MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA)
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What is 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.

• 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.
What is mSCOA?

- Seven (7) segments that are to be complied with on a transaction (posting) level
- No further breakdown needed subsequent to transaction posting; No mapping of data permitted

**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

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;
- 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!**
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
- 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, 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
• 26 Pilot municipalities (9 system vendors) modifying current systems and refining mSCOA to ensure practical application in municipal environment - expected outcome date: October 2015

• National Treasury is considering additional municipalities as “early adopters”

• Latest and refined mSCOA version 5.3

• Final SCOA version 6 by December 2015 - No further amendments

• No Service Provider is considered to be SCOA Compliant – hence no system is yet SCOA compliant
Overview of mSCOA

- mSCOA will impact on Main Accounting System as well as subsystems (SCM, Assets, Billing etc) - Data must integrate the GL on SCOA segment level.

- SCOA is not a system change....it is a business process change!

- Hence municipalities and entities must begin process for preparing for business process changes

- 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 to rollout non-accredited training in September 2015
CIRCULAR NO. 57 – MUNICIPAL FINANCIAL SYSTEMS AND PROCESSES
• National Treasury issued MFMA Circular No. 57 – Municipal Financial Systems and Businesses Processes

• Circular advises municipalities and entities **not to consider changing their financial systems** until the pilot process has been finalized and further guidance has been issued by National Treasury. Guidance is further provided on processes to follow should a municipality need to change systems as a result of an impact on business processes.

• However, municipalities are entering the market for financial systems, against the guidance of MFMA Circular No.57.

• Should municipalities continue to replace current systems, and such systems are found to be non-compliant to the mSCOA Regulation on 01 July 2017, the system will be considered to be fruitless and wasteful expenditure and there will be repercussions and consequences for those municipalities.
FUNDING REQUIREMENTS - 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;
Planning Processes for mSCOA

• Compile 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.
COMPARISION OF mSCOA TO CURRENT CHART OF ACCOUNTS
Comparison of mSCOA to current chart

- 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
What is a Business Process?

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
- Technician installs electricity meter at customer’s house
- Finance creates a new debtor on billing system
- At end of month, meter is read by meter reader
- Meter reading updated on billing system
- Debtor is billed on usage of electricity
- Debtor pays bill
Business Process Analysis

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

To be updated and finalised by National Treasury in October 2015
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.
- Implement change management within the municipality.
RISK MANAGEMENT
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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