

Municipal Standard Chart of Accounts *m*SCOA Budgeting and Transacting in a *m*SCOA Environment STANDARD CHART OF ACCOUNTS

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PRESENTED BY:

Bongani Mdletshe

Title:

National Treasury *m*SCOA
Advisor

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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The LG Reform Agenda

The national budget reform process was initiated in 1998. Several regulations, circulars, and reporting structures have been put in place since 1998 to modernize the system of local government, municipal financial management and to improve service delivery.

The introduction of Municipal Finance Management Act (MFMA) in 2003 laid foundation for the Local Government financial management. This reform included the following Regulations that was issued in terms of the MFMA

Municipal Finance Management Act	2003
Municipal Investment and Municipal PPP Regulations	2005
Municipal Supply Chain Management Regulations	2005
Municipal legislation on Debt Disclosure	2007
Municipal Asset Transfer Regulations	2008
Municipal Budget and Reporting Regulations	2009
Municipal Finance Misconduct Regulations	2014

The LG Reform Agenda

In October 2008, National Treasury expressed its concern to the Minister of Finance regarding the state of data in local government. As seen in the introduction video, there was a need for a standard Chart of Accounts for municipalities and municipal entities for the following reasons:

- There was a lack of unified norms, standards and classification frameworks across all of local government. *Each municipality (257) used different municipal ‘charts of accounts’ (COA), making aggregation and comparison of municipal information difficult. Municipalities also continuously changed and amended the detail of their COA – inconsistency in information year-on-year impacted on trend analysis.*
- Inconsistencies in reporting, poor data integrity and irregular reporting impacted on the accuracy of information to the legislatures.
- Financial systems did not meet the financial management and reporting requirements of local government as informed by the legislative framework such as Municipal Budget and Reporting Regulations and GRAP.
- To address instances of deliberate distortion of reported financial performance by municipalities.

