Module 3
Non-accredited *m*SCOA Training

Budgeting and Transacting in *m*SCOA

Training material developed by the National Treasury

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Requirements for Municipal Budgeting

MFMA requirements for municipal budgets

Tabled Budget: TABB
- An annual budget and supporting documentation tabled in a municipal council in terms of sections 16(2) and 17(3) of the MFMA **must be** –
  - in the format in which it will eventually be approved by the council;
  - credible and realistic such that it is capable of being approved and implemented as tabled;
  - Include draft SDBIP
- Submit to NT and relevant PT **the following:**
  - the supporting documentation as tabled in the municipal council;
  - the draft service delivery and budget implementation plan; and
  - any other information as may be required by the National Treasury.

Adopted Budget: ORGB
- The municipal manager must comply with section 24(3) of the MFMA within ten working days after the municipal council has approved the annual budget.
- The municipal manager must submit to the National Treasury and the relevant provincial treasury, in both printed and electronic form –
  - the supporting documentation after the municipal council has approved the annual budget;
  - the approved service delivery and budget implementation plan within five working days after the mayor has approved the plan; and
  - any other information as may be required by the National Treasury.

What constitutes *m*SCOA Compliance? – Addendum to MFMA Circular 80

Municipal systems of financial management and internal control:

- **Must provide** for the hosting of the *m*SCOA structure and associated detail as contained in the 7 defined segments
- **Be able to** accommodate and operate the classification framework across all 7 segments at a transactional level
- **Must** provide for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database
- **May not apply** methodologies of data mapping to provide for the **segmented transactional data string at a transactional level**
- **Must** use to the following 7 financial business processes:

  a) General Ledger
  b) Billing
  c) Supply Chain Management
  d) Inventory and Stores
  e) Asset Management
  f) Budgeting and Planning
  g) Human Resources and Pay Roll

- **Must** have access to hardware that is sufficient to run the required software solution

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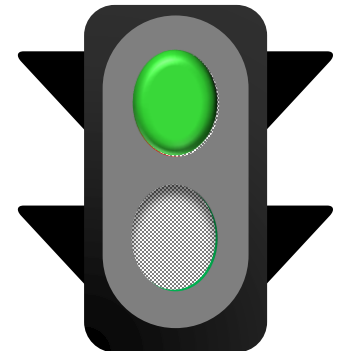
Where should municipalities be with their mSCOA implementation by now?

- Have acquired, upgraded and <u>maintained</u> the hardware, software and licences required to be and remain *m*SCOA compliant;

- Budget, transact and report:
    - On all six (6) legislated *m*SCOA segments plus MSC
    - Directly on and from the core financial system
    - In the latest version of the chart (6.3)

- Lock down the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the local government portal;

- Closed the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the local government portal; and

- Regulated Schedules (A, B, C) must be generated directly from the core municipal financial systems using the data strings and the Mapping provided by National Treasury

- Have a virement policy approved and aligned to *m*SCOA as per MFMA Circular 93

- Sub-systems must integrate to the General Ledger on a *m*SCOA segment level in the core municipal financial system

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Guidance provided by National Treasury on *m*SCOA Implementation and support

MFMA Circulars

- MFMA Circular 57
- MFMA Circular 80
- Addendum to MFMA Circular 80
- MFMA Budget Circulars (from MFMA Circular 93 and 94)

*m*SCOA Circulars

- Circular 1
- Circular 2
- Circular 3
- Circular 4
- Circular 5
- Circular 6

Other

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

All these guidance documents are available on the NT website at http://mfma.treasury.gov.za/Pages/Default.aspx

Budgeting in a *m*SCOA Environment

So how do we budget?

- **What methods do you use to compile your budget?**

  - Incremental budgeting?

  - Do the Finance department compile the budget?

  - Excel spreadsheets?

  - Income is greater than Expenditure?

  - Do you think this is modernised and proper planned budgeting?

