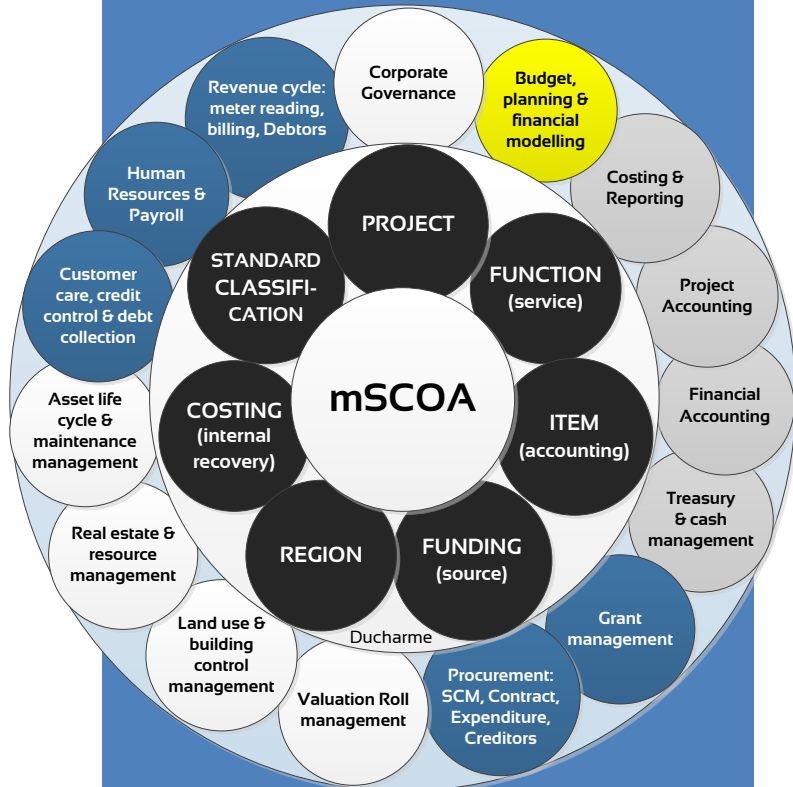


mSCOA provides for several mechanisms for strengthening accountability, facilitating **budget reporting and adding value to the budget process** to ultimately improve Service Delivery.

As part of Ducharme mSCOA diagram's outer-core sets of the 15 Business processes, together with the Inner-core 7 mSCOA segments as determined by National Treasury, an mSCOA budget is key to the successful transition to the new classification framework.

As mSCOA is an multi-dimensional, entity wide reform, **accurate budgeting** will not only requires an assessment of the impact of mSCOA on the Asset Life Cycle and the Revenue Cycle, but also on elements such as secondary transacting of Costing and the non-financial impact such as Region, but also include mSCOA budget considered across the whole of the municipality.



Overview of mSCOA budget

Improved processes for municipal planning and budgeting empower a council to make more informed decisions and are fundamental to **sustainable and efficient service provision**.

After alignment of the processes and systems to the new mSCOA classification framework, the data and underlying insight on the information will have a **great impact on the reporting and decisions made by management and other users**.

Responsible planning and accurate budgeting drive transparent operations, and if a municipality is required to transact in an accountable manner **this must originate during the budget process**. It would not be feasible to transact in a mSCOA compliant manner, if planning was not done accordingly. Therefore MFMA Circular 85 states the following:

- "...the compilation of the 2017/18 Medium-Term Budget and Expenditure Framework (MTREF) must be compliant with the mSCOA classification framework."
- "All the tabled 2017/18 MTREF budgets and the IDP submissions will be assessed in March 2017 for mSCOA compliance."

"It would not be feasible to transact in a mSCOA compliant manner, if budgeting was not done accordingly."

