits of mSCOA implementation for a municipality
• Funding Requirements
• Planning Processes for mSCOA
• Comparison of mSCOA to the current chart
• Business Processes
• Risk Management
Overview of mSCOA
• The Minister of Finance promulgated Government Gazette No 37577, Municipal Regulations on Standard Chart of Accounts, effective 01 July 2017.

• Provide a National Standard for uniform recording and classification of municipal budget and financial information at a transactional level
  - improve compliance with budget regulations and accounting standards, consistency in year on year reporting and comparability across the country;
  - better inform national policy coordination and reporting, benchmarking and performance measurement.

• Application of Regulations to all municipalities and municipal entities

• No exemption or transitional provisions from Regulation for the application of mSCOA to municipalities or municipal entities

• Repercussion of non-compliance with Regulation by 1 July 2017 – Grant Funding will be stopped!
Overview of mSCOA

- 27 Pilot municipalities (9 system vendors) modifying current systems and refining mSCOA to ensure practical application in municipal environment – currently in testing process

- No early adoption – all municipalities should have already commenced implementation (planning processes)

- No Service Provider is considered to be SCOA Compliant – hence no system is yet SCOA compliant

- MFMA Circular 57 – Municipal Financial Systems and Business Processes – advises municipalities and entities to follow the process of changing their financial systems as indicated in the Circular. Request to be made directly to NT for approval to change systems.
- Municipalities are cautioned – changing systems could result in fruitless and wasteful expenditure
- Revised Circular to be released by NT by February 2016
Overview of mSCOA

What is mSCOA?

• Every municipality and municipal entity has a chart of accounts

• The chart of accounts is a listing of all accounts used in the general ledger of a municipality or municipal entity

• The chart is used by the accounting software to aggregate information into an entity’s financial statements.

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<th>Item</th>
<th>Item Name</th>
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</table>
Overview of mSCOA

- **SCOA** = standardisation of this chart across all municipalities and entities in the country with the **same account numbers and descriptions**

- **mSCOA** = Municipal Standard Chart of Accounts. Differentiates this chart from Departments.

- Seven (7) segments that are to be complied with on a **transaction (posting) level**

- **Seven segments:**
  - **Project** - allocates the expenditure to a project, capital and operating
  - **Function** - similar to vote and sub vote, core vs non core functions
  - **Item** - Assets, Liabilities and Net assets; Expenditure; Revenue; Gains and Losses
  - **Fund** - which funding source is utilised for expenditure transactions
  - **Regional Indicator** - which region is benefiting from the service
  - **Costing** - secondary transaction – focus on services
  - **Municipal Standard Classification** – **No standardisation** (address differentiation in function allocation)
Overview of mSCOA

IDP
  Three year strategy
  
  Budget
    Three year budget
    
    SDBIP
      Annual implementation plan
      
      In Year Reporting
        Implementation monitoring
          
          AFS
            Accountability reporting
              
              Annual Report
                
                Oversight Report
• Most municipalities are currently budgeting and recording transactions according to two segments/levels:
  - Department/Vote level eg. Technical services – Roads and stormwater
  - Item level eg. Salaries, electricity, security, telephone, repairs and maintenance

HOW WILL THIS CHANGE WITH IMPLEMENTATION OF mSCOA?
Example 1:

- Assume that the municipality plans to undertake an electricity upgrade in order to achieve the IDP objective of improving electricity to the community based in rural areas.
- The municipality would currently budget as follows:
  - Department/Vote level: Technical services – Electricity Department
  - Item level: Capital – Electricity upgrade rural areas

mSCOA now requires the project to be budgeted and transacted as follows:

- **Project** - Capital – Infrastructure – Existing – Upgrade and additions – Electricity – Conventional meters – Rural areas
- **Function** – Electricity and Gas – Core function – Electricity and gas distribution
- **Item** – Assets – Non current assets – Property, plant and equipment – Construction work in progress – Outsourced
- **Fund** – Transfers and subsidies – Capital – Monetary allocations – National Government – Municipal Infrastructure Grant
- **Costing** - Default
- **Municipal Standard Classification** – Municipality to allocate if different

