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MSCOA ROADMAP QUARTER TWO 31 DECEMBER 2024

BACKGROUND

Government notice No.312 Local Government: Municipal Finance Management Act (Act 56 of 2003): Municipal Regulations Standard Chart of Accounts. The Municipal Regulations on a Standard Chart of Accounts, 2014 (mSCOA), requires a significant change in municipal business processes. Consequently, mSCOA implementation involves system conversion and/or re-implementation with all the typical risks associated with any system conversion or implementation.

COMMENTS: MUNICIPAL MANAGER

Recommendations are supported

COMMITTEE'S RECOMMENDATIONS

1. **THAT** Council note the Mscoa Road Map report for the period ended 31 December 2024.



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1. INTRODUCTION

A roadmap is a high-level strategic overview of a significant business initiative. Roadmap typically used to manage the development of a new product or the execution of an institution-wide project.

mSCOA: A multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts. Implementing mSCOA therefore requires organisational change across the municipality since not only financial and budget orientated practitioners are involved. The Council needs to know that almost every municipal department when coming to mSCOA everybody is responsible and accounting. mSCOA's objective is to provide a national standard uniformity recording and classification of municipal budget and financial information from transactional level by prescribing standard of charts of accounts.

mSCOA is made of seven segments that are:

Funding-What source of funding is used to buy the item? E.g Equitable share, MIG Grant, INEP, EPWP or ENERGY Efficiency.

Item-What is the nature or type of transaction? (Asset, Gain, Loss, Revenue, Liability, and/or Expenditure).

Function-Against which function should the item be recorded?

Municipal Standard Classification - Against which organisational vote or account or sub-vote should the item be recorded? (Administration, Finance or Technical).

Region Indicator-What geographical area or location is deriving the benefits from the item? (Ward, Whole of municipality, Administrative of head of administration)

Project - To which project is the item related? (Operational or Capital).

Costing - What is the impact of the item on Cost drivers, Tariff and/or Tariff formulation?

The municipality has upgraded to mSCOA from 2017 financial year where the financial system provider was contracted from a transversal tender through National Treasury to assist the municipality to be mSCOA compliant as mandated by the municipal regulations on standard charts of accounts by the 01st of July 2017. The municipality managed to enter a contract with CCG Systems.



What are benefits of mSCOA?

Efficiency - an ERP system eliminates repetitive processes and greatly reduces the need for manual entry of information. The system will also streamline business processes and makes it easier and more efficient for the Municipality to collect data. Improve compliance to Generally Recognised Accounting Principles (GRAP).

Integrated Information - all information is located in a central and single location, data is also kept consistent and up to date. This will also lead to better decision making.

Integrated Reporting - easy and more customizable reporting, this will help the municipality respond to complex data request more easily.

Customer Service - customer service functions will experience improved interaction with customer information and history.

Security - the new system will improve the accuracy, consistency and security of data, restriction to data will also be enhanced.

Assist towards attaining clean audit - it will help the municipality accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk a management, control, and governance processes.

2. APPROACH

The roadmap approach will outline aspects needed to ensure that the project is realised by the target date as informed by the Municipal regulations on municipal standard chart of accounts. The process demonstrates key aspects to realise mSCOA Roadmap by integrating mSCOA, Project Approach, Legislative Mandate, Stakeholder Analysis, mSCOA Milestone expected challenges on mSCOA implementation project and Conclusion.

3. LEGISLATIVE MANDATE

Section 216 of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards. The National Treasury is responsible for enforcing compliance with such measures, in addition to those functions assigned to it in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999). The



National Treasury must compile national accounts incorporating all three spheres of government.

The Municipal Budget and Reporting Regulations, 2009, provide for the formalisation of norms and standards to improve the credibility, sustainability, transparency, accuracy, and reliability of municipal budgets.

The prescribed budget formats provide the framework for the identification of the categories of municipal financial and non-financial information required in developing municipal budgets. A key objective of the proposed Regulations is to enable the alignment of budget information with information captured during the implementation of the budget.

