

Financial Management Reforms: The Regulation of a “Standard Chart of Accounts” (SCOA) for Local Government

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – May 2013



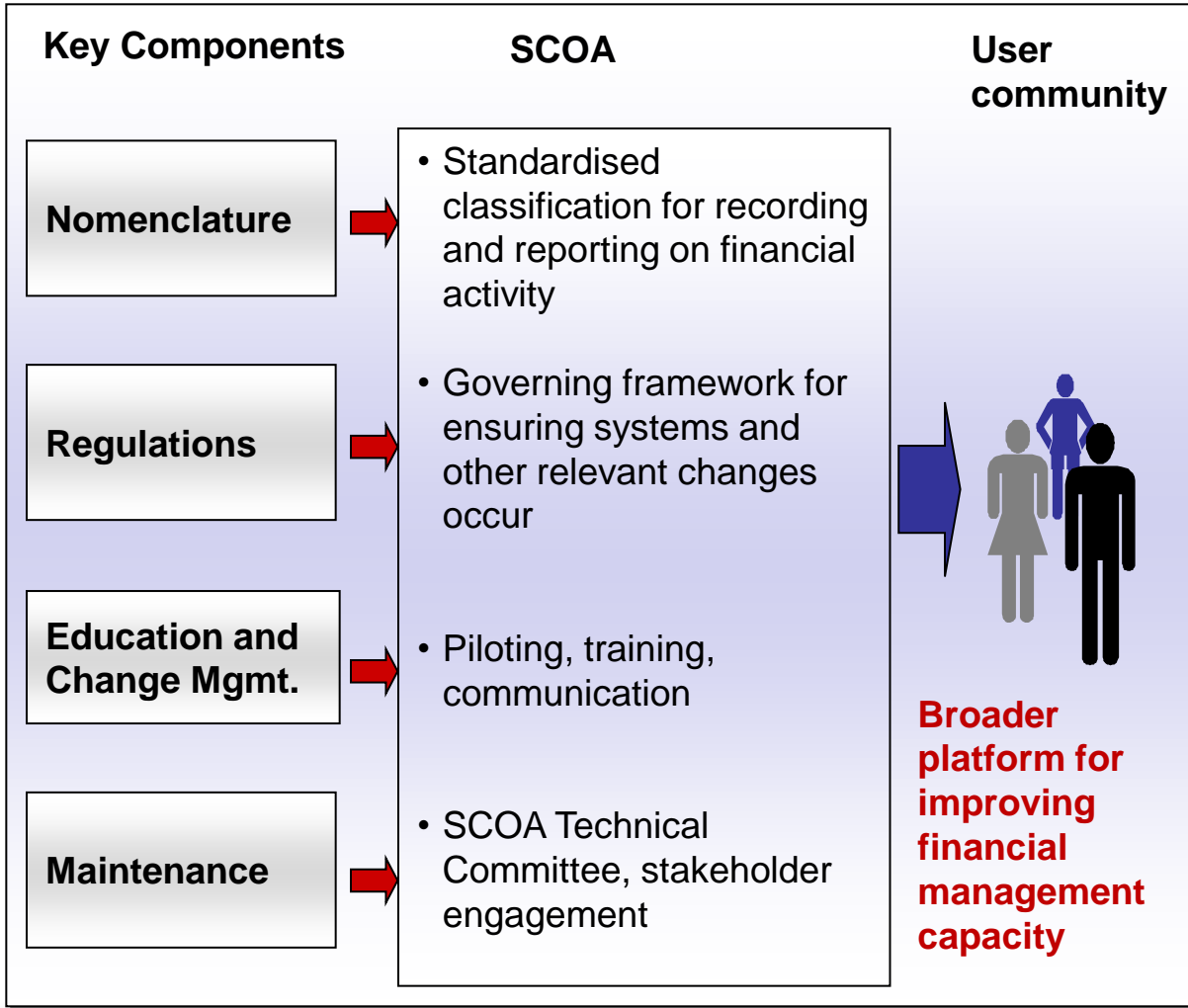
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Broad Overview



