REPUBLIC OF SOUTH AFRICA

NATIONAL TREASURY

SCOA
Project Summary Report

October 2008

Standard Chart of Accounts (SCOA)

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Standard Chart of Accounts (SCOA) Toning Introduction

1. The introduction to this document provides a summary of the changes made on 1 April 2008, the reasons for the changes and their implications for SCOA.

2. The remainder of the document devotes a section to each segment, with a discussion on the segment past the Toning Project, to give SCOA users a synopsis of the segments as applicable from 1 April 2008.

BACKGROUND

3. In 1999, National Treasury embarked on a budget reform programme, aiming at improving accountability and modernising the accounts of government. This was to be done primarily by bringing budget and expenditure reporting in line with international best practice. The ultimate aim of this reform remains unchanged – it is to provide better quality information to legislatures to assist in the policy making process and to reinforce Parliament's oversight role.

4. A new, standardised chart of accounts and the new economic reporting format for national and provincial departments was introduced in 2004. The SCOA is a standard list of expenditure items aligned with accounting and economic reporting standards that has replaced the original "standard item" configuration in the financial systems.

5. In essence a SCOA comprises the coding of items used for classification, budgeting, recording and reporting of revenue and expenditure within the accounting system, in order to facilitate the recording of all transactions affecting assets and liabilities.

6. A key departure from the previous standard item configuration is that the codes and descriptions in SCOA, implemented in 2004, became centralised and co-ordinated by National Treasury's SCOA Technical Committee. This implied that the chart structure could no longer be amended directly by practitioners in departments. The 2004 implementation substantially reduced the number of duplications in the accounts and allowed for readily available aggregated data.

7. Before the implementation of the budget format and SCOA in 2004, the project team stressed the need for rationalising the SCOA structure after it had been used by departments for a number of years. The past three fiscal cycles have served as this period, and the SCOA team is now equipped to implement structural improvements.

8. Furthermore, this reform is seen as an essential input for the successful overhauling of the financial systems, in the form of the Integrated Financial Management System (IFMS).

9. Also, the accounting and reporting requirements have evolved since the initial implementation and it is necessary to review how the system could provide better for this information.

CONSIDERATIONS

Preliminary Observations

10. A comprehensive review of the data accumulated over the past three years, and discussions with stakeholders in National Treasury and departments over a period of six months, have confirmed the following:

- Dramatic improvements were realised in various cases, simply from the transparency enforced by the data structure. Spending on a single item could no longer be "hidden" or "distributed" among several incorrect items.

- Aggregated data extraction and hence, consolidated reporting, were made substantially easier and more consistent. Designing and developing monthly and annual reports (as required by the Public Finance Management Act, PFMA) became easier with a more rigid data structure. At the same time, it became clear that diverse perspectives of financial information for internal management purposes had been sacrificed for this purpose to some extent. In this respect, it was clear that this would have to be addressed with the next structural SCOA amendment.

- Data behaviour (in the form of the most popular or unused items) revealed opportunities for structural improvement in certain spending categories. Although less urgent, the usefulness of reports extracted from the financial systems would be improved once addressed. In the *Goods and services* spending category, high value and/or frequently used accounts were on the same level as items of less importance. A classic example of this would be spending on the item *Bore-waterhole drilling* being placed at the same level of aggregation as the item *Consultants and professional services*.

- Certain data were still difficult to extract. Project information, particularly that relating to activities resulting in capital formation (own-account construction, acquisition of stand-alone capital assets as inputs to larger capital assets, etc.) was patchy at best. This is because the original SCOA project focused solely on the Item segment of the chart of accounts and hence, could not have comprehensively addressed the issue. It thus became clear that the next round of improvements would have to consider critically the structure of other segments to make compliance with the reporting requirements possible.

- Interpretation of codes in the system appears to be consistently improving as training efforts continue. This is seen as a major advancement in establishing a "common language" for systems operators and financial practitioners.

- Account descriptions used in SCOA were improved and the English version of the SCOA expanded to render descriptions clearer and largely unambiguous.

- With the standardisation of the chart of the accounts and the replacement of the budget format, the possibility for relating budgeting and financial reporting meaningfully had now been facilitated.

