

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**BUDGET AND TREASURY ROADMAP ON IMPLEMENTATION OF *m*SCOA.**

**Purpose of the report**

To report to Council on the roadmap of 2024/25 of Polokwane Municipality compliance on implementation of municipal standard chart of accounts reform (*m*SCOA).

**Background**

National Treasury published a MFMA Circular 57 in October 2011 where the Municipal Standard Chart of Accounts (*m*SCOA) were introduced. On the 3<sup>rd</sup> of September 2013, National Treasury published the draft regulations on *m*SCOA for Implementation as from the 1st of July 2017. The Government Gazette no. 37577 enacted these regulations into law.

**Discussion**

The regulations require *m*SCOA Steering Committee to submit the report to council on the progress made.

Polokwane Local Municipality has fully complied with the legislative requirement and met all the key milestone deadline as required by the gazette. All the reports to the National Treasury Portal had been fixed and have green status.

Attached is the quarterly report.

**Recommendation**

1. That council note the report.

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## 1. BACKGROUND

The local government budget reform process was initiated in 1998 and in essence reporting leaned towards to GFS classification (Government Financial Statistics). South Africa is a signatory of the International Monetary Fund (IMF) and the GFS classification also plays a key role in the Special Data Dissemination Standard (SDDS) for transparency at an international level. This classification can directly impact the country's credit rating and access to funding.

In a memo dated October 2008, National Treasury expressed concern to the Minister of Finance regarding the state of data in local government, inconsistencies, poor data integrity and irregular reporting, which restricted the accuracy of information being provided to the Legislatures, the very institutions that make recommendations with regards to policy and service delivery objectives impacting local government. This ultimately negatively affects Parliament's ability to oversee local government institutions. To address this, National Treasury introduced Municipal Standard Charts of Account (*mSCOA*), which must be implemented by 1 July 2017.

Over the past few years several regulations and reporting structures have been put in place to assist municipalities in dealing with the implementation and impact of *mSCOA*. *mSCOA* aims to modernize the overall financial system of local government and to improve service delivery.

*mSCOA* therefore provides a uniform and standardised financial transaction framework for municipalities. *mSCOA* prescribes the method and format that municipalities and their entities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting. It is a regulatory requirement, and all municipalities must comply by 1 July 2017. This is first quarter report indicating our level of compliance.

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## 1.1 KEY OBJECTIVES OF *m*SCOA

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*m*SCOA seeks to:

- Improve data quality and credibility of information;
- Develop uniform data sets critical to government reporting and planning and resource allocation;
- Standardise and align government accountability cycle in terms of budget, in-year reporting formats, annual reporting and annual financial statements;
- Consistency in the management and oversight of municipal finance;
- Improve transparency, accountability, and governance through uniform transacting;
- Improve the distribution and allocation of resources to the community; and
- Enable deeper analysis and comparisons within and across sectors.

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## 1.2 *m*SCOA REPORTING SEGMENTS

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*m*SCOA is a South African project researched by National Treasury based on municipal practices, reporting outcomes and policy implementations. *m*SCOA is a business reform rather than a mere financial reform and requires multi-dimensional recording and reporting of every transaction across seven (7) segments.

Municipal Accounting Officers must ensure that all budget and transaction elements in the municipal environment reflect each of the seven segments. The segments are as follows:

- **Funding** - what source of funding will be used for the transaction and from which source is the revenue received;
- **Function** - against which function- or sub-function should the transaction be recorded;
- **Item** - what is the nature of the transaction to be recorded either being an asset, liability, net asset, gain or loss, revenue or expenditure;
- **Project** - does the transactions relate to a specific project;

- **Costing** - impact of the transaction on secondary costing;
- **Regional** - what is the relevant geographic location for capital investment or the appropriate service delivery area for operational expenditure; and
- **Municipal Standard Classification** - against which organisational vote or sub-vote should the transaction be recorded.