- **More effective and effective resource management in local government**
- **Improved data comparability between municipalities**
- **Greater consistency in approach to financial management**
- **Greater mobility of financial practitioners in Local Government**

Overall Timeline

Budget Cycle: 2017/18

August 2013

Implementation

30 April 2013

SCOA Design

- Draft Regulation
- Tables
- AFS/BRF Templates
- Std Terminology
- Financial Modelling?
- Minimum Business Process Requirements

Regulation

- SCOA Tables
- BRF Revised
- AFS Template
- PSD
- SQL Database
- System Specification
- SCOA Technical Committee

- Preparation for Change
- Piloting
- Implementation
- Monitoring, Evaluation and Oversight

Benefits in Adopting (1/6)

- 1. Accrual Budgeting** – *BRF alignment to AFS allows for the preparation of a FULL accrual budget based on SCOA classification and segments*
- 2. Budgeting for gains and losses** – *Classification structure to assist in budgeting for “gains and losses” avoiding the incurrent of unauthorised expenditure*
- 3. Minimum Business System Requirements** – *Force systems to meet minimum requirements and provide systems and tools to assist in meeting GRAP Requirements*
- 4. Efficient generation of financial information for a variety of purposes** – *consistent reporting of numbers independent of the source, i.e. infrastructure reporting as per municipalities versus reported to treasury and STATSA.*

Benefits in Adopting (2/6)

- 5. Systematic Coding System for classification of transactions and events** – *standardise the organisation of the ledger through-out local government including reference numbers e.g. typical transactions to be recorded within the exact same accounts and segment independent of the municipality*
- 6. SCOA forms the link to standardise business processes** – *business processes need to drive financial systems and not systems determining financial systems, e.g. assist municipalities lacking capacity in adopting sound business processes in an efficient, effective and economical control environment.*

Benefits in Adopting (3/6)

7. **GRAP reporting requirements** – *meet disclosure requirements for assets, liabilities, revenue, expenditure, cash flows and movement in net assets – uniformity established through the whole of local government.*
6. **Accounts and labels clearly defined** – *definition need to be sufficiently clear for appropriate classification of transactions.*
7. **SCOA to be used for in-year monitoring and reporting** – *standardisation of labels between SCOA/AFS and Section 71/72 reporting.*
8. **Whole of Government Fiscal Reporting** – *set standards through the Economic Reporting Format for future whole of government reporting.*

Benefits in Adopting (4/6)

9. **Budget classification** – *the designed SCOA incorporate budget classification with further improvements to the Budget Reporting Regulation Formats.*
10. **Accounts and labels clearly defined** – *definition need to be sufficiently clear for appropriate classification of transactions.*
11. **Annual updates** – *process defined for updating SCOA annually to take account of new development in legislation, GRAP or any other requirements.*
12. **Level of Flexibility** – *little flexibility allowed for changing SCOA structures provided certain fields to be populated by the municipality to maintain classification standards, uniform treatment of similar transactions and data integrity.*

Benefits in Adopting (5/6)

13. Benefits to the AGSA:

- Standardised Audit Working Paper File
- National Treasury to provide guidance to municipalities on the uniform treatment on difficult and contentious matters, e.g. housing development fund classification of transactions
- Common understanding to be promoted through AG SA Provincial Structures in the uniform treatment of issues
- Defined set of accounts for populating financial statements and lead schedules to “tie-in”
- Data fields defined through SCOA segments to assist in stratification of data for audit sampling
- Standardised “account numbers” , labels, descriptions through-out

Benefits in Adopting (6/6)

14. Transversal Benefits:

- National Treasury involvement in setting minimum standards for system vendors
- Annual updates to systems to coincide with the budget cycle, revisions to AFS, BRF, In-year Reporting, etc limited to once-a-year
- SCOA Technical Committee to be responsible for revision, update and changes and identification of difficult areas requiring further guidance by means of issuing classification circulars
- Building capacity for skills to move-around in local government with minimal transition required
- Supports access to provincial/national training initiatives due to “uniform standards and business processes”
- More uniform requirements resulting in economy of scale through the use of system vendors.