Advantages and Further Improvements

11. The review of SCOA and the consequent reimplementation of the structures within the systems environment, provides for numerous opportunities for improving data quality and cleaning up the existing segment structures and supporting databases. Some of these potential gains include:

- Departments and treasuries will be in a position to easily monitor spending on earmarked funding allocations.

- The standardisation of the Objective segment will result in a direct alignment between the approved programme structures in the budget and the structure in the financial system.

- The revised classification list will provide for improved reporting and transparency in the presentation of item spending aggregates.

- The new segment configuration will allow departments to correctly record and easily extract data on own-account construction and maintenance, thus ensuring compliance with the requirements of the budget format and the IRM.

- There will also be alignment of a data segment with the Infrastructure Reporting Model (IRM). This will provide departments with an enhanced ability to meet the spending data requirements of the IRM and those of the National Treasury's infrastructure team; directly from the financial systems.

- The data link between a department's asset register and financial systems has been strengthened considerably with the implementation of the Assets segment.

- The re-implementation of the system on 1 April 2008 has given departments the opportunity to clear old balances in suspense accounts, clean up existing suppliers databases, remove dormant and incorrect systems and user IDs, and clean up problem with systems interfaces, such as PERSAL and LOGIS.

- There will be improved flexibility at the transactional level as departments will be allowed to add detail classifications, thus providing additional management information.

- The regional identifier will be introduced, for the purposes of drawing the link between financial activity and geographic regions. The new segment provides for the possibility of capturing regional data down to the level of wards within the financial systems.

CHANGE MANAGEMENT AND SUPPORT

12. The introduction of two new segments in the financial system (resulting in the reimplementation of BAS), combined with the revisions made to the structure of the existing five segments in SCOA, poses a serious change management challenge to the project team. In this regard a number of interventions have been initiated by National Treasury. Although some of the interventions listed below have already been completed, the schedule below has been left intact to illustrate the change management picture comprehensively.

BAS Systems Preparations Process

13. A high level summary of the systems change management process is provided below.

    - August and September 2007 – Workgroups consisting of representatives from National Treasury, national and provincial departments and BAS discussed and deliberated over various aspects, opportunities, simplifications and improvements.

- End December 2007 – Programme structures (programme and sub-programme) were submitted to BAS for creating a database. Sources of information were the provincial budget statements submitted for the benchmark exercise in December 2007 and the ENE database submissions of national departments.

- Last two weeks in January 2008 – Systems roadshows for all departments and provinces highlighted the detailed systems procedures and processes to be followed during implementation.

- End January 2008 – New segment structures were loaded onto BAS and provided to departments.

- February and March 2008 – Substructures were created and loaded, PERSAL and LOGIS interface mappings were completed, and systems user IDs created. These processes must be concluded by departments. Departments using other sub-systems that interface with the BAS system should provide for appropriate processes to accommodate the changes resulting from the revisions to SCOA.

- End February 2008 – Objective structures were verified with appropriation bills and budget documentation and signed off by national and provincial treasuries.

Other Initiatives

14. Other initiatives were focused on preparing practitioners for the implementation of the new proposals in the transactional process after 1 April 2008. Below is a high level summary of these:

    - Roadshows and group training workshops carried out during late February and March 2008 aimed at providing information on the general classification principles used in the new SCOA across all segments. These were focused on providing a proper understanding of how the changes to the systems would impact on the recording of financial transactions.

    - At the request of specific departments or provinces, customised user training and additional practical exercises was provided to address specific user requirements.

    - The National Treasury provided a call centre, website and the SCOA Technical Committee to give rules and classification support to departments.

    - As at the latest count, approximately 600 queries formally logged on the SCOA database were responded to. These were in addition to numerous direct calls to the project team.

    - The SCOA Technical Committee conducted a review of all classification guides and circulars to ensure alignment with the new segment proposals.

    - A review of the existing SCOA training material and rollout has been initiated to ensure alignment between the most recent SCOA adjustments and the training sessions.

    - A training DVD is to be rolled out in anticipation of the fully fledged SCOA training programme expected to start early in 2009.

SYNOPSIS OF SEGMENTS AND THE IMPACT OF CHANGES INTRODUCED

Principles

15. SCOA operates on the basis of a "COR" (containing all available allocations) database created by National Treasury and from which departments must activate the specific information that is relevant to their department.

