Western Cape Government
Provincial Treasury

Henri du Toit
Accounting Services Provincial Government
Email: Henri.DuToit@pgwc.gov.za
tel: +27 021 483-3023

File Reference: T7/2/1
Enquiries: Henri du Toit

TREASURY CIRCULAR NO. 25/2012

THE PREMIER

THE MINISTER OF AGRICULTURE AND RURAL DEVELOPMENT
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE, ECONOMIC DEVELOPMENT AND TOURISM
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

For information

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R HINDLEY)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (DR GA LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MS P VINJEVOLD)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KC HOUSEHAM)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR M RICHARDSON)
THE ACCOUNTING OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR M TSHANGANA)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR J FOURIE)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (DR H FAST)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR D BASSON)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS N PETERSEN)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)
THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)
THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR JO SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR F DE WET)
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR AA GAFFOOR)
THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR CR ISMAY)
THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)

THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MR R BENNIT) (ACTING)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (MS M MOROKA)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR N FLAATTEN)
THE CHIEF EXECUTIVE OFFICER: CAPE TOWN ROUTES UNLIMITED (DMO) (MR C GILFELLAN)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE CULTURAL COMMISSION (MS J MOLELEKI)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE LANGUAGE COMMISSION (MS J MOLELEKI)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE HERITAGE COMMISSION (MS J MOLELEKI)
THE CHIEF EXECUTIVE OFFICER: CASIDRA (MS T MLONYENI) (ACTING)
THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE LIQUOR BOARD (MR S FOURIE)

THE CHIEF FINANCIAL OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MR P ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (MR A PRESTSON)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR I BLACKIE)
THE CHIEF FINANCIAL OFFICER: CAPE TOWN ROUTES UNLIMITED (DMO) (MR H BONESCHANS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE CULTURAL COMMISSION (MS B RUTGERS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE LANGUAGE COMMISSION (MS B RUTGERS)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HERITAGE COMMISSION (MS B RUTGERS)

THE CHIEF FINANCIAL OFFICER: CASIDRA (MR F VAN ZYL)
THE CHIEF FINANCIAL OFFICER: WESTERN CAPE LIQUOR BOARD (MS M ABRAHAMS)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (VACANT)
THE HEAD: PUBLIC POLICY SERVICES (MR A PHILLIPS)
THE HEAD: PUBLIC FINANCE (MR H MALILA) (PRO TEM)
THE HEAD: LOCAL GOVERNMENT FINANCE (MR TC ARENDSE)
THE HEAD: FINANCIAL GOVERNANCE (MR A HARDIEN)
THE HEAD: ASSET MANAGEMENT (MR I SMITH)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE SENIOR MANAGER: ACCOUNTING SERVICES: PROVINCIAL GOVERNMENT (MR A REDDY)
THE SENIOR MANAGER: ACCOUNTING SERVICES: LOCAL GOVERNMENT (MS L NGXONONO)
THE SENIOR MANAGER: CORPORATE GOVERNANCE (MR B VINK)
THE SENIOR MANAGER: BUDGET MANAGEMENT: PROVINCIAL GOVERNMENT (MS M SHERATON-KORSTEN)
THE SENIOR MANAGER: BUDGET MANAGEMENT: LOCAL GOVERNMENT (MR ML BOOYSEN)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (MS A PICK)
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (GROUP ONE) (MR F SABBAT)
THE SENIOR MANAGER: LOCAL GOVERNMENT FINANCE (GROUP TWO) (MR M SIGABI)
THE SENIOR MANAGER: PUBLIC FINANCE POLICY RESEARCH AND MODELLING (MS C HORTON)
THE SENIOR MANAGER: IMMOVEABLE ASSET MANAGEMENT (MR NB LANGENHOVEN)
THE SENIOR MANAGER: MOVEABLE ASSET MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (MS T EVANS)

THE PROVINCIAL AUDITOR

THE NATIONAL ACCOUNTANT-GENERAL (MR F NOMVALO)
THE NATIONAL TREASURYBUDGET OFFICE (MR K BROWN)

MASTER RECORDS OFFICIAL: FINANCIAL MANAGEMENT

ANNUAL FINANCIAL STATEMENTS 2011/12: REQUIREMENTS FOR THE ACCOUNTING AND DISCLOSURE OF "PERMANENTLY ALLOCATED" GOVERNMENT VEHICLES

PURPOSE

1. The purpose of this circular is to inform Accounting Officers (AOs), Accounting Authorities, Chief Financial Officers (CFOs) and the Provincial Parliament of the following:

1.1 This Circular retracts Provincial Treasury (PT) Circular 30/2011 dated 29 June 2011 and Circular 23/2012 dated 14 May 2012.

