Infrastructure Delivery Management System (IDMS)

Pilot roll out in selected municipalities through stakeholder engagement and training

Training Module 2:
Municipal Standard Chart of Account (mSCOA) and Generally Recognised Accounting Practice (GRAP) 12, 17, 21 and 26

Participants Manual

July 2019

MISA
Municipal Infrastructure Support Agent
REPUBLIC OF SOUTH AFRICA

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Section 1: About this module

Purpose of this module

The purpose of this training module is to introduce the Infrastructure delivery processes defined in the Infrastructure Delivery Management System (IDMS) modules to the District Municipal Management. The following Infrastructure Delivery Processes are covered in this module:

- Portfolio Management
- Programme Management
- Operations and Maintenance management

Learning outcomes

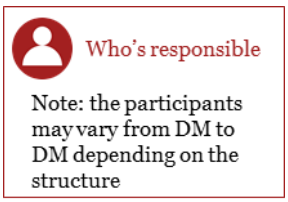
By the end of the training on this module you:

- Will understand the **context** of the Portfolio Management module of the IDMS
- Will have knowledge of the **key concepts** and components of best practice Portfolio Management
- Will have knowledge on the performance management elements that relate to infrastructure Portfolio Management;
- Will understand the monitoring and controlling requirements for infrastructure Portfolio Management.
- Will know what is expected of Executives to **institutionalise** the IDMS across your Municipality

Audience for this module

The audience for this module is intended for Executives of your District Municipality:

- Political leadership oversight roles - Chairpersons of Portfolio Committees (or the equivalent) of:
    - Water services
    - Technical services
    - Human settlements planning and development
    - Budget and treasury
    - Standing committee on municipal public accounts
    - Audit Committee



- Municipal Executive leadership
    - Municipal Manager
    - Director budget and treasury
    - Director Community Services
    - Director Rural and economic development
    - Director internal audit office
    - Corporate services
    - Water and sanitation services
    - Technical services

Context of this module

National Treasury is the custodian and driver of the development and roll out of the IDMS. They have also introduced the associated Standard on Infrastructure Procurement and Delivery Management (SIPDM) (recently revised to FIPDM and effective of 1 October 2019). Training on both of these standards for government officials at National and Provincial has taken place over recent years, but with limited training at local government level.

With this in mind, the Municipal Infrastructure Support Agent (MISA) has been tasked with the roll out and implementation of the IDMS at local government level. Given the fact that MISA are already engaged in providing technical support on infrastructure delivery to municipalities, MISA has identified three District Municipalities (DM's) in the Eastern Cape, namely Alfred Nzo, Amathole and OR Tambo as initial target municipalities for the roll out of the IDMS. These DM's are pilot Municipalities for potential further rollout in due course.

Tip

Since your DM is part of the pilot you have the opportunity to be in the forefront of new developments.
Also when compliance requirements are establised, your DM will have a head start

This pilot roll out will take place via training and stakeholder engagement. MISA have appointed PwC to provide this training and stakeholder management over a period of 14 months, ending at the end of March 2020. The expectation is that Municipalities will institutionalise the IDMS as a standard set of processes and tools to plan and implement infrastructure moving forward.

The training and support to the Municipalities includes:

- Formal training - four modules, of which this module is the second.
    - Module A0 – a one day intensive Executive Overview, aimed at Municipal Executives
    - Modules 1 to 3–two day training sessions per module
    - Module 1 – covers IDMS overview, planning and budgeting, supply chain management and performance and risk management.
    - Module 2 - includes an overview on applicable MSCOA and GRAP requirements.

- Module 3: Infrastructure Delivery Management Processes covers overview of portfolio, programme, operations and maintenance and project processes, and applicable control points and stage gates.

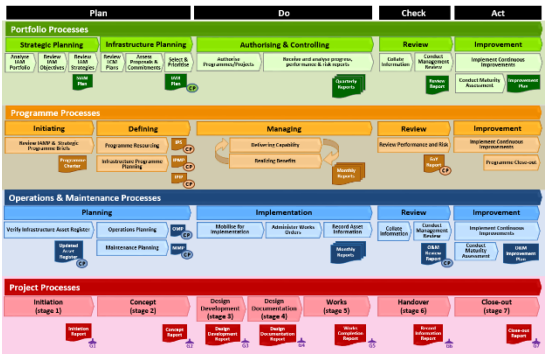
- Formal Skills Transfer – Skills transfer contact sessions that provide intensive focus on key plans and documents required in the IDMS.
- Ad hoc support – support to provide day-to-day assistance in the institutionalisation of the IDMS

MISA is already providing technical support in two of the three municipalities, namely Alfred Nzo and OR Tambo, through the Regional Management Support Contract programme (RMSC). Collaboration between the two initiatives will take place as appropriate to limit duplication of work.

How to use this module

This module can be used in conjunction with notes and presentation material during your classroom session.

IDMS Placemat



A standalone version of the IDMS Placemat is included in the ***annexure*** *for ease of reference*. This placemat is designed as a quick reference guide for Officials and executives.

Figure 1: IDMS Placemat (see annexure)

Icons used in this manual:

This manual will include the following icons:

These icons will highlight particular issues of interest and practical tips on how to implement IDMS processes and source materials.

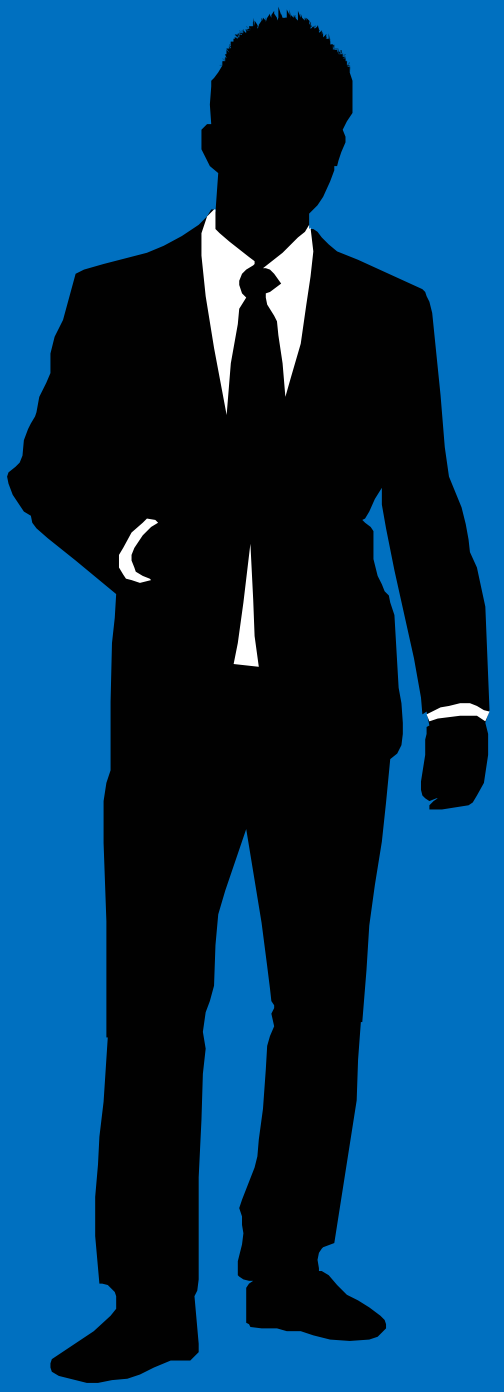
Figure 2: List of icons used in manual

Exercises:

Multiple exercises are included in this training module. The exercises allows an opportunity to practice IDMS concepts within a classroom context.