Not acceptable budget practice

- Incremental budgeting ? Zero based budgeting based on IDP and SDBIP. All expenditure must be linked to a project
- Do the Finance department compile the budget in isolation? No More – *m*SCOA **as a business reform requires** input from all departments
- Excel spreadsheets? System requirements for the budgeting module as per Circ 80 is to provide the amounts based on the detail from the source /system using scenario's where the user can create scenario's from current information to new year planning. Using the IDP, funding available and historical trends
- Income is greater than Expenditure? Balance sheet budgeting and Funded budgets. **You can not plan to spend money you do not have. All I& E impacts on the Financial Position**
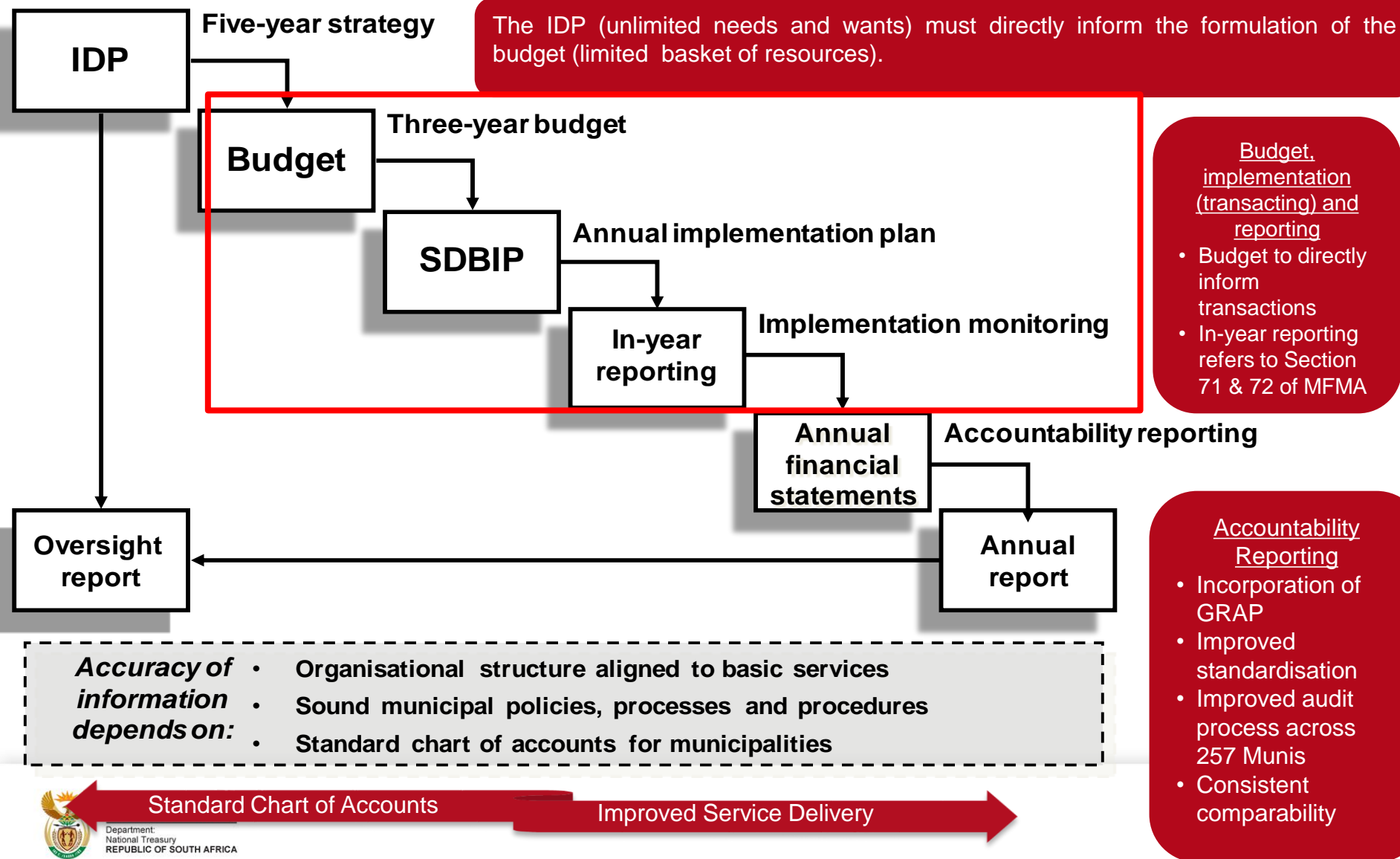
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Legislation & IDP

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LG accountability cycle and *m*SCOA

IDP

Five-year strategy

The IDP (unlimited needs and wants) must directly inform the formulation of the budget (limited basket of resources).

Budget

Three-year budget

SDBIP

Annual implementation plan

In-year reporting

Implementation monitoring

Annual financial statements

Accountability reporting

Annual report

Oversight report

Budget, implementation (transacting) and reporting
- Budget to directly inform transactions
- In-year reporting refers to Section 71 & 72 of MFMA

Accountability Reporting
- Incorporation of GRAP
- Improved standardisation
- Improved audit process across 257 Munis
- Consistent comparability

Accuracy of information depends on:
- Organisational structure aligned to basic services
- Sound municipal policies, processes and procedures
- Standard chart of accounts for municipalities

Standard Chart of Accounts

Improved Service Delivery

What should you use to compile your budget?(1)

- Municipalities must compile a
  - Capital Budget and
  - Operational Budget for Expenditure
  - Revenue projections
  - Cash flow projections

- Projects submitted as prioritised in the IDP, to address the Long term plan of the Municipality

- Maintenance Plans informs the Project Operational : Maintenance

- Consolidation of all municipal entities with the parent municipality and review of their budget submissions

- Revenue and Cash flow budgeting will ensure that the budget is cash backed : A Procurement Plan will provide information on when payment is needed for specific procurement processes

What should you use to compile your budget?(2)

- The Financial system must be used to budget.