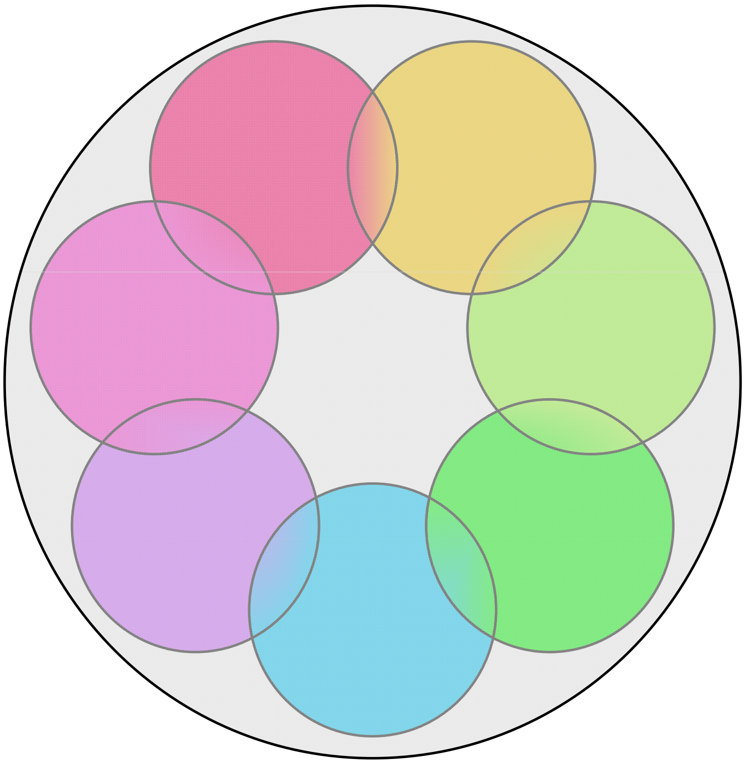
16. In the new chart no provision is made for a separate "COR" for trading accounts and trust funds. The standardised objective structure now provides for separate accounts (at the same level as programmes) for departments and provinces to capture transactions related to such activities. These accounts allow for departmental breakdown and departments can include such detail as is required for the management of such funds. The Item segment caters for the accounts that are relevant to trading entities.

17. The previous version of SCOA consisted of five segments, while SCOA as implemented on 1 April 2008 includes two additional segments: the Asset segment and the Regional segment. The Item segment has now been simplified by moving the asset detail to the Asset segment. Indication of regions in the previous version of SCOA was in some instances scattered over the Project, Objective and Item segments and has now (insofar as it is practical) been moved from these segments and standardised in the Regional segment. The diagram below shows the transformation from the previous SCOA to SCOA as implemented on 1 April 2008.

<u>OLD VS NEW SEGMENTS</u>

<u>OLD</u>		<u>NEW</u>
1. Fund	➔	**1. Fund**
2. Objective	➔	**2. Objective** *6. Project*
3. Responsibility	➔	**3. Responsibility**
4. Item	➔	**4. Item** *5. Asset* *7. Regional identifier*
5. Project	➔ ➘ ➘	**5. Asset** **6. Project** **7. Regional Identifier**

18. This diagram illustrates the segments within SCOA for recording a transaction. When recording a transaction, a selection must be made from each of these segments, meaning that all segments must be used for recording a single transaction.



19. In finding the appropriate classification code from a segment the following questions need to be answered to assist in the allocation:

a. ***Fund segment*** – What source of funding will be used for the transaction?

b. ***Objective segment*** – Against which programme/activity should the transaction be recorded?

c. ***Responsibility segment*** – To which cost centre should the transaction be allocated?

d. ***Item segment*** – What is being bought?

e. ***Project segment*** – Does the transaction relate to a specific project and if so, what type of project?

f. ***Asset segment*** - Does the transaction relate to an asset or the use of an asset and if so, which asset class?

g. ***Regional segment*** – In which region does the service get delivered?

20. The discussion of the segments in this section is kept at a high level to provide an overview and explain the key definitions. For a detailed understanding of specific classification codes the reader is referred to the definitions within the detailed SCOA. The development of the definitions is an ongoing process and will be expanded as information becomes available. The following paragraphs summarise the changes introduced, the reason for changes and their impact on a segment where this is considered critical.

