mSCOA

POSITION PAPER 2–SHORT CODES

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Position Papers is the methodology adopted by the mSCOA Project Steering Committee to record research conducted, comments received from stakeholders on subject matter and forms the basis for formulating and concluding on a formal position by all National Treasury stakeholders.

Position Papers as such do not have any legal status but serve to formalise and conclude subject matter. Subject matter forming the basis of discussion will determine any further action required by National Treasury in concluding and providing a formal position on the specific technical area. BACKGROUND

1. The posting level accounts provided for in the various SCOA segments are referenced by using a combination of alphanumeric and numerical code structure.
2. The “code numbering” givesto the hierarchical nature of the classification structures defined within the various segments.
3. The hierarchical nature refers to a label defining a group of accounts, containing a further breakdown of accounts. These “levels” is envisage to “link” to different reporting levels within the required reports, for example the specimen annual financial statements, budget reporting formats, in-year-reporting framework.
4. The SCOA Tables provide for the code structure as summarised in the Project Summary Document [August 2014].
5. The code structure assigned to the various SCOA Segments contains an alphanumerical character to define the segments followed by a numerical structure representing the various levels within the reporting structure.

| **Code** | **Segment** |
| --- | --- |
| C | Costing |
| F | Fund |
| FX | Function |
| IA | Item Segment: Assets, Liabilities and Net Assts |
| IE | Item Segment: Expenditure  |
| IZ | Item Segment: Gains and Losses |
| IR | Item Segment: Revenue |
| P | Project |
| R | Regional Indicator |

1. The multi-dimensional SCOA classification framework does not necessitate a fixed account structure. However, it is recommend the following fixed structure may be applied throughout all municipalities and municipal entities in ensuring consistency should the system application be able to accommodate the coding.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Segment** | **Function** | **Fund** | **Item** | **Project** | **Costing** | **Regional Indicator** |
| **Column 1: Alphanumeric** | 1  | 1 | 2 | 2 | 1 | 1 |
| **Column 2 - 13** | 3 digits | 3 digits | 3 digits | 3 digits | 3 digits | 3 digits |
| **Total Digits****224** | 37 | 37 | 38 | 38 | 37 | 37 |

# COMMON DEFINITION

1. The definition used in this document is defined using “common explanation” avoiding the use of technical references.
* Account Code/Account Designator: When accounts are designated by numbers, the synonymous term account number is more common. The term *account code is* principally used when account designators are non-numeric, for example if they use both letters and numbers. [yourdictionary.com]
* Flat Structure: Flat structure refer to a simple list of account numbers made up as a sequence as explained for “vote structure”
* Multi-dimensional segments: “having more than one dimension / exhibiting many diverse characteristic” [thefreedictionary.com] Describing something as ‘multidimensional’ implies that it’s complex. In the context of mSCOA the segments “making-up” the mSCOA classification framework.
* Short codes: this refers to “short codes” associated with the lengthy account code provided in the SCOA tables for posting level accounts.
* Vote Structure: Historically the application system comprising of “accounting codes” consisting of typically a prefix derived from the municipal standard classification followed by a sequence for the item. Mostly only two of the seven segments defining mSCOA classification had been used resulting in a relative “short account code”.
* Vote: Sub-functions as defined in the Function Segment of mSCOA complies with “vote” as defined in the Municipal Finance Management Act, Section.

# PROBLEM STATEMENT

1. Historically system application made use of “flat structures” to set-up account numbers for transactional recording to the general ledger.
2. The introduction of the mSCOA, being a multi-dimensional chart of accounts, necessitated a shift from the typical “flat structure” to a dimensional selection avoiding the “building” of a “vote structure”.
3. Some system developers experience difficulties in setting-up the lengthy account numbers within the application. Some matters raised in this regard:

