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| Description: Description: Letter Head |
| STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT  *[SCOA for MUNICIPALITIES]* |
| Project Detail:  Section 3 – Funding Segment  *November 2017 – mSCOA Version 6.1* |

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# SECTION 3: FUNDING SEGMENT

## Background to the Segment

### Relevance of the Funding Classification, Methodology and the Application thereof within the Context of mSCOA

1. The introduction of this dimension in the mSCOA classification framework facilitates aggregated government reporting on the cash basis of accounting. The Funding segment also facilitates the accumulation of information within the financial system that will enable the municipality to report on information such as how a specific source of funding, for example “the Local Government Financial Management Grant (FMG)” had been spent by extracting this specific source of funding from the “Funding” segment and the detail on spending items, such as employee costs, consultants, etc. from the “Item” segment.
2. In order to monitor expenditure (operational and capital) against the source of the fund utilised, this segment contains the sources of funds available to the municipality.
3. The primary sources of funding for a municipality are property rates, service charges, equitable share and own revenue. Further to these sources of revenue a municipality also spend funds transferred from other sectors within government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA).
4. In addition to internally generated funds, transfers and subsidies, municipalities may make use of external borrowings to finance capital projects.
5. A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the utilisation of the reserves.

### Purpose of the Funding Segment

The key question in finding the appropriate classification code for this segment is: *“against which source of funding is the payment allocated and against which source is revenue received?”*

*In addition, for the preparation of whole of government accounts, where national and provincial government applies the modified cash basis of accounting, this segment provides payments and receipts on the cash basis similar to “cash flow statement” information.*

1. The “Funding” segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational expenditure.
2. This segment provides information supplementing the Cash Flow Statement (Municipal Budget and Reporting Regulations, 2009 (Table A7)) at a transactional level. The principle for recording transactions in this segment is therefore based on cash flow (cash basis of accounting), for example, money spent and received. It is important therefore to note that accrual does not apply to the Funding segment.

## Illustration: High-level Classification

1. At the highest level the Funding segment’s structure distinguishes between “Non-funding Transactions, Operational and Capital” as illustrated in the diagram below. The distinction between “operational and capital” funding sources was introduced in Version 6.1 of the mSCOA Tables:

**Definitions:**

**Operational:** Operational revenue provides for funds from all other sources of income not elsewhere classified such as administrative fees, bad debts recovered, breakages, commission, discounts and early settlements, etc.

**Capital:**  Funds for capital application.

**Non-funding Transactions:** The recording of transactions not specifically classified in the above structure. The table included below in the discussion on: *“Transactions by Business Process to be allocated in the segment”* provides more detail.

## 

## Design Principles

1. The following design principle(s) have been used in preparing the Funding segment outline:
2. *Principle 1: mSCOA* - The segment outline and detail classification provide for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their chart of accounts.
3. *Principle 2: Municipal Entities and Agencies* - Recording of transactions in this segment would be done according to the principles determined for municipalities. Reference made to “municipalities” must be read to also refer to “municipal entities”, unless indicated otherwise.
4. *Principle 3: Legislative and Regulatory Requirements* - The research and development into the Funding segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below. Furthermore, brief comments on any proposed changes to a circular or guideline (issued by the National Treasury) following the mSCOA regulation are included in the “Proposed Changes Column” of the table.
5. *Principle 4: Linking Transaction by Business Process to mSCOA* - Business processes is the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting, a source document from an activity within a business process initiates the activity to flow through a defined business processes ultimately resulting in the transaction to be captured within a financial model in the system and updating the general ledger. mSCOA provides a classification structure within the general ledger to “record” transaction information within “fields” within the database (functioning in the background of the financial application).
6. *Principle 5: Category Links and Programming Rules* - Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as the consultation with the various stakeholder groups evolves.
7. *Principle 6: mSCOA Detail Accounts* - Labels and accounts defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and SDBIP[[1]](#footnote-1)) and reporting (monthly, mid-year performance assessment and annual financial statements).
8. *Principle 7: mSCOA Definitions* - The master mSCOA provides definitions for all accounts and reporting levels to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities to enhance the comparability of information and report extraction.
9. *Principle 8: Annual Financial Statements and Budget Reporting Format*s - Alignment of budget and reporting formats with the Standards of GRAP applicable to the different categories of municipality, especially recognising that local government uniquely operates in an accrual accounting and accrual budgeting environment.
10. *Principle 9: The Standards of GRAP -* The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework[[2]](#footnote-2) (2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.
11. *Principle 10: Reporting* - The Position Paper on Reporting defines the phased approached envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined in the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
12. *Principle 11: Economic Reporting Format* - The Economic Reporting Format, September 2009 identifies the categories for transfers as being transfers received from other government units (national, provincial and local government (specific in the context of municipalities, district municipalities)), universities and universities of technology, foreign government, international organisations, public corporations and private enterprises, households and non-profit institutions. The Municipal Budget and Reporting Regulations, 2009, distinguish between transfers recognised - operational and capital, contributions and public donations and contributed assets.
13. *Principle 12: NERSA Regulatory Reporting Requirements* - NERSA as explained in the ‘*Regulatory Reporting Manual Volume 2: Electricity’* prescribes and provides guidance to the regulated entities in the Electricity Supply Industry on the format, content, preparation and submission to the Energy Regulator of required information to enable NERSA to perform its functions. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation.
14. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department was instrumental in guiding and informing the setting-up of the classification requirements for the water and waste water functions municipalities provide. Important in the selection of accounts to be activated within the system application is the municipality’s readiness to comply with the DWS Reporting Requirements. DWS is the custodian of the Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation*.*
15. *Principle 14: Level of Detail -* Municipalities may add detail breakdown-levels in addition to that provided for in the chart of accounts at their discretion. However, adding detail needs to be carefully considered, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasury’s perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus will not be part of the string downloaded for upload by the National Treasury: Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest in.

