

PUBLIC SECTOR | NEWSLETTER

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thought leader

WHAT'S INSIDE?

Articles

- Accounting implications of COVID-19

2

- What does the Procurement Bill propose?

5

Technical Updates

7

Advocacy

- Strong financial controls needed to maximize benefit of Covid-19 relief efforts

9

Technical Resources

10

Upcoming Seminars and Events

12

Feature profile:

- Public Service Commission

13

SAICA's Public Sector Offerings

14

SAICA staff working remotely

The nature of COVID-19 requires that SAICA takes proactive preventative measures to ensure the health and safety of their staff, members and the public. The most effective way to limit the spread of this virus is by social distancing, and that is why SAICA staff are working remotely. The Public Sector Division can be contacted by emailing Natasha Soopal at natashias@saica.co.za or Kgoboko Makhafola at kgobokom@saica.co.za.



UPCOMING DEADLINES:

31 July 2020:

PFMA financial statements submission for audit

31 July 2020:

Public Schools financial statements submission for audit

31 August 2020:

MFMA financial statements submission for audit

30 September 2020:

PFMA audit report deadline



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

ARTICLES

Accounting Implications of COVID-19

This article has been prepared by the Secretariat of the ASB.

A nationwide lockdown came into effect from 27 March as a result of the COVID-19 crisis. The effect of the lockdown and the ongoing crisis means that the economy will experience a significant downturn, while there will be an increased need for government services and assistance. The volatility in interest rates may also negatively affect entities.

Areas that could be affected as a result of the crisis include the following:

- Construction, maintenance and related activities may be curtailed depending on whether they are seen as essential. This could impact the completion of entities' capital projects and planned maintenance.
- Public facilities may not be operational and certain services may not be provided as a result of the lockdown (and beyond). This could impact the revenue of entities as well as the ongoing demand for services.
- There may be an increased demand for government:
 - Services such as medical services, the provision of water and other sanitation services, and the provision of temporary housing or accommodation.
 - Assistance and support to the unemployed, businesses that are temporarily closed, NGOs, etc. due to the reduced activity in the economy.
- As some consumers of services and taxpayers may be unable to work or earn revenue during the lockdown period, there is a potential increase in the

non-payment for services such as water. While it is impossible to provide accounting guidance for all the implications related to the COVID-19 crisis, the Secretariat of the ASB has published a document outlining the high-level issues that entities that apply Standards of GRAP should consider in preparing their financial statements for 31 March 2020 or 30 June 2020. The document can be accessed by following this link: <https://www.asb.co.za/covid-19/>. The key themes from that document are outlined below.

Presentation and disclosure in the financial statements

Entities should consider reviewing the following:

- Accounting policies should be reviewed to ensure that they are still relevant. In particular, attention should be given to whether the classification of assets and liabilities, the valuation methodology applied, and inputs into the valuation methodology are appropriate.
- Presentation of items in the financial statements. Items that are material – either qualitatively or quantitatively – should be presented separately in the financial statements. Certain items relating to COVID-19 may be material and require separate presentation or disclosure in the financial statements. In making these disclosures, it is important that entities still apply the classification approaches to revenue and expenses outlined in GRAP 1 on *Presentation of Financial Statements*.

- Disclosures on judgements, assumptions, estimates and uncertainties. Entities are required to provide information where judgement, assumptions, and estimation uncertainty were applied in the preparation of the financial statements. This is an area where entities have historically provided either no, or poor, information. Given the uncertain environment within which entities will be preparing their financial statements, there is an increased need to provide this type of information to users of the financial statements.
- Events after the reporting date. A key issue that entities will need to consider is how to deal with events that occur after the reporting date in GRAP 14 on *Events After the Reporting Date*. Entities adjust the amounts recognised or disclosed in the financial statements for events that provide evidence of conditions that existed at the reporting date. Entities do not adjust the financial statements for events that arise after the reporting date but could disclose such events, if material.
- Legislative reporting requirements. Entities should consider whether any legislative reporting requirements apply, for example, disclosure on losses incurred.

