

SCOA Integrated Consultative Forum 1 & 2 December 2014

Circular 57, pilot municipalities, service provider offerings and way forward

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 1 December 2014



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Legal Framework and unpacking the Municipal Regulations on Standard Chart of Accounts



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Legal Framework - Constitutional Requirements

- **Section 215(1) of the Constitution states that:**

National, provincial and municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

- **Section 215(2) and (3) of the Constitution states that:**

(2) National legislation must prescribe-

- (a) The form of national, provincial and municipal budgets;
- (b) When national and provincial budgets must be tabled; and
- (c) That budgets in each sphere of government must show the sources of revenue and the way in which proposed expenditures will comply with national legislation.

(3) Budgets in each sphere of government must contain-

- (a) Estimates of revenue and expenditure, differentiating between capital and current expenditure;
- (b) Proposals for financing any anticipated deficit for the period to which they apply; and
- (c) An indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuring year.

Legal Framework - Constitutional Requirements

- **Section 216(1) of the Constitution states that:**

national legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing -

(a) Generally recognised accounting practice

(GRAP – OAG)

(b) Uniform expenditure classifications; and

(Standard Chart of Accounts / General Ledger)

(c) Uniform treasury norms and standards

(MFMA, Regulations, Circulars and Guidelines)

- **Section 216(2) of the Constitution states that:**

The National Treasury must enforce compliance with the measures established in terms of subsection (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

Legal Framework - MFMA Requirements

- **Section 168 (1) of the MFMA states that:**

The Minister (of Finance), acting with the concurrence of the Cabinet member responsible for local government, may make regulations for, among other things –

(a) any matter that may be prescribed ...and...

(p) any other matter that may facilitate the enforcement and administration of the Act

SCOA Project Phase 4: Piloting and Change Management – Principles adopted as part of the way forward



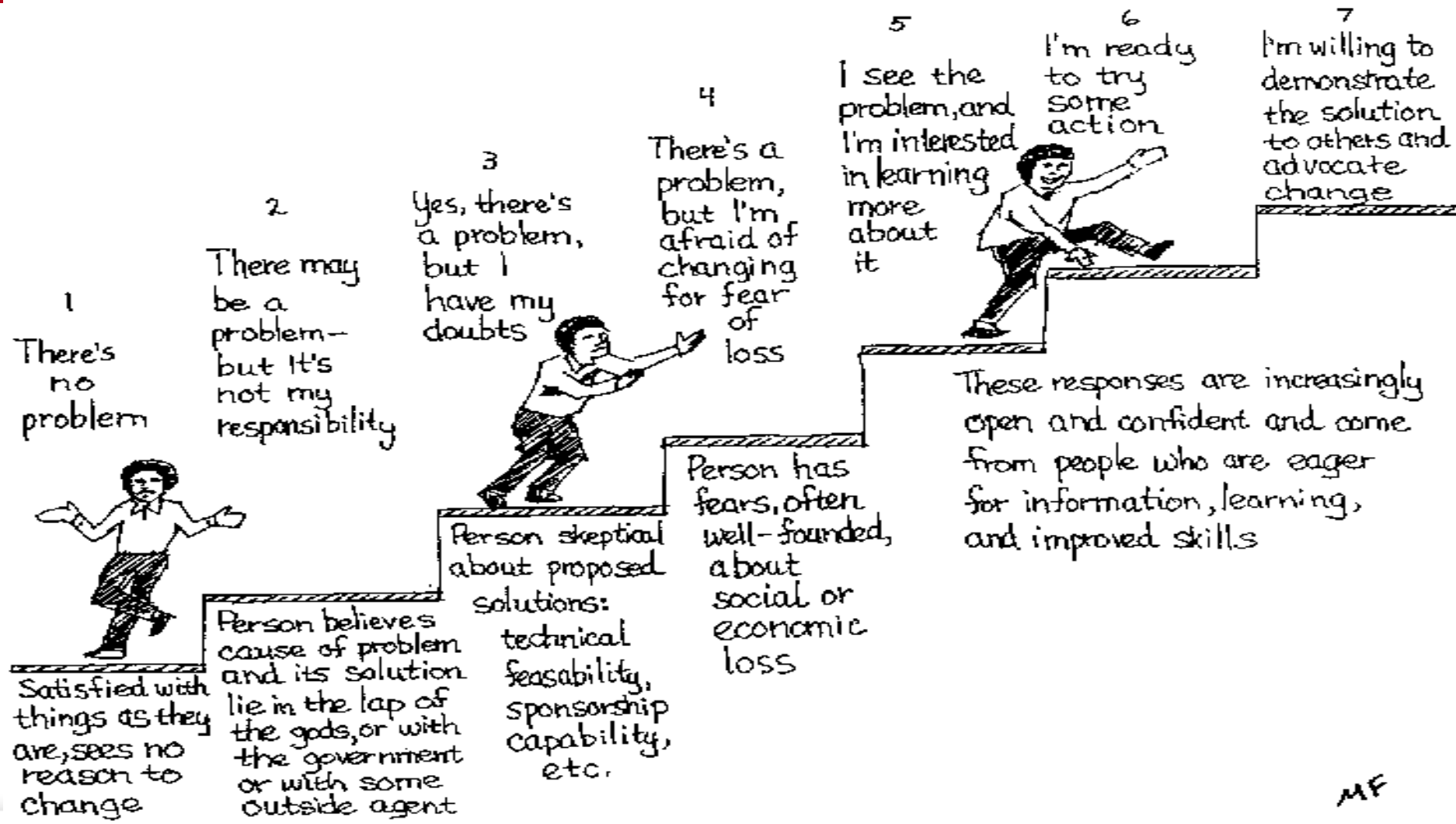
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Creating an enabling environment...SCOA Project Phase 4

