

*m*SCOA MASTER CLASS

Preparation of the 2027 TABB

Persistent areas of non-compliance
with the *m*SCOA chart

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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SAFE**

VACCINATE TO SAVE SOUTH AFRICA

Non-compliance to be corrected in 2027 Tabled Budget

Content

- Introduction
- Provide overall feedback on the credibility and accuracy of the data strings as per the analysis using the Standard Methodology.
- Next phase of *m*SCOA implementation
- Recommendations

Improving *m*SCOA data strings credibility i.t.o MFMA Circular No. 132

Introducing a 3rd validation rule

Currently, the LGDRS implements automated stage 1 and 2 validations to ensure that credible data strings are submitted to the GoMuni Upload portal.

- The stage 1 validations verifies that the file structure is correct,
- While the stage 2 validation verifies that the *m*SCOA chart has been used correctly across 18 validation areas. Details on the stage 2 LGDRS validations are attached as **Annexure I**.

A third stage **automated** validation will be introduced from the 2026/27 MTREF to validate the credibility of *m*SCOA data strings. Details in this regard will be communicated when available.

Improving *m*SCOA data strings credibility i.t.o MFMA Circular No. 126

The credibility of the *m*SCOA data strings that have been submitted by municipalities to the GoMuni Upload portal has improved over the last financial year. However, the following areas of concern remain:

Transacting against line items without budgets resulting to exceeded annual budget already in month 1 to 3 (quarter 1) of the new financial year.

Opening balances for the previous year are **not transferred** in the first month (M01) of the current year, and all adjustments made during the preparation of AFS in periods 14 and 15 are not transferred to the opening balances in the month of the current year that the adjustments are done.

Cash flow tables (Tables A7, B7 and C7) are still **not populating correctly** and fully because several municipalities still do not use balance sheet budgeting and movement accounting, despite guidance on populating tables A7, B7, and C7 correctly that was provided in MFMA Budget Circular No. 107 and *m*SCOA Circular No. 11.

Budgeting and transacting for **water inventory** is **not done correctly**.

Municipalities **do not budget and transact correctly** or completely **for irrecoverable debt written off and impairment loss** as well as the reversal of impairment loss of consumer debtors that have on the funding of budgets.

Non-compliance when municipalities budget and transact

Non- Exchange Revenue

Property Rates by Usage

- The linkage of Property Rates by usage is mostly correctly done by municipalities **but:**
- Correct linking of the project and item segments are still a challenge.

Transfers and Subsidies

- Specific grants received must be budgeted for under the correct function and not only Finance and Administration if the municipality have the information e.g. Water Services grant must under Water Management.
- The balancing between the Revenue, Grants Receipts and Grants Transferred to Revenue is still a challenge for both budgeting and transacting.
- Municipalities also do not take VAT in consideration when the actual expenditure is transferred to Revenue. For example the amount spent for Non-Current Assets is equal to the amount transferred to Revenue.

The linkages of other Non-exchange Revenue are in most cases correct with a few exceptions for certain municipalities.

Non-compliance when municipalities budget and transact

Exchange Revenue

- Linking Municipal Running Costs as the project segment instead of Default Transactions.
- Municipalities incorrectly linking the item segment with the function segment when budgeting for service charges.
- Using Equitable Share as the fund segment when budgeting for service charges.
- Incorrect usage of the project segment Revenue Cost of Services instead of Cost of Free Basic Services for rebates into the National Guideline.
- Budgeting for Free Basic Services on revenue items that the municipality not budget for.
- Free Basic services not funded from the Equitable share but from service charges.
- Not linking the fund segment correctly for **other** revenue items.

Non-compliance when municipalities budget and transact

Expenditure

Irrecoverable Debt Written-Off

- Municipalities failed to provide for irrecoverable debts per service debtor and sometimes only budgeted on one line-item.
- Municipalities did not make any provision for irrecoverable debts written off at all.
- The linkage between the function and fund segment incorrect.
- No transacting monthly by certain municipalities. – No debt collection done ito policy.

Non-compliance when municipalities budget and transact

Expenditure

Debt Impairment

- Some municipalities don't budget for Impairment Loss of consumer debtors at all.
- When budget for this line-item municipalities get the linkages correct.
- Most municipalities do not transact for impairment loss for the last six months
- No municipality budgeted for reversal of impairment loss. Only one municipality budgeted for the reversal of impairment loss.

