

# AUDIT & FINANCE TRAINING (AUDIT READINESS)

Implementing *m*SCOA-Compliant Financial  
Statements: Ensuring GRAP Alignment and Data  
Integrity

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**national treasury**

Department:  
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**REPUBLIC OF SOUTH AFRICA**



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# Introduction

- The *mSCOA Regulations* was regulated on 22 April 2014 by the Minister of Finance. All municipalities and their entities had to comply with the *mSCOA Regulations* by 01 July 2017.
- “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.
- 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

The *mSCOA Regulations* are not limited to a standardised financial classification but incorporates:

- Modernisation of Local Government business processes (regulation of minimum business processes and system specifications);
  - Application of basic processes and procedures for the daily operation of the municipality; and
  - Improvement of the municipal Information Communications and Technology (ICT) and control environment.

## Introduction (Cont.)

The National Treasury is in terms of S216(1) of the Constitution responsible to introduce in each sphere of government:

- generally recognised accounting practice;
- uniform expenditure classifications; and uniform treasury norms and standards; and
- uniform treasury norms and standards.

It should be noted that the *m*SCOA Specimen Annual Financial Statements is part of the financial management reforms to ensure **consistency between budgeting, transacting and reporting**.

The GRAP standards were considered in compiling the specimen and it is not meant to take away the municipality's responsibility as the preparer of the financial statements.

The ***m*SCOA Specimen Annual Financial Statements** contains all the line items in the ***m*SCOA chart**. The municipality, when compiling the Annual Financial Statements, is required to only use the line items that are relevant to the municipality.

## Introduction (Cont.)

When **mSCOA** is fully and properly implemented, the following benefits will be achieved:

- Accurate recording of transactions, therefore reducing material misstatements – more accurate and timely financial management impact positively on audit opinions and management decision making.
- Standardised data enable better policy decisions, higher levels of cooperative government and pro-active and preventative support because of the availability of credible, reliable and timely municipal information.
- Alignment in the LG accountability cycle (one version of the truth).
- Reduction in reporting duplications and the cost of reporting.
- Modernised financial management through updated systems and technology – less human error

## Introduction (Cont.)

The benefits of the **mSCOA Specimen Annual Financial Statements** are as follows:

- Improves the quality of Financial Statements;
- Standardise reporting templates (statements/notes);
- Provides uniform reporting;
- Improves the percentage of timeous submissions of Financial Statements to the Auditor-General;
- Ensure alignment between budget, municipal standard chart of accounts and annual financial statements;
- It contributes towards greater transparency for both reporting and comparative analysis purposes;
- It facilitates the automated production of financial statements with notes when a municipality has implemented a module within the financial system that reconcile with the framework of the Specimen Financial Statements;
- It provides monthly/quarterly Financial Statements when a module to compile financial statements has been implemented by the municipality that reconcile with the framework of the Specimen Financial Statements; and
- Consistency with the Municipal Budget and Reporting Regulation.

## Introduction (Cont.)

The benefits of the ***m*SCOA Specimen Annual Financial Statements** are as follows:

- The AFS Specimen is directly aligned with the *m*SCOA Chart in the following ways:
  - **Segment Alignment:** Every line item in the AFS Specimen is mapped to specific *m*SCOA segments (such as Function, Item, Funding, Region, etc.), ensuring that the financial statements reflect the underlying transactional data as captured in the *m*SCOA system.
  - **Consistent Reporting Structure:** The specimen uses the same account codes, definitions, and hierarchies as the *m*SCOA Chart, ensuring that the financial statements are a true reflection of the municipality's financial position and performance as per *m*SCOA. Financial data from different municipalities can be compared directly, supporting benchmarking, oversight, and policy-making.
  - **Automated Data Extraction:** Because the AFS Specimen is built on *m*SCOA principles, municipalities can automate the extraction of financial data from their *m*SCOA-compliant systems, reducing manual work and errors.
  - **Facilitates Aggregation and Analysis:** National Treasury and other stakeholders can aggregate data across municipalities for national reporting, analysis, and decision-making.

# MFMA Reporting Requirements

## MFMA Requirements for preparation of the annual financial statements

- Section 122(1) of the MFMA requires that “Every municipality and every municipal entity must for each financial year prepare annual financial statements which –
  - a) Fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and
  - b) Disclose the information required in terms of sections 123, 124 and 125”.

It should be noted that the AFS specimen covers various standards that might not be applicable to all municipalities. Therefore, municipalities must decide what is applicable / relevant to them in the specimen AFS and items that is material should be disclosed on the face on the financial statements.