The valuation roll forms the basis for the levying of assessment rates and all processes and procedures governed by the Municipal Property Rates Act, 2004 (MPRA). All categories of properties in the municipal boundary need to be recorded and maintained in a municipal register of properties including the value of land and improvements as described in the MPRA. Municipalities are also required to undertake interim valuations to ensure the roll is constantly maintained and updated. Importantly, the business processes need to ensure integration with the revenue value chain of the municipality and the billing processes and procedures.

The municipality must within its financial and administrative capacity establish a sound customer management system as prescribed in the MSA. Credit control and debt collection is the responsibility of the municipality and processes, procedures and mechanisms must be implemented in line with the policy as adopted by the Council as prescribed in the MSA.

A credit control and debt collection system that integrate with the revenue management system and that gives effect to Chapter 9 of the Municipal Systems Act, 2000

Human resources and payroll management is the organisational function that deals with issues related to employees such as compensation, hiring, performance management, organisational development, safety, wellness, leave management, benefits, employee motivation, communication, administration, and training in line with the prescriptions of the Labour Relations Act. Staff establishment, human resources development and expenditures on staff benefits should be done according to the processes and procedures set out in the MSA and MFMA. Pay roll management entails the administration of the financial record of employees' salaries, wages, bonuses, net pay, and deductions and should be done within the limits of the approved budget and the prescriptions of the South African Revenue Services (SARS). Budgeted remuneration and benefits need to be directly aligned to the approved staff establishment with provision for vacancies shown separately and all staff payments must be reconciled monthly. The issue of productivity or performance management needs to be



addressed by using the latest available technologies such as bio metrics devices.

In terms of Section 152 of the Constitution, local government's primary mandate is to ensure services are provided in a sustainable and developmental manner; this notion and spirit is supported by the MFMA. Good asset management facilitates the provision of services in a financially sustainable manner and requires adequate automation of critical process within the asset management cycle. Typical to an effective and efficient system at least the following functions need to be addressed as part of the minimum business process requirements –

- (a) Safeguarding of assets, e.g. asset tracking, numbering and locations;
- (b) Maintaining assets, planned and unplanned maintenance which needs to also incorporate capital asset renewal;
- (c) Maintenance costing as an input into asset replacement plans;
- (d) Establishing and maintaining a management, accounting and information system that accounts for the assets of the municipality;
- (e) Asset valuation principles in accordance with Generally Recognized Accounting Practice (GRAP);
- (f) Establishing and maintaining systems of internal control over assets;
- (g) Establishing and maintaining an asset register;
- (h) Clarifying responsibilities and accountabilities for the asset management process, and
- (i) Insurance of assets.

Grant management includes all the activities, processes and procedures to register and reconcile all the grants allocated, received and spent according to the conditions as outlined in the Division of Revenue Act.

Supply Chain Management, Expenditure Management and Accounts Payable (Creditors) needs to incorporate –

- (a) Supply chain management is the management of a network of interconnected business processes involved in the provision of goods and services required by the municipality. It integrates the management of supply, demand, acquisition, logistics and disposal by implementing a supply chain management policy in compliance with the MFMA and Municipal Supply Chain Management Regulations in a fair, equitable, transparent, competitive, and cost-effective way. A Supply chain management system that gives effect to section 11 of the Municipal Finance Management Act, 2003 (MFMA), the Municipal Supply Chain Management Regulations and council's approved SCM policy.
- (b) Expenditure management follows the SCM processes that should ensure an effective



system of expenditure control, including procedures for the approval, authorisation, withdrawal, and payment of funds. These expenditures should be monitored against the approved budget, and reasons for variances must be explained and corrective action must be implemented to keep expenditure in line with budget estimates.