- Importantly, incorporation of all stakeholders and role-players
- Participatory of nature offering all an opportunity to contribute to the collective objectives in a structured and goal orientated manner
- Risk management and mitigation thereof
- Hence the establishment of the SCOA ICF and other forums
- Learning through collective participation – The mSCOA is a significant and challenging reform for implementation by all. The key is determining the most appropriate mechanisms and approaches for implementation.
- **The proverbial boat has sailed – There is no purpose in trying to derail the implementation by questioning the design framework of the classification framework**
- Energy must be focused on ensuring technical compliance to the Regulation – Don't focus on others. Its your own development that is important. **How do you provide the necessary compliance!**

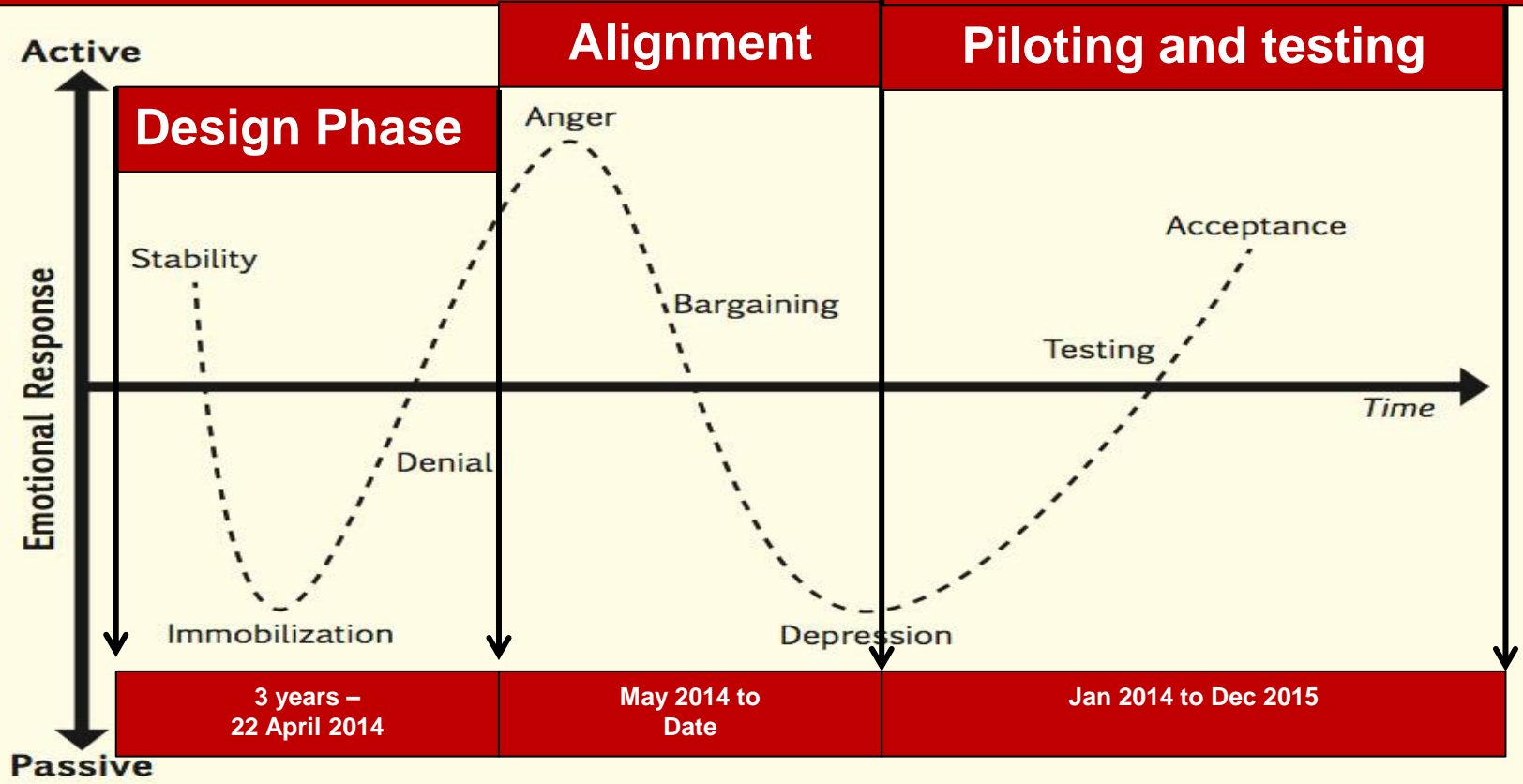
SCOA and the change management cycle...