Section 2:

mSCOA



2.1 Overview

Section 2: mSCOA

Subsection 2.1: Overview

Learning outcomes

By the end of the module training you will:

- Understand the **context** of the MSCOA
- Have knowledge of the **key concepts** and components of the **project segment** of MSCOA
- Have knowledge on the budget process linkages with mSCOA

Introduction

- **Background**

mSCOA is a standardised accounting system that aims to change how municipalities transact by standardising financial management processes through policy formulation, budgeting, in-year reporting frameworks and statements.

First gazetted into law in 2014, mSCOA was born out of a need to improve municipal financial management in a bid to promote transparency and accountability at municipal level.

mSCOA is part of the National Treasury's ongoing budget and reporting reforms. mSCOA-ready means that municipalities are able to capture all their financial transactions against a predefined classification framework. mSCOA regulation has not only been a financial reform, but an entire overhaul of municipal business processes.

Since not only financial and budget oriented requirements are involved, implementation has required organisational change across the entire municipality and integration of accounting systems. Consequently, implementation has involved system conversion and/ or re-implementation, with all the associated challenges and risks.

Unforeseen challenges emerge over time that can only be brought to the fore through the process of retrospection.

mSCOA will benefit the municipalities in the following way:-

- Improved data quality and credibility
- Deeper analysis of sector comparison
- Uniform recording of transactions
- Uniform data sets
- Standardised key business processes
- Standardisation and alignment of government accountability cycle
- Standardisation of account classification

Legislative Mandate

Section 216(1) of the Constitution states that:

> National legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing -
>
> (a) Generally recognised accounting practice *(GRAP – OAG)*
>
> (b) Uniform expenditure classifications; and *(Standard Chart of Accounts / General Leger)*
>
> (c) Uniform treasury norms and standards *(MFMA, Regulations, Circulars and Guidelines)*

Section 168 (1) of the MFMA states that:

The Minister (of Finance), acting with the concurrence of the Cabinet member responsible for local government, may make regulations for, among other things – any matter that may be prescribed …and…any other matter that may facilitate the enforcement and administration of the Act

Municipal Systems Act, 2000

"Adoption of integrated development plans

25. (1) Each municipal council must, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which:

(a) links, integrates and co-ordinates plans and takes into account proposals for the development of the municipality;

(b) **aligns the resources and capacity of the municipality with the implementation of the plan;**

(c) forms the policy framework and general **basis on which annual budgets must be based**;"

MFMA, 2003

"Budget preparation process

21. (1) The mayor of a municipality must – (a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled **budget and** any revisions of the **integrated development plan** and budget-related policies **are mutually consistent and credible;"**

Municipal Regulations on a Standard Chart of Accounts, 2014

"Object of these Regulations

2. The object of these Regulations is to provide for a national standard

for the uniform recording and classification of municipal budget

and financial information at a transaction level by prescribing a

standard chart of accounts for municipalities and municipal entities

which-

(a) are aligned to the budget formats and accounting standards

prescribed for municipalities and municipal entities and with the

standard charts of accounts for national and provincial government;

and

(b) enable uniform information sets recorded in terms of national norms

and standards across the whole of government for the purposes of

national policy coordination and reporting, benchmarking and performance measurement in the local government sphere."

To provide a national standard for the uniform recording and classification of municipal budget and financial information which:

- are *aligned to the local government budget formats* and *accounting standards*;
- are aligned to the national and provincial SCOA; and
- will enable *uniform information sets* across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement

Applies to all municipalities and municipal entities

***m*SCOA Regulation – What is required?**

(2) The **financial and business applications or systems** used by a municipality or municipal entity must—

a) provide for the **hosting of the general ledger** structured in accordance with the **classification framework** determined in terms of regulation 4(2);

b) be capable of **accommodating and operating the standard chart of accounts**;

c) provide a **portal allowing for free access**, for information purposes, to the general ledger of the municipality or municipal entity, ….

(3) Each municipality and municipal entity must have, or have access to, **computer hardware with sufficient capacity to run the software** which complies with the requirements in sub-regulation (2).

Minimum business process requirements

6. (1) The **Minister may**, by notice in the Gazette, **determine minimum business process requirements** for municipalities and municipal entities to enable implementation of regulations 4 and 5.

(2) Each municipality and municipal entity **must implement** the minimum business process requirements by the date determined in the notice referred to in sub-regulation (1).

Minimum system requirements

7.(1) The **Minister may**, by notice in the Gazette, **determine the minimum system requirements** for municipalities and municipal entities to enable implementation of regulations 4 and 5.

(2) Each municipality and municipal entity **must implement** the minimum system requirements by the date determined in the notice referred to in sub-regulation 1.

2.2 mSCOA

Subsection 2.2: Planning and Budgeting alingment with mSCOA

mSCOA is not only a financial classification system or standard at a transactional level across all 257 municipalities, but also a business reform that affects every part of the operations of a municipality. It facilitates seamless alignment/ integration between the information used across the planning, budgeting, reporting and the accountability cycle. All of these are key ingredients or a precondition to improve services delivery.

If municipal IT Systems are set up correctly, municipalities should now be able to track their performance between annual and quarterly targets set as part of their planning processes (IDP and SDBIP) in relation the cost associated with these services from a budgeting and reporting perspective. This objective has been at the heart of the Mid-year Budget and Performance engagements with the non-delegated municipalities over the last ten years.

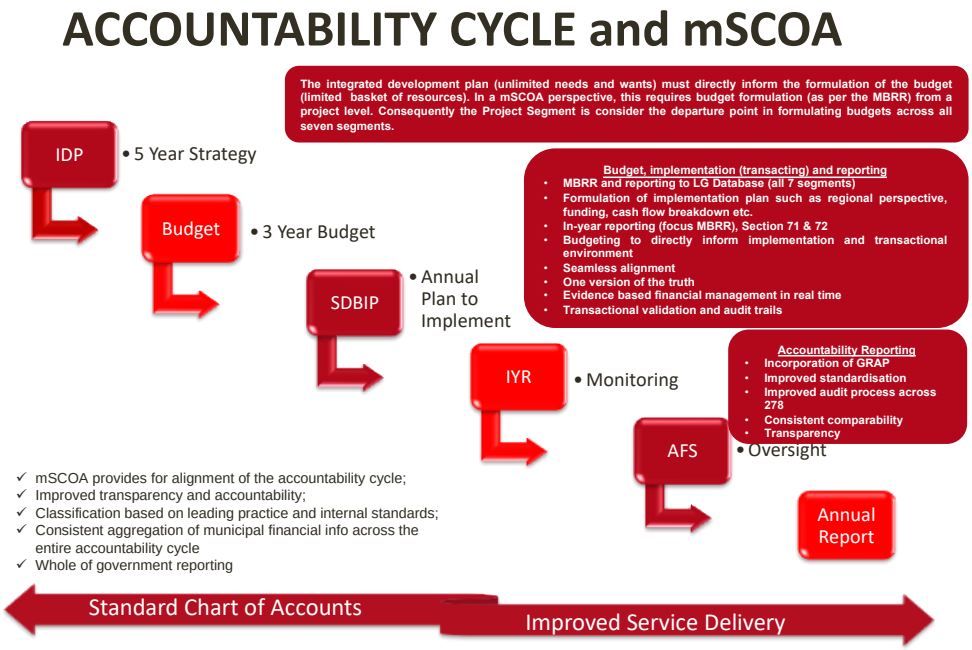


Figure 3: Accountability cycle and mSCOA

2.3 Revised Chart of Accounts

Subsection 2.3: Revised Chart of Accounts

National Treasury Guidelines

National Treasury's website hosts plenty of information regarding mSCOA. It also hosts the latest charts for reference. Please note that when viewing these charts, to make sure that you are viewing the latest chart/version.

