

With the implementation of mSCOA, for all practical purposes, the preparation of GRAP financial statements remained unchanged due to the transition to mSCOA, albeit changes in the chart of the account:

- Obtaining transactions and balances from the trial balances and general ledger, allocating these to the applicable GRAP classes for recognition, measurement and disclosure purposes and other processes also remained the same.
- Municipalities are still required to prepare GRAP financial statements which include the Statement of Financial Position, Statement of Financial Performance, Statement of Net Assets, Cash flow Statement, Budget Comparison Statement, Accounting Policies and Notes).

The fact that the AFS is prepared on the new aligned mSCOA transactions does not change the requirements of the municipal AFS to be GRAP compliant.

The key focus for the mSCOA transition currently is that the transactions and balances per the previous chart used in 2016/17 may require realignment to the current chart (mSCOA v6.1). This may require a shifting of the internal sub-totals and sub-classifications for the transactions and balances, whilst the total per main class (assets, liabilities, equity, revenue and expenditure) remains unchanged.

### mSCOA financial reporting impact

mSCOA, as such, resulted a different grouping of the current municipal data which is required to be realigned (as prescribed by the NT mSCOA business processes). Herewith a short overview of the realignment of transactions and balances:

- **Expenditure** is the area most affected by MSCOA's prescriptive item chart. When preparing the first set of MSCOA compliant AFS, this item is where the most realignment for the comparative column would arise. E.g. Contracted Services, Inventories Consumed (previously under general expenditure), Grants Paid, General / Operational Expenditure and with special attention on Audit Fees and Travel & Subsistence disclosure
- Realignment of the **asset** register data and sub-categories contains the most material amounts, due to the size of the assets register. These include PPE, intangible assets, and heritage assets.
- Although the main categories of **liabilities** has not been changed by mSCOA, the sub-categories has been defined very carefully (e.g. consumer Deposits, Payables from Exchange & Non-exchange Transactions, Unspent grants)

- **Revenue** alignment to sub-categories includes Property Rates, Fines, Income from Agency Services (Exchange vs Non-Exchange), Government Grants and Unspent Grants, Service Charges and Other Income / Other Operational Revenue.

### mSCOA S71 and AFS automation tool

Municipalities are thus still required to prepare MFMA Section 71 monthly returns as well as AFS. We can assist with the automation of these reports through our e-solutions.

Due to our extensive GRAP experience and e-solution used for the automation of interim reporting (S71) and GRAP annual financial statements previously, please find below more details of our practical support regarding:

- **mSCOA realignment for the standardisation of data required by the mSCOA chart**, and
- mSCOA GRAP reporting through **automated interim reporting (Section 71) and GRAP AFS** based on the new mSCOA charts.

We can also assist with practical capacity building support in terms of GRAP and mSCOA.



## Ducharme Dynamic e-solution: Automated interim and annual reporting for public sector

---

Over the years, Ducharme has practically assisted various municipal entities in the preparation of their interim financial, regulatory reporting (e.g. MFMA Section 71 reports) and their Annual Financial Statements. We have assisted municipalities with their first time adoption of GRAP when the standards were first issued. Since then, we have assist entities to keep up to date with the GRAP requirements through capacity building support programmes.

Over the progression of time, we have also developed various automation reporting systems, which allows for the upload of trial balance data to be linked to the applicable accounting framework reporting requirements (e.g. GRAP / IPSAS) and per type of report required (S71 / GRAP AFS). With the standardisation of the municipal accounting structures through mSCOA, we have been able to provide for a standardised tool for South African municipalities.

