Public Sector Accounting

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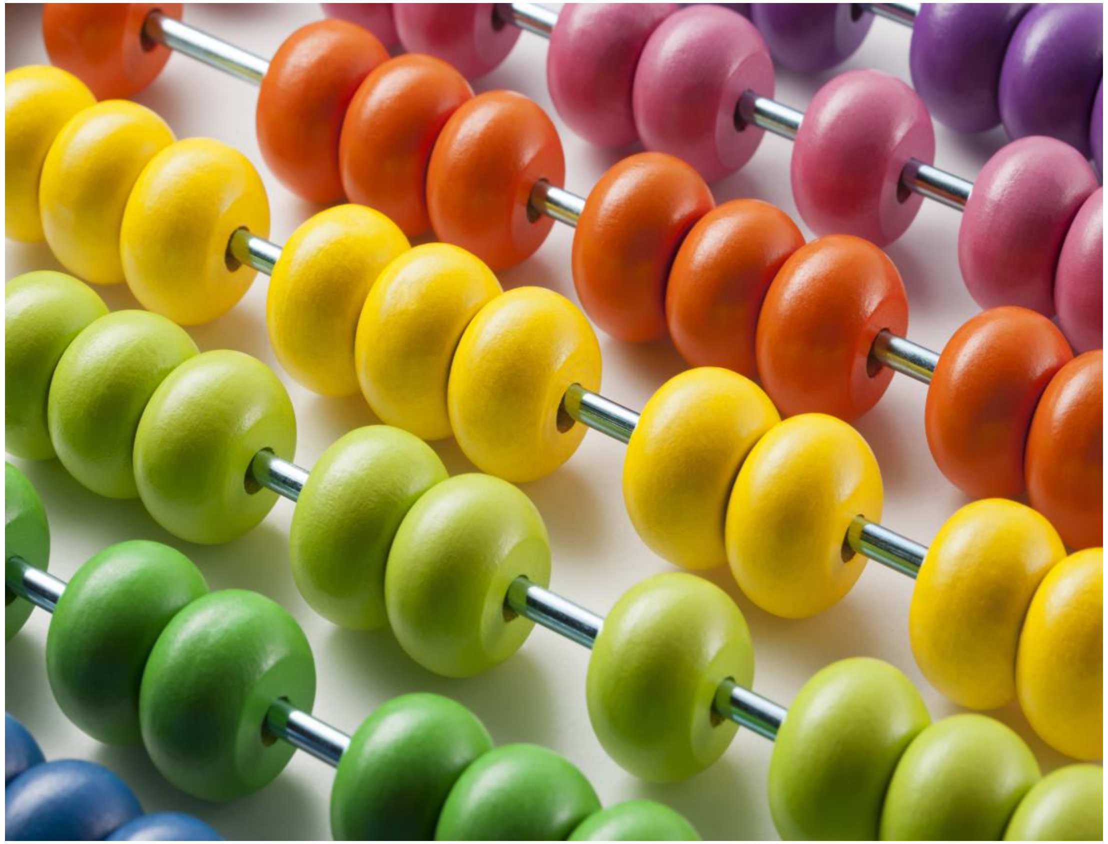
UNIVERSITY OF JOHANNESBURG

