

Public Sector: Accounting and Finance

Presenters: **Caryn Maitland CA(SA)**
Bronwyn MacCallum CA(SA)

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Session 8: Accounting in the PFMA Cycle

Understanding accounting in the PFMA cycle

Presenter

Caryn Maitland CA(SA)

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.



Presenter

Bronwyn MacCallum CA(SA)

Bronwyn qualified as a CA(SA) in 2004 and has spent time in private practice as a partner and later director of small and medium firms as well as a tenure at the Auditor-General of South Africa as a Senior Manager and SAICA Training Officer. Her current professional focus is on the design, implementation and monitoring of systems of quality control in the auditing profession for firms and for engagements.

Bronwyn has also spent many years lecturing Auditing, IFRS and Public Financial Management at undergraduate, post-graduate and professional levels, both face to face and in the design and implementation of blended and on-line learning platforms. Bronwyn has played active roles at both SAICA and IRBA in board sub-committees related to professional practical training and development, and in various public sector governance structures and audit committees.

Bronwyn has significant experience in auditing in the public sector in South Africa, in audit committee and financial misconduct governance structures and speaking and presenting to political oversight structures. Bronwyn has also had extensive experience in the authoring and quality assurance processes of professional learning content for public finance management and related disciplines in government for the English speaking African countries. Topics include accounting and auditing in the public sector, public sector context, public financial management, financial management, economics, performance management, ICT and communications.

The content and training materials prepared and delivered have catered to both qualified accounting professionals working in the public sector, as well as to long-serving public servants who have not been formally trained in PFM, accounting and finance in the public sector.



COURSE OUTLINE

Session Objectives

Obtain a high-level understanding of:

- The mandate of the Accounting Standards Board
- Identify the Conceptual Framework for General Purpose Financial Reporting as issued by the ASB applicable to PFMA entities
- Identify the legislation that prescribes the relevant accounting frameworks
- Differentiate between cash basis and accrual accounting
- Understand the framework for the cash basis of accounting
- Understand the content that impacts on the application of International Financial Reporting Standards to the public sector

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PFMA recap

- Public Finance Management Act (Act No 1 of 1999)
- National and provincial departments, Constitutional Institutions and public entities
- Schedules (national and provincial public entities)
- Financial year 1 April to 31 March

The Accounting Standards Board

- PFMA defines “generally recognised accounting practice”
- PFMA Chapter 11: Accounting Standards Board
- Juristic person
- Governed by a Board
- Mandate:
 - Set the Standards of GRAP
 - Promote the adoption of the Standards of GRAP
 - Monitor the Implementation of Standards of GRAP
 - Influence development of international standards
 - Manage resources to ensure the ASB is operationally effective

Accounting frameworks: Legislation

- Mandate in the context of South Africa and the PFMA
 - The PFMA uses the phrase “**generally recognised accounting practice**” (**grap**)
 - Places the responsibility for the setting of **grap** with the ASB
 - States that that NT and PT must enforce prescribed standards of **grap**
 - Prescribes that NT and PT must prepare consolidated AFS in accordance with **grap**
 - States that an accounting officer of a department, trading entity or SI must prepare AFS in accordance with **grap**
 - States that an accounting authority must prepare AFS in accordance with **generally accepted accounting practice** unless the ASB approves the application of **grap** for that public entity

Accounting frameworks: Directive 5

Entity	Reporting Framework
National and provincial departments	Modified Cash Standard
Trading entities	GRAP
National and provincial public entities (3A, 3C)	GRAP
Constitutional institutions	GRAP
High capacity municipalities	GRAP
Medium capacity municipalities	GRAP
Low capacity municipalities	GRAP
Municipal entities	GRAP
Parliament	GRAP
Legislatures	GRAP
Public TVET and CET colleges	GRAP
Major public entities, national and provincial government business enterprises (2, 3B and 3D)	IFRS or GRAP
Entities not listed in the PFMA	GRAP
Traditional authorities	As determined by provincial COGTA

Directive 5 (continued)

- GRAP:
 - Standards of GRAP
 - Directives issued by the ASB
 - Interpretations of the Standards of GRAP (IGRAP)
 - Guidelines
 - Effective IFRS and IFRIC Interpretations that may apply (as per directive C5)
 - Standards of GRAP approved not yet effective
 - Non-authoritative Guidelines

The Conceptual Framework for GPRF (ASB)

