ASSESSING THE READINESS FOR THE IMPLEMENTATION OF GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) IN THE DEPARTMENT OF TRANSPORT AND PUBLIC WORKS IN THE WESTERN CAPE

by

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DECLARATION

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ABSTRACT

IMPLEMENTATION OF GENERALLY RECOGNISED ACCOUNTING PRACTICE (GRAP) IN THE DEPARTMENT OF TRANSPORT AND PUBLIC WORKS IN THE WESTERN CAPE.

The research project was undertaken to explore one of the major obstacles in South Africa's public sector, namely shifting the basis of accounting from modified cash accounting to accrual accounting. Contrary to cash accounting, which recognises expenditure only when cash is paid and income is received, accrual accounting recognises expenditure when the goods and services are received and income is recognised when services are rendered. Given the condition of financial reporting within departments with no accrual accounting compliant systems, no processes and policies in place to comply with accruals and lack of relevant capacity and skills, the purpose of the study was to determine the capability of the department to implement accrual accounting (mainly Generally Recognised Accounting Practice (GRAP)) in the public sector context. What needed to be determined was the readiness of the department for the implementation and the challenges and conditions that hampered the implementation of accrual accounting.

The literature review explores the existing information for correlation with the implementation of GRAP and recommendations are made to departments within the public sector to ensure an approach and conversion plan that would be relevant and practical in the current environment and address all challenges and concerns identified within a reasonable time frame. The importance of the research for the public sector resides in the recognition of the need for better understanding of the implementation of accrual accounting, so that significant risks and challenges of the accrual accounting implementation may be determined within departments in the public sector.

OPSOMMING

Hierdie navorsingsprojek is onderneem om die gereedheid van die Departement van Vervoer en Openbare Werke ten opsigte van die implementering van die toevallingsgrondslag van rekeningkunde (*GRAP*) in die publieke sektor te bepaal. Ondersoek is ingestel na een van die grootste struikelblokke in Suid-Afrika se publieke sektor, naamlik die verskuiwing vanaf die kontantgrondslag van rekeningkunde na die toevallingsgrondslag van rekeningkunde. Ooreenkomstig die kontantgrondslag van rekeningkunde word transaksies en ander gebeure erken wanneer kontant ontvang of betaal word. Volgens die toevallingsgrondslag van rekeningkunde word transaksies en ander gebeure egter erken wanneer dit aangegaan word en nie wanneer kontant ontvang of betaal word nie. Gegewe die toestand van finansiële verslagdoening binne die departemente, met geen voldoening aan toevallingsgrondslagrekeningkundige stelsels nie, geen prosesse en beleide in plek nie en 'n gebrek aan kapasiteit en vaardighede in die publieke sektor, was die doel van die studie om te bepaal tot watter mate die departement oor die vermoë beskik om toevallingsgrondslagrekeningkunde binne die departemente in die publieke sektor te implementeer en om die gereedheid vir die implementering en die uitdagings en struikelblokke wat die implementering kan belemmer, te identifiseer.

‘n Literatuurstudie is onderneem om die beskikbare inligting met die implementering van toevallingsgrondslagrekeningkunde (GRAP) te gekorreleer en aanbevelings word aan die departemente in die publieke sektor gemaak om te verseker dat die benadering en die omskakelingsplan hiervoor die huidige situasie toepaslik en prakties sal aanspreek en alle uitdagings en probleme binne 'n redelike tydperk die hoof sal bied. Vir die publieke sektor is die belangrikheid van die navorsing daarin geleë dat 'n beter begrip van die toepassing van toevallingsgrondslagrekeningkunde in departemente nodig is sodat die beduidende risiko's en uitdagings wat met die implementering van toevallingsgrondslagrekeningkunde binne departemente in die openbare sektor vasgestel kan word.

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LIST OF ACRONYMS AND ABBREVIATIONS

The following acronyms are used in this document:

ASB	Accounting Standards Board
GAAP	Generally Accepted Accounting Practice
GMT	Government Motor Transport
GRAP	Generally Recognised Accounting Practice
DTPW	Department of Transport and Public Works
FGRO	Financial Governance Review and Outlook
FMC	Financial Management Capability
FMCMM	Financial Management Capability Maturity Model
PFMA	Public Finance Management Act of 1999
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
OAG	Office of the Auditor General
PALAMA	Public Administration Leadership and Management Academy
PT	Provincial Treasury
NT	National Treasury
NPM	New Public Management
SCM	Supply Chain Management
SCOA	Standard Chart of Accounts
SCOPA	Standard Committee on Public Accounts
WCPG	Western Cape Provincial Government

CHAPTER 1

INTRODUCTION AND RESEARCH PROBLEM

1.1 BACKGROUND AND RATIONALE

This thesis presents the scope of the study with specific focus on the implementation of accrual accounting, thus Generally Recognised Accounting Practice (GRAP) within the Department of Transport and Public Works (DTPW) in the Western Cape Provincial Government, which frames the theoretical and empirical and non-empirical approach to this study emphasising the challenges and risks pertinent to the public sector. The chapter outlines the rationale for the study against the background of the goals and objectives that define the study, and reviews the background to the research problem. In order to achieve this objective, the literature on accrual accounting is reviewed, with specific focus on implementation of accrual accounting internationally; the risks, challenges and capability of public sector departments are examined; the methodology and research design are explained; the results are assessed; and recommendations are made as to the readiness for the implementation of accrual accounting within public sector departments.

The requirement, in Section 216 of the Constitution of 1996 (South Africa, 1996), that financial reporting be brought in line with generally accepted accounting Practice (GAAP), and the establishment of the Accounting Standards Board (ASB) in terms of Section 89 of the Public Finance Management Act of 1999 (PFMA) to set standards of GRAP for entities, was intended to ‘position the institution for conversion of financial reporting in the public sector in South Africa’ (Botha, 2006:6). Reporting on the accrual basis of accounting requires a lot of additional information not previously obtained, recorded, considered or reported by a department. Having the accrual information available, supported by an appropriate financial system, will help to manage the use of resources through an effectual, resourceful, financially viable and transparent approach to improve financial management and, ultimately, service delivery within the public sector environment. The study furthermore was directed at investigating the implementation of the new accounting accrual system at Government Motor Transport (GMT), the trading entity under the Department of Transport and Public Works, and the lessons learned from the implementation process. Given the condition of financial reporting within the departments, with no accrual accounting compliant systems, no processes and policies in place, lack of capacity and skills, the aim of the study was to determine the capability and readiness of the DTPW to implement accrual accounting (GRAP) within departments in the Western Cape. In the 2007/2008 financial year, the audit outcomes reported by the Auditor-General of South Africa (AGSA) identified those areas at the department that required improvement, using the Financial Management Capability Maturity Model (FMCMM) that was rolled out by National Treasury to assess the readiness of departments for compliance with the Public Finance Management Act, Act 1 of 1999. The FMCMM facilitates the assessments of the current state of the financial management maturity of the department, and provides information on whether the existing control environment is conducive to the high standards of financial management and internal controls expected; whether the capacity of departments is adequate to maintain and improve the control environment and internal controls; and the predominant underlying factors for the current state of financial management (e.g. policies, processes, technology, skills capacity, organisational capacity) and opportunities for improvement (National Treasury, 2009).

This study has embarked on establishing the readiness for implementation and the challenges hampering the implementation of accrual accounting (GRAP) through lessons learned from accrual accounting implementation in other countries, like New Zealand, Australia, Canada and the United Kingdom. The intention was to acquire information regarding accrual accounting (GRAP) implementation and make recommendations to departments in the public sector, thereby to ensure an approach and conversion plan that is relevant and practical in the current environment and addresses all challenges and concerns identified within a reasonable time frame. The importance of the research for the public sector is that the study recognises the need to better understand the implementation of accrual accounting so that significant risks and challenges of the accrual accounting implementation may be resolved within departments in the public sector.

1.2 THE RESEARCH PROBLEM

A considerable amount and body of accessible data and research on accrual accounting and the risks and challenges that it holds for the public sector, especially in South Africa, is readily available. In addition, the mainstream of the research on accrual accounting has been conducted internationally in the aforementioned countries where accrual accounting has already been put into practice.

One of the most important obstacles in transforming financial reporting in South Africa is changing from modified cash-based accounting practices to accrual accounting (Van Wyk, 2009:424). This is a significant change and it is possible that some government departments do not have the necessary capabilities and are not sufficiently ready for the shift to accrual accounting. This study on this important issue of changing from modified cash-based accounting to accrual accounting therefore was undertaken to investigate the extent of the capabilities and the readiness of the Department of Transport and Public Works to implement accrual accounting, and to identify the risks and challenges to an effective implementation process.

1.3 AIM OF THE STUDY

The main aim of this study was to investigate the readiness for the implementation of accrual accounting (GRAP) with particular focus on the Department of Transport and Public Works within the Western Cape Provincial Government.

1.4 OBJECTIVES OF THE STUDY

Given the primary aim of the study, the following secondary objectives guided the empirical study:

- **Objective 1** - To analyse the theoretical accrual accounting framework (presented in GRAP) that underpins the empirical investigation
- **Objective 2** – To investigate how accrual accounting was implemented in other countries and what lessons South Africa can learn from the experience of such countries to improve the course of implementation

- **Objective 3** - To assess the capabilities of the organisation, human resources, and systems within entities to effectively put accrual accounting into practice
- **Objective 4** - To investigate the potential challenges and risks that might arise during the implementation process

1.5 RESEARCH DESIGN AND METHODOLOGY

This study made use of an empirical design, namely Secondary Data Analysis and a non-empirical design through a Literature review. This exploratory study employed qualitative methodology to analyse existing documentation, secondary data, and semi-structured interviews based on a pre-determined questionnaire. Qualitative research enables the researcher to gain new insights into a particular phenomenon, as well as to evaluate the effectiveness of existing practices (Leedy, 1993:134-135).

Type of research design

The study was designed to employ existing secondary data obtained through the literature review, with the aim of analysing the information in order to identify objectives and research problems. The selection of sources including documents, websites, texts and data obtained from semi-structured interviews was driven by the theoretical considerations of the research, such as the aim of the investigation and the research objectives. The target population for this study consisted of 15 individuals selected according to their positions within the public sector and the required background in accounting to render them capable of responding to the semi-structured questionnaire.

The 15 individuals in the target population were assessed on the basis of the semi-structured questionnaire the semi-structured questionnaire. The researcher set up interviews with certain individuals of the target population. The level of experience within the public sector as represented by the target population ranged from 5 to 15 years. The Provincial Accountant General (PAG) of the Western Cape was one of the individuals chosen to participate in the face-to-face consultation planned to be conducted with the use of the semi-structured questionnaire.

Data collection methods

The following data collection methods were followed by the researcher to adequately attain the objectives of the study.

Literature review / Secondary Data

The analysis of existing documents and information from secondary data is invaluable in qualitative research. The preliminary literature review included pertinent literature on accrual accounting implementation from international as well as local document sources. The scrutiny of papers comprised bureaucratic paperwork, journals, articles, reports utilised in the review of the literature, and data gathered during interviews.

Primary data

The researcher was guided by Leedy & Ormrod (2005:135) to make decisions regarding the generation of primary data. According to Leedy & Ormrod, data for case studies often include observations, interviews and documents. The researcher decided to generate primary data through semi-structured interviews and a survey questionnaire.

Semi-structured interviews

Semi-structured interviews allow a multipurpose method of accumulating data, with the researcher using a pre-determined list of questions. Face-to-face interviews were conducted with key respondents from the Department of Transport and Public Works, the Provincial Accountant-General and the Department of the Provincial Treasury in the Western Cape Provincial Government with the use of the semi-structured questionnaire to collect rich and comprehensively qualitative data on accrual accounting implementation readiness.

The interview guide/questionnaire

The questionnaire that served as an interview guide was developed on the basis of current literature. It was designed to cover key research subjects pertaining to accrual accounting implementation readiness, challenges and risks that had been identified. The research subjects that gave rise to the questions comprised three strategic themes or areas of interest.

At the conclusion of the face-to-face interviews, respondents were given an opportunity to add, any concerns relating to accrual accounting implementation that had not been covered in the interview. The interview questionnaire is included as Appendix A.

Data analysis

Bogdan & Biklen (1982:145) define qualitative data analysis as 'working with data, organizing it, breaking it into manageable units, synthesizing it, searching for patterns, identifying and highlighting what are the important key findings and lessons to be learned'.