Hence the table below explains the indicators used in the columns provided for in the mSCOA Tables:

|  |  |  |
| --- | --- | --- |
| **Indicator** | **Yes** | **No** |
| **Posting Level** | Defines the level of capturing the transaction. | Not a posting level, therefore follows the guidance for breakdown required and the principle as explained for detail to be added. |
| **Breakdown Required** | The municipality is required to define the level for capturing the transaction, expand the parent-child code structure and adopt the guide of the parent. | National Treasury is not interested in further detail, but the municipality may add detail at its own discretion. This will not be extracted for reporting to the National Treasury. |

1. *Principle 15: Applicability -* This column indicates the minimum requirements a municipality needs to comply with in the implementation of the Funding segment. If more information is needed than currently provided for, please consult with the mSCOA Technical Committee (through the mSCOA Frequently Asked Questions (FAQ) Database) to expand the existing segment detail to accommodate specific needs in this regard.
2. *Principle 16: Legislative Framework* - Sections 18 and 19 of the MFMA include specific provision for funding expenditure and spending of money on service delivery. The Funding segment therefore includes classifications to capture the budgetary, planning decisions and actual expenditure to extract information on the source of funding for capital and operational spending.
3. *Principle 17: Legislative Framework* - The National Division of Revenue Act determines that any allocations made in terms of Schedules 4, 5, 6, 7 or 8 of the Act may only be utilised for the purpose stipulated in the Schedule concerned. Specific responsibilities are placed on the receiving officer to monitor spending on allocations. The Funding segment assists in providing this information by linking the allocation received to a specific funding label and allocating the payments made relevant to the source of funding to the specific label. At any given time, the balance available in terms of funding and spending on a fund would be available.
4. *Principle 18: Budget Reporting Format* - The Budget Return Forms [[3]](#footnote-3)(SA 10 Funding Measurement) provide for schedules to illustrate funding compliance, initially undertaken as a self-assessment by municipalities as part of the budget development process. Non-achievement of the required standard of any of these indicators may require that aspects of the proposed budget be revised until full compliance is achieved. This schedule consists of 18 factors derived from information contained in the annual or budgeted statements of financial performance, financial position and cash flows covering the anticipated funding position of the municipality. The classifications in this Funding segment provides for actual funding received with actual operational and capital spending incurred by specific funding source taking into consideration the effect of revenue and expenditure accruals.
5. *Principle 19: Operational versus Capital* - Operational expenditure should ideally be funded from “operational funding” and not from “capital funding” in accordance with sound financial management principles.
6. *Principle 20: Special Rating Areas* - Property rates levied on “special rating areas” to be separately provided for within “revenue” to meet the accounting requirements provided for in Section 12 of the Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004). The posting-level detail to be populated by the municipalities.
7. *Principle 21: Equitable Share* - This account used with the account detail in the “item”, “function”, “regional” and “project” segments would thus give an indication of funding, spent, what it was spent on, and the ward/ area receiving the benefit.
8. *Principle 22: Allocations In-kind (Goods and Services In-kind)* - The Standard of GRAP 23 (Revenue from Non-Exchange Transactions) provides guidance on the recognition of services and goods given in-kind.
9. *Principle 23: Transfers and Subsidies [National Departments]* - The classifications provided for under this group of accounts are based on Schedules 4, 6 and 7 of the Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA). The content of this classification would therefore require annual updates based on the allocations published in the annual DoRA relevant to each reporting period.
10. *Principle 24: Transfers and Subsidies (Provincial Departments)* - The Local Government MTREF Allocations Information Sheet was used to design the categories proposed. This document does not provide the economic classification of the transfers and subsidies but only the name of the transfer and the transferring department. In some instances, the information provided on the information sheet differs from the DoRA for the Province, Provincial Appropriation Bills and Budget Statements. As an alternative, and to assist in comparability of information over time**,** a classification based on the purpose was included in mSCOA. The municipality is required to specify the name of the allocations as provided for in the respective DoRA and request the mSCOA Technical Committee to provide for the account in the classification.