1.2 Clarity is provided in this Circular on the accounting principles and the conclusion reached that GG vehicle expenditure should not be treated as a finance lease.

1.3 At the Public Sector Accounting Forum meeting held on 17 April 2012, Provincial Treasury presented its case regarding the GG Motor vehicles, and was informed by both National Treasury and the Accounting Standards Board (ASB), that if the PT has followed the accounting standards, then they should not have a problem with the accounting treatment of GG Vehicles.

1.4 PT, following the relevant accounting standards, came to the conclusion that GG vehicle expenditure does not constitute a lease.

1.5 PT has also obtained legal counsel, which supports that the GG Vehicle transactions are not subject to leases, in substance or in form. It therefore follows that:

1.6 All "permanently allocated" vehicles of departments and entities must be accounted for in their own asset register;

1.7 All expenditure relating to GMT invoices (daily and kilometre tariffs) must be accounted for as travel and subsistence expenditure in departments;

1.8 That expenditure relating to daily tariffs must be disclosed as prepayments in the accounting records of departments and provincial parliament, and accounted for as prepayments in the accounting records of entities; and

1.9 That an additional disclosure note for prepayments will be required for the daily tariffs which will be provided by Provincial Treasury.

1.10 Please note that PT will be providing all departments and entities with the relevant disclosures (including the amounts that need to be disclosed).

BACKGROUND

2. **Definitions used in this circular:**

"Permanently allocated vehicles" – these are vehicles which have originally been paid for out of the departmental appropriations.

"daily tariff" – an amount paid for the replacement of a future vehicle.

"kilometer tariff" – an amount paid for the normal operating costs associated with a vehicle include repairs, maintenance, fuel etc.

3. The following standards and guiding documents were used:

- The Departmental reporting framework
- Framework for the basis of preparation of annual financial statements
- GRAP 23: Revenue from non-exchange transactions
- GRAP 13: leases
- GRAP 9: Revenue from exchange transactions
- Guidance documents for Principle/Agency relationships

4. In analysing the transactions, PT identified at least a few different transactions, which was looked at individually, and unpacked in this circular.

5. **Transaction No 1**: Acquisition of first motor vehicle where there is a transfer of money from the user department to GMT to purchase a vehicle.

5.1 Treasury has looked at this from a GRAP 23 perspective – it considered whether this is revenue from non-exchange transactions, and has concluded that it is not. In terms of GRAP 23, this only becomes applicable if the receiving entity receives something for no or nominal consideration. In GMT's case, GMT receives money with an obligation to provide a vehicle of equal or similar value. If GMT does not provide the vehicle, then the money has to be returned to the user department/entity.

5.2 Treasury has considered this in terms of the **revenue definition:**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

5.3 From the above definition, the funds given to GMT is not considered revenue, as the asset equals the obligation, and there is thus no increase in net assets. Consequently, GMT cannot account for these funds as revenue.

5.4 At most, it is a financial asset for the cash received and an equal obligation to supply the vehicle. When the vehicle is provided to the department/entity, this obligation is settled.

6. **Transaction No 2** - The management of the vehicle in terms of daily and kilometer tariff.

6.1 In PT's view, this arrangement is a principle/agent relationship. GMT is the agent, and the user departments/entities are the principals.

<u>Rationale for this conclusion:</u>

Treasury has again considered the framework:

Definition of **an asset:**

"An asset is a resource controlled by the entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity."

6.2 Control is the essential element – not ownership. The asset acquired does not belong to GMT, but to the user department, and it is submitted that the vehicle is only registered in GMT's name to ensure efficiency of the administration. Registration in the name of GMT does not give GMT control over the vehicle; it may give it legal title, but as indicated, ownership is not a requirement for an asset to be accounted for in an entity's accounting records.

6.3 The motor vehicle is controlled by the user department – the user department can restrict and control access to the motor vehicle, and therefore the asset is that of a user department, and should be accounted for in the department/entity's accounting records.

Why this arrangement is not considered to be a lease

6.4 In general terms, a lease is taking one entity's asset, used by another entity, for which the user entity pays an agreed amount over a specified period.

