



**Western Cape
Government**

Provincial Treasury

Accounting Services Provincial Government

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File Reference: T7/2/1

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TREASURY CIRCULAR NO. 23/2012

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
- ALL OTHER MEMBERS OF 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 (MS. K LUBELWANA)
- 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)

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- THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR AA GAFFOOR)
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- 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)

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- THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR N FLAATTEN) (ACTING)
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- THE CHIEF EXECUTIVE OFFICER: WESTERN CAPE LANGUAGE COMMISSION (MS J MOLELEKI)
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- THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HOUSING DEVELOPMENT BOARD (MR F DE WET)
- THE CHIEF FINANCIAL OFFICER: WESTERN CAPE NATURE CONSERVATION BOARD (MR A PRESTSON)

THE CHIEF FINANCIAL OFFICER: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MR W DE JONGH) (ACTING)
THE CHIEF FINANCIAL OFFICER: CAPE TOWN ROUTES UNLIMITED (DMO) (MR H BONESCHANS)
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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)
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THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (VACANT)
THE HEAD: PUBLIC POLICY SERVICES (MR A PHILLIPS)
THE HEAD: PUBLIC FINANCE (MR H MALLA) (PRO TEM)
THE HEAD: FINANCIAL GOVERNANCE (MR A HARDIEN)
THE HEAD: ASSET MANAGEMENT (MS N EBRAHIM) (ACTING)
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THE HEAD: OFFICE OF THE FINANCE MINISTRY (MS T EVANS)
THE HEAD: CORPORATE SERVICE CENTRE (MR A JOEMAT)

THE PROVINCIAL AUDITOR

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 PT Circular 30/2011 dated 29 June 2011 is hereby withdrawn in its entirety;
 - 1.2 At the Public Sector Accounting Forum meeting the Western Cape 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 Western Cape followed the accounting standards, then they should not have a problem. Western Cape, following the accounting standards, came to the conclusion that GG vehicle expenditure does not constitute a lease. It therefore follows that:
 - 1.2.1 All "permanently allocated" vehicles in respect of each department and entity must be accounted for in their asset register;
 - 1.2.2 All expenditure including daily and kilometre tariffs must be accounted for as part of travel and subsistence expenditure in the books of departments;

- 1.2.3 That expenditure relating to daily tariffs must be accounted for as prepayments in the accounting records of both departments and entities; and
- 1.2.4 That an additional disclosure note will be required by Departments and the Provincial Parliament on the daily tariffs as prepayments made to GMT in the 2011/12 financial year for replacement vehicles, which will be provided by Provincial Treasury.

BACKGROUND

2. The following technical opinion was provided to ASB and NT:OAG

- 2.1 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.
- 2.2 These are the normal trading transactions of GMT – fleet management services. Departments and public entities either buy and transfer the ownership of the vehicles to GMT 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.
- 2.3 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.

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.

- 2.4 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.
- 2.5 This in effect is a Principal – Agent arrangement between departments and GMT respectfully in the Western Cape Province.
3. After consultation with the ASB and National Treasury on the Technical Opinion submitted by the Western Cape Provincial Treasury at the Public Sector Accounting Forum, Provincial Treasury determined that the GG vehicles arrangement in the Western Cape does not constitute a lease.
4. 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.
5. In view of the aforementioned all Departments, Provincial Parliament and Entities must reflect “Permanently allocated” GG vehicles in their asset registers.
6. In terms of the National Treasury Regulation 15.10.1.2 (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.
7. 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.
8. 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

9. The following accounting principles will apply in respect of “permanently allocated” vehicles:
 - a) The full cost of the tariff charged by GMT will be classified as “travel and subsistence costs” in the books of Departments and the Provincial Parliament.

- b) The portion of daily rate included in the tariff will be classified as "prepayments" in the books of entities.
- c) A prepayment disclosure note, based on daily tariffs paid to GMT will be included in the AFS of departments.
- d) "Permanently allocated" vehicles will be taken up in the asset registers of Departments, the Provincial Parliament and entities.

REQUIRED ACTIONS

Departments

Expenditure 2010/11

10. Reclassification of expenditure paid to GMT is required to reflect this cost under travel and subsistence expenditure as part of Goods & Services in the 2010/11 AFS based on the aforementioned principles. Not as operating leases.

10.1 For 2010/11, on the template, in the worksheet 'prior year TB' effect the following proforma journal entry -

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

Expenditure 2011/12

11. Departments and the Provincial Parliament are required to reclassify expenditure on daily tariffs in the AFS 2011/12 in terms of the schedules provided by PT as follows:

11.1 For 2010/11, on the template, in the worksheet 'prior year TB' effect the following proforma journal entry -

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

Assets

12. Departments and the Provincial Parliament are required to account for the permanently allocated GG vehicles on the asset registers in both the 2010/11 and the 2011/12 AFS in terms of the schedules provided by GMT as follows:
- 12.1 For 2010/11, "permanently allocated" GG vehicles will be accounted for as **"Current Year Adjustments to prior year balances"**.
- 12.2 For 2011/12, "permanently allocated" GG vehicles will be accounted for as additions **(non-cash) at cost (plus cost incurred to put it into operation)**.

Note: If the assets were not received by 31 March 2012, but paid for it should be added to the asset register in 2012/13. This is required in order to ensure that cash additions correspond to Capital Expenditure in the Statement of Performance.

Disclosure information

13. The value of daily tariffs paid is deemed to cover the replacement costs of future vehicles although not always directly linked but dealt with as the need arises. At the end of each financial year the 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
	R000	R000
Prepayments made to GMT	R	R
Number of vehicles actually managed by GMT
Approximate number of vehicles that could be replaced with this amount as at 2011/12		

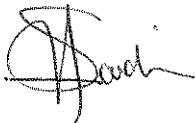
14. The service provider will provide the respective departments with all permanently allocated GG vehicle expenditure disclosure requirements in terms of the Departmental Reporting Framework.

Related Parties

15. The principal – agent relationship between GMT and departments, entities and Provincial Parliament does not constitute a related party relationship and therefore disclosure in this regard is not required.

Entities

16. The service provider will provide the respective entities will all permanently allocated GG vehicle expenditure disclosure **requirements in terms of GRAP 17**.
17. Any enquiries on this Circular must please be directed to PThelpme@Qpgwc.gov.za
18. Your co-operation in this regard is highly appreciated.



PROVINCIAL ACCOUNTANT-GENERAL

DATE: 14.05.2012