

NATIONAL CIGFARO *m*SCOA WORKSHOP 2020

*m*SCOA Chart Training A practical Guide to *m*SCOA

Presented by National Treasury – Abigail Maiia and Elsabe Rossouw | 10 November 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Objectives of the training

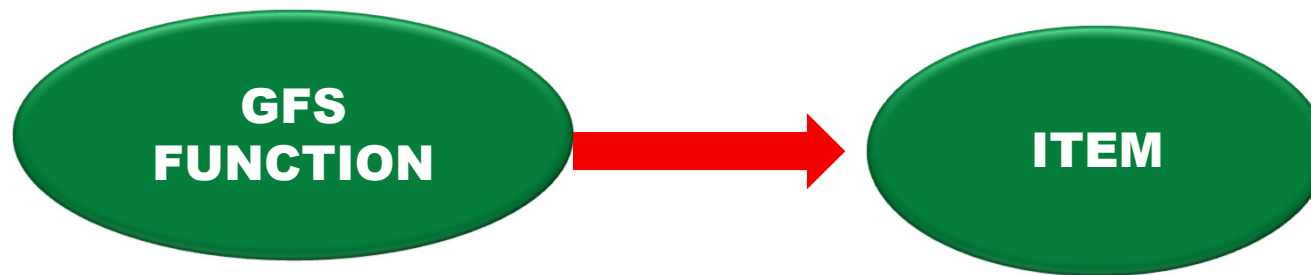
- To provide an understanding of the *m*SCOA chart and the 7 segments.

GRAP vs *m*SCOA

- **The Standards of Generally Recognised Accounting Practise (GRAP)** stipulates the **accounting treatment** of transactions while *m*SCOA specifies the **standard (classification) format** in which to account for these transactions (when applying GRAP).
- The standards and regulation therefore have a symbiotic relationship in the context of *m*SCOA, which supports National Treasury's intention to create more comparable, reliable and relevant reporting across municipalities.
- Any changes in GRAP as prescribed by the Accounting standards Board provides for transitional provisions (mostly 3 years), this allows Municipalities to adapt their accounting policies and their budget formats i.e. *m*SCOA will be adapted when GRAP standards changes.

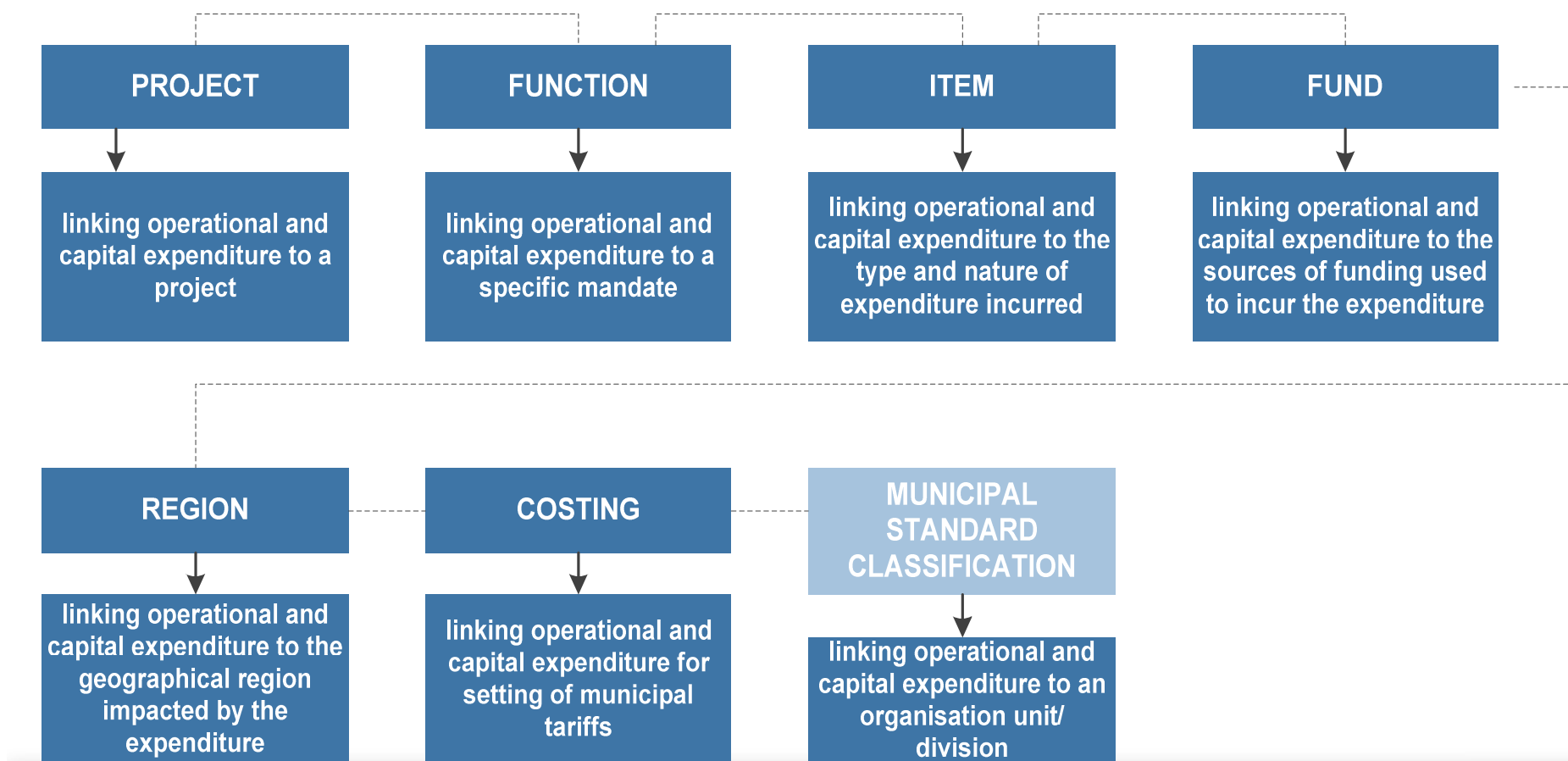
Municipal chart of accounts – prior *m*SCOA

- Consisted only of 2 segments – Vote/Department and Item



What are the 7 *mSCOA* segments?