11. *Principle 25: Transfers and Subsidies (District Municipalities)* - Limited information is available from the local government database thus the “functional classification” has been used for the purpose of classifying district transfers and subsidies to local municipalities in the absence of specific detail. Municipalities are required to specify the allocation by including the name in selecting the account from mSCOA and this might have to be revised on an annual basis. The municipality is required to specify the name of the allocations as provided for in the respective DORA and request the mSCOA Technical Committee to provide for the account in the classification.
12. *Principle 26: Transfers and Subsidies (Departmental Agencies, Foreign Government and International Organisations, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions and Parent Municipality)* - Limited information is available from the local government database**,** accordingly,” entities” added to these categories are based on the detail defined by the SCOA for Departments revised for municipalities. Requests for comments to municipalities following the “road shows” (preceding the release of the draft mSCOA Regulations) provided little input for the revision of the content of these categories (these categories comprised about 70 per cent of the detail populated in the Funding segment). The municipality would therefore be required to specify the name of the allocations as provided for in the respective DoRA and request the mSCOA Technical Committee to provide for the account in the classification if it is not provided for already in the existing categories.
13. *Principle 27: Account Number Structure –* The account structure comprises 13 levels of which the first level contains alphanumerical characters to identify the Funding segment. The levels thereafter are based on the reporting structure providing for codes to be created by the municipality for projects which will be the posting level. The prefix “FD” identifies the Funding segment.
14. *Principle 28: Reporting* - The Position Paper on Reporting defines the phased approached envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined in the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
15. *Principle 29: Purpose -* The intent with the Funding segment is to assist municipalities in the management of available funds to use in running the municipality (working capital), capital expanding, maintenance programmes and operational projects intended for the benefit of the community. **The underlying principle in recording of transactions in this segment is therefore cash based or funds available to utilise**. Further to this at any point in time the information contained in the mSCOA Tables in combination will be able to reconcile funds received and subsequent spending thereof. Best practice would further determine that in the absence of funding earmarked for a specific project, payment or transfer for this type of transaction(s) should be prohibited. The alternative to prohibiting is the existing practice of “internal borrowing” on a temporary basis from an alternative source of funding, for example utilising equitable share for paying salaries or bridging finance to complete a project in anticipation of transfers and subsidies payments.
16. *Principle 30: Whole of Government Reporting -* The Primary Objective set for the mSCOA project refers to the compilation of whole of government reporting information. National and Provincial Departments account and report at present on the modified cash basis. Municipalities are on the accrual basis of accounting. The information presented within the Funding segment in combination with the Item Segment facilitates the process of extracting local government information on a similar accounting basis than the National/ Provincial Government sphere.
17. *Principle 31: Transfers from Parent Municipalities* - Provision is made within the group of accounts for Transfers and Subsidies from Parent Municipality to Municipal Entities. At consolidation level these entries must be eliminated.
18. *Principle 32: Fund and Cash Backed Reserves* - Cash backed reserves provide for the utilisation of a specific funding source set aside for a specific purpose and used in terms of a policy position taken by a municipality and reflected as such within Funds and Reserves in the Item: Net Assets. Municipalities in need of such accounts need to provide the policy decision with the name of the fund and cash backing source to the mSCOA Technical Committee (through the mSCOA Frequently Asked Questions (FAQ) Database) to create these accounts in the next annual mSCOA release.
19. *Principle 33: Short and Long-Term Borrowing* – The classification structure for borrowing provides for a sub-group containing finance source information. Posting level accounts have been added with “GUIDs.” Provision is made for including detail at a breakdown level by changing the description of the account available in mSCOA for this purpose. These accounts do provide a” GUID” and the “uniqueness” defined in the Local Government Database and Reporting System (LGDRS) by the “municipal code, reporting period and GUID”. If more accounts are needed than provided for currently, a request in this regard needs to be made (through the mSCOA Frequently Asked Questions (FAQ) Database) to the mSCOA Technical Committee to provide for these in the next annual mSCOA release.