The Segments

Fund Segment

21. The Fund segment identifies the various sources of funding available to departments. This segment has been reviewed as part of the SCOA Toning Project. The resulting changes relate to building the capability to track spending on earmarked / specific allocations and to provide for the identification of interdepartmental transactions in the financial systems.

22. In order to monitor expenditure that is earmarked for a specific purpose, the Fund segment has been expanded to identify these as a sub-category of the Voted Funds main category. These would include items specified in the departmental allocation letters as "earmarked" or "specifically and exclusively appropriated" funds in the Appropriation Act.

23. To facilitate the identification of inter-departmental expenditure incurred by departments such as the national Department of Public Works, which spends on behalf of other departments (for example, the payment of municipal services), several new categories have been created as part of the *Assets and liabilities* section. A claim against the vote of another department can now be identified in the Fund and Item segments (using suspense accounts). Consequently, the matching fields can be used as another way of identifying the nature of the claim.

Client listing

24. Some of the Departments of Public Works used the Project segment to identify client departments for capital / maintenance projects and the payment of municipal services. This information is not appropriately recorded in the Project segment and the workgroup has resolved the issue by correctly locating the names of clients to the Fund segment.

25. Provision is made in the Fund segment, for the identification of clients where payments are made from the Public Works allocation (own budget) for payments towards projects of client departments. By extracting a report on payments from the fund for *Assets and liabilities – Interdepartmental services/Advances*, the Public Works departments will be in a position to identify all spending for client departments.

26. Payments made on behalf of other departments, such as the payment of municipal services on behalf of other departments and recovered later, will be recorded in a specific section in the fund structure. Within this area of the Fund segment, provision is also made for the identification of client departments, thus allowing for correct billing and recording of expenditure. This same procedure can be used by all departments where spending occurs on an agency basis for other departments.

Objective Segment

27. The past few financial years have seen a concerted effort from National Treasury to improve on the presentation of budget programmes at the national and provincial level. This effort was complemented with the process to standardise these across provinces. Much of the gains of this process are however, lost, due to a misalignment between actual departmental appropriation structures and corresponding systems configuration within the Objective segment.

28. An analysis of data in the financial system (BAS) revealed that a serious misalignment exists between programme structures as presented in the budget documentation and appropriated by legislatures, and those reflected in the Objective segment against which spending is recorded in the financial systems.

29. In many instances, several programmes on the financial system have been duplicated and in the majority of cases programme structures from the previous financial years remain active on the system and therefore open for recording transactions. This hampers accurate financial reporting and impacts negatively on data quality and integrity.

30. Functionality, which has been built into the in-year reporting model to update actual spending data directly from the system, is substantially constrained due to this misalignment and hence cannot be employed as a tool for data extraction.

31. In order to improve government's ability to extract meaningful information for monitoring in-year and programme expenditure at national and provincial levels, it is imperative that programme structures between budget documentation and BAS are aligned completely.

Programme

32. The first two budgeting levels (programme and subprogramme) presented in the budget documentation and appropriation acts will in future be captured and centrally managed by National Treasury for national and provincial departments. This effectively implies that, from the 1 April 2008, departments will not be allowed to amend the first few levels in the Objective segment without the necessary approval and concurrence of the relevant treasury. Departments will be able to create sub-level activities according to their own requirements.

33. Even though departments will be able to create any sub-categories as required to ensure effective financial management and control beyond the first two budgeting levels, it is important that departments ensure that lower-level activities relate to the subprogrammes to which they are assigned in order to maintain data integrity.

34. This procedure will enforce complete alignment of programme structures between the budget legislation, documentation and the financial system. This will, in turn, improve financial reporting and data integrity.

Implications of the alignment of programme structures

35. In the first year of implementation this standardisation procedure implies a systems re-implementation at the departmental level, which will require departments to ensure that all BAS user IDs and the links between the objective structure and PERSAL and LOGIS be updated before implementation. In future financial years, changes to the objective structure on request of departments will not imply systems re-implementation.

36. As mentioned above, only programme structures reflected in budget documentation and appropriation acts will in future be captured on BAS (programmes and subprogrammes) and managed by National Treasury. This implies that changes in this regard can only be made during an appropriation process (namely, in the Main Budget or the Adjustments Estimate).