- MFMA Budget circulars from NT that provide specific guidance and requirements

- Division of Revenue Act (DoRA) for Equitable Share and National grant funding promulgated

- Provincial gazette for Provincial grants allocations – NB if it is NOT gazetted it should not be in the budget

- Approval letters from financial institutions for borrowing – NB if funding for projects have NOT been approved the project should not be included in the budget.

Using the Financial system will ensure that budget data strings are using one central source of data. The data is accessible to all users and the budget is centrally controlled.

As from 1 Jul 2019, NT only publish data information from the data string submissions to the LG portal - *formats for all data strings are available on the NTs MFMA web page*

Budgeting supported by mSCOA

- Integrated Development Plan
- Capital Budgeting
- Operational Budget
- Revenue Budget
- Cash flow Budget
- Maintenance Budget
- Procurement Plan

The Municipal Standard chart of Accounts(*m*SCOA) provides a uniform platform for all the business processes and standardise the reporting for the Municipality

Most of these processes are done by different departments, but ultimately it must come together when compiling the budget.

The Core Financial System must be used as the source to ensure that the budget is loaded and adopted as the final Budget.
Transacting must be done and all reports must be produced from the system

Starting point - Unpacking the IDP (1)

An abridged extract of an IDP of Batho Pele Municipality

KPA – Infrastructure & Basic Service delivery

Performance Objective	Key Performance Indicators	Baseline	Responsibility	Annual Target
To facilitate an integrated transport system	The facilitation of an integrated transport system	Build Roads in Ward 6	Director Engineering and Planning Services	50%

Unpacking the IDP – Conversion To Segments

- **Conversion of an IDP Project to Segments**

  Example: Per the IDP of Batho Pele Municipality, during the current year the municipality will be building a new road in Ward 6 the project number is 1011 on the IDP

  1. Project Segment- Capital: Infrastructure: New: Roads Infrastructure: Roads: Ward 6 – Roads

  2. Function Segment - Function: Road Transport: Core Function: Roads

  3. Regional Segment - Regional: Regional Identifier: Local Government by Province: Municipalities: Batho Pele Municipality: Ward: Ward 6

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Unpacking the IDP (2)

- **Linking of IDP to Budget**

Project Segment- Capital: Infrastructure: New: Roads Infrastructure: Roads: Ward 6 – Roads

Project Guid- e2287c96-937b-4ee9-a092-0fa8b0979655_01011

The five digit sequential project number is added to the project Guid number on both the IDP and the Budget modules, creating a link between the IDP and the Budget.

- This is how the budget line would look like for this project

Project	Function	Item	Funding	Region	Costing	Amount
e2287c96-937b-4ee9a0920fa8b0979655_01011	d0a8c200-23d4-4309-8ea5-97922584a36d	a10b5469-0333-43aa-8bfd-6efabddf7a42	39e21601-ecbb-4ce6-9f1c-b4256fc7de3f	6f9a8a2a-2328-47b1-bebe-2512fd837e59	47c7ba65-c270-4a7f-91ba-3842eb629ddf	15000000

Data String:

e2287c96-937b-4ee9a0920fa8b0979655_01011|d0a8c200-23d4-4309-8ea5-97922584a36d|a10b5469-0333-43aa-8bfd-6efabddf7a42|39e21601-ecbb-4ce6-9f1c-b4256fc7de3f|6f9a8a2a-2328-47b1-bebe-2512fd837e59|47c7ba65-c270-4a7f-91ba-3842eb629ddf|15000000

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Unpacking the IDP (2)

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Project	Function	Item	Funding	Region	ount
e2287c96-937b-4ee9a0920fa8b0979655_01011	d0a8c200-23d4-4309-8ea5-97922584a36d	a10b5469-0333-43aa-8bfd-6efabddf7a42	39e21601-ecbb-4ce6-9f1c-b4256fc7de3f	6f9a8a2a-2328-47b1-bebe-2512fd837e59	91b

Notice: This is only one data string!

