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MUNICIPALITY `S TO ENSURE GAMAP/GRAP COMPLIANCE

About GAMAP/GRAP

Generally Accepted Municipal Accounting Practice (GAMAP) and Generally Recognised Accounting Practice (GRAP). The introduction of GAMAP/GRAP requires national legislation to prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing generally recognized accounting practice, uniform expenditure classifications and uniform Treasury norms and standards. It further calls for municipalities and local government entities to ensure their compliance with the Standards of GRAP.

Objectives of GAMAP/GRAP

The major objectives of GAMAP/GRAP are:

- to ensure consistency in the accounting treatment of transactions and classification of account balances in municipalities.
- to enhance comparability between similar- sized municipal bodies on a national basis.
- to enable users of financial statement to make accurate assessments of risk and returns.

Changes in requirements

The following major changes occurred in the method of disclosing property, plant and equipment. GAMAP/GRAP now requires that a comprehensive Fixed Assets Register be prepared. GAMAP17 also requires that from a disclosure perspective, all items of property plant and equipment must be categorised into infrastructure, community, heritage and other assets (national Treasury publication 2005:20). No changes were made in the classification of non-current assets or current assets.

Importance of proper infrastructure asset management

An extract taken out of a local government Municipality`s Integrated Development Plan, highlights the importance to address backlogs in the municipal infrastructure asset base:

“There is a need to maintain existing public investment and infrastructure of which some is under severe threat of collapse and/or causes concern in terms of legislative liabilities. Due to a lack of adequate funds, such maintenance is in competition with the need to extend services to poorer communities. Despite that it is also a priority to address such imbalances in service delivery, the lack of maintenance of existing assets could result in the total collapse of such service with enormous economic consequences.”

This paragraph emphasises the need for government to ensure the effective and efficient management and protection of all municipalities` infrastructure asset base with regular investment in the maintenance and upgrade of infrastructure and productive equipment.

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e-Logics` status quo assessment

During our involvement with public sector entities, we have identified infrastructure assets as an area where most public sector entities need urgent attention to ensure compliance with GAAP and GRAP/GAMAP.

We also noted that a number of public sector entities have put some effort into addressing the asset problem, but have not succeeded in reducing the areas of non-compliance significantly. A number of reasons for this situation exist:

- The appointed experts that conducted the Fixed Asset Register update only focussed on a small portion of the asset base, and only performed the physical verification on this subset.
- The requirements of full disclosure were not fully understood resulting in missing information to comply.
- Entities do not have the expertise to evaluate the scope and methodology used during the FAR assessment.
- Entities do not have the expertise to evaluate the results from the FAR assessment.

The approach that we suggest is based on a seamless collaboration between a team of experts such as Chartered Accountants, Civil, Mechanical and Asset Management engineers and technicians, valuers and other experts. The whole project is managed to ensure compliance with GAAP and GRAP/GAMAP.

Benefits using the approach outlined below include the following:

- Cost savings by avoiding duplication of actions done by various resources.

- Ensuring an integrated and complete fixed asset register and asset management solution.
- Ensuring full compliance with GAAP/GRAP/GAMAP.
- Unqualified audit opinions for assets.
- The first and only absolute one-stop solution for assets and the preparation of compliant fixed asset registers in the sector.

e-Logics service approach

The world of asset management is flooded with marketing fluff, misconceptions and unrealistic claims. We therefore strongly support a “back to basics” approach to improvement, which ensures understanding, clear direction and ongoing focus in the asset management approach in local government and private sectors. The approach to a Fixed Asset Register (FAR) implementation is based on the following proven process.



Figure 1: Fix Asset Register Compilation Process

The first and most important step in the process to Re-construct the Fix Asset Register is to fully understand the current status and business process environment of the client. It is during this phase that specific definitions are agreed to ensure that the client’s requirements are fully met. Information and processes that needs to be assessed and agreed on includes the following:

- Define the required asset classes

- Determine and agree the level of componentisation
- Agree the count methods
- Database and data availability
- Location categories
- Other parties involvement
- Define the process to ensure sustainable update and maintenance of the FAR
- Roles and responsibilities

From this detailed assessment a complete project plan can be developed paving the way forward to implement a successful Fix Asset Register complying with all financial and asset management best practices and required standards.

Conclusion

The current state of infrastructure and assets in the local government environment is a highly contentious issue. In order to successfully maintain this investment and ensure quality service provision it is critical that these assets are continually monitored from a financial and engineering perspective. E-Logics and its partners have devised an approach and methodology that integrate the expertise from these disciplines to ensure the establishment of an accurate and compliant FAR. The outcomes of this process can then be further used in the asset management processes from an engineering and financial perspective to ensure a sustainable way forward.

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