



# GAMAP:

## *the case in question*

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**This article addresses GAMAP in terms of what is it, why local authorities must convert to and comply with it and how it differs from GAAP?**

### Background

The new South Africa, with its new constitution, has brought about changes far beyond those on the political front. From a financial accounting point of view, the business sector and in particular the public sector have experienced major changes. The activities of the public sector will always remain fundamentally unchanged; namely the delivery of a variety of services to the residents of the country, such as healthcare, safety and security, water, tax collection, etc. however, the manner in which these services are accounted for, in terms of financial accounting, has radically changed over the last couple of years.

Financial accounting is said to be a communication process by means of which financial information is communicated to a wide variety of users. In the public sector, an immense responsibility rests upon the shoulders of accountants, as they have to act as the guardians of public funds and other resources and are therefore accountable for reporting on the utilisation and management of such funds and other resources.

If financial accounting is seen as a communication process, then the accounting basis applied by an entity could be seen as the language used to communicate such financial information. In the past, the public sector used the cash basis of accounting in national and provincial government and fund accounting in local government. This scenario has however changed in the light of our new constitution.

In terms of section 216(1) of the Constitution of the Republic of South Africa (Act 108 of 1996), National Treasury has been tasked with the obligation to develop and prescribe generally recognised accounting practice for all spheres of government. As a result of this, the Public Finance Management Act,

(PFM Act) (Act 1 of 1999), was approved and promulgated by the South African Parliament in March 1999. The purpose of the PFM Act is, amongst others, to regulate financial management at the national and provincial levels of government. In order to facilitate this, Generally Recognised Accounting Practice (GRAP) has been introduced for national and provincial government. A series of Generally Accepted Municipal Accounting Policies (GAMAP) was introduced in the same year, to give guidance in this regard to local authorities. Subsequent to this, the Municipal Finance Management Bill (MFM Bill) was released, but this has not been promulgated as an act to date. This article will however henceforth only concentrate on GAMAP and local authorities.

### What is GAMAP?

As previously mentioned, GAMAP is the "language" that has been chosen by the MFM Bill, by which local authorities should communicate financial information.

GAMAP is however not legislation. It is merely a tool to be used by municipal officials to assist them with the preparation and presentation of financial statements for the local authorities. Even though GAMAP is not legislation, the application thereof will be enforced on all municipal officials in terms of the MFM Act.

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The purpose of GAMAP is also not to regulate the transactions that a local authority enters into, nor to prescribe whether a local authority is allowed to enter into a specific transaction or not. Its purpose is rather to regulate the manner in which all transactions

are to be recorded and dis-

closed in the financial statements, regardless of whether or not such transactions are legal, and whether or not the transactions are authorised.

GAMAP consists of a number of accounting statements that firstly set out underlying concepts for the preparation and presentation of financial statements (GAMAP000 and GAMAP100), but also interprets these concepts and the application thereof for specific types of transactions. This is done by supplying rules and guidelines on various accounting issues in GAMAP101 to GAMAP114.

## Why GAMAP?

GAMAP is to replace the fund accounting system, which is currently used by local authorities. The transition to GAMAP is consistent with a similar conversion in the rest of the public sector to an accrual basis of accounting. The accrual basis is also in use in the private sector.

Users of municipal financial statements will therefore obtain a better understanding of the operating results, financial position and cash flows of municipalities, as the accrual basis of accounting is more familiar to a wide range of users than fund accounting. Furthermore, comparisons between various municipalities would also be possible, as all municipalities will apply the same accounting principles. It should also be easier for municipal officials to account for transactions and prepare financial statements, as they have exact guidelines within which to perform their duties.

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## What is GAAP?

In the same manner that the PFM Act regulates national and provincial government and that the MFM Act (still to be promulgated) will regulate local government, the Companies Act (Act 61 of 1973) regulates public and private companies. Section 286(3) of the Companies Act requires companies to comply with GAAP (Generally Accepted Accounting Practice) when preparing and presenting financial information. It can thus be said that GAAP is to companies what GAMAP is to local authorities.

GAAP also consists of a number of accounting statements, that set out concepts, rules and guidelines for the preparation of financial statements of companies. These accounting statements are found in the Member's Handbook of the South African Institute of Chartered Accountants.

## Comparing GAMAP to GAAP

GAMAP presently consists of 15 statements dealing with a variety of issues. The most important of these statements are GAMAP000 (framework for the preparation and presentation of financial statements) and GAMAP100 (presentation of financial statements). These two statements can be compared to the GAAP statements AC000 and AC101.

GAMAP000 sets out certain qualitative characteristics of financial statements, namely understandability, relevance, materiality, reliability, faithful representation, substance over form, neutrality, prudence, completeness and comparability. These exact characteristics are defined by GAAP statement AC000.

GAMAP000 and AC000 identify the same elements of financial statements (assets, liabilities, income and expenses). The only exception is that of own capital in GAMAP000, which is the residual interest in the assets of a municipality after deducting all its liabilities. AC000 calls this equity, even though the AC000 definition is congruous with that of the own capital definition in GAMAP000.

