

Public Sector: Accounting and Finance

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

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Session 8: Accounting in the MFMA Cycle

Understanding accounting in the MFMA 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 framework for International Public Sector Accounting Standards
- Understand the establishment, legislative mandate and work of the Accounting Standards Board (ASB)
- Identify the Conceptual Framework for General Purpose Financial Reporting as issued by the Accounting Standards Board applicable to MFMA entities
- Identify the legislation that prescribes the relevant accounting frameworks in the local government sector
- Understand the contexts that impact on the application of the Standards of Generally Recognised Accounting Practice (GRAP) in local government

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- The Standards of GRAP
- Financial reporting in the MFMA context:
 - Property, plant and equipment
 - Land
 - Investment Property
 - Revenue and Receivables
 - Other FS Areas
- Legislative reporting requirements

MFMA recap

- Municipal Finance Management Act (Act No 56 of 2003)
- Municipalities and Municipal Entities
- Financial year 1 July to 30 June

International Public Sector Accounting

- Governments mandate their own accounting practices
- Global trend toward accrual based accounting in the public sector
 - In 2018, 24% of countries (surveyed by IFAC) reported on an accrual basis
 - In 2020: 30%
 - Estimated 2025: 50%
- Lead by Africa, Asia, and Latin America and the Caribbean
- IFAC established the International Accounting Standards Setting Board (IPSASB)

IPSASB

The IPSASB develops accounting standards and guidance for use by public sector entities.

Strategic Objective is:

Strengthening Public Financial Management (PFM) globally through increasing adoption of accrual-based International Public Sector Accounting Standards™ (IPSAS™), through:

- Developing and maintaining IPSAS and other high-quality financial reporting guidance for the public sector; and
- Raising awareness of IPSAS and the benefits of accrual adoption

IPSAS Standards (extracts)

IPSAS	GRAP
IPSAS 1 – Presentation of financial statements	GRAP 1 – Presentation of financial statements
IPSAS 2 – Cash flow statements	GRAP 2 – Cash flow statements
IPSAS 2 – Accounting policies, changes in accounting estimates and errors	GRAP 2 – Accounting policies, changes in accounting estimates and errors
IPSAS 4 – The effects of changes in foreign exchange rates	GRAP 4 – The effects of changes in foreign exchange rates
IPSAS 5 – Borrowing costs	GRAP 5 – Borrowing costs
IPSAS 9 – Revenue from exchange transactions	GRAP 9 – Revenue from exchange transactions
IPSAS 10 – Financial reporting in hyperinflationary economies	GRAP 10 – Financial reporting in hyperinflationary economies
IPSAS 11 – Construction contracts	GRAP 11 – Construction contracts
IPSAS 12 – Inventories	GRAP 12 – Inventories
IPSAS 13 - Leases	GRAP 13 - Leases

IPSAS Standards (extracts)

IPSAS	GRAP
IPSAS 14 – Events after the reporting date	GRAP 14 – Events after the reporting date
IPSAS 16 – Investment property	GRAP 16 – Investment property
IPSAS 17 – Property, plant and equipment	GRAP 17 – Property, plant and equipment
IPSAS 19 – Provisions, contingent liabilities and contingent assets	GRAP 19 – Provisions, contingent liabilities and contingent assets
IPSAS 20 – Related party disclosures	GRAP 20 – Related party disclosures
IPSAS 21 – Impairment of non-cash-generating assets	GRAP 21 – Impairment of non-cash-generating assets
IPSAS 23 – Revenue from non-exchange transactions	GRAP 23 – Revenue from non-exchange transactions
IPSAS 24 – Presentation of budget information in financial statements	GRAP 24 – Presentation of budget information in financial statements
IPSAS 27 – Agriculture	GRAP 27 – Agriculture
IPSAS 39 – Employee benefits	GRAP 35 – Employee benefits

IPSAS (Standards) extract

- Interesting IPSAS Standards that are not yet GRAP Standards:
 - IPSAS 42: Social Benefits
- Other interesting IPSASB publications:
 - Recommended Practice Guides:
 - RPG 1: Reporting on the long-term sustainability of an entity's finances
 - RPG 2: Financial statement discussion and analysis
 - RPG 3: Reporting Service Performance Information

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 MFMA
 - The MFMA uses the phrase “**generally recognised accounting practice**” (**grap**)
 - States that that NT and PT must monitor and assess compliance by municipalities and entities with **grap**
 - Requires a municipality’s assets and liabilities to be valued in accordance with **grap**
 - Requires the separate and consolidated financial statements of municipalities and municipal entities to be prepared in accordance with **grap** and **refers back to s91(1)(b) of the PFMA (ASB)**

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

GRAP Hierarchy

- Hierarchy of the GRAP standards – in the absence of an applicable GRAP standard, refer to the accrual based standards published by the following standard setters, in descending order, to formulate an accounting policy (ensuring it still complies with the GRAP Conceptual Framework in principle):
 - International Public Sector Accounting Standards Board
 - International Accounting Standards Board
 - Financial Reporting Standards Council