## Preparation process in readiness for the implementation of the NT AFS Specimen

### Start with a Strong Foundation: Understand *m*SCOA Deeply

- **Revisit *m*SCOA Fundamentals:** Before diving into the AFS Specimen, ensure your team has a solid grasp of the *m*SCOA Chart of Accounts, its segments (Function, Item, Funding, Region, Project, Municipal Standard Classification), and how transactions are classified. The AFS Specimen is a direct output of *m*SCOA data.
- **Data Quality is King:** Emphasize the importance of accurate and consistent data capturing at the transactional level. Garbage in, garbage out applies here. If your daily transactions aren't correctly mapped to *m*SCOA, your AFS will reflect those errors.

### Phased Approach & Pilot Projects

- **Don't Rush:** Avoid trying to implement everything at once. Consider a phased approach, perhaps starting with a specific section of the AFS or a smaller, less complex municipality if you're part of a larger group.
- **Pilot Run:** If feasible, conduct a "dry run" or pilot compilation using historical data before the actual reporting period. This helps identify issues early without the pressure of a deadline.

### Invest in Training and Capacity Building

- **Comprehensive Training:** Provide thorough training for all relevant staff – from those capturing daily transactions to those responsible for AFS compilation and review. Focus not just on *how* to use the system, but *why* certain classifications are made.
- **Cross-Functional Teams:** Encourage collaboration between finance, supply chain, and other departments. Financial reporting is a team effort, and understanding each other's roles in data generation is key.
- **Knowledge Transfer:** Ensure that knowledge isn't siloed. Document processes and create internal guides.

### Leverage Technology and Automation

- **System Capabilities:** Understand your financial system's capabilities regarding *m*SCOA and AFS generation. Does it have built-in reports that align with the specimen? Can it automate data extraction?
- **Minimize Manual Intervention:** The goal is to reduce manual adjustments and reconciliations. If you find yourself doing a lot of manual work, it often points to an issue in your *m*SCOA mapping or business processes.

## Preparation process in readiness for the implementation of the NT AFS Specimen

### Focus on Reconciliation and Validation

- **Regular Reconciliations:** Implement daily/weekly/monthly reconciliations between your general ledger and subsidiary ledgers, and ensure these align with *m*SCOA classifications.
- **Validation Checks:** Develop internal validation checks to ensure data integrity before AFS compilation. This could involve checking for unallocated transactions, incorrect segment mappings, or unusual balances.
- **Trial Balance/Data Strings to AFS Alignment:** Pay close attention to how your *m*SCOA-compliant trial balance maps to the AFS Specimen line items. This is where many errors can occur if the mapping isn't precise.

### Engage Stakeholders and Seek Support

- **National Treasury Guidance:** Regularly consult National Treasury's *m*SCOA and AFS Specimen guidelines, circulars, and FAQs. They are the primary source of truth.
- **Peer Learning:** Connect with other municipalities that have already implemented the AFS Specimen. Learn from their experiences, challenges, and successes.
- **Auditor Engagement:** Engage with your auditors early in the process. Their insights can be invaluable in identifying potential issues and ensuring your approach meets audit requirements.

### Change Management and Communication

- **Communicate Benefits:** Clearly articulate the benefits of the AFS Specimen to all staff. Understanding the "why" can help overcome resistance to change.
- **Address Concerns:** Be prepared to address staff concerns and provide ongoing support. Change can be challenging, and a supportive environment is crucial.

### Post-Implementation Review

- **Lessons Learned:** After your first AFS compilation using the specimen, conduct a thorough review. What went well? What were the biggest challenges? What can be improved for the next cycle?
- By focusing on these areas, first-time implementers can navigate the process more effectively, leading to more accurate, compliant, and comparable financial statements. Good luck!