Data String:

e2287c96-937b-4ee9a0920fa8b0979655_01011|d0a8c200-23d4-4309-8ea5-97922584a36d|a10b5469-0333-43aa-8bfd-6efabddf7a42| 39e21601-ecbb-4ce6-9f1c-b4256fc7de3f|6f9a8a2a-2328-47b1-bebe-2512fd837e59|47c7ba65-c270-4a7f-91ba-3842eb629ddf|15000000

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Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file

Text file - This must be generated by the system
- Pipe separated
- Contents
    - **Demarcation** Code
    - Financial **Year** (END)
    - **Budget type** (PROR -> ORGB) (PRTA -> TABB) (PRAD -> ADJB)
    - **Project guid** including extension (all projects including non-broken down)
    - **MTSF** Service Delivery Outcomes **codes** (01 – 14)
    - **IUDF** Integrated Development Framework **codes**(01 – 04)
    - Own **Strategic Objective** (250)
    - Own Project **description** (250)
    - Location **GPS** coordinates Longitude and Latitude in decimals (delimit by pipe)
- No duplicates for Project GUIDs – ie: One summarised amount per project

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Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file – Linking to Medium Term Strategic Framework

- The MTSF defines the strategic objectives and targets of government during the next five years.

- It is the frame of reference outlining the government's main priorities underpinning the strategic direction of government over the next five years.

- The MTSF therefore serves as the principal guide to the planning and the allocation of resource across all spheres of government.

- The MTSF priorities will inform the budget submissions that national departments make to the government's budgeting process, as encapsulated in the Medium-Term Expenditure Framework, which details a 3-year rolling expenditure and revenue plan for national and provincial departments.

- The MTSF is structured around 14 priority outcomes which cover the focus areas identified in the NDP. These are:

01 - Quality basic education

02 - A long and healthy life for all South Africans

03 - All people in South Africa are and feel safe

04 - Decent employment through inclusive growth

05 - A skilled and capable workforce to support an inclusive growth path

06 - An efficient, competitive and responsive economic infrastructure network

07 - Vibrant, equitable, sustainable rural communities contributing towards food security for all

08 - Sustainable human settlements and improved quality of household life

09 - Responsive, accountable, effective and efficient local government

10 - Protect and enhance our environmental assets and natural resources

11 - Create a better South Africa and contribute to a better Africa and a better world

12 - An efficient, effective and development-oriented public service

13 - A comprehensive, responsive and sustainable social protection system

14 - A diverse, socially cohesive society with a common national identity

Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file – Linking to IUDF

"   The overall outcome of the IUDF is spatial transformation, by steering urban growth towards a sustainable growth model of compact, connected and coordinated cities and towns.

To achieve this transformative vision, four overall strategic goals are identified:

● **Spatial integration**: To forge new spatial forms in settlement, transport, social and economic areas.

● **Inclusion and access:** To ensure people have access to social and economic services, opportunities and choices.

● **Growth**: To harness urban dynamism for inclusive, sustainable economic growth and development.

● **Governance:** To enhance the capacity of the state and its citizens to work together to achieve spatial and social integration."

Note: Mapping that links the MSTF and IUDF is available on the LG database

01 - SPATIAL INTEGRATION
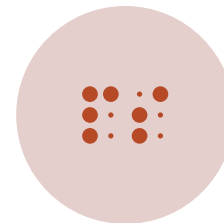
02 - INCLUSION AND ACCESS

03 - GROWTH

04 - GOVERNANCE
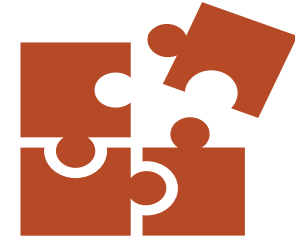
KPA:Good Governance and Public Participation

Project description: Community Participation

Municipality planning to have a community participation programme on a quarterly basis and the office of the mayor will champion the process and the programme budget is R500 000

Unpacking the IDP: practical example detail

IDP	Good Governance and Public Participation
Project	Operational: typical work stream: Communication and Public participation: Mayor/ Executive Mayors campaign
Function	**Executive and Council: Core Function:Mayor and Council** Finance and Administration: Core Function: Fleet Management Public Safety: Core Function: Police Forces, Traffic and Street Parking Control Marketing, Customer Relations, Publicity and Media Co-ordination: Core function
Fund	Revenue: non exchange: property rates: levies
Item	Contracted Services : Contractors: Catering Services Contracted Services : Contractors : Stage and Sound Crew Contracted Services : Contractors : Artists and Performers Contracted Services: Contractors: Audio-visual Services Advertisement Newspaper Graphic designer
Region	Regional identify: local government by province: district : local municipality: whole of municipality
Costing	Default transaction

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Unpacking the IDP: practical example detail

IDP	Good Governance and Public Participation
Project	Operational: typical work stream: Communication and public participation: Mayor/ Executive Mayors campaign
Function	**Executive and Council: Core Function:Mayor and C...** Finance and Administration: Core Function: Fleet... ...ent Public Safety: Core Function: Police Forces, Traff... ...Parking Control Marketing, Customer Rela...
Fund	Revenue: non exchange: prope...
Item	Contracted Services : Contractors: Ca... Contracted Services : Contractors : Stage... Contracted Services : Contractors : Artists a... Contracted Services: Contractors: Audio-v... Advertisement Newspaper Graphic designer
Region	Regional identify: local government by province: district : local municipality: whole of municipality
Costing	Default transaction

Total Value of R500 000 must be broken down per line item

Control Account Principle

- The importance of understanding the control account principle is for the **user to understand where the double entry leg of the transaction lies**.