The data string follows a specific order of relevance, as indicated below:



What is the *m*SCOA Chart Tree?

- The Municipal Standard Chart of Accounts (*m*SCOA) standardises the municipal chart across all municipalities and entities in the country using a multi-dimensional chart of standardised segments as prescribed.
- The chart of accounts is a listing of all accounts used in the general ledger of a municipality or municipal entity.
- Six (6) segments is compulsory for monthly submissions to NT on a transaction (posting) level with a seventh (7th) being optional.
- *m*SCOA will impact on Main Accounting System as well as subsystems (SCM, Assets, Billing, etc.).
- Data must integrate the GL on SCOA segment level.
- It is important that municipalities know and understand how the *m*SCOA Chart work to be able to budget, transact and report in a *m*SCOA environment.
- The *m*SCOA Chart Tree was developed to assist the users of the chart in this regard.
- The *m*SCOA chart tree can be accessed on the LG database by using the following link: https://lg.treasury.gov.za/ibi_apps/bip/portal/Welcome

Structure of the *m*SCOA segment charts - explanation of headings (1)

Concepts	Explanations
Account number	<p>The account no. is based on the levels presented in the hierarchical structure of the classification within the segment. This is called the long code. The prefixes are as follows:</p> <ul style="list-style-type: none"> • PC – Project (capital) segment • PO – Project (operational) segment • PD – Project (default) segment • FX – Function segment • FD – Fund segment • IL – Item (liability) segment • IN – Item (net asset) segment • IE – Item (expenditure) segment • IZ – Item (gains and losses) segment • IR – Item (revenue) segment • IA – Item (asset) segment • RX – Regional segment • CO – Costing segment

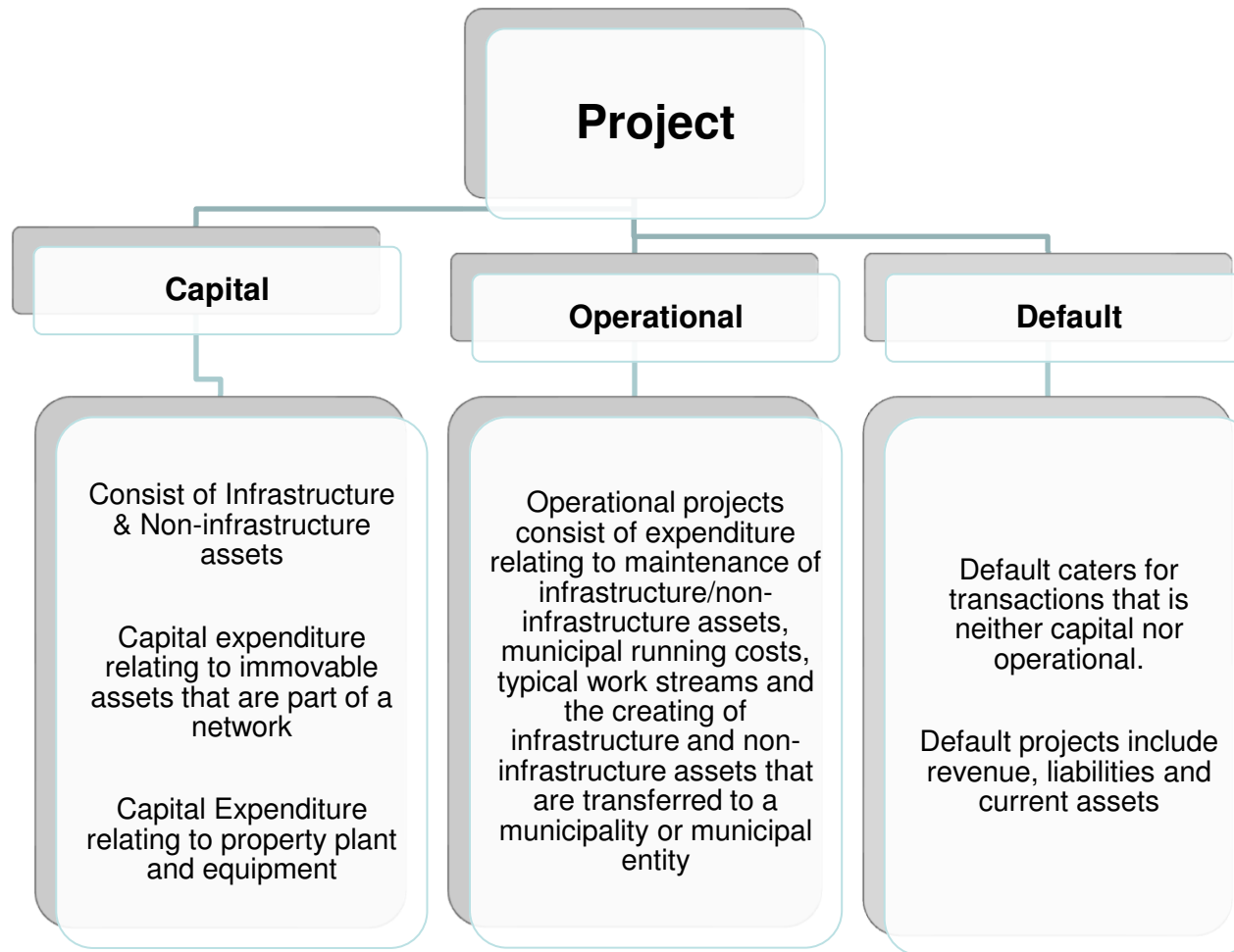
Structure of the *m*SCOA segment charts - explanation of headings (2)