Release of Version 6.3 of the Chart

On an annual basis, the *m*SCOA chart is reviewed to address implementation challenges and correct chart related errors. Towards this end, Version 6.3 is released with this circular (see Annexure A). Version 6.3 of the chart will be effective from 2019/20 and must be used to compile the 2019/20 MTREF and is available on the link below:

http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx

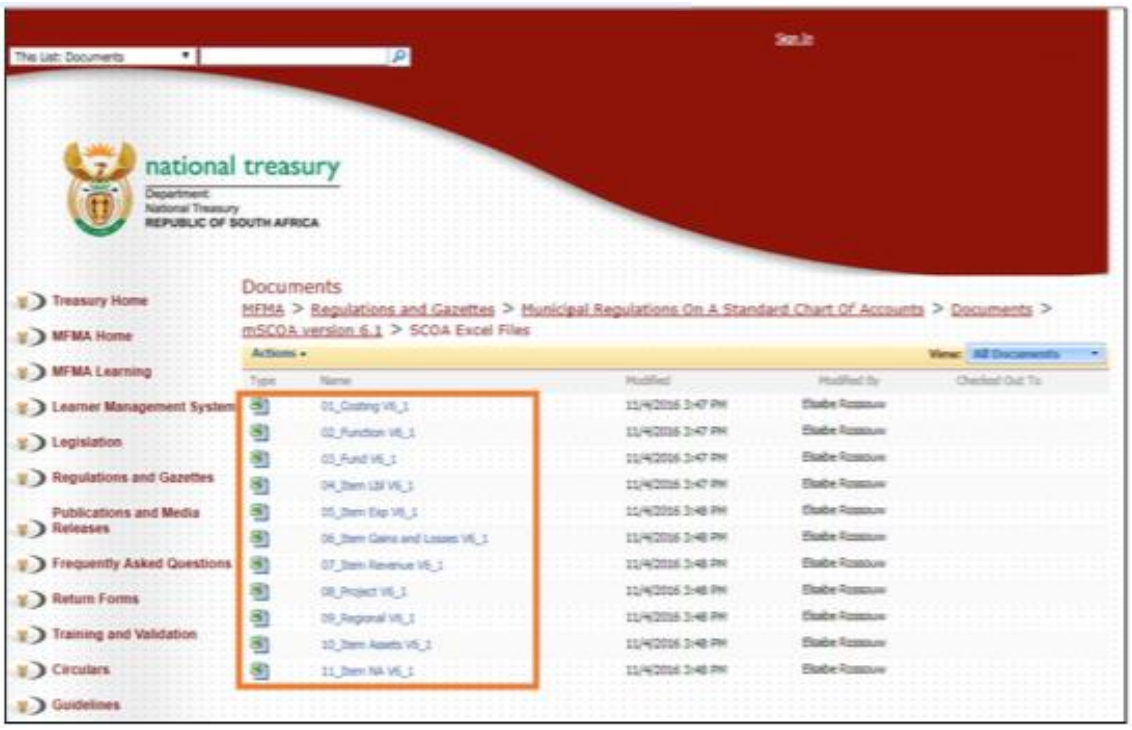


Figure 4: Standard Chart of ACcounts (www.mfma.treasury.gov.za, 30/06/2019)

mSCOA segments

NT kept the 2 old segments (department and item/account number) from the old chart and incorporated it into the new chart. The department is now the function segment, and the account number is now the item segment.

In the past, an expenditure line item could have included multiple costs e.g. accommodation and transport and conference fees etc. National Treasury has now added extra segments/descriptions to a transaction to breakdown all these individual costs.

Old way of transacting/reporting:-

- 2 segments which were used (department and account number)
- Own segment descriptions
- Vote structures

New way of transacting/reporting:-

- 7 segments, 6 prescribed and the 7th being the Municipal Organogram reporting segment
- Predefined Segment descriptions from NT

- Predefined standard chart of accounts vote numbers, now called segments.