## Legislative and Regulatory Requirements

1. The research and development into the Funding segment, categories and detailed accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and are summarised in the table below. Furthermore, brief comments on any changes proposed to a circular or guideline (issued by the National Treasury) following the mSCOA Regulations, 2014 are included in the “Proposed Changes Column” of the table:

| Act, Regulations, Guideline or Circular | Section and Requirement | Impact on “Funding” Segment |
| --- | --- | --- |
| LEGISLATION |  |  |
| Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004) | Section 22(3)(c): Special Rating Areas – “must establish separate accounting and other record-keeping system ...” | Provided for a classification for **special rating areas** for municipalities to define and add projects based on unique requirements. |
| Municipal Finance Management Act, 2003 (Act No. 56 of 2003) | Section 18: Funding of Expenditure  Section 19: Capital Projects | **“Funding” segment** provides the link within the mSCOA Classification Structure to indicate the funding source applied, the specific expenditure incurred and what has been done within the funds as indicated by the respective project. |
| Section 20: Matters to be Prescribed - *Matters to be Prescribed - (1)b(iv) “uniform norms and standards concerning the setting of municipal tariffs, financial risks and other matters where a municipality uses a municipal entity or other external mechanism for the performance of a municipal service or other function”.* | Considered in the set-up of the mSCOA segments. |
| Section 21: Budget Preparation Process | **Integrated Development Plan** is the underlying principles applied in setting up the classification structure within this segment. |
| Section 30: Unspent Funds | **Information** retained in this segment to assist in managing spending of funds within the context of the approved budget. |
| Section 31: Shifting of Funds between Multi-Year Expenditure | The “Project” segment provides the information on the expenditure incurred within the reporting period compared to the budget allocated to the project. The **funding source** within the “Fund” segment will indicate the funds available for a specific project. |
| Section 45: Short-term Debt  Section 46: Long-term Debt  Section 47: Conditions applying to both Short and Long-term Debt | **Debt provided for in the “Funding” segment** and accordingly provides information on spending and the related project. |
| Section 62(1)(b): General Financial Management Functions | Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed **norms and standard –** The mSCOA Regulations provide for the “Project” segment as part of the mSCOA Classification. |
| Section 71: Monthly Reporting  Section 72: Mid-year Budget and Performance Assessment  Section 122: Preparation of Financial Statements | The basis for **reporting** on funding derived from the information contained in this segment. |
| Section 123: Disclosures on Intergovernmental and Other Allocations | The projects as defined within the Project segment together with the “funding” and “Item” segments provide information on how **funds have been spent** and on what. |
| Constitution of the Republic of South Africa, 1996 | Section 216: Treasury Control | This segment as provided for in the mSCOA Regulation contributes to the responsibility of National Treasury in prescribing measures to ensure both transparency and expenditure control in each sphere of government, by introducing **uniform expenditure classifications and treasury norms and standards**. |
| Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000) | Section 4: Rights and Duties of Municipal Council | Provided for “Taxes: Other Taxes (New Taxes) and Surcharges” within the “Fund” segment. |
| Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007) | Section 6(b)(ii): ...in respect of a specific purpose tax limit**,** the purpose for which the revenue derived may be utilised | The **specific source of funding** within the “Funding” segment links the revenue collected to specific projects earmarked. |
| REGULATION |  |  |
| Municipal Budget and Reporting Regulations, 2009 | Chapter 1, Part 3, Paragraph 10 Funding of Expenditure and Paragraph 11 Funding of Capital Expenditure  A5: Capex  SA 10: Funding Measurement | Reporting tables to be expanded. |
| CIRCULARS |  |  |
| Municipal Structures Act, 1998 (Act No. 117 of 1998) | None |  |
| MFMA Circular 74 – Municipal Budget Circular for 2015/16 MTREF | Local Government Conditional Grants and Additional Allocations | A new grant proposed to fund the anticipated administrative costs of municipalities in KwaZulu-Natal and Gauteng that will be affected by amalgamations after the 2016 local government elections.  Additions are proposed for the Regional Bulk Infrastructure Grant and Municipal Water Infrastructure Grant. These allocations are intended to allow government to accelerate the provision of clean water to households.  Changes proposed from the review of government infrastructure grants:   * Rationalising four grants administered by the Department of Water Affairs and Sanitation. *These grants have overlapping objectives – Municipal Water Infrastructure Grant, Water Service Operating Subsidy Grant, Rural Households Infrastructure Grant and Regional Bulk Infrastructure Grant.* * Merging the Public Infrastructure Grant and the Public Transport Network Operations Grant into a single grant that provides more flexibility to cities in choosing public transport solutions. |

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## Transactions by Business Process to be allocated in this Segment

1. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting it is a source document (from an activity within a business process) initiating the activity to flow through a defined business process ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
2. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the financial application.
3. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
4. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee (PSC) held during October 2010. This initial determination was confirmed by the PSC on 31 October 2016.

|  |  |  |
| --- | --- | --- |
| Transaction Type | Allocate Yes/ No | Comments |
| Net Assets | Yes | Transactions other than non-cash, and secondary cost allocations. |
| Assets | Yes |
| Liabilities | Yes |
| Revenue | Yes |
| Expenditure | Yes |

1. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

1. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of the mSCOA project, and might need to be enhanced as the consultation with the various stakeholder groups evolves.
2. Proposals identified at this stage of the development of mSCOA:
   * + - Fund to be linked at the budget/ planning stage to specific projects in the “Project” segment and items from the “Item” segment.
       - Logical links to prevent using capital funding sources for operational spending/ projects.
       - Link Fines, Penalties and Forfeits as well as Licenses and Permits to the related revenue accounts, functions, capital or operational projects and regional indicators.
       - The mSCOA Business Process link defines the specific transaction types by business process for classification within this segment, for example, billing for trading services versus actual cash-collections from trading services. Pending the completion of the specific details**,** categories need to be determined for these.
       - Link funding source accounts to the revenue accounts and specific transaction types, for example, correction to meter readings impact on billing, and **not** cash collected, and therefore need to be recorded in “Non-funding Transactions”.
       - The Costing segment and the specific transactions relating to the Funding segment need to be classified to the category “costing”.
       - Revenue accounts in the “Item” segment associated with “Revenue” in the “Funding” segment to be linked and considered by transaction types. Transaction types to be identified for linking to Non-Funding Transactions.
       - Allocation in-kind are not represented by “cash” but might be contributing to a specific project and thus be considered “funding”.
       - Setting-up posting-level accounts for:
         * *Borrowing Operational* – The account details by institution are set-up in the “Item” segment: Assets, liabilities and net assets specifically current and non-current liabilities. In adding/ changing these accounts the information needs to automatically update to the “Fund” segment. Version 6.1 provides for “specify” accounts for which the municipality needs to change the account description by including the account number or reference number to the product/ instrument.
         * *Cash-backed Reserves* – Current and non-current investments need to be set-up in the “Item” segment Assets, Liabilities and Net Assets specifically current and non-current assets. In adding/ changing these accounts the information needs to automatically update to the “Fund” segment.