37. It is important that programme structures are agreed and finalised early in the budget process, as late changes to programme structures will result in all sub level items (activities) already created by departments in the system being deleted. This will delay the capturing of sub-level accounts in April. Systems interfaces may also be affected as a result and departments are requested to ensure that appropriate procedures are set in place to allow the timely amendment of programme structures, as late changes might result in problems with systems interfaces, for example, PERSAL.

Item Segment

38. A detailed analysis of the expenditure items in SCOA three years after the 2004 implementation clearly indicated that a review of the existing item list was required to provide more meaningful data for management and policy analysis.

39. National Treasury led a process, initiated by the Technical Committee for Finance (TCF) via the CFO forums and sector specific work teams, to look into streamlining the review of the SCOA item list, with the specific objective of providing more meaningful data for purposes of analysis.

40. The review was conducted by a workgroup consisting of national and provincial officials. It was mainly responsible for reducing the number of items in the structure, reviewing the relevance of the different combinations of items and considering the items required for the reporting to National Treasury. The changes introduced by the work team are discussed in detail below.

Changes

Compensation of employees

41. The only change made to *Compensation of employees* is the reclassification of post-retirement medical benefits to *Transfers to households.* The reason for this change is that all post-retirement payments made to or on behalf of ex-employees are deemed to be unrequited. The departments mostly affected by this change are National Treasury, the Department of Correctional Services and the South African Police Services. A classification circular detailing this change will be issued by National Treasury in due course.

Goods and services

42. Currently 80 per cent of spending occurs from a minor volume of items on the list, with *Inventory* and *Consultants* being the largest spending categories. These items have now been reviewed and further disaggregated for recording financial transactions at appropriately detailed levels. The items included in *Goods and services* have been reviewed in order to remove duplicated and unused items from the list.

43. A number of large spending items such as *Inventory* and *Consultants* were on the same level as infrequently used items or items that were not as material in terms of the total budget of a department, for example, *Resettlement costs* or *Courier and delivery services*. For this reason the Item segment was restructured to group the “smaller” spending items together and to separate the “larger” spending items into broader categories for management and monitoring purposes. A category for *Administrative fees* and *Operating expenditure* was therefore introduced.

44. *Administrative fees* includes all administrative related fees such as registration fees, copyright fees, personnel agency, commission for the collection of taxes, drivers licences for employees, and so on. *Operating expenditure* includes items relevant to the day-to-day operation of the department and typically includes goods and services that do not meet the classification criteria for other major spending categories and this grouped together on its own. Examples being cleaning services, courier and delivery services, learnerships (18.2), resettlement costs, roadworthy tests, school boarding costs, storage of files and assets, taking over of contractual obligations, air, freight and harbour services, printing and publications, protective and special clothing, witness and related costs, and so on.

45. In addition, the workgroup reconsidered the definitions for and classification of payments to consultants and contractors and agreed to separate the old item *Consultants, contractors and special services* into the following categories (detailed sub-categories exist for all three items):

- *Consulting and professional services*, which has been disaggregated as follows:

  - *Business and advisory services*
  - *Infrastructure planning*
  - *Laboratory services*
  - *Legal services*
  - *Contractors*
  - *Agency support / Outsourced services.*

46. *Catering for departmental activities* remains a stand-alone item in the *Goods and services* category and the definition for the item remains the same. *Entertainment* will also be reflected as a stand-alone item under the *Goods and services* category with its three levels of detail and would not form part of the *Catering* item. Classification Circular 2 of 2008/09 issued by the SCOA Technical Committee is relevant to the catering and entertainment items.

47. Provision has been made separately for food provided to detainees, patients, the armed forces, communities, social welfare facilities, education facilities, training colleges and prisoners (previously classified as catering) under *Agency and support / Outsourced services*. The reason for not grouping all catering items together is to obtain a clearer picture of catering services for employees and their departmental activities and other catering services outsourced by the department.

48. The *Inventory* items have been revisited to reflect the major spending items in government and to remove duplicate items. The *Inventory* categories are as follows:

- *Food and food supplies.*
- *Fuel, oil and gas*.
- *Learning and teaching support materials.*
- *Materials and supplies.*

- *Medical supplies* (The items under this category were substantially reduced as requested by the health sector to provide only for spending levels up to a specific level; and duplicated items have been removed.)

- *MEDSAS interface.*

- *Military stores* (A separate line item has been created to provide for all military store items that previously were included under various other *Inventory* categories).