- (c) Accounts payable results from any monies owed in respect of goods and services purchased and must be settled within thirty days of date of invoice or statement unless it is prescribed otherwise. The payment of creditors or accounts payable must be reconciled monthly according to the statements received from service providers.
- (d) Material and inventory management deals with the maintenance of inventory catalogues classified according to the high-level categories provided for in the Standard Chart of Accounts. Business processes need to incorporate at a minimum, ordering; issuing and management of inventory levels; preferred suppliers linked to inventory categories; flagging of stock levels with limited movements for substantial periods; regular physical counts and reconciliation to system stock records; exception reporting and enhanced controls on stock items susceptible to misuse such as illegal stock-pilling; and all sub stores to be activated on the system.
- (e) Contract management entails the management of contracts through the entire Contract Life Cycle to maximise value for money that includes procedures for planning; contract creation; collaboration; execution; administration; and close-out. Contracts should be listed in a contract register embedded into the financial application that automates all the activities necessary to manage the contract as informed and dependent on the nature of the work, the type of contract, the legal aspects and delivery timeframes. It also entails the activities carried out to determine whether the service provider and the municipality are performing adequately to meet the requirements in listed contracts that had been awarded through the procurement process and the prescriptions in the MFMA; and
- (f) Vendor management entails managing a supplier database in support of various strategic procurement objectives.

Treasury and cash management refers to investing, financing activities and operational cash management. The following processes must be considered relevant to this cycle –

- (a) Investing activities comprises the acquisition, disposal, and management of tangible assets, including land, buildings, plant and machinery, motor vehicles, furniture and equipment, computer hardware, software and communication networks. Also included are acquisition, disposal, and management of intangible assets such as research and development expenditure, patents and trademarks, scientific and technical know-how, intellectual property rights such as copyrights and licenses. Municipalities and municipal entities must introduce accounting policies for depreciation, impairment, revaluation, asset retirement, etc.
- (b) Financing activities are how the municipality obtains its funding. This may be in the form of funds obtained from borrowing (external loans) or transfers and subsidies to the



municipality or municipal entity. Financing activities also include finance and operating leases entered by the municipality or municipal entity. Included are related transactions such as security and guarantees granted to a lender, accounts receivables pledged to a discount house, interest charges, finance charges on leases, foreign exchange gains and losses, hedging gains and losses and commitments for capital expenditure.

- (c) Investment may take the form of fixed interest, long-term or short-term debt, investments, or loans; secured or un-secured. Procedures must be implemented to control the purchase and sale of investments, the movement of scrip or recording of dematerialised securities and the resulting cash received and paid including income from investments, and
- (d) Cash and bank refer to transactions occurring daily in all municipalities and municipal entities represented by a high volume of transactions in payments and receipts. Procedures must provide for expenses and reimbursements of “suspense accounts and floats” including regular surprise counts; cash handling procedures for unbanked receipts and money in transit; control over the opening of bank accounts and obtaining access to electronic banking signatures, regular reconciliations of bank accounts and timely follow-up of reconciling items by management.

Costing or management accounting is concerned with financial and management information internal to the municipality and municipal entity which provides the basis for sound and informed business decision making. In contrast to financial accounting, management accounting is primarily forward looking instead of historically focused and informs planning and budget processes by applying forecasting and prediction models. Determining the full cost of tariff services including primary and secondary costing to inform tariffs and pricing of services to achieve cost reflective tariffs, reporting thereon and measuring performance of services based on financial and non-financial information.

Financial accounting incorporates a host of policies, processes, and procedures to operationalise the effective and efficient recording and accounting of daily financial transactions as well as month and year end closure procedures and transactions. The MFMA provides a platform for the prescription of norms and standards such as the Standards of Generally Recognised Accounting Practices (GRAP) which have been designed and formulated based on unique South African circumstances (such as the VAT requirements which must be accommodated by the financial system) and leading international practices. Municipalities and municipal entities are therefore required to operationalise daily business processes and procedures that incorporate at the very least regular reconciliations, correct and accurate allocation and classification of transactions based on the SCOA classification framework. These processes and procedures must give rise to monthly performance represented by among others, the Statement of Financial Performance, Capital and Grant Performance, Statement of Financial Position, movement in net assets and cash flow in the Section 71 in-year reporting formats. It is important to keep in mind that outputs need to be reported and must always be measurable so that progressive achievements can benefit



communities. Processes should be focussed at clean and accountable operations and the outcome must be reported in terms of by all roll players.