## Discussion of the Funding Segment

### Operational

1. Operational funding implies sources available for utilisation towards operational projects. Operational or funding from internal sources to contribute towards “capital projects” is provided for as a movement from “operational” to “capital” funding sources. The account available for this purpose in the “capital sources” is “*transfer from operational sources*”:
2. Operational funding sources consist of “Revenue, Transfers and Subsidies, Borrowing and Cash Backed Reserves”.

**Definitions:**

**Revenue -** are those sources of funding for general use to execute the functions and powers allocated to the municipality. This category includes Major Tariff Services, Fines, Penalties and Forfeits, Taxes, Returns on Investments (interest and dividends) and Equitable Share. Less material services rendered, administrative, registration fees, sale of assets also falls within this category.

**Transfers and Subsidies -** This category provides for all unrequited, voluntary receipts from other parties. Thus, an entry should be made under this item when the municipality does not provide anything of similar value directly in return for the transfer from the other party and the transfer is voluntary. {GRAP 23: Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.} This group of accounts provide for "operational and capital transfers and subsidies" received "in-kind or in monetary value".

**Borrowing -** Short term debt raised in accordance with MFMA Section 46 and to be used for capital expenditure on property, plant and equipment.

**Cash Backed Reserves** - Use of funds set-aside in a dedicated bank account for the replacement of assets, maintenance of assets, replace asset from the self-insurance reserve or funding claims from the COID[[4]](#footnote-4)-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

#### Revenue

1. At the highest-level this group of accounts consists of General Revenue and Commercial Services.

**Definitions:**

**General Revenue** - is revenue of a general nature without any specific conditions directing the use of the funds.

**Commercial Services** - are separately identified as these services either need to meet "break-even points" or make a surplus and should not be cross-subsidised by tariff services, equitable share, grants or contributions, such as Fresh Produce Markets, Abattoirs, etc.

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#### General Revenue

1. General revenue implies that the legislative framework does not impose any restrictions on the application of funds generated from general revenue sources.
2. Revenue as per definition provides for revenue of a general nature to be utilised as indicated by the approved budget for operational spending, transfer to reserves for future funding purposes**,** or for capital projects.
3. The principles as discussed above are maintained within the structure outlined for general revenue. Decisions regarding the application of funds need to be taken at the budget planning stage within the accountability cycle. By making use of category links and business rules within the application system, these links need to be built according to the decisions taken and captured in the budget reporting tables.
4. The group of accounts for General Revenue includes the posting level accounts as depicted in the diagram below.
5. In illustrating the above consideration, funds generated from the disposal of property, plant and equipment or rental of facilities and equipment, may in terms of a municipal policy be taken to the cash backed reserve for capital asset replacement. If this is the case, then this source of funding needs be linked to the cash backed reserve within the “Item” segment and the application restricted.
6. Penalties and Forfeits, Licences and Permits and rental of facilities and equipment provides for posting level accounts for this source of funding. Typically, at the budget and planning stage within the accountability process, decisions need to be taken by management on the application of these sources of funding. Category Links and Business Rules may be used to assist in the recording of this transaction**,** automatically linking this source of funds to the respective revenue accounts, functions, capital or operational projects and regional indicators.
7. In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions. The local government equitable share is an unconditional transfer that supplements the revenue that municipalities can raise themselves (including property rates and service charges). The equitable share provides funding for municipalities to deliver free basic service to poor households and subsidises the cost of administration and other core services for those municipalities that have the least potential to cover these costs from their own revenues.
8. Before 2006, district municipalities raised levies on local businesses through a Regional Services Council (RSC) or JSB levy. This source of revenue was replaced in 2006/07 with the *RSC/ JSB levies replacement grant,* which was allocated to all district and metropolitan municipalities based on the amounts they had previously collected through the levies (the *RSC/ JSB levies replacement grant* for metropolitan municipalities has since been replaced by the sharing of the general fuel levy). The grant’s value increases every year. In 2016/17, the grant increased by 8.5 per cent a year for district municipalities authorised for water and sanitation and 2.8 per cent for unauthorised district municipalities. The different rates recognise the various service delivery responsibilities of these district municipalities.
9. Municipal Services provides posting-level accounts for the four main trading services being electricity, water, waste and waste water. Further to this is a posting level account providing for the less material tariff services.
10. Sound financial management practice makes it prudent to determine the effectiveness of providing services, by linking revenue and expenditure through the “Fund” and “Function” segments in order to determine adequate recovery of cost for the main trading services. Further linking equitable share to the cost of providing free basic services provides an indication of recovering this cost through the equitable share and ensuring that the funds made available for basic service to the poor are utilised for this purpose.
11. Information classified according to the source of funds outlined in this Funding segment supplemented by the “item”, “function” and “costing” segments provides valuable management information; as an example, for the electricity function**,** revenue generated, and expenditure incurred, allocated assets, liabilities and net assets**,** to give a financial position and performance view on a municipal function. Further to this, from a costing perspective, information is obtained to ascertain if the tariffs are cost reflective, by resulting in a surplus or at least break-even.
12. The group of accounts for taxes provides for “property rates” with a separate account for special rating areas.
13. The Local Government Municipal Property Rates, 2004 (Act No. 6 of 2004) determines that a municipality may**,** by resolution of its council**,** determine an area within that municipality as a special rating area, levy an additional or lower rate on property in that area for the purpose of raising funds for improving or upgrading that area or to serve a socio-economic need; and differentiates between categories of properties when levying an additional or rebated rate.
14. Conditional and directed by sub-section (3)(c) is that when the municipality determines a special rating area the municipality must establish separate accounting and other record-keeping systems regarding the revenue generated by the additional rate and the improvement and upgrading of the area. Furthermore, that a committee may be established as an advisory and consultative forum for the improvement and upgrading of the area and must be a sub-committee of the ward committee in the area.
15. The “special rating area” category thus assists the accounting mechanism within mSCOA to be able to record and report on the funding generated for a specific rating area, the spending incurred, and the actual activity recorded within the project segment thereby achieving compliance to the legislative requirement.
16. The posting-level account needs to be created for each special rating area within the municipal boundaries and are determined based on council resolution. Accordingly, this account would allow for this detail to be populated by the municipality.
17. Other Taxes and Surcharges provides for funds generated from the collection of taxes instituted in terms of the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007). Requests for specific accounts in this regard need to be submitted to the mSCOA Technical Committee for adding posting level accounts in this regard, via the Frequently Asked Questions (FAQ) Database.

