



**Western Cape  
Government**

Provincial Treasury

Aziz Hardien  
Accounting Services Provincial Government  
Email: Aziz.Hardien@westerncape.gov.za  
Tel: +27 021 483-6025

Reference: T7/2/1

**TREASURY CIRCULAR NO. 33/2012**

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

} For Information

THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

- 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 GILDENHUY)
- 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: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)  
 THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR TC ARENDSE)  
 THE HEAD: ASSET MANAGEMENT (MR IG SMITH)  
 THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)  
 THE CHIEF FINANCIAL OFFICER (MR A GILDENHUIS)  
 THE HEAD: OFFICE OF THE FINANCE MINISTRY (MS T EVANS)  
 THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)  
 THE SENIOR MANAGER: FINANCIAL GOVERNANCE (MR B VINK)  
 THE SENIOR MANAGER: FISCAL POLICY (MS C HORTON)  
 THE SENIOR MANAGER: INFRASTRUCTURE (MR NB LANGENHOVEN)  
 THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MS L NGXONONO)  
 THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)  
 THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MR F SABBAT)  
 THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)  
 THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (VACANT)  
 THE SENIOR MANAGER: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)  
 THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M SHERATON-KORSTEN)  
 THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)  
 THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)  
 THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)  
 THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)  
 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 This Circular retracts Provincial Treasury (PT) Circular 25/2012 dated 18 May 2012 and Circular 25 Supplementary 1 of 2012 dated 28 May 2012.
  - 1.2 To provide guidance on the accounting treatment of GG vehicle expenditure as a finance lease as resolved by the Resolution Committee established by National Treasury in terms of the TCF: 31 May 2012.
  - 1.3 That PT will provide the necessary information relevant to the treatment of GG vehicle expenditure as finance leases to departments and entities, to make the necessary AFS adjustments.

## **BACKGROUND**

2. Due to the differences in the interpretation of the treatment of GG Vehicle expenditure, the matter was referred to the recently established Resolution Committee at National Treasury where decisions will be final and applicable to all relevant stake holders.
3. The outcome of this matter by the Resolution Committee at a sitting held on 27 June 2012 resulted in the treatment of GG vehicle expenditure being classified as finance leases.
4. The main reason for this decision was that upon payment of a motor vehicle, the user "transfers" this vehicle to GMT for registration and GMT legally becomes the owner of the vehicle. GMT subsequently gives the vehicle back to the user entity, and charges them for use of that vehicle. The Resolution Committee has determined that this meets the definition of a lease which is:

*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.*

5. National Treasury is now of the opinion that the initial purchasing of new GMT vehicles must be classified as finance leases, which has an impact on the economic classification thereof, and thus also the budgeting of such expenditure.

## **REQUIREMENTS**

6. The information on prepayments and the note on future daily tariffs provided in Circular 25 and its supplementary must be removed from the AFS.
- 6.1 Departments and entities are to include the information that is provided by Provincial Treasury on the GMT transactions and disclosure requirements for the 2010/11 and 2011/12 financial years.
- 6.2 Departments must further consider the implication of funds paid to GMT at year end (31 March 2012) for the purchase of new or additional vehicles in terms of the Departmental Financial Reporting Framework Guide.

7. **Disclosure requirements for GG vehicle assets and expenditure treatment by departments and entities.**

**The accounting transactions are as follows:**

7.1 **Transaction no 1:**

Payment of the motor vehicle and a subsequent transfer from the user department/entity to GMT

The accounting of this transaction remains the same in the users' accounting records as a finance lease asset must be recorded in the accounting records of the user department as provided by PT.

It is currently accounted as a purchase of capital items and included as an addition in the PPE note.

The transfer of asset certificate need not be signed by each Accounting Officer, as it is implicit in the MOA when a car is purchased. The MOA indicates that GMT will become the holder of the asset, registering it in GMT's name.

7.2 **Transaction no 2:**

The management of the vehicle in terms of daily and km tariff

7.2.1 **Statement of performance**

The kilometre tariffs included in T&S remains in T&S.

The daily tariff will be treated in the following way:

- Amount of daily tariff - Payment for Capital assets; and
- Amount of daily tariff - Payment for finance charges (Interest).

That portion of the daily tariff payment for capital charges, represents the capital cost of the vehicle under the lease obligation, and needs to be journalised (pro forma) into the payments for capital assets.

That portion of the payment for finance charges remains as a Goods and Service item and classified as such:

SCOA item: Interest Paid: Finance leases under Goods and Services.

## 7.2.2 Appropriation Statement

Reclassifying T&S to payments for capital purchases results in a shift within a programme. Departments are to consider the impact on the Appropriation Statement and deal with the resultant shift in terms of S43 of the PFMA, and Treasury Regulation 6.3.

Both the disclosure notes and the values that need to be adjusted will be provided by Provincial Treasury.

## DEPARTMENTS

### 8. Disclosure to be included in the AFS

The following disclosure note on finance leases must be included as a separate note.