Municipal budgeting and planning business processes are primarily derived from two sets of legislation, namely the Municipal Systems Act, 2000 (MSA) and the Municipal Finance Management Act, 2003 (MFMA). The MSA provides for the setting of the strategic objective whilst the MFMA and Municipal Budget and Reporting Regulations, 2009 (MBRR) provide for the output associated with this business process. This needs to incorporate key processes and procedures such as strategy formulation, integrated development planning (IDP), prioritisation, revenue generation, resource allocation, as well as long term forecasting and modelling of key financial dimensions such as the statement of financial position, cash flow forecasting, funding compliance, asset management and basic service delivery.

In terms of Section 25 of the Municipal Systems Act, 2000 each municipal council must, within a prescribed period after the start of its elected term, adopt a single, inclusive, and strategic plan (the integrated development plan (IDP)) for the development of the municipality which must inform the municipal budget to be mutually credible and reliable and should include the following functionality:

Corporate Governance is associated with ensuring greater economic and social responsibility within organisations to shareholders and stakeholders. Accountability, transparency, and openness in reporting and disclosing information are imperative to the practice of good governance and are non-negotiable. Generally, corporate governance refers to the processes by which municipalities are directed, controlled, and held to account as guided by the Constitution, the Municipal Financial Management Act, 2003 (MFMA) and Municipal Systems Act, 2000 (MSA). The MFMA and MSA complement each other and deal with internal control, risk management, internal audit, and external audit, and financial risk management, compliance to legislation, performance system and reporting mechanisms to enhance accountability and progress. Municipalities' policies and procedures need to address these areas to accomplish good corporate governance.

4. STAKEHOLDER ANALYSIS

The municipality in line with the project charter took a decision to composed mSCOA Steering Committee.

The mSCOA Steering Committee of the municipality is led by the Accounting Officer and should be multi-disciplinary and include members of top management, including the following functions and skills: Finance; Budgeting; Financial and Performance Reporting; Risk



management; Technical Engineering; Information technology; and Human resources.

The mSCOA Steering Committee meet once per quarter and whenever there is urgent need. And the committee will be bound to ensure that invite external standing members of the committee such as National Treasury, Provincial Treasury and Financial System Provider delegates to its sitting.

The committee will guide the project life span till the end of implementation and will be updated when a need arises and there are changes identified. It also included to direct relevant issues to be implemented to that department or directory when technical team from National Treasury would be having a mandate or instruction that require implementation of by the municipality. The mSCOA Champion would still be responsible to ensure that the project roadmap is monitored and the committee meets as required to assess the progress made and urgent need to address the challenges that come across during implementation.

5. STEERING COMMITTEE MEETINGS

mSCOA Steering Committee shall meet once per quarter and should schedule formal meetings at least once per month if there are urgent issues that need to be resolved.

The committee will compile an agenda and meeting minutes, to be maintained as part of the official project records for review purposes. Committee members should prepare for the meetings and contribute within their field of expertise, to ensure that full compliance is achieved. The committee to continue with monitoring the milestone on implementation of mSCOA project band also to ensure that recommendations are addressed by the municipality.

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6. SCOAMILESTONE

Below is a listing of major milestones for Ulundi Local Municipality mSCOA Project. This table is comprised only of major milestones, there maybe be smaller milestones which are key to success of implementation mSCOA Project. Any approved changes of these milestones or dates will be communicated to the project steering committee by the Project Manager.

7. EXPECTED CHALLENGES ON IMPLEMENTATION OF mSCOA

7.1 Uncertainty

For mSCOA to be successfully implemented all financial systems need to be integrated, I.e financial system for producing financial reports together with Central Supplier Database, South African Revenue Services, CIPC e.t.c this will assist to ensure that the municipality is mSCOA compliant in accounting and budgeting. From the onset, a major accounting obstacle to mSCOA implementation and integration was uncertainty. There may be a lot of issues regarding mSCOA segments and processes that would require enhancements to make the accounting and budgeting compliance effective and efficient. That in turn will also enforce version to version to improve the charter reporting and MFMA. A major result of the above uncertainty has been a lack of clarity among stakeholders, especially ERP-system providers, on how to implement mSCOA.