#### Commercial Services

1. Commercial services need to recover the full cost of the service (breakeven point), or make a surplus without being cross-subsidised from other “tariff services”, or services for example property rates, fresh produce markets, abattoirs, urban transport, botanical gardens, etc.
2. Providing for “commercial services” within this Funding segment, together with the “Function” segment provides the classification for recoding transactions to be able to extract information on financial performance, and the financial position of the specific service.
3. Provided for in mSCOA are:
   * + - Abattoirs
       - Airports
       - City Parks, Reserves and Gardens
       - Civic and Open-Air Theatres
       - Convention Centers
       - Development Agencies
       - Fresh Produce Markets
       - Property Agencies
       - Quarries
       - Sand Mining
       - Tourism
       - Urban Transport
       - Zoo’s and Museums
4. Municipalities requiring classifications in addition to those provided for in mSCOA need to follow the process (through the Frequently Asked Questions (FAQ) Database) for requesting changes.

#### Transfers and Subsidies

**Definitions:**

**Transfers and Subsidies -** The definition contained in the Standard of GRAP 23 on Non-Exchange Revenue for “transfers” explains that: “transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind.

All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxed as defined in the Standards of GRAP.

The mSCOA segment depicting “transfers and subsidies” is defined based on the definitions and principles of this standard.

1. The mSCOA classification framework thus provides for the classification of in-kind services found on the principle that “substantial transfers” are made between the various spheres of government and not recognising these may substantially misrepresent the actual value involved.
2. The common argument raised on the qualitative performance of government entities in providing services is not sufficient reason not to recognise the value exchanged in contributions to the municipality in service delivery to the community.
3. The diagram below provides an overview of the classifications provided for within this group of accounts:

**Definitions:**

***Operational -*** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

***Allocations In-kind -*** This group of accounts provides for funds received from "transfers and subsidies" for operational purposes "in-kind".

* Departmental Agencies and Accounts: Operational funds received "in-kind" from departmental agencies and accounts.
* District Municipalities: Operational funds received "in-kind" from district municipalities.
* Foreign Government and International Organisations: Operational funds received "in-kind" from foreign government and international organisations.
* Households: Operational funds received "in-kind" from households.
* National Departments: Operational funds received "in-kind" from national departments.
* Non-profit Institutions: Operational funds received "in-kind" from non-profit institutions.
* Private Enterprises: Operational funds received "in-kind" from private enterprises.
* Provincial Departments: Operational funds received "in-kind" from provincial departments.
* Public Corporations: Operational funds received "in-kind" from public corporations.
* Higher Educational Institutions: Operational funds received "in-kind" from higher educational institutions.
* Parent Municipality: Operational funds received “in-kind” by a municipal entity from the “parent municipality”.

***Monetary Allocations -*** This group of accounts provides for funds received from "transfers and subsidies" for operational purposes in "monetary value".

* Departmental Agencies and Accounts: Operational funds received (monetary value) from departmental agencies and accounts.
* District Municipalities: Operational funds received (monetary value) from district municipalities.
* Foreign Government and International Organisations: Operational funds received (monetary value) from foreign government and international organisations.
* Households: Operational funds received (monetary value) from households.
* National Departments: Operational funds received (monetary value) from national departments.
* National Revenue Fund: Operational funds received (monetary value) from the national revenue fund.
* Non-profit Institutions: Operational funds received (monetary value) from non-profit institutions.
* Private Enterprises: Operational funds received (monetary value) from private enterprises.
* Provincial Departments: Operational funds received (monetary value) from provincial government.
* Public Corporations: Operational funds received (monetary value) from public corporations.
* Higher Educational Institutions: Operational funds received (monetary value) from universities.
* Parent Municipality: Operational funds received (monetary value) by a municipal entity from the “parent municipality”.

