

Practical Guidance for Traffic fines

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1. Purpose

The purpose of this document is to serve as practical guidance on the accounting treatment for traffic fines. A number of issues have been raised relating to the accounting treatment of traffic fines issued by municipalities (as principals) using Standards of GRAP.

This document outlines the principles that should be applied in accounting for traffic fines using GRAP 23 and IGRAP 1 and how they might be applied by municipalities (as principals) under certain circumstances. While this guidance is intended for municipalities, the principles may have relevance for other entities engaged in similar activities.

The guidance outlined in this document may need to be revised as more information becomes available about the practices of municipalities in issuing, collecting and accounting for traffic fines.

2. Introduction

Part A of Schedule 4 of the Constitution gives both National and Provincial Government a concurrent function in matters listed therein, Road Traffic Regulation being one of those matters.

The OAG's view of the Constitution gives both National and Provincial government a mandate to determine regulations and policies governing road traffic matters. Therefore, this provision limits National and Provincial government's mandate to a regulatory role.

Section 156 (1) of the Constitution states that: "*A municipality has executive authority in respect of, and has the right to administer -*

the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5"

Part B of Schedule 5 includes amongst others Traffic and Parking matters. Therefore, municipalities have the executive mandate over Traffic and Parking.

In order for municipalities to effectively fulfil its executive mandate, the following elements need to be present, however, the absence of the elements below, does not prohibit a municipality from performing its duties:

- A. Traffic Management Systems
- B. Service Level Agreements
- C. Policies, Processes and Standard Operating Procedures (ito AARTO and CPA)

3. Types of traffic fines

The two types of traffic fines that are issued are listed below:

- Fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO Act).
- Fines issued in terms of the Criminal Procedures Act.

Traffic fines are issued in terms of the AARTO Act by way of notices to offenders which specify the value of the fine that must be paid, along with any discount that can be applied if the fine is paid within a specific period of time.

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process).

4. General Recognition of Traffic Fines

This section of the guidance outlines the principles that need to be applied in accounting for traffic fines. As different requirements became effective in different reporting periods, this section also outlines when specific requirements became effective and what their impact may have been, or will be, in a particular reporting period.

4.1.1 *Prior to 1 July 2012*

Historically, municipalities accounted for traffic fines by applying the principles in the Standard of Generally Accepted Municipal Accounting Practice on *Revenue* (GAMAP 9). GAMAP 9 outlined the following principles in relation to the recognition and measurement of revenue from traffic fines:

Paragraph .39: Revenue from the issuing of fines shall be recognised when:

- (a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- (b) the amount of the revenue can be measured reliably.

Paragraph .41: An estimate should be made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

4.1.2 *Principles to be applied from 1 July 2012*

The Standard of GRAP on *Revenue from Non-Exchange Transactions (Taxes and Transfers)* (GRAP 23) was issued in February 2008 and became effective for municipalities on 1 July 2012. As traffic fines are non-exchange revenue transactions, the principles in GRAP 23 should have been used by municipalities to account for traffic fines from 1 July 2012. GRAP 23 outlines the following broad principles for the recognition of revenue from non-exchange transactions:

Paragraph .43, “An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue.”

Paragraph .40 indicates that “An asset acquired through a non-exchange transaction shall initially be measured at its fair value at the date of acquisition.”

In terms of GRAP 23, fines are classified as “Transfers”. The following guidance is provided in GRAP 23 on the recognition and measurement of “transfers”:

Paragraph .78: “Transfers satisfy the definition of an asset when the entity controls the resources as a result of a past event and expects to receive future economic benefits or service potential from those resources. Transfers satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.”

Paragraph .79: “An entity obtains control of transferred resources either when the resources have been transferred to the entity, or the entity has an enforceable claim against the transferor. Many arrangements to transfer resources become binding on all parties before the transfer of resources takes place....”

Paragraph .89: “...Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.”

4.1.3 *New principle to be applied from 1 July 2013*

In 2012, the ASB revised IGRAP 1 *Applying the Probability Test on the Initial Recognition of Revenue* to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

4.1.4 Impact of GRAP 23 and IGRAP 1 on previous bases of accounting

When entities adopted GRAP 23 for the first time in the 2012/13 reporting period, they should have developed policies that resulted in traffic fines being recognised when the event that gives rise to an enforceable claim occurs and a reliable measure of the receivable/revenue can be made.