8. CONCLUSION

The project Manager to continue ensuring that listing of all challenges experienced during the implementation process is addressed. There be schedule of all activities still requiring

intervention be captured to be followed through all relevant stakeholders involved i.e., correcting of wrong segments and process, and data strings failure to populate or transact from the correct account. The municipality to ensure that new version of mSCOA charter is implemented whenever it's introduced and the mSCOA steering committee to ensure that the municipality is fully compliant with municipal regulations regarding accounting and budgeting.

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Annexure A

**Action plan
outstanding milestones not yet achieved.**

for

MILESTONE	DESCRIPTION	RESPONSIBILITY	TARGET DATE	PROGRESS	CHALLENGES
Change Management	mSCOA educational awareness and buy-in throughout Ulundi Local Municipality including the varying stakeholders	Accounting Officer	Ongoing	Ongoing	Employees' resistance to change from the old way of doing things, and additional functions brought about by mSCOA. However the key end users of Miscoa are participating successfully to the implementation.
SCM Module implementation (including inventory and stores)	Full implementation SCM module	mSCOA Champion Assistant (SCM Manager)	Ongoing	Ongoing	Prohibitive costs on the implementation of collaborator system to implement the SCM module fully. The financial system does integrate with SCD.
Salary Module	Implementation of Salary module and	mSCOA Champion	30 June 2025	In progress	The payroll system is not 100% integrating with the financial system, the municipality is working closely with service providers about this matter
Cashbook	Implementation and integration of all Payday payroll and third parties as per mSCOA requirements and GO-live	mSCOA Champion Assistant (Assistant Director:	30 June 2025	In progress	Third parties not correctly interfacing into CCG financial system as a result on

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	Accountant Expenditure		integration not accurately merging from payday payroll system.
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MILESTONE	DESCRIPTION	RESPONSIBILITY	TARGET DATE	PROGRESS	CHALLENGES
Asset Module Implementation	Implementation and integration of the Assets Module as per mSCOA requirements and Go-live	mSCOA Champion Assistant Chief Financial Officer	ongoing	Done	none.
Section 71 reporting	Issuing and verification of reporting in compliance with legislation as per MFMA and mSCOA compliant, submission of data strings and C-schedule	mSCOA Champion (Accountant: Budget & Reporting)	Ongoing	ongoing	Data strings submitted without errors uploaded on GoMuni.
Cash flow mapping	Populating of cash flow tables to the mSCOA data strings in the segments	CCG Systems	30 December 2024	ongoing	SCOA segment not correctly populating cash flow information
Budget as per mSCOA (Adjustment/ B-schedule) & A-Schedule)	Budgeting process based on mSCOA segments and breakdowns to be obtained from all role players	CCG System Manager: Budget and Reporting	31 may 2024	Done	The municipality has successfully uploaded final budget data strings for 2024/2025.
Budget control	Link to mSCOA funding source	mSCOA Champion Expenditure Accountant	30 June 2025	ongoing	Minor errors due to transacting from zero budget because of wrong alignment

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Performance Module Implementation	Implementation and integration of Budgeting and expenditure management as per mSCOA requirements.	mSCOA Champion Assistant (Manager IDP/ PMS)	30 May 2025	Work-in-progress	Performance management module not integrated correctly to CCG System.
Live SCOA Monitoring and Evaluation	Constant monitoring, evaluating, clean-up and system enhancements on an ongoing basis, in alignment with National Treasury's mSCOA requirements.	Provincial Treasury	Ongoing	Work-in-progress	Ledger integration not populating correctly.
Year-end closure	Implementation of the period and posting and/or rolling of data to the new financial year.	CCG Systems	30 June 2024	In progress	Year-end closure workshop not fully informative and demonstration facilitated quickly with having assurance.

ITEM:	NAME:	SIGNATURE:	DATE:
Prepared By:	Miss L S Buthelezi		10/01/2025
Checked By:	Mr L N Mngoma		10/01/2025
Recommended by:	Miss H P Ndlela		10/01/2025
Approved By:	Mr N M Mahlaba		10/01/2025