Even when *m*SCOA is implemented, the municipality remains ultimately responsible and accountable for the capturing and submission of all the legislated information and reports to the National Treasury as was the status prior to the introduction of *m*SCOA. Additionally, *m*SCOA is enabling the National Treasury to extract information directly from the municipality's system(s). This implies that National Treasury is having one central point of access to the detailed municipal financial information used for monitoring, evaluation and oversight.

## 2. PROGRESS

### 2.1 APPOINTMENT OF PROJECT STEERING COMMITTEE

A formal *m*SCOA project was registered in the Municipality with a project sponsor (Municipal Manager), steering committee and a suitable governance structure to oversee the implementation thereof.

The Project Sponsor identified a Project Steering Committee to be the EXCO and further appointed the leaders of the Project Implementation Team which consists of Project Champion, Deputy Project Champion and Secretary who then drafted the terms of reference on how the project will be implemented, and which includes among others: the functionality of the committee, assessment of the financial system, reporting framework and key performance indicators. The following are the members:

DESIGNATION IN THE MUNICIPALITY	DESIGNATION IN <i>m</i> SCOA PROJECT
Chief Financial Officer	<i>m</i> SCOA Chairperson
Manager: Budget	<i>m</i> SCOA Product Champion
Manager: Assets	<i>m</i> SCOA Deputy Product Champion
Chief Accountant: Budget	<i>m</i> SCOA Project Secretariat

Workstreams were established to give effect to the minimum business processes and system requirements specified in MFMA Circular No. 80.

*m*SCOA compliant Budget and IDP was adopted by council on the 29<sup>th</sup> of May 2023 for the 2023/24 financial year.

Successes achieved after implementation.

- *m*SCOA compliant budget was compiled;
- All projects were linked to the IDP;
- Sub-systems integrate with the financial system.



second quarter.

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## **2.2 PROJECT PLAN**

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Listed below are the deliverables that will be performed during the project.

Project Initiation – Chief Financial Officer

- municipal Standard Chart of Accounts (mSCOA) regulations, project documentation, position papers and ICF documentation were read, and costing manuals are updated as and when the need is identified.
- Review of the current chart and mSCOA tables has been performed.
- mSCOA circulars one to six have been reviewed and discussed with the implementation team.
- A survey on the awareness was conducted with the following outcomes.
  - Ongoing training required to capacitate staff;
  - A proper support team to end users must be in place for effective business continuity; and
  - mSCOA Communication Plan need to update continuously.
- mSCOA Steering Committee was commissioned and the committee meet regularly to address MSCOA challenges.
- MSCOA action plan was implemented to address the findings raised by National Treasury and Internal Auditors. Audit Report is attached on annexure A.

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## **2.3 USER PROFICIENCY AND TRAINING**

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- An awareness workshop was conducted on the 30<sup>th</sup> of June 2023 for Management and workstream members and Budget circulars are consistently shared. The circulars highlight areas of concern by National Treasury and action plans are created to remediated where the institution is found lacking
- Adequate training on mSCOA business processes must be given to end users.



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## **2.4 INFORMATION AND COMMUNICATION TECHNOLOGY**

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- The municipality has access to ICT hardware (computers and servers), software (Microsoft) and licences (used on the software) that is sufficient to run the financial management system. The ICT components are maintained, upgraded and renewed as and when required to be able to optimally use the financial management systems. The municipality is utilising a core financial system solution that accommodate its ICT connectivity needs. The municipal officials are sufficiently capacitated on all system modules and functionalities to use the financial management system. A suitably qualified System Administrator is appointed, and the required IT securities and delegations are in place.

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## **2.5 SYSTEM FUNCTIONALITY**

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- The Municipality use MUNSOFT system (3<sup>rd</sup> party system) that has a direct impact on the General Ledger that integrate fully and seamlessly with the ERP system in terms of the mSCOA Regulations (Example Billing, Supply Chain Management, Inventory and Stores and Budgeting and Planning). The data contained in the 3<sup>rd</sup> party system synchronise without any human or manual intervention integrate to the ERP system in real time or and drill down from the ERP system to the General Ledger of the 3<sup>rd</sup> party system.