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Example 2:
- Municipality is planning a HIV youth awareness programme. The municipality would currently budget as follows:
  - Department: Community services – Special Programmes
  - Item: HIV Youth awareness programme

mSCOA requires:
- **Project** - Operational – Typical Work Streams – Aids, HIV, TB and Cancer – Awareness and Information
- **Function** – Community and social services – Core function – Literacy programmes
- **Item** – Expenditure – Contracted services - outsourced services – catering services AND/OR Expenditure – Operational cost – transport provided as part of dept activities - events
- **Fund** – Revenue – General revenue – equitable share – community services
- **Regional Indicator** – Local Govt by Province – KZN – District Municipalities – DC29 iLembe – Municipalities – KZN292 Kwadukuza – Ward 8 OR Whole of municipality
- **Costing** - Default
- **Municipal Standard Classification** – Community and social services – special programmes
Example 3:
- Municipality is planning to repair potholes along Chief Albert Luthuli Street. The municipality would currently budget as follows:
  - Department: Technical services – Roads and Stormwater
  - Item: Repairs and maintenance

mSCOA requires:
- **Project** - Operational – Maintenance and repair – Infrastructure – Roads, Pavements, Bridges and stormwater – planned – Repair to potholes Chief Albert Luthuli St
- **Function** – Road transport – Core function – Roads
- **Item** – Expenditure – Contracted services – contractors – maintenance of unspecified assets AND/OR Expenditure – employee related cost – municipal staff – salaries, wages and allowances – basic salaries and wages
- **Fund** – Revenue – General revenue – fines, penalties and forfeits
- **Costing** - Default
- **Municipal Standard Classification** – Technical services - roads
mSCOA will impact on Main Accounting System as well as subsystems (SCM, Assets, Billing etc) - Data must integrate the GL on SCOA segment level.

mSCOA = System change/enhancement + Business Process Change + Organisational Change

Hence municipalities and entities must begin process for preparing for business process change now!

National Treasury is still in the development phase of preparing final unit standards. NO service provider can offer accredited training in this regard. Municipalities are to refrain from entering into training agreements with service providers as this would constitute fruitless and wasteful expenditure.

National Treasury commenced rollout of non-accredited training in October 2015
What are benefits of mSCOA for a municipality or municipal entity?

- Accurate recording of transactions, therefore reducing material misstatements
- Reduce the month/year end reconciliation processes and journals processed – more accurate and timely financial management impacting positively on audit opinions
- Improve quality of information for budgeting and management decision making
- Improve oversight function by Council as the required information will be tabled for policy decisions, tariff modelling, unfunded mandates and monitoring
- Ensure alignment and implementation of the IDP as all expenditure, both capital and operating, will be driven from a project
- Improve measurement of the impact on service delivery and the community
FUNDING REQUIREMENTS - mSCOA
Funding requirements of mSCOA

- Conditions of Local Government Municipal Systems Grant and Local Government Municipal Finance Management Grant have been revised to include mSCOA.

- Municipal Demarcation Grant for municipalities affected by the Demarcation Act further includes funding for mSCOA related expenditure.

- Municipalities are required to consider their funding requirements for mSCOA implementation and appropriately allocate funds to meet these requirements during the 2015/16, 2016/17 and 2017/18 Medium Term Revenue and Expenditure Framework (MTREF).
PLANNING PROCESSES FOR mSCOA
Planning Processes for mSCOA

What should municipalities and entities have achieved to date?

