

Local Government Regulations on minimum Business Processes and System Requirements

Presentation to: mSCOA workgroup

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 23 Sep 2016



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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 Leger)

(c) Uniform treasury norms and standards

(MFMA, Regulations, Circulars and Guidelines)

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...

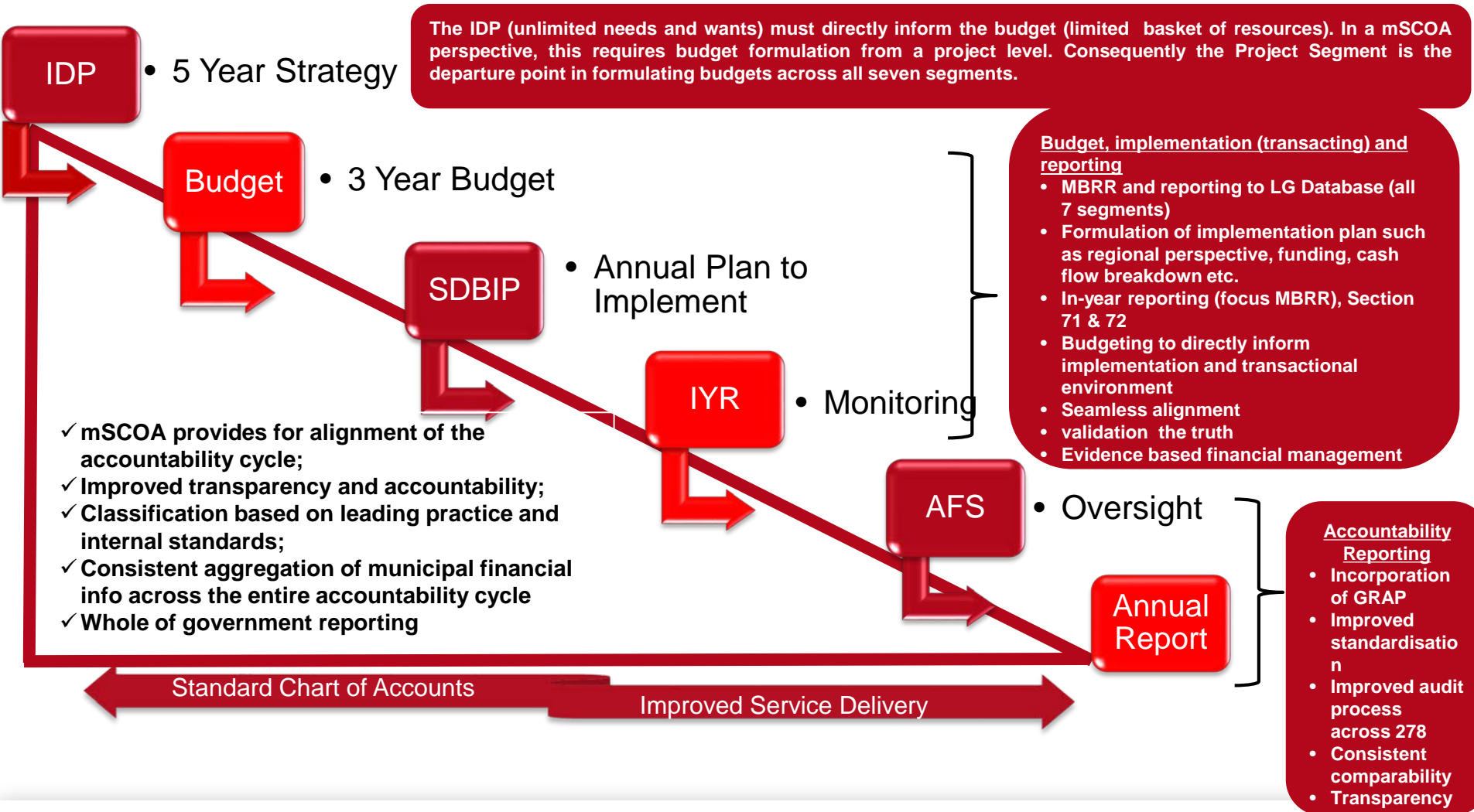
(p) any other matter that may facilitate the enforcement and administration of the Act