# Preparation process in readiness for the implementation of the NT AFS Specimen

- The aim of the specimen is to strengthen the compliance with GRAP and incorporate *m*SCOA requirements, automate the preparation of the annual financial statements from the municipal system and reduce the risk of journals being done outside the system.
- The PAUD and AUDA data strings must be submitted as this is part of compliance requirements and will be assessed against the annual financial statements.
- Municipalities are therefore strongly **encouraged *m*SCOA Specimen going forward to iron out any glitches and report such matters before it is regulated.** Any queries or matters requiring the attention of the National Treasury, are to be logged via the frequently asked questions on the GoMuni Portal [BIPortalSignIn \(treasury.gov.za\)](https://treasury.gov.za/BIPortalSignIn).
- Stating non-compliance with GRAP is not raising a query. Provide details on the non-compliance on how it should be corrected with examples.
- Journals will need to be processed directly into the municipal system to correct any incorrect postings prior to this being populated onto the AFS specimen.
- The *m*SCOA specimen will populate using all 6 of the regulated *m*SCOA segments, and therefore the setup and accuracy of the segmentation must be correct.
- In readiness for this, municipalities are encouraged to undertake a comprehensive review of the transactions of municipalities, to ensure that transactions from sub-modules are posting correctly into the general ledger.
- Where it has been identified that transactions are being posted incorrectly from a sub-module level, this must be corrected on the sub-module level, to ensure that this does not repeat in the future.
- All accounts must be reconciled, and legacy balances must be addressed and cleared accordingly.
- **Strongly advise parallel preparation for first year implementation.**

# How can the *m*SCOA AFS Specimen assist with persistent issues of adverse/disclaimer audit opinions and late submission of AFS?

## Standardization Reduces Errors and Omissions

- The AFS Specimen provides a clear, standardized template for all municipalities. This reduces the risk of missing required disclosures, misclassifying transactions, or presenting information in a non-compliant way—all common reasons for adverse or disclaimer opinions.

## Alignment with *m*SCOA Data Ensures Completeness

- Because the AFS Specimen is built on the *m*SCOA Chart, it draws directly from the municipality's transactional data. This means that all financial activities are captured and reported, reducing gaps, inconsistencies, and unexplained balances that often lead to negative audit findings.

## Automated Data Extraction and Reporting

- The specimen enables automated extraction of financial data from *m*SCOA-compliant systems. This automation speeds up the AFS preparation process, reduces manual errors, and helps municipalities meet submission deadlines.

## Improved Internal Controls and Audit Trail

- The *m*SCOA AFS Specimen enforces proper mapping and validation of transactions, which strengthens internal controls. It also creates a clear audit trail from source transactions to the final statements, making it easier for auditors to verify information and reducing the likelihood of audit disclaimers due to lack of supporting evidence.

## Facilitates Early Detection and Correction of Issues

- With regular reconciliations and validation checks built into the *m*SCOA and AFS Specimen process, municipalities can identify and address issues (such as unallocated transactions or misstatements) early—before the audit or submission deadline.

## Capacity Building and Guidance

- The use of a standardized specimen, supported by National Treasury guidance and training, helps build capacity in municipal finance teams. This reduces reliance on external consultants, improves institutional knowledge, and leads to better quality AFS.

## Comparability and Benchmarking

- Because all municipalities use the same format, it's easier for oversight bodies to benchmark performance, identify outliers, and provide targeted support to struggling municipalities.

# Conclusion

- Municipalities are reminded that it is their responsibility to ensure that the AFS is consistent with the Municipal Budget and Reporting Regulations (MBRR) and GRAP. **Therefore, where information and disclosures required in terms of legislation are omitted in the specimen AFS, the municipality must ensure that such information is included and disclosed in their 2024/25 AFS.**
- The mSCOA AFS Specimen, by aligning with the mSCOA Chart, brings standardization, transparency, and comparability to municipal financial reporting in South Africa. This makes it easier to monitor, evaluate, and improve the financial health and governance of all 257 municipalities.
- All mSCOA enabling integrated financial systems must have the functionality to generate the AFS directly from the financial system.
- Where a 3rd party system functionality is used to prepare the AFS, the 3rd Party System must integrate with the core financial system.
- This means that information from the 3rd party system must be transferred to the core financial system without any human interference and that no journals may be passed in the 3rd party system.
- We encourage municipalities to automate the importation of the Trial Balance/Data Strings from the core system into the 3rd party system.
- Municipalities should ensure that the pre-audited and audited AFS reconcile to the pre-audited (PAUD, CRPA and DBPA), audited (AUDA, CRAU, DBAU) and restated (RAUD) data strings submitted to the GoMuni Upload portal.

# Conclusion

The municipality will remain the preparer of the financial statements in terms of S126(1)(a) of the MFMA. It is the responsibility of the municipality to use the format (statements, templates etc) of the *mSCOA* Specimen Annual Financial Statements and then to:

- Use line items applicable to the municipality;
- Use templates and only disclose items applicable to the municipality;
- Disclose line items in statements based on materiality;
- Determine which line items to aggregate and to disclose separately depending on materiality;
- Disclose the accounting policies of the municipality that is considered as significant;
- Whether group of assets and liabilities are significant;
- The manner in which line items are to be presented in the context of order of liquidity; and
- To comply with the standards of GRAP.