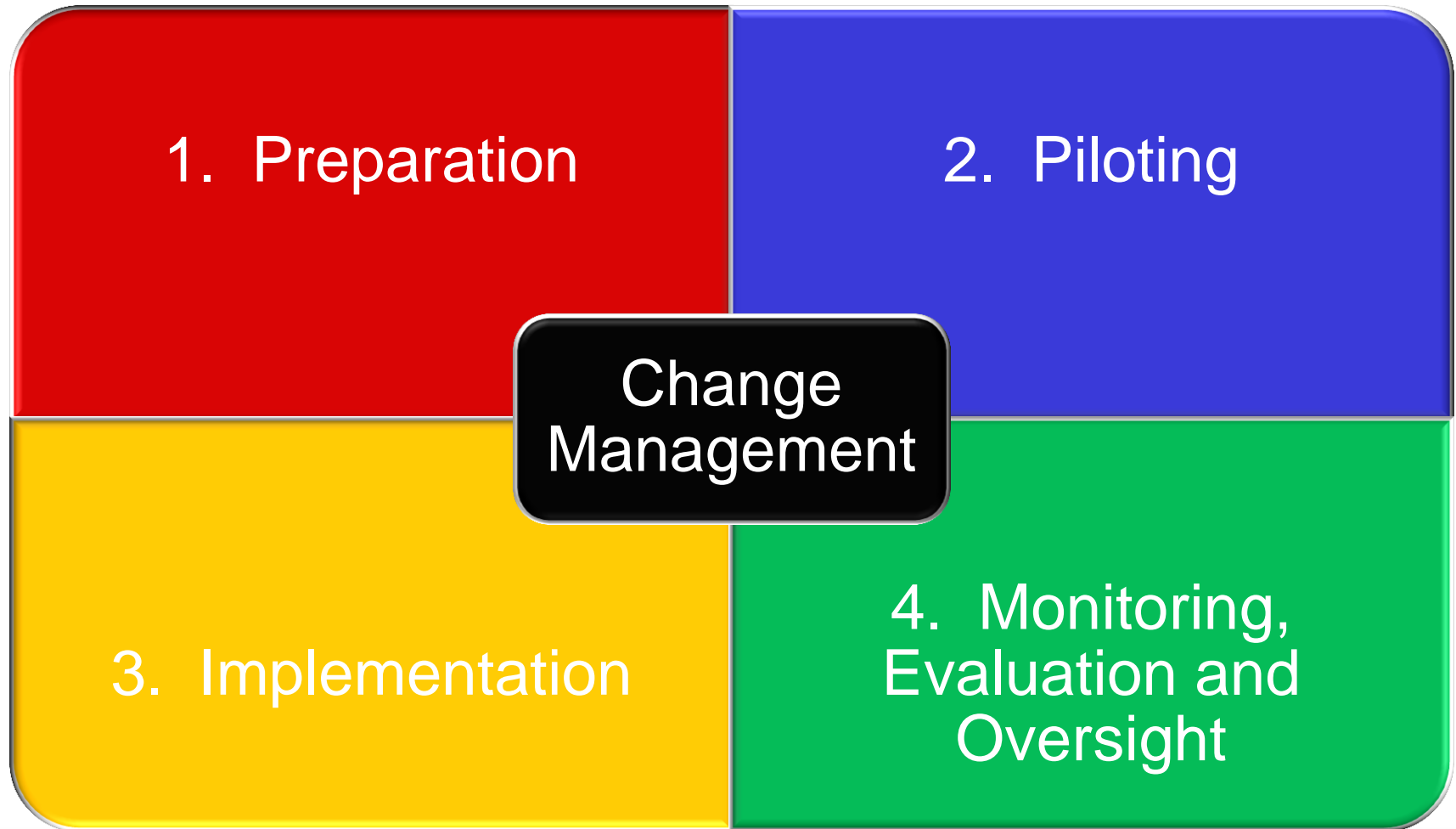
Upcoming Activities – Pre-regulation (1/2)

