

MODIMOLLE- MOOKGOPHONG LOCAL MUNICIPALITY



TRAFFIC FINES: DRAFT RECOGNITION, MEASUREMENT & IMPAIRMENT POLICY

FOR THE YEAR 2026/2027

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PART 1 OBJECTIVE

The purpose of this document is:

- a) To set out a methodology for the impairment of receivables in line with the applicable accounting standards;
- b) To ensure that sufficient allowance is made for the impairment of receivables in the financial statements;
- c) Ensure that receivables disclosed in the financial statements are stated at amounts that are deemed collectable; and
- d) To promote transparency as required by sections 215 and 216 of the Constitution when dealing with receivables and debt recognition and measurement including Impairment considerations.
- e) This document outlines the principles that should be applied in accounting for traffic fines, and how they might be applied in certain circumstances.
- f) The municipality acts as principal in relation to the issuing of traffic fines

PART 2 BACKGROUND

There are commonly two types of traffic fines that are issued:

1. Fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO Act).
2. 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 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 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).

PART 3 RECOGNITION AND MEASUREMENT OF TRAFFIC FINES

This section outlines how the principles in GRAP 23 and IGRAP 1 are applied in recognizing 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 are 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.

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. 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 recognized?

Where the definition of an asset is met, the entity should consider whether it should be recognized. The asset (receivable) should be recognized 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.

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.

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 recognized initially?

The asset should be recognized 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 recognized initially as an asset (receivable) and as revenue. There is however other factors that needs to be considered when determining the amount of the receivables and revenue that should be recognized initially.

PART 4 PROVISIONS FOR TRAFFIC FINES IMPAIRMENT

- 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.”

PART 5 APPLYING THE PROBABILITY TEST ON INITIAL RECOGNITION OF REVENUE, GRAP 1 AND GRAP 23

- Based on the municipalities interpretation of GRAP, at the time of initial recognition of non-exchange revenue it is not appropriate to assume that revenue will not be collected as the municipality has an obligation to collect all revenue and this would be contrary to normal business principles and its legislative mandate. Accordingly, the municipality concluded that the full amount of non-exchange revenue should be recognized at the initial transaction date.
- All estimates of revenue should be based on amounts collectible, not previously collected
- Assessing and recognizing impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears and there is a payment trend established.
- Impairment on all traffic fines outstanding is calculated on a basis of the average of uncollectable rate over the full period of traffic fines per type of traffic fine.
- The disclosure of the subsequent impairment improves the information provided to users of the financial statements and the impairment will be fairly stated after considering payment trends.
- Based on past experience the 50% discount applicable to all offenders who pay traffic fines within one month is clearly trivial to management and stakeholders and factoring it when recognizing traffic fines have no material effect on the fines revenue since the probability of offenders paying within one month is less than 1% of all fines issued every month/year.
- Fines with an invalid ID and Car registration number associated with it are provided for 100% for all years only if the consolidated amounts of these fines are material or would significantly change the impairment provision. Invalid ID and Car registration number imply that the traffic fine may not be traced to the offender.
- The provision for impairment on all traffic fines outstanding is calculated on a basis of the average of uncollectable rate over the full period of traffic fines per type of traffic fine.
- Impairment probability may be revised each reporting year if deemed necessary to fairly present all balances relating to traffic fines impairment.