#### Finance lease commitments

The arrangement between “**name of entity**” and GMT constitutes finance leases. The obligation in respect of the finance leases are presented below:

#### Future lease payments

Lease payments	Within 1 year	2 - 5 years	More than 5 years
Total lease payments			
Less: finance costs			
Present value of lease commitments			

“**Department name**” leased “**no of vehicles**” from GMT. Daily tariffs are payable on a monthly bases, covering the operational costs, capital costs of replacement of vehicles, and the implicit finance costs in this type of arrangement.

The implicit Interest is charged based on the Provincial Treasury approval of GMT tariff structure revised annually. The department uses the vehicle for most of the useful life of the vehicle. The agreement does not provide for contingent lease payments, and at the end of the useful life as determined by the lessor, the vehicles are returned where it is sold on auction for the benefit of the lessor.

### 9. Related Party Disclosure Requirements for Departments

The lessor/lessee 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.

**10. For the payment of vehicles at year end but not yet received**

10.1 Departments have incurred expenditure close towards the end of a financial year for the acquisitions of additional vehicles with these vehicles only being delivered in the following financial year. To ensure the correct classification of such expenditure, the following guideline must be adhered to as provided in the Departmental Financial Reporting Guide:

Chapter 6. Par 17 "The treatment of prepayments relating to the purchase of goods/services is discussed below:

<b>Expensed immediately</b>	<b>Recorded in a suspense account and expensed on receipt of goods/services</b>
Dr Relevant expenditure account Cr Bank	Dr Prepayments and advances Cr Bank
<ul style="list-style-type: none"> <li>• When the department has budgeted for the entire payment in the current financial period; AND</li> <li>• The goods/services have been received shortly after the payment was made; OR</li> </ul>	<ul style="list-style-type: none"> <li>• When the department has budgeted for the entire payment in the current financial period and the goods/services have been received in the same period (N2); OR</li> <li>• When the payment is made in the current financial year and it is known that the goods/services will be received in the</li> </ul>

<ul style="list-style-type: none"> <li>The amount relates to a long-term commitment and approval was obtained from the Accounting Officer to immediately expense the entire amount (N1).</li> </ul>	following financial year (N3).
---	--------------------------------

(N1) - This arises out of rare transactions where the supplier requires an up-front payment from the department to secure the goods/services that will be received over (or beyond) the MTEF.

(N2) - In this scenario the department will record the amount paid as a prepayment and will reverse the transaction to the appropriate expense account upon receipt of the goods/service as follows:

Dr Relevant expense account; and

Cr Prepayments and advances.

(N3) - in this scenario the department advances the funds to the supplier for the purchase of the goods/service and the purchase will not be recorded as an expense against the vote of the department. The department must therefore ensure that sufficient funds are available in the following year's vote to cover the cost of the goods/services expensed in the statement of financial performance when received."

## ENTITIES

### 11. Accounting treatment and disclosure in the AFS of entities

#### 11.1 Property, plant and equipment (Statement of Position)

GG vehicles must be accounted for at cost less depreciation, including accumulated depreciation at the values provided by GMT.

#### 11.2 Interest - bearing lease liabilities

	2012	2011
Capitalised finance lease liability	x	x
Less: current portion	(x)	(x)
Non-current portion	x	x

The implicit interest is charged based on the Provincial Treasury approval of GMT tariff structure revised annually. The department uses the vehicle for most of the useful life of the vehicle. The agreement does not provide for contingent lease payments, and at the end of the useful life as determined by the lessor, the vehicles are returned where it is sold on auction for the benefit of the lessor.

### 11.3 Finance lease obligations

The arrangement between “**name of entity**” and GMT constitutes finance leases. The obligation in respect of the finance leases are presented below:

#### Future minimum lease payments

Lease payments	Within 1 year	2 - 5 years	More than 5 years
Total minimum lease payments			
Finance charges			
Present value of minimum lease payments			

11.3.1 “**Entity name**” leased “**no of vehicles**” from GMT since its creation. Daily tariffs are payable on a monthly bases, covering the operational costs, capital costs of replacement of vehicles, and the implicit finance costs in this type of arrangement.

11.3.2 The implicit Interest is charged based on the Provincial Treasury approval of GMT tariff structure revised annually. The entity uses the vehicle for most of the useful life of the vehicle. The agreement does not provide for contingent lease payments, and at the end of the useful life as determined by the lessor, the vehicles are returned where it is sold on auction for the benefit of the lessor.

### 12. Accounting Policy for Entities

12.1 Assets acquired under a finance lease are capitalised and depreciated over their useful lives. The asset and liability are initially measured at the fair value of the asset or, if lower at the present value of the future minimum lease payments. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining liability balance. Finance expenses are recognised in profit or loss.

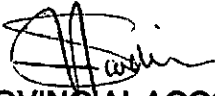
### 13. Related Party Disclosure Requirements for Entities

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

14. Please note that Provincial Treasury will once again provide all the additional information for disclosure requirements by 2 July 2012 to ensure that the accounting treatment and disclosure is consistent across the Province.



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

A handwritten signature in black ink, appearing to be 'A. Smith', written over a circular stamp or seal.

**PROVINCIAL ACCOUNTANT-GENERAL**

DATE: 02 July 2012