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mSCOA: an overview

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MUNICIPAL STANDARD CHART OF ACCOUNTS, mSCOA: AN OVERVIEW

National Treasury has issued a Regulation for the Municipal Standard Chart of Accounts, more familiarly known as mSCOA. mSCOA has a specific view to stabilise the overall systems of financial management and internal control operationally functional within municipalities. All municipalities must implement mSCOA by 1 July 2017. There is no phasing-in period. The purpose of this document is to provide a high-level overview of this business reform. The writer will also consider the implications for municipal valuers and the compliancy required for valuation management systems.

BACKGROUND

What is mSCOA and what does this mean for municipalities?

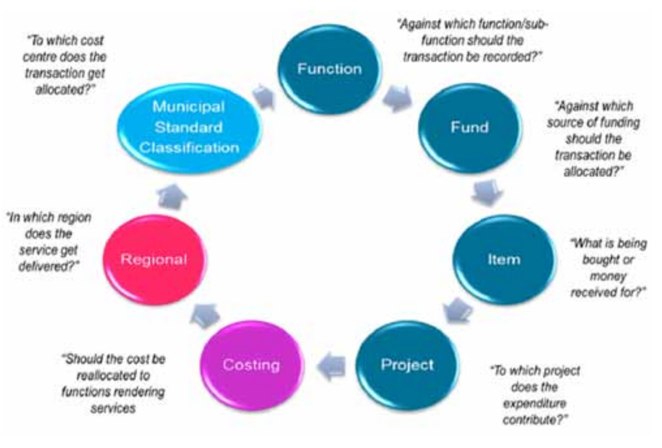
In October 2008 National Treasury addressed a strongly worded memo to the Minister of Finance on its concerns about how local government operated. These concerns were primarily about inconsistencies in local government financial and other data, poor data integration and irregular reporting. The memo provided details about how this placed limitations on any oversight by Parliament. This is, in a nutshell, the problem statement which has driven the development of mSCOA.

The primary objective of mSCOA is to achieve an acceptable level of uniformity and quality in the collection of municipal data sets. mSCOA is an acronym for Municipal Standard Chart of Accounts, which denotes a business reform that will change the way local government operates, and for the better. It is proposed that greater data quality and credibility will lead to the much needed standardisation of budgeting, transacting and reporting required for comparative analysis between municipalities. It is anticipated that mSCOA will serve as a platform for improving the financial skills of officials within local government. The mobility of these officials will be enhanced as mSCOA will be the standard for financial management across local government. Uniform data sets will enable Treasury to draw standard reports promoting accountability and transparency. mSCOA compliance aligns municipal infrustructure, planning and development (IDP) with budgets and annual financial statements. Further, by prescribing key business processes, oversight will be enabled which will increase the financial performance of municipalities. It is a bold step in the right direction. It is regulatory so it will happen.

mSCOA has been welcomed by certain municipalities and conveniently ignored by others. There are two projects that we are all familiar with that never fail: weddings and funerals. Most weddings are well planned, budgeted for and roll out as they are intended to. Certain municipalities have embraced mSCOA, their implementation will be smooth and the results as predicted. For other municipalities there is no budget, no planning but none the less the event cannot be postponed. Funeral approach will be uncomfortable but it is inevitable. There is no deferment of the implementation date which is 1 July 2017.

SEVEN SEGMENTS

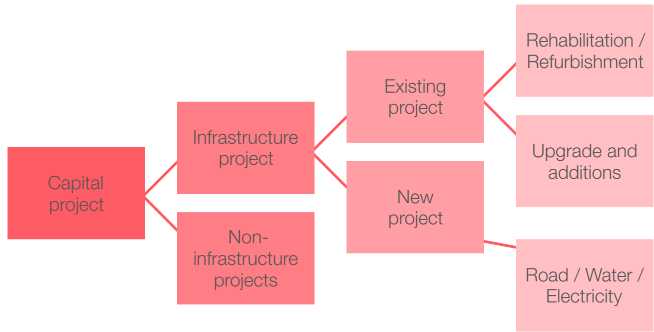
There are seven segments for mSCOA of which six are regulated. The seventh segment is the Municipal Standard Classification which records the organisational vote or sub-vote against which the transaction is recorded. This is not prescribed but would be useful. The mSCOA codes are selected from National Treasury segment spread sheets.