Concepts	Explanations
Posting level	<p>This indicator informs if the account is a posting level or reporting level.</p> <ul style="list-style-type: none"> • If “Yes” this account is the posting level which means that you can transact at this level against this account. • If “No” then this is a non-posting level which means that you cannot transact at this level against this account.
Breakdown required	<p>This indicator guides if “additional detail on a posting level” could be added or not. If detail is provided, this will become the default reporting level.</p> <p>This provides for a further breakdown of a non-posting level by the municipality or municipal entity.</p> <p>The chart of accounts will use ‘Y’ or ‘N’ to indicate if breakdown is allowed. Being able to use a further breakdown enables the municipality or municipal entity to provide more details of the non-posting level.</p>
Principle	<p>Gives guidance on the detail to be added and the context within which expansion need to be considered. Depending on the segment the additional information would be required to set the posting level.</p>

Structure of the *m*SCOA segment charts - explanation of headings (3)

Concepts	Explanations
Applicability	This indicator provides detail on the relevance of the account to municipalities, district municipalities and municipal entities. It also indicates details added for reporting on information required by NERSA and the Department of Water and Sanitation.
Definitions	Provides the detailed definition or description of the <i>m</i> SCOA segment item.
Reporting structure	The <i>m</i> SCOA chart is broken down into 12 reporting structures, and depending on posting level and breakdown allowed all 12 reporting structures can be used. Not all 12 levels are currently being used in the standard chart.
GUID	<p>A globally unique identifier (GUID) is a unique reference number used as an identifier in computer software. The term "GUID" typically refers to various implementations of the universally unique identifier (UUID) standard.</p> <p>GUIDs are usually stored as 128-bit values, and are commonly displayed as 32 hexadecimal digits with groups separated by hyphens.</p>

Segment 1 - the project segment



Project segment – exercise 1

Using the *mSCOA* tables, identify the classification for the project segment for each of the transactions:

- A new project was introduced with COVID-19 to cater for a World-wide pandemic. How will you utilise the *mSCOA* project segment? A Grant of R250 000
- Revenue from the sale of water to households in urban areas to the value of R1.5
- Maintenance of the electrical sub-stations was prepared by the engineers for 2020-2021 and a complete maintenance plan is provided. R15 million
- Construction of a Municipal Pay Point offices/ in a newly demarcated area for R200 million

Project segment – exercise 1

- A new project was introduced with COVID-19 to cater for a World-wide pandemic. How will you utilise the *mSCOA* project segment?

Create a NEW project in the financial year (Follow guidance from Circular 9)

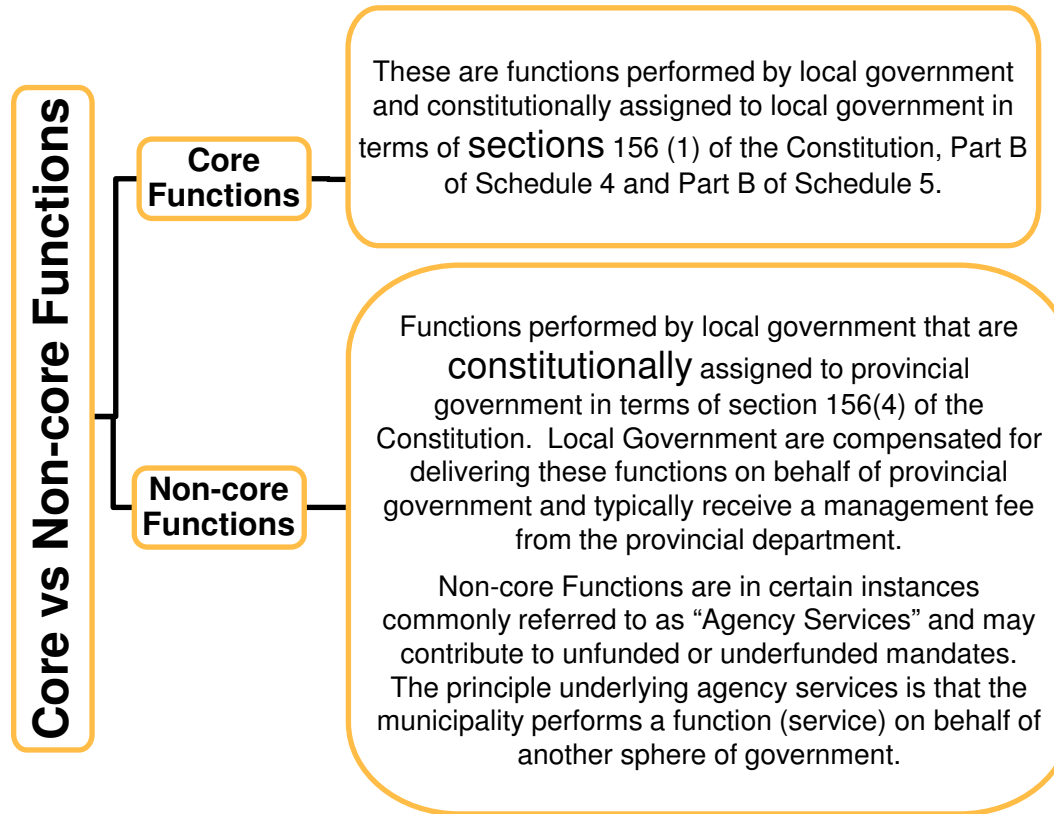
- Project Operational(PO) –Typical Workstreams- Emergency and Disaster Management - Disaster Management (Breakdown COVID 19)
- Revenue from the sale of water to households in urban areas to the value of R1.5
- Project Default(PD)– Revenue (2)
- Maintenance of the electrical mini-sub-stations was prepared by the engineers for 2020-2021 and a complete maintenance plan is provided.
- Project Operational (PO)- Maintenance- Infrastructure- Preventative Maintenance - Condition based- Electrical Infrastructure- MV Substations- MV Mini- Substations
- Construction of a Municipal Pay Point offices/ in a newly demarcated area for R200 million
- Project Capital-Non-infrastructure-New-Other Assets- Operational Buildings- Pay/ enquiry Points