Per definition of GRAP 13

6.5 A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

6.6 In the case of GMT, whilst there is a service level agreement (SLA) to determine the respective responsibility of GMT and the responsibility of a user department, it is submitted that this is not a lease contract, both in substance and in legal form. PT submits that the interpretation of the SLA is not broad enough to bring it into the ambit of a "lease agreement".

6.7 There is no lease term attached to the SLA. GMT management has confirmed that a user department can withdraw immediately from the management service, should they wish to do so, without any repercussions. Without a lease term, or an asset, there can be no lease.

6.8 The argument of whether this arrangement is a finance or an operating lease is thus irrelevant.

The next argument that has been raised is that the daily tariff is payment for the capital portion of a future vehicle

6.9 PT is in agreement that the daily tariff is for a future vehicle. PT submits that the daily tariff is the piecemeal payment of funds, much like a savings account, for the replacement of a future motor vehicle – the daily tariff is thus more closely linked to a pre-payment.

6.10 The original vehicle was fully paid for by a department/entity; the daily tariff is there to ensure a replacement vehicle is supplied. When the first vehicle is fully used up, the department will be entitled to a replacement vehicle.

Possible reasons supplied for this kind of arrangement

6.11 When a department submits its budget, funds are appropriated in terms of the budgetary requirements. In the current daily tariff arrangement, funds are appropriated annually to ensure that an entity not only has a healthy fleet, but will also ensure that the fleet will be adequately maintained with replacements, without the balloon appropriations in any given year. If parliament had to appropriate the full vehicle capital amount in one year, then after every five years (being the average replacement time) one would see a significant injection of cash, muting year on year comparatives. This is not the intention of the framework as one of the qualitative characteristics is comparability amongst entities per year, and per industry.

Considered against the definition of a liability

6.12 A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

6.13 GMT has a liability in respect of the daily tariffs paid to and collected by GMT against each motor vehicle. Should a user department withdraw its motor vehicles from GMT's management service, the user department would be entitled to the full amount paid, since day 1, in respect of the daily tariffs.

6.14 The department does not have a liability beyond the monthly invoice received from GMT. Consequently, a liability cannot be raised for future payments, which would be the case if this was accounted for as a finance lease.

6.15 The daily tariff is therefore an asset in the user department's accounting records, in the form of a prepayment.

6.16 The Western Cape has further obtained legal counsel on the service level agreements, and the guidance from the legal advisors is that the SLA is not a lease contract.

CONCLUSION

7. Based on the above explanations, PT has determined that the arrangement between GMT and the user departments/entities is not a lease, whether in substance or in form. It is a Principle – Agent relationship.

8. PT has further determined that the Property Plant and Equipment, consequential asset (prepayment) and expenditure of each entity needs to be accounted for in their own accounting records. GMT should only account for the Agency income, and transactions pertaining to its own fleet or pool vehicles which will be explained in a separate directive to GMT.

9. **The point of departure with the auditors' viewpoint:**

The auditors have determined that the arrangement constitutes a lease using the following arguments from GRAP 13, specifically paragraph 13:

GRAP 13.13 - Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

a. the lease transfers ownership of the asset to the lessee by the end of the lease term;

b. the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

c. **<u>the lease term is for the major part of the economic life of the asset even if title is not transferred;</u>**

d. **<u>at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;</u>**

e. the leased assets are of a such a specialised nature that only the lessee can use them without major modifications; and

f. the leased assets cannot easily be replaced by another asset.

The auditors use paragraph **13(c)** and **13(d)** in determining that the GMT vehicles are subject to a lease.

10. PT's counter-argument is that this is not a lease as PT has considered the basis of preparation in terms of the GRAP framework, and the Departmental Reporting Guide to reach its conclusion.

11. In addressing 13(c), it is difficult to determine the economic life of a vehicle – when GMT replaces motor vehicles (say after 5 years), those motor vehicles enter a second hand market, which could make the economic life of an asset in excess of 10 or 20 years, judging by the huge SA second hand car market. The requirement in GRAP 13 – 13.c – concerns the economic life.

12. In addressing 13(d), one cannot calculate minimum lease payments if you do not have a lease term. It is PT's understanding that a department can withdraw immediately from GMT, without repercussions – if a department cannot be held liable, then one is not able to determine minimum lease payments. In terms of

GRAP 13, minimum lease payments are the payments over the lease term that the lessee is or can be required to make.

