REIMAGINING PUBLIC FINANCE LEADERSHIP: MSCOA AS THE FOUNDATION FOR TRANSPARENCY AND ACCOUNTABILITY

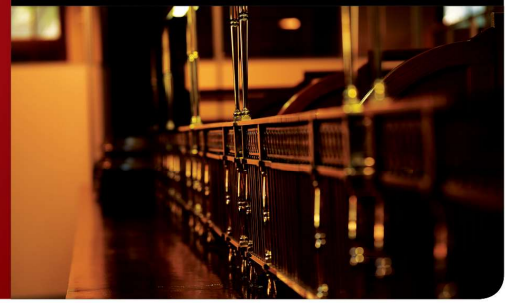
97th Annual CIGFARO Conference

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Local Government Budget Analysis

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national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

A NATION THAT WORKS FOR ALL

2030 NDP

Content

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BACKGROUND

Background

- Section 216(1) of the **Constitution** requires that National legislation **must** prescribe measures to ensure transparency and expenditure control in government by introducing uniform expenditure classifications and treasury norms and standards
- The introduction of Municipal Finance Management Act (MFMA) in 2003 laid foundation for the LG financial management reform agenda
- The Minister of Finance has, in terms of section 216(1) of the Constitution and section 168 of the MFMA promulgated the Municipal Standard Chart of Accounts (*m*SCOA) Regulations on 22 April 2014 (Government Gazette No. 37577).

Envisaged impact of budget and reporting reforms on the LG sphere

- Quality local government information informing national policy debates
- Information comparable across all municipalities to aid resource allocation decisions
- Ensuring a credible budgeting process as a key ingredient to improving financial management
- Prevention of municipal difficulties before they occur through the application of budget and section 71 analysis
- Improvement between planning, policy formulation, planning, budgeting, implementation, reporting and monitoring

STATUS OF CURRENT *m*SCOA IMPLEMENTATION

The *m*SCOA Regulations

- The Minister of Finance has, in terms of section 216(1) of the Constitution and section 168 of the MFMA promulgated the Municipal Standard Chart of Accounts (*m*SCOA) Regulations on 22 April 2014 (Government Gazette No. 37577)
- All municipalities and their entities had to comply with the *m*SCOA Regulations by 01 July 2017
- The *m*SCOA Regulations:
  - Provides a standard for the uniform recording and classification of municipal budget and financial information at a transaction level – *across all municipalities and financial systems*
  - Modernisation of LG business processes
  - Application of basic processes and procedures for the daily operation of the municipality
  - Improvement of the municipal ITC and control environment

What *m*SCOA gives us

- **Standardised** → One language
- **Multi-dimentional** → 7 dimensions → Not only what have we spent, but also where, why, for whom, on what project, funded by whom — and with what result
- **Transactional** → Close to source
- **Comparible** → Across municipalities
- **Integrated** → Systems and processes
- **Reportable** → Multiple outputs
- **Public Facing** → Transparency

The real value is not the classification itself – it is the common information architecture it creates

What are the 7 *m*SCOA classification segments?

FUND 1.

WHERE DOES THE MONEY COME FROM?

Funding is obtained from various sources:

- REVENUE
  - Property rates
  - Service charges
- TRANSFERS AND SUBSIDIES
- BORROWING
- CASH BACKED RESERVES
- COMMERCIAL SERVICES



FUNCTION 2.

WHERE DOES THE MONEY GO?

Funding contributes to delivery of municipal functions (services) and sub-functions.

- PROVIDING
  - Electricity
  - Water
  - Waste management
  - Housing
  - Roads
  - Sport and recreation
  - Other services

3. MUNICIPAL STANDARD CLASSIFICATION

WHO IS RESPONSIBLE WITHIN THE MUNICIPALITY?

Managers are responsible for the management and overseeing of specific municipal own departments and cost centers.

4. PROJECT

HOW DOES MUNICIPAL SPENDING CONVERT TO DELIVERABLES (PROJECTS)?

Projects cover both operational and capital spending.