The process of mapping the various segments has been undertaken by an appointed mSCOA project steering committee within each municipality. This is one of the work streams identified by National Treasury's preferred approach; more about works streams later. The Chart is locked down in the data base. Any changes have to be effected by National Treasury.

WHAT IS A PROJECT SEGMENT?

The business of local government consists of a number of transactions. Each segment denotes how a transaction relates to a specific project and what type of project. There are capital, operational and default projects within every municipality.



WHAT IS AN ITEM SEGMENT?

The second question which must be asked about each transaction is what is its nature?

ITEM CATEGORIES	
1. Expenditure	Employee related, operational, other, etc
2. Revenue	Exchange revenue (eg service charges) non-exchange revenue (eg penalties, etc)
3. Gain and losses	Impairment loss, foreign exchange, etc
4. Assets	Current assets and non-current assets
5. Liabilities	Current liabilities and non-current liabilities
6. Net assets	Reserves, accumulated surplus, etc

WHAT IS A FUNCTION SEGMENT?

Against which function or sub-function should the transaction be recorded? Here there is a differentiation between core functions which are mandated and non-core functions which are not mandated.

FUNDING SOURCES	
1. Revenue	General, including equitable share, municipal services, property rates
2. Borrowings	Current, non-current (eg overdrafts, finance leases, DBSA, etc)
3. Transfer and subsidies	Grants other than equitable share (eg MIG, MSIG, FMG, EPWP, INEP)
4. Commercial services	Revenue from abattoirs, fresh produce markets, caravan parks, etc
5. Cash-backed reserves	

WHAT IS A REGIONAL IDENTIFIED SEGMENT?

Which geographic area is receiving the benefit from the transaction?

1. The whole municipality
2. Administration or head office
3. A specific ward

WHAT IS A COSTING SEGMENT?

From which department are we recovering the costs?

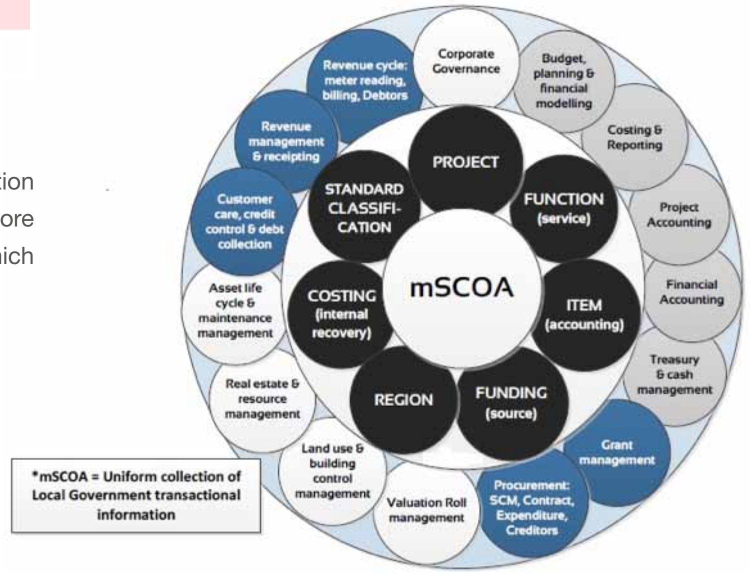
Are there charges for activity-based recoveries, charges made against a specific department, internal billing or recoveries, which is a default?

WHAT IS THE MUNICIPAL STANDARD CLASSIFICATION SEGMENT?

This is the non-prescriptive segment which records the relevant department or cost centre against which the transaction should be recorded, eg office of the municipal manager, technical services, community services.

BUSINESS PROCESSES

Then on top of the segments there are 15 core business processes which should be undertaken by the municipality. These are contained in Chapter 13 of the Regulations. It is anticipated that these will soon be gazetted by the Minister of Finance.



NINE WORK STREAMS

In order to complete the process the municipality must also subscribe to nine work streams.