Benefits of mSCOA Segments on Budgeting

1. Project
Ensures alignment between: <ul style="list-style-type: none"> • the Integrated Development Plan (IDP) • Medium-Term Budget and Expenditure Framework (MTREF) • Service Delivery & Budget Implementation Plan (SDBIP) • In year monitoring & Reporting • Annual Financial Statement processes. Measure of Service Delivery is Improved.
2. Funding
Facilitates accumulation of budget information and adherence to Section 18 of MFMA.
3. Function
Promotes Departmental Involvement and accurate reporting.
4. Region
Indicates whether services are rendered fairly and impartially, and assists in decision making. Indicates whether spending is aligned to plans, and assists with decision making.
5. Item
Promotes uniformity, and assists in benchmarking.
6. Costing
Powerful management tool in the planning phase and assists in accurate Tariff Setting.

Ducharme practical support for mSCOA

Ducharme provides specialist public sector support within Financial Management, Accounting and Governance. Our focus is to improve the ability and capacity of the public-sector entities to comply with all relevant finance legislation and best practice requirements. Over the past decade, we have assisted **more than 100 Public organisations with accounting, financial management and governance support**. Our support includes the preparation and compilation of Annual Financial Statements, GRAP compliant budgets, asset registers, financial management implementation plans, and training & capacity building. Our team consists of highly skilled and public sector experienced staff which includes Chartered Accountants, Professional Accountants, asset specialists, technicians and other graduates. We also have **IMFO / CIGFARO accredited mSCOA trainers**.

The compilation of an MSCOA compliant municipal budget paves the road for a successful implementation and is the first reportable milestone to be achieved. We feel passionately enthusiastic about the change it would bring within the local government arena and the improvement in managing, oversight and reporting it holds. We can provide practical insight and support on the various mSCOA MTREF Budget Compilation phases.

Our mSCOA expertise

We specialise in accounting and financial management support to the Public Sector, together with capacity building support and IT Tools.

<p>Practical mSCOA support</p>	<p>Our mSCOA support include:</p> <ul style="list-style-type: none"> • mSCOA accounting and asset register transition to 2 pilot sites (Overstrand Local Municipality & Tlokwe Local Municipality). • The compilation of an mSCOA Compliant Medium-Term Budget and Expenditure Framework (MTREF) budget (Dr Kenneth Kaunda District Municipality in) • Capacity building on mSCOA impact on GRAP compliant asset registers (Swartland Local Municipality) • Assisted SALGA with mSCOA facilitation for Gauteng Municipalities and councillors responsible for oversight and accountability, the MMCs for Finances, MPAC Chairpersons and Finance Portfolio chairpersons. Attendance included delegates from City of Johannesburg, City of Tshwane, Sedibeng and West Rand Regions. • Participated in National Treasury's Integrated Consultative Forums (ICF) as well the Accounting Standard Board's mSCOA working group provides us with great insight into the mSCOA challenges. Our mSCOA lead, Sean Collins, gave a presentation on the role of internal audit and program assurance at the ICF held in Durban.
<p>mSCOA Implementation & Budget tool</p>	<p>Ducharme has developed a mSCOA Implementation and Budget Compilation Tool that provides invaluable assistance with the various tasks required to perform a successful implementation of mSCOA, and adoption of a mSCOA compliant MTREF Budget. This assists a municipality in segmentising the historical transactions and accurately converting the old Chart of Accounts to a multi-dimensional mSCOA structure.</p>
<p>Capacity building support</p>	<p>We have developed an mSCOA implementation manuals which addresses the following aspects:</p> <ul style="list-style-type: none"> • Overview & Structures: Includes mSCOA overview and key structures such as project steering committee, project management team & project governance • Systems & Capacity: This focusses on business transformation, change management, skills development & information technology needed. • Practical impact on 15 business processes: It deals with how MSCOA will affect each of the 15 business processes. For the 15 business processes, it includes a description of the process, accounting ramifications, impact of each of the segments and examples. • Compendium of mSCOA guidance: We have also summarised and synthesised the guidance provided by National Treasury through the MSCOA circulars, Project Summary Documents, Transversal Tender RT- 25 as well as MFMA Circular 80. 

Ducharme practical support for mSCOA MTREF Budget Compilation

The basic guideline of practical assistance with which we can assist in compiling, adopting and implementing a MSCOA compliant budget are summarised in the six elements below. Please refer below for more detail on each of these elements.

