

mSCOA Project: REPORTING

Position papers do not have any legal status in its own right. Subject matters dealt with in position papers are identified for specific consideration and may be matters controversial in nature, accounting treatment become relevant in order to achieve consistencies in classification throughout the local government sector.

Position papers need to be read together with the Project Summary Document as updated periodically by National Treasury.

Position papers DO NOT replace any National Treasury guidelines, circulars, practice notes or implementation guidelines.

Position papers are prepared by the mSCOA Project Team based on information collected through the mSCOA Project Lifecycle. Consultation with interested parties may be necessary in concluding on subject matters.

Terminology applied in the position paper will be specifically defined for updating the Standard Terminology list as published on the National Treasury web as part of the mSCOA project documents.

Frequently asked questions received are used as part of the basis for research to cross reference to the specific queries for retaining the completeness of this source of information.

Conclusion to be formulated on the position taken by National Treasury after conducting consultation as may be defined by the mSCOA Technical Work Group, and supplemented by the views of the mSCOA Project Steering Committee.

Recommendations to the mSCOA Project Steering Committee may include appropriate reference to any National Treasury documentation requiring review following the outcome of the conclusion on the position paper.

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BACKGROUND

1. A central source of data for all local government information must be available for use by different users, varying from provincial treasuries, National Treasury, sector departments, Statistics South Africa (STATSA), the South African Reserve Bank (SARB), etc. This standpoint is a key principle defined at the time of setting-up the mSCOA design framework. Furthermore, it is an improvement of data quality and integrity, by having a uniform classification framework with definitions to assist in the understanding of the classification of similar transactions throughout local government. This initiative must be supported by a modernised system application to facilitate the adoption and implementation of the mSCOA framework.
2. Reporting relates to internal and external information requirements for local government in the context of the municipality or municipal entity.
3. Reporting requirements internal to the municipality refers to management's needs for information from the system applications for the day-to-day running of the municipality or municipal entity. These requirements are defined by the municipality, and may vary depending on the size and complexity of the municipality or municipal entity. These internal municipal reporting requirements are excluded from the scope of this Position Paper.
4. External reporting requirements refer to information required by a wide user group external to the reporting entity. Specific attention is given to the reporting requirements driven by the Municipal Budget and Reporting Regulations, in-year reporting and reporting of audit outcomes used by the National Treasury and provincial treasuries in exercising their oversight responsibility. Refer to Annexure A for a summary of these reports.
5. Conceptually reporting deals with both financial and non-financial information requirements. Reporting in the context of mSCOA is however confined to financial information and does not address non-financial information. Eventually through further developments driven by the output from other National Treasury initiatives focused on non-financial information the benefits to be derived from the mSCOA will increase substantially.
6. mSCOA information as defined in the Position Paper on Mapping will be imported and retained in the Local Government Data Base and Reporting System (LGDRS) thus being the “Central Point of Access for all Local Government Information”. The LGDRS will be updated through data extraction import files. The import files will align to the information requirements determined by the abovementioned external reporting requirements.

THE PROBLEM STATEMENT

7. Recent meetings of the mSCOA Project Team with the Auditor-General of South Africa (AGSA), the Accounting Standards Boards (ASB) and municipalities identified the need to define the National Treasury's position towards "reporting" in the broad context as it relates to local government.
8. Confirmed by the feedback from the mSCOA (non-accredited) training initiative it is clear that municipalities and stakeholders are confused by the intended reporting. There are also a large extent of varying opinions that do not align to the rationale underlying the mSCOA tables and detail.
9. Perceptions exist that as a result of having a far more detailed chart of accounts with segmental information not populated in history information, will require updates of historical information.
10. Taken on balance in the year of implementing mSCOA is considered to be one of the most critical aspects during this phase of the project life cycle. The consequential impact on comparatives could not be over emphasised and cognisance needs to be taken throughout the project. Retaining a complete audit trail is of the utmost importance.
11. The Position Paper on Comparative, Historical Information and Restatements provide further discussion on this topical matter. The need for regulating annual financial statements is far less, considering that budgeted and actual financial information from reporting entities will be uploaded to the LGDRS, providing for seamless aligned between budget and actual financial information for statistical reporting by National Treasury. Accordingly, management's discretion and judgment underpinned in the Standard of GRAP is not compromised as the management and governance structure of the reporting entity has full discretion of presentation and disclosure made in the annual financial statements.