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## **2.6 RELEASE OF VERSION 6.8 OF THE CHART**

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- Version 6.8 of the chart will be effective from 2024/25 and the Municipality used it to compile the 2024/25 MTREF Draft Budget.

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## **2.7 MSCOA REPORTING ON VALUE ADDED TAX (VAT)**

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- The municipality is registered for VAT In terms of the VAT Act, 1991 (Act No. 89 of 1991) and its amendments. The municipalities declare Output tax on the taxable supply of goods and services and claim Input tax credits on expenses incurred in the course or furtherance of the enterprise (the taxable supplies). The output tax is declared, and the input tax claimed by completing a VAT 201 return.

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## **2.8 USE OF FUNCTION SEGMENT TO ACHIEVE GRAP 18 SEGMENTAL REPORTING**

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- The mSCOA function and region segments are used to comply with the GRAP 18 reporting requirements.
- The function segment records the major activities that generate the most economic benefits or service potential of the municipality. The implication will be that all income and expenditure transactions related to a specific trading service (function) must be budgeted for and transacted within that function. Therefore, where grants are allocated to trading services, the grant must be budgeted for and transacted in the Trading Services function. The function is correctly identified as a core or non-core function.
- The region segment identifies the lowest relevant geographical regional indicator of the intended contributor or beneficiaries that will contribute/ benefit directly from the given service or capital investment. We have identified the lowest geographical regional indicator in the region segment when we budget, transact and report to provide data on the geographic disclosures required in GRAP 18.

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## **2.9 PERIOD CLOSURE AND RECONCILIATION OF GENERAL LEDGER**

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- At the end of each month the municipality closes the month and reconcile with its records in terms of Section 65 (2)(j) of the MFMA.

### 3. KEY MILESTONES AND PROGRESS TO DATE

The following are *m*SCOA project implementation key milestones for this year:

NO.	WORKSTREAM	CHALLENGES	RESPONSIBLE PERSON	DUE DATES	STATUS
1	<b>Financial Management</b>				
1.1	<b>Financial Management</b>	Misalignment of withdrawals of data strings affecting C-schedule Cashflow SC9	Vhutshilo Tshikundamalema and Munsoft	28/02/2024 Resolved	Remuneration of councillor withdrawals data strings is mapped to employee related cost withdrawals. Interest, Transfers and Subsidies withdrawals data strings are mapped to other expenditure withdrawals. Even though budget data strings were created successfully. The issue was resolved.
2	<b>Internal Audit</b>				
2.1	<b>Internal Audit</b>	Compile MSCOA action plan on FMCMM	Elliot Mathepe	28/02/2024 Resolved	<i>m</i> SCOA action plan was compiled for MSCOA Steering Committee meetings. The issue was resolved.
2.2	<b>Internal Audit</b>	PHA Opening balances verification.	Elliot Mathepe	15/04/2024 On-going	Agree Munsoft TB with Caseware TB to ensure that the balances are correct for seamless consolidation data string.
3	<b>Human Resources (HR) and Payroll</b>				

NO.	WORKSTREAM	CHALLENGES	RESPONSIBLE PERSON	DUE DATES	STATUS
3.1	<b>Human Resources (HR) and Payroll</b>	Incorrect linking of EPWP temporary workers	Jerry Manyama	28/02/2024 Resolved	SAGE interfacing of own revenue funded temporary workers to EPWP funded segments. The issue was resolved.
4	<b>Information and Communication Technology</b>				
4.1	<b>Information and Communication Technology</b>	Capturing of salary budget on SAGE system	Dorcus Mathabatha	30/04/2024 On-going	Necessary setups should be done on SAGE and contact person is required from SAGE to work closely with MUNSOFT and the Municipality. Automation of declaration of interest, individual performance contracts and to produce salary budget on SAGE system.
4.2	<b>Information and Communication Technology</b>	Approval of GIS system	Dorcus Mathabatha	15/04/2024 On-going	The implementation of the integration is still on going. Server was created on GIS system, and they are currently uploading GIS application which is at deployment stage.
4.3	<b>Information and Communication Technology</b>	Upgrade of ICT infrastructure	Dorcus Mathabatha	15/04/2024 On-going	IT infrastructure assessment will be performed. Specification process is done, and tender will be advertised to replace the service desk application.
5	<b>Polokwane Housing Agency (PHA)</b>				