1. **Alignment of old COA and mSCOA short codes to be implemented**
2. **Set-Up of Municipal Projects as per IDP within mSCOA Budget Compilation Tool**
3. **Review of MSCOA compliance within Draft MTREF Budgets as compiled by Municipal Departments**
4. **Compilation of Budgeted Financial Position and Budgeted Cash Flow Statements**
5. **Review Tariff Setting of Municipality**
6. **Populate National Treasury Budget Returns**

Ducharme has developed a mSCOA Implementation and Budget Compilation Tool that provides invaluable assistance with the various tasks required to perform a successful implementation of mSCOA, and adoption of a mSCOA compliant MTREF Budget.

Budget Element 1: Alignment of old COA and mSCOA short codes to be implemented

As per National Treasury Regulations, municipalities need to compile the 2017/18 MSCOA compliant budget prior to transacting operationally on a MSCOA compliant Financial/ERP System. This business process also makes operational sense as expenditure which will be recorded and segmented as per MSCOA requirements from 01 July 2017, should only be incurred against an approved budget.

Comparison of the Old Municipal Chart of Accounts to the MSCOA should ideally be performed prior to compiling the 2017/18 MSCOA compliant budget for the following reasons:

- During the compilation of the budget the municipal financial system is not MSCOA compliant;
- No MSCOA compliant “votes” or combinations of Segments exists at the time to which the budget may be captured;
- The process of comparison and unpacking of the old COA to the MSCOA in effect assists in “building” the municipal specific version of MSCOA. (MSCOA is a standardised framework which in its entirety will not be relevant to all municipalities, and the specific sub-sections of each segment relevant to each municipality, must be identified and allocated during implementation).
- If historical transactions have not been unpacked and allocated to the relevant segments, benchmarking and performance management will not be possible as datasets are materially different.

Certain system providers have endeavored to aligning the old COA to mSCOA, but this usually does not include any work to be performed on the budget. Furthermore, financial system providers usually require that, after the implementation of the mSCOA compliant system, the budget as compiled by the municipality be imported to the updated financial system. This import of the budget will only be possible if the budget was compiled and captured in Excel using the latest mSCOA short codes, and by accurately allocating the seven segments in accordance with the mSCOA requirements.

In absence of a mSCOA compliant structure that has not yet been defined, we will therefore perform the following tasks within the **Ducharme mSCOA Budget Compilation Tool**, which assists a municipality in **segmentising the historical transactions and accurately converting the old Chart of Accounts to a multi-dimensional mSCOA structure**:

- Map the old COA of a municipality within the Budget Compilation Tool to ensure accurate disclosure of historical data within the National Treasury A-Schedule;
- Import the 2017/18 Budget as compiled by the municipality against the old COA Votes;
- Ensure accurate segmentation of the budgeted amounts as described in the steps to follow;
- Provide the 2017/18 Budgeted amounts to a municipality in an import format that indicates all mSCOA short codes.

This will ensure that the municipality experiences no time delays once the mSCOA compliant financial system has been implemented. Furthermore, due diligence during the budget compilation and sufficient transfer of skills will ensure that the municipality understand the way the budget was segmented, assisting in change management and the taking of ownership of the 2017/18 mSCOA budget.