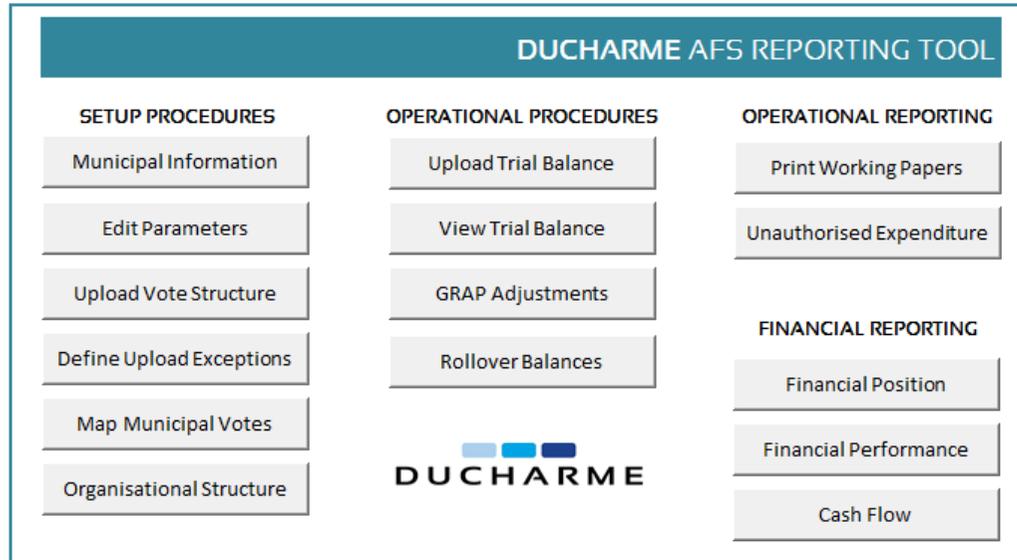
Even though we are able to provide e-solutions which automate data into reports, we wish to emphasise the importance of **data integrity** and accuracy within the mSCOA processes, as this eventually forms the basis for the respective interim or annual reports. Ad hoc data integrity support will form a key part of all reporting processes until the municipalities have successfully been able to correctly account and transaction as per the mSCOA guidelines.

- Some of the practical challenges we have seen pertaining to interim reporting to Treasury, is where some municipalities have submitted the applicable data strings with no amounts being included in any of the data strings. This exclude data strings where it can be noted that limited segmentation has been done (e.g. multiple 'default' allocations). This is excluding the practical data sets required for S71 reporting.
- As for the 2017/18 AFS processes, we foresee a large focus on **2016/17 AFS Alignment support**, which will be for the once-off AFS alignment of the comparatives in the 2016/17 AFS as prepared on the old charts used instead of the mSCOA charts, which are to be shown line-per-line on the mSCOA based-AFS for 2017/18.

This will be part of the Year One mSCOA challenges facing all municipalities for have the current year and comparative year's balances in the AFS on the same chart. In following years (e.g. 2018/19 year' AFS), this will not be necessary again as all data shown (current year: 2018/19 and comparative year: 2017/18) will already able to linked to the new mSCOA chart.

This support is based on the premise that the same accounting policies apply (i.e. no retrospective corrections are required) as well as that the underlying registers (e.g. fixed asset register) have already been realigned to the mSCOA chart as part of the business process requirements (e.g. the segmentation of those registers per new MSCOA line items, realignment of opening balances where necessary, adjustment of applicable Management & accounting policies for this and the control and accounting standard operating procedures).

## Ducharme Dynamic mSCOA AFS: Tailored solution for South African Municipalities



The **Ducharme Dynamic mSCOA AFS reporting tool** allows for electronic financial details of the municipality to be uploaded and programmatically converts and populates into our mSCOA database through reading the mSCOA GUIDs and providing the result into the applicable GRAP and S71 reporting frameworks.

In addition to the general use for **Annual Financial Statements reporting** and **month-end trial balances reporting / interim financial statements**, we can also tailor this to provide **specific management reports** required based on the data in mSCOA chart (e.g. for funding applications for large infrastructure development projects financed by external loans). Due to the standardised nature of mSCOA, the **system can integrate with any of the mSCOA financial systems** as the format read by our system aligns with the format read by National Treasury. Tailored support can be to municipalities and municipal entities through the provision of **ad hoc support for consolidated mSCOA AFS**.