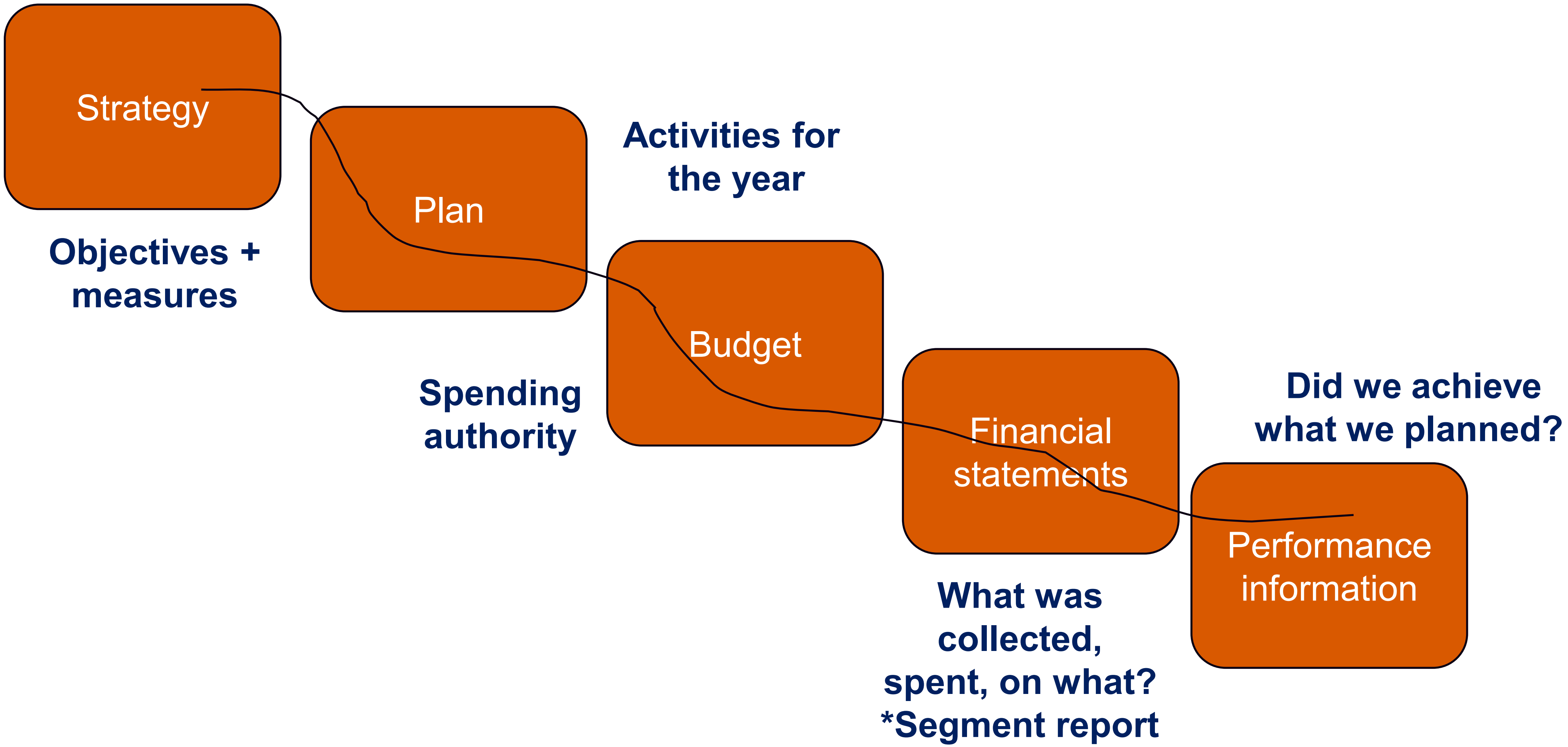
About me

What does it mean to be an accountant?



VS

Story telling in action



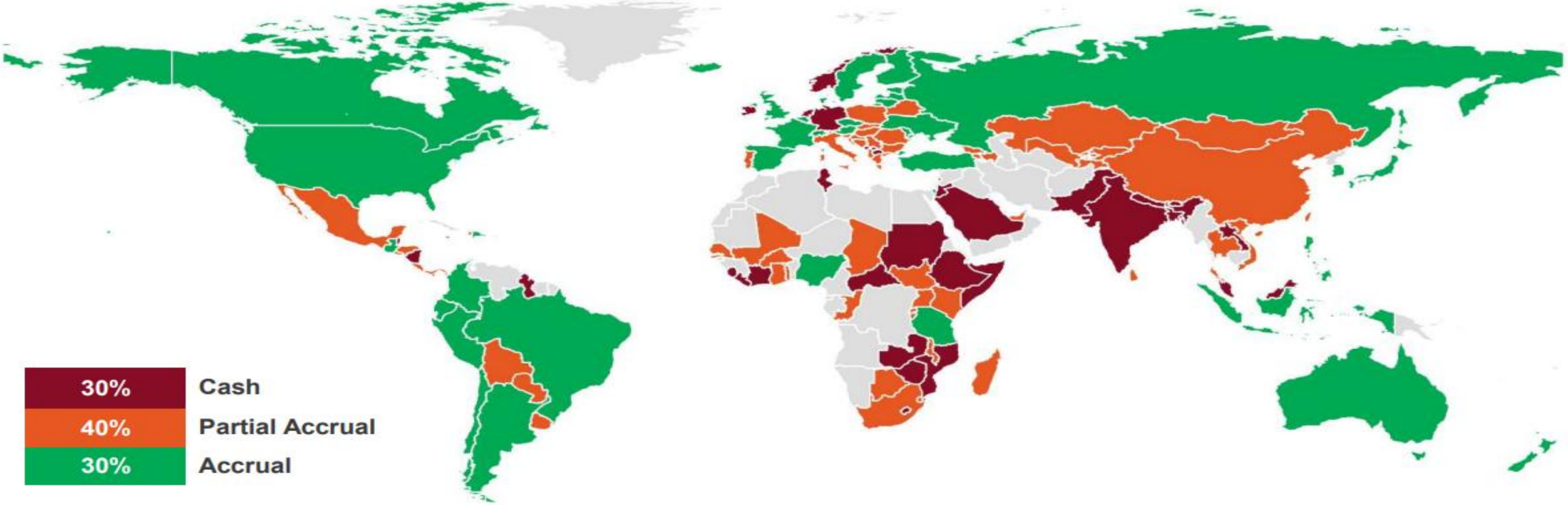
Our reporting explains our contribution to a sustainable world