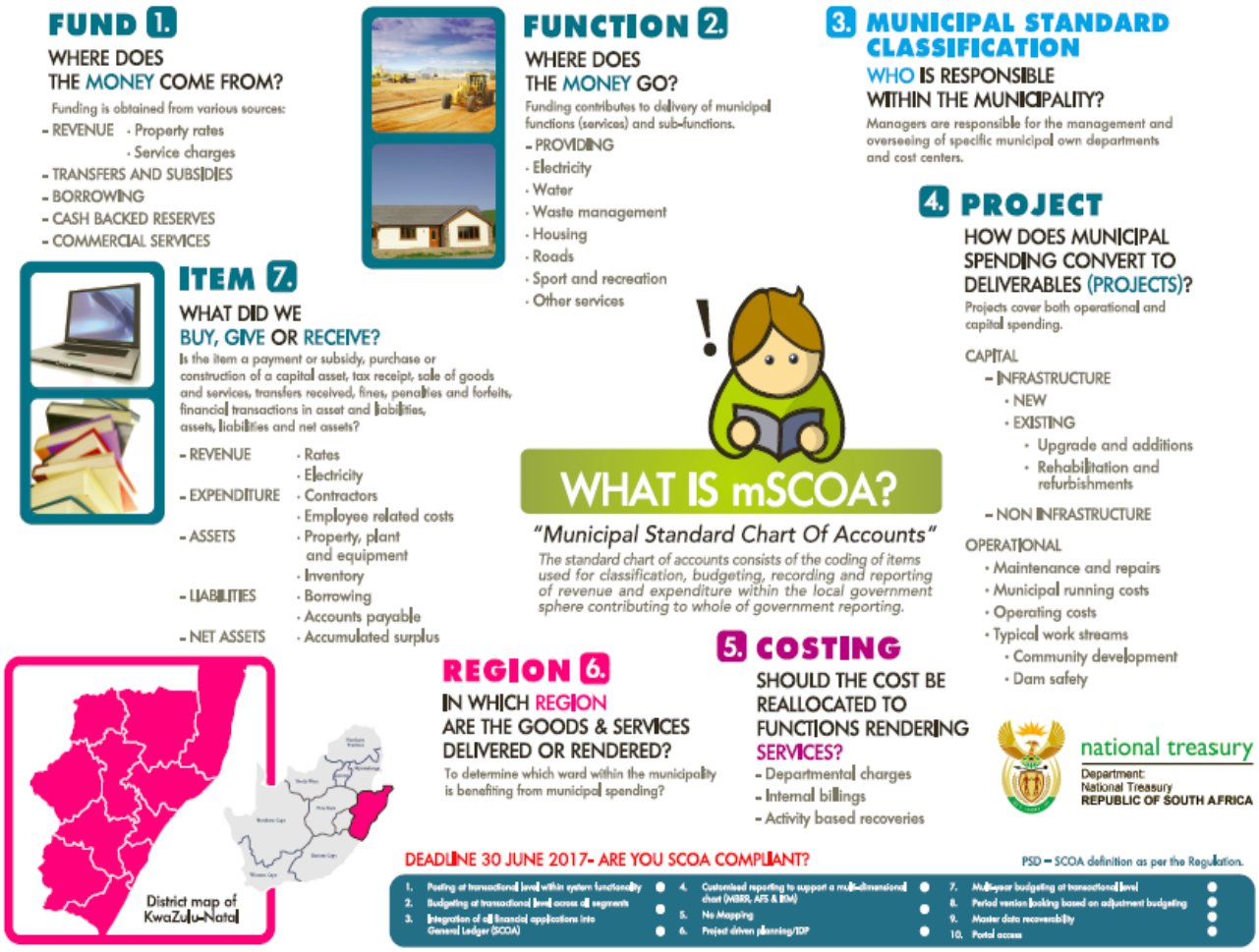


Figure 5: Smmary of mSCOA

The 6 prescribed mSCOA segments are:

- Project
- Function
- Item
- Funding
- Costing
- Region

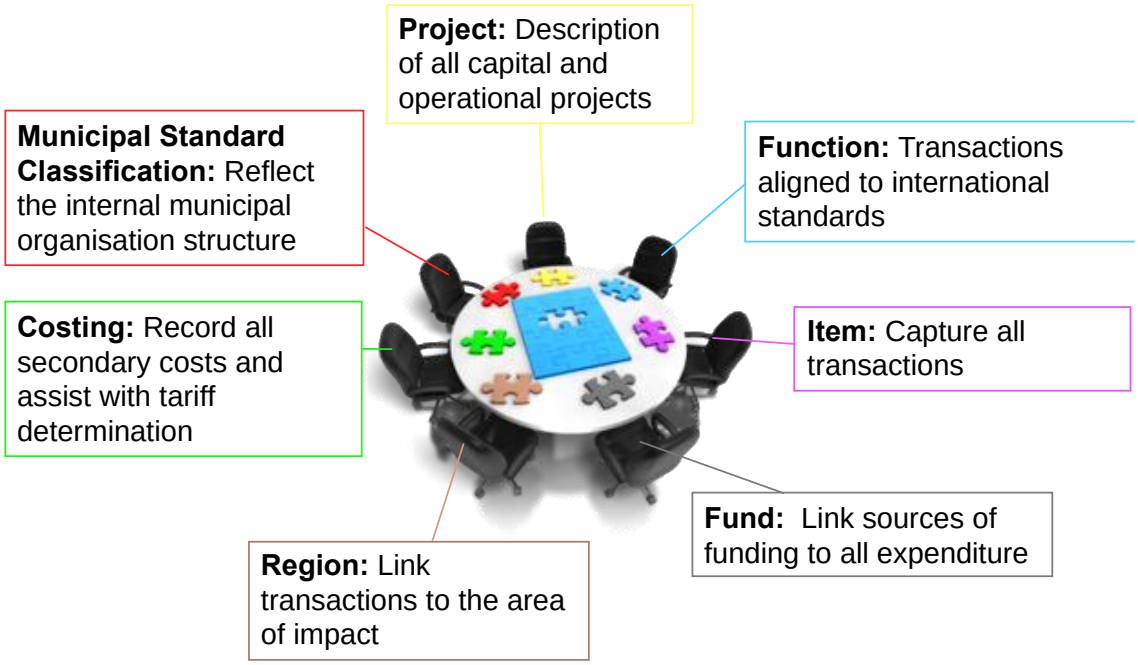


Figure 6: mSCOA role players

GUID'S

Each item in the chart has its own Global Unique Identifier (GUID), depending on the chart version. Each transaction will consist of 6 GUIDs and a value at the end. When reporting back to NT, a text file containing these strings and a value are sent to NT. NT then upload this file and matched it to their chart, and reports extracted from this.

Applicability	Definitions	REPORTING STRUCTURE	GUID
All	Function is the standardised vote structure	Function	5de97fa5-cd70-4ccf-a0d7-b165508a6602
All	Community service is a service or activity	Community and Social Services	f76330f6-8ca7-4118-b6f7-b5f7a6c52f8d
All	Core Function as determined ito the	Core Function	e34114c2-5447-4f6c-a6dd-df3c742b6ac1
All	Aged care includes old age homes, home	Aged Care	61185155-d3a1-4f71-9cac-f2abb742ff7d
All	Facilities for the accommodation, care and	Animal Care and Diseases	379cbd5c-2c82-42fa-a8c1-3adcf97210b5
All	All costs relating to cemeteries, funeral	Cemeteries, Funeral Parlours and Crematoriums	ba7a3e30-8c47-498d-a65a-3b5b9b1a77d7
All	Child Care Facilities for example facilities	Child Care Facilities	5082efa3-67e2-4342-b8ce-4328f3046d7c
All	Exhibition halls and places for community	Community Halls and Facilities	6fa14a15-a164-42cb-a263-a0b007852bc5
All	All activities relating to libraries and	Libraries and Archives	0f6032ee-c792-4735-aef9-9bdf01ab5d0c
All	Including literacy programmes, etc.	Literacy Programmes	9ba5be6d-de92-4911-a316-7fc206712edc
All	Including monuments, historic houses and	Museums and Art Galleries	72ef5a0b-3479-4bcb-9e86-4179e3ac1575
All	This function provides for theatres,	Theatres	76d73e4e-ec6c-46a6-89fa-8845216a08af
All	This function provides for zoo's. (Included	Zoo's	abe06fc7-6981-411b-be6d-7a7bb2b64d0d
All	Non-core functions as determined ito the	Non-core Function	bfd587bc-a66e-4387-84d4-9758b3328f86
All	Including old age homes, home assistance	Aged Care	8844d43d-3fbc-427d-a8f9-f047e9b0a906
All	All activities included in agricultural	Agricultural	d811b4a0-bb38-42b0-a782-dfb688cac70f
All	Facilities for the accommodation, care and	Animal Care and Diseases	52ba329e-4414-4f88-998c-7e11c18890f6
All	Child Care Facilities for example facilities	Child Care Facilities	9239a3c9-0229-43e6-a0e7-de20e7cc7b18
All	Exhibition halls and places for community	Community Halls and Facilities	315a0f4d-28ad-4cd2-a4a5-afb34a6a8e1f
All	All activities relating to consumer	Consumer Protection	b74425cc-cd5f-4380-865a-ea796ced3f72
All	Non-core functions as determined ito the	Cultural Matters	d89462ad-3491-44f4-8960-a2b5f7475e9c
All	Disaster management is dealing with and	Disaster Management	39043a95-c08d-4bfc-bce2-b4e1763b0d24
All	All activities relating to education (literacy	Education	fa4eb94d-09d7-4731-954e-7fd20b09c314

V6_1

Figure 7: Chart Global Unique Identifiers

The project segment

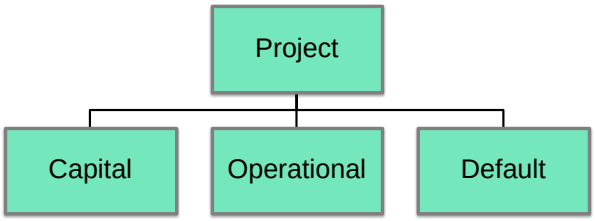
Projects are basically a list of tasks a municipality has complete. Projects must also be in line with a site's IDP.