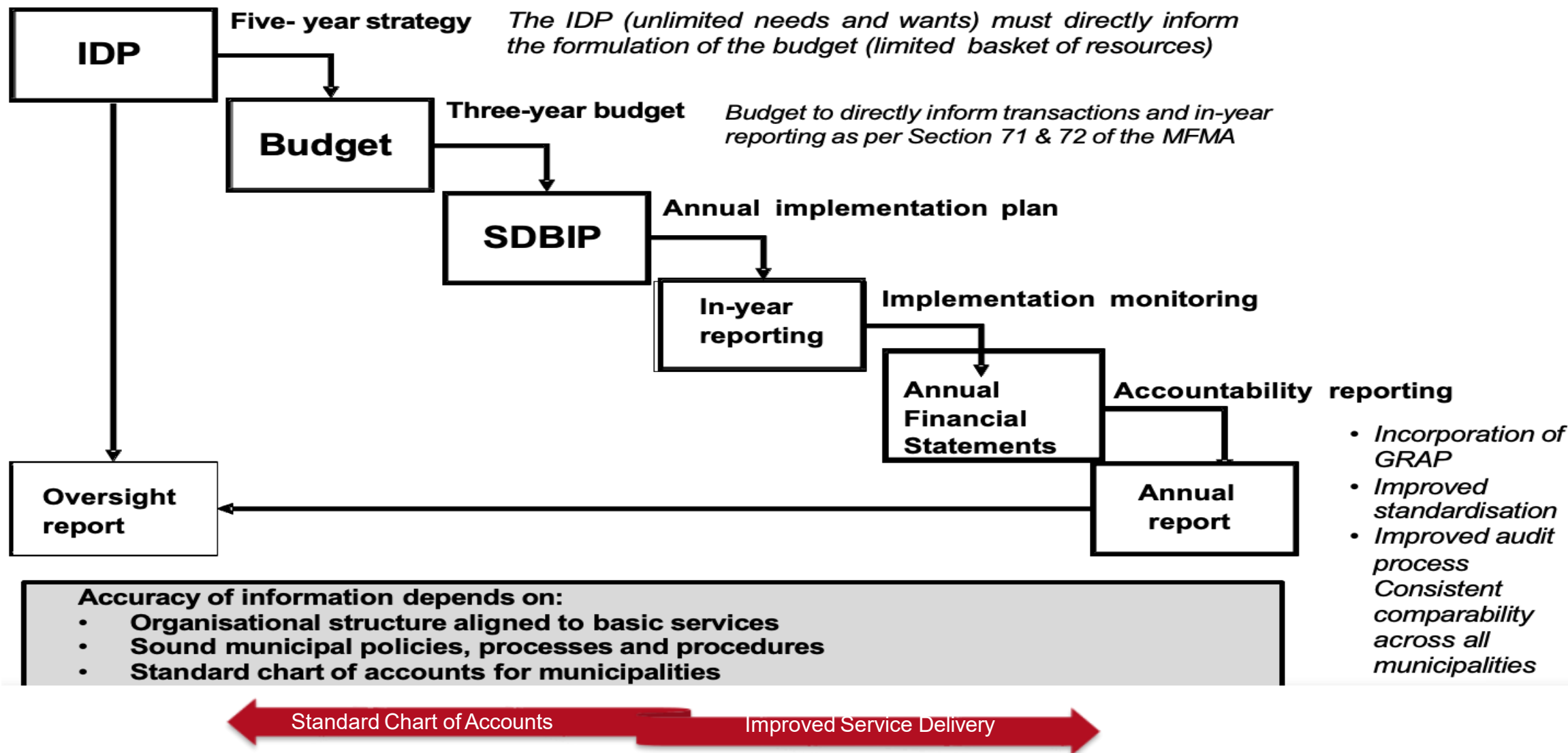
The LG Reform Agenda

- The *m*SCOA Regulations was regulated on 22 April 2014 by the Minister of Finance. All municipalities and their entities had to comply with the *m*SCOA Regulations by 01 July 2017, giving municipalities a 3-year preparation period.
- The objective of the *m*SCOA Regulations is to provide a **national standard** for the **uniform recording and classification** of municipal budget and financial information at a transaction level – *across all municipalities and financial systems*. It is a multi-segmental chart where Local Government information is classified according to project, fund, function, Item, costing and region dimensions to enhance “whole of government” reporting.
- Unlike the National and provinces Standard Chart of Accounts (**SCOA**), municipalities are on accrual-based accounting (vs modified cash) and must plan, budget, transact, report and generate the Annual Financial Statements (**AFS**) directly from the system. This will facilitate seamless alignment between policy formulation, planning, budgeting, implementation, reporting, monitoring (accountability cycle).

The need for *m*SCOA

- Local government operated without cohesive norms, standards, or classification frameworks.
- Meaningful aggregation and comparison of municipal data proved challenging.
- Year-on-year inconsistencies in information undermined effective trend analysis.
- Inaccurate data and irregular reporting compromised the reliability of information submitted to the legislatures.
- The financial management and reporting obligations of local government, as prescribed by legislation such as the Municipal Budget and Reporting Regulations and GRAP, were not adequately supported by existing financial systems.
- A central objective was to establish a golden thread across the LG Accountability Cycle – ensuring a single, authoritative version of the truth.

The LG Accountability cycle



Budgeting

- The budget process is driven from the content and projects identified in the IDP. Therefore, ideally, in order to budget for a project, this project must be included in the IDP.
- The process requires organisational implementation, as the budget inputs will be driven from the respective units responsible for the function, e.g. payroll, revenue, creditors, assets etc.
- The project management process is critical in the budget process, as projects need to be created in the projects system by the relevant department holder and integrate to the budget process.
- The budget process plan and IDP process plan may be the same document, that includes both processes. However, timelines should be in place to enable that the IDP completed prior to the budget process, to enable alignment.
- Budget data for the respective sections should be prepared in the respective systems and integrated to the core budget system.
- What if scenario functionality should be embedded in systems for various scenario planning and considerations.
- Greater focus has been embedded in the process on funding of the budget.
- Validation and testing of budget funding and segmentation compliance occurs in the system prior to finalising the budget.
- Automated reporting and tracking of the budget against actuals, including the data reporting requirements of National Treasury and other stakeholders.
- Automated implementation of balance sheet and cash flow budgeting.

MFMA Calendar: Legislative timelines and requirements for budget related submissions

Preparation for submission

- The **adopted budget** must be locked into the financial system by the start of the new municipal financial year.
- Municipalities must ensure that the budget data strings are aligned to the MTREF budget that was adopted by Council, complete and accurate, and that the budget is funded **prior to locking the adopted budget into the financial system.**
- Once the budget has been locked, errors in the ORGB data strings and unfunded budgets can only be amended in an adjustments budget.
- Therefore, errors should be corrected **before the adopted budget is locked on the financial system.**
- **Monthly period closure** and certification within the statutory reporting dates
- No back-dating of transactions is allowed
- Balancing of the sub-system with control accounts must be a condition of any period closure

After the budget have been captured and locked on the budget module in the financial system, a budget data string must be generated from the financial system and submitted to the GoMuni portal in a text file.