13. **The above technical opinion was provided to Accounting Standards Board and National Treasury:Office of the Accountant-General, including the following notes:**

13.1 Government Motor Transport was transferred to the Provinces in terms of Public Service Act (Section D.IV of the Public Service Staff Code) to provide a fleet management service in the public sector. It charges a management fee which is based on the tariff structure approved by Provincial Treasury. The fee structure is designed to cover the administrative costs and the future replacement of the vehicles, without the need to appropriate additional funding for replacement vehicles.

13.2 These are the normal trading transactions of GMT – fleet management services. Departments and public entities either buy and allow GMT to register the vehicle in GMT's name or give money to GMT to purchase vehicles on the department's behalf, using a National RT3 contract. The vehicles are registered in GMT's name to facilitate the administration of fines, accidents and claims.

13.3 Some clients also use GMT's services without registering the vehicles in the name of GMT. However, for all entities there is a service level agreement entered into between GMT and its clients, detailing the responsibilities of all parties involved.

13.4 Of relevance in the description of services is that GMT will:

- Supply the vehicle fleet management services (This includes all related repairs, maintenance, insurance, tracking and security);
- Procure vehicles via the transversal State Contracts and/or other Provincial Contracts and make available such vehicles to the Client; and
- Replace vehicles after the completion of the respective economic life cycle of the vehicles.

13.5 The clients pay a fixed daily tariff for the replacement of a future vehicle (much like a savings account, until there is enough funding for a replacement) and a variable km tariff for mileage, which is dependent on the number of kilometres travelled per motor vehicle.

13.6 This is a Principal – Agent arrangement between departments and GMT.

13.7 After consultation with the Accounting Standards Board and National Treasury on the Technical Guidance submitted by the PT, it was concluded that the GG vehicles arrangement in the Western Cape does not constitute a lease.

13.8 As this matter is treated differently in every province, National Treasury is in the process of understanding the various agreements to provide general guidance on the issue of GG vehicles.

13.9 Further consultation took place with the Auditor–General of South Africa (AGSA) on 4 and 9 May 2012. The AGSA is awaiting a technical opinion from their technical division which will only be provided after National Treasury has completed their study.

13.10 In view of the aforementioned all Departments, Provincial Parliament and Entities must reflect "Permanently allocated" GG vehicles in their asset registers.

13.11 In terms of the National Treasury Regulation 15.0.1.2 (c) and PTI 8.7.1 prepayments should be avoided. However, this is an internal arrangement between the departments, the Provincial Parliament, entities and GMT that requires an internal prepayment to facilitate better governance.

13.12 For Departments, a Provincial Treasury procured service provider will provide the accounting treatment required to account for GG vehicles in terms of the Departmental Financial Reporting Framework Guide.

13.13 For Entities, a Provincial Treasury procured service provider will provide the accounting treatment required to account for GG vehicles in terms of the GRAP 17.

ACCOUNTING PRINCIPLES

14. Provincial Treasury determines that the following accounting treatment will be applicable:

14.1 <u>**Departments and Provincial Parliament**</u>

In the prior 2 financial periods, departments were asked to split "daily tariff" and "kilometre tariff" and account for them separately. Daily tariffs had to be accounted as operating leases, and kilometre tariffs were accounted for as T&S.

14.1.1 **Departments/Expenditure/Goods and Services**

The full invoice from GMT will be accounted for as "travel and subsistence costs" in the accounting records of Departments and the Provincial Parliament, under goods and services: travel and subsistence.

14.1.2 **Disclosure: Moveable Tangible assets**

Permanently allocated vehicles will be disclosed in the asset disclosure note.

The daily tariff will be disclosed as prepayments in the disclosure notes of departments, which will be provided by PT, by 25 May 2012.

14.2 <u>**Provincial Public Entities and Trading Entities**</u>

14.2.1 **Expenditure**

The kilometre tariff must be accounted for as normal expenditure in terms of the definition of expenditure.

14.2.2 **Current Assets**

The daily tariff must be accounted for as a prepayment in the statement of financial position, and will have the effect of increasing the net surplus.

14.2.3 **Property, Plant and Equipment**

The motor vehicles must be accounted for as Property Plant and Equipment, with the associated depreciation and accumulated depreciation.