ALL expenditure must be allocated to either capital or operational projects.

All other items MAINLY get allocated to Default Transactions – including revenue.

- This segment is structured to link all operational and capital expenditure to a project whether it is a specific capital project, operational initiative or running the municipality.
- The Project segment distinguishes projects according to the nature of the expense whether it is a *capital* or an *operational* expense.

This segment is to ensure that all projects in the IDP are aligned to budgets.



Breakdown Required	The municipalities are 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 own discretion. This will not be extracted for reporting to National Treasury.

Figure 8: Project segments breakdown

The project segment should include the **parent GUID** (which is the GUID attached to the lowest level description on the *m*SCOA project chart indicating that breakdown is required) and a five digit incremental project- number separated by the underscore symbol.

Below is how the project segment looks like on National Treasury's portal. Breakdowns on the projects segment is mandatory.

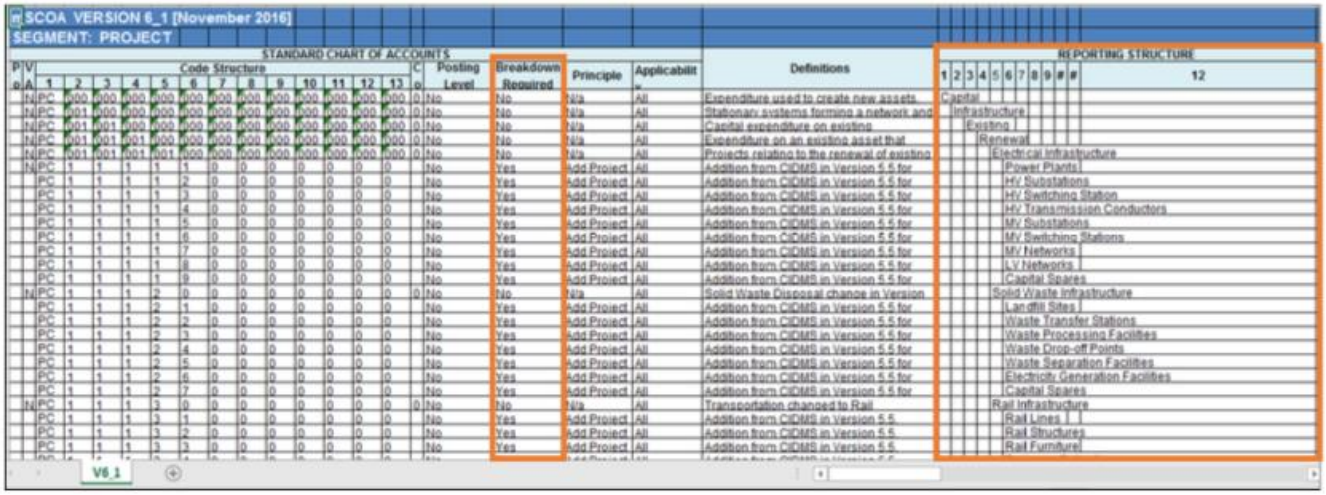


Figure 9: Project segment on National Treasury's portal

The function segment

This used to be old department. Each main function is then further separated into core and non-core functions, which are the internal sections within a department.

Core functions, as determined i.t.o. the Constitution section 156(1) and 229 with Schedule 4B and 5B read with Sections 83 and 84 of the Local Government Municipal Structures Act, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74]. In other words, providing a service to the community.

Non-core functions, as determined i.t.o. the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]. In other words, performing on behalf of another sphere of government.

A non-core function example: A local municipality does repairs on a national road. Normally, the government's roads department should do this, but local government is doing the work.

The item segment

This used to be the vote. What is the nature of the transaction and is it in line with the nature of the project? The item function can further be subdivided into revenue, gains and losses, expenditure and assets and liabilities.

Capital projects can only have assets and liabilities items. Operational projects can only have income and expenses items.

The assets and liabilities item segment

Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. Assets are then further separated into current (cash at bank, investments) and non-current functions (has a lifespan of more than 1 year).

For example, if an expenditure item (a computer) is going to be capitalised immediately, then it would fall under the segment ITEM-ASSET. If a project is ongoing, it would fall under the segment ITEM-ASSET: NON-CURRENT: CONSTRUCTION WORK-IN-PROGRESS. Bulk water would fall under the segment ITEM-ASSET: CURRENT: INVENTORY: WATER.

Liabilities are future sacrifices of economic benefits that an entity is presently obliged to make to other entities as a result of past transactions or other past events. Liabilities are then further separated into current (consumer deposits, income tax payable, VAT payable) and non-current functions (all money owed by an entity which is due more than one year after the reporting date).

Definitions	1	5	7	12	
Assets are resources controlled by the	Assets				4baceb49-4bf8-4a31-bcf4-234adc0ae8bd
Current assets refers to assets which would	Current Assets				4994c30b-acb2-404a-9b8f-985c80b1e926
Non-current assets refers to assets which	Non-current Assets				964ef6f6-e28b-418f-ad7c-7b42176ac51c

	REPORTING STRUCTURE		GUID
DEFINITIONS	1	2	
Liabilities are future sacrifices of economic	Liabilities		276debb4-61f5-4b40-8ec1-ff0f05ce346d
Current liabilities comprise of all money		Current Liabilities	17c6163b-a5d7-4c46-b3fd-a1af448597ed
Non-current liabilities comprise of all money		Non-current Liabilities	c84b8161-b233-4790-aa8c-054de6dd73e3

Figure 10: Reporting structure

The funding segment

Where is the money coming from to fund the project? What funding sources are available to the municipalities to invest in municipal activities. Is it equitable share or social grants?

Zero-based budgeting needs to be applied. Which means, all expenses must be justified for each new period. Traditionally, budgeting only called for an incremental increase over the previous budget, whereas zero-based budgeting starts from a "zero base". Every function in the municipality needs to be analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

The regional segment

Who is benefiting from this project? Where did the expenditure incur? The whole of the municipality or a specific ward? Wards can be used if the information is available, otherwise the default option to use is “whole of the municipality”. DO NOT use the “default” option anymore.

2.4 Budget Process Alignment

Subsection 2.4: Budget Process Alignment[1]

All municipalities must prepare budgets in accordance with the regulations

Municipalities are reminded that the regulations apply to all municipalities and municipal entities as from 1 July 2009.

