



## **Guidance on recording of disaster events in *mSCOA***

The purpose of this circular is to provide guidance to municipalities on how to budget, transact and report on severe weather/disaster events using the Municipal Standard Chart of Accounts (*mSCOA*).

This circular must also be read in conjunction with the annual Division of Revenue Bill and Act, the Disaster Management Act No. 57 of 2002, the Municipal Finance Management Act (MFMA) Act No. 56 of 2003, MFMA Circulars No. 116 (dated 26 April 2022) and 117 (dated 04 May 2022) and relevant Supply Chain Management Regulations and policies.

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## 1 Background:

With climate change becoming a reality, floods, drought and extreme weather conditions are occurring more frequently and municipalities are required to perform certain essential and emergency municipal services to respond to these extreme events and repair damaged property and infrastructure. This impacts on municipal budgets.

The most recent national disaster was declared in terms section of 27(1) of the Disaster Management Act, 2002 (Government Notice No. R. 2029) on 18 April 2022.

Municipal Accounting Officers and Chief Financial Officers must ensure that internal controls are in place to ensure transparency and proper oversight and monitoring of expenditure when a disaster is declared. Accounting Officers should also ensure that appropriate delegations of authority related to budgeting, revenue, procurement and expenditure control management are in place to respond to unforeseen disasters. Financial records must also be kept up to date and budgets, reporting and financial statements must be submitted in line with the reporting requirements and deadlines.

MFMA Circular No. 117 provides a reporting framework in relation to procurement in response to the national state of disaster as a result of the 2022 April floods.

## 2 Budgeting for a disaster:

Section 29 of the MFMA states the budgetary requirements to authorise unforeseen and unavoidable expenditure in emergency situations. Municipalities are encouraged to balance the need to provide resources for the response to disasters, while maintaining as much of the planned implementation of projects in their Integrated Development Plan (IDP) and MTREF budget adopted by Council as possible.

There are four main funding options available to municipalities to respond to a disaster:

- Reprioritisation within the existing municipal budget
- Disaster relief/response conditional grants
- Reallocations within other conditional grants
- Utilisation of the contingency reserves

Guidance on how to utilise these options are provided in MFMA Circular No. 116 (dated 26 April 2022). It should be emphasized that the funding sources outlined above is making funding available to address the immediate impact of a disaster, but the rebuilding or repair of damaged infrastructure takes longer and should be dealt with over the Medium-Term Revenue and Expenditure Framework (MTREF) budget period and beyond.

Where capital budgets are reprioritised, the Integrated Development Plans (IDP) and MTREF budget must also be revised accordingly.

## 3 Reporting and monitoring of procurement and expenditure:

Sections 71(1)(e) and (f) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires that the accounting officer of a municipality must, by no later than 10 working days after the end of each month, submit a statement **in the prescribed format** on the state

of the municipality's budget, *including the amount of any allocations received and the actual expenditure on those allocations*. In terms of the Regulations on the Municipal Standard Chart of Accounts (*mSCOA*), 2014, all municipalities and their entities must submit these statements in the form of *mSCOA* data strings via the GoMuni Upload portal. Information on disaster spending will be extracted monthly from the Local Government Database and Reporting System (LGDRS) for monitoring purposes.

The Division of Revenue Act (DoRA), as amended annually, also requires that all municipal allocations over the Medium-Term Revenue and Expenditure Framework (MTREF) must be included in the approved budget and that expenditure against these allocations must be reported in terms of Section 71 of the MFMA.

Furthermore, municipalities are also required to report weekly to the National Treasury on procurement transactions relating to the 2022 April floods as per the guidance in MFMA Circular No. 117. Municipalities should put pro-active governance measures with regard to supply chain management and procurement processes in place and use their internal audit committees to undertake preventative audits for quality assurance on procurement.

