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REPORT OF THE ACTING CHIEF FINANCIAL OFFICER

1. INTRODUCTION

1.1 The Municipal Council, in adopting municipal standard chart of account (hereinafter referred as mSCOA) Roadmap implementation plan for the 2026/27 budget cycle, recognizes its legislative obligations as set out in Chapter 4 of the Municipal Finance Management Act (hereinafter referred as MFMA), No 56 of 2003, mSCOA regulations, promulgated in 2014 and MFMA circular 134.

Section 12 of the mSCOA regulations deals with “**Responsibilities of municipal councils and boards of directors.** - *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*”.

2. PURPOSE OF THE REPORT

2.1 To request Council to note the mSCOA Roadmap implementation plan has been developed in line with mSCOA regulations.

3. BACKGROUND

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

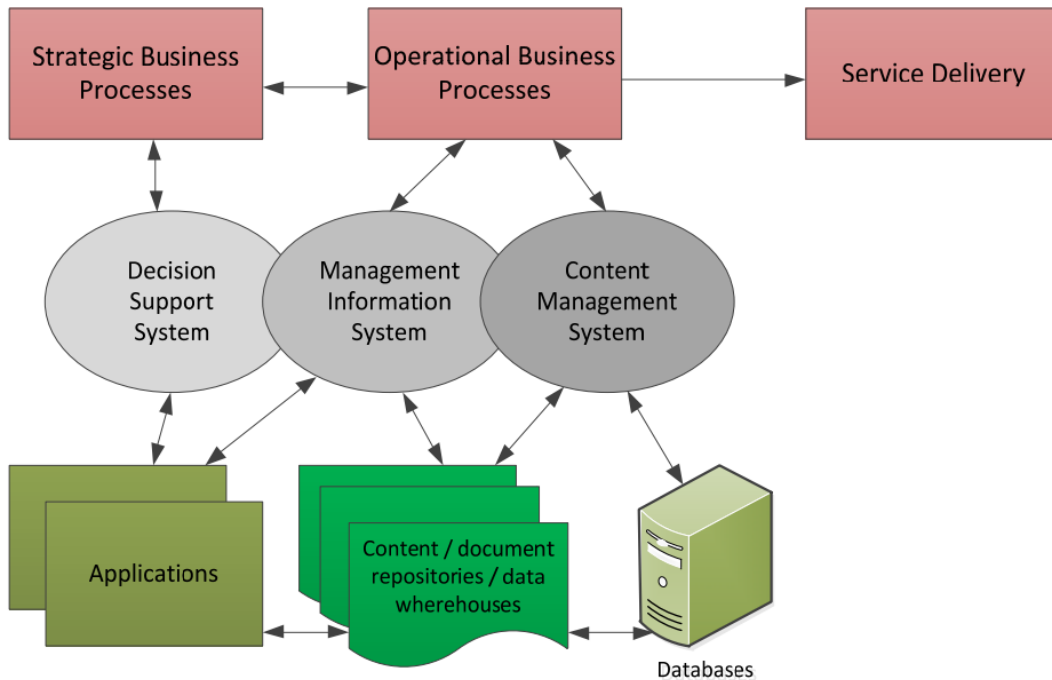
MFMA Circular No. 80 dated 08 March 2016 provided detailed guidance on the minimum business processes and system requirements for mSCOA. This Circular was issued as guidance to the municipalities and their entities, to enable the revision of business processes and system functionality implementation, in readiness of the Regulation.

Municipalities are still required to continually assess system functionality to enable complete compliance with the requirements in MFMA Circular 80.

4. DISCUSSIONS

4.1 mSCOA: A multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of

	<p>all available accounts. Implementing mSCOA therefore requires organisational change across the municipality since not only financial and budget orientated practitioners are involved. The Council needs to know that almost every municipal department when coming to mSCOA everybody is responsible and accounting. mSCOA's objective is to provide a national standard uniformity recording and classification of municipal budget and financial information from transactional level by prescribing standard of charts of accounts.</p> <p>In terms of circular 80 of the MFMA, municipalities are required to ensure that when examining the functionality of their current systems of financial management and internal control that it meets the minimum business processes and system requirements as stated in the objective of the mSCOA Regulation, namely; a system of financial management and internal control capable of providing for the uniform recording and classification of both municipal budget and financial information at a transaction level in the prescribed municipal standard chart of accounts, for both municipalities and municipal entities.</p> <p>Systems of financial management and internal control must, as a minimum, comply with these explicit business process requirements as contained in the mSCOA Regulation, in that it:</p> <ul style="list-style-type: none"> a) Must provide for the hosting of the mSCOA structure and associated detail as contained in the seven defined Segments; b) Be able to accommodate and operate the classification framework across all seven segments at a transactional level as defined in the associated detail to the Segments; c) Must provide for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database as hosted by the National Treasury; d) May not apply methodologies of data mapping or data extrapolation¹ to provide for the segmented transactional data string at a transactional level above as explained in point c) above; e) Must provide for full seamless integration between the core financial system representing the general ledger, and any third party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.; and f) Must have access to hardware that is sufficient to run the required software solution.
4.1	<p>The following diagram provides an illustrative perspective of the complete information management system and linkage to business processes:</p>