| **FORMAL CONSULTATIONS** |
| --- |
| **From**  | **Comment** | **Response by National Treasury** |
| Ethekweni Municipality [3.1] | The proposal of segments as reflected in the 'Schedule' to the Draft Regulations is supported in principle. However, what are critical are the coding structure and what the respective fields will represent to National Treasury and the Municipality. The number of fields in the account number will determine the extent to which financial and other data can be appropriately coded to provide the requisite information for reporting purposes. Whilst our own IT system is flexible enough o achieve this, many Municipalities with less sophisticated IT systems may not be able to comply. | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. National Treasury engaged with the system vendors in individual meetings to provide the vendors the opportunity to give a "status update" on progress in meeting the SCOA System Requirements, Business Process and Minimum System Requirements. National Treasury did an independent evaluation of the progress made and the "readiness of system vendors" to commence with the piloting process". This type of direct engagement will intensify from 2014 up to full implementation of SCOA. National Treasury will not be "vetting" vendors as SCOA "compliant" but will give priority to system vendors meeting the requirements to commence piloting the selected municipalities. If a vendor is not successful in meeting SCOA compliance the vendor will need to inform their municipalities within the contractual arrangements with the municipality. National Treasury will be working with the system vendors to assist them in meeting the requirements and continue their engagements with the municipalities. It might be that due to business considerations the system vendors decide not to adopt the National Treasury requirements and thus discontinue support to local government.  |
| Ethekweni Municipality [3.2] | The codes for the proposed segment will have to be prescribed by National Treasury and must be common for all Municipalities. Codes for other fields will be determined by each Municipality to satisfy their own reporting requirements.  | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| City of Johannesburg [Email 5 December 2013] | In the MFMA Circular No 70 it is suggested that the Council prepared the 2014/15 budget in terms of the SCOA. This leads me to believe that the length/format of each of the segments has already been defined. We will shortly be converting from SAP 4.7 to ECC 6 and this will be an ideal opportunity to cater for SCOA. Please could you provide the structure of the 7 segments, e.g. fund - 3 digits, function - 5 digits alpha, etc. | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In these instances "codes" will need to be extended by the municipality and will be unique to each municipality. Once the Regulation has been promulgated the detail tables will be made available. |
| City of Tshwane [3.5] | Length of Descriptions for Items may be problematic on the SAP system. | This comment is noted but will be the subject of further discussions with the municipality and the system vendor. SCOA does not change the transaction capturing process but expands the transaction coding and the placement of data for the extraction of information for reporting purposes. This might be a misunderstanding as this has not been identified as a problem by other SAP users. |
| WC PT Mossel Bay [3.2.1] | Trial Balance format: In what format will a trial balance be provided to the Auditor-General for auditing purposes if a FLAT structure is not used for the account numbers? According to regulations the account number must be split in a string and all reporting must be done from the lowest level (from sub-ledgers) and this makes it difficult to picture how year-end journals will be processed. Was the processing of prior year corrections considered with the multi-layered structure and what will this process be. | The Auditor-General has a mandate for auditing the annual financial statements which include the appropriation statement. The SCOA segments supports multi-dimensional views implying that the trail balance will be built to support the financial statement presentation and accordingly the lead schedules required by the auditors. SCOA has already been implemented by departments and providing information to the auditors has not been an issue. The auditors further download file formats containing all the segment information for sample selection. SCOA implementation would be one of the considerations the auditors test in checking the classification inherent to the transactions they audit. The relevance of prior period corrections in the context of a multi-dimensional chart of accounts is unclear as the correction will be done to make the required changes to all the segments. The regulation provides for the transaction to be captured and at this point classified within the multiple segments. There is no difference from the current classification being undertaken by municipalities as at least 3 segments are currently relevant (item, municipal standard classification and function). |
| WC PT Witzenberg [3.4.4] | For SCOA to be standard NT have to provide the numbering as well. | The account numbers will be available in Version 5 to be released early in 2014. |
| Nigel Graves [6] | Has any consideration been given to this type of code structure? I believe I wrote something on this for you many years ago. An input code is the organisational unit that does the work and an output code is the target project. For example, the waste management unit might collect the refuse from the power station. The waste management unit would use their input code and the output code would be the power station expenditure. Very useful for transfer pricing and activity-based costing. Downside is that it increases size of chart and complexity. It could be an option for the larger municipalities? | Comment noted. Code structure does support the accounts codes to be included in Version 5. The basis of compiling the code structure will be included in the PSD. The proposal made is valid provided the systems have the functionality. |