The data from the semi-structured consultations and secondary data from existing documentation were analysed and organised in manageable sections to determine links between the data. To facilitate data analysis, the scrutiny of the information involved re-examination of the categories identified, described, and classified into selected categories according to the semi-structured interview guide (Strauss & Corbin, 1990).

The framework provided by Collis & Hussey (2003:240) was followed for the analysis. This framework includes the following sequential steps:

- Define a set of categories on the classification of units of analysis, derived from both the literature underpinning the study and the interview transcripts;
- All responses will be taken into account to illustrate the support findings;
- Discuss, analyze and interpret the key findings emerging from the data within the context of the theoretical framework developed for the study. (Collis & Hussey, 2003:240)

1.6 STRUCTURE OF CONTENTS

The thesis is structured as follows:

Chapter 1: Introduction and research problem

This chapter serves as an introduction to the study, and provides an overview of the implementation of accrual accounting within the public sector; details the objectives of the investigation; presents an overview of the methodology that was used; and risks and challenges facing the implementation are articulated. The focus is on:

- Whether the existing control environment is conducive for the high standards of financial management and internal controls expected;
- Whether the capacity of departments is adequate to maintain and improve the control environment and internal controls; and
- The predominant underlying factors governing the current state of financial management (e.g. policies, processes, technology, skills capacity, organisational capacity) and opportunities for improvement.

Chapter 2: The theoretical foundation of accrual accounting (GRAP) implementation

The theoretical foundation of the study is presented in Chapter 2. This chapter provides an overview of accrual accounting within the public sector to provide a theoretical frame of reference for the empirical study. To provide a broad overview of the research agenda, key terms and concepts relating to the study are defined. The significance of the implementation of accrual accounting (GRAP) for public sector departments is emphasised, and the chapter concludes with a comparison of international implementations of accrual accounting, identifying the risks and challenges to effective the implementation.

Chapter 3: Legislative and accounting policy framework for implementing GRAP in Departments in South African Public Sector.

Chapter 3 reviews all the relevant legislation, policy frameworks, guidelines and accounting processes with regard to the implementation of GRAP in the South African public service.

Chapter 4: Case study: Department of Transport and Public Works (DTPW)

In Chapter 4 the focus is on the DTPW as a case study to assess the readiness within the Department to implement GRAP within the public sector. A background of the DTPW in terms of its vision, mission and core responsibilities is provided. This is followed by a brief discussion of the current state of financial reporting in the DTPW.

Chapter 5: Research design and methodology applied

Chapter 5 comprises a discussion of the research design and methodology that was followed in the study. A full explanation of the research design, the interviews conducted and the questionnaire used to guide the interviews as a data collection instrument are presented in this section. The chapter concludes with a description of the data analysis and methods by which the analysis was conducted.

Chapter 6: Research findings

Chapter 6 presents the research findings from the in-depth interviews conducted and the survey questionnaire that was used in the study. The data generated through the interviews and questionnaire mainly addressed objectives 3 and 4 as outlined in Chapter 1 of this study. The findings derived from the interviews are discussed first and these are followed by research findings derived from the survey questionnaire to assist with cross-referencing between the questionnaire and the interviews conducted.

Chapter 7: Analysis of research findings

The analysis of the information gathered from the in-depth interviews and a discussion and interpretation of the key research findings within the framework of the relevant theory identified for the study are presented in Chapter 7. This chapter includes a presentation of the primary and secondary data as it was generated. A discussion of the theoretical and practical implications of the research findings for public sector departments concludes this chapter.

Chapter 8: Summary, conclusions and recommendations

Chapter 8 concludes the dissertation. A summary and highlights of the research findings are presented, together with recommendations for further research and a discussion of the contributions of this research.

CHAPTER 2:
THEORETICAL FOUNDATION OF ACCRUAL ACCOUNTING IMPLEMENTATION

2.1 INTRODUCTION

The occurrence of cash accounting in the international public sector is an exception rather than the norm, due to the momentous switch by public sectors globally to accrual accounting for reporting on financial and budgeted information in the last two decades (Champoux, 2006:1). The conversion to accrual accounting forms part of the reforms envisaged by the enactment of the Public Finance Management Act, Act 1 of 1999, as stipulated in section 40(1) (b), requiring that all entities 'must prepare financial statements for each year in accordance with generally recognized accounting practice (GRAP)'. Reporting on the accrual basis of accounting requires a lot of additional information not previously obtained, recorded, considered or reported by departments. Having the accrual information available, supported by an appropriate information system, will increase the information available to manage the use of resources in an effective, efficient, economic and transparent manner and to perform the related financial management functions as intended by section 38 of the PFMA (National Treasury, 2006).

Particularly in the context of fiscal policy, the literature review is intended to provide a theoretical framework in support of accrual accounting, and to present the advantages and challenges of implementing generally recognized accounting practice (GRAP) in the public sector, together with a discussion of the lessons learned internationally from countries that have successfully implemented accrual accounting. The requirement that accrual accounting has to be functional to the core of government has develop more significant recently. In New Zealand, the switch to accrual accounting took place in 1992 (Pallot, 2001), and the United Kingdom has started a similar process.

2.2 DEFINITION OF ACCRUAL ACCOUNTING

Khan & Mayes (2009:3) explain accrual accounting as 'an accounting methodology under which transactions are recognised as the underlying economic events occur, regardless of the timing of the related cash receipts and payments'. Contrary to cash accounting, which recognises expenditure only when cash is paid and income is received, accrual accounting recognises expenditure when goods and services are received even if not for paid yet, and income is recognised when services are rendered even if no income has been received. For example, you would merely take into account income when the actual transaction transpires, without considering when you would get paid. Similarly, you would only take into account expenditure when delivery is taken of goods or services, although you might pay for them later (Woods *et al*. (2009:183).

In terms of a statement of performance, which is equivalent to an income statement as in the case of a business, government under accrual accounting reports financial flows. If the balance on the performance statement is zero, then the operational costs are completely covered by the year's income under review. According to Robinson (2000:127), 'accrual accounting has given government's statements value by recognising all assets and liabilities on the statement of position'.

2.3 THE DIFFERENCES BETWEEN CASH AND ACCRUAL ACCOUNTING

According to research, the Australian government's cash and accrual accounting reporting can be clustered into two categories – the recognition of transactions and the timing of transactions (Australia, 1994). In cash accounting, transactions are recognised when cash transactions are actually received or dispatched. Transactions that do not involve the movement of cash, for instance provisions and revaluations, are not included. Accrual accounting, on the other hand, includes transactions when the economic value changes, not when cash movements are made. This means that accrual accounting can cover significant transactions which are not taken into account in cash accounting because there are no associated cash flows (Australia, 1994).

In other words, regarding the timing of transactions, cash accounting transactions are shown for the period in which the cash is actually paid or received. In accrual accounting, transactions are shown in the period when the revenue is earned or expenses incurred, irrespective of the timing of the related cash payment (Australia, 1994).

Cash and accrual accounting differ significantly with regard to how unfunded pension funds for government employees, provisions for depreciation of capital assets and the recording of public debt interest are treated. The cash framework shows how cash is moved into and out of pension funds, while the accrual framework records how pension expense accrues whether the liability is funded or unfunded. This means that the 'true cost of accruing pension liabilities' is recorded. 'The cash accounting framework records capital expenditure in a given period, while in the accrual accounting framework, the operating statement records depreciation of the capital, with the cost of the capital being gradually defrayed across the life of the assets' (Australia, 1994).

Cash Accounting versus Accrual Accounting

Cash and accrual accounting are different ends of a spectrum of accounting practice. The spectrum can be presented as follows:

Cash accounting simply involves the recording of receipts and expenses when the cash is either received or paid out. No account is taken of amounts owed or owing; only amounts received or paid in cash are accounted. The purchase of short- and long-term assets is expensed when the asset is purchased and paid for (Hardman, 1986).

'Modified Cash Accounting' can take a number of forms, but the most common is the non-closing of the books of accounts for a specific accounting period so that 'late' receipts or payments which relate to the relevant accounting period can be recorded (Hardman, 1986).

'Modified Accrual Accounting' can take a number of forms, but the most common application probably is the limited disclosure of information relating to assets and liabilities (Hardman, 1986).

'Accrual accounting' is sometimes called 'commercial accounting' or 'comprehensive accounting'. It is a system which matches all revenues and expenditures for a specific accounting period, whether or not the cash has been paid or received. For instance, when an invoice is rendered for work done or tax payable, it is classed as revenue at that point. Similarly, when goods are received or services rendered, the transaction is classed as expenditure. The revenues and expenditures are 'accrued' to the relevant accounting period, which then provides a complete picture of the financial transactions relating to that period. Cash for the transaction may not be paid for a considerable period of time, e.g. an employee's entitlement to annual leave may not be crystallised for a number of months. Capital expenditure relating to assets is charged to the relevant accounting period by the application of depreciation charges (Hardman, 1986).

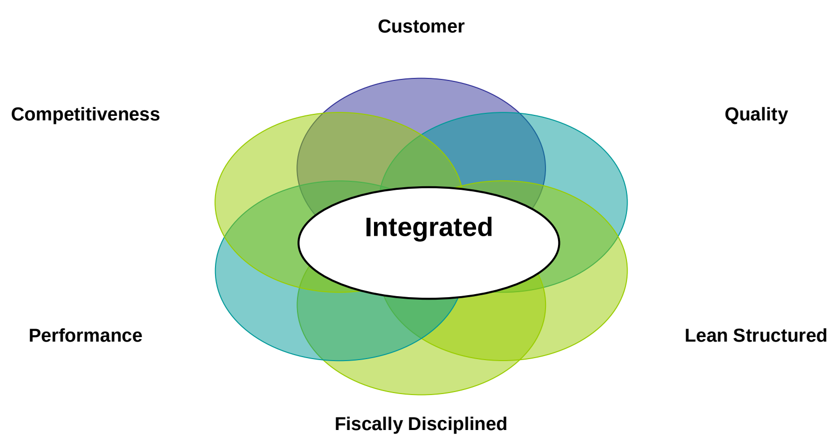
2.4 THE IMPORTANCE OF ACCRUAL ACCOUNTING (GRAP)

As is evident from research, accrual accounting has been undertaken for the last decade to reform public sector accounting as the starting point for wider New Public Management (NPM) reforms and the public sector market (Ellwood & Newberry, 2007). When using cash-based accounting, government cannot perfectly predict how much money will be spent or received in one fiscal year. With the accrual method of accounting, adjustments are made at the end of a fiscal year to bring all accounts up to date, thus accounting for all expenses and revenue more accurately (Garner,1991). Accrual accounting anticipates the result for government and the society they serve which results in greater management economy and, hence, enhanced efficiencies and effectiveness. It is a way to a certain degree of shifting the eminence of the budgetary method away from inputs of cash, in the direction of outputs and outcomes.

The International Federation of Accountants has pointed out that, as it is obligatory to achieve desired outcomes to serve the needs of the community, the objective of financial management is to support management in the provision of limited resources in the public sector with the purpose of guaranteeing economy and efficiency in service delivery (IFAC, 2000: par. 282). Visser & Erasmus (2002:4) state that 'the underpinning of financial management is economy, efficiency and effectiveness'. Viewed from a public management and administrator outlook, financial management in the public sector relates to the study of systems, procedures and mechanisms by which government receives revenue, expends via the budget, and exercises control through meticulous mechanisms. Financial management engages quite a few specialised aspects which comprise budgeting of expected revenues and expenditure; accounting for the reception and payment of funds once the budget is acted out; procurement of goods and services; controlling risks; auditing of accounting transactions for compliance purposes and adherence to accepted accounting principles (Coe, 1989:1).

In relation to growth, continuing growth in government spending and increasing social burdens raise questions about the effectiveness, efficiency and affordability of government and taxpayers' acceptance. The general public has transformed, seeing themselves as consumers of government rather than beneficiaries of services and, in turn, query the quality of public services that are made available. Policy makers have to find solutions to such pressures and improve the state of this changing public environment. This has resulted in a 'New Public Management' model. The doctrine and ideology of New Public Management reform have lessened the division amongst the private and public sector. NPM reforms have reiterated the importance of accounting as a tool for introduction and the support of change.

The principles or characteristics of the New Public Management are illustrated in an integrated way in Figure 2.1.