- **Specific Stakeholders**
 - *NERSA and DWA Requirements to be concluded*
- **AFS/BRF**
 - *Cornerstone for SCOA and released with the Regulation*
- **In-year reporting:**
 - *Returns to be aligned to SCOA*
- **Tables:**
 - *Definitions, Reporting Levels, Account Numbers and Detail*
- **PSD:**
 - *Guideline in support of SCOA tables*
- **Terminology List:**
 - *Crucial to the completion of “Tables and PSD”*
- **Draft Regulation:**
 - *Draft Regulation for Public Consultation*

Upcoming Activities – Pre-regulation (2/2)

- **COGTA/SALGA**
 - *Consultations needed for Regulation*
- **National Treasury**
 - *Input including consultation with the Minister*
- **SCOA Business Process Link**
 - *To inform system specification and minimum business requirements”*
- **SQL Database**
 - *Simulating budget and recording of transaction for extracting typical reporting for informing system specifications*
- **Workshop Material**
 - *Formal consultations preceding finalisation of Regulation and capacity building*
- **Comment Process**
 - *Consolidation, Evaluation and Update of SCOA documents*

Upcoming Activities - Post-regulation *SCOA Road Map*



Change Management - *Preparing for the Transition (1/3)*

Communication and Stakeholder Management

INTERNAL

- SCOA web page
- Programme to be designed for communicating SCOA classification, implementation support, frequently asked questions to be accessible to all interested.
- All of National Treasury charged with “local government matters” need to be informed of the process.
- Clearly defined and user-friendly process for “logging calls” and getting assistance. This need to be supported by a “quality assurance” process.

EXTERNAL

- Incentives for municipalities to meet compliance requirements
- Participate in existing forums/sectors to promote the SCOA Implementation Process, e.g. Vendor User Groups, Provincial Forums, ASB, IMFO, etc.
- Assist AGSA to fully understand the SCOA process, AFS and BRF templates and to communicate within their national and provincial offices
- Promoting SCOA Financial Reform (publication by professional bodies, user groups provincial and national forums)
- Engaging with system Vendors, Consultants and Advisors

Change Management - *Preparing for the Transition (2/3)*

Capacity-Building and Information Processing

PROPOSAL	INTERNAL	EXTERNAL
<p>Capacity Building</p>	<ul style="list-style-type: none"> • Capacitating IGR Staff to understand SCOA and the link to AFS/BRF and other reports • Expand existing SCOA Technical Committee with local government expertise • Budget/AFS Revision – support staff to be trained 	<ul style="list-style-type: none"> • SCOA Simulation and Training Material • Co-ordinate with training to be given by System Vendors pertaining to SCOA Implementation • Find more innovative and effective ways for presenting, e.g. visual and e-learning tools, simulation, etc
<p>Local Government Database</p>	<ul style="list-style-type: none"> • Purpose of LG DB is to receive month end reporting information for oversight purposes • Specification for the “expansion” of the existing database to be considered in setting up the SQL Database for guiding the specification for the system vendors to meet SCOA requirements. • Consideration need to be given to the “information needed and level of detail” to be retained in the LG DB. 	<ul style="list-style-type: none"> • External users to be informed of information available from the LG DB • Primary use of the LG DB

Change Management - *Preparing for the Transition (3/3)*

Support and Maintenance

PROPOSAL	INTERNAL	EXTERNAL
Support and Assistance	<ul style="list-style-type: none"> • Technical Support to System Vendors • Call Centre/e-query system for classification Issues • Annual SCOA update and “maintenance” • BRF changes – information sharing and assistance • IYR changes – information sharing and assistance 	<ul style="list-style-type: none"> • Regular meetings/update and close monitoring of progress made on system changes required from SCOA • Timely response to matters as arising • Quality assurance process • Consistent treatment of issues and communication thereof to all developers
Maintenance of SCOA	<ul style="list-style-type: none"> • Annual changes : • SCOA re DORA National and Provincial Transfers and Subsidies 	<ul style="list-style-type: none"> • Logging requests for SCOA revisions/updates to the SCOA Technical Committee • Communication of updates • Information retained on LG database vs specific reports to be standardised by the system vendors for reporting to STATSA, DWA , NERSA, etc.