| Overstrand Municipality [3.1] | The absence of a complete coding structure for all the segments, levels and sub-levels within the segments as part of the regulations does limit practitioners and service providers from commenting on the SCOA as a whole. A coding structure would have enabled a schematic lay-out to identify possible risk areas. This also impacts on comments relating to minimum business process requirements and minimum specifications for financial and related systems. | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In these instances "codes" will need to be extended by the municipality and will be unique. |
| Fujitsu [4.5] | The absence of definitive guidelines in terms of the lengths and attributes of the SCOA Segments could negatively jeopardise the success of the SCOA Pilot sites, should this information not be provided in good time prior to the commencement of the Pilot projects.Reference: Draft SCOA Regulations – Schedule – Segments of SCOA | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In these instances "codes" will need to be extended by the municipality and will be unique. |
| Fujitsu [5.1.1]  | Reference is made to “The appropriate classification code….”. Specific detail pertaining to such code is however not provided. Clarity is required in terms of whether these codes will be prescribed by NT, or whether Service Providers will be allowed to define these codes themselves – provided that the Descriptions provided in the detailed spreadsheets are catered for.Example: Alphanumeric & 4 characters longReference: Draft SCOA Regulations – Schedule – Segments of SCOA (1) | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| Fujitsu [5.1.2]  | The “Fund Segment” historically is not the first component of a Vote. By having the Fund as the first Segment will require additional change management effort across most municipalities. Consideration to move this segment to the third / fourth Segment should be given.Reference: Draft SCOA Regulations – Schedule – Segments of SCOA | Comment noted. The SCOA is a multi-dimensional chart with various segments. The logical sequencing of the segments is irrelevant as the chart operates within a grid environment. Therefore the fund segment is not the first segment; sequencing will be informed by the business activity to be undertaken. |
| Fujitsu [5.1.2]  | Reference is made to “classification” in the description. Specific detail pertaining to such classification is however not provided. Clarity is required in terms of whether the attributes of these classifications will be prescribed by NT, or whether Service Providers will be allowed to define these codes themselves – provided that the Descriptions provided in the detailed spreadsheets are catered for. Example: Alphanumeric & 4 characters long.*Reference: Draft SCOA Regulations – Schedule – Segments of SCOA (2)* | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| Fujitsu [5.3.1]  | Reference is made to “The appropriate classification code….”. Specific detail pertaining to such code is however not provided. Clarity is required in terms of whether these codes will be prescribed by NT, or whether Service Providers will be allowed to define these codes themselves – provided that the Descriptions provided in the detailed spreadsheets are catered for.Example: Alphanumeric & 4 characters long*Reference: Draft SCOA Regulations – Schedule – Segments of SCOA (6)* | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| IMFO [5.3.1] | The classification code is vital here to ensure uniformity nationally. If each municipality has different interpretations of classification codes here, the whole SCOA exercise will fall flat because uniform data integrity will not be achieved nationally.*Reference Schedule Item 6* | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| WC PT Witzenberg [5.4.2.2] | No standard item numbers for expenditure items: | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| Fujitsu [5.4.1]  | Reference is made to “The appropriate classification code….”. Specific detail pertaining to such code is however not provided. Clarity is required in terms of whether these codes will be prescribed by NT, or whether Service Providers will be allowed to define these codes themselves – provided that the Descriptions provided in the detailed spreadsheets are catered for.Example: Alphanumeric & 4 characters longReference: Draft SCOA Regulations – Schedule – Segments of SCOA (6) | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code has been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In this instances "codes" will need to be extended by the municipality and will be unique to each specific municipality |
| WC PT Witzenberg [5.7.2.1] | The new item numbers will consist of many characters. Is it really necessary that the municipalities’ number be part of the item number? | The municipality number (coding) is critical in the "whole of government" information requirements as reported currently though the in-year reporting framework. No changes to the individual municipality reporting coding is envisaged.  |
| Fujitsu [5.5.1]  | Reference is made to “The appropriate classification code….”. Specific detail pertaining to such code is however not provided. Clarity is required in terms of whether these codes will be prescribed by NT, or whether Service Providers will be allowed to define these codes themselves – provided that the Descriptions provided in the detailed spreadsheets are catered for.Example: Alphanumeric & 4 characters longReference: Draft SCOA Regulations – Schedule – Segments of SCOA (6) | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In these instances "codes" will need to be extended by the municipality and will be unique. |
| SAMRAS [6.1] | We have not received the SCOA framework as yet, we need this asap to see the size of the numbering and this is holding development back at this stage. | The account numbers for the posting level detail per segment will be provided in Version 5 of the SCOA Tables. A 6 digit code had been designed that identifies the segment, group of account and posting level account. Provision is made in the SCOA Tables for accounts to be "breakdown allowed" providing for further detail to be added by the municipalities. In these instances "codes" will need to be extended by the municipality and willbe unique. |