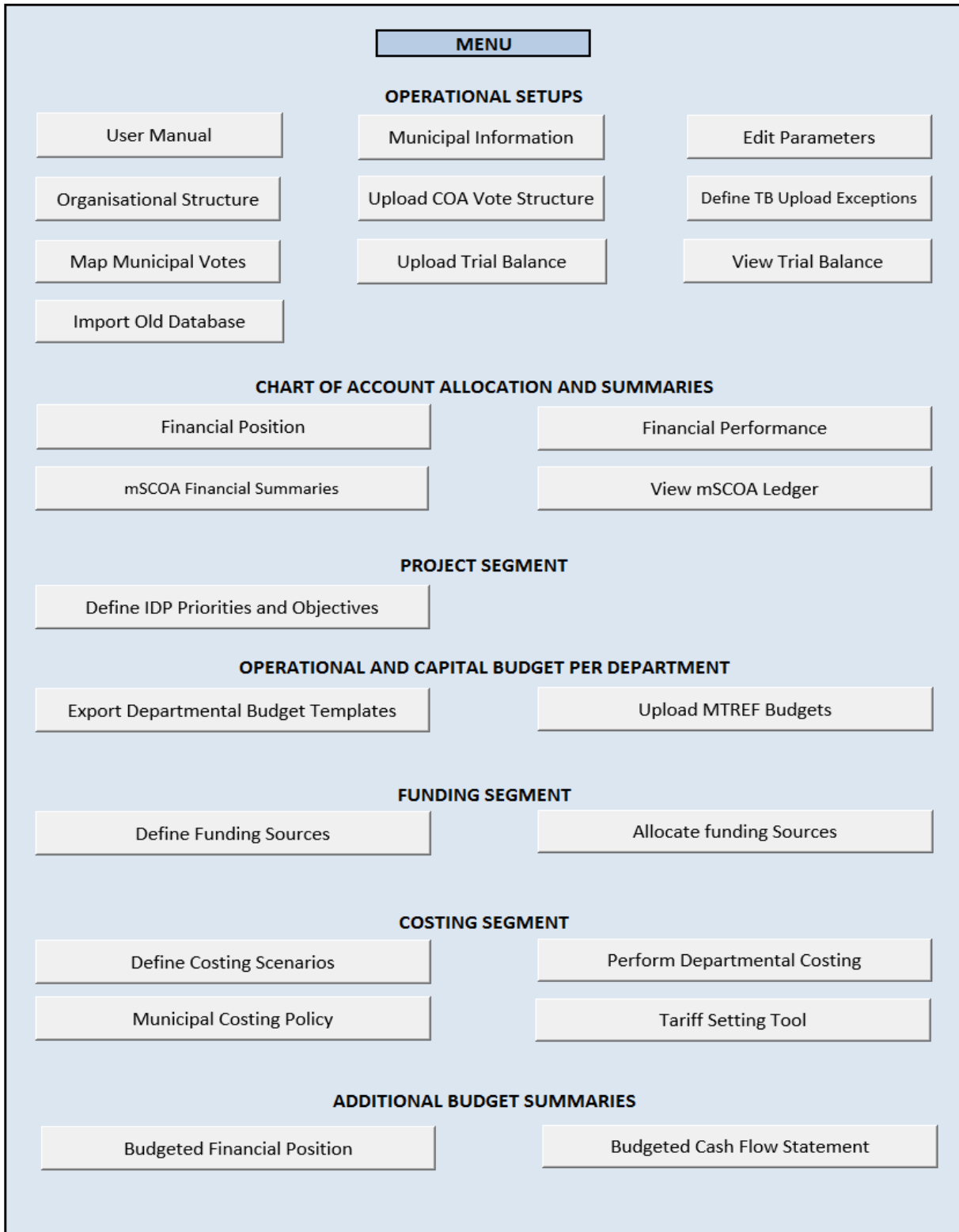


Figure 1: Ducharme mSCOA Budget Compilation Tool > Allocation screen

Budget Element 2: Set-Up Municipal Projects per IDP within Budget Compilation Tool

The Integrated Development Plan (IDP) is to be used as the bases to strategically plan for future developments in the municipal area. Once the IDP is developed, all municipal planning and projects should be managed in terms of the IDP. Hence all further processes of budget compilation should be performed with the relevant IDP projects taken into consideration. **Planning the budget from the IDP involves:**

- Identifying the Key Priority Areas from the IDP
- Identifying Strategic Objectives, Development Strategies and Program Numbers for Each KPA
- Noting the Naming Convention for the MSCOA projects when breakdown is required.

At the outset, the Municipal Projects and IDP-KPAs will therefore be set up in the Ducharme mSCOA Budget Tool that is being used, to ensure that all further budget allocations must be made to a specific project. Where required, various municipal departments will be consulted to ensure accurate alignment between the IDP and MTREF Budget.

Budget Element 3: Review of mSCOA compliance within Draft MTREF Budgets as compiled by Municipal Departments

Traditionally at most municipalities, the various departments within a municipality have prepared their relevant Operating and Capital Budgets and presented this to the Finance Department for consolidation and review. As the municipality has not yet implemented a mSCOA compliant municipal system, nor received the segmentised Trial Balance regarding historical data, municipal departments have not been able to compiled a multi-dimensional, segmentised budget.