Notwithstanding progress... Problem Statement

To name but a few of the challenges:

- In the absence of meaningful and credible management information municipal councils make uninformed decisions; considerable risk
- Contributing factor to weak audit opinions
- Multi-year budgeting is a relatively new concept; constant changes to the Chart of account impedes the ability to plan over the medium-term
- Electronic budget returns and in-year reporting not aligned to the adopted budget and budget information published by municipalities
- ***In many cases, the financial applications don't support the complex and sophisticated business environment of LG when considering the legislative and regulatory framework***

Local Government Accountability Cycle & mSCOA



**To enable the implementation of a
standardised classification framework
across the accountability cycle
(*mSCOA*) ...
*municipalities must have minimum
business processes and system
requirements in place...***

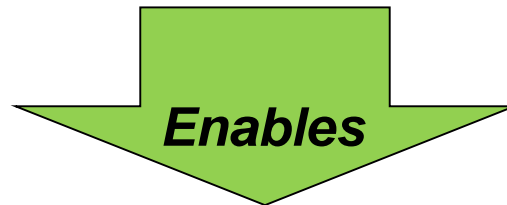


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Mandate to Regulate Business Processes and System Requirements

The Standard Chart of Accounts for Local Government Regulations, 2014 (mSCOA)



The regulation of –

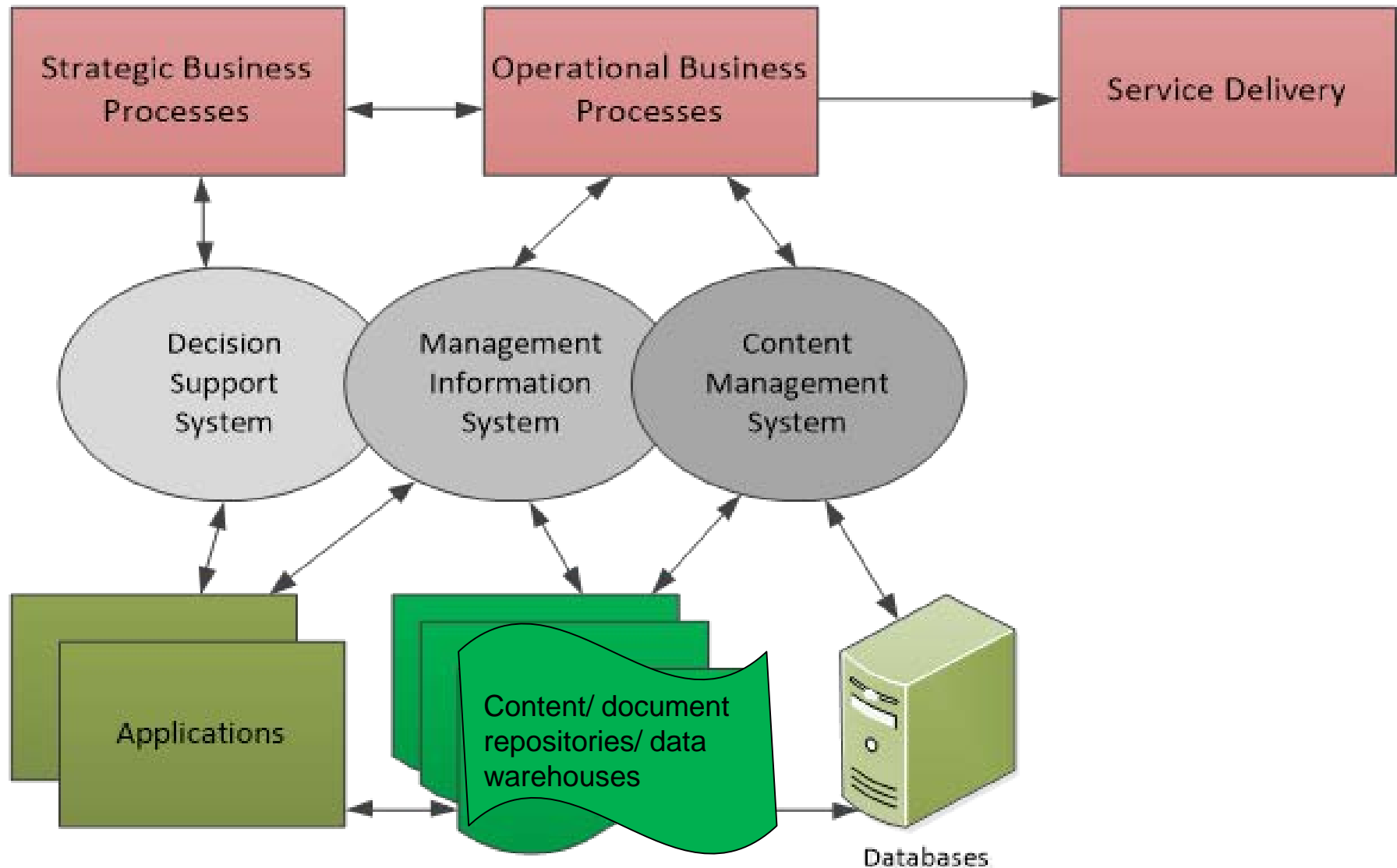
- **minimum business process requirements (Sec 5); and**
 - **minimum system requirements (Section 6)**
- for municipalities and municipal entities.**