WHAT IS CONSIDERED TO BE INCLUDED IN REPORTING?

12. The reports defined and considered for alignment are limited to financial information at present. Included in the scope of work are the following:
 - Budget Reporting Formats – latest version released by National Treasury.
 - In-year Reporting Formats as prescribed in templates and available on the website. Refer to Annexure A for a comprehensive list.
 - ¹Illustrated Financial Statements
 - ²Cities Infrastructure Delivery Management Systems (CIDMS).

¹ Document referred to as on the OAG web on 20 May 2015.

² Not sure what the reporting requirements of the impact on mSCOA would be.

- National Energy Regulator of South Africa (NERSA) Regulatory Reporting Tables – 2012.
- Department of Water Affairs and Sanitation (DWS) Reporting Tables – December 2013.
- South African Revenue Services (SARS) Returns and supportive reports required for audit purposes.
- Management reports defined by the municipalities to be customised by the system developers.

PROPOSED DESIGN PRINCIPLES

Phase 1: Current Reporting Formats linked to mSCOA

What could be expected as a transitional arrangement?

13. Keep changes in terminology, layout and presentations in the existing reports at a minimum.
14. Technical Work Group to give consent on the alignment, potential inconsistencies and “best fits” that could apply. Proposed to be included in the Project Summary Document for completeness.
15. National Treasury recognises that reporting entities may have challenges in achieving seamless alignment in reporting (from planning, budgeting, in-year reporting and annual financial statements) in the accountability cycle during this transitional phase - this is the ultimate goal.
16. A key project outcomes of Phase 4 is to illustrate that mSCOA aligns to the various reporting formats. Access to this information serves a dual purpose, firstly by adding additional information in the mSCOA Tables for access by all users (interested in this detail) whilst the report extraction will be done from the Local Government Database (LGDRS)
17. The illustrated financial statements serve the purpose of providing for seamless alignment between budgeted information, in-year, monthly and annual financial reporting.
18. Linking a specific account within the mSCOA Segmental Tables is illustrated by including the various reports in columns to the left of the mSCOA excel tables. The filter function in excel assists a user to select a specific reporting line from the specific reporting with all the accounts linked to this reporting line. This information is partially available in Version 5.4 part 5 of the mSCOA Tables. Version 6 (final version for pilot site implementation) will present the final position on the reporting links.
19. Although these reports could be extracted directly from the local government database, the accountability for submitting returns should not

be removed from the municipal governance structures. Remember that this is a statistical system using commonality as a base.

20. The existing reporting formats will be customised for report automation from the systems applications used by the reporting entities. Design of these reports from the application will be tested during pilot site implementation.
21. Ideally the system application should drive month- and year-end closure procedures. This will ensure that information cannot be submitted to the Local Government Data Base (LGDRS) if the respective month or year has not been closed. However, National Treasury recognises that during the pilot and implementation phase provision needs to be made for resubmissions of month and year-end closure information.
22. Annual financial statements and the budget reporting tables ideally may or may not yet be extracted directly from the system application used by the municipality. The focus by system developers at present is to enable the application to deal with the mSCOA requirement in the set-up of external reporting. External reporting requires extensive resource allocation that might be better utilised in the intended “revised reporting formats” discussed in Phase 2.
23. Further development is required in reporting to external stakeholders, for example NERSA, the DWS and VAT indicators informing VAT Return to SARS will be linked and aligned to the mSCOA Tables, in content, layout and format for consultation with the stakeholder.
24. The existing budget, in-year and stakeholder reporting formats does not do justice to the extent of detail presented in mSCOA. However, in the interim it is important to avoid a situation in local government of dual reporting on both the existing reporting layout as well as the envisaged future report position.
25. The exception will be during testing of the envisaged reporting position, the pilot municipalities will be subjected to dual reporting. Furthermore, it is recommended that pilot-municipalities and early adopters of mSCOA have the opportunity to focus on classification within the context of mSCOA rather than be submerged in changes of reporting formats.
26. Local Government definition “single point of access for local government information”. Considering users such as SARB, STATSA, DCOC, etc. are already registered users on the LGDRS but have limited access to available reports.
27. The level of detail for the import file is considered to be at an accumulation of transaction detail at the posting level for all segments in a predefined reporting file.