Source: Accounting review, 2003

Figure 2.1: Principles/characteristics of 'New Public Management' (NPM)

The New Public Management principles or characteristics referred to above are conducive to the value system. This needs to be institutionalised in public sector organisations to achieve the objective of successfully implementing accrual accounting. It should be guided by:

- Being customer orientated: This principle includes treating citizens as customers of government goods and services rather than recipients thereof;
- Being competitive: This principle includes introducing market principles into the public sector; testing whether in-house provision of services remain competitive with alternative forms of provision;
- Being performance driven: This principle includes public sector managers to be hands on and contractually bound into a clear assignment of responsibilities for action and accountable for specific results to political head – the catch phrase 'let the managers manage but let them be accountable' is clearly evident here;
- Being committed to and displaying continuous quality improvement. This principle includes setting of service delivery standards; measuring performance against set standards;
- Being lean structured. This principle includes downsizing of government through restructuring of public sector organisations (e.g. decentralisation, privatisation, departmentalisation, and outsourcing);
- Being fiscally disciplined. This principle includes: Doing more with less; creating savings (e.g. reduced budget appropriations); improving processes (e.g. no red tape, faster turnaround times, and one stop shops) (Hood, 1991).

The NPM is heavily concerned with the constant decreasing in costs of a 'product' and getting 'the best value for money' which is enhanced by accrual accounting. The underlying feature of the NPM model is the implementation of a performance measurement management system. The seven principles of public management (Hood, 1991) mentioned are performance-centred, and without performance management it would have been very difficult to justify the major change in the public sector. The main features of the NPM model as given by the OECD, are stated as 'a greater focus on results and increased value for money, devolution of authority and enhanced flexibility, strengthened accountability and control, a client- and service-orientation, strengthened capacity for developing strategy and policy, introduction of competition and other market elements, and changed relationships with other levels of government' (OECD, 1995:37). Within this framework, citizens as well as politicians serve the function of 'customers' of the government in the public policy process, and are the major players in evaluating the performance of public bodies (primarily agencies) on the basis of objective information concerning value received. Based on that assessment, resources are deployed or withheld accordingly (Myers & Lacey, 1996).

In the public sector, financial management currently is limited to basic appropriate control and driven by cash accounting, which facilitates the management of cash inputs. Wheeler (1999:2) emphasises the need to find solutions to one of the most pressing needs in the public sector: an honest and sound system of financial management. It is proven in the government that sound financial management can be achieved in the course of the work of committed and competent line-managers; outcome-based budgeting and accrual-based reporting. Effective financial management thus recognises the accrual basis of accounting, which possibly will result in numerous reimbursements which will be made available to the citizens, given the quantity and quality of the service.

Evans (1995) lists the advantages of accrual accounting as summarised below:

- Better measurement of costs and revenues, including comparisons between years;
- By showing full cost of programmes, facilitate assessment of programme performance;
- Greater focus on outputs rather than inputs;
- More efficient and effective use of resources, for example, through charges for fixed assets;
- Full cost of providing a service can be compared with outside suppliers.
- A better indication of the sustainability of government policy;
- Improved accountability, enhancing the accountability of management for their performance;
- Due to increased transparency, the result is better management performance;
- Make available a wider assortment of information required for decision making;
- Better financial management, providing a more effectual basis for decisions concerning high priority objectives and place of work bargaining (Evans, 1995).

From the perspective of the public sector, accrual accounting would generally entail the preparation of accrual-based financial statements and the recording of transactions on an accrual basis. An accrual accounting framework is crucial for systematically establishing the overall costs of the performance of a government.

2.5 ASSESSING THE READINESS FOR THE IMPLEMENTATION OF GRAP

Firm guidelines have been issued by the Public Finance Management Act, Act 1 of 1999 to guide the South African public sector in finalising the implementation of the required accounting standards and the Accounting Standards Board (ASB) has the responsibility to outline generally recognised accounting standards for all facets of government. The International Federation of Accountants (IFAC), as the international forerunner in standard setting for the public sector, is used as the main source of input into the local public sector accounting standards. The ASB has worked diligently with the IFAC in the drafting of public sector accounting standards, which permit the ASB to adopt IFAC standards with no or little changes for particular South African circumstances (De Vos, 2009).

According to Section 216 of the Constitution of 1996, which deals with the introduction of Generally Recognised Accounting Practice (GRAP), and uniform treasury standards and norms, it should be noted that the GRAP statements at present are supplemented by Generally Accepted Accounting Practice (GAAP). GAAP has made available guiding principles on top of the nature of information reflected in financial statements in order that those statements may be complete (Moeti, 2007:58).

Given the progression of accrual accounting execution, it was doubtful whether the public sector was fully equipped to embark on the implementation of full accounting standards by 31 March 2007 (Van Wyk, 2006:21). According to Poggiolini (2006:5), entities are subsequently entitled to apply accepted IPSAS, if some meticulous accounting matter is not yet approved and enclosed by GRAP. ‘The “South African Statement of GAAP” might as well have been applied where neither GRAP nor IPSAS makes available adequate direction on a particular accounting issue’ (Poggiolini, 2006).

Departments are still using cash accounting, but the rationale behind the use of cash-based methods as opposed to the accrual method is not logical, despite the fact that government has been changed to include accrual accounting as part of the notes to the financial statements. The simple fact that accounting standards are neither inclusive nor understood is an additional aspect that impedes the implementation process (Yorke, 2006:17). The publication of the 2008 regulation in Government Gazette, prescribing the effective date of another 17 Generally Recognised Accounting Practice (GRAP) Standards, resulted in more entities becoming aware of the impact of accrual accounting on the future preparation of their financial statements (Botha, 2009).

Appendix B lists the GRAP standards and pronouncements that are effective and approved by the Finance Minister, as effective from 1 April 2009*.*

In terms of section 6(2) (c) and (d) of the PFMA, the National Treasury must monitor and assess implementation of this Act and may assist departments in building their capacity for effective, efficient and transparent financial management. In keeping with its mandate to monitor and assess implementation of the PFMA, the National Treasury developed the Financial Management Capability Maturity Model (FMCMM) to assess the financial maturity of departments (National Treasury, 2009). Questions in the assessment were linked to different levels of financial maturity. From a public sector point of view, it is essential that financial management be conducted at least on the 'control level', where adequate policies and procedures are in place, implemented and adhered to. It is also the general experience that few departments actually meet this level or exceed it. The FMCMM facilitates the assessments of the current state of financial management maturity of departments, and provides information on:

- Whether the existing control environment is conducive for the high standards of financial management and internal controls expected;
- Whether the capacity of departments is adequate to maintain and improve the control environment and internal controls; and
- The predominant underlying factors for the current state of financial management (e.g. policies, processes, technology, skills capacity, organisational capacity) and opportunities for improvement.

The focus of the assessment at this stage is on the first three levels which will expand as the departments proceed to the next levels. A brief outline of the levels and the minimum requirements at each level is set out below in Table 2.1:

Table 2.1: Financial Management Capability levels

Level	Minimum requirements
1 – Start-up level	No proper internal control framework exists.
2 – Development level	Proper internal control framework is starting to be developed, e.g. approved policies and procedures are in place but typically not implemented and adhered to.
3 – Control level	▪ Focus on compliance and control. Statutory and Regulatory reporting requirements are met. ▪ Internal control framework fully developed, implemented and adhered to. ▪ Adequate resources (human, physical, technical and financial) are available. ▪ Assets are safeguarded. ▪ Data are reliable and its integrity supports operational planning and monitoring. ▪ Operations are monitored and controlled.
4 – Information level	▪ Focus on cost and quality of the goods and services produced and how resources are used. ▪ Senior Management clearly demand and promote effective financial management and demonstrate its value. ▪ Consistent, comparable financial and operational information and reports meet the needs of operational managers.
5 – Managed level	The organisation is not only capable of analysing the cost and quality of the goods and services produced but should also be capable of assessing whether the production was conducted in the most cost-effective way.
6 – Optimising level	Focus on continuous improvement and learning.

Source: National Treasury, 2009

The assessment addresses the main financial management areas of departments and assesses the capabilities of, for example, the systems, policies and procedures, skills and development in respect of each area within a department. Detailed reports on the results of the assessment per province, per department and per financial management area were reviewed for the identification of the level of maturity, areas of improvement in the strategy and consideration of the impact thereof on the approach and the conversion plan. Based on the assessment results, all departments achieved an average maturity of level 2: Development level. Some departments only achieved level 1 maturity in certain areas, whereas a few, on the other hand, at least achieved level 3 in some areas.

The provincial FMCMM assessment results per area and per department are summarised in Appendix C.

The reports also identified the root causes and areas of concern that have to be addressed to improve the maturity levels in all areas to an acceptable level. These findings corroborate the audit outcomes reported in the *General Report* issued by the Auditor-General for the 2007/2008 financial period. Due to the nature of these findings, the success of the conversion project is dependent, to an extent, on resolving these concerns and these therefore have to be addressed prior to, or as part of the conversion process. These matters include the following:

- Shortage of trained or skilled staff;
- Organisational structures not adequate to support the business processes, units under-resourced with a high vacancy rate;
- Lack of system integration and standardisation, insufficient capacity and availability of subsystems and functionalities required;
- Insufficient support and capacity of the risk management unit;
- Insufficient monitoring by internal audit due to the lack of capacity and skilled staff;
- Insufficient or lack of policies, business processes and control environments to manage risks, for example no inventory management and, in case of asset management, most departments still struggling to implement the basic requirements.

As per Appendix C, the FMCMM assessment conducted in 2008/9 revealed that the WCPG had a provincial average financial management capability maturity rate of 2.66 for the province as a whole. The DTPW had a financial management capability maturity rate of 2.53 as per Appendix C, which was indicative that the Department started to developed proper internal controls, i.e. approved policies and procedures were in place but typically not implemented and adhered to in the 2008/9 financial year (National Treasury, 2009). In the 2009/10 period the DTPW improved its audit outcome status from a qualification in 2008/09 to an unqualified audit opinion in 2009/10. It is evident that the DTPW increased its financial management capability level from level 2.53 to close to level 3. Where the focus of the department was more on compliance and control, by which statutory and regulatory reporting requirements were met and the internal control framework was fully developed, implemented and adhered to (WC Provincial Treasury, 2011a).

In the General Report of the AGSA on the 2009/10 Provincial audit outcomes the following issues were highlighted as reoccurring:

- Shortcomings around the safeguarding and monthly reconciliation of both movable and immovable assets;
- Irregular expenditure, which requires improved monitoring to ensure compliance with Supply Chain Management (SCM) regulations; and
- Under expenditure of departments/budgets, as it has a direct impact on service delivery and/or could raise questions about the quality of public services.

These issues require focused intervention from the Provincial Treasury and departments involved and should be covered in Financial Management Improvement Plans. The Western Cape Provincial Government has embarked on a Financial Governance Review and Outlook strategy that will impact positively on good governance and add value to departments to improve financial health in provincial departments (WC Provincial Treasury, 2011a). Given the concern of the AGSA about the audit outcomes of the 2009/10 and the reoccurring of the issues in 2010/11 audit outcomes, the WCPG should put rigorous improvement plans in place to eradicate the problems in order to meet the strategic objective to be at a level 3 average financial management capability by 2015.

Consequently it is vital that government entities appoint properly skilled finance employees to deal with the carrying out of accrual accounting concerns. Officials' mindsets should be changed in conjunction with the skills attained. Van Wyk (2003:32) emphasised that widespread accounting programmes must be initiated for existing employees, to change their thinking and keep up-to-date in practical awareness for converting from a cash-based system to a completely incorporated system of accrual accounting. Keelan (2001:34), remarks that 'skilled staff and implementing new practices for managers are all splendid, but lacking the overhauling and upgrading of the system, the project to implement accrual accounting will not be successful'. Van Wyk stated that accounting practitioners are required to use inadequate information to compile asset registers. It is a great challenge to consign values to assets and to verify them, a method which is assured to become an accounting nightmare (Van Wyk, 2006:28).

2.5 CHALLENGES AND RISKS OF IMPLEMENTING ACCRUAL ACCOUNTING

Compliance with the Public Finance Management Act, Act 1of 1999 remains a challenge but research has suggested that compliance with accrual financial reporting requirements will not be an issue, once the necessary systems have been introduced and staff has been capacitated. During the 2007/08 financial year audit, the Auditor-General of South Africa (AGSA) reported that areas were identified at the department that necessitate development escalation on the use of the Financial Management Capability Maturity Model (FMCMM) that was rolled out by the National Treasury to assess the readiness status of the departments to implement accrual accounting (National Treasury, 2009).

