NATIONAL TREASURY

Municipal SCOA Circular No. 13

Municipal Finance Management Act No. 56 of 2003

Guidance on recording of conditional grants

The purpose of this circular is to provide guidance to municipalities on how to account for conditional, unconditional and indirect grants using the Municipal Standard Chart of Accounts (*m*SCOA) when they budget, transact and report.

This circular must also be read in conjunction with the guidance provided in:

- Annual Division of Revenue Act (DoRA)
- MFMA Circular No. 48 (dated 02 March 2009);
- MFMA Circular No. 55 (dated 07 March 2011);
- MFMA Circular No. 58 (dated 14 December 2011);
- MFMA Circular No. 59 (dated 19 March 2012);
- MFMA Circular No. 86 (updated October 2021;
- MFMA Circular No 108 (dated 08 March 2021);
- MFMA Circular No 115 (dated 04 March 2022);
- *m*SCOA Circular No. 7 on Construction Work-in-Progress (02 March 2020); and
- *m*SCOA Circular No. 12 (dated 01 October 2021); and
- GRAP 11, 17, 23 and 24.

CONTENTS:

1 Background:

Sections 71(1)(e) and (f) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) requires that the accounting officer of a municipality must, by no later than 10 working days after the end of each month, submit a statement **in the prescribed format** on the state of the municipality's budget, *including the amount of any allocations received and the actual expenditure on those allocations*.

Section 71(5) of the MFMA further states that the accounting officer of a municipality must, by no later than 10 working days after the end of the month, submit a statement reflecting the amount of the allocation and the actual expenditure on those allocations to the national or provincial organ of state or municipality which transferred the allocation.

The Municipal Budget and Reporting Regulations (2009) prescribes the municipal budget and reporting formats, while the *m*SCOA Regulations (2014) prescribes the **uniform recording and classification** framework that must be used by all municipalities and municipal entities to budget, transact and report financial and non-financial information. From 01 July 2017, all municipalities and their entities had to submit their project details, budget, in-year reporting and Annual Financial Statements (AFS) information via the GoMuni platform in the form of *m*SCOA data strings.

The Division of Revenue Act (DoRA), as amended annually, also requires that all municipal allocations over the Medium-Term Revenue and Expenditure Framework (MTREF) must be included in the approved budget and that expenditure against these allocations must be reported in terms of Section 71 of the MFMA. In addition, DoRA states that a municipality must report on any funds stopped or withheld, the reason for the stopping or withholding, any remedial action taken, as well as an explanation of any material difficulties experienced by the municipality regarding the inability to spend an allocation which has been received and a summary of the steps taken to deal with such difficulties.

DoRA further requires the unspent conditional grants against the financial year under review must be returned to the National Revenue Fund (NRF) unless a request for a roll-over is approved by the National Treasury. As communicated in MFMA Budget Circular No. 115, all accrued expenditure on conditional grants must be included in the 30 June (M12) *m*SCOA data strings to support the roll-over request. The portion of each national conditional grant allocation that remained unspent as at 30 June must also be disclosed in the AFS.

One of the 15 key business processes that underpins *m*SCOA is *Grant Management*. This business process includes all the activities, processes and procedures to register and reconcile all the grants allocated, received and spent according to the conditions in the annual DoRA. *m*SCOA therefore requires that grant management and reporting must be done directly in and from the core financial system.

2 Problem Statement:

A key concern for National and provincial treasuries are the major discrepancies in reports on grant performance submitted by municipalities and transferring officers. As per DoRA, transferring officers must submit quarterly financial and non-financial performance reports within 45 days after the end of each quarter to the National Treasury, while the MFMA requires that municipalities submit grant performance reports to the respective treasuries (via the GoMuni) and transferring department within 10 working days after the end of the month.

Previously the timing differences in reporting between municipalities and transferring departments were cited as the reason for the discrepancies in performance reports, but from the provisions of Section 71(1) and (5) of the MFMA and Section 9(1)(e) and 10(7)(b) of DoRA there is no reason for such timing differences.

*Fact: If a municipality does **not** use the grant management module on the core financial system to budget, transact and report on the receipt and expenditure of their conditional grants or use the mSCOA correctly to do so, their grant performance data will **not** reconcile to that of the transferring officer's records.*

3 Submission of grant performance reports by municipalities:

DoRA is clear that municipalities must include all municipal allocations over the MTREF in the approved budget and report expenditure on these allocations in terms of Section 71 of the MFMA. In terms of the *m*SCOA Regulations, municipalities must budget, transact and report directly in and from their core financial system. Therefore, the required grant information must be included in the project detail file (PRTA, PROR, PRAD), budget file (TABB, ORGB and ADJB), in-year monitoring (M01-12) and audit (PAUD, AUDA and RAUD) data strings submitted to National Treasury's GoMuni Upload portal. *m*SCOA does not allow for the manual population of grant performance reports.