Let’s move to public sector accounting

International Public Sector Accounting Standards (IPSAS)

2025 Public Sector Accounting and Reporting Conference

2020 Index: 30% Report on Accrual



South Africa

- The Accounting Standards Board (ASB) is the entity responsible for adopting public sector accounting standards in South Africa. The ASB has adopted the Generally Recognised Accounting Practice (GRAP), which mostly align with accrual-basis IPSAS; Some entities applying a modified cash basis of accounting.
- The National Treasury is developing a roadmap to implement accrual accounting across all departments (IFAC, CIPFA 2020).
- **Current Status:** Partially Adopted

Modified Cash Standard

- National Departments**
- Provincial Departments**

[**]The term "departments" includes government components

Accrual accounting using Standards of GRAP

National	Parliament	National public entities	Trading entities	Major public entities and national GBEs*
Provincial	Legislatures	Provincial public entities	Trading entities	Provincial GBEs *
Local	Municipalities	Municipal entities		

[*] Some apply IFRS Standards

About the ASB and what we do

The ASB and our purpose

The ASB is a schedule 3A public entity that reports to the Minister of Finance

The Public Finance Management Act describes our mandate

We issue accounting standards for all government entities

Accounting standards outline the principles to be used in preparing the financial statements

The principles in the standards ensure transparency in how revenue, expenses, assets and liabilities are reported

This transparency contributes to improved decision making and ensures officials can be held accountable

This leads to building a capable state and strengthening the country's democratic processes