The **Ducharme Dynamic mSCOA AFS Reporting Tool**, provides the **applicable GRAP and accounting reporting frameworks requirements** (Statement of Financial Position, Statement of Financial Performance, Statement of Net Assets, Cash flow Statement, Budget Comparison Statement, Accounting Policies and Notes), accounting policies and NT requirements (e.g. schedules), and provides for account balances and transactions to be populated from mSCOA Chart. Once the initial parameters have been set for the specific municipality and period, the applicable financial statements can be populated by a click of a button from the information in the mSCOA chart of the municipality.

A specific module in the E-solution, allows for the **population of returns as required by Section 71 of the MFMA** whereby a municipality is required to submit to National Treasury various financial information. This includes the **automation of the OSA, C-Schedules and more**. Treasury is mandated to monitor compliance and to take appropriate steps if a municipality commits breach thereof which may include stopping of funds in terms of section 216(2) of the Constitution.

Due to the integrated data linking from the TB to the mapped AFS, **detailed working papers and reports** can be run. These working papers can be used as lead sheets for audit purposes to be included in the audit files, matching back to the TB. We have developed our system in Visual Basic with an Excel overlay as to make allow a platform accessible and easily understandable for most municipalities, to allow for any changes to be made in the live report and disclosure information (e.g. for updating of related party transactions, legal matters impacting contingent liabilities, etc.).

Due to our extensive GRAP experience and dedicated training division, we can provide the necessary support to **ensure the applicable GRAP changes are included in each new reporting period to allow for updated and maintained compliance** and for future developments in the reporting environment.

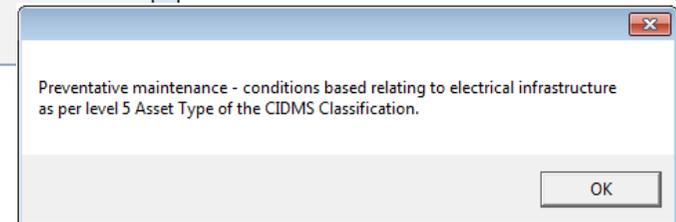
**Ducharme MSCOA Finance Database 2018: free capacity support for municipal wide understanding of mSCOA allocations**

In addition to the Dynamic mSCOA AFS e-solution, we have also developed the **mSCOA Finance Database 2018** to assist municipalities in managing and simplifying the understanding of mSCOA segments, and **to view current transaction and balance totals** per the mSCOA chart. This is in essence a **visual representation of mSCOA** in the 7 mSCOA segments, with detail up to where breakdown is allowed per the posting level and the applicable mSCOA definition for each.

DUCHARME		ABC LOCAL MUNICIPALITY				
mSCOA Definition	MUNICIPAL STANDARD CHART OF ACCOUNTS					
PopulatesAFS	Breakdown Allowed	Posting Level	Actual 2017 R	Actual 2018 R	Budget 2018 R	
<b>PROJECT</b>						
Capital	No	-	-	4,517,982	-	
Operational	No	-	-	55,548,261	-	
Infrastructure Projects	No	-	-	-	-	
Maintenance	No	-	-	2,050,882	-	
Infrastructure	No	-	-	1,045,616	-	
Corrective Maintenance	No	-	-	693,811	-	
Preventative Maintenance	No	-	-	351,805	-	
Condition Based	No	-	-	351,805	-	
Capital Spares	Yes	-	-	-	-	
Coastal Infrastructure	No	-	-	-	-	
Electrical Infrastructure	No	-	-	30,856	-	
Capital Spares	Yes	-	-	-	-	
HV Substations	No	-	-	-	-	
HV Switching Station	No	-	-	-	-	
HV Transmission Conductors	No	-	-	-	-	
LV Networks	No	-	-	27,205	-	
Electricity Meters	Yes	-	-	412	-	
410d39c8-8c4d-4133-a9a7-542	Yes	-	-	412	-	

With the actual mSCOA Chart being just under **85,000 rows**, and hence difficult to interpret and view as a whole, our reporter allows you to drill into each segment by clicking on the relevant segment, and then clicking on items within the segment until you will eventually reach the **mSCOA Guid** against which values can be posted. It takes out the confusion of the theory of mSCOA and provides for the essence of what mSCOA brings to the municipality.