GRAP 23 provides explicit guidance about the point at which revenue from traffic fines arises while GAMAP 9 was silent on this matter. GRAP 23 requires revenue to be measured based on the fair value of the receivable at acquisition, using the entity's best estimate of the inflow of resources to the entity. GAMAP 9 specified that traffic fines could be measured using an estimate based on past experience of amounts collected. GAMAP 9 also acknowledged that where a reliable estimate could not be made, then revenue could be recognised on the cash basis. There are clear differences between GAMAP 9 and GRAP 23 both on the point at which receivables and revenue from traffic fines are recognised, as well as how they should be measured.

2012/13: In measuring receivables and revenue from traffic fines in accordance with GRAP 23 in the 2012/13 reporting period, entities should have considered all relevant facts and circumstances. As the amendment to IGRAP 1 was only effective for municipalities from 1 July 2013, the probability of non-payment may have been included in the initial recognition and measurement of revenue from traffic fines in the 2012/13 reporting period. All other relevant factors should however have been considered in initially recognising and measuring receivables and revenue from traffic fines. Where entities did not consider all other relevant factors as indicated in GRAP 23 in accounting for traffic fines in the 2012/13 reporting period, they should consider whether a correction of an error is necessary.

2013/14: The amendment to IGRAP 1 is effective from 1 July 2013 and should be applied prospectively. This means that if an entity did include the probability of non-payment in the initial recognition and measurement of revenue in 2012/13, then in 2013/14 it need not retrospectively restate the comparative information to exclude the probability of non-payment.

Application of principles

This section outlines how the principles in GRAP 23 and IGRAP 1 are applied in recognising and measuring receivables and revenues related to traffic fines. Where possible, the practical application is illustrated.

Does the transaction give rise to an asset?

For an entity to demonstrate that a non-exchange transaction gives rise to an asset, it needs to demonstrate that:

- (a) It has control of the resource as a result of a past event; and
- (b) Economic benefits or service potential is expected to flow to the entity.

Traffic fines result in amounts payable by offenders to the relevant authority. This means that the relevant authority issuing the fine (referred to as the “entity” in this document) has an enforceable claim against an offender to undertake specific actions, which in most instances for traffic fines means the payment of cash of a specific amount. An entity should therefore test whether this enforceable claim or right to collect cash (receivable) meets the definition of an asset.

Control of an asset as a result of a past event

Traffic fines are defined as economic benefits or service potential received or receivable by an entity as a consequence of the breach of laws or regulations. The past event that therefore gives rise to the receipt of economic benefits or service potential is the breach of a law or regulation. The breach of law or regulation, together with the issuing of a traffic fine therefore will give rise to a receipt of future economic benefits or service potential.

Control of the traffic fine is demonstrated through the existence of an enforceable claim. A notice, summons or other document outlining the breach of the law is usually issued by the entity at the same time (or shortly after) the breach to the offender. This outlines the details of the enforceable claim that the relevant authority has against the offender. The notice or summons, is a mechanism to demand payment or notify the recipient of the infringement. The chief trigger, however, is the infringement and the resultant traffic fine being issued for the breach of law or regulation.

Future economic benefits or service potential are expected to flow to the entity

The entity has a claim that is enforceable in law. An entity can explore various legal means and processes to enforce the payment of the fines. This means that there is a high expectation that future economic benefits or service potential will flow to the entity in future. (IGRAP 1 is discussed in paragraph 23 in the context of initial recognition).

When should the asset be recognised?

Where the definition of an asset is met, the entity should consider whether it should be recognised. The asset (receivable) should be recognised when it is probable that future economic benefits or service potential will flow to the entity and the value of the asset (in this case, fair value) can be measured reliably.

Probable that future economic benefits or service potential will flow to the entity

Paragraph 20 indicates that because a legally enforceable claim exists, there is a high expectation that economic benefits or service potential will result from the asset. The actual economic benefits or service potential received by entities in revenue transactions may however be low because of non-payment by offenders.