Before the relevant data strings containing the grant performance information are submitted to National Treasury's GoMuni Upload portal, the required reconciliations must be done and the system must be locked to ensure that the information submitted to the GoMuni Upload portal is accurate. Importantly, the information on the GoMuni is accessible by transferring officers and several external stakeholders such as Statistics South Africa, The Reserve Bank and the National Energy Regulator of South Africa (NERSA).

Additional information on grant performance required in terms of DoRA such as funds stopped or withheld, the reason for the stopping or withholding, remedial action taken, etc. must be submitted to the National Treasury via the GoMuni Upload portal. As communicated in the MFMA Budget Circular No. 112, source documents must be submitted on the GoMuni portal in PDF and no excel based spreadsheet/ templates will be accepted. In addition, reports on grant performance must also be submitted to the respective transferring officer as per the relevant reporting templates issued by them.

Several reports on grant performance are available on the GoMuni portal. These reports are compiled using the *m*SCOA data strings and are used by National and provincial treasuries, in conjunction with the grant performance reports submitted in terms of DoRA, to monitor performance against grants allocated and transferred. The following grant performance reports are available on National Treasury's Local Government Database and Reporting System (LGDRS) under *m*SCOA/Reporting:

- List Grant allocations/ Scheduled/ Transferred/ Received/ Spend;
- List Grant allocations Spending/ Received mapping; and
- List Grant Transferred/ Received/Spend.

The LG Database on the GoMuni portal is available on the following link:

lg.treasury.gov.za/ibi_apps/

4 Types of allocations to municipalities:

DoRA allocations to municipalities can be divided into three groups, namely:

4.1 Unconditional grants

Unconditional grants must be recognised as revenue when received. The equitable share is an unconditional allocation and represent the local government share of the national revenue raised. The equitable share also provides funding to enable all municipalities to provide free basic water, electricity, sanitation and waste management services to poor households.

4.2 Conditional Grants

Conditional grants are allocated for the purpose of achieving particular national government policy objectives and have conditions attached with regards to what it can be spent on and how it must be reported on. It can be used for capital and/ or operational; subject to the condition of the grant and the correct data strings must be used to budget and to allow transacting and accurate reporting. The DoRA framework specifies the applicable grant conditions for each grant. Conditional grants are recognised as *Liabilities* and only transferred to *Revenue* once the conditions are met. The Municipal Infrastructure Grant (MIG) is an example of a capital conditional grant. When a direct capital grant has been allocated to a municipality, that municipality will retain the ownership of the asset once created.

4.3 Indirect grants

Indirect grants are transferred to entities and national departments to construct a specific asset on behalf of another institution or a municipality that do not have adequate capacity to implement the grant themselves. The institution implementing the indirect grant, will not retain ownership of the asset once created but will transfer the asset to another municipality or entity. Where the infrastructure cuts across different municipal boundaries ownership is often retained by entities such as Eskom or the Water Boards.

Examples of indirect grant include:

- Integrated National Electrification Programme (INEP) Eskom where some municipalities (especially the ones that are not licenced to provide electricity) are doing electrification and building sub-stations for Eskom and then transfer the asset to Eskom when the project is completed. This also happens with the direct INEP Municipal grant;
- The Regional Bulk Infrastructure Grant (RBIG) where an entity (including a municipality) is appointed by the Department of Water and Sanitation to develop new, refurbish, upgrade and replace ageing bulk water and sanitation infrastructure of regional significance for the Water Services Authority; and
- The capacity building indirect Municipal Systems Improvement Grant (MSIG) administered by the Department of Cooperative Governance (DCoG) to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related local government legislation.

Since the grant is not allocated directly to the municipality, the department administering the grant (e.g. the Department of Mineral Resources and Energy in the case of INEP Eskom) is responsible to report on the performance against the indirect grant as per the DoRA reporting framework.

Municipalities must take note of and adhere to the grant conditions to ensure that the accounting for the conditions is planned/ budgeted for and accounted for in accordance with the conditions of the DoRA. Also, the recording of grants in the *m*SCOA will differ depending on the type of grant.

5 Principles applicable to recording conditional grants in *m*SCOA:

The following principles applies when recording conditional grants in *m*SCOA.