The diagram below provides an illustrative perspective of the linkage between the local government financial management accountability cycle and mSCOA. The diagram clearly demonstrates how business processes, system functionality and management decision making need to be considered in a seamless manner and that these cannot be considered in isolation

4.2 Detail Business Process Requirements and Associated System Functionality

Any system of financial management and internal control, as a minimum, must comply with the seven main business and process components. The seven components must integrate seamlessly with the mSCOA general ledger and comply at a posting level to the mSCOA Regulations and GRAP. The seven main components are defined as follows:

- a) General Ledger;
- b) Billing;
- c) Supply chain management;
- d) Assets management;

- e) Inventory and stores;
- f) Budgeting and planning; and
- g) Human Resources and payroll.

Directly aligned to the defined components as listed above, fifteen major business processes have been defined within Local Government. These fifteen business processes are as follows:

- a) Corporate Governance;
- b) Municipal Budgeting, Planning and Modelling;
- c) Financial Accounting;
- d) Costing and reporting;
- e) Project Accounting;
- f) Treasury and Cash Management;
- g) Procurement Cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable;
- h) Grant Management;
- i) Full Asset Life Cycle Management including Maintenance Management;
- j) Real Estate and Resources Management;
- k) Human Resource and Payroll Management;
- l) Customer Care, Credit Control and Debt Collection;
- m) Valuation Roll Management;
- n) Land Use Building Control; and xv. Revenue Cycle Billing.

4.3 Effectiveness of Oversight Responsibility

The effective implementation of mSCOA and readiness for the Regulations at a municipal level depends largely on the efficiency of the oversight structures in place to oversee and report on the implementation.

In a mSCOA environment, these governance structures include:

- a) The Project Steering Committee;
- b) Internal Audit;
- c) Risk Management function and committee;
- d) External Audit;
- e) Audit Committee;

- f) Municipal Councillors;
- g) National and Provincial Treasuries

Governance in a mSCOA environment involves the oversight and alignment of:



4.4 Update Road map and Monitoring

a) mSCOA Project Steering Committee

The municipality's mSCOA Project Steering Committee meet at least quarterly to track the progress against the road map and take corrective action where required

b) mSCOA implementation Roadmap

The municipality annually develops mSCOA implementation road map that indicate how and by when it will become mSCOA compliant. The roadmap is further tabled to council for implementation.

The road map contains milestones and timeframes in place to monitor mSCOA implementation and address the gaps.

c) mSCOA implementation progress report

The municipality has dedicated structure (i.e. mSCOA steering committee) which consists of senior managers and divisional managers and meet on quarterly basis. The committee further consolidate the reports to EXCO and Council for noting on a quarterly basis.

	<p>d) Oversight report</p> <p>The municipality convenes technical meetings that involve National and Provincial Treasuries and System vendors to provide input and technical guidance.</p> <p>The municipality further have the consolidate mSCOA reports and submit them to national and provincial treasury for oversight on quarterly using Go-Muni portal.</p> <p>The details of the progress on MSCOA implementation plan is attached in Annexure A</p>
<p>4.5</p>	<p>User Proficiency and Training</p> <p>The municipality acknowledges the critical need for municipal officials and interns to be fully capacitated in the use of the ERP system, in line with mSCOA, basic accounting principles, balance sheet budgeting, and movement accounting.</p> <p>As part of the capacity-building efforts, officials have actively participated in a wide range of training sessions and working groups, including:</p> <p>Training (2025/26)</p> <ul style="list-style-type: none"> • IDP and Budgeting • Asset management module • Controls
<p>4.6</p>	<p>Information and Communication Technology</p> <p>The municipality has access to ICT hardware (computers and servers), software (Microsoft) and licenses (used on the software) that are sufficient to run the financial management system. The ICT components are maintained, upgraded and renewed as and when required to be able to optimally use the financial management systems. The municipality is utilizing a core financial system solution that accommodates its ICT connectivity needs. The municipal officials are sufficiently capacitated on all system modules and functionalities to use the financial management system. A suitably qualified System Administrator has been appointed, and the required IT securities and delegations are in place.</p>