Existence of liabilities

A consequence of the increased need for government services and government assistance is the potential for increased expenses. The key consideration in accounting for the increased services and assistance is whether an obligation exists. Government may make promises and commitments to undertake certain activities or provide support, but until there is a clear past event that has occurred (through a contract, legislation or past practice) that means that there is no realistic alternative but to settle the obligation, there is no liability and no related expense.

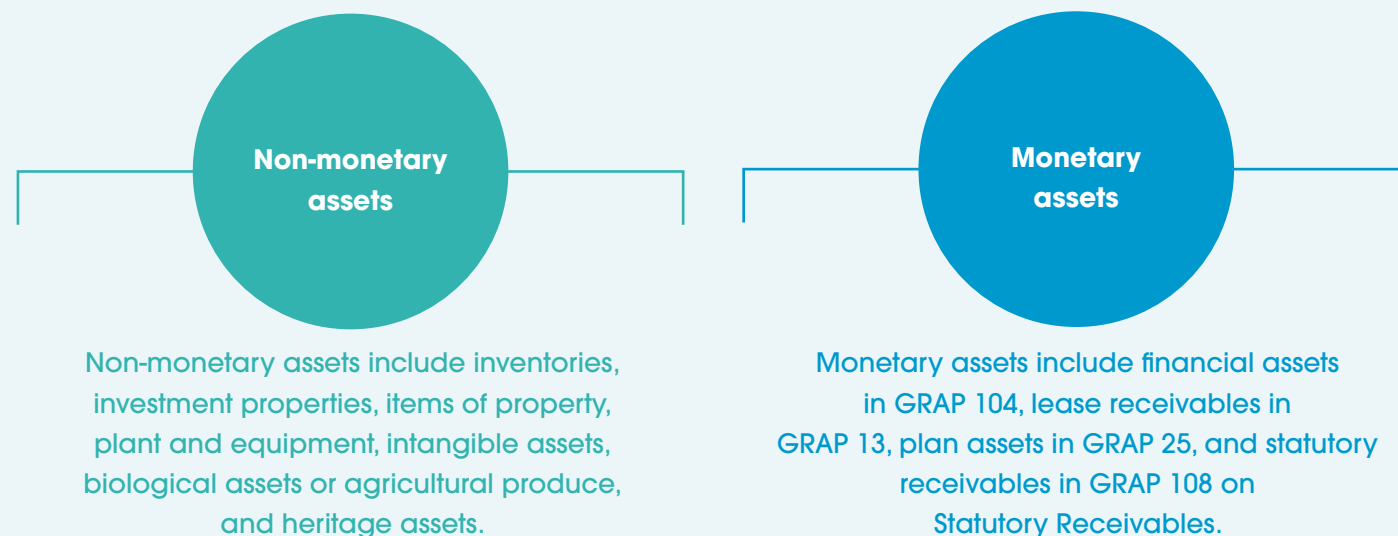
There are many Standards that deal with accounting for liabilities. Entities determine the nature of any additional liabilities that should be recognised and/or disclosed, or whether the measurement of existing liabilities should be changed, based on the following Standards: *financial liabilities* in GRAP 104 on Financial Instruments, lease liabilities in GRAP 13 on Leases, accruals and provisions in GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets*, and liabilities related to employee benefits in GRAP 25 on *Employee Benefits*.

Particular attention should be given to recognising and/or disclosing information about financial and other guarantee contracts issued by an entity. GRAP 19 should be applied in these instances.



As a reminder, entities should include all information in the financial statements that is relevant to the users of the financial statements. This could include information that is not specifically required by a Standard of GRAP.