Assessing the implementation of the new accrual accounting system at GMT, the trading entity administered by the DTPW, it is evident that the hosting environment, a suitable system, appropriate arrangements and planning taking in consideration risks and challenges are important to effectively implement GRAP. Furthermore, the National Treasury is busy implementing the Information Financial Management System (IFMS) model on the Supply Chain Management (SCM), which was targeted to be implemented in the 2011/12 financial year as part of their roll-out to assess the readiness of departments to implement GRAP. Currently, the IFMS project is in the development stages of modules on asset management, HR and procurement, as well as financial Basic Accounting Systems equivalent (BAS equivalent) modules. Once developed, these modules will be piloted before roll-out to all departments. The first pilots for the asset management and HR modules were scheduled for later this year (2011) and implementation of all modules at the departments is planned for 2012 (National Treasury, 2009). The National Treasury is currently busy with pilot testing of the implementation Information Financial Management System (IFMS) Model on the Supply Chain Management (SCM) at the Department of Health at the Red Cross Hospital Site and at the Department of Cultural Affairs and Sports in the WCPG. However, given the timing as August 2011, the IFMS model for SCM was still not implemented at the departments due to interface problems with transversal systems (WC Provincial Treasury, 2011b).

To effectively comply with section 18 of the PFMA and to drive the improvement of the Financial Management Capability of departments, the Financial Governance Review and Outlook (FGRO) 2010 was compiled by the Provincial Treasury (PT) to monitor progress made by Departments towards a level 3+ auditable organisation. The FGRO 2011 presents a fifth round of annual assessments based on a financial management capability model which in principle remains unchanged, and continues to build on previous work done on the financial capability of departments to assess their readiness to implement GRAP in the WCPG (WC Provincial Treasury, 2011a).

For the FGRO 2011 assessment conducted by PG (Accounting Services) in the DTPW, an overall Financial Management Capability rating of 3.15 was achieved, which is indicative that the DTPW has a proper internal control framework, thus approved policies and procedures are in place, implemented and adhered to. Adequate resources (human, physical, technical and financial) are available. Assets are safeguarded. Data is reliable and its integrity supports operational planning and monitoring. Operations are monitored and controlled. For the DTPW to move to a higher rating of financial management capability, the department should institute pre-checks to eradicate unauthorised, irregular and fruitless and wasteful expenditure. The DTPW should furthermore acquire a transversal financial system that integrates with subsystems utilised by the department to obtain information for reporting purpose.

The FGRO 2011 was to be structured to support the Provincial Strategy to contribute to and underpin the goal of being 'the best Regional Government in the World' in terms of financial governance practices (WC Provincial Treasury, 2011a). With this in place, irregular expenditures will be reduced, corruption will be eradicated, audits will be unqualified and most importantly, the Provincial Government will get value for money and results-based spending.

Distinctive from the New Zealand migration is that a vital aspect in the successful implementation of accrual accounting internationally was the support, thus commitment to the changes, of both political leaders and bureaucracy. According to Ellwood & Newberry (2007:551), it has been noted in the context of accrual accounting reforms that, as with the UK and Australia, the introduction of accrual accounting in New Zealand has been accompanied by misunderstanding and confusion, as 'the elementary function of governmental accounting is the protection of public money, and business sector accounting practices [are] not devised for that purpose'.

The acute response in relation to the adoption of accrual accounting leading to improved resource allocation decisions and overall performance results has been measurably more effective in enhanced capacity to measure cost. Robinson contends that when the measure of cost being reflected is 'full accrual cost', the proposition that accrual systems improve conceptualisation of cost makes sense. This comprises the cost of capital employed to produce a particular good or service and all other recurring and capital costs, including depreciation (Robinson, 1998). The full accrual costs apprehended by an accounting and reporting system depend on a variety of factors comprising the valuation of assets which feeds into depreciation and capital charges, as well as the expected cost of capital.

Part of the implementation is the management of risk, another key factor that includes various centralised control inputs during the migration process, intensive communication strategies which provide internal audit and consultancy roles to departments within the public sector. A common argument against accruals is that the information is difficult and challenging for non-accountants to comprehend (Algemene Rekenkamer, 2004). Politicians and managers may make the wrong decisions if they are faced with accrual information, and this could even risk the overall control of government finances (Blöndal, 2004). However, the consequence of this for the debate about unified or dual systems is not clear cut. It is sometimes argued that introduction of accrual budgeting in order to get a unified system adds to complexity, while other commentators argue that running a dual system is even more complex (Blöndal, 2004).

An alternative dispute in contradiction with accruals is that private sector accounting practices are not necessarily appropriate in the government sector because the contexts in the two sectors differ (Broström, 1998, Bromwich & Lapsley, 1997). For example, Jones (1995) argues that accruals-based systems are too technical and rationalistic to function well in a political organisation. His conclusion is a harsh critique against the Resource Accounting and Budgeting reform (RAB) in the UK. Finally, Hepworth (2003) provides a balanced input into the debate, arguing that successful implementation of accruals is possible, but only if the necessary pre-conditions are met. However, he adds that even if the pre-conditions are met, accrual accounting will not solve the underlying financial control problems that were not solved by cash accounting.

The most crucial aspect to consider is the nature of the issues identified, the interdependencies and the impact thereof determining the priorities and timing of implementation, thus the sequence of conversion activities. Five years after the roll-out of the asset management guideline, departments were still struggling to implement the framework. This was due to a lack of commitment and accountability in departments, high vacancy rates and lack of or limited support systems, controls and policies. This developed in spite of guidance by the National Treasury. There was, however, a lack of support to departments and no proper monitoring of progress. Proper lead time should be allowed for development and roll-out of training prior to the implementation. A large dedicated team that is available full time for the duration of roll-out and implementation is needed to assist departments, even if proper training is provided beforehand. Training has to be ongoing and, even though it has to be scheduled before implementation, the problem of having it too far in advance will confuse staff because they will still be using the previous systems and they may not remember their training by the time of implementation. Difficulties have also been experienced in communicating with the staff involved and affected by the changes as result of location and unavailability of information to identify them all. The retention of trained staff also is a concern.

Other challenges have also occurred. In the adoption of GRAP by high-capacity municipalities in South Africa a number of difficulties were experienced. Insufficient guidance and support was provided and inability to comprehend the impact of the requirements resulted in incomplete conversion plans being developed by such municipalities. Limited monitoring of progress against these conversion plans, as well as the lack of accountability for the implementation of the conversion plans further delayed the process. The exemption of certain requirements in previous years caused the municipalities not to prioritise these requirements and they subsequently struggled with the recognition of comparative figures as the transitional provisions require retrospective application. The incomplete setting of the standards and application of the hierarchy also complicated the process. It was not the accounting requirements as such, but the supporting process that posed a problem, for example the identification of assets and not the recognition thereof. The valuation of assets is identified as one of the main areas of difficulty in terms of practicality and capacity. Overall, one of the main concerns is the retention of skilled staff.

2.7 LESSONS LEARNED FROM SUCCESSFUL IMPLEMENTATION

The major constraints facing developing countries, in terms of transforming to the basis of accrual accounting, are likely to be the existing capability of entities in terms of accounting systems and qualified staff, and the resources available within or outside the government to develop that capability. Such resource limitations signify that developing countries may be more prone to consider step-by-step implementation paths. Countries such as the United Kingdom, New Zealand and Australia, have already made momentous strides in the adoption of accrual accounting principles in the public sector (IFAC, 2006). Literature on the know-how that was gained by these countries when the move from cash accounting to accrual accounting was made provided a preview of the challenges and problems that could arise.

International research revealed very little progress made globally since 2006 in terms of conversions. A report, *World Bank economies' IPSAS status 2008-2009*, issued in February 2009, provided updated information on the status of the individual countries (See Appendix D). The limitation of the report, however, is that the status indicated in it was not based on an external assessment, but that of each country, and also did not take into consideration the level of government that it applied to. For example, South Africa's status was listed as a 'modified cash' basis of accounting without an indication that it did not apply to the whole of government and that local government and other government entities all reported on the accrual basis of accounting. Having said this, very few countries were reported to have made any progress based on the status reported in 2006. For example, Belgium progressed from cash to a modified cash basis; Canada progressed from accrual excluding assets to full accrual basis; and Switzerland progressed from cash to full accrual basis. On further investigation it was found that the remarkable progress by Switzerland over the preceding three years was only on a very small scale, being limited to federal level.

Governments that have adopted accrual accounting have done so over varying time frames and, in some cases, in a number of stages. For example, the United Kingdom produced its first accrual accounts for individual departments for 1999–2000 and the first accrual budget for 2001–2002. A staged approach for the preparation of consolidated financial statements for the whole of the public sector was adopted. Whole-of-government accounts are expected to be published for the first time for 2009-2010. The United Kingdom uses the term Resource Accounting and Budgeting (RAB) to refer to accrual accounting and budgeting. It is acknowledged that information about total costs of government programmes/activities embarked on cannot be provided by cash-based systems. The UK's experience and that in similar countries (Australia and New Zealand, etc.) has proven that organisational restructuring is just a first step, while it is expected that the Civil Service would try to implement related 'best practices' developed outside of the Public Sector. Focus on customer satisfaction, business processes, quality and external comparisons and indicators can certainly help to improve the work of the government, and simultaneously deliver value for money: The experience of the two most advanced countries in the implementation of accrual accounting, Australia and New Zealand, has shown that the use of accrual accounting in budgeting has led to better recognition of future unfunded liabilities, better infrastructure management and a more efficient reallocation process (Matheson, 2002). However, the OECD review of government practices has shown that different (western) governments are at different stages of implementation of modified or full accrual accounting, but few have implemented it for budgeting purposes, as this requires a significant investment in education and preparatory work with different stakeholders, especially public sector managers (Matheson, 2002).

The adoption of accrual accounting in New Zealand took place amid broad economic reforms that, over only a few years, transformed the country's economy from being one of the most centrally controlled in the non-communist world to being very open. Those reforms began in the mid-1980s with the widespread privatisation and corporatisation of government-owned commercial entities. New Zealand produced its first fully accrual-based combined financial statements, known as the Crown financial statements, in 1992. These statements were independently audited and resemble the GAAP-compliant reports of large corporations. In 1994, the Fiscal Responsibility Act expanded the accrual system even further and required that the government articulate its fiscal strategy and report progress towards its objectives on an accruals basis. Since that time, accrual accounting has been the principal system in New Zealand, both for budgeting in Parliament and also for financial reporting by the Crown, and it has continued to be utilised as a corporate-like performance measure for government entities. The accrual-based reforms in New Zealand are arguably the most comprehensive that any country has undertaken to date. While it is indisputable that the reforms significantly affected the government management processes in New Zealand, it is difficult to ascertain the true fiscal and economic impact of the reforms. In general, the reports of most observers seem to agree that the accrual measures have provided better information for purposes of asset management and cost calculations. Additionally, many believe that the accrual measures have produced much greater fiscal discipline, especially in as much as legislators and other government officials can easily ascertain the fiscal sustainability (or lack thereof) on government programmes. Since implementing the reforms, New Zealand has in fact demonstrated strong fiscal restraint. The country has also reported budget surpluses in nearly every year since the early 1990s. As a result, New Zealand's net debt has decreased significantly, from approximately 52% of GDP in 1992 to near 10% in 2005. During the same time, New Zealand for the most part enjoyed moderate to strong economic growth, averaging around 3.3% annual growth in real GDP over the preceding decade.

Australia's adoption of accrual accounting for the public sector occurred during a period of broad economic reforms, though Australia's reforms were perhaps more modest than those of New Zealand. For the 1999-2000 budget, Australia produced comprehensive accrual-based financial statements and had fully implemented accrual output budgeting. Since then, Australia has continued to expand its accrual-based accounting and budgeting. Like New Zealand, Australia demonstrated strengthened fiscal discipline in the earlier years. Australia produced a budget surplus in every year for close to a decade, and has succeeded in reducing its net debt from a high of 25% of GDP in the mid 1990s to near debt elimination. Its gross financial liabilities have decreased from a high of 43% of GDP in 1995 to 15% in

2005, the second lowest percentage in the OECD. At the same time, Australia has enjoyed economic growth in real GDP averaging 3.6% annually over the preceding decade. Again, it is unclear to what extent accrual accounting reforms were responsible for the fiscal discipline and economic growth. To some extent, New Zealand and Australia succeeded in using accrual accounting for future liabilities, which made the overall financial statements more accurate in terms of the actual financial position of the government.