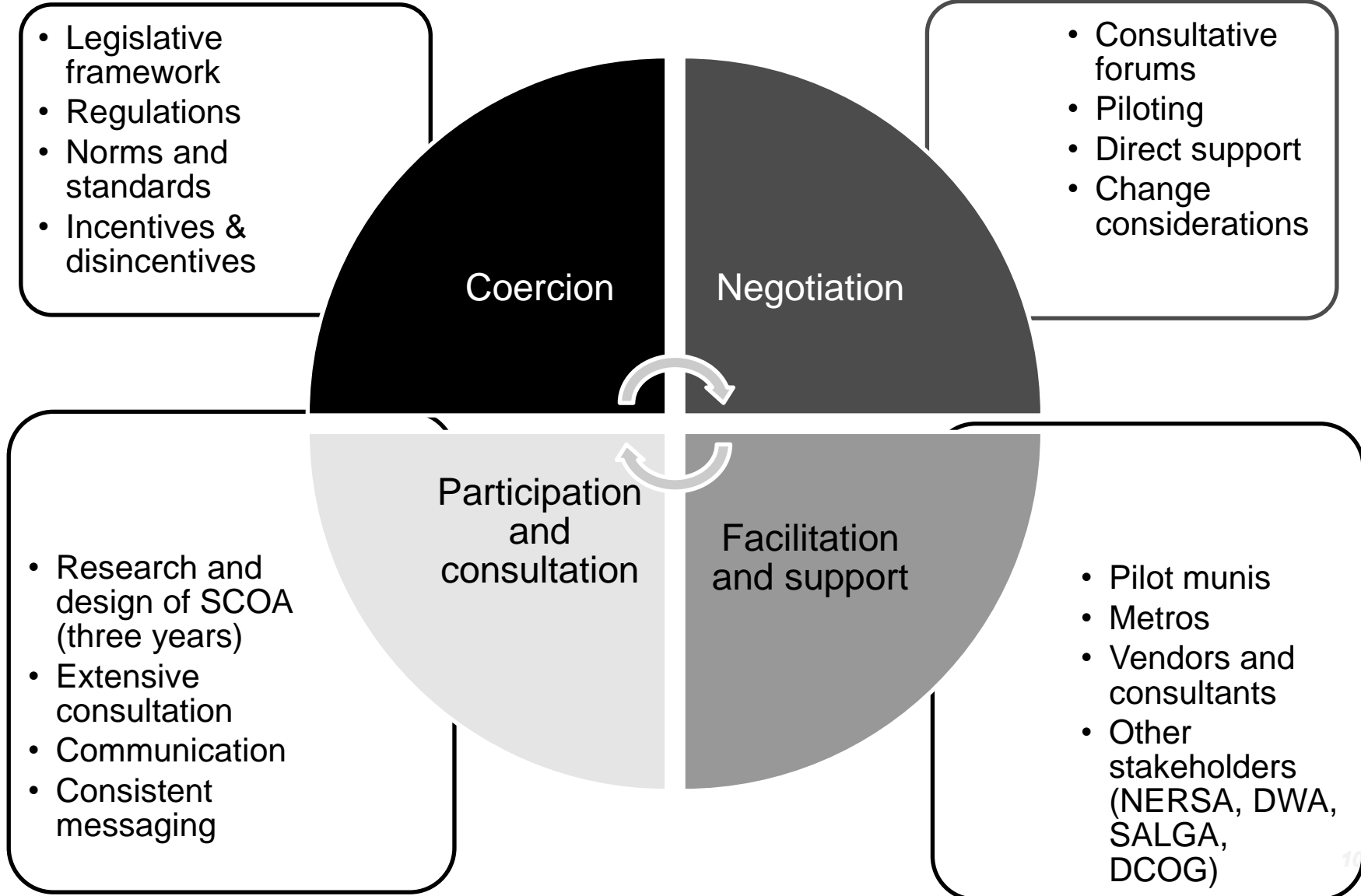
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SCOA and the change management cycle...