Segment 2 - Function segment

- Classifies the transaction according to function or service delivery objective, provides for the standardisation of function or service delivery objective and identifies core and non-core functions.
- This does not replicate the current vote structure, but indicate what function is being performed.

Community and Social Services	Other
Energy Sources	Planning and Development
Environmental Protection	Public Safety
Executive and Council	Road Transport
Finance and Administration	Sport and Recreation
Health	Waste Management
Housing	Waste Water Management
Internal Audit	Water Management

Function segment – core vs non core



Function segment – exercise 1

- COVID 19 funding is being managed by a core team setup by management. What Function will be used to accumulate the management of the temporary office costs?
- The municipality budgets for a Technical Manager that will be in charge of all 4 main municipal services and the maintenance of roads. Which Function will be used?
- The stores department who is responsible for purchasing of all stores items and the issuing of stock to all departments.

Function segment – exercise 1

- COVID 19 funding is being managed by a core team setup by management. What Function will be used to accumulate the management of the temporary office costs?
 - Community and Social Services- Non Core: Disaster management
- The municipality budgets for a Technical Manager that will be in charge of all 4 main municipal services and the maintenance of roads. Which Function will be used?
 - Energy Sources-Core-Electricity

Based on Time sheets you will reallocate the costs –through the costing segment of the Technical Manager to Water, Waste Management , Wate water management and Roads(the cost can be accumulated in any of the functions mentioned

- The stores department who is responsible for purchasing of all stores items and the issuing of stock to all departments.
- Finance and Administration -Core –Supply chain management

Item Segment

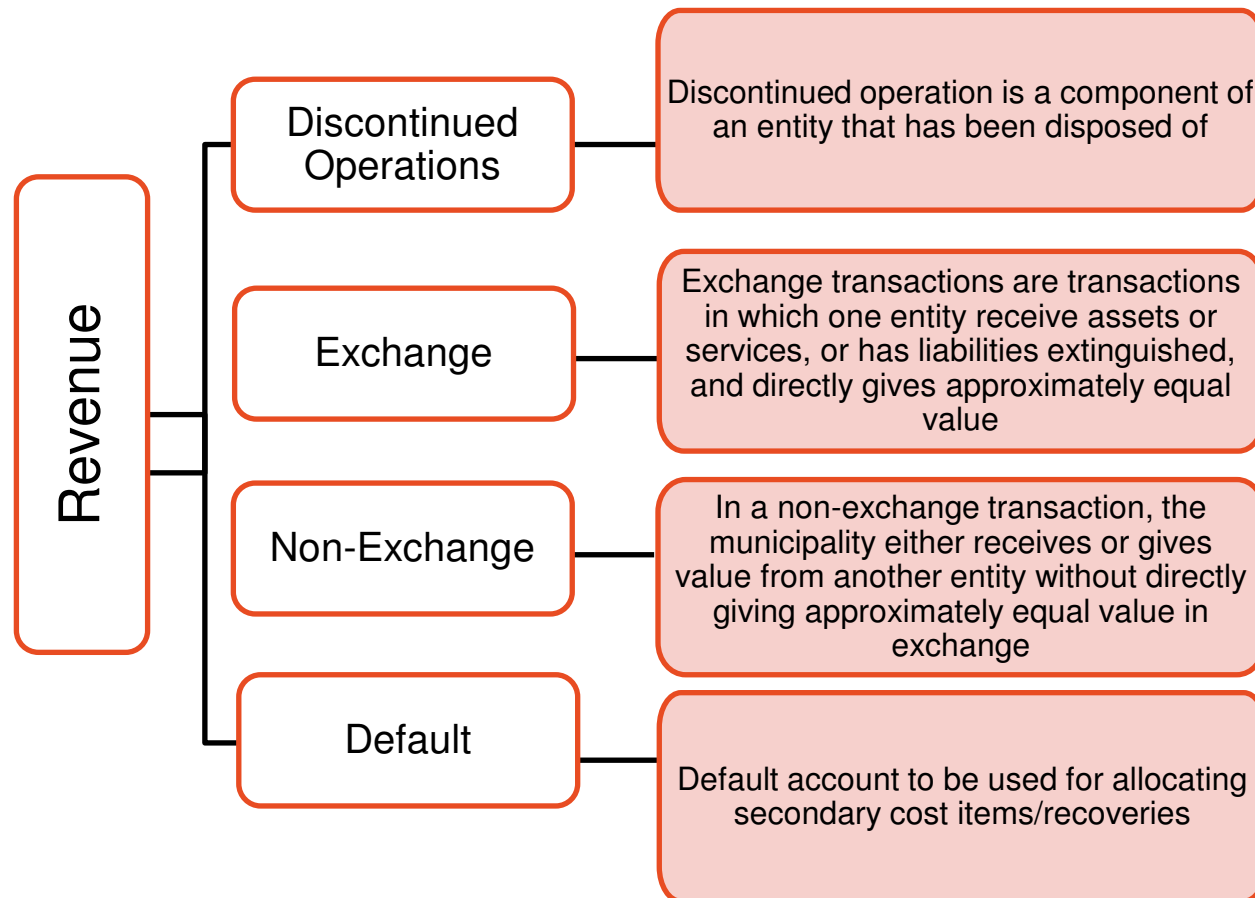
The “Item” can relate to any of the following according to the nature of the transaction:

- Revenue
- Expenditure
- Gains & losses
- Asset
- Liability
- Net Asset

These items are categorised in 6 different charts for ease of reference.

All items must be used based on accounting principles.

Item segment - revenue



Item segment – revenue: exercise 1

- In the City of Cape Town , the city budgets for the sale of tender documents
- A Municipality receives the Third tranche of the Equitable share for the 2020-2021 financial year to the value of R108 000 000.
- Mr John Howard paid R1 500 on his electricity account, relating to fines on illegal electricity connection to his property.
- The municipality recognise funding spent R60 000 from the Provincial Tourism Authority as a subsidy for a festival that took place.
- The municipality received R15 000 agency fee / services from the processing of motor vehicle registration documents.

How would you **classify the revenue transactions?**

Item segment – revenue: solution to exercise 1

- In the City of Cape Town, the city budgets for the sale of tender documents
- **Exchange Revenue: Sales of Goods and Rendering of Services - Sale of Goods: Publications - Tender Documents (8)**
- A Municipality receives the Third tranche of the Equitable share for the 2020/2021 financial year to the value of R108 000 000.
 - **Non-exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations :National Revenue Fund: Equitable share**
- Mr John Howard paid R1 500 on his electricity account, relating to fines on illegal electricity connection to his property
 - **Non-exchange Revenue: Fines, Penalties and Forfeits - Fines: Illegal Connections (9)**
- The municipality recognise funding spent R60 000 from the Provincial Tourism Authority as a subsidy for a festival that took place.
 - **Non-exchange Revenue: Transfers and Subsidies - Operational: Monetary Allocations - Departmental Agencies and Accounts: Provincial Departmental Agencies – [Provincial - KZN] Tourism Authority (10)**
- The municipality received R 15 000 from the processing of motor vehicle registration documents – consider if entity is acting as agent or principal (could be exchange if agent)
 - **Exchange Revenue: Agency Services –[Provincial – KZN] Provincial Department of Public Works and Roads – Roads Ordinance – Vehicle Registration**

Item segment - Expenditure

Expenditure

Bad Debts Written
Off

Bulk Purchases

Contracted Services

Depreciation &
Amortisation

Employee Related
Cost

Interest, Dividends
and Rent on Land

Inventory
Consumed

Remuneration
of Councillors

Operating
Leases

Operational
Cost

Transfers
and
Subsidies

Income
Tax

Discontinued
Operations

Share of
Surplus/
Deficit
attributable
to
Associate

Share of
Surplus/
Deficit
attributable
to Joint
Venture

Share of
Surplus/De
ficit
attributable
to
Minorities

Default

Surplus /
Deficit



Item segment expenditure – exercise 1

- a) The Mosselbay Municipality must pay the salary of the CFO. What item expenditure will be utilized to budget for a structured package
- b) Mr Jacobs, a municipal employee, travelled to Johannesburg to attend the CIGFARO Conference. The municipality incurred flight costs of R3 000 and car hire of R500.
- c) A COVID-19 disaster occurred during the month of March – October 2020, and the municipality purchased gloves, sanitisers, N95 respiratory masks and other consumable items for R 500 000
- d) Eskom provides electricity to a specific community within the municipal boundary and the municipality must refund Eskom for the free portion of electricity supplied. Eskom produces an invoice to the municipality for those sales. The municipality pays Eskom from?

Item segment expenditure – solution

exercise 1 (a & b)

- a) The Mosselbay Municipality must pay the salary of the CFO. What item expenditure will be utilized to budget for a structured package
- Item: Employee Related Cost: Senior Management : Chief financial officer:
 - Salaries and Allowances
 - Basic Salary, Bonusses and Allowances: Cellular phones, Housing benefits, Travel or Motor Vehicles
 - Service related Benefits: Overtime,
 - Social Contributions
 - - Group life, Medical, Pension UIF, Bargaining Council
- b) Mr Jacobs, a municipal employee, travelled to Johannesburg to attend the CIGFARO Conference. The municipality incurred flight costs of R3 000 and car hire of R500.
- *Flight costs*: Expenditure: Operational Cost - Travel and Subsistence: Domestic - Transport with Operator: Public Transport - Air Transport
 - *Car Hire*: Expenditure: Operational Cost - Travel and Subsistence: Domestic - Transport without Operator: Car Rental

Item segment expenditure – solution

exercise 1 (c & d)

c) A COVID-19 disaster occurred during the month of March – October 2020, and the municipality purchased gloves, sanitisers, N95 respiratory masks and other consumable items for R 500 000

- Item : Current Assets: Inventory: Consumables: Zero Rated

Issued the consumables per department

- Item: Expenditure : Inventory consumed : Consumables: Zero Rated

d) Eskom provides electricity to a specific community within the municipal boundary and the municipality has to refund Eskom for the free portion of electricity supplied. Eskom produces an invoice to the municipality for those sales. The municipality pays Eskom from:

- Expenditure: Operational Cost: Indigent Relief

Item segment - gains and losses (1)

Gains

- Gains represent other items that meet the definition of revenue and may, or may not arise in the course of the operating activities of the municipality.
- Gains represent an increases in economic benefit or service potential.