MEASUREMENT OF ASSETS



The impact of the COVID-19 crisis is most likely to affect the valuation of non-monetary assets at reporting date. As most non-monetary assets are measured either at cost less impairment and/or depreciation/ amortisation or using a revaluation model or fair value, entities should consider the following potential implications on their valuation:

- Depreciation/amortisation – Assess if there is any indication that there has been a change in expected useful life, for example, because of a change in how an asset is used, its utilisation rate, delays in carrying out maintenance, or changes in the condition of the asset.
- Impairment – Assess whether there are indications that its assets are impaired, for example, because of long-term changes in the use of the asset, decisions to stop the construction of an asset, or physical damage.
- Valuation at reporting date – Given the economic environment, it is likely that there will be revisions to the fair values of assets. The valuation methodology used may need to be modified based on the availability of information, along with considering whether the inputs into the valuation methodology need to be revised.

- As with non-monetary assets, a key consideration for entities will be the valuation at reporting date. Where assets are measured at amortised cost, cost or using the cost method, it should be considered whether there is any indication that an impairment loss has been incurred on these assets. Due to the economic impact of the COVID-19 crisis on consumers, taxpayers and businesses, there is a high likelihood that there is observable evidence of an impairment loss, for example, default on the payment terms agreed, or financial difficulty of the counterparty.
- Particular attention should be given to accounting for assistance given to others as concessionary loans.
- electricity, property taxes, levies, etc. that are due to government entities.

ARTICLES

What does the Draft Public Procurement Bill propose?

Author: Natasha Soopal
Project Director: Public Sector at SAICA

The Minister of Finance issued the Draft Procurement Bill for comments with a closing date of 30 June.

PURPOSE OF THE BILL

The primary aim of the Bill is to regulate public procurement and to prescribe the framework for the procurement policy as envisaged in section 217 of the Constitution of the Republic of South Africa, 1996 (the Constitution).

OVERVIEW OF THE BILL

The Bill aims to create a single regulatory framework for public procurement and eliminate fragmentation in laws which deal with procurement in the public sector by, among others—

- Determining general procurement requirements;
- providing for an enabling framework for preferential procurement;
- establishing a public procurement regulator within the national treasury and defining its functions;
- defining the functions of provincial treasuries;
- defining the functions of institutions;
- providing for measures to ensure the integrity of the procurement process;
- providing for the power to prescribe different methods of procurement and bidding process;
- setting out a framework for supply chain management;
- providing for infrastructure delivery management;
- providing for a framework on the disposal of assets;
- providing for dispute resolution mechanisms; and
- providing for the repeal and amendment of certain laws.

NEW PROPOSALS IN THE BILL

The Bill proposes amongst others, the following, to improve public sector procurement:

Public Procurement Regulator

The Bill establishes a Public Procurement Regulator within the National Treasury.

The functions of the Regulator, will include, amongst other things-

- ensuring that institutions comply with the bill and engage in the prudent spending of public funds on procurement;
- reconsidering decisions of institutions;
- continuously revising and providing guidance on procurement and the procurement system;
- promoting and ensuring the integrity of the procurement system; and
- establishing and maintaining register for debarred bidders and suppliers.

Protection of officials

The Bill provides protection for employees who refuse to take instructions inconsistent with the Bill.

In instances where a public office bearer or other person fails or refuses to provide the instruction in writing, the Bills states that the affected person must not comply with the instruction. The affected person will also not be subjected to any disciplinary measures due to the non-compliance or failure to comply with the instruction.

Debarment of suppliers

The Bill allows for the Regulator to issue a debarment order against a bidder or supplier under specified circumstances including the following if the bidder or supplier:

- knowingly provided false information in a bid or any other document submitted to an institution in connection with a procurement process or contract;
- connived to interfere with the participation of other bidders;
- committed a corrupt, fraudulent, collusive or coercive practice, price fixing, a pattern of under-pricing or breach of confidentiality relating to procurement by an institution; and
- accepted, delivered against, or made a claim for

payment against, an order knowing that the order had not been authorised or was not in a proper format or had been issued by a person not authorised to do so.

A debarment order prohibits the bidder or supplier, for the period specified in the order, from participating in procurement generally or in circumstances specified in the order. The Regulator is required to publish the names of debarred bidders or suppliers and make such names available to institutions upon request.

