

ACCOUNTING IN THE PUBLIC SECTOR

CLIENT SUMMARY

FACT 1: Why do we need public sector accounting standards?

Similar to the private sector, high quality financial reporting is an important mechanism of information sharing needed for decision making. High quality public sector reporting enhances accountability and stewardship as it measures government's performance and provides disclosure of the resources available to government and its liabilities.

As the objectives in the public sector are different to the profit making objective in the private sector, there are areas where specific accounting standards are needed to address public sector specific matters such as non-exchange transactions, social benefits, heritage assets, etc. Besides these areas the same accounting standards can be used that are applied in the private sector.

FACT 2: International trends

International Public Sector Accounting Standards (IPSAS) are developed by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants. These standards are supported by the United Nations, the World Bank, OECD, NATO and others.

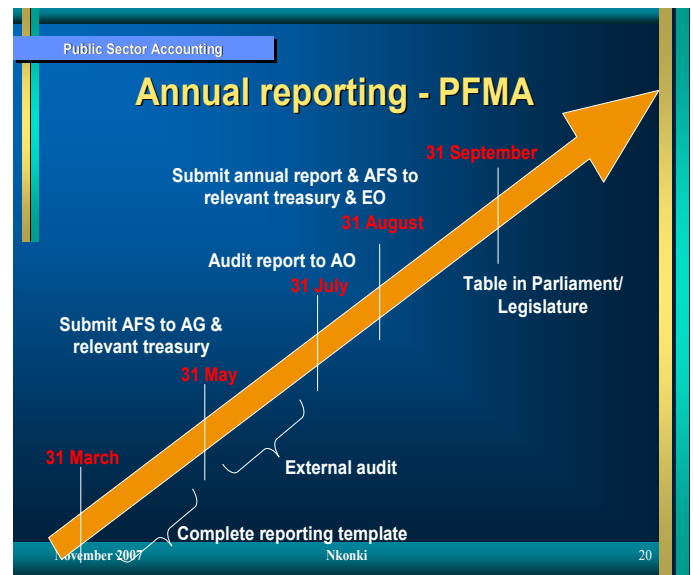
IPSAS are developed to be used when using the accrual bases of accounting, already applied in various countries such as Australia, Canada, New Zealand, the UK and the USA. In many countries cash based accounting is still applied and some of those countries are now converting to the accrual basis. These countries include South Africa.

FACT 3: Where are we in SA?

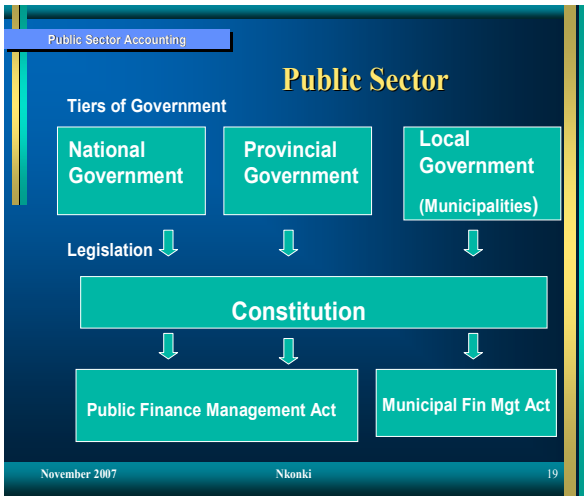
In South Africa, public sector standards, known as Generally Recognised Accounting Standards (GRAP) are set by the Accounting Standards Board, which was established in terms of the Public Finance Management Act (PFMA).

Public sector accounting can be explained in terms of the following structures and diagrams:

Annual reporting timelines in terms of the PFMA



Tiers of Government



This table details the compliance dates for different types of municipalities under Government Gazette 30013. It is titled 'Public Sector Accounting' and 'Municipalities (GG 30013)'.

Types	Compliance date Old	Compliance date New
High Capacity municipalities (50)	1 July 2005	1 July 2008
Medium Capacity Municipalities (107)	1 July 2006	1 July 2008
Low Capacity municipalities (127)	1 July 2007	1 July 2009
<ul style="list-style-type: none"> •Government Gazette 30013 •MFMA Circular 44 •National Treasury guide 	<ul style="list-style-type: none"> •Apply effective standards of GRAP •Currently, mixed frameworks 	

Most current accounting frameworks applicable

This table lists accounting frameworks for various government entities. It is titled 'Public Sector Accounting' and 'Accounting frameworks (06/7)'.

Government Entities	Financial year end	Basis of preparation
National and provincial departments	31 March	Modified cash (National Treasury)
Public Entities – Schedule 3A and 3C (National & Provincial) and Constitutional Institutions	31 March	SA Statement of GAAP with GRAP Standards 1, 2, 3 replacing the equivalent GAAP
Public Entities – Schedule 2, 3 B and 3 D and Trading entities	31 March	SA GAAP
Unlisted entities		SA GAAP or entity specific
Parliament and the provincial legislatures	31 March	Modified cash

FACT 4: Who should apply which standards?

Government business enterprises, trading entities and other public entities that have share capital or trade in debt all have to apply the accounting standards that are also applied by the private sector, hence International Financial Reporting Standards (IFRS). These entities include Eskom, Transnet, Telkom, etc.

National and provincial departments, constitutional institutions, Parliament, provincial legislatures, etc are subjected to the tables above.

FACT 5: What about public sector auditing?

The Public Audit Act lays down the requirements regarding auditing in the public sector. This function is executed and coordinated by the Auditor-General.

Currently only 3 out of the 34 national departments and 10 out of the 120 provincial departments have unqualified audit reports. The reasons for the qualifications are mainly around assets, bad debts and internal controls.