CAPITAL
- INFRASTRUCTURE
  - NEW
  - EXISTING
    - Upgrade and additions
    - Rehabilitation and refurbishments
- NON INFRASTRUCTURE

OPERATIONAL
- Maintenance and repairs
- Municipal running costs
- Operating costs
- Typical work streams
  - Community development
  - Dam safety



ITEM 7.

WHAT DID WE BUY, GIVE OR RECEIVE?

Is the item a payment or subsidy, purchase or construction of a capital asset, tax receipt, sale of goods and services, transfers received, fines, penalties and forfeits, financial transactions in asset and liabilities, assets, liabilities and net assets?

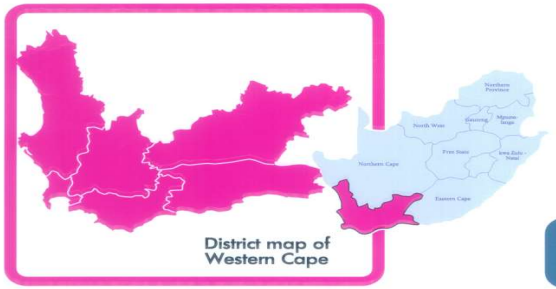
- REVENUE	· Rates · Electricity
- EXPENDITURE	· Contractors · Employee related costs
- ASSETS	· Property, plant and equipment · Inventory
- LIABILITIES	· Borrowing · Accounts payable
- NET ASSETS	· Accumulated surplus



WHAT IS mSCOA?

"Municipal Standard Chart Of Accounts"

The standard chart of accounts consists of the coding of items used for classification, budgeting, recording and reporting of revenue and expenditure within the local government sphere contributing to whole of government reporting.



REGION 6.

IN WHICH REGION ARE THE GOODS & SERVICES DELIVERED OR RENDERED?

To determine which ward within the municipality is benefiting from municipal spending?

5. COSTING

SHOULD THE COST BE REALLOCATED TO FUNCTIONS RENDERING SERVICES?

- Departmental charges
- Internal billings
- Activity based recoveries

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By 01 July 2017, all municipalities had to comply with the following, as a minimum:

PSD – SCOA definition as per the Regulation.

1. Posting at transactional level within system functionality	4. Customised reporting to support a multi-dimensional chart (MBRR, AFS & IYM)	7. Multi-year budgeting at transactional level
2. Budgeting at transactional level across all segments	5. No Mapping	8. Period version looking based on adjustment budgeting
3. Integration of all financial applications into General Ledger (SCOA)	6. Project driven planning/IDP	9. Master data recoverability
		10. Portal access

Important to note

- A common classification can still produce inconsistent information if business processes are weak
- A compliant system can still be poorly configured, poorly integrated or poorly used
- A submitted data string can still contain errors that undermine management decisions
- A published dashboard can create false confidence if leaders do not interrogate data quality and context

***m*SCOA compliance ≠ data quality ≠ financial sustainability**

Where are we now with the *m*SCOA implementation?

- Municipalities and system vendors operating in the LG space reinvested and redesigned their systems solutions to conform to the *m*SCOA Regulations and MFMA Circular No. 80
- On 1 July 2017, all municipalities complied with the *m*SCOA Regulations, but the levels of compliance differed
- Almost 10 years after the effective date for *m*SCOA, the credibility of the *m*SCOA data strings remains a concern
- Are we merely complying, or using public finance data to lead and build/strengthen financial sustainability?

What does credible data look like?

ONE VERSION OF THE TRUTH	Budget, actuals, commitments and performance tell the same story.
TRACEABLE	A management report can be traced back to source transactions and classifications.
TIMELY	Leaders see emerging risks while there is still time to respond.
COMPARABLE	The same concepts mean the same thing across municipalities.
ACTIONABLE	Every material exception has an owner, action and due date.