SCOA change management resistance



Overcoming *m*SCOA change...*Key principles*



MFMA Circular 57 – Purpose and objective



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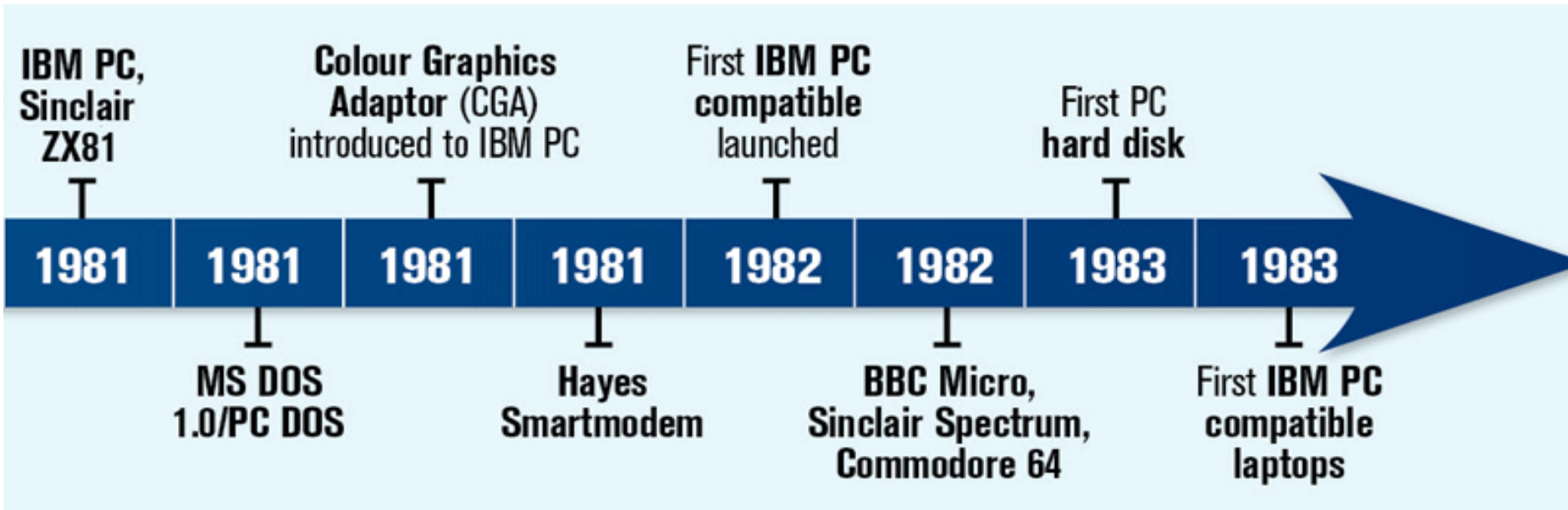
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MFMA Circular 57