- Commissioning mSCOA steering committee (governance)
- ICT infrastructure and network
- Verification of current vote structure to mSCOA vote structure and prepare annual budget on the structure
- Data cleansing
- HR and payroll
- Planning (IDP, budget, SDBIP, PM)
- Core systems and additional
- Real estate, land use and grant management;
- Document management

Municipalities were required to incorporate mSCOA into their Integrated Development Plans, IDPs, their SDBIP and the projects and procurement plans. There was also a requirement for a council resolution to adopt mSCOA and to appoint a high-level steering committee with a project sponsor to lead the planning, risk register and implementation processes. The mSCOA Project Steering Committee should include all heads of department and the municipal manager. mSCOA is about business reform, it is a serious matter and requires the commitment of the strategic heads within every municipality.

The big work initially is to capture and collect all the required segments, to impose these into the municipality's financial system. Like all projects, there are various methodologies and tools available to support the roll-out. The message from Treasury is clear: you will be audited on the approach so use a simple methodology which is accessible and understood by all the stakeholders. All municipalities must verify their existing vote structure against the mSCOA regulations. The due date for this exercise to be completed was September 2016. Another clear directive is careful planning and diligent monitoring and control of the process. Some tasks just take longer. There is an enormous amount of change required. Everyone is inherently resistant to change and municipal officials more so than most.

A parallel process was for each municipality to conduct an IT audit. In order for mSCOA to be successfully integrated it requires a strong IT network. mSCOA prescribes a single data base with a single point of entry, the so-called 'one version of the truth concept'. Ideally this should be a web-enabled environment. National Treasury is not stipulating the nature of each IT network but it is recommending upgrading to accommodate the mSCOA compliance.

SCHEMATIC OF THE PROPOSED SEAMLESS INTERFACE

Of particular interest is the requirement that all interfaces between the financial system and third party applications is conducted seamlessly. That means no fingers, no flash discs, no spread sheets. The process must be automated in order to meet the mSCOA compliance requirements.

It is inevitable that the resultant exercise will reveal certain data inconsistencies. Data cleansing, or the alignment of data sets, is required in terms of mSCOA. Remember that the problem statement which launched mSCOA was around inconsistent and unreliable data sets. This is a clear directive to municipalities to 'clean up their act'.

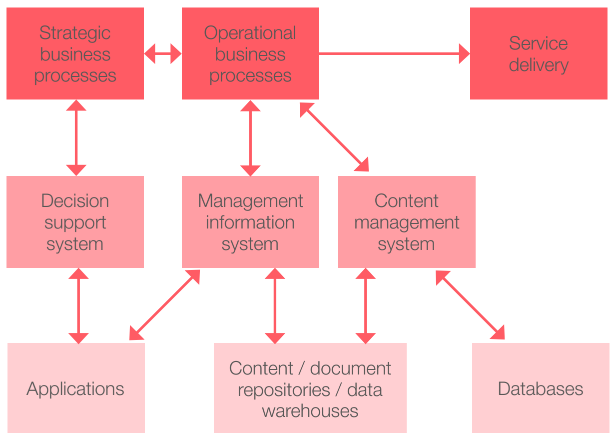
The focus of the valuers is towards meeting the requirements of the valuation roll maintenance work stream. This will invoke the seamless interface of the section 78 updating triggers required by the MPRA with the maintenance of the property register.

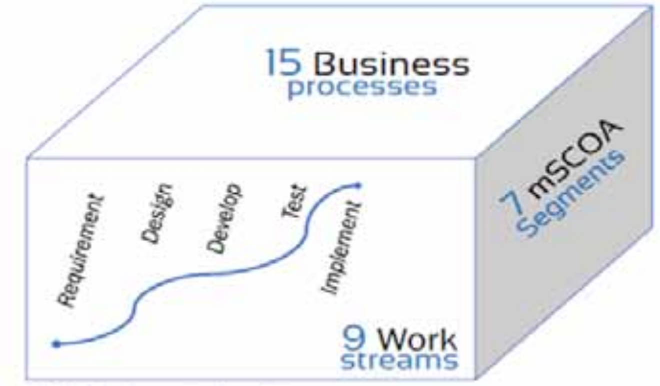
The real estate, land use and grant management work stream brings together all the related legislative frameworks for the Spatial Planning and Land Use Management Act, SPLUMA, spatial and urban policy and land use planning.

mSCOA requires all document management to be located in a central data base.