- Role and authority
- Objectives and users
- Qualitative characteristics
- Reporting entity
- Elements in financial statements
- Recognition in financial statements
- Measurement of assets and liabilities
- Presentation in GPFR

Conceptual differences

- Service delivery vs profits / ROE
 - Service delivery performance can only be partially evaluated by examination of the SOFP, SOFPer, SOCF etc
 - Public sector CPFR need information to support the assessment of:
 - whether the entity provided services in an efficient and effective manner
 - The resources currently available for future expenditure and whether there are restrictions on use
 - The extent of change of the burden on future tax payers in paying for current services
 - Whether the entity's ability to provide services has improved or deteriorated compared with the prior year

Conceptual differences

- The volume and significance of non-exchange transactions
- The importance of the approved budget and reporting against the approved budget
- The long-term nature of public sector programmes and the public sector
- Differences between liabilities and commitments
- Non-financial transactions such as social benefits and generational capital
- Different application of the going concern principle

Conceptual differences

- The nature and purpose of assets and liabilities in the public sector (service delivery potential vs FEB)
- Historical, cultural and environmental assets and natural resources
- Different applications of the concept of “control” (eg minerals, fish stocks etc)
- The impact of regulation or regulatory rights on recognition/measurement of rights/obligations

Conceptual differences

- Users of financial statements
 - For decisions about accountability and raising resources
 - Accountable to those that depend on them to use their resources to deliver service
 - Who do not have the authority to require a public sector entity to disclose the information that they need for accountability and decision-making purposes
 - Provides a different perspective on: USEFUL
 - Primary users:
 - Service recipients and their representatives (citizens and politicians)

Qualitative characteristics

- Qualitative characteristics: Attributes that make information useful and achieve the objectives of financial reporting:
- Layer in non-financial information and service delivery, and the **USEFULNESS** of the information for **ACCOUNTABILITY**
 - Relevance
 - Faithful representation
 - Understandability
 - Timeliness
 - Comparability
 - Verifiability

Elements: Assets

- A resource presently controlled by the entity as a result of a past event
- Resource: service potential, ability to generate economic benefits
- Service potential may include:
 - Recreational, heritage, community, defence etc
 - Individual or collective consumption\
 - Limited or no market, restricted disposal\
- Control – NB mandates and legislation
- Past event – NB statutes, transfers of powers, treaties, agreements etc

The Standards of GRAP

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets

Reference	Topic
GRAP 20	Related Party Disclosures
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions Between Entities Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources

The Interpretations of Standards of GRAP

Reference	Topic
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs

Reference	Topic
IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18	Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies
IGRAP 20	Accounting for Adjustments to Revenue

IFRS and IFRIC Interpretations

Reference	Topic
IFRS [®] 4	Insurance Contracts
IFRS [®] 6	Exploration for and Evaluation of Mineral Resources
IAS [®] 12	Income Taxes
SIC [®] – 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC [®] – 29	Service Concession Arrangements – Disclosures
IFRIC [®] 12	Service Concession Arrangements
IFRIC [®] 20	Stripping Costs in the Production Phase of a Surface Mine
IFRIC [®] 22	Foreign Currency Transactions and Advance Consideration
IFRIC [®] 23	Uncertainty Over Income Tax Treatments

Cash vs Accrual

- IFRS, IPSAS and GRAP (for eg) are accrual based financial reporting frameworks
 - Transactions are recognised and recorded based on when they OCCUR
- Cash-based reporting frameworks
 - Transactions are recognised and recorded based on when cash is exchanged

The Office of the Accountant-General

- The Accountant-General is an office within National Treasury (OAG)
- While the PFMA requires departments to prepare AFS in accordance with generally recognised accounting practice, it is GRAP and not GRAP, and the Treasury Regulations are currently the applicable regulation for determining what “generally recognised” means for departments
- The OAG currently published, annually, the standards, guidelines, processes, specimens and templates to be used for departments to report

The Modified Cash Standard

- OAG (as per the TR under NT) developed the Modified Cash Standard in consultation with (not limited to):
 - The ASB
 - The International Public Sector Accounting Standards Board (IPSASB)
 - The International Federation of Accountants (IFAC)
- And taking into account:
 - Our own maturity, capacity and processes
 - Our current ICT systems and their capacity and capabilities
 - National and international best practices

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The Modified Cash Standard

- Primary information
 - Transactions, balances and events are recognised mostly based on cash inflows and outflows
- Secondary information
 - Transactions, balances and events that are not recognized
- Are of equal importance and both integral to the financial statements