The types of budget data strings that must be submitted were explained in detail in Module 2. For ease of reference these are:

Type of Budget	Applicable budget data string
Tabled Budget	TABB - By 31 March
Adopted Budget	ORGB – by 31 May
Adjustment Budget	ADJB - by 28 February

MFMA Calendar: Legislative timelines and requirements for budget related submissions

- The municipal manager must comply with section 24(3) of the MFMA within ten working days after the municipal council has approved the annual budget.
- The municipal manager must submit to the National Treasury and the relevant provincial treasury:
 - The supporting documentation after the municipal council has approved the annual budget;
 - The approved service delivery and budget implementation plan within five working days after the mayor has approved the plan; and
 - Any other information as may be required by the National Treasury.

MFMA Calendar: Legislative timelines and requirements for budget related submissions

Over and above the prescribed submission of budget documents and budget schedules as prescribed in the Municipal Budget and Reporting Regulations (MBRR), the MFMA Section 71 (1) requires:

The accounting officer of each municipality to submit the financial information by no later than 10 working days after the end of each month; the monthly budget statements to the national and provincial treasuries.

The Municipalities with entities must submit consolidated reports that include actual revenue, expenditure and capital expenditure including that of borrowings and any allocations received for both the parent municipality and its entities.

How municipalities should ensure credibility of information on their budgets

It is the responsibility of the municipality to ensure:

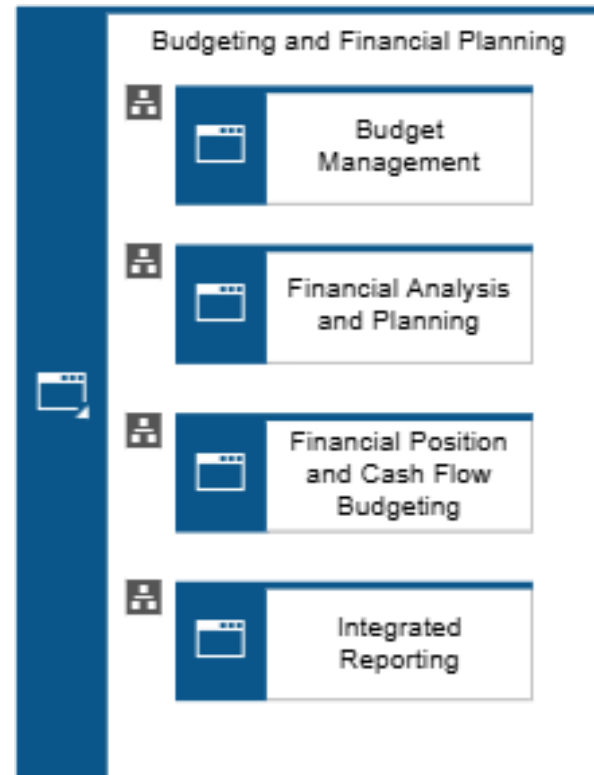
- 100% use of the system to ensure credibility of data
- Validate data strings before upload using the system's own checks
- Validation rules should be embedded in their systems
- Correct segment errors at transaction level
- Regenerate data strings after system corrections and submit to the LGRDS

DRAFT REGULATIONS ON MINIMUM BUSINESS PROCESSES AND SYSTEM FUNCTIONAL REQUIREMENTS

- This presentation outlines the principles that will be regulated in terms of the **Budget and Financial Planning System Functionality**.
- **This presentation outlines the principles to be regulated in terms of the Budget and Financial Planning System Functionality. It defines the minimum system requirements required to strengthen financial governance, planning integrity, internal control, and fiscal oversight across municipalities and municipal entities.**
- **The purpose is to promote consistent, transparent, and realistic budget and financial planning practices that support improved service delivery, regulatory compliance, and long-term financial sustainability.**
- The system functionality requirements proposed for regulation have been documented in detail within the Regulations Folder (Excel spreadsheet).
- **“Regulated Functional Requirements”** means the prescribed system functionality requirements set out in these Regulations which municipalities and municipal entities are required to comply with, including the minimum controls, validations, integrations, classifications, and process capabilities necessary to ensure that all financial, performance and regulatory information is processed, recorded, safeguarded and reported in accordance with the Municipal Finance Management Act, the Standards of GRAP, the mSCOA classification framework, the Division of Revenue Act and Treasury Norms and Standards. Regulated Requirements constitute mandatory national norms and standards which must be implemented, maintained and adhered to by every municipality and municipal entity