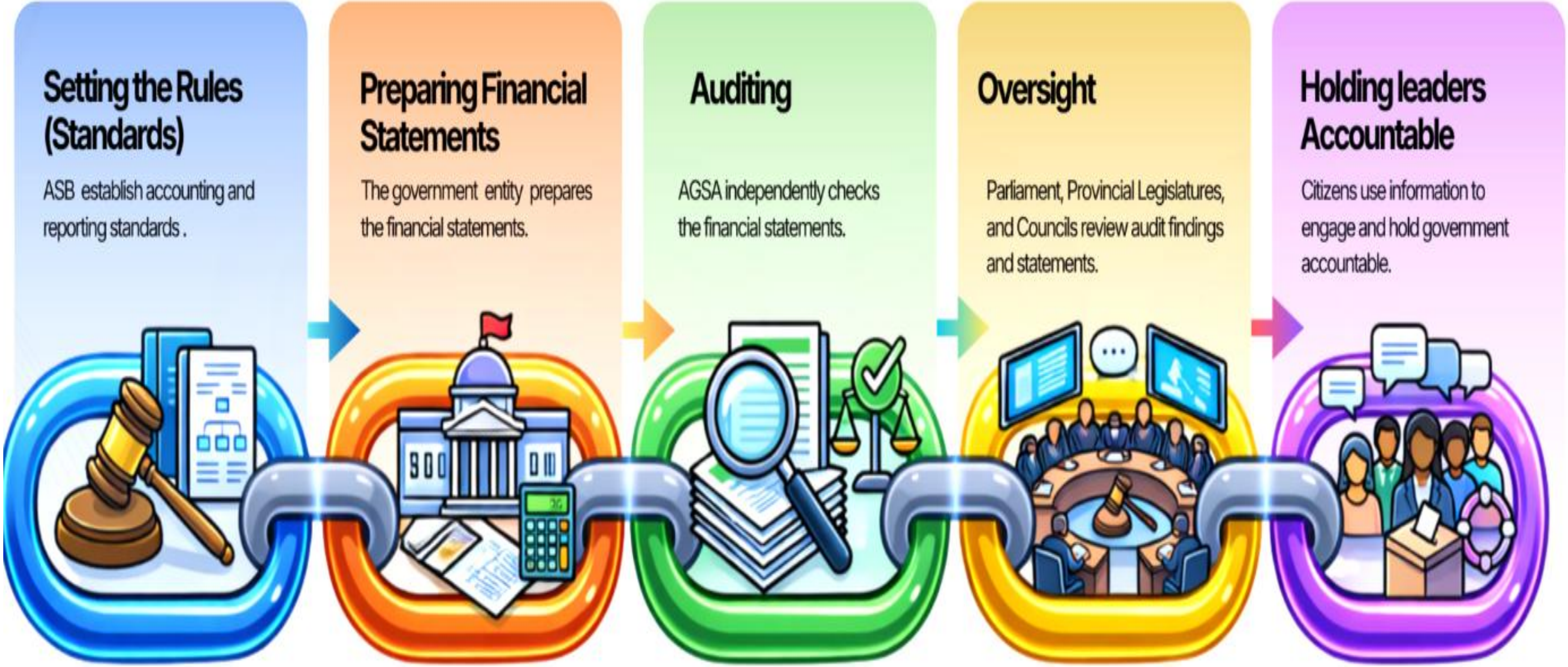
Our role in the government ecosystem

ASB determines the principles to apply in preparing financial statements

National Treasury supports the implementation of the principles

Auditor-General assesses whether the principles are applied appropriately and achieve fair presentation

Parliament, legislatures, municipal councils exercise oversight on audited financial statements


Setting the Rules (Standards)
ASB establish accounting and reporting standards .
Preparing Financial Statements
The government entity prepares the financial statements.
Auditing
AGSA independently checks the financial statements.
Oversight
Parliament, Provincial Legislatures, and Councils review audit findings and statements.
Holding leaders Accountable
Citizens use information to engage and hold government accountable.

Key differences between GRAP and IFRS

- Users and focus
- Powers, programmes and longevity
- Definitions of elements
- Measurement of items
- Exchange vs non-exchange transactions
- Reporting against budget

GRAP: Accounting for revenue

- **Exchange transactions** - one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.
- **Non-exchange transactions** - an entity receives value from another entity without directly giving approximately equal value in exchange.

GRAP: Accounting for revenue

Statement of financial performance for the year	Economic Entity		Municipal entity	
	2024	2023	2024	2023
Exchange revenue	**X,XXX**	**X,XXX**	**X,XXX**	**X,XXX**
Service charges	XXX	XXX	XXX	XXX
Rental of letting stock and facilities	XXX	XXX	XXX	XXX
Finance income	XXX	XXX	XXX	XXX
Agency services	XXX	XXX	XXX	XXX
Gains on disposal of property, plant and equipment (or other assets)	XXX	XXX	XXX	XXX
Non-exchange revenue	**X,XXX**	**X,XXX**	**X,XXX**	**X,XXX**
City Improvement Districts	XXX	XXX	XXX	XXX
Property rates	XXX	XXX	XXX	XXX
Fines	XXX	XXX	XXX	XXX
Government grants and subsidies	XXX	XXX	XXX	XXX

GRAP: Overview of Assets

Statement of Financial Position - assets

	2023	2022
Non-current assets	**X XXX**	**X XXX**
Property, plant and equipment	XXX	XXX
Heritage assets	XXX	XXX
Investment property	XXX	XXX
Intangible assets	XXX	XXX
Biological assets and living resources	XXX	XXX
Investments	XXX	XXX
Long-term portion of lease receivables	XXX	XXX
Current assets	**X XXX**	**X XXX**
Inventory	XXX	XXX
Receivables from exchange transactions	XXX	XXX
Receivables from non-exchange transactions	XXX	XXX
Other receivables	XXX	XXX
Current portion of lease receivables	XXX	XXX
Cash and cash equivalents and other investments	XXX	XXX

GRAP Types of Assets

Line item	Definition	Type of asset	Measurement	
			Initial	Subsequent
Property, plant and equipment (GRAP 17)	Tangible items that are (a) held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) expected to be used during more than one period.	Land & buildings, infrastructure, community assets, furniture and fittings, IT equipment	Cost or FV: Include rehabilitation or dismantling costs, separate into components.	Cost model: Historical cost less accumulated depreciation and impairment **OR** Revaluation model: FV less accumulated depreciation and impairment

Decision-usefulness: Asset Reporting

- Compare assets bought/constructed with CAPEX in budget.
- Assess new assets being constructed (value, time to complete review disclosures on those projects taking longer to complete).
- Assess adequacy of repairs of maintenance, and whether undertaken as planned.
- Assess how assets are being used (changes in depreciation; useful lives).
- Assess whether value of assets declined, whether assets "fit for purpose" and meet demands/needs - look if impairments recognised, or should have been recognised based on what you know.
- Subsequent measurement accounting policy choice – cost or fair value. Can change after initial adoption. Change should = more relevant and reliable info for users.

Why government should account for its assets

Myth # 1 Government's assets have no value

Myth # 2 – The information about assets in the financial statements is not useful

Why government should account for its assets

Often hear that "Assets can't be sold, therefore they have no value".