5.1 Budgeting for grants

a) All DoRA direct allocations over the MTREF must be included in the approved MTREF budget. Towards this end, the grants reflected in in the PRTA, PROR, PRAD, TABB, ORGB and ADJB data strings MUST reconcile to the conditional grant allocations in DoRA. The data strings must also align to the figures in the following tables of the regulated A schedule: A4 (Financial performance), A7 (Cash flow), SA18 (Transfers and grant receipts), SA19 (Expenditure on transfers and grant programmes) and SA20 (Reconciliation of transfers, grant receipts and unspent funds);

b) It is important to note that grants are VAT inclusive and zero rated in terms of Output tax. This means that transactions where payment is made using the grant funding is subject to Input tax in terms of the VAT Act. The *m*SCOA data strings that will provide the full cost spent on a project comprise of two data strings, namely: a data string for the asset cost incurred and a second data string for the Input tax where applicable. Table A5 (Capital Expenditure per Function and Fund Source) of the regulated A schedule will only include the value of the asset excluding VAT. A subsequent process must be followed to claim the Input tax (VAT 201) back from the South African Revenue Services (SARS) as per the guidance in MFMA Circulars No. 48, 55, 58 and 59;

c) Since the regulated schedules must be drawn directly from the financial system, there should not be any misalignment. Misalignment in this regard is a sign that the municipality did not budget directly in their financial system or extract the schedules from the system;

d) Direct grant allocations from provincial treasuries and district municipalities should also be included in the approved budget, but only in cases where written confirmation has been received from and gazetted by the provincial treasury or district municipality on the amounts that will be transferred;

e) Projects must be linked to the Function that will be responsible for the implementation and control of the expense of the grant. E.g. for the receipt, transfer and repayment of grants, the Finance function could be utilised against the unspent liability, while the relevant function who will be spending the grant in terms of the approved project plans must be used to budget for the spending of the conditional grant in terms of the conditions set;

f) Budgeting for grant receipts must be linked to the correct funding source to ensure table A7 (Cash flow) is correctly populated. The cash flow for grant receipts are populated using the Item Bank: Deposits linked to the grant funding; and

g) The use of balance sheet budgeting is extremely important as the full movement of the grant must be captured to ensure all the schedules are populated correctly.

5.2 Transacting against grant allocations

a) All direct grant monies must be recognised in terms of GRAP 23. GRAP 23.44 to .47 provides specific guidance on the initial and subsequent recognition of non-exchange revenue. The accounting principle in terms of GRAP 23 is that conditional grants must be recorded as current liabilities that is used as a control account, until the portion that was spent in accordance with the conditions thereof is transferred to revenue;

b) In terms of *m*SCOA, the grant must be receipted in the *Item Assets Bank: Deposits* and then recognised in Item Liabilities at the posting level of the appropriate *Item Liability: Unspent Grant: Receipts* for all grants received that are conditional in nature;
c) The Fund source for all transactions relating to the grant must also correspond with the grant received, spent and transferred. The *m*SCOA chart is aligned on the *Item Revenue, Item liabilities* and *Fund* segment to provide for the capturing of the transactions in this format;
d) When spending the grant funding, the fund source will be the grant allocated as per DoRA while the relevant project funded by the grant will accumulate the cost of the project;
e) Once the grant conditions have been met (i.e. grant conditions have been recognised in terms of GRAP 23), the total expenditure incurred in terms of the grant must be transferred to Item Revenue to reduce Item Liabilities Unspent Grant;
f) The transfer to Item Revenue should include the Input tax if a registered VAT vendor was the service provider, as well as the retention that was accrued against the grant. Also, retention that was accumulated via the process when the project was constructed will be paid when it becomes due as per the signed service level agreement. The retention for a project in year 1 cannot be claimed in year 2 from the *Item Liability: Unspent Grants* as it should have been accrued in year 1 and kept (in an interest-bearing account) to be paid when it becomes due;
g) The balance of the *Item Liabilities Unspent Grant* represents the liability that the municipality must perform against or pay back to the National Revenue Fund (NRF). By using the chart correctly when recording transactions that are funded from conditional grants, the grant performance disclosed in the Section 71 reports and AFS will be aligned to the data on the municipal financial system and Local Government Database and Reporting system (LGDRS); and
h) Grant receipting and spending must always be linked to the correct grant fund source as this will align the grant transactions.