Key Benefits of the *m*SCOA Reform

Once the local government reporting reforms are fully implemented, the following benefits will be achieved:

- 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
- Improved quality of information for budgeting and management decision making
- Improved oversight function by Council as the required information will be tabled for policy decisions, tariff modelling, unfunded mandates and monitoring
- *m*SCOA, because of the multi-dimensional reporting across segments, brings seamless alignment in the accountability cycle of a municipality
- Ensure alignment and implementation of the IDP as all expenditure, both capital and operating, will be driven from a project perspective
- Improved measurement of the impact on service delivery in the community through the Regional Segment
- *m*SCOA standardises all municipal- and the whole-of-government reporting
- *m*SCOA relieves reporting fatigue and the cost of reporting. *m*SCOA does not fix historic information but it now forces credible information through its validation principles
- Provides for evidence-based financial management in municipalities. This means improved municipal benchmarking, policy making and interventions

REIMAGINE LEADERSHIP TO ACHIEVE TRANSPARANCY & ACCOUNTABILITY

The leadership question

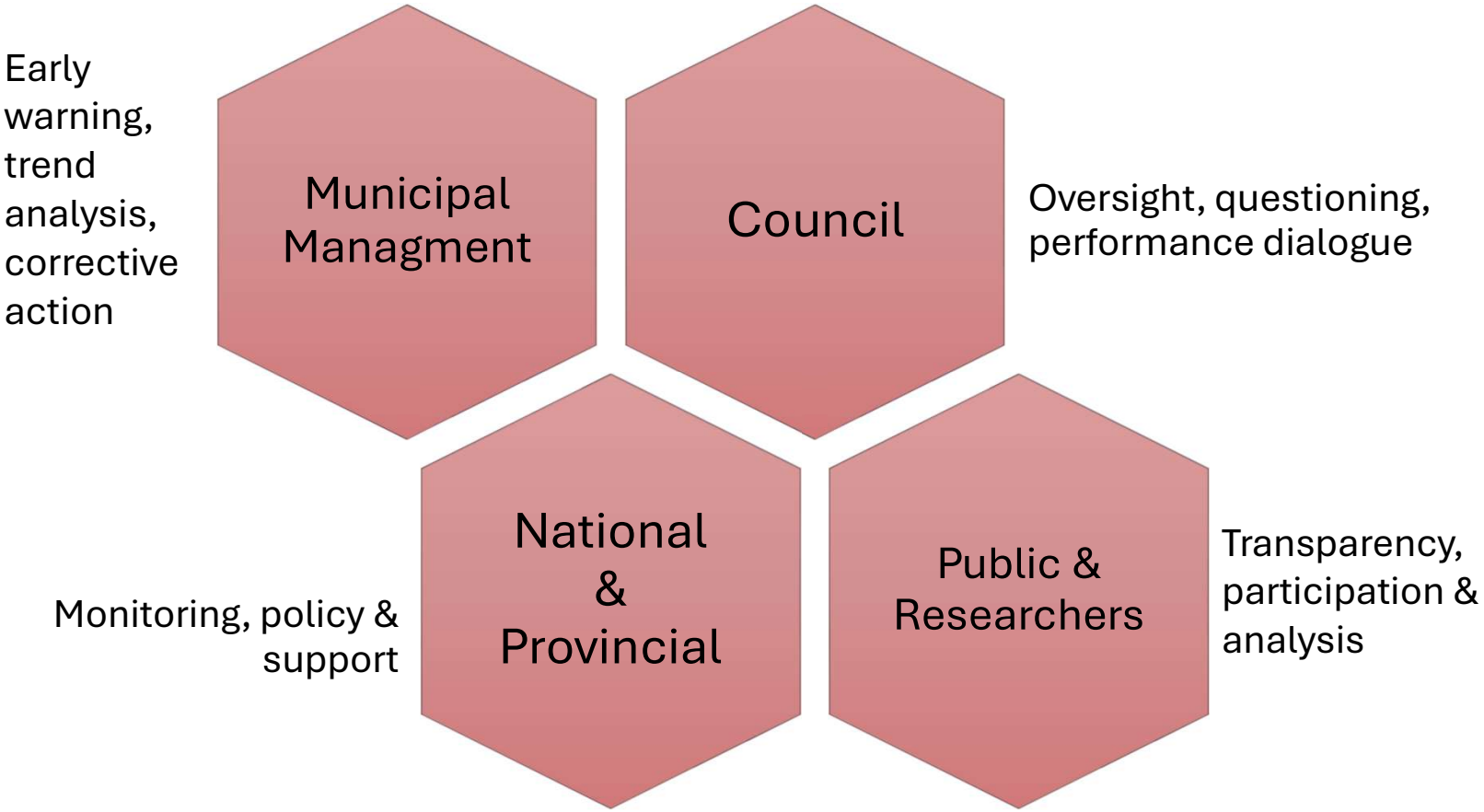
Compliance Mindset	Leadership Mindset
We submitted the return	Can we trust the information?
The system is *m*SCOA-compliant	What is the information telling us?
The report is produced	What action should follow?
Focus on deadlines, formats and compliance	Focus on outcomes, risk and accountability