To enable municipalities to implement the standardised chart for local government



Why?

How a municipality's information management system link to its business processes



Mandate to Regulate Business Processes and System Requirements

It is unlikely that LG information can be standardised if...

1. A municipality's system cannot **host the full mSCOA chart** (*all 7 segments*).

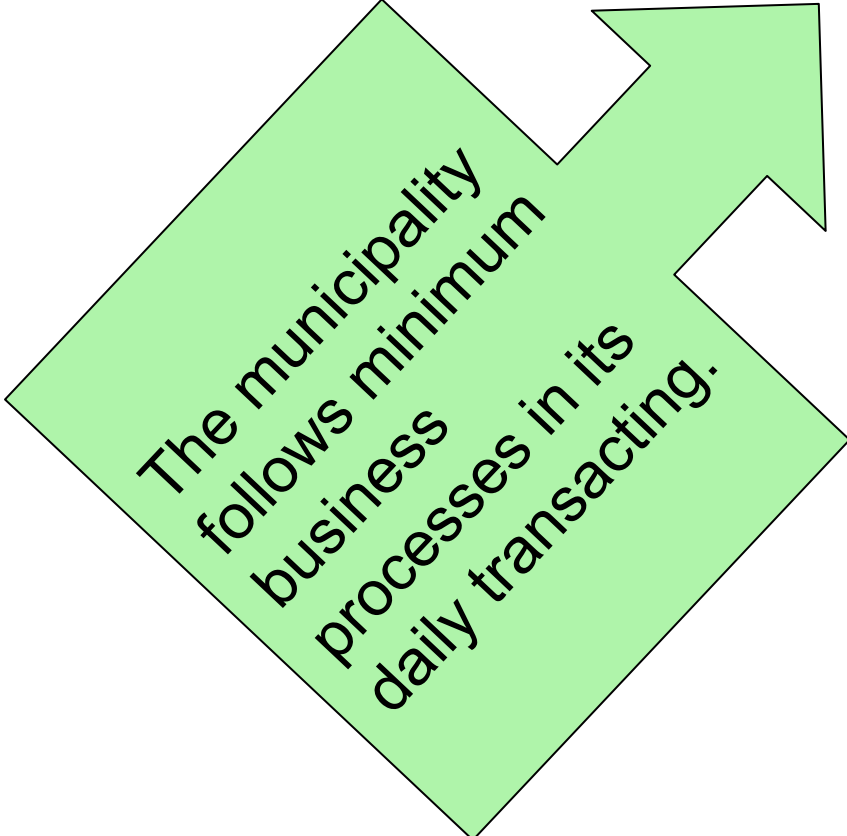
2. The system does not allow for **budgeting and daily transacting in the chart** (*across the 7 segments*).