Non-compliance when municipalities budget and transact

Water Inventory (Bulk Purchases)

- Some municipalities who get water from natural resources do not budget and transact for water bulk purchases.
- Some municipalities only budgeted for opening balances and not for:
 - The acquiring of water (System Input Volume)
 - Issuing of water
 - Water losses
- Most municipalities budgeted for Expenditure Inventory Consumed Water but not transacted for it monthly.

Non-compliance when municipalities budget and transact

Water Inventory Bulk Purchases (Continue)

MFMA Circular 132 paragraph 6.2 - Capitalisation of conversion costs to water inventory

MFMA Budget Circular No 129 dated 6 December 2024 detailed the requirements for the accounting treatment of water inventory costs in terms of Generally Recognised Accounting Practises (GRAP) 1.104, 12 (paragraphs 19 to 28) and 17.22. *mSCOA* chart version 7.1 addresses the capitalisation of conversion cost from the nature of the expense to Water Inventory as required in terms of these GRAP standards.

In addition, the Accounting Standards Board (ASB) FAQ 3.3 guides the measurement of Water Inventory as follows:

- *Entities need to develop their own accounting policies to measure water using the principles in GRAP 12.*
- *After the entity demonstrates that it can recognise the water, it is initially measured as follows:*
 - *Costs incurred to bring the inventory to its current location and condition including related infrastructure costs. Some examples include costs of extraction and depreciation; plus*
 - *Costs of conversion.*

Non-compliance when municipalities budget and transact

Water Inventory (Continue)

As per the guidance provided in the GRAP standards and ASB, the capitalisation of conversion costs should align with the principle applied to Employee Related Costs (Cost Capitalisation to PPE).

Toward this end, the following credit accounts have been included in version 7.1 of the *mSCOA* chart:

Account	Change in chart version 7.1
Basic Salary - Capitalisation of Costs to Property, Plant and Equipment (PPE), Water Inventory	<ul style="list-style-type: none"> • Credit account adjusted • Updated the description and definition to include Water Inventory for all posting levels
Capitalisation of Electricity Costs	Credit account added
Contracted Services (Maintenance)	Credit accounts added for: <ul style="list-style-type: none"> • Capitalisation of Maintenance of Building and Facilities • Capitalisation of Maintenance of Equipment • Capitalisation of Maintenance of Unspecified Assets

Non-compliance when municipalities budget and transact

Water Inventory (Continue)

Account	Change in chart version 7.1
Capitalisation of Depreciation of Water Treatment Works	Credit accounts added
Operational Costs	Credit accounts added for: <ul style="list-style-type: none"> • Capitalisation of Courier and Delivery Services Costs • Capitalisation of Vehicle Tracking Costs • Capitalisation of Wet Fuel Costs • Capitalisation of Licences Costs

The chart was also updated to allow for the accumulation of the following additions to water inventory: system input volume:

Water Treatment Works: Acquisitions;
 Bulk Purchases: Acquisitions; and
 Natural Resources: Acquisitions.

Non-compliance when municipalities budget and transact

Repairs and Maintenance

- Most municipalities budget under the project Operational: Maintenance
- When filtering on the item segment Account Name Maintenance than the project segment is incorrect.
- The linkages between the function item segment is also sometimes a challenge

Capital Funding and Expenditure

- Transacting on items without approved budget is a challenge

Regional Segment

- Capital projects implemented are not assigned to the respective wards that are benefitting from the implementation of the infrastructure asset
- ***Still using other municipalities regions.***

Non-compliance when municipalities budget and transact

Costing Segment

Most municipalities are not budgeting and transacting in for costing at all

Budgeting for Costing in *mSCOA*

At the highest level the Costing segment structure distinguishes between:

Charges to the receiving department and **recoveries** from the sending department.

In the case of charges the municipality must **debit** the receiving department (function) and for recoveries **credit** the sending department (function) with the same amount.

The total amount for all the costing transactions must therefore be zero.

When budgeting the municipality must link the six regulated segments correctly according to the guidance in the costing segment Project Summary Document (PSD)

Non-compliance when municipalities budget and transact

Budgeting for Costing in *m*SCOA (Continue)

The linkages of the six regulated segments must be as follows guided by the PSD for the costing segment:

The **Project** Segment must be Default Transactions

Function Segment must be the function used for the expenditure that are re-allocated (sending function) and the function (receiving function) must be for that received the expenditure.

The **Item** Segment must be Expenditure: Default for both legs of the transaction. (Debit and Credit).