We will therefore assist the municipality by reviewing the mSCOA classification and short code allocation for each segment:

1	Municipal Standard Classification	<ul style="list-style-type: none"> • Ensure all allocations are standardised an in line with the municipality’s revised Organisational Structure.
2	Function Segment	<ul style="list-style-type: none"> • Review accurate allocation of the Municipal Standard Classification to the Function Segment of NT with the Organisational Structure of the municipality. • Allocate all Function segment mSCOA short codes to ensure future alignment with mSCOA system and NT Database.
3	Item Segment	<ul style="list-style-type: none"> • Align all budgeted items as per Draft municipal budget to the Item Segment. • Propose adjustments subsequent to consultation with relevant municipal departments. • Typical misalignments to be addressed includes the budgeting for Repairs and Maintenance, as mSCOA does not include such an item and focusses on the nature of the transaction.
4	Project Segment	<ul style="list-style-type: none"> • All municipal key priorities & objectives will be uploaded & set up in our mSCOA Budget Tool. • Consultation with various departments will ensure accurate alignment of all Revenue and Expenditure to specific priority and objective and hence alignment to the IDP.
5	Region Segment	<ul style="list-style-type: none"> • We will ensure allocation of the Region segment to all Revenue and Expenditure as per the requirements of the municipality, which in most cases would be on a Ward level. This will be done on a best fit basis by consulting with various departments.
6	Funding Segment	<ul style="list-style-type: none"> • Although this should have been allocated on the Draft budget, we will ensure accurate alignment to funding classes as included within mSCOA & allocation of mSCOA short codes.
7	Costing Segment	<ul style="list-style-type: none"> • For 2017/18 MTREF budget compilation, National Treasury has proposed that municipalities perform the Costing of Departmental Charges to the 4 main service departments. • Determine Cost Drivers relevant to municipality & set up within our mSCOA Budget Tool. • Obtain operational feedback from departments & assist in Costing of Departmental Charges.

The following table illustrates a segmental budget example for four different expenditure types:

SEGMENT BUDGET EXAMPLE	Salaries	Bulk Purchases	Depreciation	Construction of New Road
Municipal Standard Classification Which Municipal Operational Department is responsible	Finance Department	Technical Services	Technical Services	Technical Services
Function Segment Which of the standard GFS Departments are responsible	Budget and Treasury	Water Distribution	Energy Sources – Electricity	Road Transport: Roads
Project Segment What IDP Project does the expenditure relate to	Improving governance within the municipality	Providing good quality water to all households	Sustainable managing the municipal assets	Improving Quality of Roads Infrastructure
Fund Segment How will the expenditure be funded	Equitable Share	Own Funded	Own Funded	MIG Grant
Region Segment Within which region will the service be rendered or expenditure incurred	Ward 1- Administration Office	All municipal Wards, as per consumption per Ward	All municipal Wards, as per value of assets within each Ward	20% - Ward 1 45% - Ward 2 35% - Ward 4
Item Segment What expenditure or revenue type is involved	Basic Salaries and Wages	Bulk Purchases – Water	Depreciation – Proportional to value per asset type	Roads Infrastructure
Costing Segment	Default as Primary. Costing subsequently performed as a Secondary Transaction	Default as Primary. Costing subsequently performed as a Secondary Transaction	Default as Primary. Costing subsequently performed as a Secondary Transaction	Default as Primary. Costing subsequently performed as a Secondary Transaction

Budget Element 4: Compile Budgeted Financial Position & Budgeted Cash Flow Statements

On accurate completion and segmentation of the Operational and Capital Budget, highly skilled consultants of Ducharme will assist in compiling mSCOA compliant Budgeted Financial Position and Cash Flow Statements.

Although all mSCOA short codes pertaining to historical data will not be available, as stated above, we will ensure that all mSCOA classes of transaction and categories of disclosure are addressed and budgeted for to be uploaded to the revised mSCOA compliant Financial System.