5.3 Reporting on grants

a) Expenditure against the DoRA allocations must be included in the monthly *m*SCOA data strings. These monthly data strings must also reconcile to the actual receipts and expenditure reported in the regulated C Schedule, in particular tables C4 (Financial Performance), C7 (Cash flow), SC6 (Transfers and grant receipts), SC7(1) (Expenditure on transfers and grant programmes);
b) When these schedules are drawn directly from the core financial system, alignment should not be a challenge. Misalignment in this regard is a sign that the municipality is not transacting and reporting directly in and from their core financial system;
c) In the event that a grant was not fully spent at the end of a financial year, the municipality must apply for a roll-over as per the process stipulated in the DoRA and the annual MFMA Budget Circular;
d) Unspent grants must be **cash backed** to be considered for roll-over and the amount reported in the *m*SCOA data strings must align to the amount that was reported as unspent in the pre-audited AFS. The Project segment can be used to ring fence the unspent grant expenditure that must be included in the roll-over application since all the spending occurs against the Project segment linked to the grant used;
e) The municipality may not continue to incur expenditure against the unspent conditional grant allocation until the roll-over has been approved by the National Treasury. The spending of an unapproved roll-over is seen as unauthorised expenditure;
f) To ensure continuity of the project whether the roll-over is approved or not, a municipality must allocate an alternative funding source (other than grant funding) to the project during the annual budget process until the roll-over has been approved. The project must be included in the project detail file (PRTA and PROR) and *m*SCOA budget data strings (TABB and ORGB) linked to a new funding source;

g) If the roll-over is approved, then Council must adopt an adjustments budget in terms of section 28(e) of the MFMA and the funding source must be amended to the approved roll-over grant; and
h) Grant performance must also be included in the audit (PAUD, AUDA and RAUD) data strings.

6 Examples to illustrate the application of the principles:

6.1 Budgeting for the receipt of an unconditional grant using the *m*SCOA chart

Batho Pele Municipality's equitable share allocation amounts to R1 million. Equitable share is an unconditional allocation. Using the *m*SCOA chart, the budget and transaction will be recorded as indicated below:

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Deposits	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations: National Revenue Fund: Equitable share
Funding	Fund: Operational : General Revenue: Equitable share	Fund: Operational : General Revenue: Equitable share
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

It should be noted that the *m*SCOA *Revenue Item* and the *m*SCOA *Fund segment* must align.

6.2 Budgeting for the receipt of a conditional grant using the *m*SCOA chart

Batho Pele Municipality received the Municipal Infrastructure Grant (MIG) in the 2022/23 MTREF.

Using the *m*SCOA chart, the budget and transaction will be recorded as indicated below:

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Deposits	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Receipts
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations:National Government: Municipal Infrastructure Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

It should be noted that in the *m*SCOA chart the *Item Liabilities*, *Item Revenue* and *Fund segments* are aligned and must be used accordingly when budgeting and transacting for a specific grant.

- When the grant is received, *Item Liabilities* is credited with the total amount received to reflect the unspent portion of the grant;
- The liability is reduced by transferring the amount from the *Item Liabilities*: *Transferred to Revenue* to the *Item Revenue: Municipal Infrastructure Grant* only once the condition of the grant is met. The balance of the unspent grant at the end of each reporting period indicates the amount that must still be performed against and what is still available to be spent;
- The full amount spent on the project must be captured and transferred to *Item Revenue*;
- The remaining balance in the *Item Liabilities: Unspent Gran*t at the end of the financial year, after all the year-end transactions against the grant has been processed and the relevant reconciliations have been done, is the amount that must either be paid back to the National Revenue Fund (NRF) or applied the grant to be rolled over. If the roll-over is not approved, this amount must be repaid to the National Revenue Fund (NRF); and
- The spending of the grant is captured by a separate set of data strings. In this regard the *m*SCOA segments will reflect as follows:

    - **Project segment:** The project against which the budget was approved must be used to record expenditure. The project segment is used to ring fence the expenditure;
    - **Item segment:** The Item segment represents the nature of the transaction. For operational projects the Item segment will be *Item: Expenditure* and for Capital projects it will be *Item: Assets*. The Input tax portion that forms part of expenditure and retention should be included in the amount transferred from *Item Liabilities* to *Item Revenue* when the conditions of the grant are met; and
    - **Fund segment:** The Fund source and the Project should correlate. For a capital project a capital funding source must be used and similarly, for an operational project an operational funding source must be used. The combination of the Project and Fund segments should be used as part of the reconciliation to determine what amount must be transferred from *Item Liabilities* to *Item Revenue* when the conditions are met.

6.3 The spending of a conditional grant using the *m*SCOA chart

Batho Pele Municipality uses MIG to accrue for the payment of the contractor that constructed the road in Ward 2 Subsequent transaction shows the payment of the contractor. Using the *m*SCOA chart, the transaction will be recorded as indicated below:

Segment	Debit	Credit
Project	PC: Infrastructure: New: Roads Infrastructure: Roads	PC: Infrastructure: New: Roads Infrastructure: Roads
Function	Road Transport: Core Function: Roads	Road Transport: Core Function: Roads
Item	IA: Non-current assets: Construction work in progress: Acquisitions: Outsourced. And IA: Current assets: Vat Receivable Input Tax Accrual: Recognised	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: **Contractors:** Deposits And IL: Current liabilities: Retention: Deposits
Funding	Fund:Capital:Transfers and Subsidies: Monetary Allocations :National Government: Municipal Infrastructure Grant	Fund:Capital:Transfers and Subsidies : Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Ward 2	Ward 2
Costing	Default	Default

The payment of the contractor will look as follows in the *m*SCOA.