- The question is therefore not “are we compliant?” but “are we extracting the full management value from the reform?”

What do we mean by transparency and accountability?

Transparency	Accountability
Information is consistent enough to compare	Officials can explain variances
Definitions and classifications are understood	Managers can act on emerging risks
Data can be accessed in usable formats	Councils can challenge performance with evidence
Citizens, councils, researchers and oversight bodies can interrogate the same evidence	Public reporting becomes an extension of management — not a separate exercise

Credible municipal data is a powerful asset



Five shifts for municipal leadership

1	From compliance	→ to capability
2	From reports	→ to intelligence
3	From annual review	→ to continuous management
4	From finance silo	→ to whole-municipality ownership
5	From data availability	→ to data accountability

NEXT PHASE OF THE *m*SCOA REFORM

The *m*SCOA reform is evolving

- The *m*SCOA Regulations, 2014, states that the Minister may, by notice in the Gazette, determine the minimum business process and system requirements for municipalities and municipal entities to enable implementation of the regulations
- Importantly, *m*SCOA is a digital business reform that impacts on all business units within a municipality
- *m*SCOA is moving from a compliance exercise toward a digital business transformation
- The National Treasury will gazette minimum business processes and system specifications in 2026/27, supported by enterprise architecture standards intended to eliminate system workarounds and improve the credibility, comparability and timeliness of municipal financial data
- Better data will enable more automated reporting, differentiated support and intervention, and a stronger link between fiscal transfers and demonstrated municipal delivery."

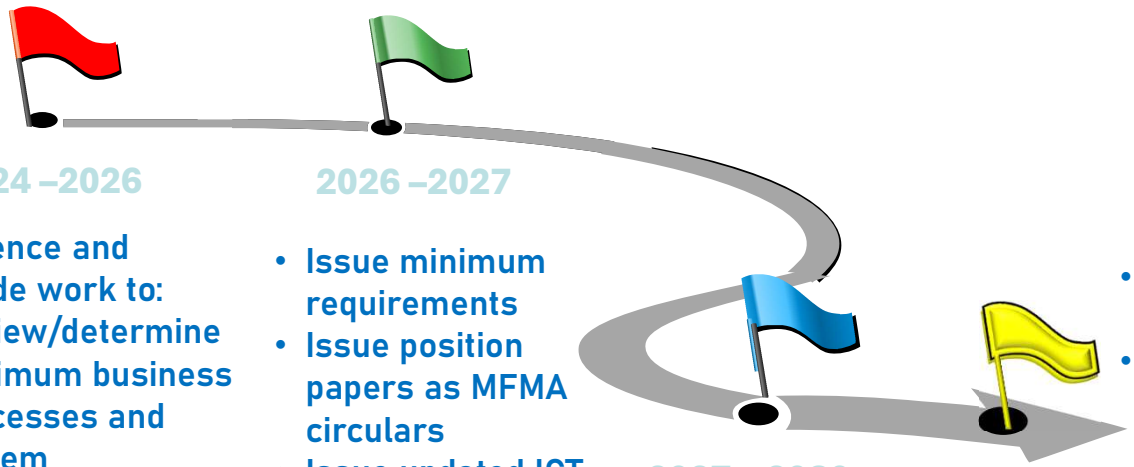
Reviewing minimum requirements for *m*SCOA (1)