Reconsideration of an institution's decision

The Bill allows for a bidder to seek a reconsideration or review of a decision or a failure to take a decision by-

- the institution itself;
- a provincial treasury in the case of a decision made by an institution within its provincial administration; or
- the Regulator in the case of a decision made by an institution in the national sphere of government.



A bidder seeking a reconsideration or review of a decision must pay such fee as may be prescribed.

Public Procurement Tribunal

The Bill establishes the Public Procurement Tribunal to review administrative actions taken by provincial treasury or the Regulator.

The Tribunal is independent to the procurement process. If a bidder is not satisfied by a decision made by a provincial treasury, that bidder may, within 10 days of it becoming aware of the provincial treasury or the Regulator's decision, submit an application for review to the Tribunal.

Reference

Draft Public Procurement Bill

TECHNICAL UPDATES

Compliance

Government Gazette 43465 – Department of Basic Education

The Gazette was issued by the DBE and details the extension of deadlines for the preparation and audit of financial statements for Public Schools.

| Document | Institution |
|---|---|
| Amendments to MFMA Circular 102 | National Treasury has amended MFMA Circular 102 – Emergency procurement in response to National State of Disaster effective from 20 May. |
| National Treasury Instruction No. 5 of 2020 amended | National Treasury has issued an erratum: National Treasury Instruction no. 05 as amended on 20 May 2020. |
| National Instruction No 2 of 2020/21 | National Instruction No. 2 of 2020/21 has been issued by National Treasury and explains the utilisation of funds withdrawn from the National Revenue Funds in terms of Section 29 of the PFMA. |
| National Instruction No 4 of 2020/21 | National Instruction No. 4 of 2020/21 explains the extension of deadlines for the submission of IYM and Quarterly Reports by departments, public entities and constitutional institutions and compliance measures to be followed during the lockdown. |
| Treasury Instruction No. 08 of 2019-20 | This Instruction allows for the relaxation, to a certain extent, of supply chain management requirements during times of emergencies for COVID-19 for PFMA. |
| MFMA Circular 103 | MFMA Circular 103 details preventative measures in response to the COVID-19 pandemic that resulted in the National State of Disaster. |
| Government Gazette no. 43281: MFMA, 2003 | Municipalities and municipal entities are exempted from compliance with regulations 4(3) and 29(2) of the Municipal Supply Chain Management Regulations, 2005. |

| Document | Institution |
|---|---|
| MFMA Circular 100 | MFMA Circular 100 allows for the relaxation, to a certain extent, of supply chain management requirements during times of emergencies for COVID-19 for MFMA. |
| MFMA Exemption Notice 43181 | Municipalities and municipal entities will be exempted from the timeline provisions in the MFMA until such time that the national state of disaster declaration is lifted by the President. |

Assurance

AGSA Directive

The AGSA Directive contains information on audit functions performed in terms of the Public Audit Act.

Fees for audits performed by private firms on behalf of the AGSA

Circular 1/2020 - Guideline on fees for audits performed by private firms on behalf of the AGSA has been published and is effective from 1 April 2020.

Financial Reporting

Implementation dates for Standards of GRAP for Trading Entities

The National Treasury has issued Regulations Prescribing the Standards of GRAP for the annual financial statements of Trading Entities with effect from 1 April 2021.

Calls for comments

| Document | Institution | Deadline |
|--|----------------------------|-----------------|
| ED 181 – Invitation to comment on IPSASB ED 70 Revenue with performance obligations | Accounting Standards Board | 01 October 2020 |
| ED 182 – Invitation to comment on IPSASB ED 71 Revenue without performance obligations | Accounting Standards Board | 01 October 2020 |
| ED 183 – Invitation to comment on IPSASB ED 72 Transfer Expenses | Accounting Standards Board | 01 October 2020 |

ADVOCACY

Strong financial controls needed to maximize benefit of Covid-19 relief efforts

Author: **Natashia Soopal**
Project Director: **Public Sector**

The objective of both the Public Finance Management Act (PFMA) which is applicable to national and provincial government, and Municipal Finance Management Act (MFMA) applicable to local government, is to ensure transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities of the government. Adherence to the PFMA and MFMA during the pandemic is more critical now as this will determine if citizens and SMMEs will receive the maximum benefit from the funding reliefs provided by government.