28. Municipalities remain responsible for reporting information to specific stakeholders such as, STATSA, NERSA, DWS, etc. as required by legislation. Retaining municipal information in the LGDRS does not remove this governance responsibility from municipalities.

Proposed Period for this Transitional Arrangement

29. Important to note is that reporting continues as was required prior to mSCOA implementation for all municipalities as directed by the MFMA Section 71 Reporting Guideline. If any alternative arrangements are required for municipalities piloting mSCOA a mSCOA Circular will be issued to direct this request.
30. Cognisance is taken of the difficulties reporting entities are faced with in compiling comparatives for financial statement presentation in the first year of implementing mSCOA. The Position Paper referred to above will deal specifically with this subject matter.
31. Proposed timeline for adopting this transitional arrangement:
- 1 July 2015 / 1 July 2016 - pilot site implementation depending on the date of going live on mSCOA.
 - 1 July 2017 - all municipalities going live on mSCOA.

Phase 2: Revised (Updated/New) Reporting Formats linked to mSCOA

What is the way forward and the envisaged position post mSCOA implementation?

32. The National Treasury Budget Reporting Tables, In-year Monitoring, Monthly Returns, illustrated Financial Statements, NERSA and DWS reporting formats informed mSCOA to be aligned in layout, format and content. Consideration to be given to “detail” defined in mSCOA.
33. The accumulated effect of the monthly reporting upload as discussed in the preceding paragraphs with three (3) “final year-end period” submissions, i.e. pre-audit, audit and restated figures, effectively becoming the official information hosted in the LGDRS.
34. Management compile annual financial statements with the discretion, judgement and consideration of materiality in the presentation of the annual financial statements as guided by the Standards of GRAP and advocated by the ASB. The design principles driving the mSCOA framework makes provision for the classification to ensure that sufficient detail is available for producing annual financial statements which are compliant with the requirements of the Standards of GRAP.
35. Applying the illustrated financial statements is at the discretion of management. In the context of the mSCOA Project, provision is made for the seamless aligned between planning, budgeting and financial statement

reporting. Important to remember is that the National Treasury by retaining municipal information on a centralised database does not remove governance responsibility over reporting by the reporting entity.

36. The information retained in the LGDRS is considered to be “oversight and stakeholder information” providing seamless alignment between budget and actual financial results and positions at an accumulated transactional level with statistics and commonality as the base. National Treasury will not create annual financial statements for reporting entities although, the National Treasury may be able to extract information for a municipality, district and its municipalities, by province or whole of local government or any combination as may be required, in a similar format.
37. The annual financial statements prepared by management are considered to be a distinctive process for general use in the municipalities’ annual report. Achieving this reporting design principles will result in satisfying compliance to the Standards of GRAP and retaining comparable, similar detail and comprehensive yet flexible information in the LGDRS.
38. The annual financial statements (illustrated with notes), budget reporting tables and other reports should preferably be extracted directly from the system application used by the reporting entity.
39. During this phase reporting to external stakeholders for example NERSA and DWS to be concluded and any changes dealt with as part of the annual mSCOA revision through the mSCOA Technical Committee. This information will be customised within the system application for direct submission to the respective stakeholders.
40. LGDRS using the detail as presented in mSCOA ensures seamless reporting of budget and actual information.

What is anticipated for this phase?