| **FREQUENTLY ASKED QUESTION REGISTER [JUNE – OCTOBER 2014]** |
| --- |
| **From**  | **Comment** | **Response by National Treasury** |
| Danie du PlessisVesta | In the Account Number there are 12 codes strung together. Some indicate 1 character, others 2 and another 3 characters. Would NT have a problem if I use 3 characters for each as long as the values correspond with the published values? | The account numbers had been standardised throughout the SCOA Tables to consist of 13 fields containing 3 digits each. This is the standard code that must be used in submitting information to National Treasury. System developers encountering challenges in respect of the total field length my apply a methodology for short codes in the application provided that data extraction would contain the standard code. |
| Danie du PlessisVesta | Some of the definitions and descriptions are extremely lengthy. Is it the understanding of NT that these would have to be stored verbatim on the Financial Management System’s database? | The definition need to be available to the users to assist in classifying transactions, for example, stored in the form of look-up or help functions. |
| Grant EastonKnysna Municipality | What would a "full vote number" look like. | Refer to the Project Summary Document placed on the National Treasury Webpage, paragraph 97 for an illustration on posting level code structure. National Treasury propose that the account description be used for reference purposes but the account structure be retained in the data file for reference purposes. |
| Danie van HeerdenQuill Associated (Pty) Ltd | Where the SCOA classifications for functions and items are stored on the base general ledger transactions when these are posted and therefore provides for ‘SCOA’ reporting to be extracted directly from the transaction database, no matter what coding structure is used when posting financial transactions. | Position Paper: Mapping |