- Focusing on "economic value" is a very narrow view in the public sector.
- Without assets like roads, bridges, dams, schools, hospitals, there will be no services.
- Assets in government have the value to deliver services (or to support service delivery).
- Depending on their nature, can also have economic value which can be realised through sale, leasing, renting, etc.

What the financial statements say about assets

Notes to the financial statements

[property, plant, equipment]	2023	2022
Opening balance	XXX	XXX
Additions	Investments in new assets or upgrades	XXX
Disposals	Sales or transfers to 3rd party	XXX
Transfers from work-in-progress	Completed assets under construction	XXX
Depreciation	Rate at which assets are utilised	XXX
Impairment	Change in utility or value of asset, damage	XXX
Closing balances	XXX	XXX


SUSTAINABLE DEVELOPMENT GOALS
1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

GRAP: Overview of Liabilities

Statement of Financial Position

	2023	2022
Non-current liabilities	**X XXX**	**X XXX**
Borrowings	XXX	XXX
- Financial instruments (Loans)	XXX	XXX
- Long term portion of lease payables	XXX	XXX
Provisions	XXX	XXX
Employee benefit obligations	XXX	XXX
Current liabilities	**X XXX**	**X XXX**
Deposits	XXX	XXX
Payables from exchange transactions	XXX	XXX
Short term portion of lease payables	XXX	XXX
Employee benefits	XXX	XXX
Unspent portion of conditional grants/donor funding received	XXX	XXX
Provisions	XXX	XXX

Decision-usefulness: Liabilities reporting

- Affordability to provide benefits (post-retirement benefits).
- Look at increases in leave balances, assess adequacy of leave provisions.
- Look at how benefits will be funded (particularly defined benefit plans where municipality bears investment + actuarial risk).

GRAP Types of Liabilities

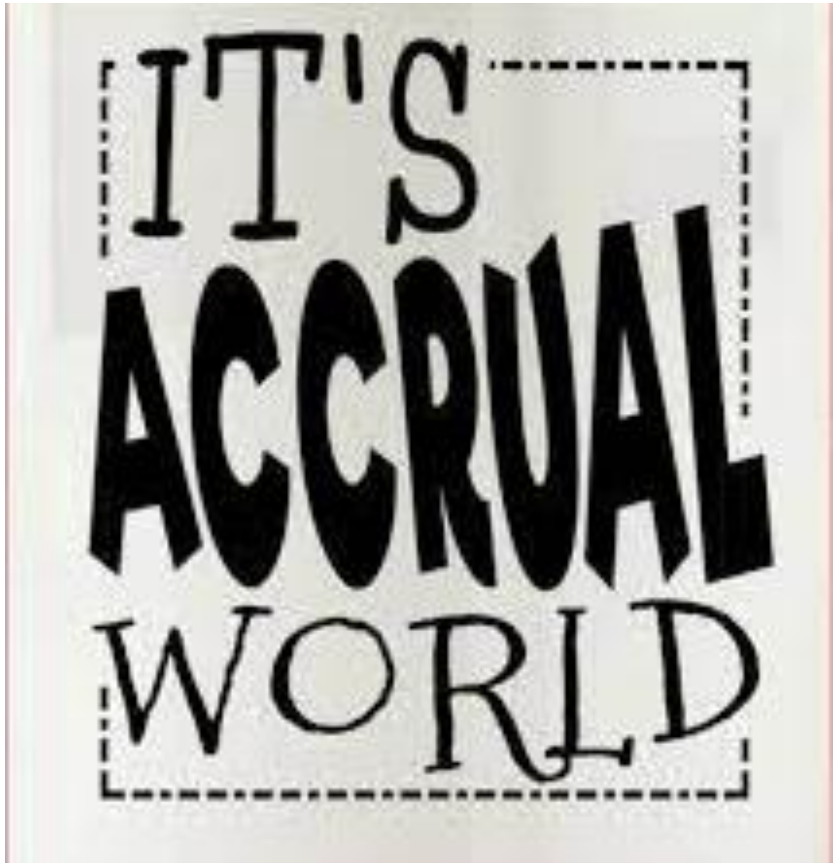
Line item	Definition	Type of liability	Measurement	
			Initial	Subsequent
Borrowings - Financial instruments (GRAP 104)	Receive cash from lender and will repay in more than 12 months.	Loans, bonds.	Fair value.	Amortised cost.
Borrowings - Finance leases (GRAP 13)	Finance the use of assets, with the assets becoming the lessee's at the end of the lease.	Leases, i.e. payments to use & finance assets.	Present value of future minimum lease payments.	Separate between capital and interest. Interest based on constant periodic rate of interest.
Payables from exchange transactions	Same as financial instruments.	Suppliers, employees.	Fair value.	Amortised cost.
Decisions (all above)	Assess availability of cash or investments to use to settle debt.			