- Users should check if the **control accounts** are correctly allocated against the *m*SCOA chart. Users must be able to indicate to the Vendor where they need to correct the configuration.

- The following budget Example for
    - 1. Billing of Electricity,
    - 2. Receiving payment
    - 3. Impairment of debt
    - 4. Debt write off will provide the debit and credit transactions

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Billing Budget for Electricity

1. The municipality budget to bill Electricity to Ward 2 based on the projections by the financial system and historical data for the ward: R6 000 000

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	**Assets:Current Assets**:Trade and other Receivables from Exchange Transactions:Trading Service and Customer Service Debtors:Electricity:**Monthly Billing**	**Revenue:**Exchange Revenue:Service Charges:Electricity:**Electricity Sales:Domestic High:Conventional**
Funding	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R6 000 000	R6 000 000

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Payment rate of 85% for budgeting

2. Historically this ward has a 85% payment rate

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Deposits	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Collections
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund:Operational: Revenue:General Revenue: Service Charges: Electricity
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R5 100 000	R5 100 000

Budget for impairment

3. Based on historical trends Council budgets to impair R 15 000 000 Electricity debts for the Trade and other payables irrecoverable for Electricity charges

Segment	Debit	Credit
Project	Default	Default
Function	Function:Energy Sources:Core Function:Electricity	Function:Energy Sources:Core Function:Electricity
Item	Gains and Losses: Impairment Loss: Trade and Other Receivables from Exchange Transactions: Electricity	Assets:Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Impairment: Recognised
Funding	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity
Region	All wards	All Wards
Costing	Default	Default
Amount	R15 000 000	R15 000 000

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Budget for bad debts

4 . The Municipal Council budgets to write off R500 000 of Electricity irrecoverable debts.

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources :Core Function: Electricity
Item	Expenditure: Bad Debts Written Off	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Debt Write-off
Funding	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity	Fund:Operational:Revenue:General Revenue:Service Charges: Electricity
Region	Several wards	Several Wards
Costing	Default	Default
Amount	R500 000	R500 000

Budgeting & Transacting

- This example refers to the provision made in the budget for the year.
- The historical trends of billing and the Core Financial System must be used to compile the budget data strings.

- Transacting will happen against these data strings.

- Note this is an Extract for Debtors data strings for billing. It sets the principle.

- The same principle is followed for all the services using the data from the billing system per service per ward.

Debit and Credit entry in the Budget for MM Salary

1 . The Municipality budget for the Salary of the Municipal Manager

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Executive and Council:Core Function:Municipal Manager, Town Secretary and Chief Executive	Finance: Core: Finance
Item	Expenditure:Employee Related Cost:Senior Management:Municipal Manager (MM):Salaries and Allowances:Basic Salary	Assets:Current Assets:Cash and Cash Equivalents:Cash at Bank:Bank Account:Specify (replace with account description):Withdrawals
Funding	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies
Region	Head Office and Admin	Head Office and Admin
Costing	Default	Default
Amount	R2 500 000	R2 500 000

2 . The Municipal Payroll is run for Month 1

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Executive and Council:Core Function:Municipal Manager, Town Secretary and Chief Executive	Finance: Core: Function
Item	Expenditure:Employee Related Cost:Senior Management:Municipal Manager (MM):Salaries and Allowances:Basic Salary	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Control, Clearing and Interface Accounts:Salary Clearing and Control:Salary Control: Deposits
Funding	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies
Region	Head Office and Admin	Head Office and Admin
Costing	Default	Default
Amount	R208 333	R208 333

Debit and Credit entry in the Payroll sub system (M01)step 2

3. The Municipal Payroll is run for Month 1 – Tax deducted for the MM

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Control, Clearing and Interface Accounts:Salary Clearing and Control:Salary Control: Withdrawals	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: PAYE Deductions: Deposits
Funding	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies
Region	Head Office and Admin	Head Office and Admin
Costing	Default	Default
Amount	R83 333	R83 333

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Debit and Credit entry in the Payroll sub system (M01)step 3

4 . The Municipal Manager Salary get paid in the payment run

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Control, Clearing and Interface Accounts:Salary Clearing and Control:Salary Control: Withdrawals	Assets:Current Assets:Cash and Cash Equivalents:Cash at Bank:Bank Account:Specify (replace with account description):Withdrawals
Funding	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies
Region	Head Office and Admin	Head Office and Admin
Costing	Default	Default
Amount	R125 000	R125 000