Various municipalities have implemented the *mSCOA* Specimen Annual Financial Statements in line with the above and received unqualified audit reports. Discussions will be held with the Accounting Standard Board to provide reliance on the use of the *mSCOA* Specimen Annual Financial Statements.

# THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

[www.municipalmoney.gov.za](https://www.municipalmoney.gov.za)  
open local government budget data portal

Explore easy-to-understand, verified financial information for every single municipality in South Africa in one place.

For information on local government finances, please visit: <https://municipalmoney.gov.za>



Department:  
National Treasury  
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# Updates to the AFS Specimen for 2024/25

## General Information

- Area of Jurisdiction
- Swopped around Statement of Net Assets and Cash Flow Statement

## Accounting Officers responsibilities and approval

- In terms of Section 13G, read with regulation 12 of the B-BBEE Regulations, all spheres of government, public entities and organs of state must report on their compliance with broad-based black empowerment in their audited annual financial statements and annual reports. Please refer to Note XX.

## Accounting Officers Report

- This report is not compulsory.



# Updates to the AFS Specimen for 2024/25 (Cont.)

## Statement of Financial Position

- VAT Receivable & Payable – This was removed from the face of the statement of financial position. This is now part of Trade and other Receivables from Exchange ( Note 5) and Trade and other Payable from Exchange Transactions (Note 29). In line with Fact sheet 11 and FAQ 4.12 from the ASB.
- Short-Term Investments – Added the IA Item to the Face of the SOP and included a new Note (Note 4). New Item to be created on the Chart on the same level as Cash and Cash Equivalents.
- Non-Current Assets – Deposits – Added this IA Item to the face of the SOP. This was already approved by the technical committee with V6.9.
- Current portion of non-current receivables (Note 8 and 13) – Added a disclosure not for Finance Lease Receivable. This note will also present the current and non-current information.
- Property, plant and Equipment (PPE) (Note 16) – Provided breakdown as per chart change for Other Asset by separately including Operational Buildings and Housing & included a column for Revaluations.
- Included a reconciliation for WIP as part of PPE.
- Included a reconciliation for the Depreciation with regards to change in estimates.
- Financial Liabilities (Note 28) – Included finance and operating lease liabilities to align with the mSCOA Chart.
- Added lines for Current and Non-Current within the following notes:
  - Notes 32 and 35

# Updates to the AFS Specimen for 2024/25 (Cont.)

## Statement of Financial Performance

- Added the following to the face of the Statement of financial Performance and have separate disclosure notes.
  - Special Rating Levies (Note 48)
  - Construction Contract Revenue (Note 49)
  - Development Charges (Note 50)
- Added Interest Earned on Shared Services Receivables in line with chart changes (Note 40.1)
- Fines, Penalties and Forfeits (Note 40.2), Updated to align to the chart
- Rental from Fixed Assets (Note 45.2) updated Rental by Type to align to the chart levels
- Operational Revenue (Note 46) Removed items related to Non-Exchange (Discontinued Operations and Debt waived)
- Updated the disclosure Note for Transfers and Subsidies to include Capital Grants in-kind and monetary allocations (Note 54.3 and 54.4)
- Remuneration of Councillors (Note 59) The disclosure of remuneration of councillors based on the nature reconciliation was added to the note.

# Updates to the AFS Specimen for 2024/25 (Cont.)

## Statement of Changes in Net Assets

- Added the comparative financial year.
- Added a item for Transfer to and from Reserves

## Segment Reporting

- The disclosure was updated to only appear as Segment 1, 2,3 etc. The municipalities will update the report with the relevant segments per function limited to the GFS classification.

# Updates to the AFS Specimen for 2024/25 (Cont.)

## Comparison of Budget and Actual Amounts

- This statement mirrors the MBRR and the VAT Receivable and Payable is still include, however this has been removed from the face of the SOP.

# Updates to the AFS Specimen for 2024/25 (Cont.)

## Notes to the Annual Financial Statements

### Accounting Policies

- Included Accounting Policies for:
  - Capital Replacement Reserves
  - Self Insurance Reserve
  - Housing Development Reserve
  - Accumulated Surplus
  - Materiality
- **New standards and interpretations**
  - Updated this note to include Standards and interpretations issued, but not yet effective. [GRAP 3.32 & 3.33]
- Added Note 4 for Short-Term Investments
- Added Note 6.1.8 for Statutory Receivables
- Note 58 and 59 was updated to first disclose the total employee related cost and remuneration of councillors by Nature
- Updated the headings of Senior Management
- Added Note 92 for Financial Instruments
- Added Note 93 for Risk Management