The South African government has been applauded for its quick response to curb the spread of the COVID 19 in its early stages, and prepare its health care system to better respond to the pandemic. However this good work can easily be overshadowed by poor controls implemented over the administration of the relief funding, which may result in an increase in fraud and corruption thereby reducing the potential of the funding desperately needed by its citizens and SMMEs.

Government has provided funding to individuals and SMMEs through various initiatives which include amongst others:

- Solidarity Fund;
- Assistance and relief via the UIF benefit scheme;
- The Spaza Support Scheme; and
- The Business/Growth Resilience Facility.

It is imperative that these initiatives reach citizens and SMMEs quickly so that it can help the vulnerable and stimulate the economy. However, this should not be

done by compromising controls. Internal controls are the mechanisms and processes that should be implemented by government to ensure the integrity of the financial information reported, thus promoting accountability and preventing fraud. Compromising these controls will increase the risk of fraud and misappropriation of funds. The implementation of strong internal controls over the funding reliefs provided by government will establish safeguards, minimise the opportunities of committing fraud and reduce errors going undetected. An effective internal control environment with clear processes outlined, will also allow for greater efficiencies.


The South African Institute of Chartered Accountant SAICA urges government to ensure that strong internal controls are implemented over the funding relief provided for the pandemic as this will assist government in ensuring that it is:

- 1) Able to achieve its objectives;
- 2) Mitigate risks of fraud and corruption;
- 3) Improve accountability;
- 4) Achieve stronger confidence in the financial reporting of the funds;
- 5) Prevent findings from the Auditor General; and
- 6) Build public confidence in government.

The Auditor General stated in the 2018-19 PFMA General Report that, “Preventative controls are the most effective way to improve financial management. Dealing with the consequences of poor financial management is costly, time-consuming and often the results cannot be reversed”. This firmly confirms the importance of strong controls over the funding relief in order to avoid misuse which ultimately may have a detrimental effect on the citizens and the economy.

TECHNICAL RESOURCES

SAICA Resources

| Title | Description | How to get it |
|---|---|---|
| UGRAP App license  | <p>The UGRAP application contains all the current GRAP standards, directives and interpretations that are simple to use and easy to navigate. The application is available for both iPhone and Android.</p> <p>Cost SAICA members - R389.99 Normal Price - R599.99</p> | <p>To order your UGRAP, send an email to publicsector@saica.co.za</p> |
| Guidance on Gazette no. 43188 PFMA, 1999: Exemption from the Act and Regulations | This document contains all the extended deadlines as per the Government Gazette no. 43188, Public Finance Management Act 1999. | Click here to download |
| PFMA Legislative Disclosure Checklists for Financial Statements | This document contains all disclosures required in the annual financial statements of Departments, Trading Entities, Constitutional Institutions and Public Entities in terms of the Public Finance Management Act 1 of 1999 (PFMA) and Treasury Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities | Click here to download |
| Integrated reporting in the public sector Frequently asked questions (FAQs) | This FAQs have been developed by the South African Institute of Chartered Accountants (SAICA) primarily to assist public sector institutions who are preparing integrated reports or are planning to prepare integrated reports. | Click here to download |
| Improving the quality of financial statements | In this video, the ASB assesses the effectiveness of the amendments to GRAP 16 and GRAP 17 | Click here to download |
| Results of the review of amendments to GRAP 16 and GRAP 17 | In this video, the ASB assesses the effectiveness of the amendments to GRAP 16 and GRAP 17 | Click here to download |
| Question and Answers on the tender process | The National State of Disaster has resulted in implications on the tender process. This document seeks to address some of those questions. | Click here to access |
| Other technical resources | SAICA has a number of technical resources available to members in the public sector which includes guides, circulars, templates and checklists, techtalk videos, and many more. | Access the technical resources on SAICA's website. |