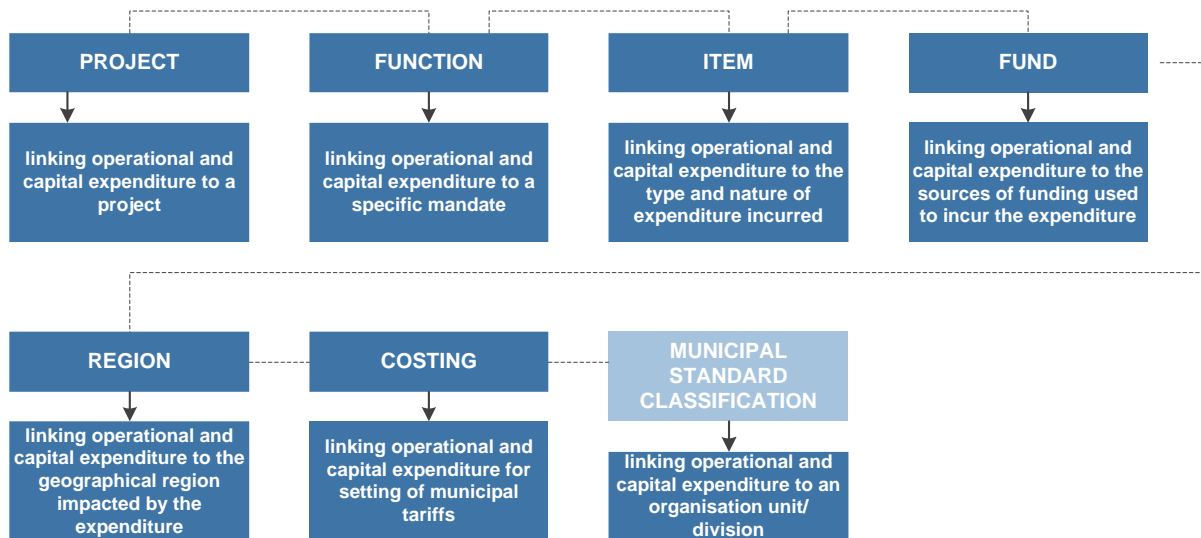
These reports on procurement and expenditure will be published continuously on the National Treasury's website and submitted to the Office of the Auditor-General of South Africa for purposes of real time audits. A real-time audit enables real-time oversight into the management and usage of funds earmarked for disaster relief and immediate consequence management. Going forward, National and provincial treasuries will publish the information on disaster events as an Annexure to the Section 71 (6) and (7) Quarterly Reports.

## **4 How to use the *mSCOA* to record disasters:**

*mSCOA* prescribes the detailed (posting-level) accounts that must be used to capture transactions in the financial systems. The multi-dimensional nature of the *mSCOA* chart provides for any combination of segments and the detail breakdown required to be used for reporting purposes, including the ring-fencing of disaster funds and expenditure.

### **4.1 The seven *mSCOA* segments**

The diagram below summarises the seven segments of *mSCOA*. All segments except for the Municipal Standard Classification Framework are regulated. It should be emphasised that data strings follow a specific order of relevance, as indicated below.



There is no need to make changes to the mSCOA to accommodate disaster event items if the chart is used correctly. The Project segment with the breakdown details provided per disaster, combined with the Fund and Item segments will allow for disaster funding and expenditure to be ring-fenced for monitoring and reporting purposes.

Municipalities should use the mSCOA segments as explained below to budget, transact and report on disaster events:

#### 4.1.1 Project segment

The Project segment allows for the creation of projects and sub-projects relating to disaster events. For the purposes of ring-fencing disaster events, the affected municipality must use ‘G’ and the relevant gazette number of the declared disaster to create the project when they adjust their budget to respond to disaster events. This disaster event project must be incorporated as a project in the IDP and relevant project detail files (PRTA, PROR, PRAD), budgets (adjustments and next MTREF as applicable) and expenditure against the project must be reported monthly in terms of the Section 71 reporting.

In the case of the national disaster declared on 18 April 2022, a project for G46247 (corresponding to Government Gazette No. 46247) must be created to allow for ring-fencing of funding and expenditure relating to the disaster. G46247 will therefore be used as the breakdown identifier for the individual projects relating to the disaster event.