GAMAP000 and AC000 also set out exactly the same recognition and measurement criteria for the elements of the financial statements.

GAMAP100, which in addresses the presentation of financial statements, discusses certain concepts that should underlie such presentation. These underlying concepts deal with fair presentation, going concern, accrual basis of accounting, accounting policies, materiality and aggregation, off-setting, consistency of presentation and comparative information. Again, the GAMAP100 approach to these concepts agrees with what is referred to as overall considerations in AC101.

In terms of GAMAP100, a municipal set of financial statements will consist of a balance sheet, income statement, cash flow statement, notes to the financial statements and appendices to the financial statements. A private sector set of financial statements will consist of the same elements, but the appropriation portion of the income statement will be set out in a separate statement, known as the statement of changes in equity.

GAMAP000 mentions that there are certain underlying assumptions to financial statements, namely the accrual basis of accounting and the going concern concept. Again, this is in agreement with AC000.

It can thus be said that, with regard to all the following aspects, the principles of GAMAP are in essence the same as those laid down by GAAP:

- the composition of financial statements – balance sheet, income statement, cash flow statement, etc.;
- the elements of financial statements – assets, liabilities, income, expenses and capital;
- the recognition and measurement criteria for the elements of financial statements;

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tion, located in disparate sites – and it must be done in a short period of time.

In this regard, e-learning offers significant advantages, both to the individual and the government organisation. For the learner, it offers desktop access, choice of time and place, and self-paced learning. For the organisation, electronic learning offers much more, such as the cost savings in instructor salaries, the ability to track and evaluate the learning process, as well as the ability to reach a large number of people in diverse locations.

## Build user confidence

Digital government depends on user confidence that business conducted via the Internet is reliable, secure, and private.

Assuring users is a whole new ball game in the new economy, where the basic notions of transactions, signatures, security – even risk – are being redefined. Ways and means must be developed to protect information and assure its integrity.

Security is a somewhat different matter when it comes to IT. In this context, security refers to techniques for assuring that data stored in a computer cannot be read or compromised. That means making sure that only authorised individuals have access to sensitive information and that unauthorised users cannot access it, either in transmission or in storage. Ultimately, it means assuring the integrity of the data.

## Risk management

Governments today find themselves in a difficult position. On the one hand, the digital economy places new pres-

ures on organisations to take risks; on the other, the public is not willing to tolerate failure. This leaves the public sector with a number of issues that need to be addressed.

The first issue is *reliability*. When the transformation to e-government is effected, there is a need to ensure that the system is up and running. That means considering all possible points of failure – servers, networks, software – and identifying where redundancies (safety mechanisms) are needed. At the very least, a comprehensive plan is needed, along with plenty of back-up, and a thoughtful segmentation of the system.

The next step is managing the security risks; in other words, implementing specific solutions to provide a trusted, secure communications and transaction environment. Public key infrastructure (PKI) technology – security services that enable the use of public key cryptography, digital certificates, and digital signatures. – is emerging as the standard.

## Build creative teams

The first challenge of e-government seems to lie in deciding what to do. But the real challenge is how to do it. The answer lies in teamwork, in other words, forging closer relationships with other levels of government, and with the private sector.

It is however, extremely important to choose the right team-mates. They need to understand state and local government as well as know and understand the technology required to implement successful e-government and be able to help government adapt this technology to their mission and environment.

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- the underlying concepts and assumptions of financial statements; and
- the characteristics of financial statements.

The series of GAMAP and GAAP statements are however not limited to those referred to above. There are numerous other statements that all deal with a specific aspect of the financial statements. The following can serve as examples:

- GAMAP106 and AC111 - revenue recognition;
- GAMAP103 and AC130 - provisions, contingent liabilities and contingent assets;
- GAMAP113 and AC123 - property, plant and equipment;
- GAMAP101 and AC103 - net surplus for the year.

The above list is not remotely extensive. From an evaluation and comparison of the above statements, as well as all the other GAMAP and GAAP statements in the series, it is evident that the principles, rules and guidelines applied by GAMAP are in essence the same as those of GAAP. There is often an obvious shift in emphasis or terminology in GAMAP, for example, the term surplus is

used instead of profit, and the types of revenue, property, plant, equipment, etc. are different, but other than that, no major differences could be detected.

## Conclusion

Fund accounting, which is currently used by local authorities, is a very specialised basis of accounting with limited use. Users of financial statements in general, such as bank, councillors, creditors and tax payers, normally have very limited, if any knowledge and experience of interpreting financial statements prepared on the fund accounting basis. The implementation of GAMAP will address these limitations to a large extent and ensure greater understandability of financial statements, as well as enhance the accountability and transparency of local authorities.

Over and above this, due to the fact that GAMAP is so similar to GAAP, the implementation of GAMAP in local authorities will also ensure greater similarity to accounting principles applied in other levels of the public sector, as well as the private sector. This is not just a benefit to the users of financial statements, but also to the preparers thereof, as they would become more compatible and marketable in a broader spectrum of entities.

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