IGRAP 1 indicates that non-payment in exchange and non-exchange revenue transactions should be considered when assessing impairment rather than in the initial consideration of whether or not it is probable that economic benefits or service potential will flow to the entity. As public sector entities are required to collect all revenue due to them, IGRAP 1 ensures that appropriate accountability is exercised over this process. Even though IGRAP 1 calls for full recognition, this does not imply 100% recognition and the best estimate of the inflow of economic benefits according to GRAP 23 still needs to be considered. The amount that the entity is entitled to should form the basis of the amount recognised initially as an asset (receivable) and as revenue. The entity may need to use estimates to determine the amount of revenue that it is entitled to collect; for example where reductions or early settlement discounts are offered. Based on IGRAP 1, the

probability of collecting revenue is not taken into account when estimating the amount that should initially be recognised as revenue; only the amount that the entity is entitled to.

Reliable measure of the asset

To recognise an asset from a non-exchange transaction, an entity must be able to reliably determine its fair value¹. The value of the fine that can be imposed on the offender is usually stipulated in legislation, regulation or equivalent, and will vary depending on the nature and severity of the offence. The amount due by a particular offender is usually indicated on the notice, summons or similar document issued. In these instances, the asset (receivable) can be measured reliably. Where the amount due by an offender is not specified, a separate legal process usually needs to be followed to determine the amount or other penalty due. In these instances, a reliable measure of the asset (receivable) may only be available upon completion of this process.

At what amount should the asset be recognised initially?

The asset should be recognised initially at fair value, which is the best estimate of the inflow of economic benefits (reading paragraphs .40 and .89 of GRAP 23 together).

The amount due by a particular offender should form the basis of the amount recognised initially as an asset (receivable) and as revenue. However, other factors need to be considered when determining the amount of the receivables and revenue that should be recognised initially. Even though IGRAP 1 calls for full recognition, this does not imply 100% recognition, but rather according to full accrual principles, rather than recognition on the cash basis. The best estimate of the inflow of economic benefits according to GRAP 23 still needs to be considered for the following scenarios:

- a. Accounts receivable (paid before due date): Determine the probability of amounts paid using prior year trends for payments received where offenders have utilised the discounts/rebate for early payment.
- b. Accounts receivable (paid after due date): Allocate the probability of further receivables from judicial/collection processes, based on:
 - i. the probability of a traffic fine being written off,
 - ii. the probability of a rebate being offered,
 - iii. the probability of enforcement at full value (with or without penalties).
- c. Accounts receivable – without value: Where amounts are not determinable, possibly consider a contingent asset in the notes to the AFS, highlighting the amount of infringements issued, or alternatively account for these types of receivables on a cash basis.

It should be noted that for (a) and (b), prior-year cash collection ratios cannot be used to determine a fair value for receivables at initial recognition.

At what amount should the asset be measured after initial recognition?

As traffic fines are statutory receivables, there is no explicit guidance on the subsequent measurement of these receivables for the 2013/14 reporting period. An entity should develop its own accounting policy for the subsequent measurement of these receivables using Directive 5 *Determining the GRAP Reporting Framework* and GRAP 3.

¹ GRAP 108 *Statutory Receivables*, although not yet effective, explains fair value in the context of statutory transactions.

A. Fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO Act).

The Road Traffic Management Corporation (RTMC) Act mandates the RTMC to pool powers and resources and to eliminate the fragmentation of responsibilities for all aspects of road traffic management across the various levels of government.

This mandate includes road traffic law enforcement, which is enforced under the Administration Adjudication of Road Traffic Offences (AARTO) Act

1 Mandate of the AARTO Act

“To promote road traffic quality by providing for a scheme to discourage road traffic contraventions, to facilitate the adjudication of road traffic infringements, to support the prosecution of offences in terms of the national and provincial laws relating to road traffic, and implement a points demerit system; to provide for the establishment of an agency to administer the scheme; to provide for the establishment of a board to represent the agency; and to provide for matters connected therewith”

The RTMC has transferred the latter sub-function to the Road Traffic Infringement Agency (RTIA), an agent established in terms of AARTO Act.

2 Road Traffic Infringement Agency (RTIA) functions

The RTIA is empowered in terms of subsection (1) (a) of the AARTO Act to perform the following functions:

- a) Receiving notices from any issuing authority if an infringer has failed to comply with an infringement notice;
- b) Considering representations from an infringer with regard to an infringement notice relating to a minor infringement;
- c) Issuing a courtesy letter to an infringer who has failed to comply with an infringement notice;
- d) Issuing an enforcement order against an infringer who has failed to comply with the requirements of a notification or a courtesy letter, or who has failed to appear in court;
- e) Issuing a warrant against an infringer who has failed to comply with an enforcement order;
- f) Revoking an enforcement order; and
- g) Updating the national contraventions register in the prescribed manner.