Conceptual differences

- Service delivery vs profits / ROE
 - NB: Integrated development
 - Citizen participation
- The volume and significance of non-exchange transactions
 - Indigents
- 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
- Application of the going concern principle
 - Legislative requirements for municipalities to collect all their revenue, and set realistic budgets, and for financial administration / financial recovery

Conceptual differences

- The nature and purpose of assets and liabilities in the public sector (service delivery potential vs FEB)
 - *Assets vs inventory – infrastructure assets, land and housing*
- Historical and cultural and environmental assets
- *Different applications of the concept of “control”, co-operative governance*
- 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, councilors, government and politicians)

MFMA Financial Reporting Sources

- MSCOA Specimen AFS from National Treasury
- NT GRAP checklist
- MFMA Legislative Compliance checklist

MFMA Financial Reporting Context

- Challenges in implementation of the GRAP Standards in achieving fair presentation:
 - Specialised nature of the FS items (eg infrastructure)
 - Difficulty in assessing and/or determining values/estimates (fair values, service delivery potential, conditional assessments, EUL, RUL, RV)
 - Volume of data
 - Quality of data / lack of internal controls
 - Rights/ownership/risks/rewards not always clear
 - Impact of citizen behaviour / unpredictability of population needs / behaviours / economy

MFMA audit qualifications 2020 cycle

	Repeat findings	New findings	Total qualifications	Munis/entities
Non-current assets	295 (95%)	17 (5%)	312 (91%)	344
Current assets	52 (88%)	7 (12%)	59 (17%)	344
Current liabilities	49 (86%)	8 (14%)	57 (17%)	344
Capital and reserves	6 (55%)	5 (49%)	11 (3%)	344
Other disclosure items	44 (75%)	15 (25%)	59 (17%)	344
Revenue	60 (87%)	9 (13%)	69 (20%)	344
Expenditure	45 (74%)	16 (26%)	61 (18%)	344
UIFW	61 (86%)	10 (14%)	71 (21%)	344

Non-current assets

- At least 25% of the NCA asset findings relate to PPE
- Due to the nature of service delivery, the nature of service delivery assets are broad and varied
- Challenges relate to:
 - Identification, classification, determining the appropriate GRAP standard, designing and maintaining FAR information to support fair presentation for the application accounting model (and classification vs inventory)
- Applicable main standards:
 - GRAP 16: Investment Properties
 - GRAP 17: Property, Plant and Equipment
 - GRAP 27: Agriculture
 - GRAP 31: Intangible Assets
 - GRAP 103: Heritage Assets
 - GRAP 110: Living and Non-Living Resources

Property, plant and equipment

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Property, plant and equipment

- GRAP 17 Accounting implications:
 - Accounting requirements:
 - Initial recognition: Measurement at cost
 - Subsequent measurement:
 - Cost model (cost less accumulated depreciation and accumulated impairment losses)
 - Revaluation model (revalued amount - FV at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses)
 - Depreciation
 - Significant components
 - Depreciable amount
 - Annual assessment indications of changes in expectations of residual value and useful life, and annual review of depreciation method
 - Impairment (GRAP 21 or GRA P 26)

Property, plant and equipment

- GRAP 17 Accounting implications:
 - Accounting issues:
 - Cost of infrastructure assets
 - Initial recognition: constructed, components of cost, classification as wip, verification, tender price, variation orders, certification of work done
 - Subsequent measurement
 - EUL: How do you reliably determine service delivery potential and useful life? Can you assume “normal” maintenance if the entity does not have a maintenance plan, or adequate budget, or does not spend that budget?
 - RV and FV: How do you measure FV when there is no market?
 - Challenges:
 - Old infrastructure where original cost records/plans etc no longer exist
 - Transferred from other entities/government agencies/governments
 - Impairment assessments when infrastructure is not visible
 - Reliance on experts and lack of technical skills and expertise in this area

Property, plant and equipment

- GRAP 17 Accounting implications:
 - Accounting issues:
 - The practical implementation of the accounting requirements for annual assessment or evaluation of:
 - RV
 - EUL
 - Impairment indicators
 - Number of assets, size of geographical areas
 - Challenges in identifying assets and identifying control
 - Project management of asset count and conditional assessment activities
 - Contradictory data on conditional assessments:
 - Eg a road “looks” fine, but:
 - the planned maintenance budget and the planned maintenance activities in the relevant program have not been implemented for the last two years – sources of information to be used are extensive and not centralised
 - The use of the asset (number of vehicles or weight of vehicles) in the last 3 years has been double what it was designed to carry – has this been taken into account in revising EUL?