Municipalities are also required to have a clear organogram compliant with the requirements of the South African Local Government Association and the respective bargaining councils. There will no longer be any room for phantom payroll recipients.

In summary mSCOA requires the 100% commitment of the municipality to achieve the required compliance.





mSCOA implementation phases

WHAT DOES MSCOA MEAN FOR MUNICIPAL VALUERS AND VALUATION MANAGEMENT SYSTEMS?

Valuation Management Systems are considered as systems of internal control to the financial systems within municipalities. Vendors were invited to participate in the transversal procurement process. A municipality must conduct its own systems audit to ensure that all the core and sub systems used by the municipality comply with the mSCOA requirements.

PROCESS OF BECOMING RECOMMENDED VENDOR OR PANELLIST

The National Treasury concluded the process of establishing a panel of service providers for provision of an Integrated Financial Management and Internal Control System for local government. A media statement was issued by National Treasury on 2 August 2016.

The purpose of the transversal contract (RT25-2016 for the period 1 June 2016 to 31 May 2019) was to procure a panel of mSCOA enabling systems that a municipality may use to fast track and simplify its system(s) procurement process. A municipality must conduct its own systems audit to ensure that all the core and sub systems used by the municipality comply with the mSCOA requirements.

Of the 33 bidders who responded to the tender, seven have been placed on the panel. It is strongly recommended that municipalities consider using the service providers on the

Extract from *Bid Rt25-2016: Integrated Financial Management and Internal Control System*

LEGISLATIVE OR BUSINESS REQUIREMENT	SYSTEM / APPLICATIONS MINIMUM FUNCTIONALITY	REQUIRED BY
VALUATION ROLL MANAGEMENT		
Valuations Module to give effect to the Municipal Property Rates Act, 2004, and as a minimum:	Seamlessly integrate with the revenue management module.	Legislation
	Integrate information for spatial analysis in a Geographical Information System (GIS).	Best practice
	Integrate with the building control system used in the municipality to ensure completion of additions and new buildings get immediately updated on the billing sub-system.	Best practice
	Integrate with the land use system to ensure appropriate tariff is timeously applied.	Best practice
	Integrate with the Surveyor General (SG) database and town planning systems in use at the municipality.	Best practice
	Integrate with the deeds registry and monitor actual sales with current valuations as well as ownership against the billing system.	Best Practice
	Validate and report anomalies in the asset register on municipal owned properties.	Best practice
	Provide the municipal website with the Municipal Property Rates Act, 2004 required A&B valuation rolls.	Legislation
Managing and calculation of property rates, special rating areas and service charges on a property subject to a number of requirements including but not limited to:	The valuation of property will be performed in the separate (Computer Assisted Mass Appraisal) system and the individual property values and relevant property attributes passed to the Solution via an interface with valuation module. Data to be validated and managed within the Solution in compliance with legislation policies and business rules to enable calculation of property rates.	Legislation
	Property rates and service charges are calculated at different tariffs depending on various criteria such as the category of the property.	mSCOA Regulation
	Functionality is required to exempt certain categories of property and/or certain categories of property owners from rates.	Legislation
	Functionality is required to calculate a rebate or a reduction in rates in compliance with the requirements of legislation and/or business rules.	Legislation
	Functionality is required for the phasing in of rates in compliance with legislation.	Legislation
	Clearance Certificate Management to be online and comply with Section 118 of the Municipal Systems Act, 2000.	Legislation

panel. MFMA Circular No. 80, issued on 8 March 2016, and mSCOA Circular No.6 issued 2 August 2016, outline the process and associated requirements for use of the panel of service providers established in terms of RT25-2016

WHAT ARE THE IMPLICATIONS IF YOUR VMRS DID NOT PARTICIPATE IN THE TRANSVERSAL PROCUREMENT PROCESS OR IF YOUR PROPOSAL IS NOT RECOMMENDED BY NATIONAL TREASURY?