Other Useful Resources

| Title | Developed by | Description | How to get it? |
|---|----------------------------|---|--------------------------------------|
| Frequently Asked Questions on the Standards of GRAP (updated June 2020) | Accounting Standards Board | These Frequently Asked Questions have been prepared by the Secretariat of the ASB in consultation with the technical division of the Auditor-General of South Africa (AGSA) and the Office of the Accountant-General at National Treasury (OAG) to assist preparers of financial statements on Standards of GRAP. | Click here to access |
| Accounting Guidelines - GRAP 11 Construction contracts updated May 2020. | National Treasury | This document has been prepared by the National Treasury and provides guidance on the accounting treatment and disclosure of transactions arising from construction contracts. | Click here to access |
| COVID-19: IPSASB guidance, resources to maintain strong PFM | IPSASB | This document has been prepared and published by the IPSASB to provide guidance and resources to maintain strong public finance management. | Click here to access |



UPCOMING SEMINARS AND EVENTS



| Seminar and Event name | Overview | Region | Date | Book |
|--|---|---------|---------|------------------------------------|
| Webcast Techtalk Series: Public Sector | This webcast will cover updates on: Standards of Generally Recognised Accounting Practice (GRAP) International Public Sector Accounting Standards (IPSASs) Public Finance Management (PFMA) Municipal Finance Management (MFMA) | Webcast | Monthly | Click here to book |

FEATURE PROFILE

Public Service Commission

About the Public Service Commission

The Public Service Commission (PSC) was established in terms of Section 196 of the Constitution of the Republic of South Africa, 1996.

The PSC derives its mandate from sections 195 and 196 of the Constitution, 1996. The PSC is tasked and empowered to, amongst others, investigate, monitor, and evaluate the organisation and administration of the Public Service. This mandate also entails the evaluation of achievements, or lack thereof of Government programmes. The PSC also has an obligation to promote measures that would ensure effective and efficient performance within the Public Service and to promote values and principles of public administration as set out in the Constitution, throughout the Public Service.

These values and principles are:

- A high standard of professional ethics
- Efficient, economic and effective use of resources
- A development-orientated public administration
- Provision of services in an impartial, fair and equitable way, without bias
- Responding to people’s needs and encouraging the public to participate in policy-making
- Accountable Public Administration
- Fostering transparency
- The cultivation of good human resource management and career-development practices
- A representative public administration with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past.

Key Performance Areas

The work of the PSC is structured around the six key performance areas listed below:

Labour Relations Improvement

Conduct investigative research and provides advice on complaints, grievances, labour relations practices and policies.

Leadership and Human Resource Reviews

Promote a high standard of public service leadership and encourage best practices in human resource policies.

Governance Monitoring

Promote good governance and improve governance practices in the public service.

Service Delivery and Compliance Evaluations

Promote improved service delivery through public participation and monitoring of quality audits.

Public Administration Investigations

Undertake audits and investigations into public administration practices.

Professional Ethics

Promote a high standard of ethical conduct among public servants and contribute to preventing and combating corruption.

More information on the PSC can be accessed on <http://www.psc.gov.za/>

Reference: Public Service Commission website



SAICA'S PUBLIC SECTOR OFFERING

SAICA has a dedicated public sector division to support members in the public sector. Members receive support as follows:



1 Thought leadership

Members receive regular thought leadership articles on emerging issues in accounting, assurance, governance, risk management, technology and other developments that may affect the future of the profession.

2 Technical Update

Members receive regular updates on SAICA social media platforms and a monthly newsletter outlining recent developments in standards and legislation.

3 Technical Resources

Members have access to guides, handbooks, tools, templates, and other resources to support them in the public sector.

4 Technical Support

Members are able to log technical queries on the [SAICA Online Technical Query System](#) and receive guidance from SAICA staff.

5 Seminars and Events

Complimentary and discounted access to [SAICA seminars and events](#).

6 The division is also responsible for:

- Advocating, lobbying and influencing for fit-for-purpose legislation, standards, policies, processes and systems in the public sector.
- Public Finance Management Capacity building projects to support the professionalisation agenda in public finance management

Meet the team



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