

In this edition of the newsletter:

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Accountants are more important than ever

We find ourselves in an environment where our time and other resources are constrained. We need to be purposeful in our actions. This requires reflection and includes being more mindful about our broader role as finance professionals in executing our day to day responsibilities and our ultimate purpose in preparing the financial statements.

We often do not consider the role that financial statements play in strengthening the system of public financial management. There are generally four “pillars” that result in stronger public financial management:

- A credible, transparent outcomes-based budget that includes public participation.
- Financial statements, prepared using information generated from a strong control environment, using generally recognised principles that provide information to its users that helps them make decisions.
- Assurance on the financial statements by independent auditors.
- The exercise of robust oversight over the planning, execution and assurance phases.

What we need to reflect on is how financial statements lead to stronger financial management, which means better decision-making, better accountability, and as a result, better fiscal policy, frameworks and decisions.

Let's unpack this in terms of our current environment.

The pandemic and its effects are not over¹

This is particularly the case in emerging economies where a steady recovery is not assured as segments of the population remain susceptible to the virus and recovery. Broader access to vaccines is only expected in late 2022. Advanced economies are about 40% vaccinated, emerging economies about half that number, and low income economies, only a fraction. There is a low recovery of employment which is highly uneven. Youth, women, and lower skilled individuals have the lowest rates of returning to work. From a South African perspective, it is forecasted that our gross debt to GDP will be 77.5% in 2021. A significant amount of support has already been provided in response to the pandemic.

¹ The information is drawn from the International Monetary Fund's Fiscal Monitor: Database of country fiscal measures in response to COVID-19 (July 2021) and the World Economic Outlook Update (July 2021).

	Rand	What did it buy?
Additional spending	227bn	Medical supplies, medical staff, vaccine rollout, contributions to relief funds.
Foregone revenue	26bn	VAT and excise duties waived on essential goods, e.g. sanitisers.
Government guarantees	200bn	Government scheme to provide loans to qualifying businesses to support operating expenditure, salaries and restart costs.
Deferred revenue	203m	Delayed payment of PAYE by qualifying businesses.

Fiscally, the government² will need to continue to respond to the effects of the pandemic, respond to social needs to address poverty, unemployment, inequality and other factors.

We live in an information age

We have no shortage of access to data in our current environment and this includes financial data. Throughout the year entities process thousands of transactions, events occur, and circumstances exist within our communities and areas of responsibility, i.e. “data”. This is where the role of accountants is important.

While accounting is about numbers and a certain level of precision, accounting is fundamentally a social science. Our role as accountants when we prepare financial statements is to analyse data and interpret it in a way that is meaningful to users of the financial statements.

If our role is to interpret data and provide information to users of the financial statements, the next questions are (a) to whom do we need to provide information, and (b) what do they want to know?

Who uses the financial statements and what do they want to know?

Financial statements produced as part of a public financial management system address the needs of a variety of users. Financial statements are often the only tool that is publicly available to – for example – members of the public when they want information about a municipality, public entity, or government department. As a tool used for public accountability, the range of users is broad and includes:

- Resource providers – Lenders, taxpayers, ratepayers, creditors and rating agencies.
- Service recipients – Those who depend on government services.
- Representatives of resource providers and service recipients – Parliament, Legislatures, and Municipal Councils.

The financial statements should be geared towards giving these users the information they need to (a) hold entities accountable and (b) make decisions.

The Conceptual Framework to the Standards of GRAP outlines comprehensively the range of accountability and other decisions that users are likely to make based on the financial statements.

² Government refers to the “general government sector” which includes national, provincial and local government.

As noted earlier, significant resources have been provided to support the effects of the pandemic, and users of the financial statements will continue to have an interest in this information going forward. As the financial statements provide credible financial information, policy makers and others may use this information to influence future frameworks, policies and reforms.

As the staff of the ASB we published a [document](#) last year outlining potential “risk” areas to consider in preparing the financial statements during the initial stages of the COVID-19 pandemic. These are largely unchanged.

It's a balancing act

The information provided in the financial statements should balance the needs of various users and the focus and context of the key messages.

In the reporting period for 2021 we continue to feel the effects of the pandemic, dire economic consequences, and the elections. The messages communicated in the financial statements should not be overly negative, overly optimistic, and should be balanced.

The “qualitative characteristics” from the Conceptual Framework outline the key qualities of information in the financial statements. Information should be:

- Relevant – capable of making a difference. Materiality is part of relevance. If omitted or misstated information could influence users’ decision then it is material.
- Faithfully representative – represents underlying economic phenomena, is complete, neutral and free from error.
- Understandable – plain language, presented in an easily understandable way.
- Timely – make information available to users before it loses its capacity to be relevant.
- Comparable – allows users to identify similarities or differences in information.
- Verifiable – assures that explanatory and prospective information is faithfully representative. Information disclosed, methodologies adopted, factors and circumstances that support opinions expressed are transparent.

The ask is greater than before

African Bank, VBS Bank, Steinhoff, Tongaat Hulett. All synonymous of when accounting and accountants failed. We cannot afford a failure of this magnitude in the public sector. Unlike these companies that could call on government for help – a “bailout” – government cannot do the same.

It is our role as accountants to ensure that we provide credible information in the financial statements that is useful and can be used to make sound financial, fiscal and policy decisions.

The ask for relevant, credible information is greater now than ever before. We need to do better, and it is never too late to start.

IFAC calls for research on public sector issues

The IPSASB will co-host its 3rd Research Forum with the Comparative International Governmental Accounting Research Network (CIGAR) in June 2022.

The IPSASB has issued a call for scholarly papers on the following topics:

Practical IPSAS Implementation Challenges

- Differential Reporting
- Discount Rates

Adoption and Implementation of Specific IPSAS

- IPSAS 31, *Intangible Assets*
- IPSAS 33, *First-Time Adoption of Accrual Basis IPSAS*

Broad Future Focused Research

- Climate Change and Public Sector Financial Reporting Related to Sustainability
- Financial Reporting Impacts of Digitization in the Public Sector

Interested parties should submit abstracts. For more information, follow this [link](#).

What's new from the ASB?

The ASB met on the 29th of September 2021. The following pronouncements were issued:

- [GRAP Reporting Framework for 2022/23.](#)
- [Review Report on The Results of the Review of Directive 12 on The Selection of an Appropriate Reporting Framework by Public Entities](#)
- [ED 194 – Taking Stock: ASB's Work Programme for 2024 to 2026. Comment deadline 18 March 2022](#)
- [ED 195 - Proposed Amendments to GRAP 103 on Heritage Assets. The comment deadline is 28 January 2022](#)

Accountants can be climate change “activists”

The effects of climate change on our everyday lives is undeniable. Why shouldn't it also affect financial reporting?

Governments, regulators, investors and others are interested in how climate change affects entities, but also entities' impact on the environment. Reporting on sustainability and climate related issues has been based on a variety of frameworks issued internationally, regionally or locally. The IFRS Foundation agreed to develop internationally recognised sustainability standards through an “International Sustainability Standards Board” or equivalent. The IFRS Foundation is consulting on various issues related to the establishment of the Board, and the scope and due process for the standards.

Despite the lack of consistent guidance, accountants are being asked to consider climate related risks and related issues in the reporting now already. Read this [statement](#) from IFAC.



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