Budget Element 5: Review Tariff Setting of Municipality

Full Cost Recovery can only be implemented once the actual cost of rendering a service is known, i.e. after performing Costing. It is therefore recommended that the Tariff Setting be recalculated for the four main service departments, in accordance with the municipality’s specific tariff policy and approach followed, after the relevant department’s Costing has been performed.

Accurate Tariff setting will further be dependent on complete and accurate data regarding consumer types and consumption statistics, for which Ducharme would also be able to provide a Revenue and Property Management tool to address such risks. An accurate tariff setting model will be used to recalculate ideal tariffs after performing accurate costing of services, and this may determine that tariffs are currently materially too low. This may then be discussed within the relevant departments and a medium-term implementation plan may be affected to phase in a more realistic and sustainable tariff.

Budget Element 6: Populate National Treasury Budget Returns

It is imperative to ensure that the municipality’s approach to formulating a MSCOA compliant budget takes the latest reporting requirements into consideration. Ducharme’s mSCOA Budget Tool assists in automating and populating most financial tables within the “A1 Schedule - mSCOA vs 6.1 - 9 Dec 2016” Excel Document to be completed for the 2017/18 MTREF budget.

We will furthermore assist with the compilation of the various additional tables that require manual intervention, will review the finalised document and propose adjustments where required prior to the completed budget document being submitted to the municipal Council.



Additional mSCOA preparatory support: implementation assessments & facilitation

In addition to the mSCOA budget support during the initial mSCOA set-up phases, municipalities should ensure key focussed areas of assessment and capacity building are addressed. In support of this, we can also assist municipalities with a high-level mSCOA assessment and facilitation thereof specifically to the challenges faced by the CFO, the BTO and other finance staff during this processes:

Support	Ducharme mSCOA High-level assessment & discussions for Finance Division
<p>High-level mSCOA assessment for Finance division</p>	<p>We can assist with a high-level assessment Compiling a high level mSCOA project plan or budget compilation plan, including conducting high level capacity and current state assessments. This will involve the evaluation and a gap-analysis on the mSCOA requirements and changes applicable to the finance division and it GRAP AFS reporting.</p> <p>From the discussions and analysis, a high-level road map will then be formulated specifying the focus areas for the facilitation. This could include aspects such as:</p> <ul style="list-style-type: none"> • mSCOA budget & IDP alignment assessments • Business processes assessments • GRAP AFS reporting consideration and related data purification (e.g. Segmenting, opening balances, asset register realignment, clearing suspense accounts) • Impact on internal policies & procedures • Application of latest mSCOA chart • Staffing and capacity assessment for mSCOA implementation
<p>In house capacity building workshop</p>	<p>In addition to our in-house mSCOA capacity building support, we will provide delegates with an understanding of mSCOA, the segments, the business processes and governance structures for implementation.</p> <p>Following the information gathering and critical assessment of the Municipality’s position in terms of the mSCOA requirements, a high-level mSCOA Project plan for the Finance Division will be compiled and facilitated. This high-level road map will allow for key implementation challenges to be discussed together with the practical considerations as applicable to the municipality and its staffing contingent.</p> <p>The project plan will be workshopped with the CFO, finance management, the Budget & Treasury office staff and other stakeholders, to facilitate relevant recommendations and practical solutions.</p>

Contact us for tailored mSCOA support

If you want to find out more on mSCOA and the challenges related thereto, or would like to discuss tailored and practical solutions to the implementation challenges, please give us a call or send us an email:

Sean Collins CA(SA)

IMFO /CIGFARO Recognised mSCOA trainer

082 373 4428

scollins@ducharmeconsulting.co.za

James Such

076 402 6242

jsuch@ducharmeconsulting.co.za

Anton Slabbert CA(SA)

IMFO /CIGFARO Recognised mSCOA trainer

0722 325 335

aslabbert@ducharmeconsulting.co.za

Francois Conradie CA(SA)

082 926 1780

fconradie@ducharmeconsulting.co.za

As at issue of this article, the information in this article is deemed correct in considerations of these matters. These may change over time with new requirements and information. This article does not represent a legal opinion or professional advice, and it is advised that due consideration be given to all the applicable facts on the application of accounting standards, with necessary professional guidance, prior to its application.