1. The detail for Departmental Agencies and Accounts are included as provided for in the SCOA for Departments, as little information relevant to municipalities are available.
2. Transfers and Subsidies received from District Municipalities are classified according to accounts set-up and based on “functions”. These are non-posting level accounts within which “posting-level” accounts need to be set-up as informed by the District Municipalities. The functions defined for this group are:
   * + - Community and Social Services
       - Environmental Protection
       - Executive and Council
       - Finance and Administration
       - Health
       - Housing
       - Planning and Development
       - Public Safety
       - Road Transport
       - Sport and Recreation
       - Waste Water Management
       - Water
3. The detail for Foreign Government and International Organisations are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
4. The detail for Households are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
5. National Departmental transfers received are as determined on an annual basis in the DoRA[[5]](#footnote-5). The classification provided might therefore change on an annual basis and should be revised accordingly.
6. The detail for Non-profit Institutions are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
7. The detail for Private Enterprises are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
8. Provincial Departmental allocations are categorised according to the purpose of the allocation being:
   * + - Health
       - Public Transport
       - Housing
       - Sports and Recreation
       - Disaster and Emergency Services
       - Libraries, Archives and Museums
       - Maintenance of Road Infrastructure
       - Maintenance of Water Supply Infrastructure
       - Maintenance of Waste Water Infrastructure
       - Capacity Building
9. These will be listed as defined in the Provincial equivalent of the annual Division of Revenue Act (DoRA), or updated according to information provided by the Provincial Treasurers for this purpose to inform the posting-level detail.
10. The detail for Public Corporations are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Data-Base.
11. The detail for Higher Educational Institutions are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
12. Contributed assets need to be recorded as “allocations-in-kind” according to the entity making the transfer.

#### Borrowings

**Definition:**

**Borrowings -** This group of accounts provides for short term, temporary or bridging finance used for operational purposes and not financing of capital expenditure.

1. At the highest-level borrowing provides for a distinction based on financial institution information as required in terms of the National Treasury Monthly Return Form “BM External Debt Created, Repaid, Redeemed and Expected Borrowing”:
2. The next level which is a non-posting level, provides for the following classifications (except for the financial instruments listed above marked with “\*”):
   * + - General Public
       - Banks: ABSA/ FNB/ Nedbank/ RMB/ Standard Bank/ Unspecified
       - Development Bank of South Africa
       - Infrastructure Finance Corporation
       - Public Investment Commissioners
       - Municipal Pension Funds
       - Other Public Pension Funds
       - Public Corporation
       - Private Enterprises
       - Foreign Government and International Organisations
3. The posting level within the above classification is defined by an account with description “specify”. The municipality needs to change the account description by including the account number or reference number for a specific instrument. The account set-up should align with the Current Borrowing Section in the Item: Liabilities segment.

#### Cash-backed Reserves

1. Using of funds set-aside in a dedicated bank account or investment vehicle for the replacement of assets, maintenance of assets, replacing assets from the self-insurance reserve, or funding claims from the COID[[6]](#footnote-6)-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

### Capital

#### Transfers from Operational Revenue

1. This account provides for “operational funds/ internally generated funds/ own sources” utilised towards capital projects. This account is at a posting level. Funds are moved from the respective sources within “operational sources” to this account in “capital sources”.

#### Transfers and Subsidies

1. This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

**Definition:**

***Capital:*** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

***Allocations In-kind:*** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes "in-kind".

* Departmental Agencies and Accounts: Capital funds received "in-kind" from departmental agencies and accounts.
* District Municipalities: Capital funds received "in-kind" from district municipalities.
* Foreign Government and International Organisations: Capital funds received "in-kind" from foreign government and international organisations.
* Households: Capital funds received "in-kind" from households.
* National Departments: Capital funds received "in-kind" from national departments.
* Non-profit Institutions: Capital funds received "in-kind" from non-profit institutions
* Private Enterprises: Capital funds received "in-kind" from private enterprises.
* Provincial Departments: Capital funds received "in-kind" from provincial departments.
* Public Corporations: Capital funds received "in-kind" from public corporations.
* Higher Educational Institutions: Capital funds received "in-kind" from higher educational institutions.

***Monetary Allocations*:** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes in "monetary value".

* Departmental Agencies and Accounts: Capital funds received (monetary value) from departmental agencies and accounts.
* District Municipalities: Capital funds received (monetary value) from district municipalities.
* Foreign Government and International Organisations: Capital funds received (monetary value) from foreign government and international organisations.
* Households: Capital funds received (monetary value) from households.
* National Departments: Capital funds received (monetary value) from national departments.
* Non-profit Institutions: Capital funds received (monetary value) from non-profit institutions.
* Private Enterprises: Capital funds received (monetary value) from private enterprises.
* Provincial Departments: Capital funds received (monetary value) from provincial departments.
* Public Corporations: Capital funds received (monetary value) from public corporations.
* Higher Educational Institutions: Capital funds received (monetary value) from higher educational institutions.

#### Borrowings

**Definition:**

**Borrowings -** Long term debt raised in accordance with MFMA Section 46 to be used for capital expenditure on property, plant and equipment.