Segment	Debit	Credit
Project	PC: Infrastructure: New: Roads Infrastructure: Roads	PC: Infrastructure: New: Roads Infrastructure: Roads
Function	Road Transport: Core Function: Roads	Road Transport: Core Function: Roads
Item	IA: Non-current assets: Construction work in progress: Acquisitions: Outsourced. And IA: Current assets: Vat Receivable Input Tax Accrual: Recognised	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: **Contractors:** Deposits And IL: Current liabilities: Retention: Deposits
Funding	Fund:Capital:Transfers and Subsidies: Monetary Allocations :National Government: Municipal Infrastructure Grant	Fund:Capital:Transfers and Subsidies : Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Ward 2	Ward 2
Costing	Default	Default

6.4 The spending of an operational conditional grant using the *m*SCOA chart

A municipality may use a percentage of the MIG to set up a project management unit (PMU) or to pay for professional fees for due diligence/ environmental impact assessment reports required. Batho Pele Municipality is planning to spend 5 per cent of the MIG to set-up a PMU.

Using the *m*SCOA chart, the transaction to accrue salary expenses will be recorded as indicated below:

Segment	Debit	Credit
Project	PO: Municipal running cost	PO: Municipal running cost
Function	Planning and Development : Core : Project Management Unit	Planning and Development : Core : Project Management Unit
Item	IE : Salaries for PMU	IL: Salaries Control: Deposits
Funding	Fund: Operational: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant	Fund: Operational: Transfers and Subsidies : Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Head office and Admin	Head office and Admin
Costing	Default	Default

6.5 Accounting matters pertaining to an indirect grant using the *m*SCOA chart

The accounting when a municipality performs a function for a national department where the municipality does not own the asset and where they are performing the work as a contractor for another institution e.g., Eskom will be the same. As long as the ownership of the asset to be created will not become that of the municipality, the municipality will receive the grant as a conditional operational grant and will expense the cost to construct the asset.

In the event of construction of assets as part of a principal or agent agreement, the guidance of GRAP 11 Construction Contracts must be followed. Agency and principal agreements do not form part of this circular however the agreements between entities will determine the accounting for said transactions.

For the purposes of this circular the Indirect grants examples will provide guidance for the implementing municipality as well as for the municipality receiving the allocation in kind.

The transaction below portrays Batho Pele Municipality who receives a monetary grant from a transferring officer as an indirect grant. The grant is receipted as an operational project and operational grant since it must be used to construct an asset to be transferred to another entity.

Batho Pele Municipality receives the grant as an operational grant

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core Function: Finance	Finance: Core Function: Finance
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Deposits	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Operational: Monetary Allocations: National Government: Municipal Infrastructure Grant: Receipts
Funding	Fund: Operational: Transfers and Subsidies: Monetary Allocations:National Government: Municipal Infrastructure Grant	Fund: Operational: Transfers and Subsidies :Monetary Allocations:National Government:Municipal Infrastructure Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

Batho Pele Municipality uses the grant to renew a reservoir to provide water to a rural area. The facility will not be owned by the Municipality.

The transactions below show the accrual of the expenses of the contractors.

6.6 Payment of the contractor

Where a municipality receives an indirect DoRA allocation to construct the asset and transfer it to another entity as an allocation-in-kind, the indirect grant must be recognised as an operational grant by the municipality receiving the indirect grant as this municipality is not the intended owner of the completed asset. The project must be linked to operational projects for infrastructure/ non-infrastructure.

The corresponding operational fund for transfers and subsidies should be used and the project must be expensed in terms of the *m*SCOA.

Accrual of Expenses

Segment	Debit	Credit
Project	Operational: Infrastructure Projects: Renewal: Water Supply infrastructure: Reservoirs	Operational: Infrastructure Projects: Renewal: Water Supply infrastructure: Reservoirs
Function	Water Management: Core Function: Water Storage	Water Management: Core Function: Water Storage
Item	IE: Contracted Services: Contractors: Building	Item: Liabilities: Trade and other payables: Contractors: Deposits
Funding	Fund: Operational: Transfers and Subsidies: Monetary: National Government: Municipal Infrastructure Grant	Fund: Operational: Transfers and Subsidies: Monetary: National Government: Municipal Infrastructure Grant
Region	Ward 1	Ward 1
Costing	Default	Default