	<p>System Functionality</p> <p>The Municipality use MUNSOFT system (3rd party system) that has a direct impact on the General Ledger that integrate fully and seamlessly with the ERP system in terms of the mSCOA Regulations (Example Billing, Supply Chain Management, Inventory and Stores and Budgeting and Planning). The data contained in the 3rd party system must synchronise without any human or manual intervention to integrate to the ERP system in real time or/and drill down from the ERP system to the General Ledger of the 3rd party system.</p> <p>Release of Version 6.9 of the Chart</p> <p>Version 6.9 of the chart was effective from 01 March 2025, and the Municipality used it to compile the 2025/26 MTREF Draft and Final Budget.</p> <p>mSCOA reporting on Value Added Tax (VAT)</p> <p>The municipality is registered for VAT In terms of the VAT Act, 1991 (Act No. 89 of 1991) and its amendments. The municipalities declare Output tax on the taxable supply of goods and services and claim Input tax credits on expenses incurred in the course or furtherance of the enterprise (the taxable supplies). The output tax is declared, and the input tax claimed by completing a VAT 201 return.</p> <p>Period closure and reconciliation of General Ledger</p> <p>At the end of each month the municipality closes the month and reconcile with its records in terms of Section 65 (2)(j) of the MFMA. Datastrings are uploaded on GoMuni after period closure. (monthly, quarterly and annual)</p>
4.7	<p>NEW MSCOA DEVELOPMENTS PER MFMA CIRCULAR 134</p> <p>Alignment of cash flow linkages</p> <p>In terms of GRAP 2, cash flows should be classified in accordance with the nature of the activity to which they relate (operating, investing or financing) which requires that:</p> <ul style="list-style-type: none"> • Both operating and investing activities for Interest, Insurance Refund and Retentions must be accounted for based on the nature of the transactions; and

- The Interest on short-term investment (greater than 90 days but less than 12 months) and long-term investments (more than 12 months) must be populated within investing activities. Short-term investments are disclosed on the Statement of Financial Performance on table A4 of the A1 Schedule.

To give effect to this GRAP standard:

- A new operational funding source, namely Insurance Refunds, has been created under the Investing Activities of tables A7 and SA30 of the A1 Schedule in version 7.1 of the mSCOA chart;
- The VAT Receipts will be populated using the Bank Deposits (IA001001 – "DEPOSITS") and VAT Receipt funding source. The VAT Control account receipts will not be used for this purpose; and
- Construction Contract Revenue will no longer form part of Sales of Goods and Rendering of Services and Development Charges will no longer form part of Operational Revenue. A new funding source was created to allow for the separate population of Construction Contract Revenue and Development Charges as part of Other Revenue on table SA30 of the A1 Schedule.

The structure of table A7 of the A1 Schedule and relevant cash flow linkages has also been aligned to the mSCOA chart version 7.1.

Guidance on submission of mSCOA roadmaps

Municipalities are reminded that the municipal mSCOA Road Maps must be revised annually as part of the annual budget process. The draft and final mSCOA Road Maps must be:

- Tabled and adopted in Council as part of the supporting documents to the budget; and
- Submitted in PDF format to the GoMuni Upload portal for review by National and Provincial Treasuries.

Going forward, municipalities are required to utilise the FMCMM web-based system to conduct self-assessments of their mSCOA road maps. This high-level self-assessment will identify gaps in mSCOA implementation that should be incorporated into and

addressed through the municipal mSCOA Road Map. The e-road map must align with the objectives, tasks, and activities outlined in the municipality's comprehensive (traditional) mSCOA road map.

Accordingly, in addition to the draft and final mSCOA road maps submitted by municipalities as part of their tabled and adopted budget documents, the mSCOA e-road map (i.e. the high level action plan generated through the FMCMM system) must be attached to the comprehensive (traditional) mSCOA road maps. The mSCOA road map and annexed e-road map must be submitted as a single consolidated PDF document and not as separate documents.

The e-road map is intended to enhance oversight and monitoring by municipalities and provincial treasuries with respect to the implementation of mSCOA at municipal level.

Stage 3 validation

The development and piloting of the stage 3 validation to verify the credibility of mSCOA data strings submitted to the Local Government Database and Reporting System (LGDRS) has not been concluded and will only be introduced in the 2027/28 MTREF. This validation will automate the data string analysis currently undertaken by the National and Provincial Treasuries, and data string submissions that fail this validation will be rejected.

Retentions

In accordance with GRAP 19.18, accruals represent liabilities for goods or services that have been received or supplied but have not yet been paid, invoiced, or formally agreed with the supplier. For financial reporting and contract management purposes, once work has been certified as completed, the municipality becomes legally obligated to pay the full value of the work performed, inclusive of VAT, to the supplier.

A retention represents a delayed payment and not a reduction in the amount payable for the work performed. It therefore reflects only a timing difference in the settlement of the liability and does not reduce the contract price. Consequently, the full certified amount must be recognised, with the retention portion recorded as a liability until it becomes contractually due for release.