41. The existing reporting formats to be reconsidered and revised as deemed necessary from extensive stakeholder consultations guided by discussion papers on topical matters.
42. Similar to the transitional arrangements, National Treasury will provide the links between the accounts as per mSCOA Version 6 to the respective revised reporting format, referred to as reporting links. The reporting links presented in the mSCOA Tables Version 6 used with excel filters to assist in linking the reporting line within the specific report to the mSCOA detail.
43. Creation of these reports from the system application to be tested during pilot site implementation.

When would this phase become a requirement?

44. Sufficient time lapsed for comparatives to be available without taking unnecessary risk to make restatements in the annual financial statements. Recording transactions using the mSCOA classification framework will result in the collection of comparative information over at least two reporting cycles establishing “comparable information” for presentation in the annual financial statements and budget returns. An ideal reporting cycle implies ‘Budget’ to ‘In-year’ to ‘annual financial statements’ to ‘restated’.

Proposed Date for Compliance

45. A period of two years after the mSCOA regulated compliance date is considered sufficient time for accumulating historical information to provide accurate comparatives at a more detail level. The revised reporting formats will inform, and may result in a specific mSCOA circular on the extent of changes made in the reporting formats.
46. Compliance to the revised reporting format should commence for the reporting period beginning 1 July 2019.

CONCLUSION

47. The Discussion Papers dealing specifically with the reporting updates, linking of the mSCOA classification, Phase 1 and Phase 2 reporting as applicable to the subject matter will facilitate a consultation process and assist in clarifying this concern. Further to this the revised reporting tables for budgeting and illustrated financial statements will further assist in facilitating consultation prior to adopting the reporting formats.
48. The importance of the impact of historical information and restatement of comparatives was considered in defining the time frames envisaged in the reporting phases.
49. This Position Paper clearly articulates the intended use and relevance of an illustrated set of financial statements and focus, in that this illustration is critically important to provide the “seamless link of information from budgeting to the actual information” . The use of this illustration is guidance by nature and not intended to prescribe a format and/or remove the managerial discretion and judgement ensconced in the Standards of GRAP.
50. The information submitted by the municipalities to the LGDRS contain sufficiently detailed information on budget and actual basis and is considered sufficient for statistical reporting and the treasuries' oversight.

RECOMMENDATION

51. The mSCOA Project Steering Committee to note:

- Version1 of this Position Paper on Reporting served at the Technical Work Group meeting held on 29 May 2015 and the Project Steering Committee on 5 June 2015.
- Circulated a second time to the mSCOA Project Team for comments on 2 November, adoption at the Project Team Meeting 9 November 2015 and approval to issue in draft by the Project Steering Committee on 13 November 2015.
- This position paper was tabled and discussed as part of the formal agenda at the mSCOA ICF that was hosted on 1 December 2015.
- Comment period offered to the ASB Forum Members and invitation extended to all municipalities / provincial treasuries from beginning of March to 8 April 2016. Comments received up to 8 July 2016 considered in finalisation of the Position Paper.
- Position Paper to be recommended for publishing to the National Treasury Web.

Annexure A: Table of Reports at present submitted to National Treasury

Schedule or Reference	Name of the Report	Frequency
Schedule A	Municipal Annual Budget and MTREF Supporting Tables	1 July
SDBIP	Service Delivery and Budget Implementation Plan	1 July
Tabled and Adopted Budget Returns	Budget Returns: OSB: Statement of Financial Performance CA: Budgeted Capital Acquisition CFB: Budgeted Cash Flow GSR: Grants and Subsidies Received GSG: Grants and Subsidies Given SP: Strategic Plan with links to Budget AM: Asset Management BS: Budgeted Balance Sheet	Monthly
Schedule D [The budget schedule for an entity. This information must be submitted to the parent municipality for preparation of a consolidated budget. The schedules are submitted to National Treasury based on a special request from the SARB.]	Municipal Entity Annual Budget and MTREF Supporting Tables – Municipal Entities	1 July
Schedule B	Municipal Adjustment Budget & Supporting Tables	10 working days after approving the adjusted budget
Adjusted Budget Return [The budget schedule for an entity. This information must be submitted to the parent municipality for preparation of a	OSR – Statement of Financial Performance Revised CAR – Capital Acquisition Revised Budget CFR – Cash Flow Revised Budget BSR – Balance Sheet Revised Budget AMR - Asset Management Revised	