Payment of contractors

Segment	Debit	Credit
Project	Operational: Infrastructure Projects: Renewal: Water Supply infrastructure: Reservoirs	Operational: Infrastructure Projects: Renewal: Water Supply infrastructure: Reservoirs
Function	Water Management: Core Function: Water Storage	Water Management: Core Function: Water Storage
Item	Item: Liabilities: Trade and other payables: Contractors: Withdrawals	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Withdrawals
Funding	Fund: Operational: Transfers and Subsidies: Monetary: National Government: Municipal Infrastructure Grant	Fund: Operational: Transfers and Subsidies: Monetary: National Government: Municipal Infrastructure Grant
Region	Ward 1	Ward 1
Costing	Default	Default

The second accounting transaction is where a municipality will receive a fully constructed asset as an indirect grant due to various reasons must be captured as follows.

Due to capacity constraints of ABC Municipality, the national department of water affairs, requested Batho Pele Municipality to construct an outfall sewer plant using MIG funding as part of an indirect grant. The construction was completed by Batho Pele Municipality and the asset must be received by ABC Municipality.

Below an example of how ABC Municipality receives and capture the transaction of the completed asset as transferred by Batho Pele Municipality upon completion:

Segment	Debit	Credit
Project	Capital: Infrastructure Projects: New: Sanitation Infrastructure: Outfall sewers	Default
Function	Waste Water Management: Core Function: Sewerage	Waste Water Management: Core Function: Sewerage
Item	IA: Non Current Assets: Property Plant and Equipment: Cost model: Sanitation Infrastructure: Cost: Transfers Received	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Allocations in kind: Municipal Infrastructure Grant
Funding	Fund: Capital: Transfers and Subsidies: Allocations in kind: National Government: Municipal Infrastructure Grant	Fund: Capital: Transfers and Subsidies: Allocations in kind: National Government: Municipal Infrastructure Grant
Region	Ward 10	Ward 10
Costing	Default	Default

The municipality or entity receiving the allocation-in-kind will receive the completed asset. The indirect grant must be recognised as a capital asset funded by an allocation-in-kind grant. The information of the cost of construction of the asset must be provided to the receiving municipality or entity to capitalise the asset at cost. The municipality records the asset in the asset register and include the asset as part of the maintenance plan. Depreciation of the asset should start from the moment that the asset is ready to be used.

6.7 The transferring to revenue of the amount spent of a conditional grant using the *m*SCOA chart

Batho Pele Municipality has received an invoice to the amount of R115 000.00 (VAT inclusive) for the road project in Ward 2 that was completed. As shown below, the full cost of the project must be transferred from the *Item Liability: Unspent Grant: Transferred to Revenue*. In determining the amount to be reducing the grant spent the following should be considered.

The project cost of R100 000.00 and the Input tax of R15 000.00 (i.e. R115 000.00) must be transferred out of the *Item Liability: Unspent Grant: Transferred to Revenue* account and recognised in *Item Revenue*. The Input tax must be claimed back from SARS through the VAT 201 process and the Input tax that is received from SARS will be recorded as own revenue of the municipality.

If the invoice is subject to retention, retention will be deducted from the amount paid to the supplier. The retention must be accrued in the *Item Liability: Retention* account. This information must also be recorded in the Retention sub-module or Retention register of the municipality. In this example, the retention is 10 per cent (R10 000.00) that will be debited to the *Item Asset* and credited to the *Item Liabilities: Retention: Deposits*. This does not translate to a short-paid invoice; hence, this transaction does not impact on the Input Tax Accrual.

The amount to be Transferred to revenue/ Capital expenditure will therefore be R115 000.00

Item	Debit	Credit
Asset: Construction Work in Progress: Outsourced	100 000	
Input tax Accrual	15 000	
Item Liabilities: Payable and Accruals: Contractors: Deposit		105 000
Item Liabilities: Retention		10 000

The transaction to capture the transfer to revenue will be as follows:

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies **Unspent**: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Transfer to revenue/Capital expenditure	Item: Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant
Funding	Fund: Capital: Transfers and Subsidies : Monetary Allocations: National Government: Municipal Infrastructure Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default
Amount	R115 000	R115 000

The above transaction should be captured as part of the monthly grant reconciliation. The debit data string of this transaction will be used to populate the spent portion of the grant reporting and the credit transaction will show the Revenue recognised on the grant.

The same principles apply to the recognition of operational grants where the conditional operational grant is reduced in *Item Liability: Unspent Grant: Transferred to Revenue* and the amount is transferred to *Item Revenue* when the conditions are met. The amount transferred will once again include Input tax when the services were procured from a VAT registered vendor.