	<p>Accordingly, when work has been completed, the retention amount must be recognised inclusive of VAT and recorded to the Retention Liability account, with the VAT portion allocated to the Input VAT Accrual account, as this reflects the municipality's full obligation for the work performed.</p> <p>However, given that most municipalities account for VAT on a payment basis with the South African Revenue Service (SARS), the claiming of VAT can only occur once the retention invoice has been received, recognised and paid. The VAT should therefore be processed against Input Tax General (for operational projects) or Input Tax Capital (for capital projects), as applicable.</p> <p>Where a municipality accounts for VAT on an invoice basis with the South African Revenue Service (SARS), the VAT may only be claimed once the retention invoice has been received and recognised. In such cases, the VAT must also be processed against Input Tax General (for operational projects) or Input Tax Capital (for capital projects), as applicable.</p> <p>Virement data strings and report</p> <p>From 2025/26 MTREF, municipalities report on their virements through the submission of a separate data string and report on virements to the GoMuni Upload portal.</p> <p>mSCOA Circular No. 8, dated 24 April 2020 (as revised on 29 April 2020) has been updated to include the requirements of the virement data string and virement report. In accordance with the key principles set out in mSCOA Circular No. 8, municipalities are reminded of the following:</p> <ul style="list-style-type: none"> • Virement Policy Alignment • Multi-Dimensional Budgeting • Restrictions on Virements • Adjustments Budget Requirement • Prohibition on Certain Virements
4.7	<p>Roadmap</p> <p>The details of the MSCOA implementation is attached as Annexure B</p>

The following are mSCOA project implementation key milestones for this year:

Modules activated in the financial year

No.	Business processes	Module	Responsibility	Timeframe (planned start and end date)
1	Supply Chain Management	Contract Management	SCM Manager	01 April 2026 - 31 December 2026
2	Financial Accounting	Grant Management	Budget Manager	01 April 2026 - 31 December 2026
	Financial Accounting	Investment management	Budget Manager	01 April 2026 - 31 December 2026
3	Full Asset Life Cycle Management including Maintenance Management	Assets	Asset Manager	01 February 2026 - 31 December 2026
4	Financial Accounting	Project and retention	Budget and Expenditure	01 April 2026 - 31 December 2026
5	Revenue Cycle Billing.	Traffic fine	Revenue and Traffic fine manager	01 April 2026 - 31 December 2026
6	Budget and project	IDP	IDP Manager	01 July 2026 – 30 June 2027
7	Financial Accounting	Cemetery Register	Revenue and Parks manager	01 July 2026 – 30 June 2027
8	Real Estate	Facility Rentals Register	Revenue and Parks manager	01 July 2026 – 30 June 2027
9	Financial Accounting	MSCOA Specimen	Expenditure Manager	01 July 2026 – 30 June 2027
10	Financial Accounting	Accounting for water losses	Electricity and water and sanitation manager	01 July 2026 – 30 June 2027

Issues Raised by Treasury Regarding Bela-Bela's System Analysis – Factors Beyond the Municipality's Control

No	Description of challenge	Plans to resolve challenge	Timeframe (planned start and end date)
1	Absence of an amortization table within the system.	Currently, MUNSOFT does not support an amortization table. However, development of this functionality has been agreed upon. In the interim, the expenditure team will utilize amortization tables provided by lenders.	TBC system vendor
2	Inability to align mSCOA budget on PAYDAY.	PAYDAY will need to enhance their system to ensure that it is fully compliant with mSCOA.	TBC system vendor

Governance matters

No.	Business processes	Activity	Responsibility	Timeframe (planned start and end date)
1	Governance	MSCOA Audit	Chief Executive Auditor	01 July 2026 – 30 June 2027
2	Governance	MSCOA Risk management	Chief Risk Officer	01 July 2026 – 30 June 2027

5. LEGAL IMPLICATIONS

5.1 National Treasury published a mSCOA Circular 5, 80, 126, 128 and 134
 Section 216 of the Constitution of the Republic of South Africa, 1996
 The Municipal Budget and Reporting Regulations, 2009
 Municipal Standard Chart of Account Regulation, 2014
 Municipal Finance Management Act, 2003 (MFMA)

6. FINANCIAL IMPLICATIONS

6.1 No financial implications

7. IT IS THEREFORE RECOMMENDED

7.1 That Council take note of the mSCOA implementation plan: roadmap 2026/27.

8. RECOMMENDATIONS OF THE CHIEF FINANCIAL OFFICER

8.1 That mSCOA Roadmap implementation plan has been developed in line with mSCOA regulations

9.	RECOMMENDATION BY MUNICIPAL MANAGER:
9.1	That mSCOA Roadmap implementation plan has been developed in line with mSCOA regulations
10	RECOMMENDATIONS OF THE EXECUTIVE COMMITTEE
10.1	That mSCOA Roadmap implementation plan has been developed in line with mSCOA regulations