Local Authorities are empowered as issuing authorities to issue road traffic fine infringement notices and the RTIA has the administrative responsibilities to enforce collection and adjudication processes.

Paragraph 32(1) of the AARTO Act states the following:

“...any penalty received by the agency in terms of this Act must be paid over monthly, after deduction of an amount equal to the discount contemplated in section 17(1) (d), to the issuing authority under whose authority the infringement notice was issued, and if it was not issued under the authority of such authority, to the issuing authority within whose area of jurisdiction the infringement was committed...”

Furthermore, paragraph 32(2) states that,

“...any fine received in respect of any conviction under the national and provincial laws relating to road traffic, must be paid over monthly to the issuing authority under whose authority the infringement notice was issued, and if it was not issued under the authority of such authority, to the issuing authority within whose area of jurisdiction the infringement was committed...”

It is clear from the above that the RTIA's functions are restricted to the administration of traffic fines related offences and the issuing of traffic fines is controlled by the local authorities. The RTIA therefore acts as an agent for local authorities. The local authority, who acts as the issuing authority, is the ultimate beneficiary or recipient of the economic benefits flowing from the transaction. The determinant of the actual beneficiary will be based on the jurisdiction under which the infringement has occurred.

3 Accounting treatment for Traffic Infringements under the AARTO Act

3.1 Initial recognition and measurement: Traffic Fines paid within 32 days

Where the amount due by a particular offender is specified on the notice, summons or equivalent document and the general recognition criteria are met, the entity issuing the fine may offer reductions in certain instances. For example, fines issued in terms of the AARTO Act can be reduced by 50% if paid within a specified period of time. The offering of these reductions has the potential to reduce the amount that an entity is entitled to collect.

The entity will therefore need to estimate the likelihood of these discounts being taken up by offenders when measuring the asset (receivable) and amount of revenue that should be recognised. Any variations in the amount of reductions estimated are treated as a change in the estimated revenue and are accounted for as a change in accounting estimate in accordance with GRAP 3 *Accounting Policies, Changes in Estimates and Errors*. An entity should consider the disclosures in GRAP 1 *Presentation of Financial Statements* to ensure that relevant information is provided to users about how the assumptions applied in estimating revenue.

To illustrate the effect of this in a practical example:

An entity issues traffic fines in terms of the AARTO Act worth R1 million in the 2013/14 reporting period. If an offender pays within 32 days, the value of the fine is reduced by an early payment rebate of 50%.

From reliable previous trends, experience or records, it is established that 20% of offenders take advantage of this reduction. The remaining 80% is collected by the Road Traffic Infringement Agency (after 32 days have expired). Receivables and revenue to the value of R100 000 [R1 000 000 X 20% X 50%] are recognised initially for the fines subject to rebates.

Initial recognition and measurement of fines subject to rebates (Issuing authority)

Dr. Receivable	R100 0000
Cr. Revenue from Non-exchange transaction (Traffic fine)	R100 000

Initial recognition of traffic fine revenue of 20% of R1 000 000 = R200 000, which is subject to early payment discount of 50% (R1 000 000 X 20% X 50%) = R100 000

3.2 Initial recognition and measurement: post 32 days period

Although it might seem that the issuing authority is legally entitled to raise 100% of face value of the fine as a receivable (post the 32 days discount period), it is not so because in accordance with the AARTO Act paragraphs 32 (1) and (2), RTIA are legally entitled to receive 50% of the face value of such fine plus other administrative costs so incurred (e.g. courtesy letter and enforcement orders fees) as compensation for their services in collecting and adjudication process.

3.3 Change in estimate (Issuing authority)

A change in accounting estimate is when newer and more reliable information informs the entity that the previous amounts used to measure revenue receivable need to be adjusted. If after initial recognition, it becomes clear that more offenders have taken up the early payment reduction, say from 20% to 30%, then the receivables and revenue recognised initially for pre-32 day payments above are increased by a further R50 000 and accounted for as a change in estimate.