The **Fund** Segment must be Non-funding Transactions

The **Costing** Segment must be charges for the receiving function and recoveries for the sending function linked to the expenditure re-allocated.

The **Regional** Segment must be Administration or Head Office

Non-compliance when municipalities budget and transact

Bulk Purchases

- Municipalities get this line-item correct and not budget for water bulk purchases under Bulk Purchases.
- Some municipalities still use the incorrect fund segment e.g. Equitable Share.
- Capturing of the invoices monthly is a challenge.

Depreciation

- Municipalities are not budgeting for all asset categories as per the asset register
- Municipalities not aligning the function segment with the item segment.
- Using the fund segment is still a challenge and municipalities still:
 - Used Non-funding Transactions and Equitable Share
 - Not linking the item segment with the fund segment
- No transacting monthly in certain municipalities analysed.

Non-compliance when municipalities budget and transact

Employee Related Cost

- Most municipalities correctly used the segments for municipal staff.
- The budgeting for the municipal manager and chief financial officer not always complete or there at all. (structure) other managers
- ***The linkages to the function segment are still a challenge but there are also municipalities who get it right.***
- The biggest challenge is transacting against line-items without budgets and budgets exceeded as early as the first three months.
- A few municipalities do not transactions for the first few months of the financial year. Integration challenges maybe the challenge.

Non-compliance when municipalities budget and transact

Remuneration of Councillors

- The unbundling of the item segment is the biggest challenge
- ***Not all office bearers included in the budget for example Executive / Mayoral Committee members remuneration.***
- All benefits not always included or even basic salaries that are confused with office-bearer allowance.
- Municipalities are not budgeting for section 79 Committees where applicable.
- A few municipalities do not transactions for the first few months of the financial year. Integration challenges.

Next phase of *m*SCOA implementation



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How To Tame The *m*SCOA Beast



Taking *m*SCOA to the Next Level

1. Regulations on Minimum Business Processes and System Specification for *m*SCOA

- Attend NT workshops on *m*SCOA requirements: 4 – 17 March 2026
- NT and PTs to roll out of workshops to provinces and districts in 2026 to 2028 to prepare for new the *m*SCOA requirements
- Municipalities to address gaps in *m*SCOA requirements (as per MFMA Circular 80, 2016). *These should have been in place on 1 July 2017*
- System vendors to work through requirements to identify gaps in order to prepare for new requirements after promulgation
- MUNICIPALITIES TO BE MINDFUL WHEN CHANGING OR UPGRADING SYSTEMS:
 - Considering that the new requirements will be promulgated in the next year - SLAs for new systems to incorporate new requirements
 - Follow the correct legislated procurement processes

Taking *m*SCOA to the Next Level

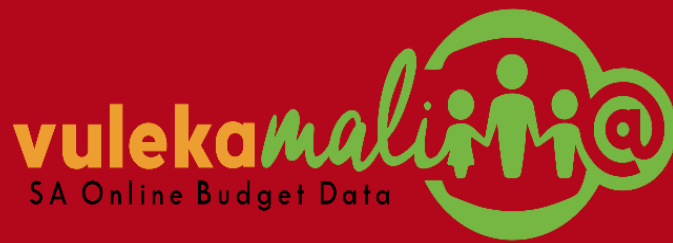
4. Training

- NT / CIGFARO Monthly Technical Master Classes on the use of chart (virtual)
- CIGFARO *m*SCOA Fundamentals Training (physical – on request)
- National School of Government *m*SCOA Fundamentals Training (web-based eLearning)
- NT / CIGFARO / SAICA Training on business processes and system specifications
- NT Ad-hoc *m*SCOA training on request
- Training on LG Database and Reporting System (LGDRS – GoMuni)
- Development of Change Management Programme

Recommendations for 2027 Tabled Budget

1. Correct data strings to align the segment linkages previously reported to municipalities
2. Correct alignment between the six (6) regulated segments.
3. Non-funding Transactions to be utilised correctly.
4. Budget for all Transfers and Subsidies included in the DoRA.
5. Budget for depreciation in line with the asset classes in the fixed asset register.
6. Budget for Senior Managers as per their respective functions and ensure integration between the payroll module and General Ledger.
7. Budget for Inventory as per GRAP 12. Inventory water bulk purchases must be budgeted under the Item Assets: Inventory: Water.
8. Budget for opening balances because this will impact on the population A6 and C6 of the MBBR Schedules.
9. The validations rules must be included in the financial system by the system vendors and data strings must only be generated after all validations passed and period locked.

THANK YOU



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