The Modified Cash Standard

- Structure (excerpts):
 - Concepts and principles (conceptual framework)
 - Presentation
 - Accounting policies, estimates and errors
 - Appropriation statement
 - Cashflow statement
 - FS items (Rev, exp, A&L, Treasury financial instruments, capital assets, inventories, leases, provisions and contingents, related parties, principles and agents)
 - Events after reporting date
 - Consolidations
 - Transfers of functions
 - Mergers

MCS: Concepts and principles

- Objective of departmental financial statements
 - Assessing stewardship
 - Accountability
 - Decision usefulness
- Users
 - Public, politicians, donors, investors, economists, statisticians, lenders, suppliers, media
- Qualitative Characteristics
 - Understandability
 - Relevance
 - Reliability
 - Comparability

MCS: Concepts and principles

- Elements:
 - Financial position
 - Asset: is a resource controlled by the department as a result of past events and from which future economic benefits or service potential is expected to flow to the department.
 - Liability: is a present obligation of the department arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.
 - Net assets: residual
 - Financial
- Economic benefit and service potential emphasis
- Distinction between a present liability and a future commitment – continued concept from GRAP

MCS: Concepts and principles

- Elements:
 - Financial performance
 - Revenue: gross inflow of economic benefits or service potential when those inflows result in an increase in net assets, excluding increases relating to capital contributions to net assets
 - Expenditure: decreases in economic benefits or service potential in the form of outflows or incurrences of liabilities that result in decreases in net assets, other than those relating to capital distributions from net assets

MCS: Presentation

- Components:
 - Appropriation statement
 - Statement of financial performance
 - Statement of financial position
 - Statement of changes in net assets
 - Cash flow statement
 - Notes to the primary financial statements, comprising a summary of significant accounting policies and other explanatory notes, and
 - Notes to the secondary financial information
- Concepts:
 - Fair presentation, going concern, materiality, aggregation, consistency, offsetting, and presentation of comparative information – apply equally to primary and secondary information

MCS: The Appropriation Statement

- A comparison of the approved, final budget and actual amounts
- As a separate additional financial statement
- Per programme and subprogramme
- And per economic classification
 - Adjusted appropriation, shifting of funds within that appropriation, virements and final appropriation
 - Actual expenditure incurred
 - Variances between actual expenditure and the final appropriation
 - Actual expenditure as a % of the final appropriation
 - A reconciliation of the budget statement with the statement of financial performance
- A note providing explanation of material differences (budget vs actual, classification, etc)
- Including comparatives on the same basis

(NAME OF NATIONAL/PROVINCIAL DEPARTMENT)
VOTE

APPROPRIATION STATEMENT
for the year ended 31 March 20ZZ

	20YY/ZZ			20XX/YY	
	Final Appropriation	Actual Expenditure		Final Appropriation	Actual Expenditure
TOTAL (brought forward)					
Reconciliation with statement of financial performance [Appropriation Statement par .14(d)]					
ADD					
Departmental receipts					
NRF Receipts					
Aid assistance					
Actual amounts per statement of financial performance (total revenue)					
ADD					
Aid assistance					
Prior year unauthorised expenditure approved without funding					
Actual amounts per statement of financial performance (total expenditure)					

MCS: The Appropriation Statement

- Economic classification:
 - Current payments
 - Transfers and subsidies
 - Payments for capital assets
 - Payments for financial assets

4. Explanations of material variances from Amounts Voted (after Virement):

[Appropriation Statement par .17]

4.1	Per programme	Final Appropriation	Actual Expenditure	Variance R'000	Variance as a % of Final Appropriation
	Programme 1 Programme 2 Programme 3 Etc.				
4.2	Per economic classification	Final Appropriation	Actual Expenditure	Variance	Variance as a % of Final Appropriation
		R'000	R'000	R'000	R'000
	Current payments Compensation of employees Goods and services Interest and rent on land				
	Transfers and subsidies Provinces and municipalities Departmental agencies and accounts				

MCS: Statement of Financial Position (with acc pol and notes)