- NT commenced with the work to issue the minimum *m*SCOA requirements in January 2024. This will be the last leg of the systems and *m*SCOA reform
- The project included the following outputs to be achieved:
  - Review and update the set of minimum business processes and system specifications for *m*SCOA (currently articulated in MFMA Circular No. 80) to incorporate new legislative requirements that have been issued since the circular was published
  - Update and develop the standard operating procedures (SOPs) for *m*SCOA
  - Align the current ICT due diligence assessment for *m*SCOA to the updated requirements
  - Consultation with key stakeholders on the minimum requirements
  - Training on the minimum requirements to ensure that there is a fair understanding of the new regulation by stakeholders

Reviewing minimum requirements for *m*SCOA (2)

- To date, the following consultation has taken place with various stakeholders, including municipalities, various NT units, PTs, system vendors, AGSA, SARS, STATSSA, DCoG, DWS, etc.:
  - Technical working groups (88 engagements)
  - Integrated Consultative Forums (14 engagements)
  - Stakeholders Engagements (18 engagements)
  - Special Task Team meetings (10 engagements)
  - Training sessions (7 sessions)

Timelines for issuing of the *m*SCOA minimum requirements



2024 –2026

Commence and conclude work to:

- Review/determine minimum business processes and system requirements for *m*SCOA
- SOPs
- Position Papers
- ICT Due Diligence Assessment

2026 –2027

- Issue minimum requirements
- Issue position papers as MFMA circulars
- Issue updated ICT Due Diligence Assessment
- Issue transversal tender
- Provincial training on minimum requirements

2027 – 2030

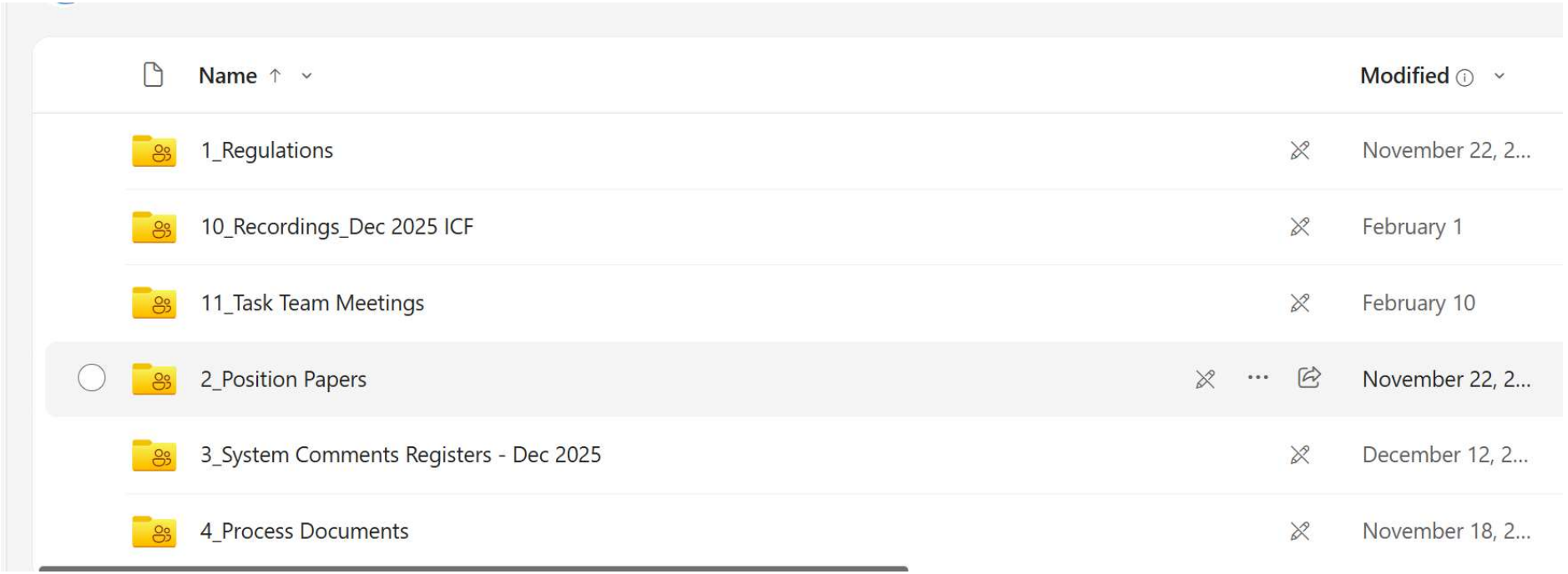
- Change Management Processes (municipalities)
- Readiness Workshops
- Readiness assessments
- Municipal training on minimum requirements