Both New Zealand and Australia use actuarial and accrual methods to account for future liabilities incurred under government employee pensions and various types of government-sponsored insurance, and New Zealand also uses accrual accounts for most government loans. Neither country, however, has adopted accrual methods to officially budget for future social insurance (i.e., old-age pension) liabilities, and instead use traditional cash- or obligation-based measures to fund such programmes. One explanation given for this exclusion is that social insurance commitments do not qualify as a liability under the GAAP standards of each country. Because the government can adjust or cancel the benefit at any time, the actual event of future payment and the estimated amount of payment are too uncertain to be included as a liability in the financial statements.

The United Kingdom adopted accrual accounting at the agency level and planned to produce aggregate consolidated financial statements for 2006. It was planned to prepare consolidated financial statements in a staged manner:

- Stage 1 would involve consolidating the unaudited central government accounts using 2001-2002 National Accounts (System of National Accounts) information.
- Stage 2 would involve consolidating accrual 2003-2004 central government accounts.
- Stage 3 would involve a whole-of-government accounts consolidation for 2005-2006.

Following a gradual two-year implementation process, accrual accounting was fully implemented in the Swedish central Government from 1 July 1993. Although it involved a significant effort, the implementation was problem-free for two reasons. First, no organisational changes were necessary — the structure of Swedish Government suited the implementation of accruals and results-based management. Second, accruals were initially only implemented for agency accounting and for whole-of-government reporting, but not for budgetary (appropriation) purposes. This reduced complications. Implementation efforts involved (i) adjusting accounting systems; (ii) developing accounting policies; (iii) altering processes and procedures; and (iv) executing of significant information, education and training campaign. The costs of these activities were not easily identifiable. Heritage assets were not included (due to valuation difficulties) and defence assets were initially expensed rather than capitalized. Before implementation, most agencies used a centralised computerised accounting system that was introduced in the late 1960s. This system was modified to handle accruals. In addition, a new system was made available to agencies. The new system is a commercial accounting system widely used by private companies throughout the world. The introduction of the new system made it possible to decentralise government accounting. Government accounting policies began to be aligned with the private sector in the 1980s. However, the policies were not fully accrual-based until 1993. Moreover, certain adaptations were made to reflect specific government needs. Education, training and communication activities were conducted before implementation began. First, materials explaining the changes were produced. Second, training for financial personnel was conducted, mainly through seminars. Finally, a National Financial Authority staff member was assigned to each agency as a contact point and advisor. Notably, the professionalism of formerly lowly-ranked accounting personnel was raised considerably and it is now possible to recruit trained accountants into government agencies.

According to Mellor (1996), only an accrual-based operating statement make available information which is vital information for government decision makers on the total costs of resources used in the delivery of government services. It is contended that the incentives needed in government for improved economic performance is a shift of emphasis to accrual-based information and accrual budgets (Redburn, 1997; Richardson, 1993). Guthrie (1998) stated that accrual accounting is able to construct the traditional public sector as being moderately less cost-efficient, whilst also being able to justify a new 'managerialist' public sector. There are contradictory views about whether the information that accrual-based reporting produces is useful to politicians, the key users of government financial reports. The shift to accrual-based reporting may seem relatively complex and unrelated to politicians' key interests and it is contended that there may be insufficient incentive for politicians to support it (Jones, 1995). Based on recent experience, politicians are capable and willing to use the breadth of information provided by an accrual-based reporting system (Richardson, 1993).

Ross & Kelly (1983) indicated that there is a requirement to put emphasis on financial assets and make sure that they are measured reliably. If measured using an objective assessment of their recoverability; a government cannot make appropriate financing decisions without accrual-based information on financial assets. Recognising assets and liabilities as in existence at a reporting date is evident of accrual-based reporting. According to Mellor (1996); Redburn (1997) and Ström (1995), one of the key advantages of accrual-based reporting is that it offers the opportunity for governments to improve their management of assets and liabilities. Particularly given that many of the significant assets are long-lived infrastructure assets that are vital to providing a foundation for economic growth, it is noted that good asset management is critical in the public sector (Mellor, 1996).

Relating both to debts and to other obligations such as employee entitlements and the assets backing those liabilities, it is argued that accrual-based reporting provides useful information about the real level of a government's liabilities (Richardson, 1993). Government's focus of management by results, as well as management of resources, is evident of accrual-based reporting. Explicitly, management by results becomes more attractive because performance can be measured more reliably when full costs for a period are taken into account under an accrual-based reporting system (Mellor, 1996; Redburn, 1997). The most important reasons for focusing on an accrual-based system are that the consumption of resources can be weighed against performance (Richardson, 1993; Ström, 1995). It is contended that changes in the behaviour of the people the reform is targeted toward is considered successful when it brings about transformation (Mellor, 1996). For governments to realise the benefits that accrue from the reforms of accrual reporting is only one part of a comprehensive package of reforms that can lead to improvements in the budgeting and planning on an accrual basis are also essential in enabling the management of public sector resources (Mellor, 1996; Richardson,1993). According to Ross & Kelly (1983), governments may have incentives to show a financial performance or position that is better or worse than it in fact is. For example, it may suit politicians to paint a healthy picture of the government's current finances in the belief that their constituents will accept the need to spend more readily under these circumstances and governments may wish to expand spending on a range of programmes. By preventing them from providing a distorted picture of the government's finances, soundly-based financial reporting by governments may help to prevent unwanted spending behaviour. It is disputed that the implementation of accrual accounting can be anticipated to improve financial transparency, improving the integrity and reliability of reported information (Mellor, 1996; Richardson, 1993). When the government is given recognition for having produced useful and relevant financial information it is also argued that the trustworthiness of a government is enhanced and the public can have greater confidence in the government's financial management ability (Richardson, 1993). Ström (1995) has stated that 'it should be noted that accrual accounting is a tool, not an end in itself'. It is a tool to improve the allocation of scarce government resources for decision-makers to help them to make better decisions. Nevertheless, the benefits of this enhanced decision-making can be challenging to measure. It is usually much easier to measure the costs of implementing new systems and training personnel. It is acknowledged that the costs of developing information systems can be high (Ström, 1995). Governments must adopt a number of new processes in order to move from a cash-based system to an accrual-based system and changes are needed throughout government, from the whole of government to the agency or departmental level.

According to Chan (2003), Australia is usually seen as one of the predecessors with regard to financial management restructuring. The Australian government has worked with accrual-based outcomes and outputs budgeting and reporting frameworks since the fiscal year 1999/2000. The British government in April 2001 progressed to a new resource-based (or accrual-based) financial management system which also placed the United Kingdom government amidst the world leaders in financial management reform in the public sector (HM Treasury, 2001). Having introduced an accrual-based budget, the United Kingdom is leading the European Union. According to Guthrie *et al*. (1997, p. 298), the role of the public sector accounting investigator has to be one of casting more light on the international and national applications of financial management reforms and, in particular, of exploring and revealing the changes between the claimed potential of such reforms and their concrete effects.

Lessons learned from the implementation of the new accrual accounting system at Government Motor Transport (GMT), the trading entity under the direction of the Department of Transport and Works, pointed out that a suitable accounting system is essential to be able to implement GRAP effectively (WC Provincial Treasury, 2011c). In terms of Treasury Regulation 18.2, the Annual Financial Statements (AFS) of trading entities such as GMT have to conform to Generally Accepted Accounting Practice (GAAP). GMT could not record its financial transactions to conform to GAAP as the transversal Basic Accounting Systems (BAS) utilised by the government to record its financial transactions are cash-based while GAAP requires an accrual-based accounting system. The financial affairs of GMT were managed in terms of standard operating procedures and a GAAP-compliance implementation framework, within which cash accounting was converted to accrual accounting at year end, as part of the strategy until the GAAP-compliant accounting system would be fully functional. The implementation of the new GAAP-compliant financial system commenced in January 2010 and, after initial delays with the hosting and connectivity between the users and the application, GMT managed to finalise all preparations by year-end to 'go live' on 1 April 2011. With the new system GMT no longer makes use of the BAS and LOGIS systems.

Some of the more technical aspects identified which require further consideration for incorporation into this research are summarised below:

- The period for conversion could vary depending on the circumstances. In most cases a period of eight to ten years is expected to be reasonable for full implementation.
- A multi-stage approach of sorts was adopted by most countries, dependent on the environment and circumstances within which each was operating. Actual conversion of accounting records only commenced once systems had been fully implemented and operational, with full accrual reporting only three to five years later.
- Some countries had pilot sites for the information system implementation, whereas others piloted the complete conversion process at one or a few institutions.
- Parallel systems were used by some over a period of three years with a compliance review of the accrual set of financials in the second year and the audit thereof only in the third. Parallel systems can be used at all departments or be limited to pilot sites, whichever is more suitable.

- Standardised guidance on requirements and implementation were issued to ensure consistent application by all parties involved, whereas the lack thereof delayed the process and resulted in different interpretations and complications with the consolidation process.
- Alignment of the accrual system to the Government Finance Statistics (GFS) requirements for financial reporting is needed to ensure that the system can provide information in the required format without the need for an additional system (IFAC, 2000).

The International Federation of Accountants, commenting on the lessons learned from the introduction of accrual accounting reforms in New Zealand, has provided the incentive: 'the most important lesson is that it can be done'. There is no essential theoretical obstacle for a self-governing government which precludes the implementation of accrual accounting and there is much to commend the development of accrual accounting in a government when it is implemented in the structure of a regime which reassures management performance (IFAC, 2000).

2.8 SUMMARY OF LITERATURE RESEARCH

The theoretical assessment made it clear that accrual accounting is beneficial to all governments at both the micro and the macro level of the public sector. A more comprehensive measure of fiscal sustainability is provided through accrual accounting as information about full resource implication is made available, not just the cash spending of government programmes. The significance of accrual accounting is that it enhances transparency with better focus on management of assets and liabilities. The study reveals that effective financial management plays a vital role in the shift to accrual accounting. The implementation of accrual accounting will be fruitless and wasteful unless effective public sector management is the order of the day. To guarantee effective implementation, government should ensure that all the associated risks and obstacles are adequately managed. Through the adoption of leading-edge twenty-first century reforms, some governments may decide that a shift to accrual accounting will allow an opportunity for a complete overhaul of their financial management systems (Hepworth, 2003:3). However, before engaging in accrual accounting reform, cash accounting should be vigorous, controls should be in place and secure, external and internal auditing should be operational, and legislature should have the ability to hold the executive accountable. Reinforcement of effective financial management, economy, efficiency and effectiveness will speed up the GRAP implementation process, which is indicative that governments can only learn from the lessons or errors of those that have already implemented accrual accounting.

The international research also provided an understanding of the different approaches and matters considered by the various countries in the conversion process. Some countries have published reports or articles on the lessons learned during the implementation process, many of which can be applied in the South African environment or, at least, should be considered. The South African environment, however, is very different from that of other countries, as, amongst others, challenges are presented by the number of qualifications still being reported annually by departments, while on a modified cash basis of accounting with insufficient systems and a lack of control to support proper financial reporting. This means that none of the approaches adopted by the other countries can merely be adopted without adapting it to address the specific needs and gaps in our environment. We can, however, take the best from each approach, if relevant, and incorporate it where suitable in the South African approach. The main factor to consider at this stage is that significantly more work needs to be done to prepare and rectify the control environments and processes within departments to ensure the success of the conversion. The plan and time frames for implementation need to allow preparation time before the actual implementation can take place as we, unlike countries that have already converted to accrual accounting, lack the streamlined cash environments they were operating in.

The next chapter presents a discussion on the legislative and accounting policy framework to assess the readiness for GRAP implementation in the public sector.

CHAPTER 3
THE LEGISLATIVE AND ACCOUNTING POLICY FRAMEWORK FOR IMPLEMENTING GRAP IN DEPARTMENTS IN THE SOUTH AFRICAN PUBLIC SECTOR

3.1 INTRODUCTION

In the previous chapter, the theoretical context of implementing Accrual Accounting (GRAP) locally as well as globally was discussed. This chapter provides a legislative and accounting policy background for implementing GRAP in the South African public sector. The theoretical framework in Chapter 2 has underlined the strategic importance of accrual accounting in any organisation, from which the South African public service cannot be excluded.