Losses

- Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the operating activities of the entity.
- Losses represent a decrease in economic benefits or service potential

Item segment - gains and losses (2)

Gains & Losses

Discontinued
Operations
and
Disposals of
Non-current
Assets

Disposal
of Fixed
and
Intangible
Assets

Fair Value
Adjustment

Foreign
Exchange

Impairment
Loss

Reversal of
Impairment
Loss

Inventory

Water
Losses

Item segment - gains and losses Exercise

Gains

1. Gain realised on the sale of office equipment of R2 000
2. Surplus for Month 3 R50 000

Losses

1. Loss on the net realisable value of Inventory of R2 500
2. Impairment loss on Trade and other receivables for Water services R300 000

Item segment - gains and losses Solution Exercise

Gains

1. Gain realised on the sale of office equipment of R2 000
 - Gains and Losses: Disposal of Fixed and Intangible Assets: Property, Plant and Equipment: Furniture and Office Equipment: Gains
2. Surplus for Month R50 000
 - **Net Assets:** Accumulated Surplus/(Deficit): Transfers to/from operating revenue and expenditure

Losses

1. Loss on the net realisable value of Inventory of R2 500
 - Gains and Losses: Inventory: Decrease in net-realisable Value
2. Impairment loss on Trade and other receivables for Water services R300 000
 - Gains and Losses: Impairment Loss: Trade and Other Receivables from Exchange Transactions: Water

Item Segment - Assets

- Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity [GRAP 1.05 Definitions].
- The Item Assets refers to the accounts that reflects the result of a transaction in the Statement of Financial Position.
- This includes Current assets and Non- Current Assets.
- Current assets i.e.: Cash and Cash Equivalents, Trade and other receivables and Inventory.
- Non-Current Assets like: Property plant and Equipment, Long term Investments and Construction work in Progress.
- These accounts are mostly set up by the Financial System Controllers and care must be taken to ensure the setup is correct to ensure reporting pulls through correctly.

Item Segment - Assets

- The Batho Pele Municipality included a Project in their IDP to build a new tarred road in Ward 1 that would be entirely funded by Municipal Infrastructure Grant. The municipality will outsource the construction of the road. The road is expected to be completed in the next financial year at an estimated cost of R1.5 million.
- Item Asset: Non-current Assets: Construction Work in Progress: Acquisitions: Outsourced
- Amounts spend under Work in Progress will be extracted using Project segment and IA Construction Work in Progress.
- Please note that this item will be dealt with in more detail when we deal with CWIP guideline and annexure.

Item segment liabilities

- Liabilities - Present obligation of the municipality arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential. [GRAP 1.05 Definitions]
- A liability shall be classified as current when it satisfies any of the following criteria: it is expected to be settled in the entity's normal operating cycle:
 - it is held primarily for the purpose of being traded;
 - it is due to be settled within twelve months after the reporting date; or
 - it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- All other liabilities shall be classified as non-current.