NOTE: The effect of this entry may be cancelled out by the corresponding reduction of receivables due by RTIA, so technically this entry is purely a reallocation of the class of receivables for discounted versus non-discounted payments.

3.4 Impairment

As traffic fines are statutory receivables, there is no explicit guidance on the subsequent measurement of these receivables for the 2013/14 reporting period. An entity should develop its own accounting policy for the subsequent measurement of these receivables using Directive 5 *Determining the GRAP Reporting Framework* and GRAP 3. Impairment is when there is an indication that the collection of the fine amount has been reduced or no longer collectible. Impairment tests will need to be performed to determine the further collectability of receivables raised.

B. Traffic Fines issued in terms of the Criminal Procedures Act.

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process).

1 Accounting treatment for Traffic Infringements under the Criminal Procedures Act

1.1 Initial recognition and measurement

Where the amount due by a particular offender is specified on the notice, summons or equivalent document and the general recognition criteria are met, the entity issuing the fine may offer reductions in certain instances. For example, fines issued in terms of the Criminal Procedures Act may be reduced by a certain percentage if paid within a specified period. The offering of these reductions has the potential to reduce the amount that an entity is entitled to collect.

The entity will therefore need to estimate the likelihood of these discounts being taken up by offenders when measuring the asset (receivable) and amount of revenue that should be recognised. Any variations in the amount of reductions estimated are treated as a change in the estimated revenue and are accounted for as a change in accounting estimate in accordance with GRAP 3 *Accounting Policies, Changes in Estimates and Errors*. An entity should consider the disclosures in GRAP 1 *Presentation of Financial Statements* to ensure that relevant information is provided to users about how the assumptions applied in estimating revenue.

To illustrate the effect of this in a practical example: An entity issues traffic fines in terms of the Criminal Procedures Act worth R1 million in the 2013/14 reporting period with the following probabilities attached to different scenarios based on reliable prior year trends, experience or records. (It should be noted, that if no reliable trends, experience or records exist, the full R 1 000 000 will be recognised at initial measurement).

Example

- A: Fines paid within 30 days at discounted value of 25%: 10%
- B: Fines paid after 30 days at full value: 40%
- C: Fines subject to further litigation, fully enforced at 100%: 25%
- D: Fines subject to further litigation, reduced to 50%: 20%
- E: Fines subject to further litigation, written off in full: 5%

Dr. Receivable	R775 000
Cr. Revenue from Non-exchange transaction (Traffic fine)	R775 000

Initial recognition of traffic fine revenue of R1 000,000, according to the probability of collection scenarios:

Recognised

A: Fines paid at discounted value of 25%: (10% * R1 000 000 * 25%)	= R25 000
B: Fines paid at full value: (40% * R1 000 000)	= R400 000
C: Fines subject to further litigation at 100%: (25% * R1 000 000)	= R250 000
D: Fines subject to further litigation reduced to 50%: (20% * R1 000 000 * 50%)	= R100 000
E: Fines subject to further litigation, written off in full: (10% * R1 000 000 * 0%)	= R 0

A change in accounting estimate is when newer and more reliable information informs the entity that the previous amounts used to measure revenue receivable need to be adjusted. If after initial recognition, it becomes clear that more offenders have taken up the early payment reduction, say an increase from 10% to 20%, and as a result fines paid at full value reduces from 40% to 30%, then the receivables and revenue are reduced by a further R75 000 and accounted for as a change in estimate.

1.2 Change in estimate (Issuing authority)

Dr. Revenue from Non-exchange transaction (Traffic fine)

R75 000

Cr. Receivable

R75 000

Being increase in discounted fines from 10% to 20%: $[(20\%-10\%) * R1\,000\,000 * 25\%] - [(40\%-30\%) * R1\,000\,000] = R75\,000$ reduction

1.3 Impairment

As traffic fines are statutory receivables, there is no explicit guidance on the subsequent measurement of these receivables for the 2013/14 reporting period. An entity should develop its own accounting policy for the subsequent measurement of these receivables using Directive 5 *Determining the GRAP Reporting Framework* and GRAP 3. Impairment is when there is an indication that the collection of the fine amount has been reduced or no longer collectible. Impairment tests will need to be performed to determine the further collectability of receivables raised.