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Debit and Credit entry in the Payroll sub system (M01)step 4

4 . The Municipality pays SARS for the Payroll for Month 1 – Tax deducted for the MM

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: PAYE Deductions: Withdrawals	Assets:Current Assets:Cash and Cash Equivalents:Cash at Bank:Bank Account:Specify (replace with account description):Withdrawals
Funding	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies	Fund:Operational:Revenue:General Revenue:Taxes:Property Rates:Levies
Region	Head Office and Admin	Head Office and Admin
Costing	Default	Default
Amount	R83 333	R83 333

Other budgeting challenges identified

- Construction Work in Progress
- Treatment of Retention and Guarantees
- Payroll
- Inventory
- Consolidation of Municipal Entity transactions with Municipality
- Debt Impairment and Bad debts written off
- Asset Maintenance Plans vs Asset Acquisitions, GRAP 17 definitions of when transactions is classified as renewal or upgrading

How do we use *m*SCOA to budget?

- Budgets for Municipalities and Municipal Entities must be **realistic** and address all outstanding payments to Eskom and Water boards as per Circular 93 & 94 as well as other outstanding commitments

- Expenditure must be reduced and revenue must be **optimised** without increasing tariffs to an unaffordable level.

- Cost of Free basic services must be budgeted for according to the information populated in the billing system, reported on and evaluated for affordability.

- Tariffs must be **well defined**, planned and gazetted (advertised and **communicated to the community** through participation programs). Municipal by-laws must be amended and promulgated to include changes to tariffs.

- If the Municipality is in Crisis -**no new debt should be incurred** unless the Municipality will be receiving revenue to cover the additional cost of servicing the debt.

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How do we create budget data strings in *m*SCOA

- The budget is a complete data string that includes
  - all combinations for revenue and expenditure per line item.
  - plus **contra** data strings
  - = balanced data string
- The data strings will be matched to the A Schedule that should be produced from the financial system

Note

- The A1 Schedule is tested by National and Provincial Treasury to determine if the proposed budget is funded

- The actual transactions(C Schedule) is checked against the budget to ensure transacting is happening against the planned data string submissions

- When all the data is correctly linked and configured in the financial systems the data string provides the full reporting picture per municipality.
- Virement policy guidelines is provided

Adjustment Budget – MFMA Requirements

- An adjustments budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA.

- An adjustments budget referred to in section 28(2)(b), (d), I, and (f) of the MFMA may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.

- Only one adjustments budget referred to in sub-regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the MFMA are allocations to a municipality in a national or provincial adjustments budget, in which case sub-regulation (5) applies.

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Types of Adjustment Budgets

Types of adjustments budget	Timeframes	Sections of MFMA and MBRR
Downwards adjustment due to under-collection of revenue	Any time	S. 28(2)(a)
Main adjustments budget	Once a year – between tabling of the mid-year assessment and 28 February	S. 28(2)(b, d & f) Reg. 23(1&2)
Additional funds from national / provincial government	60 days after the approval of the relevant national / provincial adjustments budget	S.28(2)(b) Reg. 23(3)
Unforeseen and unavoidable expenditure	Within 60 days of expenditure being incurred	S. 28(2)I, 29(3) & 32 Reg. 23(4), 71 & 72
Roll-over of municipal funds	Before 25 August	S. 28I Reg. 23(5)
Authorisation of unauthorized expenditure	(a) In main adjustments budget (b) After the tabling of the annual report for that year (7 months after the financial year end)	S. 28(g), 32, 127(2) Reg. 23(6)

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Compiling a budget data string using the *m*SCOA chart: exercise (1)

- Scenario: A contract is to be awarded for the maintenance of the motor vehicles for the City of Ekurhuleni to the amount of R50 million
- Tip: Use the chart tree on https://lg.treasury.gov.za/ibi_apps/bip/portal/Welcome

PROJECT		
Function		
Item		
Funding		
Region		
Costing		
Amount		

Compiling a budget string using the *m*SCOA chart: solution (1)

PROJECT	PO: Maintenance:Non Infrastructure: Preventative Maintenance: Interval based(11111)	PO: Maintenance:Non Infrastructure: Preventative Maintenance: Interval based(11111)
Function	Finance & Admin: Core: Fleet management	Finance & Admin: Core: Fleet management
Item	IE: Contracted Services: Contractors: Maintenance of Equipment	IA: Current Assets:Cash and Cash Equivalents:Cash at Bank:Bank Account:Specify (Primary bank acc):Withdrawals
Funding	Fund:Operational: Revenue: Gen Rev:Taxes: Property rates: Levies	Fund:Operational: Revenue: Gen Rev:Taxes: Property rates: Levies
Region	Ekurhuleni Metro: Whole of Municipality	Ekurhuleni Metro: Whole of Municipality
Costing	Default	Default
Amount	R50 000 000	R50 000 000