All municipalities and municipal entities must prepare annual budgets, adjustments budget and in-year reports for the financial year in accordance with the Municipal Budget and Reporting Regulations. In this regard, municipalities must comply with both:

- The formats set out in the Schedules to the Municipal Budget and Reporting Regulations;
- Ensuring Table A1 to A10 of the Municipal Budget and Reporting Regulations are accurately completed and specifically adopted by the municipal council;
- That supporting tables SA1 to SA37 are comprehensively and accurately completed and tabled before municipal council as part of the budget adoption process; and
- That the budget document (including the above mentioned tables) is supported by clear and concise narratives explaining the budget. It needs to be noted that the budget is an expression of the policy intent (IDP and strategic objectives) of the municipality and needs to be supported by clear narratives explaining the actual objectives over the Medium-term Revenue and Expenditure Framework. In this regard National Treasury issued the 'Dummy Budget Guide'

[1] From

to assist municipalities in compiling their MTREF budgets. Municipalities are urged to refer to the 'Dummy Budget Guide' which can be accessed at:

http://mfma.treasury.gov.za/Guidelines/Pages/DummyBudgetGuide.aspx

Preparation of Municipal Budgets for 2019/20 MTREF

- **Schedule A1 version to be used for the 2019/20 MTREF**

National Treasury has released Version 6.3 of the Schedule A1 (the Excel Formats) which is aligned to Version 6.3 of the *m*SCOA classification framework and must be used when compiling the 2019/20 MTREF budget. Refer to Annexure B for the changes to this version of the Schedule A1.

ALL municipalities **MUST** use this version for the preparation of their 2019/20 MTREF budget.

It is imperative that all municipalities prepare their 2019/20 MTREF budgets in their financial systems and that the Schedule A1 be produced directly from their financial system. Vendors have recently demonstrated their budget modules to the National Treasury and provincial treasuries. All financial systems have this functionality to assist and prepare budgets and to generate the prescribed Schedule A1 directly from the financial system. Municipalities **must** start early enough to capture their tabled budget (and later the adopted budget) in the budget module provided and **must** ensure that they produce their Schedule A1 directly out of the budget module.

To promote this approach, from the **2020/21 MTREF** the National Treasury will only accept a Schedule A1 in PDF format, containing ALL sheets as prescribed and with each worksheet displaying an embedded system stamp to certify that it has been produced directly from the system. For purposes of collecting additional data which we previously did using the Schedule A1 in Excel, a prescribed data string containing the data must be populated and uploaded by each municipality (refer to the attachment to MFMA Budget Circular No 93 on the website).

http://mfma.treasury.gov.za/Circulars/Pages/default.aspx

Special attention must be given to the supporting schedules in the prescribed Schedule A1. Where detailed data is lying in a sub-system e.g. human resource data for SA22 to SA24, this data must be pulled from the sub-system into the applicable supporting sheet and must form part of the complete endorsed Schedule A1.

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:

http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx

The A Schedule that the municipality submits to National Treasury must be a consolidated budget for the municipality (including entities) and the budget of the parent municipality. D schedules must be submitted for each entity.

Budget process and submissions for the 2019/20 MTREF

- **Submitting budget documentation and schedules for 2019/20 MTREF**

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 29 March 2019, the final date of submission of the electronic budget documents and corresponding electronic returns is **Monday, 01 April 2019**. The deadline for submission of hard copies including council resolution is **Friday, 05 April 2019**.
- Section 24(3) of the MFMA, read together with regulation 20(1) of the Municipal Budget and Reporting Regulations, requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. E.g. if the council approves the annual budget on 31 May 2019, the final date for such a submission is Friday, 14 June 2019.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 6.3) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in PDF format with stamp that will confirm production directly out of the financial system;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations; and
- schedules D specific for the entities.

Budget related documents and schedules must be uploaded by approved registered users using the Local Governement Upload Portal at:

https://lguploadportal.treasury.gov.za/

Please note that the Local Government Upload Portal does not have size restrictions to the documents but requires all documents to:

- be in PDF format; and
- each PDF file must NOT contain multiple document e.g. council resolution and quality certificate within the budget document.

Section 3:

GRAP

3.1 Overview

Section 3: GRAP

Subsection 3.1: Introduction

The Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), requires the Accounting Standards Board (ASB) to determine Generally Recognised Accounting Practice (GRAP) for:

- departments (including national, provincial and government components);
- public entities;
- trading entities (as defined in the PFMA);
- constitutional institutions;
- municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The ASB's Conceptual Framework states that the objective of financial reporting by the public sector entities is to provide information about the entity that is useful to users for accountability purposes and for decision-making purposes.

In order to achieve this objective the ASB develops and issues GRAP Standards and these are used to set the accounting policies i.e. the specific principles, bases, conventions, rules and practices that are applied by an entity in preparing and presenting its financial statements.

Accounting policies describe the manner in which an entity has elected to account for similar types of transactions in its financial statements.

Context within IDMS

Certain GRAP Standards relate specifically to the accounting treatment of infrastructure assets and need to be considered as part of the asset management processes. The Standards which which need to be considered are:

- GRAP 12 – Inventories;
- GRAP 17 – Property, plant and equipment (PPE); and
- GRAP 21 and 26 – Impairment of assets.

Learning objectives

Upon completion you will understand the following:

- When to recognise PPE specifically infrastructure assets;
- At what value to account for PPE both initially and subsequently;
- The different models that can be used to measure PPE;
- Understand what depreciation and impairment is;
- Understand when to impair an asset;
- When to derecognise PPE;
- Understand when to recognise and measure inventories;
- How to determine the cost of inventories;
- What cost formulas can be used for inventories; and
- When must inventory be written down to its net realisable value.

3.2 GRAP 17 - Property, Plant and Equipment

Subsection 3.2: GRAP 17 – Property, Plant and Equipment

Definition of Property, Plant and Equipment

Property, Plant and Equipment (PPE) is defined by the GRAP 17 as a tangible asset which is held by an entity and used in the production or supply of goods or services or for administration purposes. These assets are recognised in the financial statements when it is probable that the economic benefit or service potential will flow to the entity and the cost can be measured reliably.

Infrastructure assets meet the definition as mentioned above however also display some or all of the following characteristics:

- They form part of a system or network;
- They are specialised and have no alternative use;
- Are immovable; and
- There are constraints on disposal.

Some examples of infrastructure assets include road networks, water networks, electricity networks, communicaiton networks, etc.

Important note:

Major spare parts and stand-by equipment qualify as PPE when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment i.e. GRAP 17 and not GRAP 12.

Measurement of property, plant and equipment

The initial cost which is recognised in the financial statements can consist of the purchase price of the assets, including import duties but excluding rebates, discounts and Value Added Tax (VAT). We can also include all costs directly attributable to getting the asset to its location and condition to operate as intended. In addition to these costs an estimate of future dismantling, major overhaul costs, restoration, rehabilitation costs, etc.

Subsequent to initial measurement an entity can use either the cost or revaluation model to measure their PPE. The majority of entities use the cost model of accounting for their PPE and therefore this is what has been covered below.

On the cost model of accounting assets are depreciated and impaired. These adjustments to the carrying value are recognised as expenses in the statement of surplus and deficit.

Depreciation, useful life and residual value

Deprecation is the systematic allocation of the cost of an asset to surplus and deficit over its useful of the asset and the method reflects the pattern in which it is expected that the asset will be consumed. Methods for depreciation include the straight-line method, diminishing balance method and units of production.

The useful life of an asset is the period over which the asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from asset.

In addition to useful life and deprecation method the residual value of an asset when doing the depreciation calculation. The residual value is an amount that could be received at the balance sheet date when the asset is disposed of at the end of its useful life.