It can provide **drill-down function for each sub-selection up to where Breakdown is allowed by NT**, and it also indicates whether the relevant item that has been expanded is a posting level, or if you are required to continue expanding to reach a posting level.



A tailored copy of the Ducharme **mSCOA Finance Database 2018 can be made available for free** to a municipality to assist in the capacity building and practical tool to allow staff to interpret as well as customise the mSCOA structure in future.

Figure above: Ducharme mSCOA Finance Database with data string allocation with posting level definition

**Ducharme MSCOA Budget:** budgeting and costing support for strategic

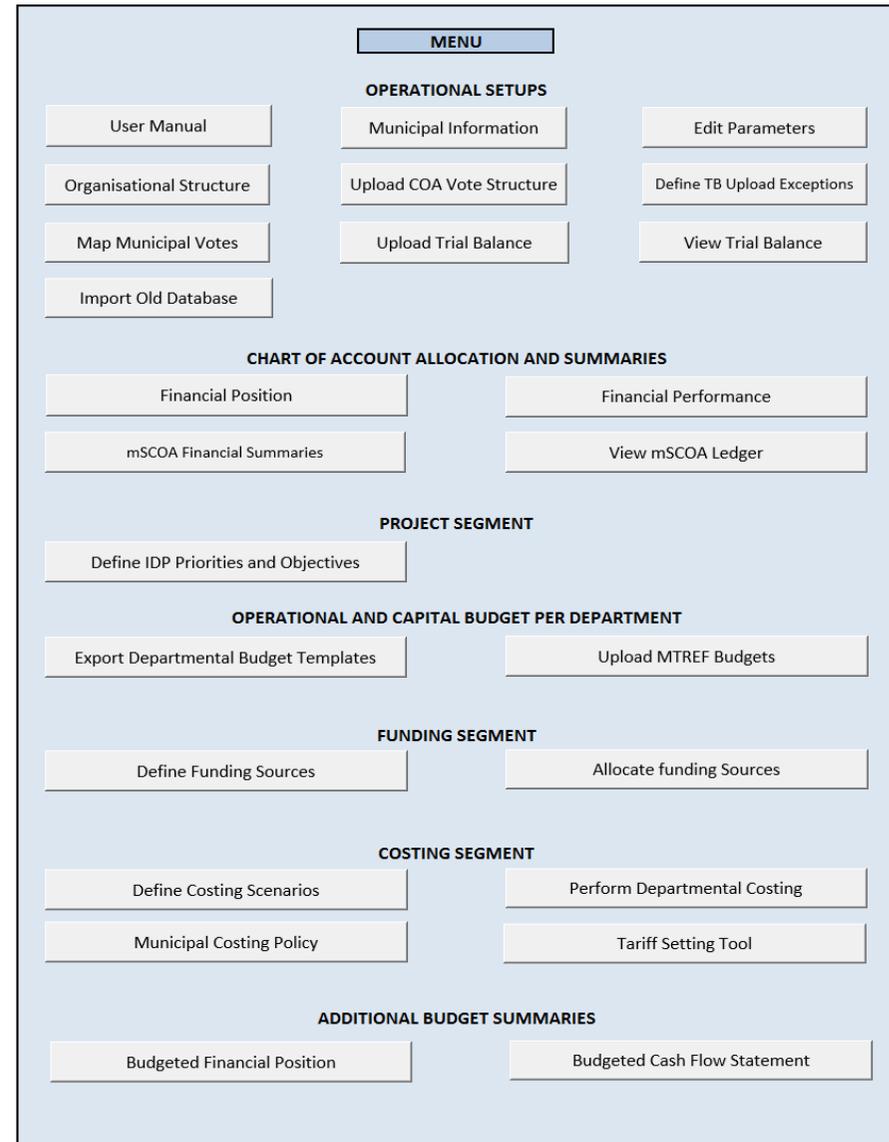
We have also developed an **mSCOA Budget Compilation Tool** that assist a municipality to compile a segmented budget which is aligned to IDP per the multi-dimensional mSCOA structure. The process flows allows for awareness and understanding of the mSCOA chart in the various municipal departments, with each department segmenting their own budget.