- *Other consumables* (Items previously provided for under headings such as *Agricultural and domestic consumables* are now under the non-posting level item *Other consumable materials*. Insignificant spending items such as sport and recreational consumables previously reported on their own are also now moved to the category *Other consumable materials*).

- *Stationery and printing.*

49. The item *Owned and leasehold property expenditure* remains in the item structure and provides for all payments related to contractual obligations contributing to the functionality of the building.

50. In this item provision is made for the payment of municipal services, for example, water, electricity and waste removal; however, in the new structure the names of the municipalities have been relocated to the newly introduced Regional segment in order to remove the duplication of municipal names in the Item segment. The account provides for detailed posting levels at the discretion of the user department, for example, water, electricity, sanitation, waste removal or a general item.

51. It might appear that some of the items under this category have been repeated under the *Contractors* category. This is not the case as the items under this category relate to contractual obligations in terms of the management and / or upkeep of buildings (owned or leased) only; whereas the items under *Contractors* relate to payments which may not be directly associated with a building.

52. Some changes have been made to the classification of transactions related to own-account and outsourced maintenance and repairs, upgrade and additions and rehabilitation and refurbishment of all asset types. These transactions will be clarified in classification circulars to be issued by National Treasury.

53. An item for *Lease payments* has been retained as a separate category within *Goods and services*. The detail of the type of asset such as buildings or machinery and equipment on which rental is payable has been moved to the Asset segment.

54. The *Lease payment* item includes the capital portion of finance lease payments and the rental payment under operating leases. The interest portion of finance lease payments should be allocated to an account specifically created for this purpose, namely *Interest paid: Finance lease*. Classification Circular 4 of 2008/09 contains detailed guidance on the classification of leases in SCOA.

55. The workgroup also identified a number of posting level items that have not been used in the system. These items and items that were duplicated at non-posting and posting level have been removed from the item structure.

Transfers and subsidies

56. Names of provinces and municipalities previously listed in the Item segment have been relocated to the Regional segment. These include conditional grants and equitable share grants, as well as transfers to municipalities for rates and taxes and vehicle licences.

57. The item *Regional Services Council levies,* with its detail, have been removed from the chart of accounts as the payment of these levies has been phased out. If a department needs the *Regional Services Council levy* item to pay for the levies on any backdated salaries, National Treasury and the SCOA Technical Committee must be consulted for the possible creation of the item.

Payments for capital assets

58. Both the Item and Asset segments have accounts relating to the respective asset classes. The purpose for the items in the Asset segment is to indicate the method of acquisition of the assets. For example, where a motor vehicle is bought as a stand alone item, both the Item and the Asset segment will indicate motor vehicle. However, where a motor vehicle is leased the account lease payments in the Item segment will be utilised, while in the Asset segment the expenditure will be allocated to asset type, motor vehicles.

59. There is separate identification of assets (or components) purchased that were subsequently allocated to an immovable asset, for example, where a department purchases new blinds for the office building windows. The blinds are not accounted for separately in the asset register of the department but are added to the value of the building, assuming these blinds were custom made for the office windows and cost more than R5 000 per window.

60. All the detailed classes and items for immovable assets have been moved to the newly created Asset segment. Where appropriate, departments will now be able to monitor and account for the different types of expenditures relating to the assets owned or used by the department, e.g. departments can monitor the annual or monthly costs incurred for security services for a specific building or class of buildings using the Item and Asset segments.

61. All asset classes in the Item as well as the Asset segment have been aligned with the Asset Management Learners' Guide – depreciation table. This implies that the classes are aligned with the asset register of a department.

Receipts

62. Provision has been made for e-NATIS transaction fees by creating an account for road and transport licences and permits.

63. The details of the item structure on the capital asset classes for, among others, the sale of assets less than R5 000 have been moved from the Item segment to the Asset segment. The non-posting levels under *Other machinery and equipment* have been aligned with the depreciation tables found in the Asset Management Learner's Guide.

64. Provision has been made in the *Penalties* category for the details of late payments on motor vehicle licences.

65. Detailed items have been created under *Interest: Cash and cash equivalents* and *Interest: Exchequer investments* to specifically monitor interest received. It is important to note that these newly created accounts are only to be used by the National Treasury as part of the system designed to manage government funds held in the exchequer accounts.