Upcoming Activity: Post-regulation - Road Map

Preparation

- **SCOA Business Process Link**
 - *To indicate typical transactions (by business process) and how these transactions need to be standards for classification in the segments*
- **Develop System Specification**
 - *SCOA Business Process Link and SQL Database to be used to develop a “system specification” for the System Implementation*
- **Vendor Evaluation**
 - *Develop evaluation model to evaluate vendors in meeting “minimum system requirements” and the “specification for SCOA Implementation*
- **Pilot Site Assistance to Municipality and Developer**
 - *Approximately 15 vendors accepted – all are successful with 1 “official pilot site” including mapping of accounts to SCOA*
 - *Assistance to Developers in the implementation of SCOA and linking to Business Processes and Modules*
- **Update/Revision to SCOA**

Upcoming Activity: Post-regulation - Road Map

Piloting

- Training municipal officials on the principles of classification framework (*not limited to financial staff*)
- Assistance to be provided on classifications concerns and clarifications
- Address problems as they arise
- Check completeness and accuracy of standard reports

- **Revise training material and project documents**
- **Consider the use of classification circular for frequently asked questions**
- **Communication of responses to frequently asked questions**

Upcoming Activity: Post-regulation - Road Map *Implementation*

- Supporting preparation and ensuring systems readiness (based on the lessons learned from piloting)
- Roll out broad-spectrum preparation programme to support municipal readiness
- Classification training to be co-ordinated with systems updates
- Evaluate full-scale readiness of SCOA Technical Committee for full rollout, and support where necessary

Upcoming Activity: Post-regulation - Road Map

Monitoring, Evaluation and Oversight

- **Monitoring the progress and implementation of SCOA:**
 - *User groups*
 - *Logging of calls*
 - *Requests for changes to SCOA*
- **Engage stakeholders** not participating in initial development to participate
- Analyse diverse data to evaluate and monitor SCOA Compliance, and identify shortcomings in the SCOA
- Update/revise program rules for classification based on “common” errors identified
- Evaluate “AGSA” Audit Reports for financial classification potential due to SCOA Classification and address

Overview: Changes made to SCOA V3

Overall Considerations:

1. Alignment achieved between BRF and AFS
2. NERSA requirements incorporated to extract “Regulatory Reporting Tables”
3. Comments received following the Information Sessions
4. First attempt to compile Standard Terminology List for Local Government
5. Added account numbers for reference purposes
6. Introduced Costing Segment
7. SCOA Segments:
 - Function
 - Municipal Standard Classification
 - Project
 - Fund
 - Regional Indicator
 - Costing
 - Item

Overview: Changes made to SCOA V3

Function Segment

Changes:

- Electricity Function – moved sub-function detail to “Project Segment”
 - Arranged Function detail to support high-level classification applied in BRF [A2]
- Community and Public Safety
 - Community and Social Services
 - Health
 - Housing
 - Public Safety
 - Sport and Recreation
 - Economic and Environmental Services
 - Environmental Protection
 - Planning and Development
 - Road Transport
 - Municipal Governance and Administration
 - Budget and Treasury
 - Corporate Service
 - Executive and Council
 - Trading Services
 - Electricity
 - Waste Management
 - Waste Water Management
 - Water Management
 - Other
 - Abattoirs
 - Air Transport
 - Forestry
 - Markets
 - Tourism

Overview: Changes made to SCOA V3

Municipal Standard Classification

Changes:

- Terminology –
Municipal Standard Classification

- Non-standardised segment to be populated by the municipality based on “vote structure”.
- Encourage municipalities to adopt “function” as “municipal standard classification.”