- Revenue (statutory appropriation, transfers, subsidies, departmental revenue, NRF receipts, aid assistance)
 - MCS Recognition criteria: Chapter 7 - Revenue
 - **Recognised on the date that cash is received**
- Expenditure
 - Current expenditure (compensation of employees, goods and services, interest and rent, aid assistance) (NB – inventory is included in goods and services – purchases)
 - Transfers and subsidies
 - MCS Recognition criteria: Chapter 8 - Expenditure
 - **Recognised on the date of payment**
 - Expenditure for capital assets
 - Tangible assets
 - Intangible assets
 - Unauthorised expenditure approved without funding
 - Payments for financial assets
 - Surplus/deficit
 - Reconciliation of surplus/deficit (per revenue source)

MCS: Statement of Financial Position (with acc pol and notes)

- ASSETS
 - CURRENT ASSETS
 - **Unauthorised expenditure**
 - C&CE
 - Other financial assets
 - Prepayments
 - Receivables
 - Loans
 - Aid assistance prepayments
 - Aid assistance receivable

- ASSETS
 - NON-CURRENT ASSETS
 - Investments
 - Receivables
 - Loans
 - Other financial assets

MCS Recognition criteria: Chapter 9: A&L

- If the instrument is cash or a cash equivalent
- **If X initially arose from a cash transaction**
- The financial asset is a capital investment
- If not recognised, then disclosed as secondary information

MCS: Statement of Financial Position (with acc pol and notes)

- LIABILITIES
 - CURRENT LIABILITIES
 - Voted funds to be surrendered
 - Departmental revenue/NRF receipts to be surrendered
 - Bank overdraft
 - Payables
 - Aid assistance payable
 - Aid assistance utilised

- LIABILITIES
 - NON-CURRENT LIABILITIES
 - Payables

MCS Recognition criteria: Chapter 9: A&L

- If the instrument is cash or a cash equivalent
- **If X initially arose from a cash transaction**
- The financial asset is a capital investment
- If not recognised, then disclosed as secondary information

MCS: Statement of Financial Position (with acc pol and notes)

- NET ASSETS
 - REPRESENTED BY:
 - RESERVES
 - Capitalisation reserve
 - Recoverable revenue
 - Retained funds
 - Revaluation reserves

MCS: Notes to the FS

- Accounting Policies
 - Include both primary and secondary policies
 - Some secondary information is included in primary notes, for example, a receivable may be recognised, but impairment information is also included in the note – the impairment is secondary information
- Other secondary information
 - Contingent liabilities and contingent assets
 - Capital commitments
 - Accruals and payables not recognised
 - Employee benefits (eg leave entitlement, service bonus)
 - Lease commitments (operating – per category with aging, finance)
 - Operating lease future revenue
 - Accrued departmental revenue, write offs and impairment
 - UIFW

MCS: Notes to the FS

- Related parties (balances, transactions, key management personnel)
- PPP information
- Impairments (not already disclosed)
- Provisions
- Non-adjusting events after reporting date
- Movable tangible capital assets (per class) (totals, additions, disposals, movement summary)
 - Minor assets
 - Assets written off
- Intangible capital assets (per class, same information)
- Immovable tangible capital assets (per class, same information)
- Principle-agent arrangements

MCS: Notes to the FS

- Changes in accounting estimates
- Prior period errors
- Inventories
- Transfer of functions and mergers
- Statement of Conditional Grants Received
- Statement of Conditional Grants Paid (to xxx)
- BBBEE Performance
- Covid-19 Response Expenditure
- Annexures

IFRS and the public sector

- Applicable to major public entities and government business enterprises
- Conceptual framework – purpose, users etc, extended to include the public sector perspective
- Legislated additional disclosures need to be included
- ASB's Directive 12 (selection of an appropriate accounting framework for PEs)
- IFRS applies in the following cases (otherwise, they must apply GRAP):
 - (a) the entity is a financial institution;
 - (b) the entity has ordinary shares or potential ordinary shares that are publicly traded on capital markets; or
 - (c) its operations are such that they are:
 - (i) commercial in nature; and
 - (ii) only an insignificant portion of the entity's funding is acquired through government grants or other forms of financial assistance from government.

Recap

- PFMA: generally recognised accounting practice
 - Departments: NT (OAG) – MCS
 - PEs – ASB's GRAP or IFRS
 - MCS
 - Modified cash – Primary (recognised, based on cash) and secondary information
 - NT's template or specimen AFS
 - GRAP: Accrual based, public sector perspective, South-African adaptation of the IPSAS
 - For both, focus on users and information needs and service delivery potential, and additional information required to assess service delivery performance
 - The importance of reporting against the approved budget
 - Accountability, transparency and governance

QUESTIONS

**Thank you
for your participation**