Sales of capital assets

66. Details of asset posting level items have been moved to the *Asset* segment. As mentioned above, the non-posting levels under *Other machinery and equipment* have been aligned with the classes in the depreciation tables found in the Asset Management Learners' Guide.

Assets, liabilities and net assets

67. Monies invested with commercial banks or in a CPD account were previously classified as *Investments*. This classification has been amended and these short-term investments are now part of *Cash and cash equivalents*. This classification is in line with both the accounting and statistical frameworks.

68. All *Claims recoverable* accounts have been relocated from *Prepayments and advances* to *Receivables* to appropriately reflect the nature of these accounts.

69. Certain accounts previously located under *Claims recoverable* (such as agency service control account, pension recoverable and the salary recoverable account) have been grouped separately as *Other recoveries* under *Receivables*.

70. Appropriate accounts have been added to provide for the required accrual accounting transactions for trading and trust accounts.

Project Segment

71. The implementation of SCOA in 2004 saw the introduction of a new segment catering for the reporting of spending on projects. At that first stage of implementation, the new segment was not standardised, as it was agreed that departments would provide for departmental specific reporting requirements to ensure proper project reporting.

72. Numerous departments did not use this new segment after its introduction in 2004, while others introduced detailed structures to provide for departmental management and reporting purposes.

73. However, with the rollout of the IRM, it has become clear that it would be necessary to provide for a Standardised Project segment in order to ensure that all aspects of the reporting requirement for infrastructure reporting are covered. For this reason a Standardised Project segment was proposed.

74. The review of the existing Project segment was completed with input from various (national and provincial) departments, and it was decided to replace the existing Project segment with a centrally controlled standardised Project segment that is fully aligned with the IRM. This standardised Project segment still allows departments to monitor spending on non-infrastructure projects as well.

75. The reporting purposes for which the previous Project segment was used have not been removed from the financial systems – they have either been catered for in the new Project segment or relocated appropriately. These requirements mainly include reporting on department-specific projects, which in many instances represent infrastructure projects, but also numerous non-infrastructure related projects, such as land restitution projects in the Department of Land Affairs.

76. Spending on infrastructure is a priority of government, aiming at improving access to and the quality of service delivery, and as a means of addressing unemployment and poverty. As such there has been a substantial increase in the budget allocation for infrastructure since 2000/01 and budgets for infrastructure are set to accelerate sharply over the medium term.

77. Problems of slow spending of infrastructure budgets and inadequate reporting on infrastructure spending have been experienced, resulting in the design and implementation of a complex and diverse range of infrastructure reporting requirements.

78. Such reporting is currently reliant on departments providing financial and non-financial data inputs via an Excel driven database. This procedure places undue pressure on departments to comply, as data produced by the financial systems has to be recaptured in the Excel environment. In many instances departments have to refer to source documentation for the completion of standard reporting tables.

79. In order to improve the flow of financial data inputs, amended systems reporting procedures in the form of changes to the chart need to be implemented. This will result in BAS being able to provide systematic reporting of infrastructure expenditure at the project level.

Standardised project segment

80. With the new Project segment being implemented on 1 April 2008, departments will now be compelled to capture financial transactions using the items provided in the standardised Project segment. Departments are requested to ensure that appropriate processes and procedures are set in place to cater for the standardisation of this segment of the chart of accounts.

81. Changes required by each individual department should have been taken into account during the systems implementation process with the financial systems team, and appropriate items created to aptly describe projects to be undertaken during 2008.

Reporting on infrastructure spending

82. The National Treasury has consulted various stakeholders over the past two years to develop a segment in BAS that will capture uniform information on infrastructure spending. During this process the following guiding principles were identified and agreed upon:

- Financial data required for purposes of completing the Infrastructure Reporting Model should be extracted directly from the financial system, using a segment in BAS designed for this purpose.

- For the purposes of the infrastructure reporting model, departments must be in a position to obtain and use expenditure information on infrastructure projects captured on the financial system at any time, without additions or reconciliations to sub-systems.

- The data included in the system should be standardised and clearly defined but still allow for flexibility for department specific requirements.

Recording of the economic classification

83. Economic classification distinguishes between those activities where the benefits are short-term (current) and those that have a benefit over a longer period (being capital in nature).

84. In the previous version of SCOA, the recording of the economic classification was done in the Objective segment and further refined in the Item segment. Consequently the Item list directly correspond with the high level presentation format of the budget format.