6.8 Repayment of unspent grants using the *m*SCOA chart

All unspent conditional grants must be repaid to the National Revenue Fund (NRF) if the roll-over application was not approved. The *m*SCOA chart makes provision for all the required transactions in the event that the roll-over is approved or declined.

In the example below, a portion of the MIG was unspent and the municipality must repay it to the National Revenue Fund (NRF). Using the *m*SCOA chart, the transaction will be recorded as indicated below:

Segment	Debit	Credit
Project	Default	Default
Function	Function:Finance and Administration: Core: Finance	Function:Finance and Administration: Core: Finance
Item	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Repayment of Unspent Grant	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Withdrawals
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

6.9 Ensuring an unspent conditional grant is cash backed

Batho Pele Municipality has not fully spent their grants including their MIG and has decided to apply for a roll-over. All year-end reconciliations were done and the unspent portion of the grant has been reported in the pre-audited AFS and data strings (PAUD).

The extract of the pre-audited AFS below shows the unspent grants and the cash and cash equivalents of the Municipality. When the National and provincial treasuries determine if the unspent portion of a grant is cash backed, they will refer to the pre-audited AFS. In this case, the request for a roll-over will not be supported as the unspent portion of the grant is not cash backed *(*i.e. *cash and cash equivalents* of R211.4 million is insufficient to cover the unspent grants of R1.189 billion.)

Statement of Financial Position as at June 30, 2020

Figures in Rand thousand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	2	686,488	599,694
Investments	9	3,750,000	5,950,000
Receivables from exchange transactions	3	2,239,238	2,682,222
Receivables from non-exchange transactions	4	50,615	57,108
VAT receivable	5	195,943	324,010
Consumer debtors	6	6,361,506	5,741,251
Current portion of long term receivables	7	59,582	51,363
Call investment deposits	8	530,000	465,000
Cash and bank balances	9	211,438	241,248
		14,084,810	**16,111,896**
Liabilities			
Current Liabilities			
External borrowings	16	851,433	1,098,628
Payables from exchange transactions	17	7,503,149	6,783,116
Transfers payable from non-exchange transactions	18	47,785	19,068
Consumer deposits	19	2,489,276	2,348,727
Employee benefit obligation	20	817,184	658,756
Unspent conditional grants and receipts	21	1,189,780	1,570,932
Provisions	22	953,764	808,715
		13,852,371	**13,287,942**

It is important that the municipalities must keep grant funds as cash and cash equivalents as part of the application for roll-over.

Furthermore municipalities must process all transactions to reduce liabilities in the event that a grant was repaid or offset against Equitable Share (ES) allocations, since the remaining *Unspent grant* liabilities in their books impacts on their financial position and the funded budget assessment by the National and provincial treasuries; where Trade and other Payables and Unspent conditional grants and receipts in tables SA3 and SA20 of the regulated A and B Schedules are deducted from the cash resources in tables A6.

6.10 Offset the unspent grant against Equitable Share (ES) in *m*SCOA

MFMA Circular No. 86 provides measures available to municipalities when unspent grants must be repaid to the National Revenue Fund (NRF). Properly accounting for the offsetting against the equitable share is important to clear liabilities and report revenue from the equitable share allocation. Municipalities are not allowed to use the current year conditional grant allocations to repay unspent grants.

Batho Pele Municipality applied to roll-over the unspent portion of MIG but received a letter from National Treasury indicating that the roll-over was not approved. The municipality fail to repay the grant to the National Revenue Fund (NRF) or enter into a payment arrangement to repay the grant over time and the National Treasury subsequently off-set the entire unspent amount against the Equitable Share (ES).

Since the National Treasury will reduce the next tranche of Equitable Share with the unspent grant amount, the municipality must reduce their unspent grant liability by debiting the liability and crediting the Revenue: Equitable share.

The Municipal allocation of R100.00 will be reduced with the unspent grant of R20.00 that is already in the cash resources of the municipality. Offsetting of R20.00 will happen since R80.00 will be received in cash from National Treasury. The transaction below will represent the treatment of R20.00 that will be off set.

Using the *m*SCOA chart, the transaction will be recorded as indicated below:

Segment	Debit	Credit
Project	Default	Default
Function	Function:Finance and Administration: Core: Finance	Function:Finance and Administration: Core: Finance
Item	Item Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies **Unspent**: Capital: Monetary Allocations: National Government: Municipal Infrastructure Grant: Repayment of Unspent Grant	Item: Revenue: Non-Exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations: National Revenue Fund**:** Equitable share
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Municipal Infrastructure Grant	Fund: Operational : General Revenue: Equitable share
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default
Amount	R20.00	R20.00

In the event that municipality makes an arrangement over several equitable share allocations for repayment of unspent grants, the transactions must be captured in accordance with the arrangement.