The focus of mSCOA is on the entire business reform. The Valuation Management Systems are systems of internal control which are required to integrate to the financial system seamlessly, as well as contain the functionality requirements of the MPRA. The transversal proposals all include functionality for a valuation management system. National Treasury's requirement is for seamless interface. In the event that this cannot be demonstrated the municipality will be non-compliant with mSCOA.

DOES A MUNICIPALITY NECESSARILY HAVE TO USE THE VMRS WHICH WAS PART OF THE FINANCIAL SYSTEM VENDORS TRANSVERSAL PROPOSAL?

According to Silma Koekemoer, SCOA Project Manager in the office of the Chief Directorate: Local Government Budget Analysis at National Treasury, this is not a requirement. Many VMRS vendors have provided excellent service to their municipal clients over the years. These relationships should be maintained. The financial system vendor and the VMS vendor must co-operate to achieve the compliant interface prescribed by mSCOA. All municipalities must use an mSCOA compliant Valuation Management System which must interface seamlessly with their financial system.

CONCLUSION

mSCOA is described as a journey. It is a regulatory reform and it is implementable by 1 July 2017. Funding for the process and for the necessary IT infrastructure upgrade should already be in place. National Treasury has taken a hard line and is emphatic that this reform will be achieved. It is in the interests of sustainable local government. ■

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FILLING STATION VALUATIONS FOR BANK SECURITY PURPOSES – A PRACTICAL APPROACH

ROLEPLAYERS

State, through the Department of Energy, Department of Environmental Affairs – a major emphasis is placed by DoE on transformation to include HDSAs in new forecourt transactions, and this may become more of an issue with the granting of licences in future.

Local authorities, through the implementation of town planning schemes and land use control.

Property owner – the person/company who owns the land on which the filling station is situated.

The operator – the person/company who actually sells the fuel on site, and who will be responsible for most of the compliance of legal issues, ie:

- ensuring compliance with the conditions of the contract with the fuel providing company;
- compliance with legislation for prevention of any environmental issues;
- labour issues
- franchise agreements.

The oil company, the wholesale/bulk supplier of fuel to the site.

Other franchise partners who may operate from a filling station site.

FACTORS UNIQUE TO A FILLING STATION SITE

A filling station site is unique in several aspects, including:

Zoning – needs to allow specifically for the selling of fuel as well as other products.

Buildings – custom-built for a specific purpose, with limited alternative use potential.

Locality – needs good exposure and easy access.

Funding – operator needs lots of operating funds – no payment, no delivery of fuel. 20 000 l delivery = ± R225 000 – R250 000.

REQUIREMENTS FOR A SUCCESSFUL FILLING STATION SITE

Exposure to large volumes of passing traffic

Easy access (low speed, traffic light, high visibility)

Island space – ease of movement for vehicles between pumps and leaving the forecourt

Attractive **convenience shop** with parking space

Clean rest rooms if on main roads!

Very few sites with an old, run-down appearance will do high volume sales.

APPROVALS REQUIRED TO START A FILLING STATION

Before a new filling station can be opened, three sets of approvals, authorisations and licences are needed:

Land use rights for purposes of a filling station – usually 'Business 1' zoning with annexure for a filling station

An **environmental authorisation** and

Site and retail **licences**.

In terms of the Petroleum Products Act, 1977 (PPA) as amended in 2006, which is administered by the national Department of Energy, one cannot apply for a site and/or retail licence before you have both land use rights and an environmental authorisation.

LICENCES REQUIRED

Three different licenses are applicable:

A **wholesale** licence – this allows the oil company to provide fuel to the site.

A **site** licence – this licence is issued once all the legal requirements in terms of the zoning, EIA approval, roads, etc have been fulfilled. It is issued to the person/company who owns the land, but is NOT TRANSFERABLE – if the property is sold, a new licence needs to be applied for!

A **retail** licence – this is granted to the operator of the filling station. Oil companies are not allowed to have retail licences.

FILLING STATION COMPONENTS

- Forecourt – canopy, pump islands, pumps and nozzles, tanks, with associated attendant's office, management office and ablutions;
- Convenience shop with its storage space
- Excess land and extra building areas that can generate additional income.