Overview: Changes made to SCOA V3

Project

Changes:

- Removed :
 - Capital: Stand-alone
 - Operational: No project
- Added High-level Categories:
 - Infrastructure:
 - Airports
 - Cemeteries
 - Electricity
 - Roads
 - Waste Disposal
 - Transportation
 - Water
 - Waste Water
 - Non-infrastructure:
 - Biological or Cultivated Assets
 - Buildings
 - Computer Equipment
 - Furniture and Office Equipment
 - Heritage Assets
 - Intangible Assets
 - Investment Properties
 - Machinery and Equipment
 - Transport Assets
- NERSA Requirements
 - Repairs, Maintenance and Operational Expenses for Electricity Infrastructure

- Capital
 - Infrastructure:
 - Existing
 - *Upgrade and Additions*
 - *Rehabilitation and Refurbishment*
 - New
 - *Upgrade and Additions*
 - *Rehabilitation and Refurbishment*
 - Transfers
 - *Upgrade and Additions*
 - *Rehabilitation and Refurbishment*
 - Non-infrastructure
 - Upgrade and Additions
 - Rehabilitation and Refurbishment
 - Transfers
- Operational
 - Default Transactions
 - Maintenance and Repair:
 - Operating Expense
 - Infrastructure/Non-infrastructure and Transfers
 - Typical Projects

ADD SPECIFIC PROJECTS

Overview: Changes made to SCOA V3

Fund

Changes:

- Added Secondary Costing:
 - Internal Billing
 - Departmental Charges
 - Activity Based Recoveries

- National Departments
- Provincial Departments
- District Municipalities
- National/Provincial Departmental Agencies and Accounts
- Public Corporations
- Private Enterprises
- Foreign Government and International Organisations
- Universities and Technicons
- Households

- Revenue
 - General Revenue
 - Equitable Share
 - Special Rating Area
- Commercial Services
 - Abattoirs
 - Airports
 - City Parks, Reserves and Gardens
 - Civic and Open Air Theatres
 - Convention Centres
 - Development Agencies
 - Fresh Produce Markets
 - Property Agencies
 - Quarries
 - Sand Mining
 - Tourism
 - Urban Transport
 - Zoo's and Museums
- Borrowing
- Transfers and Subsidies
 - Capital/Operational
 - Monetary/In-kind
- Secondary Costing
- Non-funding Transactions

Overview: Changes made to SCOA V3

Regional Indicator

Changes:

- Provided for different areas defined depending on the service/function specifically for Metro's (Major Cities?):
 - Service/Function
 - Areas
 - Municipalities to provide information for inclusion in SCOA

- No Regional Identifier
- Regional Identifier
 - Whole Country
 - Whole of the Province
 - Municipalities by Province
 - Metro's
 - Administrative or Head Office
 - Service/Function
 - Area
 - Administrative/Head Office
 - Wards
 - Whole of the Area
 - Whole of the Metro
 - Municipalities
 - District Municipalities
 - Administrative/Head Office
 - Whole of the District
 - District Municipalities
 - Administrative/Head Office
 - Wards
 - Whole of the Municipality

Overview: Changes made to SCOA V3

Financial Modelling

Changes:

New Segment Introduced for recording Secondary Costing to extract information to determine cost reflective tariffs

- Departmental Charges
 - Finance
 - Corporate Services
 - Security
 - Communication
 - Various
- Internal Billing
 - Consumption and Service Charges
 - Connection Fees
 - Electricity Consumption
 - Electricity Pump Stations – Water Services
 - Electricity Streetlights
 - Electricity traffic Lights
 - Rates
 - Waste Removal
 - Waste Water
 - Water
- Activity Based Recoveries
 - Transport Costs
 - Plant and Equipment
 - Quarries
 - Labour
 - Printing Service

Overview: Changes made to SCOA V3

Item: Revenue

Changes:

- Added:
 - Rental of Property, Plant and Equipment
 - Sub-leases
 - Contingent Leases
 - Gains and Losses
 - Contra Accounts for Revenue Cost of Free Basis Services and Cost of Free Basic Services
- Exchange Revenue
 - Agency Service
 - Interest, Dividend and Rent on Land
 - Operational Revenue
 - Rental of Property, Plant and Equipment
 - Sale of Goods and Rendering of Service
 - Service Charges
 - Non-exchange Revenue
 - Fines, Penalties and Forfeits
 - Licences or Permits
 - Property Rates
 - Revenue Foregone
 - Transfers and Subsidies
 - Contra Accounts
 - Gains and Losses
 - Share of Surplus/Deficit attributable to Associate
 - Share of Surplus/Deficit attributable to Joint Venture
 - Share of Surplus attributable to Minorities

Overview: Changes made to SCSOA V3

Item: Expenditure

Changes:

- Added Contra Accounts for Revenue Cost of Free Basis Services and Cost of Free Basic Services
- Bad Debts Written-off
- Bulk Purchases
- Depreciation and Amortisation
- Employee Related Cost
- Dividends and Rent on Land
- Inventory Consumed
- Remuneration of Councillors
- Operation Cost
- Transfers and Subsidies
- Contra Accounts

Overview: Changes made to SCOA V3

Item: Assets, Liabilities and Net Assets

Changes:

NB:

- Control, Clearing and Interface Accounts unique to system to be added
- VAT – depend on modules

- **Current Assets**
 - Cash and Cash Equivalents
 - Construction Contracts and Receivables
 - Current Portion of Non Current Receivables
 - Receivables from Non –exchange Transactions
 - Other Current Financial Assets
 - Income Tax Receivable
 - Inventory
 - Investment
 - Non Current Assets held for Sale
 - Prepayments and Advances
 - Trade and Other Receivable from Exchange Transactions
 - VAT Receivable
- **Non Current Assets**
 - Biological Assets
 - Defined Benefit Asset
 - Deferred Tax Assets
 - Heritage Assets
 - Intangible Assets
 - Investment in Associate/Joint Venture/Subsidiary
 - Investment Property
 - Investments
 - Non-current Receivables from Non-exchange Transactions
 - Non-current Receivables from Exchange Transactions
 - Property, Plant and Equipment

Overview: Changes made to SCOA V3

Item: Assets, Liabilities and Net Assets

Changes:

NB:

- Control, Clearing and Interface Accounts unique to system to be added
- VAT – depend on modules

- Current Liabilities
 - Bank Overdraft
 - Consumer Deposits
 - Current Portion of Non Current Borrowings
 - Current Portion of Finance Lease Liabilities
 - Other Current Financial Liabilities
 - Income Tax Payable
 - Payments Received in Advance
 - Provisions
 - Short-term Borrowings
 - Transfers and Subsidies
 - Trade and Other Payables from Exchange Transactions
 - VAT Payable
- Non Current Liabilities
 - Borrowings
 - Deferred Income
 - Deferred Tax Liability
 - Defined Benefit Obligations
 - Finance Lease Liability
 - Operating Lease Liability
 - Other Non-current Financial Liabilities
 - Provisions
 - Transfers and Subsidies

Overview: Changes made to SCOA V3

Item: Assets, Liabilities and Net Assets

Changes:

- Net Assets
 - Accumulated Surplus/Deficit
 - Equity
 - Minority's Interest
 - Reserves and Funds

What do we expect from you?



- 1. Template will provide for mapping accounts to the municipalities chart of accounts**
- 2. Identify accounts not having a direct link.**
- 3. Check projects for provision of these**
- 4. Study the definitions**
- 5. Submit as comment to the SCOA Technical Committee**
- 6. Consider IDP and define projects**
- 7. Check these projects to SCOA**
- 8. Submit request if default projects do not provide for your requirements**
- 9. Check funding sources typical to the municipality to the provisions in the funding segment**

Questions

***Questions provide
the key to unlocking
our unlimited
potential.***