2030 - 2035

- Phased implementation: 3 - 7 years
- Compliance Assessments

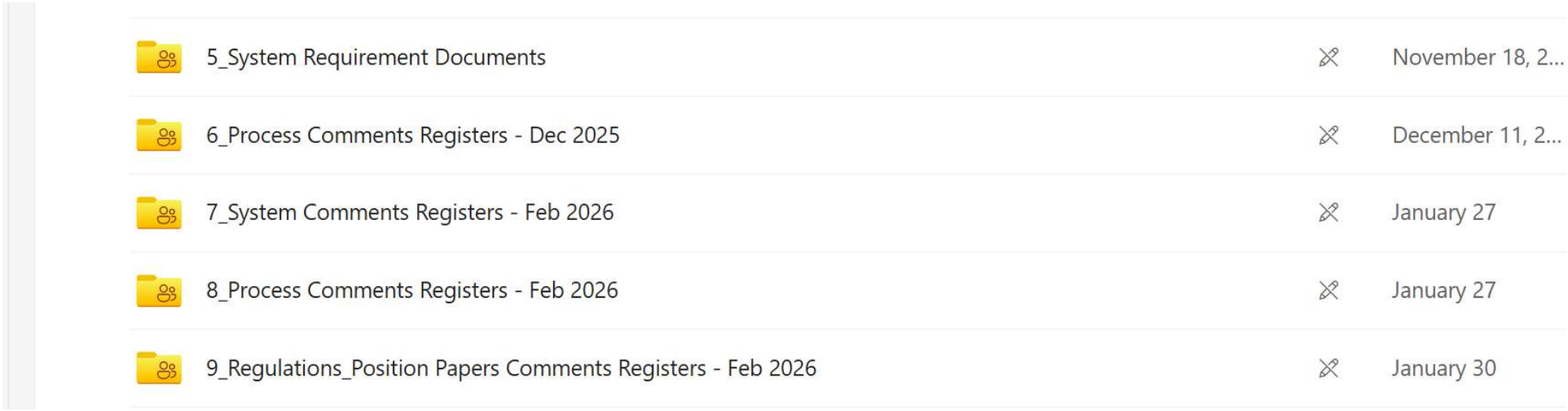
Documentation on minimum business process and technical system specifications requirements (1)

Link to one drive: G1_Draft Regulations - Training



Documentation on minimum business process and technical system specifications requirements (2)

Link to one drive: G1_Draft Regulations - Training



In closing

*m*SCOA gives us a a common language



The LGDRS turns that language into national information



Leadership turns information into action



Accountability makes the action visible



Leadership value is destroyed when data is inconsistent, late, incomplete and poorly understood

THANK YOU

For additional information on municipal matters, visit the MFMA Webpage at http://mfma.gov.za or

https://lg.treasury.gov.za/ibi_apps/welcome

https://municipalmoney.gov.za

For additional information on national and provincial budgets, visit: https://vulekamali.gov.za