GRAP Types of Liabilities

Line item	Definition	Type of liability	Measurement	
			Initial	Subsequent
Provisions (GRAP 19)	Liabilities of uncertain timing or amount.	Rehabilitation provisions for landfill sites. Legal claims.	Best estimate of the expenditure required to settle the obligation (LT = discounted)	Reduced as used or adjusted based on new information or circumstances.
Decisions	• Available cash to settle creditors (payables). • Collectability of cash from debtors (receivables) to pay creditors.			
Unspent portion of conditional grants (GRAP 23)	Funding received that is not yet spent or used as indicated in the agreement or legislation.	Grant funding received that needs to be repaid if not used as specified.	Value of resources received.	Reduced as conditions met.
Decisions	Amounts to be used in future years based on conditions attached to grants and other funding received.			

Generally Recognised Accounting Practice: More complex concepts

- Services-in-kind
- How do we account for land
- Onerous contracts
- Principal-Agent arrangements
- Related Party transactions
- Cash flow statements



Modified Cash Standard

Combination of cash & accrual

Appropriation statement

Net assets (not equity)

Revenue on an accrual basis

Expenditure based on cash flow (30 days to pay)

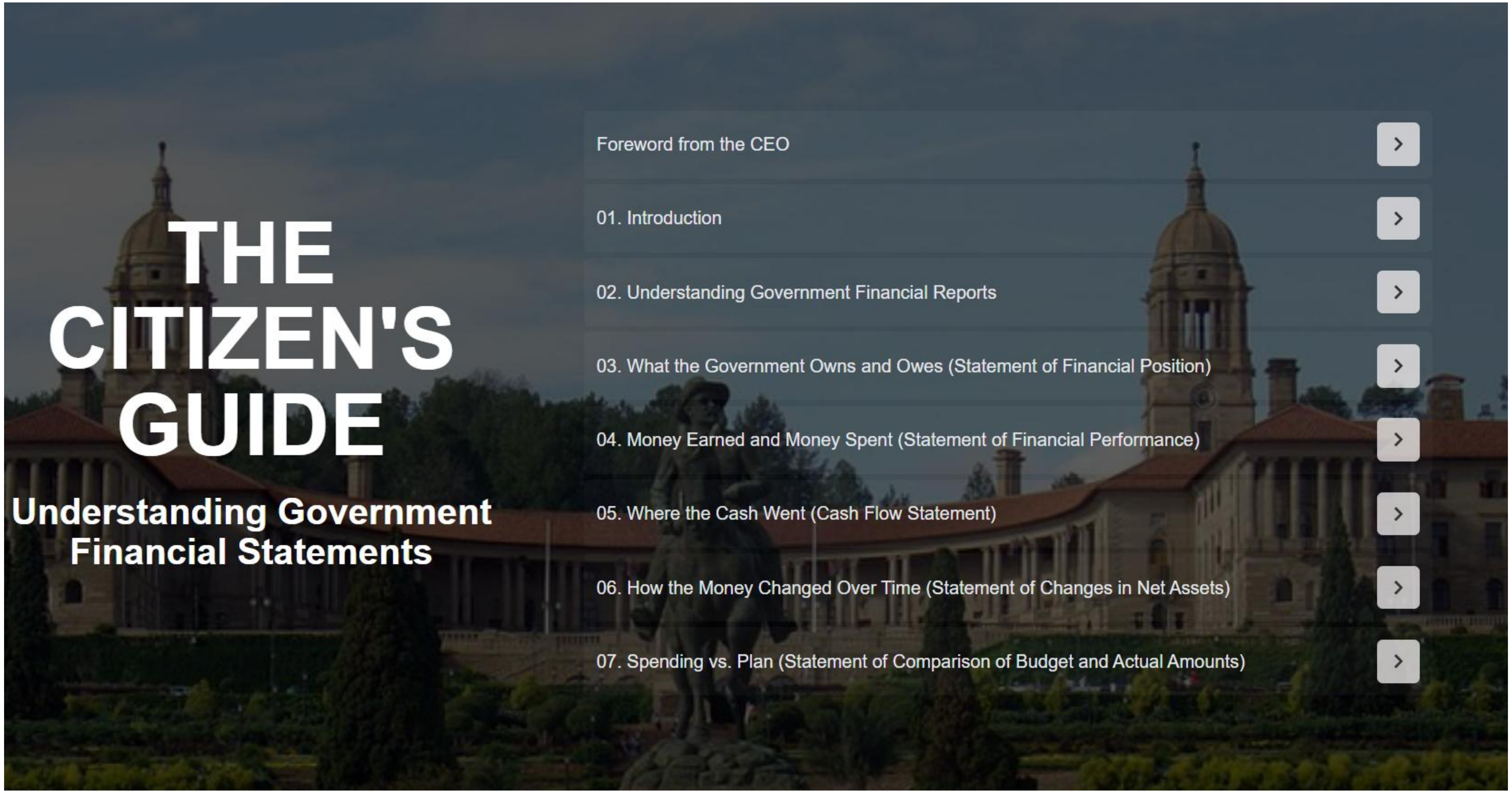
Capital assets in the statement of **financial performance and notes**