- MFMA Circular 57 was issued specifically as a result of among others:
 - Pending regulation of the mSCOA
 - Stabilization of the municipal ICT (systems environment) pending the Regulation of SCOA
 - Ensuring continuity of the municipal business environment. Advising municipalities as it relates to entering new contracts with service providers
 - Providing municipalities with certainty as it relates to SCOA compliance through system functionality (financial)
 - Ensuring each service offering provides value for money and is purpose fit for the specific requirements of LG in a South African context
 - Hence municipalities were advised not to contemplate changing their financial applications (systems) until SCOA Project Phase 4 has been

SCOA is a classification and accounting reform (business reform) – Not a technology reform

- Many commentators (i.e. municipalities and other stakeholders) blame technology and the shortcomings thereof as reasons for performance failures!
- In addition, in some cases it is advocated that SCOA is an unrealistic reform that will fail owing to technology limitations!



Prior to 1980's we still kept books, managed debtors, had a general ledger, recorded financial transactions

What makes SCOA so different from normal accounting practice?
After all, it remains a classification and accounting framework!

Municipalities are autonomous (self governing) organs of state

- Importantly, municipalities are autonomous.

Section 151 (2) and (3) of the Constitution reads as follows:

- (2) The executive and legislative authority of a municipality is vested in its Municipal Council**
- (3) A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation, as provided for in the Constitution**

- As a result they remain:
 - Responsible and accountable for all decisions taken in the execution of their Constitutional mandate
 - Need to ensure the legislative framework governing local government is adhered too at all times

Enforceability of MFMA Circular 57

Problem Statement

- Municipalities are entering the market for financial systems - Against the guidance of MFMA Circular 57
- Financial system vendors are raising concern about the approach by their competitors – Not adhering to MFMA Circular 57

Position of NT

- **MFMA Circular 57 remains relevant and applicable**
- The National Treasury is still of the opinion that municipalities should refrain from replacing their financial systems (applications) pending the finalization of the SCOA piloting phase
- While this is our position nothing stops municipalities from acting outside of the guidance of MFMA Circular 57
- Should municipalities continue to replace current systems and they are found to be non-compliant to the Regulations come 2017, **their will be repercussions / consequences**

Principles of SCOA Project Phase 4

- The piloting of the SCOA classification framework provides stakeholders and role-players an opportunity to pave the way forward. This will only be achieved if the following principles are adhered to:
 - Collective
 - Participatory
 - Common objective
 - Respect
 - Constructive engagement

The spirit of SCOA Project Phase 4 should be embraced in a constructive manner!

Current municipal financial system (vendor) landscape and SCOA pilot municipalities

System Vendor	Financial Application	Pilot Municipalities	Province	Provincial Treasury Advisor	Pilot Municipality Advisor
Sage Evolution	Pastel ERP	uMgungundlovu district and Giyani local municipalities	KwaZulu-Natal & Limpopo	Limpopo	Greater Giyani Local Municipality
Munsoft	Munsoft	Nkangala district & Elias Motsoaledi, & Setsoto local municipalities	Mpumalanga, Limpopo & Free State	Free State	Setsoto Local Municipality
Sebata	Sebata	Victor Khanye, Senqu & local municipalities	Mpumalanga, Eastern Cape & Free State	Mpumalanga	Victor Khanye Local Municipality
Fujitsu	Abacus & Promis	uMhlathuze, Richmond & Bergrivier local municipalities	KwaZulu-Natal & Western Cape	Kwazulu-Natal	uMhlathuze Local Municipality
Bytes Technologies	Samras	Overstrand Local Municipality	Western Cape	Western Cape	Overstrand Local Municipality
Rdata	ProMun	Knysna & Camdeboo local Municipalities	Western & Eastern Cape	Eastern Cape	Camdeboo Local Municipality
BIQ	Quill	Merafong Local Municipality	Gauteng	Gauteng	Merafong Local Municipality
Business Connexion	Venus, eVenus & Solar	Drakenstein, Hessequa, Sol Plaatje local municipalities & Ekurhuleni Metro	Western Cape, Gauteng & Northern Cape	Northern Cape	Sol Plaatje Local Municipality
Vesta	Phoenix	Tlokwe Local Municipality	North West	North West	Tlokwe Local Municipality