The depreciation method, useful life and residual value are assessed for reasonability and continued appropriateness on an annual basis and any amendments to the method are done in accordance with GRAP 3 (Prior Period Error, Changes in Accounting Policies and Estimates).

Example of a change in useful life and treatment in terms of GRAP 3:

Vehicles with a cost of R1 million and an estimated useful life of 4 years are purchased. During the second year, the remaining useful life is estimated as 2 years. The depreciation charge and carrying values are:

Sub-head	Year 1 R'000	Year 2 R'000	Year 3 R'000	Year 4 R'000
Cost price	1 000	1 000	1 000	1 000
Residual value	(200)	(200)	(200)	(200)
Depreciate amount	**800**	**800**	**800**	**800**
Total estimated useful life – years	4	3	3	3
Depreciation per year: (800/4 & 600/2)	200	300	300	0
Carrying value of asset	**800**	**500**	**200**	**200**
Cost price	1 000	1 000	1 000	1 000
Accumulated depreciation	(200)	(500)	(800)	(800)

We use a component approach to depreciate assets, this is particularly important with infrastructure assets as each component may have a different useful life.

Example of the application of deprecation and the component approach:

- Municipality incurred cost to the value of R 395 000 in constructing a Power Supply Station
- Estimated useful life of Power Supply Station is 15 years
- High Voltage = HV; Medium Voltage = MV

Prior to component approach:
Depreciation charge:
= R 395 000/ 15 year useful life
= R 26 333 per year for 15 years

Component approach:
- Identify:
  - components
  - associated cost per component
  - useful life per component
- Calculate depreciation per component

Component	Cost R'000	Useful life – years	Depreciation R'000
HV Overhead Line	200	10	20
HV Substation	90	15	6
HV Underground Cable	60	20	3
MV Mini Sub-station	45	15	3
Total	395		32

Depreciation commences when an asset is available for use and continues even if the asset is idle. We stop depreciating an asset when it derecognised.

Derecognition of assets

Assets are derecognised from the asset register and financial statements when the asset is disposed of or there is no future economic potential or service potential expected from use or disposal of the asset.

3.3 GRAP 21 and 26 – Impairments

Subsection 3.3: GRAP 21 and 26 – Impairments

Definition of impairment

An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Determining if an impairment is required

At every reporting date the entity assesses its assets for indicators of impairment. If these indicators exist an impairment test or calculation is done. The following are examples of indicators of impairment:

- **External sources**
  - Cessation of demand or need for services provided by asset.
  - Significant long term changes, in technological legal or government policies, with adverse effects on the entity.
- **Internal sources**
  - Evidence of obsolescence of physical damage of the asset.
  - Asset becoming idle, being discontinued or operations becoming restricted.
  - Decision to halt the construction of asset before it is complete or in a usable condition.
  - Construction of an asset taking significantly longer than expected to be completed.
  - Performance of asset significantly worse than expected.

Calculation of the impairment loss

The GRAP Standards deal with two types of assets:

- Cash generating (GRAP 26); and
- Non-cash generating assets (GRAP 21).

Cash-generating assets are assets used with the objective of generating a commercial return, where commercial return means a positive cash flow that is expected to be significantly higher than the cost of the asset. Non-cash-generating assets are assets other than cash-generating assets.

In the municipal environment our assets are dual purpose assets i.e. they generate a return but are also service delivery asset. In these instances, where we are unable to determine if they objective is commercial or service delivery we use GRAP 21 (Impairment for non-cash generating assets). We have therefore focused the module on impairments of non-cash generating assets.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount being the higher of the value in use and fair value less cost to sell.

The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal and value in use is the present value of the asset's remaining service potential.

The value in use of a non-cash generating asset we use the following methods:

1) Depreciated replacement cost:
    - Cost to replace gross service potential which is then depreciated to reflect the asset in a used condition (optimal used condition).
2) Restoration cost approach:
    - Cost of restoring the service potential of an asset to its pre-impaired level.

There can be instances where an impairment loss can be reversed in subsequent years however it is important that the carrying value of the asset after reversal of an impairment does not exceed the carrying value of the asset had there never been an impairment.

3.4 GRAP 12 – Inventories

Subsection 3.4: GRAP 12 – Inventories

Definition of Inventories

An asset is a resource controlled by an entity as a result of a past event and from which future economic benefits/service potential are expected to flow to the entity. Inventories are assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

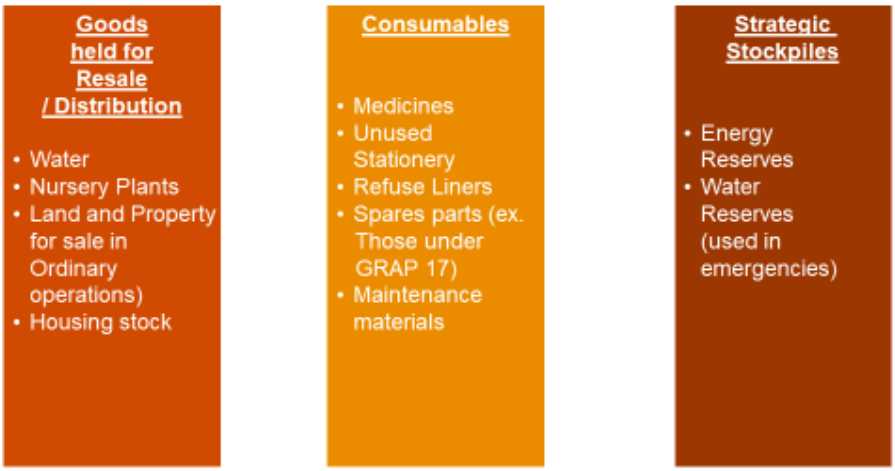
Inventory is recognised in inventory as an asset if and only if:

- It is probably that the future economic benefit /service potential will flow to the entity; and
- The cost of the inventories can be measured reliably.

Important note:

Major spare parts and stand-by equipment qualify as PPE when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment i.e. GRAP 17 and not GRAP 12.

Examples of inventory include:



Measurement of inventory

Inventory is initially measured at cost and subsequently inventories shall be measured at the lower of cost and net realisable value. Where net realisable value is the estimated selling price less estimated costs of completion and the estimated costs to make the sale, exchange or distribution which is specific to entity.

In a municipal environment many of our inventory however is held for distribution through a non-exchange transaction or consumption/distribution at no charge/nominal charge and in these instances the inventory is measured at the lower of cost and current replacement cost. Current replacement cost being the cost the entity would incur to acquire the asset on the reporting date.

Examples of these are

– Distribution at no charge or for nominal charge (e.g. medication distributed at a public clinic or hospital), or

– Consumption in the production process of goods to be distributed at no charge or for a nominal charge e.g. building material to be used in the construction of RDP houses to be distributed for free.

These assessment are to be done at each reporting date and any write-off is recognised in the surplus and deficit.

The initial cost which is recognised in the financial statements can consist of the purchase price of the assets, including import duties but excluding rebates, discounts and Value Added Tax (VAT). We can also include all costs directly attributable to getting the asset to its location and condition to operate as intended.

If an entity is producing the inventory or manufacturing the inventory then the cost of conversion can also be included such as direct material, direct labour, other direct costs and overheads (fixed and variable production costs).