3. **ALL systems** across the municipality and its entities do not **seamlessly integrate** (*no manual intervention*).


4. The system cannot **submit data strings** (across the 7 segments) **to the NT upload portal** *within the deadline timeframes*.

Mandate to Regulate Business Processes and System Requirements

A municipality will only be able to fully transact according to mSCOA if:



The municipality follows minimum business processes in its daily transacting.

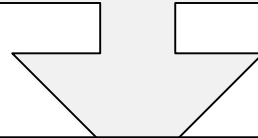


The municipality's system(s) meet certain minimum requirements

Minimum business processes & system requirements – *Testing Phase & Consultation*

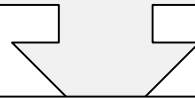
Step 1 - 2015/2016

‘Piloting’ of the *m*SCOA classification resulted in NT being able to compile a comprehensive list of business processes that should be supported by system functionality (systems of financial management and internal control).



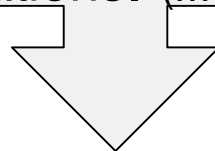
Step 2 – 8 March 2016

As a result MFMA Circular 80 (Annexure B) included a detailed list of these proposed business processes and system requirements.



Step 3 – Going forward March 2016

Every municipality need to evaluate the functionality of its current financial management and internal control systems against these business processes and technical specifications. (Municipal SCOA Circulars 5 & 6, July 2016)



Minimum business processes & system requirements – *Testing Phase & Consultation*

Step 3 – continued...

This evaluation is crucial and will enable the municipality to provide informed comment to the National Treasury during the consultation phase of the proposed: *‘Local Government Regulations on minimum Business Processes and System Requirements.’*

Step 4 – Testing and Refinement (2017/18)

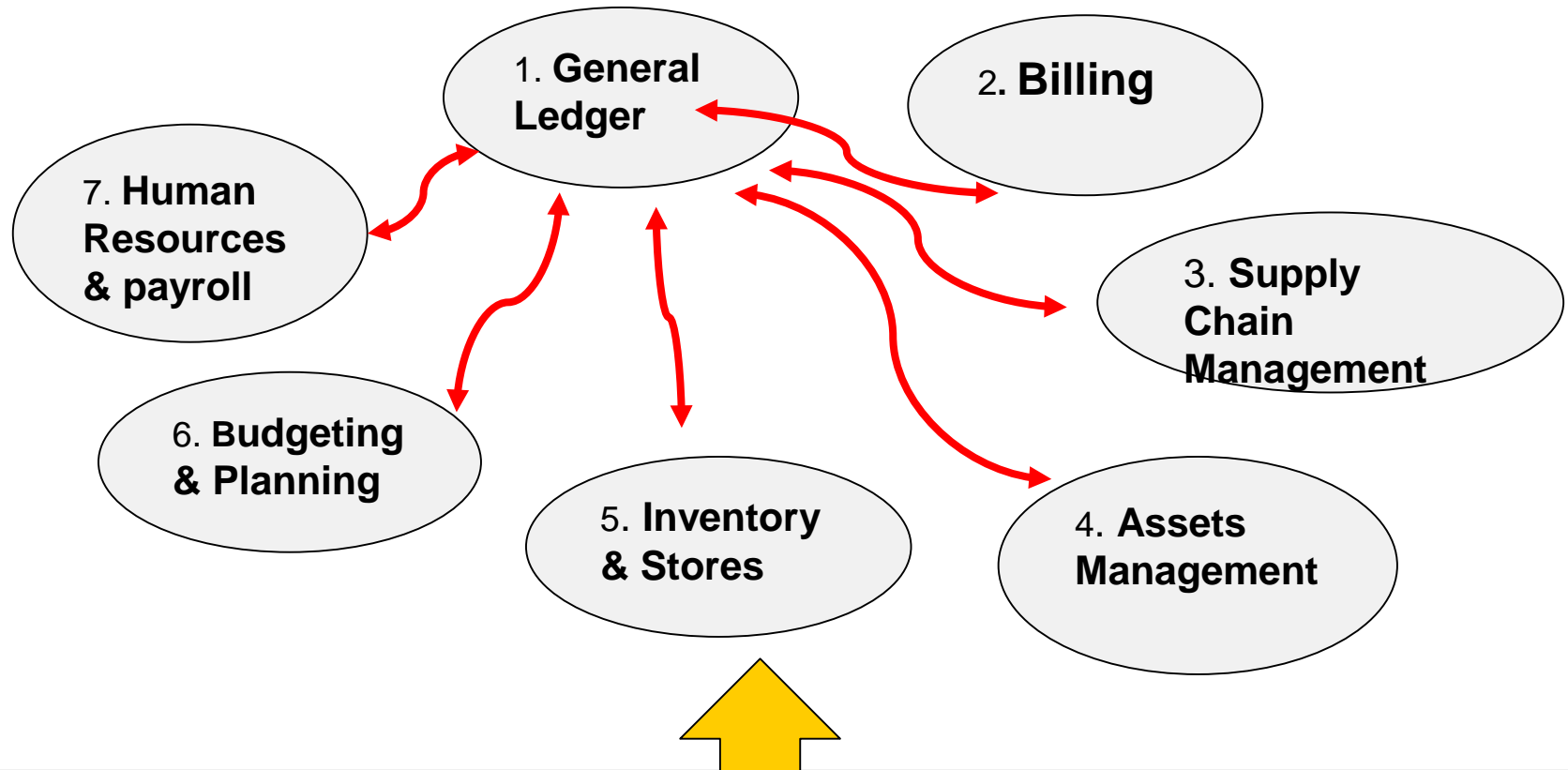
Municipalities must implement mSCOA with effect 1 July 2017. The 2017/18 (1st year of mSCOA aligned transacting) will serve as an additional testing and refinement phase (over-and-above initial piloting) of the proposed minimum business processes and system requirements.