15. <u>Again, all these amounts will be provided before the final submission of the AFS by 25 May 2012.</u>

REQUIRED ACTIONS

16. <u>**Departments**</u>

16.1 **Expenditure 2010/11**

The departments have accounted for km expenditure as T&S and Daily tariffs as operating lease payments. The daily tariff expenditure paid to GMT must be allocated the item "travel and subsistence: GG vehicle expenditure" as part of Goods & Services in the 2010/11 AFS based on the aforementioned principles.

In the template worksheet 'prior year TB' the following pro forma journal entry must be effected with the amount of daily tariff expenditure as provided by PT -

Dr – T&S Dom without operator GG vehicle	**R**	
Cr – Operating lease expenditure		**R**

16.2 **Expenditure 2011/12**

As departments and provincial parliament have already classified the km tariffs as Travel and Subsistence, these entities are now required to reclassify expenditure on daily tariffs in the 2011/12 AFS in terms of the schedules provided by PT as follows:

In the template worksheet 'current year TB', the following pro forma journal must be effected as follows -

Dr – T&S Dom without operator GG vehicle R

Cr – Operating lease expenditure R

16.3 **Movable Tangible Assets**

Departments and the Provincial Parliament are required to account for the permanently allocated GG vehicles in the following manner:

For 2010/11 – no change

For 2011/12, any movement of "permanently allocated" GG vehicles in additions or disposals of the disclosure note.

For 2011/12, the value of "permanently "allocated GG vehicles as at 31 March 2011 will be accounted for as part of **"Current Year Adjustments to prior year balances"**. These values will be provided by PT.

16.4 **Prepayments**

The value of daily tariffs paid is deemed to cover the replacement costs of future vehicles. At the end of each financial year the accumulated value of daily tariffs paid to GMT must be reflected in the following additional disclosure note:

Prepayments made in respect of Government Vehicles

	2011/12	**2010/11**
	R'000	**R'000**
Accumulated prepayments made to GMT	R	R
Current number of GG vehicles managed by GMT	....	....
Approximate number of vehicles that could be replaced with this amount as at 2011/12	....	

The service provider will provide the respective departments with all permanently allocated GG vehicle disclosure information by 25 May 2012.

16.5 Related Party Disclosure Requirements

The principal – agent relationship between GMT and departments and Provincial Parliament constitutes a related party relationship and the following disclosure is required in terms of the Departmental Reporting Framework Guide:

"For the 2011/12 financial year the following applies:

(a) department need only disclose those related party transactions that in terms of the above qualify for disclosure, between itself and the public entities falling under its Minister/MEC's portfolio. The disclosures exclude transfers & subsidies paid to public entities where these have been included in the annexures to the financial statements. However, the fact that the public entity is a related party should be included in this note; (e.g. the National Treasury will only list the ASB, FSB, IRBA, StatsSA, SARS etc); but

(b) where a department transacts with another party other than those under (a) above and these transactions were not at arm's length then the relationship and the transaction must be disclosed. (e.g. if the National Treasury occupied a building owned by DPW without paying for this service then the relationship and the fact that a building is provided free of charge would have to be disclosed in the notes to the National Treasury's AFS)."

For the full context of this paragraph, please refer the reporting guide on the relevant related party transactions disclosure information.

17. Entities

17.1 Expenditure 2010/11 and 2011/12 (Performance Statement)

Entities need to account for km tariff expenditure incurred as travel and subsistence as follows:

In the template worksheet 'current year TB' and 'prior year TB', the following pro forma journals must be effected as follows -

Dr – T&S Dom without operator GG vehicle	**R**	
Cr – Operating lease expenditure		**R**

Depreciation of vehicles must be accounted for based on the information provided by the service provider of PT.

The portion which represents the daily tariff should be accounted in the Statement of Position, as this is considered an asset. It should not be accounted for as an expense in the statement of performance.

17.2 **Property, plant and equipment (Statement of Position)**

GG vehicles must be accounted for at cost less depreciation at the values provided by the service provider of PT, including accumulated depreciation.

A prepayment, and consequent prepayment disclosure note, as per par 16.4 above must be included as part of the disclosure notes.

17.3 **Related Party Disclosure Requirements**

The related party requirements of GRAP 20 must be adhered to.

18. Any enquiries on this Circular must please be directed to PThelpme@pgwc.gov.za.

19. Your co-operation in this regard is highly appreciated.

PROVINCIAL ACCOUNTANT-GENERAL
DATE: 8 May 2012