There are two methods which can be used to determine the value of the inventory on hand at year end. These are the first-in-first-out (FIFO) method and weighted average method. Either are acceptable provided that the formula is used consistently year on year.

FIFO: inventories purchased (manufactured) first are sold first i.e. the balance sheet inventory is valued at costs of units most recently purchased (manufactured).

Weighted average method requires inventory at end of period to reflect weighted average cost based on unit cost of both of units on hand at the beginning of the period and units purchased (manufactured) during the period.

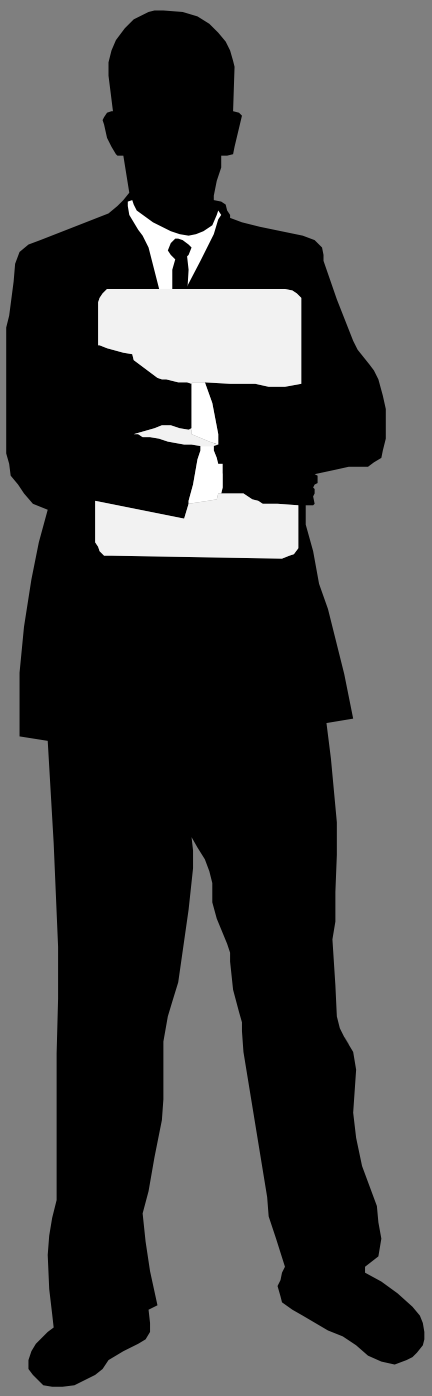
Recognition of an expense

The carrying amount of inventory is expensed in the period in which the related revenue is recognised or if there is no revenue when the goods or service are distributed.

Further any write-downs to net realisable value/replacement cost and all losses of inventories are expensed in the period in which they occur and if any reversals of write-downs occurs these are recognised in the period in which reversal occurs.

Section 7:

Annexures



Annexure A: List of Definitions

Annexure A: Abbreviations

Abbreviation	Meaning
AMMP	Annual Maintenance Management Plan
C-AMP	Custodian Asset Management Plan
CD's	Chief Directors
CFO	Chief Financial Officer
CP	Control Points
DD	Deputy Directors
DM	District Municipality
DoRA	Division of Revenue Act
EoY	End of Year Report
GIAMA	Government Immovable Asset Management Act
GIAMP	Government-wide Immovable Asset Management Policy
GRAP	Generally Recognised Accounting Practice
HoD	Heads of Department
IAMP	Infrastructure Asset Management Plan
IDM	Infrastructure Delivery Management
IDMS	Infrastructure Delivery Management System
IDMSBOK	Infrastructure Delivery Management System Body of Knowledge
IGRFA	Inter-Governmental Relations Framework Act
IPMP	Infrastructure Programme Management Plan
MFMA	Municipal Financial Management Act
MISA	Municipal Infrastructure Support Agent

Abbreviation	Meaning
MM	Municipal Managers
MMP	Maintenance Management Plan
MMRR	Maintenance Management Review Report
MTEF	Medium-Term Expenditure Framework
NDP	National Development Plan
NIAMM	National Immovable Asset Maintenance Management
O&M	Operations and Maintenance
OHS	Occupational Health and Safety
OMP	Operations Management Plan
PDCA	Plan, Do, Check, Act
PFMA	Public Finance Management Act
PICC	Presidential Infrastructure Coordination Committee
RAMP	Roads Asset Management Plan
RASCI	A responsibility matrix that assigns responsibilities as follows: Responsible, Accountable, Support, Communicate and Inform
RMSC	Regional Management Support Contract programme
SCM	Supply Chain Management
SIPDM	Standard on Infrastructure Procurement and Delivery Management
SPLUMA	Spatial Planning and Land Use Management Act; No. 16 of 2013
UAMP	User Asset Management Plan
CIDB	Construction Industry Development Board
IDP	Integrated Development Plan
MSCOA	Municipal Standard Chart of Accounts

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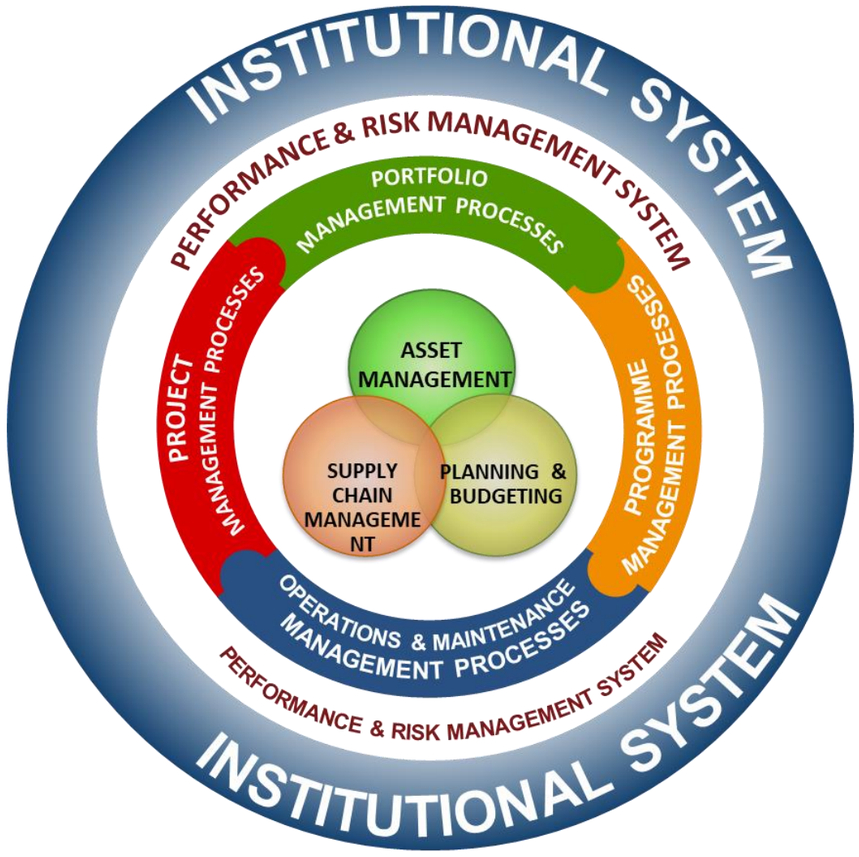
Annexure C: IDMS concept diagram and placemat



IDMS concept diagram

IDMS Placemat