Accounting for Land

- Applicable GRAP Standards:
 - GRAP 16 Investment Property
 - GRAP 17 Property, Plant and Equipment
 - GRAP 12 Inventories
- Accounting application:
 - ASB's GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS UNDERTAKEN IN TERMS OF THE NATIONAL HOUSING PROGRAMME
 - Recognition of land and the issue of control (IGRAP 18)
 - Legal ownership or right of access – substance over form
 - If control is satisfied and asset definition is met, recognise asset to relevant GRAP standard
 - Purpose of the land will determine then whether it is:
 - PPE
 - Investment Property
 - Inventory

Investment Property

- Applicable GRAP Standard:
 - GRAP 16 Investment Property
- Accounting requirements:
 - Initial recognition measured at cost
 - Subsequent measurement (choose and apply to all):
 - Cost model (cost less accumulated depreciation and accumulated impairment losses – apply GRAP 17)
 - Fair value model
- Accounting considerations:
 - “PPE” considerations extend to whether:
 - L&B are used for the “mandated functions”
 - Revenue earned through the “use” of the property is because the provision of the property is provision of G&S (eg rentals charged for the private use of a community hall)
 - Undetermined future use
 - Consideration of housing and reclassification of land to inventory

Revenue and Receivables

- At 2020 year end, estimated that only 40% of the revenue due to municipalities will be collectible
- Legislative considerations: All municipal acts – required to collect revenue for services, to collect all revenue due, to have credit and debt management policies, to approve tariffs, to budget based on realistic revenue etc
- Challenges:
 - Identifying and vetting indigent debtors
 - Reading meters accurately and regularly and capturing readings accurately
 - Correctly charging interest on overdue accounts
 - Collecting outstanding debtors
 - Credible valuation rolls
 - Inability or failure to correctly provide for credit loss allowances

Revenue and Receivables

- Applicable GRAP:
 - Transactions:
 - GRAP 9: Revenue from exchange transactions (eg goods and services, eg water, electricity)
 - GRAP 23: Revenue from non-exchange transactions (eg rates, taxes)
 - Balances:
 - GRAP 104: Financial Instruments (valuation and allocation)
 - IGRAP 1: Applying the probability test on initial recognition of revenue

Revenue and Receivables

- Accounting considerations:
- Exchange revenue - Services:
 - Measured at the fair value of the consideration received or receivable
 - If the timing of receipt meets considerations for a financing transaction – discounting of future receipts using an imputed rate of interest, interest income recognised to GRAP 104
 - Determination of fair value: Measurement
 - Revenue and only be recognised when the amount can be reliably measured
 - Consider the implications on this for reliable estimation when meters for water and electricity are not actually read and usage is estimated, how often actual readings are taken etc
- Non-exchange revenue:
 - An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow
 - Revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets recognised by the entity.
 - An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

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Revenue and Receivables

- Accounting considerations:
- Valuation: GRAP 104
- Subsequent measurement: Fair value, amortised cost or cost
 - Amortised cost or cost – impairment review
 - Assess at the end of every reporting period
 - If impaired, determine the amount of the impairment loss
 - impairment losses are incurred if, and only if,
 - objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of <the asset> that can be reliably estimated.

Revenue and Receivables

- Accounting considerations:
- Valuation: GRAP 104
- Disclosure requirements (extracts)
 - Nature and extent of risks arising from financial instruments
 - For each risk:
 - Qualitative disclosures (exposure, management, changes since prior year)
 - Quantitative disclosures
 - Summaries
 - Credit risk
 - Financial assets past due or impaired
 - Liquidity risk
 - Maturity analysis
 - Market risk

Revenue and Receivables

- Accounting considerations:
- IGRAP 1: Applying the Probability Test on Initial Recognition of Revenue
 - Issue: Requirement of “probability” in revenue recognition requirements where it is probable that revenue will not be fully collected has resulted in inconsistent revenue initial measurement practices
- Consensus:
- At initial recognition of exchange and non-exchange revenue:
 - not appropriate to assume that revenue will not be collected
 - entity has an obligation to collect all revenue, also contrary to normal business principles
 - Therefore, full amount of exchange and non-exchange revenue should be recognised at the initial transaction date
 - Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged, for example an entity assesses the probability of collecting revenue when accounts fall into arrears.
 - Focus on impairment disclosure information and usefulness criteria
- Practical considerations: Traffic fines, rates, consumer debtors

Operating expenditure

- Accounting considerations:
- “Other side of the entry” impacts:
 - Fair value adjustments
 - Allocation adjustments (depreciation, amortisation etc)
 - Provisions
- Impact of regulatory requirements not being fulfilled, for example completeness of UIFW disclosures
- Impact of poor internal controls (fair presentation qualifications relate to occurrence and/or completeness rather than to accuracy or classification)

Other FS items

- Items worth noting with complexities:
 - Employee benefit obligations (DBPs and related actuarial gains and losses)
 - Provisions
 - Landfill sites, restoration and rehabilitation
 - Unspent conditional grants
 - Revaluation reserves
 - Going concern disclosures
 - The presentation of budget information (GRAP 24)

MFMA Legislative Disclosure Requirements

- For example:
 - Allocations to organs of state/other municipalities
 - Salaries, benefits, arrears etc of political office bearers and councillors
 - Municipal entities and extent of control
 - Bank account information
 - Material losses
 - UIFW

Recap

- MFMA: generally recognised accounting practice
- 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
- Municipal challenges in accounting:
 - Non-current assets data
 - Infrastructure
 - Control, land and housing
 - Revenue and collectability
 - Impairment requirements

QUESTIONS

**Thank you
for your participation**