85. In terms of the Objective Segment and previous role in economic classification it is important to remember that all Objectives (or Programmes) were either classified as "current" or "capital" at the lowest level of classification. This would allow one to capitalise activity sets, whereas spending on stand-alone items of a capital nature were recorded in the Item segment.

86. However, many departments used the Item segment as the only source of data for completing financial reports and budget submissions. Within such a presentation, it is impossible to properly account for the economic classification of own account construction and capital formation, since the economic classification is not located in this segment. The detail of different items of capital is also lost during the process of data capturing.

87. To diminish the effects of this widespread error in classification, the economic classification has now been removed from the Objective segment and is provided for in the Project segment. In this segment departments will have to decide whether payments are capital, current or transfer payments.

Monitoring science and technology activities

88. Cabinet has approved a framework for the strategic management of South Africa's science and technology (S&T) system. This framework introduces reforms to improve the budgeting process and the management of the S&T system by the introduction of an annual expenditure plan.

89. To enhance this process, the National Treasury is assisting the Department of Science and Technology by providing a platform within the budget process and the financial system from which data for planned and actual expenditure can be made available.

90. Most of the science and technology activities within departments are completed as projects. The intention is to identify such projects on the system and to provide for specific indicators within the systems environment to monitor the implementation of these projects.

91. The Department of Science and Technology, in collaboration with the National Treasury, will engage in a consultation process with the relevant departments in the near future to advise on the use of the system features.

Sub-systems

92. A number of Public Works departments run separate sub-systems to record project information. It was decided that where such sub-systems are used, an appropriate level of systems interface be agreed to ensure that all information required for project reporting is provided for in BAS. The balance of the data will be carried in the appropriate sub-system for departments to access if required.

Asset Segment

93. In the past, departments mainly used the Item segment in SCOA for recording payments related to asset acquisition and/or formation. This data architecture made it difficult to properly account for items of own-account construction and capital formation, and was difficult to link the individual spending items to the asset being constructed.

94. Spending on compensation, inventory and other items in relation to capital projects was either allocated to the respective line items or to an asset class under *Payments for capital assets*. It was therefore difficult to determine whether internal departmental spending contributed to capital formation or not.

95. The previous item structure was also a source of conflict in the economic classification of spending in certain cases, due to contradictory indications between the Objective and Item segments. It was observed in several instances that spending on items under *Payments for capital assets* in the Item segment was recorded as spending from an objective marked as "current". In addition, the previous version of the Item segment included the asset classes which led to duplication of items and an increased risk of misclassification.

Changes

96. A new segment was implemented to streamline the allocation of expenditure on assets. The new Asset segment has been introduced and will in future be used to create a database of information regarding expenditure on assets (minor assets/assets less than R5 000 and major assets) with the objective of improving the management of assets and the proper recording of all payments related to the acquisition and/or creation or leases and maintenance of assets.

97. The new segment centralises the list of assets in the chart of accounts and hence allows for both spending on capital assets as well as for spending related to capital formation (own-account construction) in government. The economic classification of assets, previously in the Objective segment is now moved to the Projects segment.

Regional

98. As part of the budget reform process and for purposes of evaluating resource allocations in government, the National Treasury intends to start monitoring the allocation of resources and actual spending at a regional level. The aim is to capture details of all national and provincial government resource allocation and spending at

the regional level. This perspective is not provided fully by the usual analysis of Programme and Item segments in SCOA.

99. A Regional segment is introduced in the new systems structure, with the aim of assigning expenditure by region (municipality or ward) to identify communities that benefit from government spending and thereby provide further information that will support improved policy analysis.

100. This implies that expenditure must be recorded so that the final impact of the spending can be measured by region in order to get a geographical view of the economic impact of government spending.

101. The Regional segment also provides the details of municipalities and wards within a province. A further enhancement to municipalities in the Regional segment has been the adding of the identification code of the relevant municipality.

102. Departments are requested to remove references to regions from the Responsibility segment where possible. The Responsibility segment is the only remaining non-standardised segment and is therefore an area that poses the risk of realising unnecessary duplication; in this case between the Responsibility and Regional segments. This duplication could negatively affect the quality of data and hence, information recorded in the financial systems. However, if the organisational structure of a department requires the inclusion of regional responsibilities, these responsibilities should still be created.