The mSCOA allows for projects to be categorised as operating, capital or default. The following arrangements pertain to disaster events budgeting and reporting:

##### *Operating projects*

mSCOA provides for *Disaster Management* projects under *Typical workstreams: Emergency and Disaster Management: Disaster Management*. Breakdown for operational projects that relates to expenditure in response to the disaster must be provided in the financial systems.

##### *Capital projects*

All capital projects must be included as part of the planning process and projects must be created per asset class on the projects file. This includes the reprioritising of projects to create capital assets that are either being renewed, upgraded or constructed due to disaster events.

Assets that were impaired or destroyed during the damage must be impaired or written off in the financial system in line with GRAP 17 and once restored/ replaced, the impairment should be reversed and the process of depreciation should continue.

Where assets would be constructed as new asset, the projects must be prioritised in terms of the disaster and the rebuilding of the asset must be included in the IDP. All assets will become part of the fixed asset register of the municipality and capitalisation of assets will be done in terms of the asset management policy of the respective Council.

#### *Default projects*

Default project must be used for recording all revenue received to deal with the disaster.

### **4.1.2 Function Segment**

The Function segment links expenditure to a specific mandate. For the purpose of recording disaster events, the non-core function of Disaster Management is utilised to manage the disaster on an operational level. However, the functions where assets will be replaced will be in alignment with the Municipal structures.

Municipalities are urged to ensure that they provide support to affected communities within their mandate and not to incur cost in terms of unfunded mandates.

### **4.1.3 Item Segment**

The Item segment will provide the type and nature of expenditure incurred. Details on specific expenditure items such as maintenance (emergency), inventory, contractors for different services, etc. will be reported against the project detail and the function disaster management. The detail of these expenses is captured in the municipal sub-systems.

### **4.1.4 Funding Segment**

The fund source indicates whether the project created for the disaster event is funded from the equitable share, conditional grants, own revenue or other sources of funding.

In the case of donations, the funding source will be the institution that provided the funding and will be dependant on the approval by National Treasury through the Reconstruction and Development (RDP) Fund. Any allocations-in-kind must be recorded and reported on in accordance with the mSCOA. Guidance in this regard was provided in mSCOA Circular No. 13 dated 10 May 2022.

### **4.1.5 Region and Costing segments**

The Region and Costing segments must be used as per the normal mSCOA prescripts. Towards this end, the geographical region impacted by the expenditure must be classified. Where salaries of staff are allocated against municipal running cost, the salaries must be charged through the costing segment to the project identified for the disaster as a secondary cost.

## 4.2 Practical examples

The attached **Annexure A** provides further guidance on the use of the *mSCOA* to report on expenditure relating to disaster events through practical examples.

## 5 Conclusion:

Municipalities must ensure the disaster funding and expenditure are ring fenced (isolated) and classified correctly in terms of the *mSCOA* when budgeting and transacting. This will assist with reporting on the disaster, as well as with the compilation and disclosure when it comes to the preparation of the Annual Financial Statements (AFS). It should be noted that the response to the disaster will have to be separately disclosed due to the material nature of the transactions in terms of GRAP 1.

This circular takes effect immediately and municipalities affected by the disaster declared on 18 April 2022 must report on expenditure pertaining to this disaster when they submit their Section 71 reporting for April 2022 due by 13 May 2022. If the information submitted on disaster events via the *mSCOA* data strings are poor and lacks the credibility to enable adequate oversight, the National Treasury will introduce weekly manual reporting on disaster events.

It should be noted that this circular pertains specifically to the disaster event of 18 April 2022 and in general to any future disaster events.

Any queries relating to the guidance provided in this circular must be logged on the *mSCOA* Frequently Asked Questions (*mSCOA* FAQ) Database. The database can be accessed on the *mSCOA* website on the following link:

<http://mscoafaq.treasury.gov.za/>

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