Feedback on data string exercise

- Questions

Transacting in *m*SCOA (1)

- Transacting in *m*SCOA is highly dependent on the financial system used by the municipality however if Municipal officials do not check and verify the debit and credit legs of the transactions, the data strings will not be generated correctly, the data will provide incorrect information
- Budget data strings must be done at a posting (granular level) else revenue and expenditure transacting can not be processed at that level since budget control will prohibit transactions
- If a project was only budgeted for on one line item the Municipality will have to do Virements.
- Virement policy must be aligned to *m*SCOA
- The approved Virement policy of Council must be used to move budget to the posting levels needed and approved in the Adjustment Budget
- The full structure of the *m*SCOA charts should be used when the system is programmed and configured

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Transacting in *m*SCOA (2)

- Control account transactions happens within the system ie.
- Bulk purchasing of Electricity , Subsequent payment of only 50 % of the bill.

Project	Function	ITEM	Fund	Region	Costing	Amount	VAT	MSC
Mun Running Cost	Energy: Core :Elec	Bulk Purchases	Elec Sales	Whole of Mun	Default	10 000 000	1 500 000	Electricity
Mun Running Cost	Energy: Core :Elec	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Electricity Bulk Purchase:Deposits	Elec Sales	Whole of Mun	Default	(10 000 000)	(1500 000)	Electricity

Project	Funtion	ITEM	Fund	Region	Costing	Amount	VAT	MSC
Mun Running Cost	Energy: Core :Elec	Liabilities:Current Liabilities:Trade and Other Payable Exchange Transactions:Electricity Bulk Purchase:Withdrawals	Elec Sales	Whole of Mun	Default	5 000 000	750 000	Electricity
Mun Running Cost	Energy: Core :Elec	Assets:Current Assets:Cash and Cash Equivalents:Cash at Bank:Bank Account:Specify (replace with account description):Withdrawals	Elec Sales	Whole of Mun	Default	(5 000 000)	(750 000)	Electricity

Capital Work in Progress

- The costs of construction of Assets is accumulated in :
  Item Assets: Non Current Assets :Construction WIP
  - Outsourced, or
  - Own labour, and or
  - Inventory
- At the end of the project the Final Asset Created will be transferred out of CWIP and Capitalised in the correct asset component.

- The Core system should be able to provide a transaction to perform the capitalisation of assets into Item Assets: Non Current Assets: PPE
- The Construction WIP acts a control account for Construction of assets
- The Construction WIP account must be reconciled monthly and annually to ensure timeous capitalisation of Assets that will start depreciation and maintenance of assets

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Componentisation of Assets

- As per GRAP 17 assets must be capitalised per component

- *m*SCOA Item asset segment is aligned with CIDMS to provide the user with the categories as prescribed to capitalised a completed project per the relevant Asset category.

- In the case of a Road that is being constructed the asset categories that might be used is road infrastructure and stormwater infrastructure.(Depending on the specification of the tender)

- The assets have to be capitalised per component.

- Depreciation will now start as per the accounting policy

- The new asset must now be included in the Asset Maintenance Plan

- Asset Maintenance is an operational project that will keep the asset in a condition to perform optimally.

- Asset Maintenance plans will inform the Project Maintenance and be utilised to populate SA34a to e

Retention

- Municipalities are not handling Retention consequently

- Retention on Construction Contracts must be addressed in the Tender process and the signed Service Level Agreement between contractors and the Municipality.

- Retention could be in the form of a Bank guarantee or a portion of the payment must be with held and accrued per payment certificate.

- Retention is captured in the Trade and Other Payables sub system. Retention must be captured per project per Contractor.

- Retention can only be paid out in the event of a fully completed, signed-off asset after the agreed period in accordance with the contract and after all defects were fixed.

- Input Vat must be accrued with retention and only paid and subsequently claimed from SARS when the retention is paid. (Systems must make provision for this)

Recognition of Transfers and subsidies

- GRAP 23 states that Conditional Grants are received and recognised as a Liability Unspent Grants until the conditions are met.

Project	Function	Item	Fund	Regional	Costing	Amount
Default	Finance: Core: Finance	Item: Current Assets: Bank	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Head Office and Admin	Default	Debit Amount received
Default	Finance: Core: Finance	IItem Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies **Unspent**: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Recognised	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Head Office and Admin	Default	(Credit Amount received)

Recognition of Transfers spend

- When the Conditional Grants have been spent and the conditions are met , the revenue is recognised.

