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## GOVERNMENT NOTICE

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### NATIONAL TREASURY

No. R. 312

22 April 2014

#### **LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: MUNICIPAL REGULATIONS ON STANDARD CHART OF ACCOUNTS**

The Minister of Finance has, in terms of section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs, made the regulations as set out in the Annexure.

## ANNEXURE

### Preamble

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 Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), determines those measures for the local sphere of government and enables the Minister of Finance to further prescribe by regulation such measures in terms of section 168 thereof. 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.

Uniform expenditure classifications have already been established and implemented for national and provincial government departments. These Regulations propose segments and a classification framework for the standard chart of accounts to be applied in local government in similar form to that implemented for national and provincial government departments. In order to enable the National Treasury to provide consolidated local government information for incorporation in national accounts, national policy and other purposes, it must obtain financial information from individual municipalities. Currently, each municipality manages and reports on its financial affairs in accordance with its own organisational structure and unique chart of accounts. The result is a disjuncture amongst municipalities and municipal entities and between municipalities and the other spheres of government as to how they classify revenue and expenditure and consequently report thereon. This compromises transparency, reliability and accuracy throughout the planning and reporting process and impedes the ability of national government to integrate information and to formulate coherent policies in response to the objectives of local government.

Therefore it is necessary for the Minister of Finance to specify national norms and standards for the recording and collection of local government budget, financial and non-financial information which will include in some instances the specification of information required for national policy coordination and reporting. This will result in an improved understanding of the role of local government in the broader national policy framework and linkage to other government functions.

The Municipal Budget and Reporting Regulations, 2009, provide for the formalisation of norms and standards in order 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 in the course of the implementation of the budget.

Additional key objectives, which also illustrate the potential benefits, include-

- (a) improved data quality and credibility;
- (b) the achievement of a greater level of standardisation;
- (c) the development of uniform data sets critical for 'whole-of-government' reporting;
- (d) the standardisation and alignment of the 'local government accountability cycle' by the regulation of not only the budget and in-year reporting formats but also the annual report and annual financial statement formats;
- (e) the creation of the opportunity to standardise key business processes with the consequential introduction of further consistency in the management of municipal finances;
- (f) improved transparency, accountability and governance through uniform recording of transactions at posting account level detail;
- (g) enabling deeper data analysis and sector comparisons to improve financial performance; and
- (h) the standardisation of the account classification to facilitate mobility in financial skills within local government and between local government and other spheres as well as the private sector and to enhance the ability of local government to attract and retain skilled personnel.

These Regulations apply to all municipalities and municipal entities and indicate its applicability and relevance to each specific municipal environment while accommodating organisational uniqueness and structural differences. These Regulations also proposes the specification of minimum business process requirements for municipalities and municipal entities as well as the implementation of processes within an integrated transaction processing environment.

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## SEGMENTS OF STANDARD CHART OF ACCOUNTS FOR MUNICIPALITIES AND MUNICIPAL ENTITIES

### CHAPTER 1

#### INTERPRETATION, OBJECT AND APPLICATION

##### Definitions

1. In these Regulations, a word or expression to which a meaning has been assigned in the Regulation has the same meaning as in the Act and unless the context indicates otherwise—

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**“board of directors”**, in relation to a municipal entity, has the meaning assigned to it in section 1 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

**“business processes”** means the set of activities taking place from the initiation of a process within a municipality or municipal entity to the completion thereof;

**“classification framework”** means the classification framework provided for in the standard chart of accounts;

**“Director-General”** means the Director-General of the National Treasury;

**“general ledger”** means the central depository of accounting data transferred from all sub-ledgers;

**“minimum business process requirements”** means the set of minimum components of all business processes determined in terms of regulation 6;

**“minimum system requirements”** means those specifications for an integrated software solution, incorporating an enterprise resource management system determined in terms of regulation 7;

**“municipal entity”** has the meaning assigned to it in section 1 of the Local Government: Municipal Systems Act, 2000;

**“municipal council”** has the meaning assigned to it in section 1 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

**“municipality”** has the meaning assigned to it in section 1 of the Local Government: Municipal Systems Act, 2000;

**“SCOA Committee”** means the Technical Committee for the Standard Chart of Accounts for municipalities and municipal entities established by regulation 8; and

**“standard chart of accounts”** means 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.

### **Object of these Regulations**

2. The object of these Regulations is to provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which—

- (a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and
- (b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

### **Application of these Regulations**

3. These Regulations apply to all municipalities and municipal entities.

## **CHAPTER 2**

### **STANDARD CHART OF ACCOUNTS FOR MUNICIPALITIES AND MUNICIPAL ENTITIES**

#### **Segments and classification framework for the standard chart of accounts**

4.(1) The standard chart of accounts for a municipality or municipal entity must contain the segments as set out in the Schedule.

(2) The Minister must, by notice on the website of the National Treasury, determine the classification framework provided for in the standard chart of accounts.

**Implementation requirements**

- 5.(1) The standard chart of accounts of a municipality or municipal entity—
- (a) must contain the segments in the Schedule as required by regulation 4(1);
  - (b) must accurately record all financial transactions and data in the applicable segment; and
  - (c) may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity.
- (2) The financial and business applications or systems used by a municipality or municipal entity must—
- (a) provide for the hosting of the general ledger structured in accordance with the classification framework determined in terms of regulation 4(2);
  - (b) be capable of accommodating and operating the standard chart of accounts;
  - (c) provide a portal allowing for free access, for information purposes, to the general ledger of the municipality or municipal entity, by any person authorised by the Director-General or the Accounting officer of the municipality.
- (3) Each municipality and municipal entity must have, or have access to, computer hardware with sufficient capacity to run the software which complies with the requirements in sub-regulation (2).