Schedule or Reference	Name of the Report	Frequency
consolidated budget. The schedules are submitted to National Treasury based on a special request from the SARB.]		
Schedule E [The budget schedule for an entity. This information must be submitted to the parent municipality for preparation of a consolidated budget. The schedules are submitted to National Treasury based on a special request from the SARB.]	Municipal Adjustment Budget and Supporting Tables – Municipal Entities	10 working days after approving adjusted budget
Schedule C	Municipal In-year Reporting and Supporting Tables (Monthly Section 71 Reports)	
Schedule F [The budget schedule for an entity. This information must be submitted to the parent municipality for preparation of a consolidated budget. The schedules are submitted to National Treasury based on a special request from the SARB.]	Municipal In-year Reports and Supporting Tables – Municipal Entities	
Monthly Reporting	AC: Age Analysis of Creditors AD: Cash Flow Actuals CFA: Cash Flow Actuals CAA: Capital Acquisition Actuals OSA: Statement of Financial Performance Actuals BSAC: Balance Sheet Actuals (this is a snapshot of municipal finances at the end of the month)	

Schedule or Reference	Name of the Report	Frequency
	<p>RME: Repairs and Maintenance operating actual (this is a new return similar to the grant returns used and concentrates only on any operating expenditure incurred for repairs and maintenance during the month of reporting</p> <p>Grants:</p> <p>FMG – Finance Management Grant</p> <p>DRG – Drought Relief Grant</p> <p>MDRG – Municipal Drought Relief Grant</p> <p>EEDG – Energy Efficiency and Demand Management Grant</p> <p>INED – Integrated National Electrification Program Grant</p> <p>MIG – Municipal Infrastructure Grant</p> <p>MSIG – Municipal Systems Improvement Grant</p> <p>NDG – Neighbourhood Development Partnership Grant</p> <p>PTIG – Public Transport Infrastructure and Systems Grant</p> <p>RTSG – Rural Transport Service and Infrastructure Grant</p> <p>WSOG – Water Service Operating Subsidy Grant</p> <p>ISDG – Infrastructure Skills Development Grant</p> <p>PWPG – Expanded Public Works Programme Integrated Grant</p>	
<p>Quarterly Reporting</p> <p>[The financial information will be part of the monthly submission. Most of the over information is non-financial in nature and National Treasury will need to consider this request as part of the position paper on non-financial information.]</p>	<p>BM – Borrowing Monitoring</p> <p>IM – Investment Monitoring</p> <p>LTC – Long Term Contracts</p> <p>ME – Municipal Entities</p> <p>MFMA – MFMA Implementation Priorities</p>	<p>24 days after the end of each quarter</p>

Schedule or Reference	Name of the Report	Frequency
ⁱ Bi-annual Return	Minimum Competency Levels	
	OSAA – Statement of Financial Performance	
Reporting on Pre-Audited Figures	OSAA – Statement of Financial Performance CAAA – Capital Acquisition CFAA – Cash Flow Audited BSA – Balance Sheet Audited ACA – Aging Creditor Figures ADA – Aging Debtor Figures AMA - Asset Management Audited	31 August (period 13)
Reporting on Audited Figures	OSAA – Statement of Financial Performance CAAA – Capital Acquisition CFAA – Cash Flow Audited BSA – Balance Sheet Audited ACA – Aging Creditor Figures ADA – Aging Debtor Figures AMA - Asset Management Audited	From 1 December onwards (Period 14)
Reporting on Restated audited figures	OSAA – Statement of Financial Performance CAAA – Capital Acquisition CFAA – Cash Flow Audited BSA – Balance Sheet Audited ACA – Aging Creditor Figures ADA – Aging Debtor Figures AMA - Asset Management Audited	Restated figures during preparation of next year's AFS (Period 15)

ⁱ Not envisage output from mSCOA