1. In addition to the above comments received, the following inputs from Danie du Plessis (Phoenix Business Manager):
* During the recent SCOA - ICF conference held in Cape Town, it was abundantly clear that there existed a misconception as to what the term mapping really means, how it is defined and how it is going to be enforced. It was also very clear that a significant number of vendors are definitely going to map and this was actually confirmed during discussions in the corridors. To be quite frank even Cape Town, with their SAP system, is going to map and it was said, in as many words ,when they spoke about the fact that they cannot accommodate the long account numbers in SAP and are therefore going to leave their chart "as is" and create an alternative SCOA chart. This is mapping in its truest sense. A further contributing factor to the hazy lines of mapping is the fact that NT kindly allowed vendors to use a short or internal key to offset the massive SCOA keys.
* We believe that the SCOA keys are a natural consequence of the objectives of SCOA and not one that you can easily work around. Vesta has therefore embraced the challenge and, as was demonstrated during the System Evaluation for Pilot readiness, we have adopted an "either/or" approach to the use of internal and SCOA keys. Which approach implies that the user can use either of the keys throughout the operations of the system or the municipality can elect to use SCOA only.
* Speculation amongst vendors at the ICF was rife as to what standards will be applied to judge whether a system was using a direct or indirect mapping protocol. The consensus was that if the SCOA keys were recorded at a transactional level the system would pass scrutiny.
* Unfortunately this notion is without substance as it is as easy to record the SCOA keys at a transactional level, using a mapping technique, as it is to map the chart when compared to a total change of your system to work with the SCOA keys only.
* The short key, although extremely handy for day to day operations, is the point of contention where everything falls apart.
* Because the difference between mapping and non-mapping is a couple of million Rand's worth of development it is extremely important to have each and every role-player on the same page as to exactly what mapping is. To achieve this it is important to publish compliancy criteria to be used in evaluating the compliancy of systems to this fundamental directive.
* The compliancy criteria will also pave the way for municipalities to use their current account numbers as the internal short key for operational purposes because the matter of mapping has been dealt with per se. Conversely, forcing municipalities to change their current keys will unfortunately also not ensure a non-mapping system.
* We have included the following as a framework for you to use, as you deem fit, in defining what mapping is and following that are the key elements to determine compliance with the criteria for a non-mapping system.
* Definition of Mapping: “The International Organization for Standardization's preferred definition of mapping is "the process of associating concepts or terms from one coding system to concepts or terms in another coding system and defining their equivalence in accordance with a documented rationale and a given purpose.". The term "coding system" is used to depict encoded data generically including financial terminologies, administrative codes, vocabularies, classification systems and any type of schema used to represent data in information systems.”
* In short mapping can be described as a process by which two distinct data models are created and a link between these models is defined.
* Without going into too much technical detail it suffices to say that there are various mapping techniques available and some are so subtle that even a fairly in depth analysis of the system or its data will not point it out. As an example, the moment that you put an internal short key and the SCOA equivalents on a structure like the General Ledger that structure becomes a mapping tool. It is therefore imperative to define the criteria which will be used to evaluate compliance to a map free system.
* We believe that it is absolutely imperative that the ground rules are clearly set out upfront to ensure uniform compliance and prevent protracted legal argumentation after the fact “because we did not really understand what was meant by mapping”.
* The minimum criteria, which we consider as sufficient to ensure compliance to a map free system, are as follows:
	+ 1) The use of the short key must be a parameter driven function of the system. If switched off, the system must be able to function normally on all aspects of data processing and reporting using the SCOA keys only. This implies that all transactions (manual and automated), data processing, enquiries and reporting will be able to function, without problem, using the SCOA keys only.
	+ 2) No data structure, process or method will be encapsulated anywhere in the system with the primary function of relating SCOA to any other form of accounting chart. As an example, the system will not perform a read with the short key in order to retrieve SCOA equivalents or vice versa.
	+ 3) All relevant SCOA keys will always be stored as part of the transaction set and where the short key parameter is switched off the short key will not be captured on the database as part of the transaction set in order to prove compliance on all levels of a SCOA enabled accounting system.
	+ 4) The switching of the “short key parameter” must have no restriction whatsoever on when it can be turned on or off or how many times this can be done. It must especially not be bound by reporting or financial periods.
1. Response given by the SCOA Project Team :
* We thank you for your question and the intense level of research that you have undertaken
* Regarding the Cape Town matter, the SCOA Project Team has extensively engaged with the City and we can assure you that there solution in accommodating for SCOA Compliance is not informed by mapping. The confusion is more related to the use of terminology, in this case mapping, and not the methodology adopted by the City.
* With regards to the short keys we are in disagreement with your point. The SCOA keys, are as you correctly point out, a natural consequence of the SCOA objective, and you are 100 per cent correct when you say that it cannot be worked around. However, we are completely satisfied by the arguments put forward by the specific vendors as to why and how they are going to use short keys, and as to how the short keys are going to be set up. Believe me when I tell you that if any vendor thinks the short keys are a convenient workaround to mapping, they will be clearly caught out. As part of our audit we will be comparing the "short key" setup to the old chart of accounts, and if it appears to be aligned to mapping the vendor will not be assessed as SCOA compliant.
* We also believe that we have to be practical when it comes to SCOA and short cut keys. Take the example of a capture clerk sitting at the municipality. This clerk only sells prepaid electricity. She needs a simple capture screen to sell her single product. It is in nobody's best interest for her to select 7 different segments just in order to complete her sale. This is where the practical side of things come into play. At a higher level, somewhere between the clerk and her CFO, this repeat transaction is identified. At this higher level, they decide to set up a short code to prevent her from having to capture all these segments. The only other alternative is for the vendor or system owner to "hard code" the rule into his system. So in the end sanity has to prevail, and since the short cut code adds serious efficiency to her job, it would be foolhardy not to embrace such a short cut code and force her to transact inefficiently.
* We appreciate that VESTA has embraced the SCOA codes and built it into their system, as have numerous other vendors.
* Regarding what standards will be applied to judge whether a system was using a direct or indirect mapping protocol. You state that the consensus was that if the SCOA keys were recorded at a transactional level the system would pass scrutiny. Unfortunately this would be a risky approach for you. That is the starting point, and only the starting point. If you do not record at transaction level you will fail the judging process. This does not in any way mean that you will pass just because you record at transaction level. It is just the point of departure. We agree with your assessment that this notion (i.e. merely recording at SCOA level) is without substance as it is as easy to record the SCOA keys at a transactional level, using a mapping technique, as it is to map the chart when compared to a total change of your system to work with the SCOA keys only.
* When it comes to short keys, we disagree with you that it is a mapping exercise. If you wish to not use the short keys, by all means, do not use it. We will however not be imposing such a restriction on short keys, regardless of what your concerns are. We will, however, be extremely vigilant when people use these short keys, in terms of how they are setup, how they are maintained going forward and how they compare to their legacy charts. We disagree that the short cut keys equate to mapping. In our opinion, the short cut keys fall under system setup.