**CHAPTER 3****MINIMUM BUSINESS PROCESS AND SYSTEM REQUIREMENTS****Minimum business process requirements**

- 6.(1) The Minister may, by notice in the *Gazette*, determine minimum business process requirements for municipalities and municipal entities to enable implementation of regulations 4 and 5.
- (2) Each municipality and municipal entity must implement the minimum business process requirements by the date determined in the notice referred to in sub-regulation (1).



**Minimum system requirements**

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).

**CHAPTER 4****TECHNICAL COMMITTEE FOR STANDARD CHART OF ACCOUNTS****Establishment of Technical Committee for Standard Chart of Accounts**

8. A committee known as the Technical Committee for the Standard Chart of Accounts is hereby established as a structure of the National Treasury.

**Composition of SCOA Committee**

9.(1) The SCOA Committee must consist of—

- (a) a chairperson;
- (b) a deputy chairperson;
- (c) five other members, each representing the functional areas of public finance, intergovernmental relations, accounting, budget office and supply chain management; and
- (d) such further members as the Director-General considers necessary;

(2) The Director-General must designate employees of the National Treasury as members of the SCOA Committee in the respective capacities for a term of three years.

(3) A member referred to in sub-regulation (1)(c) or (d) may nominate an alternate to act in that member's stead if unavailable.

(4) The deputy chairperson of the SCOA Committee must act in the place of the chairperson of the Committee if unavailable.

- (5) The Director General must take all reasonable steps to ensure that the SCOA Committee is provided with the technical, administrative, financial and logistical resources to enable it to fulfil its function and must determine its procedures.

### **Functions of SCOA Committee**

**10. The SCOA Committee—**

- (a) must review the classification framework and, where required, make recommendations to the Minister on amendments to that framework;
- (b) must develop guidelines and training material that are aligned to the classification framework determined from time to time in terms of regulation 4(2);
- (c) must review the implementation of the standard chart of accounts in government as a whole to ensure the alignment of the standard chart of accounts provided for in these Regulations and the standard chart of accounts applicable in national and provincial government;
- (d) when required to align these Regulations with changes to other legislation applicable to local government, must make recommendations to the Minister on amendments to these Regulations;
- (e) must undertake such other functions relating to the implementation of these Regulations as the Minister may direct;
- (f) may make recommendations to the Director-General and the Minister on any matter referred to in paragraphs (b), (c) and (e); and
- (g) must undertake any functions necessarily ancillary to any matter referred to in paragraphs (a) to (f).

### **Meetings of SCOA Committee**

- 11.** The chairperson of the SCOA Technical Committee or the Director-General may, as required, convene meetings of the Committee, but the Committee must convene at least once a year.

## CHAPTER 5

### RESPONSIBILITIES OF MUNICIPAL FUNCTIONARIES

#### Responsibilities of municipal councils and boards of directors

**12.** The municipal council of a municipality and the board of directors of a municipal entity must take the necessary steps to ensure that these Regulations are implemented by the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.

#### Responsibilities of accounting officers

**13.** The accounting officer of a municipality or municipal entity must take all necessary steps to ensure that these Regulations are implemented by at least—

- (a) delegating the necessary powers and duties to the appropriate officials;
- (b) ensuring that the responsible officials have the necessary capacity by providing for training and ensuring that they attend training or workshops provided by the National Treasury;
- (c) ensuring that the financial and business applications of the municipality or municipal entity have the capacity to accommodate the implementation of these Regulations and that the required modifications or upgrades are implemented; and
- (d) submitting reports and recommendations to the municipal council or the board of directors, as the case may be, that provide for the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.

## CHAPTER 6

### GENERAL

#### Access by National Treasury

**14.(1)** All municipalities and municipal entities must ensure that—

- (a) the business and financial applications used by them incorporate a portal allowing for free access to their general ledgers for information purposes to any person authorised by the Director-General; and
- (b) such access is provided.

(2) The accounting officer of a municipality and a municipal entity must ensure that its system providers cooperate with the National Treasury to implement the necessary programme amendments to provide the standard of access required by the National Treasury.

(3) The National Treasury may use any of the information to which it has access in terms of this regulation for the purposes of—

- (a) preparing national accounts for the whole of government;
- (b) development of consolidated accounts for the local government sphere;
- (c) verifying the correctness of municipal financial and business information;
- (d) assessment of municipal financial performance and benchmarking; and
- (e) fulfilling any obligations in terms of legislation.

#### **Postponement of implementation and exemption**

15.(1) The Minister may, by notice in the *Gazette* on good cause shown by a municipality or municipal entity and after considering any recommendations of the SCOA Committee, exempt such municipality or municipal entity from the application of a provision of these Regulations, for the period and on the conditions determined in the notice.

(2) A postponement or exemption in terms of sub-regulation (1) may—

- (a) apply to—
  - (i) municipalities generally; or
  - (ii) municipal entities generally, or
- (b) be limited in its application to a particular—
  - (i) municipality;
  - (ii) category of municipalities, which may be defined either in relation to a type or budgetary size of municipality or in any other manner;
  - (iii) municipal entity; or

- (iv) a category of municipal entities, which may either in relation to a type or budgetary size of municipal entity or in any other manner.

**Short title and commencement**

**16.** These Regulations are called the Standard Chart of Accounts for Local Government Regulations, 2014, and take effect on 1 July 2017.

## **SCHEDULE**

### **SEGMENTS OF STANDARD CHART OF ACCOUNTS FOR MUNICIPALITIES AND MUNICIPAL ENTITIES**

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**

1. 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**

2. 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**

3. 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**

4. 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**

5. 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 deriving the benefit from the transaction.

#### **Item Segment**

6. 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**

7. 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.