Step 5 – Formal Consultation and Regulation (2018/19)

The publication, consultation and formal regulation of the proposed minimum business processes and system requirements through Parliament will commence and *also be informed by the 1st mSCOA audit.*

Main business and process components

Any system of financial management and internal control should incorporate (as a minimum) the following 7 main business and process components:



These 7 components must **integrate seamlessly** with the *m*SCOA general ledger and comply at a posting level to the *m*SCOA Regulations and GRAP.

Main business and process components - 15 major business processes (1)

The 7 main business and process components directly align to the following **15 major business processes** within Local Government:

i. Corporate Governance	ix. Full Asset Life Cycle Management including Maintenance Management
ii. Municipal Budgeting, Planning and Modelling	x. Real Estate and Resources Management
iii. Financial Accounting	xi. Human Resource and Payroll Management
iv. Costing and reporting	xii. Customer Care, Credit Control and Debt Collection
v. Project Accounting	xiii. Valuation Roll Management
vi. Treasury and Cash Management	xiv. Land Use Building Control
vii. Procurement Cycle: SCM, Expenditure Management, Contract Management and Accounts Payable	xv. Revenue Cycle Billing.
viii. Grant Management	

Main business and process components - 15 major business processes (2)

- These 15 high level business processes was further defined into sub-processes contained in MFMA Circular 80 (***Annexure B***).
- The sub-processes provide business and technical requirements to ensure *mSCOA* compliancy and also address the broader requirements of a system of financial management and internal control within a South African local government context.

Way forward – 23 Sep 2016

Municipalities are requested to indicate in which of the following **business processes** they would like to participate as part of the work group to further test and develop these:

i. Corporate Governance	ix. Full Asset Life Cycle Management including Maintenance Management
ii. Municipal Budgeting, Planning and Modelling	x. Real Estate and Resources Management
iii. Financial Accounting	xi. Human Resource and Payroll Management
iv. Costing and reporting	xii. Customer Care, Credit Control and Debt Collection
v. Project Accounting	xiii. Valuation Roll Management
vi. Treasury and Cash Management	xiv. Land Use Building Control
vii. Procurement Cycle: SCM, Expenditure Management, Contract Management and Accounts Payable	xv. Revenue Cycle Billing.
viii. Grant Management	

Thank you!

Q&A



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