6.11 Recording and reporting of approved roll-overs in terms of *m*SCOA

Batho Pele Municipality's roll-over of the unspent portion of MIG was approved by National Treasury. During the annual budget process, the municipality allocated own funding to the project and now that the roll-over was approved, Council adopted an adjustments budget to ratify the roll-over amounts.

Using the *m*SCOA chart, the example below shows the journal to reverse the spending from own funding to the rolled-over MIG funding as per the example:

Segment	Debit	Credit
Project	PC: Infrastructure: New: Roads Infrastructure: Roads	PC: Infrastructure: New: Roads Infrastructure: Roads
Function	Road Transport: Core Function: Roads	Road Transport: Core Function: Roads
Item	IA: Non-current assets: Construction work in progress: Acquisitions: Outsourced	IA: Non-current assets: Construction work in progress: Acquisitions: Outsourced
Funding	Fund:Capital:Transfers and Subsidies: Monetary Allocations :National Government: Municipal Infrastructure Grant	Fund: Capital: Transfer from Operational Revenue
Region	Ward 2	Ward 2
Costing	Default	Default

These processes are onerous and can be avoided if grant funded projects are well managed and grants is spent within the planned dates.

In the case of the unspent grant transfers from provincial government departments, the respective provincial treasury will issue guidance on the repayment of unapproved roll-overs. However, the accounting principles in this circular will apply to both national and provincial grants transfers.

6.12 Recording grant performance in the AFS and audit data strings

National Treasury has issued a specimen AFS aligned to *m*SCOA for the past 3 years (since 2018/19).

Municipalities are reminded that the grant performance disclosed in the AFS and audit data strings **MUST** exclude all interest earned on conditional grants, retentions and VAT that has been reclaimed from SARS, as these items must be disclosed separately. All these transactions must follow the prescribed accounting treatment in terms of GRAP and should not be included in the unspent grant balances.

In the AFS, the amounts per grant received, spend and unspent can be identified on the *Item Liabilities: Unspent Grant* in the different posting levels as shown in the extract of the chart below, namely:

- *Receipts* will represent the total amount received in cash allocations for the year;
- *Transferred to Revenue/ Capital Expenditure* will represent the amount that was spend from the grant for the year. This amount will include the total expenditure from the current year's allocation and the approved roll-over allocation of the prior year that was included in the Adjustments budget; and
- *Re-payment of Unspent Grant* will represent the amount that was repaid or off set against a future transfer from the transferring authority.

The balances reported under these posting levels should be reconciled to ensure that the amounts reported in fact are in accordance with the received, spend, and repaid or off-set amounts.

Extract of the mSCOA tree chart of the Item Liabilities: Municipal Infrastructure Grant

- Municipal Infrastructure Grant(IL-001-007-002-001-002-005-002)
  - Opening Balance(IL-001-007-002-001-002-005-002-001)
  - Receipts(IL-001-007-002-001-002-005-002-002)
  - Transferred to Revenue/Capital Expenditure(IL-001-007-002-001-002-005-002-003)
  - (Retired) Closing Balance(IL-001-007-002-001-002-005-002-004)
  - Re-payment of Unspent Grant(IL-001-007-002-001-002-005-002-005)

In the example below, Batho Pele Municipality received a MIG grant allocation of R3 million in 2020/21, of which R2.9 million was spent and the unspent portion of R100 000.00 was rolled over (after approval was received from the National Treasury) to the next financial year.

At the end of the next financial year (2021/22), the municipality had an unspent portion of R40 000.00 which had to be paid back to the National Revenue Fund (NRF) (a grant may not be rolled over twice). This must be disclosed in the notes to the AFS (as per the AFS specimen guidelines) as follows:

	2021/2022 (R'000s)					2020/2021 (R'000s)			
	Opening Balance	Funds Received	Funds Utilised	Funds Re-paid	Closing Balance	Opening Balance	Funds Received	Funds Utilised	Closing Balance
National Government Municipal Infrastructure Grant	100	4000	4060	40	0	0	3000	2900	100

7 Conclusion:

Municipalities should use the *m*SCOA correctly to record grant receipts and expenditure and ensure that the reporting in terms of Section 71 of the MFMA and the AFS is accurate. The application of the principles in this circular will also ensure that the *m*SCOA data strings populate the regulated schedules and that the reporting on grant performance to both the National Treasury and national transferring officers reconcile. It should be noted that the guidance in this circular pertains to National DoRA grants.

Any queries relating to the guidance provided in this circular must be logged on the *m*SCOA Frequently Asked Questions (*m*SCOA FAQ) Database. The database can be accessed on the *m*SCOA website on the following link:

http://*m*scoafaq.treasury.gov.za/

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