Project	Function	Item	Fund	Regional	Costing	Amount
Default	Finance: Core: Finance	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies **Unspent**: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Recognised	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Head Office and Admin	Default	Debit Amount spent (This should be based on monthly monies spend)
Default	Finance: Core: Finance	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant	Capital: Transfers and Subsidies: Monetary Allocation: National Government: Municipal Infrastructure Grant	Regional Identifier: Local Government by Province: Name of Province: District Municipalities: Name of DM: Municipalities: Name of Municipality: Head Office and Admin	Default	(Credit Amount spent)

Inventory

- One of the *m*SCOA principles is that the Municipality must use the inventory functionality.
- When any inventory is **purchased** the **Item Current Assets Inventory** is debited and Trade and other payables will be credited. Payment debit Trade and other Payables and Credit Bank.

- When inventory is **issued the Item Expenditure**: Inventory will be debited and the Item Current Assets Inventory is Credited

- The inventory sub system will make provision for the line items as per the stores classification.

- Circular 93 highlighted that Municipalities must start aligning their budgeting and business processes to utilise the mSCOA chart for reporting for water in accordance with GRAP12.

Consolidation transactions

- Consolidation of Municipal Entities budget with the Municipal Budget.
  - Review correctness of Municipal Entity budgets
  - Is the entity conforming to *m*SCOA
  - Is the entity budgeting in terms of their mandate
  - Compare the Inter company balances and eliminate consolidation transactions

Consolidate	Eliminate
Assets and Liabilities	Inter Company transfers
Transfers and Subsidies	
Billing	
Equity	

Consolidation in the A4 for the Municipality

- The same budgeting and transacting rules applies to Entities

- Example In the A4:

Municipality	Amount	Less Transfer to Entity	Plus Transfer received by Entity	Total
Transfers and Subsidies	R50 million	-R5 million	+R5 miilion	R50 million
The DoRA allocation of the Grant reflects the total as gazetted				
Transacting and meeting the conditions of the grant is done in accordance with GRAP 23				
When the conditions are met, the revenue recognition will be done in the books of the Municipality. The asset will be capitalised in the Entity				

Municipality – DoRA allocation

Segment	Municipality	
	Debit	**Credit**
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Assets: Current Assets:Bank	Item: Revenue: General Revenue: Transfers & Subsidies: Monetary: National : USDG
Funding	Fund:Capital:Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant	Fund:Capital:Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant
Region		
Costing	Default	Default
Amount	R50 million	R50 million

Municipality budget to transfer to Entity

Segment	Municipality		Municipal Entity	
	Debit	**Credit**	**Debit**	**Credit**
Project	Default	Default	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance	Finance: Core: Finance	Finance: Core: Finance
Item	Expenditure: Transfers and Subsidies:Capital: Monetary Allocations: Municipal Entities	Assets: Current Assets:Bank	Assets: Current Assets:Bank	Revenue:Non-exchange Revenue:Transfers and Subsidies:Capital:Monetary Allocations:Parent Municipality
Funding	Capital: Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant	Capital: Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant	Capital: Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant	Capital:Transfers and Subsidies:Monetary Allocations:National Government:Urban Settlement Development Grant
Region				
Costing	Default	Default	Default	Default
Amount	R5 million	R5 million	R5 million	R5 million

In-Year Reporting – MFMA Requirements

- The monthly budget statement of a municipality must be in the format specified in Schedule C and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA.
- The mayor may table in the municipal council a monthly budget statement submitted to the mayor in terms of section 71(1) of the MFMA. If the mayor does so, the monthly budget statement must be accompanied by a mayor's report in a format set out in Schedule **C**.
- The mayor's quarterly report on the implementation of the budget and the financial state of affairs of the municipality as required by section 52(d) of the MFMA must be –
  - in the format specified in Schedule **C** and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the MFMA; and
  - consistent with the monthly budget statements for September, December, March and June as applicable; and
  - submitted to the National Treasury and the relevant provincial treasury within five days of tabling of the report in the council.

121. Every municipality and every municipal entity must for each financial year prepare an annual report. The council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared
control in accordance with section 129.

122. Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. A municipality which has sole control of a municipal entity, or which has effective control within the meaning of the Municipal Systems Act of a municipal entity which is
a private company, must also prepare consolidated annual financial statements incorporating the annual financial statements
of the municipality and of such entity.

Class exercise

- **Compile a budget data string for the following transactions for your Municipality:**

1. Construction that is outsourced of a Water reservoir to be funded from a DBSA loan for Ward 5.Value R3 million

2. Salary for the City Engineer. Total Cost to Company R1 259 000
3. Transfer from National Government for MIG for R134 million

4. Repayment of loans as per the schedule below

Loan register	Year 1	Year 2	Year 3
Loan capital repayments	700 000	800 000	900 000
Interest	300 000	200 000	100 000

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

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