Item segment liabilities Exercise

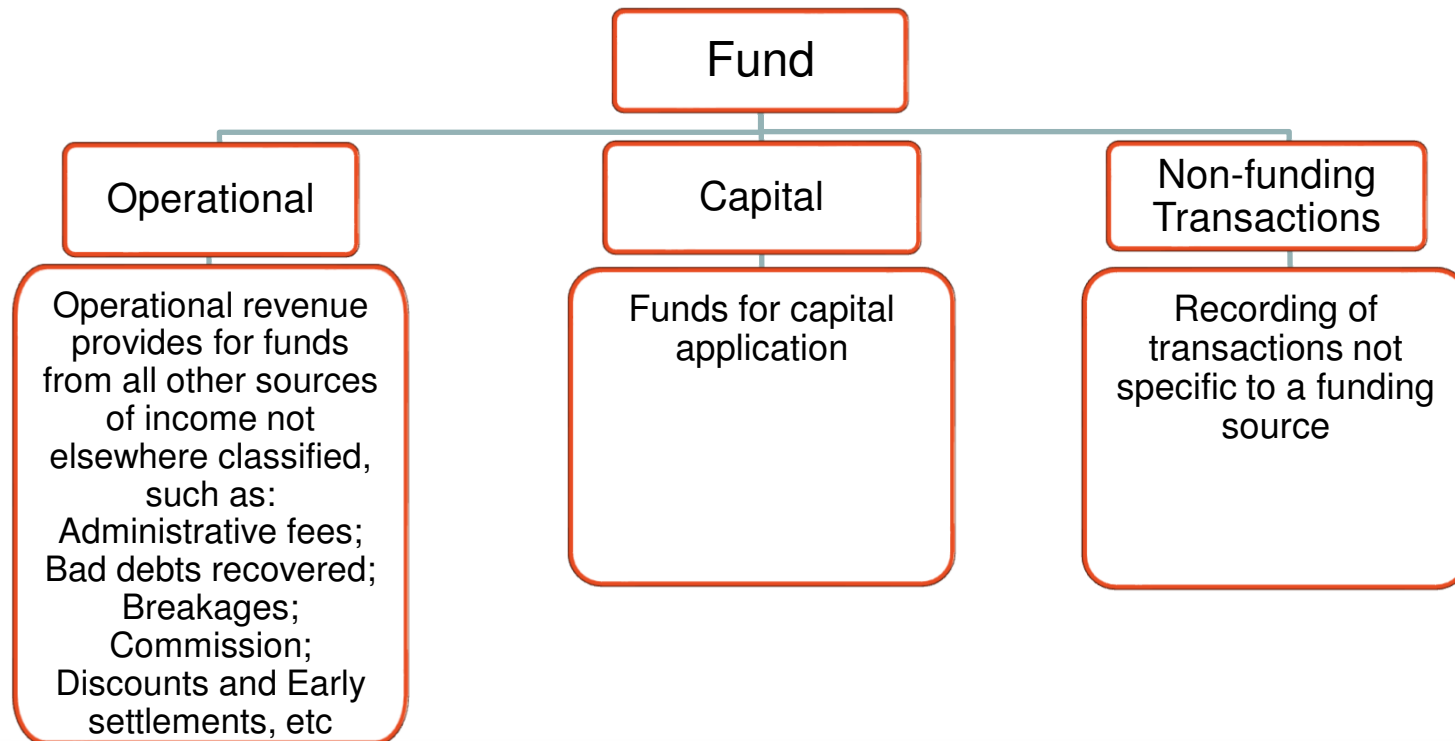
1. Payment of third party payment to Bonitas Medical aid of R60 000
2. Payment of Borrowings payment for Month 12 to DBSA R1 220 000
3. Raising a creditor for ABC suppliers for the supply of inventory for R1 500
4. Receiving a Conditional Grant for UDSG R5 700 000

Item segment liabilities –Solutions

1. Payment of third party payment to Bonitas Medical aid of R60 000
 - Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Control, Clearing and Interface Accounts: Salary Clearing and Control: Medical Aid Control: Withdrawals
2. Payment of Borrowings payment for Month 12 to DBSA R1 220 000
 - Liabilities: Current Liabilities: Financial Liabilities: Current portion of Non-current Borrowings: Annuity and Bullet Loans: DBSA: Specify (Financial Institution and Account Number):Withdrawals
3. Raising a creditor for ABC suppliers for the supply of inventory for R15 000
 - Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Deposits
4. Receiving a Conditional Grant from UDSG R5 700 000
 - Liabilities: Current Liabilities: Trade and Other Payable Non-exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Urban Settlement Development Grant: Receipts
 - All these are movement accounts and the “withdrawals”/ payments are used to populate the A7 and SA 30

Segment 4 - Fund Segment (1)

- Identifies the various sources of funding to finance both capital and operational expenditure.
- Used to determine the source of funding against which a payment is allocated and the source of revenue against which income is received.



Segment 4 - Fund Segment (2)

- The use of FUND in Funding segment is key to ensure your budget is funded and your data strings populate correctly especially in the Cashflow receipts.
- The municipality's funding must balance to the total amount that will be received from the Equitable Share, services to be provided and the Rates and Taxes charged.
- It is important to take cognisance of the fact that non-payment of services will affect the cash position of the Municipality.
- When representing the figures in your reports, both the capital and operational portions are consolidated.
- Item Expenditure and Item Asset purchased, and work-in-progress are considered.
- The A5 items must always be represented by Capital Funding Sources