System Functionality Group Scope: Budget and Financial Planning

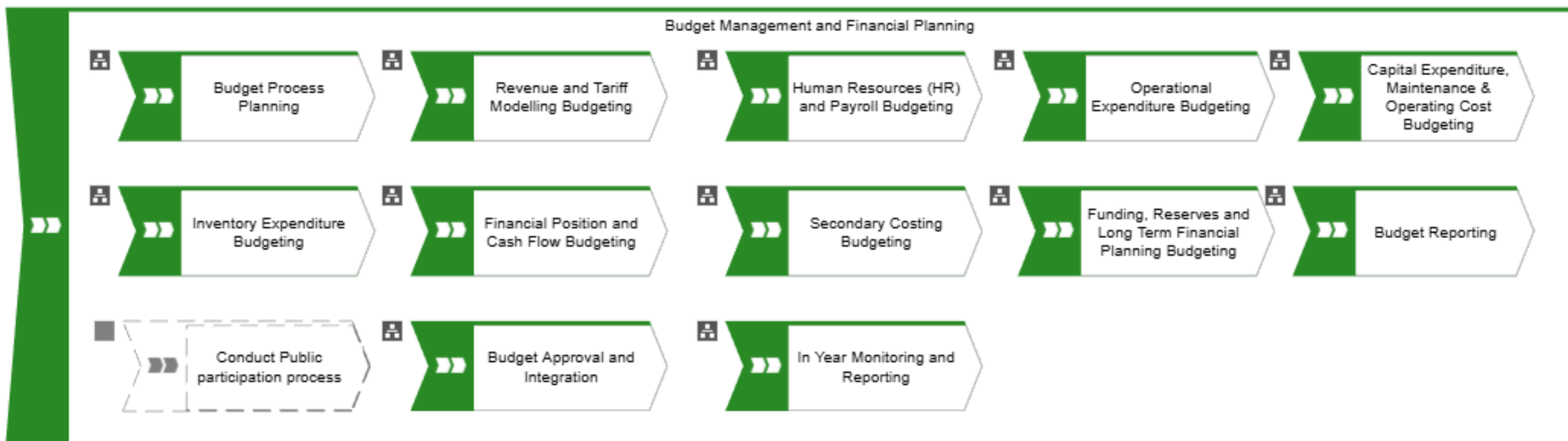
The **Budget and Financial Planning** system functionality group contains the following system functionalities:



Source budget functionality is addressed within the relevant source system functionality groupings to ensure that budget information is based on historical transactions and remains aligned with the operational transacting environment.

Key Process Context

The **Budget and Financial Planning System Functionality group** is linked to certain business processes within the **Budget and Financial Planning** business process group.



After submission to NT, how do we assist municipalities to ensure improvement in credibility

National and provincial treasuries :

Follow-up on outstanding data strings submissions

Once data strings have been submitted:

1. **Analyse** these data strings to ensure credibility using standard/own methodology
2. **Communicate finding** to municipalities before submission of next data string
3. **Provide targeted support** to municipalities to correct the data strings errors
4. **Verify** if corrections were made
5. **Issue** non-compliance letter to non-complying municipalities (record purposes)
6. Emphasizing/checking that budgeting, transacting and reporting must be done in and from the financial system



mSCOA Training Initiatives

mSCOA eLearning

- The National Treasury in collaboration with the National School of Government (NSG) has offered *mSCOA* eLearning course at no cost,
- Upon successful completion of the course (including assignments and tests), certificates of completion are issued by NSG

registration link below:

(www.thensg.gov.za)

mSCOA fundamentals

- NT has partner with CIGFARO to offer a facilitated *mSCOA* course on fundamentals of *mSCOA*.
- This training is open to:
 - Private companies dealing with municipal finances
 - Government officials who prefer in-contact sessions
- Upon successful completion of the course (including assignments and tests), certificates of completion are issued by CIGFARO

***m*SCOA Training Initiatives**

***m*SCOA Technical Masterclasses**

The aim of these masterclasses is to ensure Municipalities' data strings are credible and that system vendors can assist the municipalities where there are issues that relate to the system:

- Vendor and Muni masterclasses are hosted via Zoom with CIGFARO every month
- GoMuni Navigation for Municipalities, PTs and external stakeholders are hosted monthly

These sessions are offered at ***NO*** cost and registration link:

https://lg.treasury.gov.za/ibi_apps/portal/Municipal_Chart_of_Accounts

THANK YOU

For additional information on municipal matters, visit the MFMA Webpage at <http://mfma.gov.za> or



https://lg.treasury.gov.za/ibi_apps/welcome



<https://municipalmoney.gov.za>

For additional information on national and provincial budgets, visit: <https://vulekamali.gov.za>



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