1. At the highest-level borrowing provides for a distinction based on financial institution information as required in terms of the National Treasury Monthly Return Form BM External Debt Created, Repaid, Redeemed and Expected Borrowing.
2. The next level, which is a non-posting level, provides for the following classifications (except for the financial instruments listed above marked with “\*”):
   * + - General Public
       - Banks: ABSA/ FNB/ Nedbank / RMB/ Standard Bank/ Unspecified
       - Development Bank of South Africa
       - Infrastructure Finance Corporation
       - Public Investment Commissioners
       - Municipal Pension Funds
       - Other Public Pension Funds
       - Public Corporation
       - Private Enterprises
       - Foreign Government and International Organisations
3. The posting level within the above classification is defined by an account with description “specify”. The municipality need to change the account description by including the account number or reference number for the specific instrument. The account set-up should align with the Current Borrowing Section in the Item: Liabilities segment.

### Non-funding Transactions

1. This account is to be used for the recording of transactions for which specific provision has not been made in terms of the classification structure for the Funding segment, for example transfer of funds from the municipality’s primary bank account to a “dedicated bank account” for the replacement of capital assets.

## Preparation for mSCOA Implementation

1. Bringing about effective conversion to an mSCOA compliant chart of accounts from the municipality’s perspective is vital in achieving success.
2. The system developers responsible for applications used by municipalities are responsible for developing software driven by business processes and subject to customisation based on the unique requirements of client municipalities with one of the primary objectives of assisting municipalities in achieving compliance with the mSCOA classification framework. However, National Treasury does recognise the complexities inherent to the implementation of the mSCOA requirements.
3. The following is important in preparing for the implementation of the requirements provided for in this Funding segment:
4. **Step 1:** Link the general revenue funds (earmarked in terms of municipal policies) for funding the capital replacement reserve or any other specific projects.
5. **Step 2:** Link municipal services within the fund to the specific revenue sources within the “Item” segment, link expenditure accounts within the “Item” segment to the respective functions and the projects as defined in the “Project” segment to the funding source.
6. **Step 3:** Define the posting-level detail required for special rating areas and provide to the mSCOA Technical Committee to define the detail in the mSCOA Funds Table.
7. **Step 4:** Define the posting-level detail required for taxes and surcharges and provide to the mSCOA Technical Committee to define the detail in the mSCOA Funds Table.
8. **Step 5:** Consider if any other services need to be added specific to the municipality in the category “commercial service”. Link as many as possible accounts within the segments to this classification.
9. **Step 6:** Consider the posting level detail provided for in the classifications for departmental agencies and accounts, foreign government and international organisations, households, non-profit institutions, private enterprises, public corporations and universities for completeness. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The identified accounts determine the selection specific to the municipality for this group of accounts within the “Funding” segment.
10. **Step 7:** Consider the transfers and subsidies from provincial departments available from the segment detail. If any accounts are not available, please inform the Provincial Treasury to escalate the request to the mSCOA Technical Committee for consideration. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The accounts identified determine the selection specific to the municipality for this group of accounts within the Fund segment. Link these ***“***funding source(s)**”** to the specific projects defined, to simplify the recording of transactions.
11. **Step 8:** Consider the transfers and subsidies from district municipalities from the segment detail. If any accounts are not available, please inform the Provincial Treasury to escalate the request to the mSCOA Technical Committee for consideration. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The accounts identified thus determine the selection specific to the municipality for this group of accounts within the Funding segment. Link these funding sources to the specific defined projects, to simplify the recording of transactions.
12. **Step 9:** Consider the detail to be added for the group of accounts dealing with borrowings with the similar detail required for the “Item” segment: Assets, Liabilities and Net Assets. Set-up the specific account detail in the “fund” segment simultaneously populating the detail in the “Item” segment. The accounts identified thus determine the selection specific to the municipality for this group of accounts within the “Funding” segment. Link these **“**funding source(s)**”** to the specific projects defined, to simplify the recording of transactions.
13. **Step 10:** Set-up the account details for “cash-backed reserves” within this group of accounts simultaneously with the similar detail from the “Item” segment: Assets, Liabilities and Net Assets. The accounts identified thus determine the selection specific to the municipality for this group of accounts within the “Funding” segment. Link these **“**funding source(s)**”** to the specific projects defined, to simplify the recording of transactions.
14. Provide specific guidance in the municipalities planning and budgeting guidelines on the utilisation of specific funding source(s) within the context of the municipalities planning and project selections.

## 

## Annual Maintenance and Matters Pending

### Annual Maintenance

1. Allocations for Transfers and Subsidies as per the annual Division of Revenue Act (DoRA) for National and Provincial Government may require annual update/ revision.
2. Posting level accounts for Transfers and Subsidies for provincial government and district municipalities will need to be added as identified and requested by municipalities.

### Matters Pending

1. There are posting level accounts that could not be populated for all provincial governments and district municipalities due to information not forthcoming, despite ample requests for the information.

1. The Service Delivery- and Budget Implementation Plan (SDBIP). [↑](#footnote-ref-1)
2. Compliance to the Standard of GRAP in terms of presentation to be confirmed through Project Phase 2 described in the Position Paper on Reporting. [↑](#footnote-ref-2)
3. The Municipal Budget and Reporting Regulations, 2009. [↑](#footnote-ref-3)
4. Compensation for Occupational Injuries and Diseases (COID). [↑](#footnote-ref-4)
5. The annual Division of Revenue Act (DoRA). [↑](#footnote-ref-5)
6. Compensation for Occupational Injuries and Diseases (COID). [↑](#footnote-ref-6)