The following legislation and policy guidelines are reviewed to provide a legislative context for implementing GRAP in the South African public sector:

- The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
- Public Finance Management Act, 1999 (Act No. 1 of 1999)
- Public Audit Act (PAA), 2004 (Act 25 of 2004)
- Treasury Regulations (2005)
- Division of Revenue Act No. 5 of 2002
- Economic Reporting Format (ERF) (2004)
- National Treasury: Draft Standard Chart of Accounts (SCOA) (1999)
- National Treasury Guide for the preparation of Annual Financial Statements

3.2 THE CONSTITUTION OF SOUTH AFRICA, 1996 (ACT No. 108 OF 1996)

The Constitution of the Republic of South Africa, 1996 (‘the Constitution’) sets the scene for the introduction of financial management that is committed to improving transparency, accountability and performance within the public service, and devolving greater responsibility of the various functions, viz budgeting and financial management, to government departments. As previously indicated, section 216 of the Constitution requires the National Treasury (NT) to introduce GRAP. This will introduce international ‘best practices’, lead to the introduction of accrual accounting and move away from the traditional cash basis of accounting. Chapter 11 of the PFMA provides for the establishment, composition and functions of the ASB. Suffice to say that the ASB, inter alia, provides statutory backing to the accounting standards that will apply in the public sector, sets the standards of GRAP and prepares and publishes directives concerning these standards.

3.3 PUBLIC FINANCE MANAGEMENT ACT, 1999 (ACT NO. 1 OF 1999)

Section 40 (1) (b) indicated that Provincial departments; Public entities under the ownership control of the provincial executive and The Provincial legislature in the Province 'Must prepare financial statements for each year in accordance with generally recognised accounting practice'. Section 40 of the PFMA clearly spells out the reporting requirements of accounting officers. Although these requirements are coupled closely to timelines it is important to note that the manner in which reporting takes place will depend on the evolving process of GRAP standards and accounting practices. Since the inception of the PFMA in April 2000, and the implementation of GRAP standards, accounting reporting formats have evolved, improving the quality of reporting through financial statements. The quality of reporting will progressively improve as the basis of accounting moves through the transitional phases, i.e. from cash basis, to modified cash basis, to modified accrual basis and, finally, to accrual basis.

The PFMA provides for the establishment of an ASB to give statutory backing to the accounting standards that will apply in the public sector. Consequently, and as part of the implementation of the PFMA, the ASB was established during 2002 in terms of Section 91 of the said legislation. The main objectives of the Board are to:

- Set standards of GRAP for the annual financial statements;
- Prepare and publish directives and guidelines concerning the standards;
- Recommend effective dates for the implementation of these standards;
- Perform any other function incidental to advancing financial reporting in the public sector.

Provincial treasuries, through national forums, are invited to comment on exposure drafts. This also poses an opportunity for departments to become part of the accounting reform processes by providing constructive inputs to improve accounting standards. Being part of the development process builds capacity and smoothed the implementation of new accounting standards approved by the ASB. The Preface to Statements of GRAP sets out the objectives and operating procedures of the ASB and explains the scope and authority of the Statements of GRAP. Once the statements referred to above are finalised by the ASB it will be issued as Statements of GRAP, which must be complied with. Although the ASB faces a large number of challenges in becoming part of global accounting practices and international developments, the test will be if provincial treasuries have the capacity and ability to implement these accounting reforms in provincial departments given the lack of an enabling accounting system. However, the NT is currently investigating an Integrated Financial Management Solution for government, which will assist the endeavours of the ASB.

3.4 PUBLIC AUDIT ACT (PAA), 2004 (ACT 25 0F 2004)

The Auditor-General is an independent and impartial body created by the Constitution to provide independent and quality audits and related value adding services in the management of resources, thereby enhancing good governance in the public sector. The PAA of 2004 gives effect to section 188 of the Constitution. In terms of this section, the Auditor-General must audit and report on the accounts, financial statements and financial management of state departments. The intention of the audit, in essence, is to obtain reasonable assurance that, in all material aspects, fair representation is achieved in the annual financial statements of departments; Section 20(2) of the PAA requires that an audit report must reflect such opinions and statements as may be required by any legislation applicable to the audited statements which is the subject of the audit, but must at least reflect an opinion or conclusion on:

- Whether the financial statements fairly present the financial position of the department;
- Compliance with any applicable legislation relating to financial matters, financial management and other related matters;
- Performance against predetermined objectives;
- Whether resources were procured economically and utilised efficiently and effectively.

3.5 TREASURY REGULATIONS (2005)

Treasury Regulation (TR) 18.2 prescribes the reporting standards for each financial year that must be revised and updated by the NT on an annual basis. For the financial year ending 31 March of a respective year, the following reporting standards comprise generally recognised accounting practice for departments, Parliament and provincial legislatures:

- a balance sheet
- an income statement
- a cash flow statement
- notes to the annual financial statements, and such other statements as may be determined by the Accounting Standards Board
- The statements must be prepared on a modified cash basis and be accompanied by the audit opinion of the Auditor-General
- The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the institution

3.6 DIVISION OF REVENUE ACT, 2003 (Act 7 of 2003)

According to the Division of Revenue Act (DORA), a department transferring funds in respect of an allocation set out in Schedules 3, 4, 5, and 6 must, in its annual report and financial statements, also

- indicate the total amount of that allocation transferred to a province or municipality during the financial year;
- indicate the funds, if any, which were delayed or withheld, and the reasons for such delay or withholding;
- certify that all transfers to a province or municipality were deposited into the accredited bank account of that province or municipality;
- certify that, except in respect of allocations contemplated in Schedule 6, no other funds were transferred to a province or municipality, directly, or through a public or private entity;
- indicate to what extent a province or municipality was monitored for compliance with the conditions of an allocation and the provisions of DORA;
- indicate to what extent the allocation achieved its purpose and outputs;

- indicate whether any portion of the allocation was retained by the transferring department for administration costs; and
- indicate any noncompliance with DORA, and the steps taken to deal with such noncompliance.

Section 18 (2) states that the annual report and financial statements must, for a department or municipality receiving an allocation in terms of DORA, also

- indicate the total amount of that allocation received during the financial year;
- certify that all transfers in terms of DORA to a province or municipality were deposited into the accredited bank account;
- indicate to what extent a province or municipality met the conditions of such an allocation and complied with the provisions of DORA;
- indicate to what extent outputs were achieved; and
- contain such other information as the National Treasury may determine.

3.7 ECONOMIC REPORTING FORMAT (ERF) (2004)

On 1 April 2004 the National Treasury introduced the Economic Reporting Format (ERF), which, in short, is the format for the presentation of departmental budgets. The ERF is based on the principles in the Government Finance Statistics (GFS) with amendments to cater for specific South African circumstances. However, the principle that items should be grouped so that it is possible to calculate economic variables such as government's contribution to GDP remains.

The receipt and payment categories in the ERF are also used to derive the budget surplus or deficit (an indicator of the government's ability to sustain its operations); if positive (surplus), the balance shows the extent to which government makes financial resources available to other domestic sectors and the rest of the world. If negative (deficit), it is a measure of the financial resources the government requires from others to finance its activities. Thus the ERF provides meaningful information to parliamentarians, financial practitioners, economic analysts and other users of government financial data.

To avoid unnecessary reclassification, a decision was taken in 2004 to align the formats and the terminology as far as possible between the ERF and the financial statements of departments.

3.8 STANDARD CHART OF ACCOUNTS (SCOA) (1999)

The NT embarked on a budget reform programme in 1999 to improve accountability and modernise the accounts of government by bringing budget and expenditure reporting in line with international best practice. The ultimate aim of this reform was to provide better quality economic information to legislatures to assist them in the legislation making process and to reinforce the parliamentary oversight role. Part of this reform was the introduction of a standard chart of accounts for government to be implemented in the financial systems that will be synchronised with the implementation of the new economic reporting format. The standard chart of accounts comprises the coding of items used for classification, budgeting, recording and reporting of receipts and payments within the financial system. The coding and design of the chart of accounts was done in a manner to facilitate compliance with the budget, in-year and annual financial reporting requirements.

As illustrated below, the harmonisation of the two classification systems (the ERF and financial statements) has been made possible through the design and implementation of the standard chart of accounts.

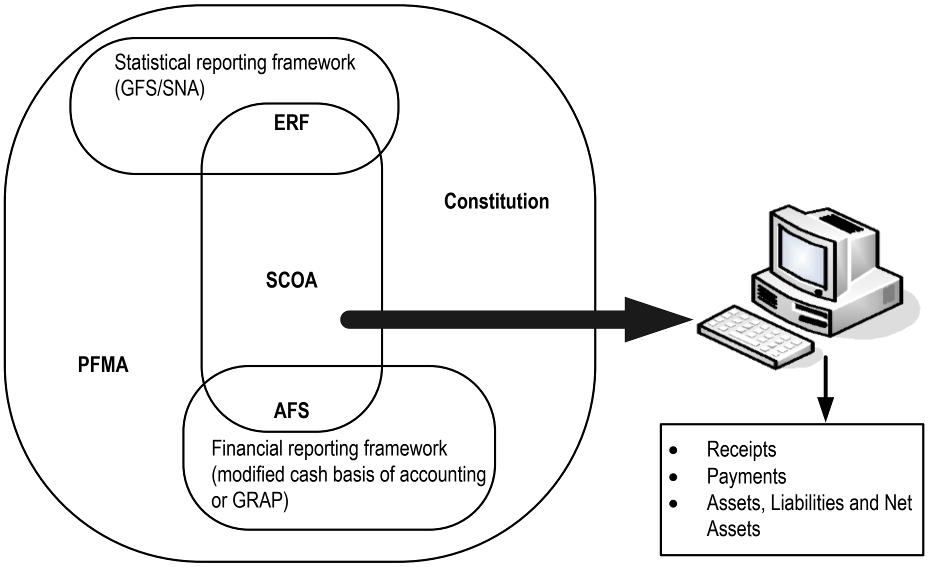


Figure 3.1: SCOA design

Source: Departmental financial reporting framework (National Treasury, 2011)

3.9 NATIONAL TREASURY GUIDE 'DEPARTMENTAL FINANCIAL REPORTING FRAMEWORK'

The Departmental Financial Reporting Framework is simply an aid to assist departments in preparing their annual financial statements and annual reports. As mentioned in the Treasury Regulations, the financial statements of all national and provincial departments are prepared using a modified cash basis of accounting. In the South African public sector, the modified cash basis of accounting has been defined as 'the cash basis of accounting modified for the recognition of certain near-cash balances and supplemented with disclosures on transactions and balances not recognised in the primary statements' (National Treasury, 2011).

The supplementary disclosures are based on the equivalent GRAP after considering the availability and the decision usefulness of the information. Given that departments are not yet ready to fully implement the Standards of GRAP (and an accrual basis of accounting), the National Treasury, Office of the Accountant-General, prescribes the annual reporting requirements comprising of:

- accounting policies for the recognition and measurement of information in the primary statements (for a modified cash basis of accounting) and the disclosure notes (based on accruals);

- the format for the presentation of the information in the primary statements, the notes and the disclosure notes;
- guidance on the preparation and presentation of the information in the financial statements; and
- Guidance on reports such as the report of the Accounting Officer and the Audit Committee.

The Departmental Financial Reporting Framework is based on best practice and ensures compliance with relevant prescripts to support decision making by a wide range of users. Financial statements in general are aimed at meeting the information requirements of a wide range of users. The accounting standards are therefore set with this principle in mind. The financial statements of a department are no different. The Departmental Financial Reporting Framework provides information for the above users as far as possible to facilitate oversight and decision making, for example information is provided on:

- the utilisation of appropriated funds;
- the collection of departmental (own) revenue;
- the management of resources as well the resources available to deliver goods and services (such as the capital assets held by a department);
- extent of compliance with the PFMA and other regulations;
- future commitments and or savings (including roll-overs);
- how the funds have been used and to what extent funds have been made available to deliver goods and services;
- the effectiveness of the department's cash management and internal control environment; and
- the utilisation of donor funding.

3.10 ACCOUNTING PROCESS

The accounting chain is illustrated in Figure 3.2.

Figure 3.2: The Accounting Chain

Source: Accounting Review (Provincial Treasury, 2003)

The accounting process that is illustrated is not a separate process. It is in synergy with its surroundings, which are dependent upon its financial performance information, and which also feeds into it. The ultimate aim is to satisfy public expectations with the available resources, realising that expectations exceed resources. Role players producing or users of performance information should therefore focus on combining useful management information, such as budget information and cost information, with financial statement and financial system information to support operational and strategic decision making in order to maximise service delivery within the available resource envelope. Budget information has traditionally been the most coveted and important type of financial information for determining policy and for financial officials. Given the intention of the PFMA and the emphasis on rational management in government, the importance of management accounting and performance information has increased.

An important role of management accounting is to present accounting information to facilitate decision making that is aimed at key elements of the overall management system. The availability of an enabling system is a prerequisite for managing this information and such an integrated system is currently under investigation by the NT. Within the accounting process there are a number of role players, each of which forms a link in the accounting chain.