- Table the Municipal Regulations on Standard Chart of Accounts (mSCOA) to the municipal Council to provide for broader awareness;

- Study the Regulation, mSCOA project documents, associated segments on National Treasury’s and Provincial Treasury websites;

- Appoint a project manager/coordinator, in writing, within the municipality who should preferably be at a senior management level;

- Establish a mSCOA project committee comprising of representatives from all sectors in the municipality, to enable internal awareness/information sharing;

- Compared their chart to mSCOA to identify changes in the current accounts and assess impact on business processes;
Planning Processes for mSCOA

- Compiled a high level project plan, with key milestones, activities and responsible persons;
- Incorporate the Project Plan as part of the standing agenda for MANCO and the mSCOA project committee;
- Embark on data cleansing and reconciliation of old outstanding balances and suspense accounts;
- Table a progress report to Council on mSCOA on a quarterly basis, including a feedback on response plans indicated in the risk register; and
- Attend Provincial mSCOA and Financial Management Forums as well as National Treasury sessions that provide feedback on mSCOA implementation at pilot municipalities.
COMPARISON OF mSCOA TO CURRENT CHART OF ACCOUNTS
• MFMA Circular No. 74 advises municipalities to commence the process of comparing their current chart of accounts to mSCOA in preparation for implementation on 1 July 2017, and document this comparison.

• Provincial Treasury advises municipalities and their respective entities that it will be in their own significant interest to undertake the comparison themselves, as opposed to utilising service providers, to:
  - Promote an understanding of mSCOA and its application to municipalities and municipal entities among officials;
  - Identify any anomalies in the mSCOA prior to the final version being issued, and to afford municipalities and their entities to communicate such matters to Provincial Treasury for escalation to National Treasury;
  - Identify the manner in which mSCOA will change existing business processes within the organisation in order to plan for change; and
  - Assist in the mindset change from accounting in the current municipal chart to accounting for transactions in terms of mSCOA.
BUSINESS PROCESSES
A **business process** is a collection of linked activities or tasks which find their end in the delivery of a service or product to a client.

A **business process** has also been defined as a set of activities and tasks that, once completed, will accomplish an organizational goal.
Example of Business Process

Customer requests installation of electricity meter

Technical Services requests inventory for installation

Inventory register updated on distribution

Inventory register updated on distribution

Technician installs electricity meter at customer’s house

Finance creates a new debtor on billing system

Debtor is billed on usage of electricity

At end of month, meter is read by meter reader

Debtor pays bill

Meter reading updated on billing system
Fifteen processes:

- Corporate governance
- Municipal budgeting, planning and financial modeling
- Financial accounting
- Costing and reporting
- Project accounting
- Treasury and cash management
- Procurement cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable
- Grant management
- Full asset life cycle management including maintenance management
- Real estate and resource management
- Human resources and payroll management
- Land use and building control management
- Valuation roll management
- Revenue cycle: meter reading, billing, accounts receivable, revenue mngt & receipting
- Customer care, credit control and debt collection
Business Process Analysis

- Analyse Trial Balance against the SCOA classification framework and identify new accounts, obsolete accounts, etc.
- Analyse Vote and Sub Vote classifications against the SCOA function table and identify differences.
- Document on business processes within the municipality.
- Plan for significant changes in business processes including associated risks (consider creation of new votes and budgeting in a more SCOA aligned manner for 16/17 financial year).
- Implement change management within the municipality – Awareness and education.
- Assessment of ICT infrastructure and required upgrades.
RISK MANAGEMENT
• Municipalities and municipal entities should identify all risks associated with mSCOA implementation and document such risks in a mSCOA risk register.

• Risk register template has been provided to municipalities.

• Municipalities and their respective entities are encouraged to engage with their respective departments within their organisation to identify all risks relating to mSCOA implementation and develop appropriate risk responses to mitigate these risks.

• Considering the magnitude of the risks associated with implementing mSCOA and its associated impact on municipal operations, municipalities and municipal entities should review the mSCOA risk register once every quarter and table to Council for oversight.
THANK YOU!

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