NO.	WORKSTREAM	CHALLENGES	RESPONSIBLE PERSON	DUE DATES	STATUS
5.1	<b>Polokwane Housing Agency (PHA)</b>	Incorrect Opening Balances	Malesela Masekoameng	15/04/2024 On-going	Trial balance was submitted to internal audit with issues on opening balances and Employee cost mappings.
<b>6</b>	<b>Revenue</b>				
6.1	<b>Revenue</b>	Billing where there is no corresponding budget.	Simon Shokane	30/04/2024 On-going	There is billing on segments created on SAMRAS with no budget. Billing module overrides budget controls
<b>7</b>	<b>Assets Management</b>				
7.1	<b>Assets Management</b>	Manual Business Processes Due to Unimplemented System Modules - Full Assets Life Cycle Management	Alfred Mothapo	30/04/2024 On-going	The municipality is intending to complete the conversion of 2023 financial year Fixed Assets Register by the end April 2024. Training on the system is completed.
		No system functionality to maintain and capture insurance claims register			Munsoft has a functionality to automatically generate an insurance claims register. However, insurance module can only be utilised once the asset module is used.
<b>8</b>	<b>Planning (IDP and Budget)</b>				

NO.	WORKSTREAM	CHALLENGES	RESPONSIBLE PERSON	DUE DATES	STATUS
8.1	Planning (IDP and Budget)	No indicator for project prioritisation.	Victor Nengovhela	30/06/2024 On-going	Munsoft does not have a functionality to capture prioritisation and comments from the public regarding prioritisation as this is only done during public meetings.

## Summary of Compliance Rating



mSCOA Audit City of Polokwane

### 1.8. Summary of Compliance Rating

The diagrams below shows the summary of mSCOA compliance per focus area.

#### 1.8.1 System architecture

Low Compliance

#### 1.8.2 Governance & Institutional Requirements

Compliance

#### 1.8.3 System Functionality

Low Compliance










#### 1.8.4 User Training & Proficiency

Compliance

## System Architecture

Indicators	Implementation Status	Implementation Challenges
<b>Is the ICT infrastructure (i.e. hardware, software and licences) adequate to run systems solution?</b>	Servers, software and licenses are <b>adequate</b> . However, there is a need to <b>upgrade</b> the network infrastructure and some of the desktop computers	<b>Budget constraints</b> as the upgrade is needed in multiple offices.
<b>Does the information from entities seamlessly integrated with the core EMS?</b>	Partially integrated.	There are some challenges on the Opening Balances. C and F Schedules are running smoothly
<b>Does the municipality generate consolidated budgets, IYM reports and AFS from the core EMS?</b>	All budgets are prepared in the system. Munsoft has introduced Munsoft Reporting tool for IYM and Budgets. AFS are produced on Caseware using MSCOA template	No challenges on MUNSOFT Reporting and Caseware
<b>Can the municipality generate the regulated schedules (A, B and C) from the EMS?</b>	Munsoft Reporting Tool is capable to generate all schedules	None



Indicators	IDP Projects	Budget Management	SCM	Billing Receipting	General Ledger	Inventory	Asset Management	Payroll	Creditors
<u>Which of the following modules on the core EMS is used by the municipality?</u>									
If the module of the core EMS is not used, which 3rd party system is used?	N/A	N/A	N/A	N/A	N/A	N/A	EXCEL	Sage	N/A
Why is the core EMS functionality not used?	N/A	N/A	N/A	N/A	N/A	N/A	Implementation underway	No payroll module on the core financial module	N/A
Does the 3rd party system integrate seamlessly (no manual intervention) with the core EMS?	N/A	N/A	N/A	N/A	N/A	N/A	No	Yes	N/A

## **4. CONCLUSION**

It is recommended:

- That Council take note of the report.