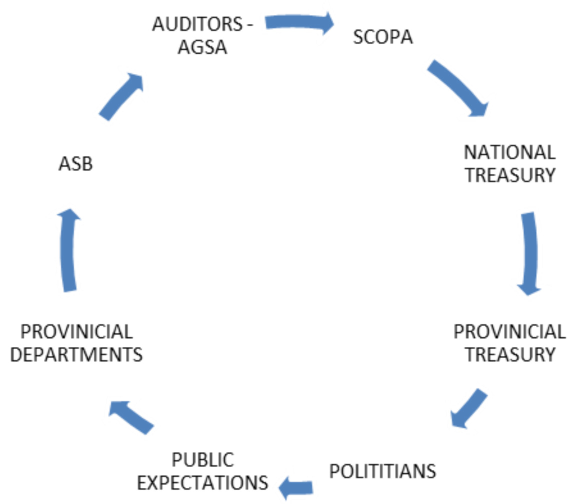


Figure 3.3: The Role Players

Source: Accounting Review (Provincial Treasury, 2003)

The role players in the accounting chain illustrated above are identified as the following:

Accounting Standards Board (ASB)

The ASB is mandated to issue GRAP accounting standards for government. These standards facilitate the introduction of accrual accounting principles.

National Treasury (NT)

The National Treasury takes responsibility for:

(a) Developing new and enhancing existing accounting policies and practices;

(b) Ensuring compliance with GRAP accounting standards;

(c) Improving the timeliness, accuracy and efficiency of financial reporting;

(d) Providing mechanisms for improved financial accountability in the public sector;

(e) Accounting of the National Revenue and Reconstruction and Development Programme Fund;

(f) Banking services for the national Government;

(g) Developing and implementing accounting policies;

(h) Preparing consolidated financial statements;

(i) Transversal accounting systems.

Provincial Treasury (PT)

To enhance the national norms and standards and ensure compliance with the NT, the Provincial Treasury (PT) is required to apply an integrated approach to promote sound financial management. The Accounting component has to ensure that financial reporting is a full and true reflection of the financial position of the Province and its functions are as follows:

(a) Ensuring the development of accounting practices that will promote effective and efficient capturing of Receivables, Expenses, Assets and Liabilities (REAL) movements/accountability;
(b) Ensuring integrity of financial data;
(c) Rolling out and assessing GRAP formats;
(d) Developing and promoting the use of cost accounting principles;
(e) Improving financial performance through the development and application of interpretive accounting;
(f) Assessing accounting trends, co-ordinating and compiling reports;
(g) Compiling annual consolidated financial statements;
(h) Providing technical assistance and training.

Accounting Officers (AO)

These officers assume accountability for their respective departments as per the PFMA and are accountable to the Provincial Parliament for achieving the outputs agreed upon.

Chief Financial Officers (CFO)

Chief Financial Officers assist accounting officers in achieving agreed outputs of departments. They must combine timely, materially accurate, relevant, complete and suitably presented financial results and trends with interpretive professional advice and also play a major role in preparing strategic plans and ensuring that best practice is followed.

Auditor-General South Africa (AGSA)

The AGSA expresses an audit opinion of the auditing conducted, making use of norms and standards derived from the PFMA and other financial legislation to audit compliance by accounting officers/authorities.

Internal Audit (IA)

The Internal Audit has to identify risks, highlight specific issues requiring attention, minimise the cost of auditing and ensure that the services of its auditing function are optimised.

Audit Committees

These committees, inter alia, evaluate whether Internal Audit performs satisfactorily, and that systems of accounting and financial control are established and maintained to manage risk.

The Standing Committee/s on Public Accounts (SCOPA) and the relevant Portfolio Committee of the Legislature (Provincial Parliament)

These two are parliamentary committees that jointly perform an oversight function in terms of the Constitution. As the last pillar in the accountability chain they play no part in the management of departments and public entities, but oversee their actions. To this end the two Committees interrogate and investigate, and subsequently pass resolutions on matters reported on by the A-G and by other functionaries. They also exercise control over the effective spending of voted funds and, through this oversight role, assess that REAL is being managed properly. Good results are dependent on matters reported to these committees and they must thus be sufficiently informed in order to perform their role effectively. A well-informed legislature will be able to make well-informed decisions on policy matters and also provide the legitimate check on executive policies and actions. It would therefore be prudent for the PT to advise parliamentary committees such as SCOPA and the relevant Portfolio Committee on the interpretation of the annual financial statements, to enable them to evaluate and assess provincial departments' (and public entities') performance.

3.11 SUMMARY

The legislative context for implementing GRAP is extensive and can be found in the Constitution, PFMA and policy documents that flow from the Constitution. One can argue that GRAP implementation is a practice that can contribute to the Constitution's requirement for a development-oriented, efficient, economic and effective public administration. The implementation of GRAP therefore derives its legislative mandate from the Constitution first, before any other piece of legislation or policy document. The full legislative and accounting framework is graphically illustrated in Figure 3.4

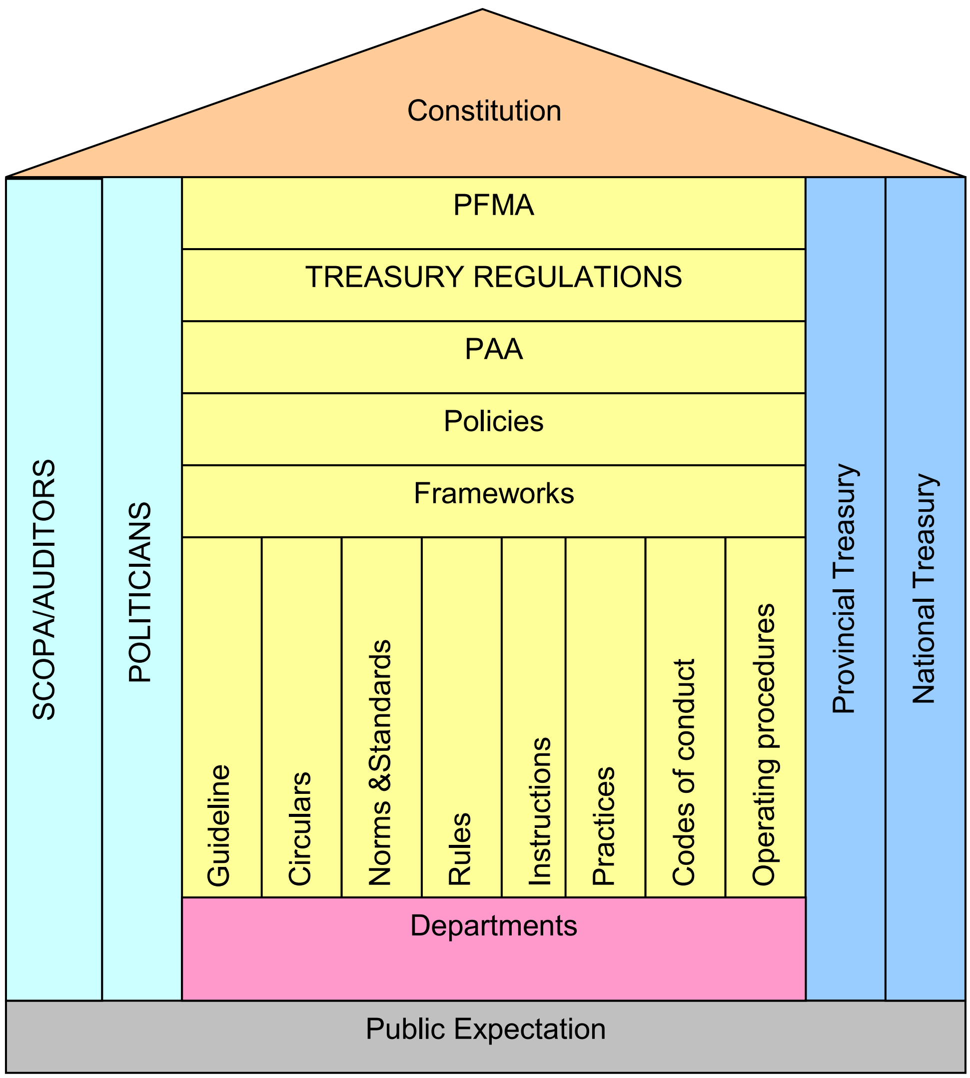


Figure 3.4: GRAP Legislative and Accounting Framework

Source: Accounting Review (Provincial Treasury, 2003)

The role players as the producers or users of performance information should therefore put emphasis on combining useful management information, such as budget information and cost information, with financial statements and financial system information to support effective and strategic decision making to maximise service delivery within the existing resource envelope.

The formulation of GRAP standards by the ASB will facilitate the development of new and enhance existing accounting policies and practices that will enable government to make a transition from the modified cash basis of accounting to an accrual basis. The GRAP financial reporting framework will provide accountability and decision-making information primarily by providing information that assists users in assessing whether financial resources were expended in compliance with the budget and whether outputs are being achieved. For department to be reliable, it must be ensured that the books of account are in a healthy state and the information provided is consistent, timely, accurate and relevant, which is attainable through the GRAP implementation process.

In the next chapter, the DTPW is examined as a case study to assess the readiness of the department to implement accrual accounting (GRAP) in the public sector.

CHAPTER 4

CASE STUDY: DEPARTMENT OF TRANSPORT AND PUBLIC WORKS (DTPW)

4.1 INTRODUCTION

The Department of Transport and Public Works fulfils the role as custodian to manage the immovable property portfolio of the Provincial Government of the Western Cape. The Branch: Public Works within the department is entrusted to manage the portfolio on behalf of the province. The branch therefore plays varying roles, in that it ensures that the accommodation needs of all provincial departments are integrated and provided for and ensures that properties are not separately dealt with. Public Works has embraced the principles and the objectives pertaining to the Face of the Province Blueprint in the design of provincial buildings, maintenance of provincial government infrastructure, construction of new provincial government infrastructure, as well as refurbishment and upgrading of provincial government buildings and facilities. Energy efficiency measures were intensified, green technology utilised and water saving promoted, thereby upholding environmental integrity, sustainability and maximising sustainable resource management and use. In support of this effort the Department registered with the Green Council of South Africa (DTPW Annual Report, 2011).

In Chapters 2 and 3 the importance of accrual accounting in the public sector was outlined and lessons learned from implementation of accrual accounting internationally in public service organisations were highlighted. The Public Finance Management Act (PFMA), No. 1 of 1999, requires departments to 'prepare financial statements for each financial year in accordance with generally recognised accounting practice' in order to ensure a development-oriented, efficient, economic and effective public administration in South Africa.

This chapter will present a review of the DTPW as the unit of analysis of a case study in order to shed light on the readiness of the implementation of accrual accounting practice as outlined in Chapter 2. The DTPW is considered as an influential organisation within the Provincial Government Western Cape (PGWC) in terms of its mandate to ensure effective, efficient and economic financial management in terms of the immovable property portfolio entrusted to the department. The DTPW plays a pivotal role in service delivery, ensuring that all the other provincial government departments under the umbrella of PGWC have their accommodation needs provided for.

A brief background of the DTPW in terms of core functions and responsibilities, vision and mission, as well as the current organisational structure, is provided below. This is followed by a discussion on the background to the current state of financial reporting to assess the readiness of the department to implement accrual accounting (GRAP).

4.2 BACKGROUND TO THE DTPW

4.2.1 Core functions and responsibilities

The core functions and responsibilities of the DTPW include the following:

- To lead the provincial strategic objective of increasing access to safe and efficient transport;
- To support other provincial strategic objectives through interventions related to provincial infrastructure and property management and the co-ordination of the Expanded Public Works Programme (EPWP) within the Western Cape;
- To conduct the overall management and administrative support of the department, as well as the respective programmes within the department in accordance with the Public Service Act, 1994, the Public Finance Management Act, 1999 (as amended), and other applicable legislation. Note that certain support functions such as Human Resource Management and Enterprise Risk Management were transferred to the newly established Corporate Service Centre vested in the Department of the Premier. The support service is governed through a Service Level Agreement, Policy and Service Schedules;
- To promote accessibility and the safe, affordable movement of people, goods and services through the delivery and maintenance of transport infrastructure that is sustainable, integrated and environmentally sensitive, and which supports and facilitates social and economic growth through socially just, developmental and empowering processes;
- To plan, regulate and facilitate the provision of public and freight transport services through own resources and partnerships in order to enhance the mobility of people

and commodities and provide access to safe and efficient transport through an integrated public transport network;

- To utilise provincial property (immovable assets) to act as a catalyst in achieving provincial objectives related to economic growth, social development and a sustainable environment;
- To provide an appropriately authorised transport environment through the registration and licensing of vehicles, associations, operators and drivers; the issuing of driving licences; the certification of motor vehicles as roadworthy for use on public roads; the issuing of permits for abnormal load vehicles and events (DTPW Annual Report, 2011).