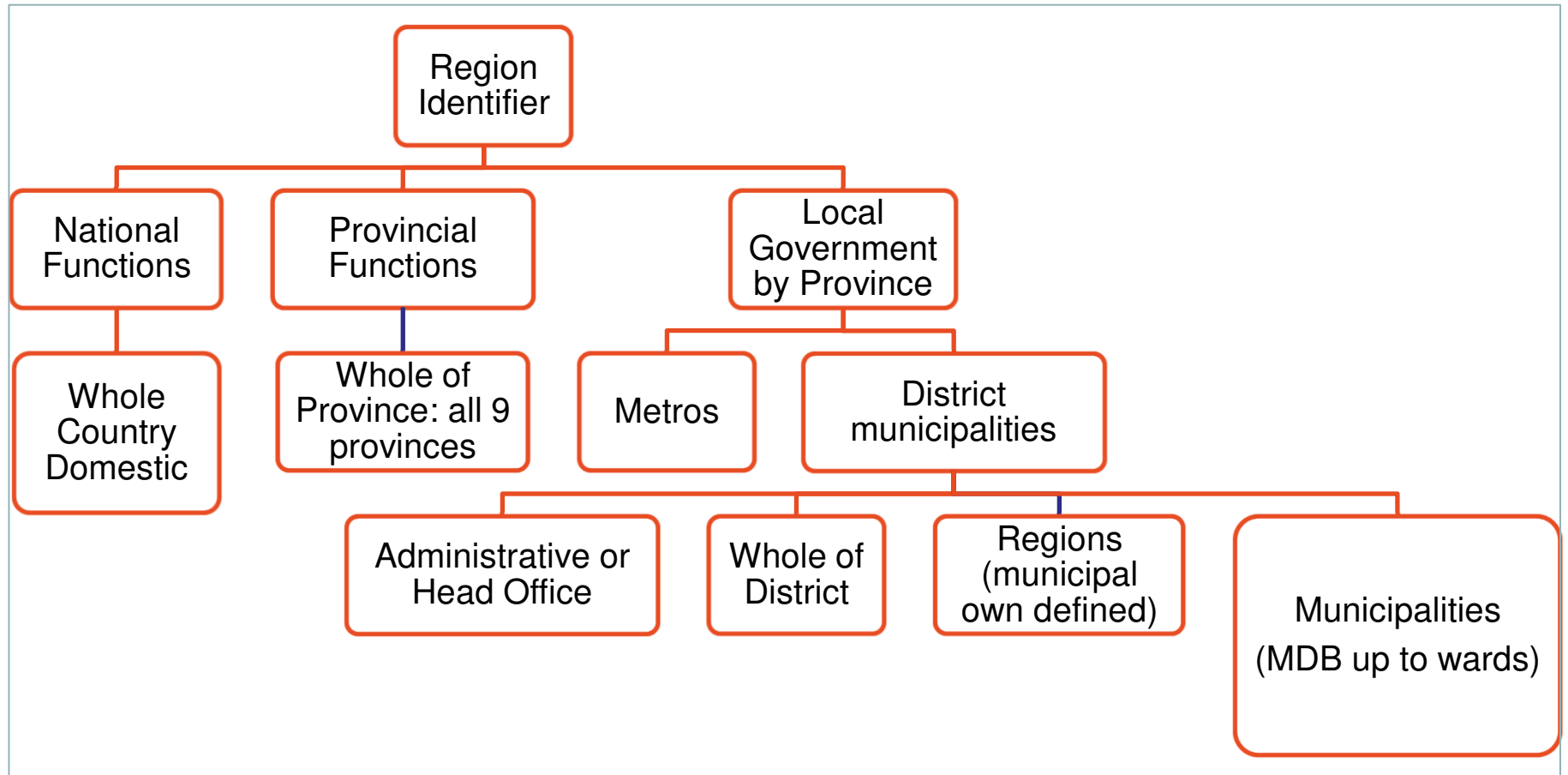
Fund segment – exercise 1

- Project: Repair two potholes – funding source is property rates.
- Upgrade of Sport Stadium – Funding source is Neighborhood Development Grant.
- What funding source should be used to fund capital expenditure from operational surpluses?
- To what must the funding sources balance to?

Fund segment – solution to exercise 1

- Project WC P101 Repair two potholes – funding source is property rates
 - Operational: Revenue: General Revenue: Taxes - Property Rates: Levies
- Upgrade of Sport Stadium – Funding source is Neighborhood Development Grant.
 - Capital: Transfers and Subsidies: Monetary Allocations: National Government: Neighborhood development Grant [Schedule 5B]
- What funding source should be used to fund capital expenditure from operational surpluses?
 - Capital: Transfer from Operational Revenue
- To what must the funding sources balance to?
- The total revenue projected to be received for the year (and 2 outer years) this include : Rates and Taxes, Services and Grants receivable as in the DoRA.

Segment 5 - Regional segment (1)



Segment 5 - Regional segment (2)

- Look at City of Joburg Regions
 - Look at Ekurhuleni
 - Look at Limpopo Province
-
- The Regional Segment can be used to extract Segmental Reporting Data in accordance to GRAP 18.
 - Please note that the information on this segment is based on the demarcation changes and reporting structures are as per municipalities submission.
 - In the absence of Information from the municipality, those municipalities have been defaulted to “per ward level”

Segment 6 - costing segment

Costing

Charges

Recoveries

Default

The costing segment will impact on the A2A. As this mainly refers to the reallocation of cost from one department to another

Example of a combination of segments

- The Municipality receives a letter from National Treasury to indicate that they will receive funding for COVID -19 Disaster relief to the amount of R 360 000
- Project:
- Function:
- Item Expense:
- Fund:
- Costing:
- Regional:

Example of a combination of segments

- The Municipality receives a letter from National Treasury to indicate that they will receive funding for COVID -19 Disaster relief to the amount of R 360 000
- Project: Project Operational(PO) –Typical Workstream - Emergency and Disaster Management - Disaster Relief
- Function: Community and Social Services- Non Core: Disaster management
- Item Expense: Expenditure : Operational Cost: "Select relevant/ applicable expenditure from the chart"
- Fund: Operational: Transfers and Subsidies: Monetary Allocations: National Government : Municipal Disaster Relief Grant
- Costing: Default
- Regional: Local Government per Province: Province: District Municipalities: Municipalities: Administrative and Head Office OR Whole of Municipality OR Ward

Guidance provided by National Treasury on *m*SCOA Implementation

MFMA Circulars

- MFMA Circular 57
- MFMA Circular 80
- Addendum to MFMA Circular 80
- MFMA Budget Circulars (from MFMA Circular 93, 94 & 98,99)

*m*SCOA Circulars

- Circular 1
- Circular 2
- Circular 3
- Circular 4
- Circular 5
- Circular 6
- Circular 7
- Circular 8
- Circular 9
- Circular 10

Other

- Position Papers
- Project Summary Document
- NT & PT Email Communications
- NT FAQ Database
- Unaccredited *m*SCOA training

All these guidance documents, except for the email communication, are available on the NT website at

<http://mfma.treasury.gov.za/Pages/Default.aspx>



THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

www.municipalmoney.gov.za
open **local government budget** data portal

Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.



For information on local government finances, please visit: <https://municipalmoney.gov.za>



national treasury

Department:
National Treasury