Accruals, commitments and provisions in the notes **ONLY**

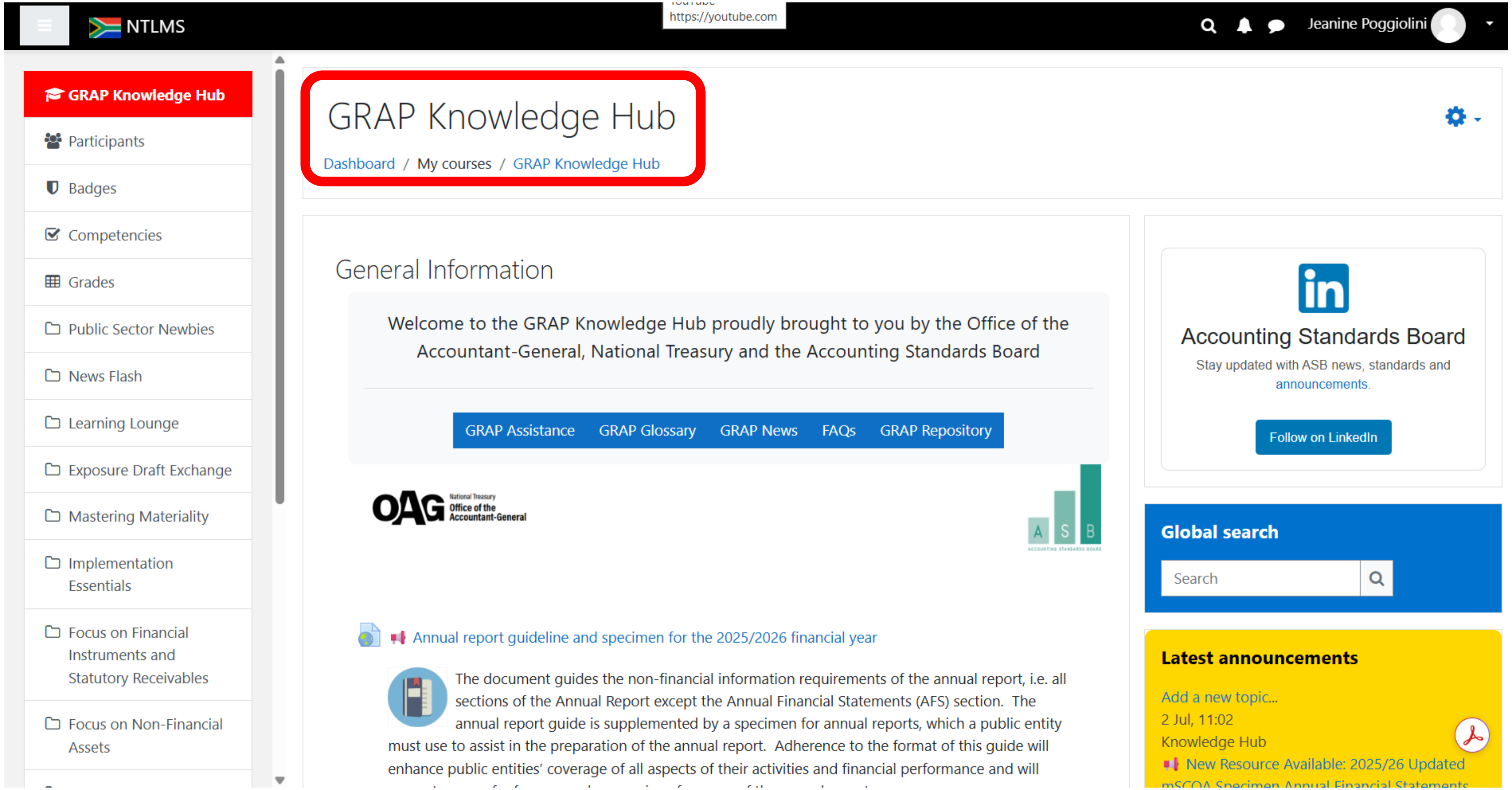
Unauthorised expenditure = Current asset