The **outputs include mSCOA data strings** from which **National Treasury' Schedule A1 (annual budget)** and **Schedule B1 (adjustment budget)** reports can be automated.

The system allows for separated budget population per applicable department, allowing each department to set their own internal budgets. All the departmental budgets prepared can then be uploaded into the main database to allow for a consolidated budget reporting.

We are currently being **further developed to allow for an mSCOA Costing allocation tool** to allow municipalities to allocate departmental cost for purposes of calculating full cost recovery tariffs for the departmental costs. Subsequent to the Costing exercise being performed, the municipality should review their tariff setting.

We can provide ad hoc Tariff Setting support and models to the service departments as well as facilitate workshops of this with the non-financial officials to assist in the preparation of future budgets.



*Figure right*  
Ducharme mSCOA Budget Compilation Tool > Allocation screen

## Other Ducharme tailored Year-One mSCOA support

If you want to find out how we can assist with your **Interim and Annual Financial Statement reporting** (e.g. S71 reporting, comparatives and open balances for interim and AFS, data-string viewer) or more about **our Dynamic mSCOA S71 and Dynamic mSCOA AFS Reporting e-solutions**, please give us a call or send us an email on the details below.

Also get in touch should you require tailored and practical solutions to the **first time mSCOA Adoption implementation** challenges facing the municipalities during Year One, which include:

- **Actual management and oversight of first time mSCOA Adoption and mSCOA transaction processing** (i.e. posting of transaction to new Votes and SCM processes to manage this) system consideration for transaction processing (parallel running for capturing of transactions / incomplete data sets in systems) or manual processes for which no sub-system exist (e.g. budget & costing modules);
- **Setup and realignment of data** required for further processes (e.g. segment allocation of transactions, budget setups, mSCOA costing, realignment of asset registers, AFS opening balances / comparatives).

In addition to the **interim and financial report support** above, our practical **data and realignment** support include budget compilation / adjustment support, bulk virement support where original mSCOA budget was incorrect, segment considerations and allocations (item, region, funding).

As to **costing support**, we can assist with practical tariff calculations, cost drivers, tariff setting, costing & budget support (e-solution / reporting / returns) & capacity building.

For **sub-registers and opening balances support** (e.g. asset register and asset management), we can assist with policy and procedure reviews, conversion support, realignments (e.g. asset class), opening balance and comparative support, verification, etc.

- **Capacity building** and support on the above and other challenges.

## Contact details

Please find herewith our contact details:

<p><b>George Ducharme CA(SA)</b> 082 335 7319 <a href="mailto:gducharme@ducharmeconsulting.co.za">gducharme@ducharmeconsulting.co.za</a></p>	<p><b>Francois Conradie CA(SA)</b> 082 926 1780 <a href="mailto:fconradie@ducharmeconsulting.co.za">fconradie@ducharmeconsulting.co.za</a></p>
<p><b>James Such</b> 076 402 6242 <a href="mailto:jsuch@ducharmeconsulting.co.za">jsuch@ducharmeconsulting.co.za</a></p>	<p><b>Luyanda Mbekeni CA(SA)</b> 083 261 9684 <a href="mailto:imbekeni@ducharmeconsulting.co.za">imbekeni@ducharmeconsulting.co.za</a></p>
<p><b>Sean Collins CA(SA)</b> IMFO /CIGFARO Recognised mSCOA trainer 082 373 4428 <a href="mailto:scollins@ducharmeconsulting.co.za">scollins@ducharmeconsulting.co.za</a></p>	<p><b>Anton Slabbert CA(SA)</b> IMFO /CIGFARO Recognised mSCOA trainer 0722 325 335 <a href="mailto:aslabbert@ducharmeconsulting.co.za">aslabbert@ducharmeconsulting.co.za</a></p>