# DISCUSSION

1. The mSCOA Classification Framework comprises seven regulated segments of which the use of six is compulsory. The standard chart of accounts must consist of at least the following segments, each of which incorporates a classification within the general ledger to record transaction information identified by codes within fields within the database:
* Funding Segment: This segment identifies the various sources of funding available to municipalities and municipal entities for financing expenditure relating to the operation of the municipality and provides for both capital and operational spending. The appropriate classification code of a transaction in this segment will be determined according to the source of funding against which a payment is allocated and the source of revenue against which income is received.
* Function Segment: This segment provides for the classification of the transaction according to the function or service delivery objective and provides for the standardisation of functions and sub-functions across local government with due regard to specific service delivery activities and responsibilities of each individual municipality or municipal entity.
* Municipal Standard Classification Segment: This segment provides for the organisational structure and functionality of an individual municipality, which is not prescribed, but must incorporate the structure and functionality as determined by that municipality.
* Project Segment: This segment provides for the classification of capital and operating projects as provided for in the integrated development plan, as provided for in the Municipal Structures Act, 1998 (Act No. 117 of 1998), and funded in the budget and records information on spending as against the budget as well as the utilisation of funds provided for the project. The appropriate classification code of a transaction in this segment will be determined on the basis of whether it relates to a specific project and if so, the type of project.
* Regional Indicator Segment: This segment identifies and assigns government expenditure to the lowest relevant geographical region as prescribed and the appropriate classification code will be determined according to the defined geographical area within which the intended beneficiaries of the service or capital investment are located who are is deriving the benefit from the transaction.
* Item Segment: This segment provides for the classification of item detail in the presentation of the financial position, performance and cash flow of the municipality or municipal entity. The appropriate classification code will be determined according to the nature of the transaction either as revenue, expenditure, asset, liability or net asset.
* Costing Segment: This segment provides for a classification structure for secondary cost elements and acts as a cost collector in determining inter alia total cost of a service or function, identification of productivity inefficiencies and tariff determination of municipal services. Classification codes are identified with reference to departmental charges; internal billing and activity based recoveries for purposes of recording specific activities and functions in terms of their unit costs and cost categories.
1. The SCOA Tables provide indicators for posting level accounts. These accounts contain a code number also linked to a guid.
2. The account numbers provided in the SCOA tables is the official referencing adopted by National Treasury.
3. National Treasury does not encourage the use of account numbers for recording of transaction by users but rather making use of account descriptions. Account descriptions may dependon the system features only refer to the “posting level” account and not the “string” containing the reporting hierarchy.
4. The system developer may use a methodology to convert the “long code” to a short code provided the “full reference (long code)” is retained for reporting purposes.

# CONCLUSION

1. In concluding on the subject matter two options exists:
* The use of “short codes” directly linked to a SCOA full reference (long code) is at the discretion of the system developer based on a “conversion methodology”.
* The alternative to the “system developer” defining a “conversion methodology” National Treasury to set-up uniform reference keys suitable for all applications.
1. Providing for uniform reference key may simplify the process for date exports/imports to the National Treasury Local Government Database.
2. **The code structure has been developed to provide for sufficient fields and digits for future expansion of the account codes. Provided this principle is maintained, the “account codes” could far exceed the current requirements and subsequently could be substantially shortened.**
3. **In making a decision,consideration needs to be given to some vendors already providing for the full code structure. Further specifically SAP as used by City of Cape Town cannot accommodate the current “lengthy account code”.**

# PROPOSED FURTHER ACTION

1. The Local Government: Municipal Finance Management Act, 2003: Municipal Regulations on the Standard Chart of Account (MSCOA Regulation), issued by the Minister of Finance on 22 April 2014, regulates the implementation requirements and provides for “minimum system requirements” in regulation 7: “(1) The Minister may, by notice in the Gazette, determine the minimum system requirements for municipalities and municipal entities to enable implementation of regulations 4 and 5. (2) Each municipality and municipal entity must implement the minimum system requirements by the date determined in the notice referred to in sub-regulation (1).
2. The notice as intender by the SCOA Regulation is made prescriptive to avoid the practice of “mapping and extrapolation”.

# DOCUMENT TRACKING AND ADOPTION

| **Date** | **Action**  | **Approval** |
| --- | --- | --- |
|  | Draft circulated for comment: Subject Matter ExpertRidwanThokan |  |
|  | Draft circulated for comment: SCOA Team |  |
|  | Draft circulated for comment: SCOA Technical Work Group |  |
|  | PSC consent |  |
|  | Draft circulated for comment: ICF Members |  |