Irregular and fruitless expenditure = Notes only

Resources

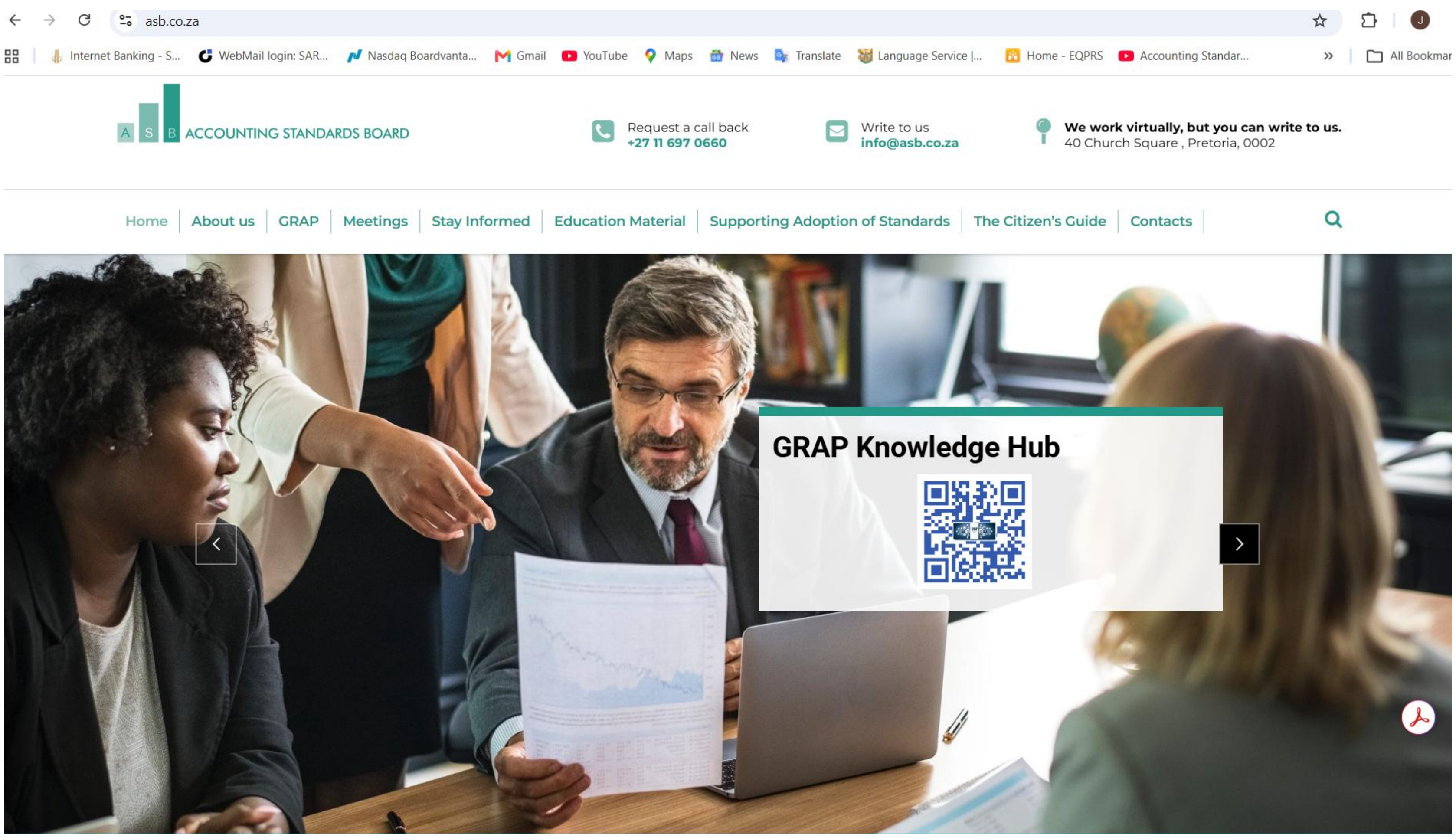

THE
CITIZEN'S
GUIDE
Understanding Government
Financial Statements
Foreword from the CEO
01. Introduction
02. Understanding Government Financial Reports
03. What the Government Owns and Owes (Statement of Financial Position)
04. Money Earned and Money Spent (Statement of Financial Performance)
05. Where the Cash Went (Cash Flow Statement)
06. How the Money Changed Over Time (Statement of Changes in Net Assets)
07. Spending vs. Plan (Statement of Comparison of Budget and Actual Amounts)

Resources



https://lms.treasury.gov.za

Resources



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