4.2.2 DTPW Vision, and mission of DTPW

Vision

The Vision of the Department that is applicable to the Provincial Government of the Western Cape, was decided upon by the Western Cape Provincial Cabinet and captured in the Department's Strategic Plan 2010-2014 as **'The Department of Transport and Public Works develops and maintains appropriate infrastructure and related services for sustainable economic development which generates growth in jobs and facilitates empowerment and opportunity'** (DTPW Annual Report, 2011).

Mission

The Western Cape Government expresses its mission as follows:

'The Western Cape Government will promote freedom and opportunity for all the people of the province through:

- Policies and practices that strengthen the Constitution;
- Create the conditions for sustainable economic and employment growth;
- Alleviate poverty by providing a welfare safety net for those unable to provide for themselves;
- Ensure the safety of every person;
- Attract, develop and retain skills and capital;
- Develop and maintain infrastructure;
- Deliver clean, efficient, cost-effective, transparent and responsive public

Administration' (DTPW Annual Report, 2011)

In support of the Provincial Government's mission, the Department's mission statement is as follows:

'The Department of Transport and Public Works develops and maintains appropriate infrastructure and related services for sustainable economic development which generates growth in jobs and facilitates empowerment and opportunity.'

4.2.3 Summary of Programmes

The public works, roads and transport sector adopted a uniform budget and programme structure for the country that reflects the minimum number of programmes required. The activities of the Department of Transport and Public Works for the Western Cape are organised in six programmes, as indicated in the table below. Included is a brief description of each programme:

Programme 1: Administration

Purpose: To provide overall management support to the department through

- Strategic planning facilitation and support;
- Integrated and transversal planning facilitation and support;
- Monitoring and evaluation support;
- Co-ordinating support;
- Enterprise content management support;
- Knowledge management support;
- Communication support;
- Events management support;
- Professional development programme support;
- Corporate Service Centre liaison;
- Management accounting support;
- Financial accounting support;
- Financial control support; and
- Supply chain management support.

Strategic objectives as per Annual Performance Plan:

The strategic objectives incorporated in the plan comprise the following:

To improve the quality of financial management in the department; to facilitate and manage coherent transversal integrated strategic planning, co-ordination and monitoring across the Department; and to ensure facilitated effective utilisation of systems, processes and knowledge within the Department (DTPW Annual Report, 2011).

Programme 2: Public Works Infrastructure

The purpose of Programme 2 is to provide balanced provincial government building infrastructure that promotes integration, accessibility, sustainability, equity, environmental sensitivity, economic growth and social empowerment. The programme involves:

- Buying and selling of immoveable assets;
- Property management regulatory services;
- Accommodation provisioning services (use of own assets and lease-in);
- Property lease-out services;
- Auxiliary services: telecommunication for the Provincial Government;
- Provincial government buildings; horticultural services, and the Premier's residence facilities management services;
- Implementing agent services (construction, upgrading and maintenance of infrastructure);
- Professional, technical and support services (property development, planning, construction, upgrading and maintenance of infrastructure);
- Infrastructure strategic planning facilitation and planning support services (development, partnerships and immoveable assets); and
- Building condition audit services.

Strategic objectives as per Annual Performance Plan:

A strategic directive was developed and implemented for Provincial Infrastructure and Property Management. The Strategic Infrastructure Plan and Management Framework was reviewed and developed and the Government Immovable Asset Management Act (GIAMA) implemented and complied with. Sustainable Provincial infrastructure and accommodation were facilitated and delivered. Plans and secured funds were developed for Provincial infrastructure delivery. Socio-economic development was promoted through the implementation of Provincial infrastructure, Provincial Accommodation and Property Management programmes (Annual Report DTPW, 2011).

Programme 3: Transport Infrastructure

Purpose: The purpose of Programme 3 is to deliver and maintain transport infrastructure that is sustainable, integrated, and environmentally sensitive, supports and facilitates social empowerment and economic growth and promotes accessibility and the safe, affordable movement of people, goods and services. This required:

- Planning, designing, constructing, rehabilitating and maintaining of provincial road network including public;
- Transport infrastructure;
- Offering of learnerships;
- Ancillary technical support services which included: soil laboratory, survey, GIS mapping, proclamation, expropriation and road network information; and
- Recording of accident data.

Strategic objectives as per Annual Performance Plan:

This focussed on an effective road-based transport infrastructure network for accessible, safe and affordable transport and economic growth and empowerment through road-based transport infrastructure investment (DTPW Annual Report, 2011).

Programme 4: Transport Operations

Purpose: With Programme 4 focused on transport operations the purpose was to plan, regulate and facilitate the provision of integrated land transport services through coordination and co-operation with national planning authorities, municipalities, community-based and nongovernmental organisations and the private sector in order to enhance the mobility of all communities. This included:

- Empowering land transport stakeholders;
- Co-ordination, facilitation and implementation of transport safety and compliance programmes;
- Assessing and capacitating municipalities on land transport; and

- Facilitation and implementation of the electronic monitoring systems.

Strategic objectives as per Annual Performance Plan:

These objectives focused on improving the regulatory framework through the tabling of provincial laws and associated regulations, implementing the Phase of Safety Management System, the number of kilometres operated in terms of the approved timetable (expressed as a percentage of the total number of kilometres scheduled) and phases of the Mobility Strategy Service (DTPW Annual Report, 2011).

Programme 5: Transport Regulation

Purpose: Programme 5 aimed to regulate the transport environment through the licensing and registration of vehicles, associations, operators and drivers. This therefore focused on:

- Registering of motor vehicles;
- Licensing of motor vehicles;
- Licensing of competent drivers;
- Roadworthiness certification of motor vehicles;
- Issuing permits for abnormal load vehicles and events on public roads;
- Overload control services on national and provincial roads;
- Licensing of public transport operators;
- Registering of minibus taxi operator associations; and
- Dispute resolution services in the public transport domain.

Strategic objectives as per Annual Performance Plan:

As far as the strategic objectives were concerned, effective control of the environment for traffic law administration was achieved and road damage was minimised through overload control and improved transport safety (DTPW Annual Report, 2011).

Programme 6: Community Based Programmes

Purpose: The purpose of Programme 6 was to manage the implementation of programmes and strategies that lead to the development and empowerment of communities and contractors, including the provincial management and coordination of the Expanded Public Works Programme through:

- Expanded Public Works Programme facilitation and support services;
- Contractor development.

Strategic objectives as per Annual Performance Plan:

This included the development and empowerment of communities and the construction industry towards sustainable economic and employment growth (DTPW Annual Report, 2011).

The departmental organisational structure on which these programmes rest is illustrated below in Figure 4.1.

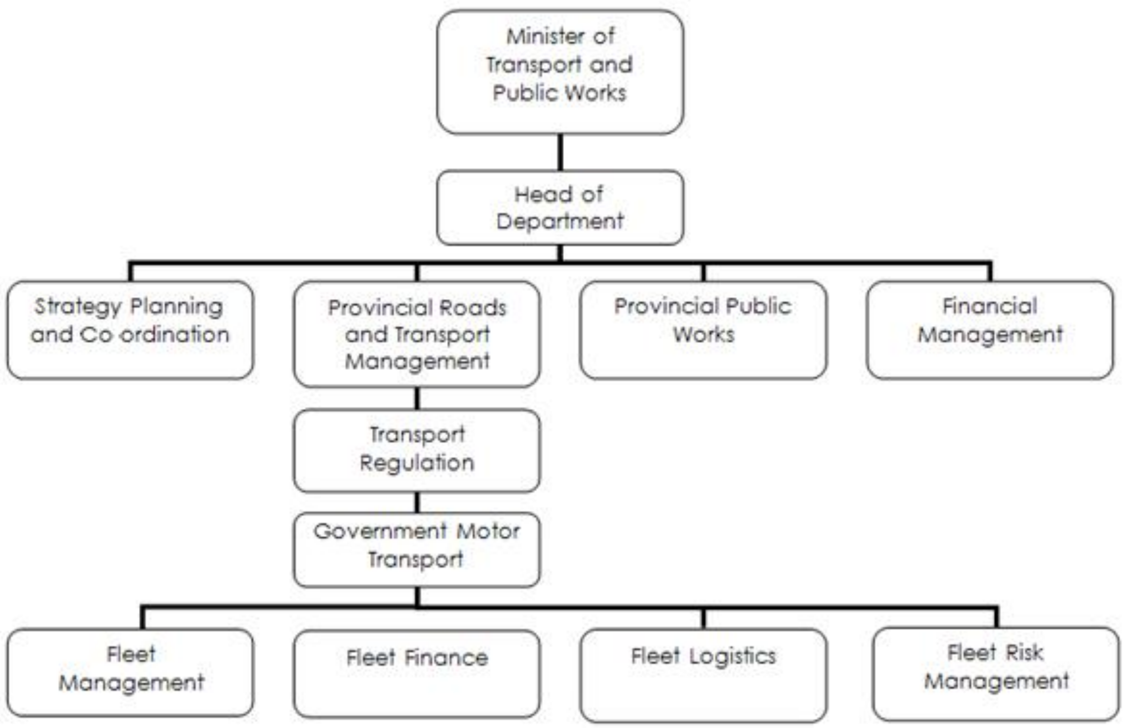


Figure 4.1: Departmental Organisational structure

Source: http://intrawp.pgwc.gov.za [2011-06-23]

4.3 CURRENT STATE OF FINANCIAL REPORTING

As mentioned in the Treasury Regulations, the financial statements of all national and provincial departments are prepared using a modified cash basis of accounting. In the South African public sector, the modified cash basis of accounting has been defined as 'the cash basis of accounting modified for the recognition of certain near-cash balances and supplemented with disclosures on transactions and balances not recognised in the primary statements' (Treasury Regulations, 2005).

The supplementary disclosures are based on the equivalent GRAP after considering the availability and the usefulness of the information with a view to decisions. Given that departments are not yet ready to fully implement the Standards of GRAP (and an accrual basis of accounting), the National Treasury, Office of the Accountant-General, prescribes the annual reporting requirements comprising of:

- accounting policies for the recognition and measurement of information in the primary statements (for a modified cash basis of accounting) and the disclosure notes (based on accruals);
- the format for the presentation of the information in the primary statements, the notes and the disclosure notes;
- guidance on the preparation and presentation of the information in the financial statements; and

DTPW Annual financial statements must consist of –

(a) a balance sheet (statement of financial position);
(b) a statement of changes in equity;
(c) an income statement (statement of financial performance);
(d) a cash flow statement;
(e) an appropriation statement;
(f) notes to the appropriation statement and annual financial statement; and
(g) such other statements as may be determined by the National Treasury.

The statements must be prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury and must be accompanied by the audit opinion of the Auditor-General. The annual financial statements must, by means of figures and a descriptive report, explain any other matters and information material to the affairs of the department (National Treasury, 2011).

Thus, the Treasury Regulations clarify that generally recognised accounting practice for departments is prescribed by the National Treasury until the Standards issued by the ASB become effective. However, since departments prepare their financial statements on a modified cash basis, the requirement is to reflect these items as disclosure notes for now. This signifies the build-up to the accrual basis of accounting. In fact, most of the definitions are aligned to accrual definitions in the GRAP Standards, International Public Sector Accounting Standards (IPSAS), International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) (National Treasury, 2011).

As the custodian to manage the immovable property portfolio of the Provincial Government of the Western Cape, the Public Works Branch within the department is entrusted with managing the portfolio on behalf of the Province. In anticipation of the implementation of the Standards of Generally Recognised Accounting Practice (GRAP), it is necessary for DTPW to incorporate specific procedures and policies to be developed regarding the management of and accounting for assets. The Western Cape Department of Transport and Public Works controls assets of various classes and has the duty of stewardship over assets under its control, irrespective of how such assets may be reported in the financial statements. The recognition of assets in a Statement of Financial Position requires that departments undergo a rigorous process of identifying all assets, verifying ownership and placing a value on assets – currently it is only required to disclose amounts in the disclosure notes to the AFS.

On 16 May 2008, the Office of the Auditor General (OAG) issued a communication whereby exemption was granted to all Provincial Departments of Transport and Public Works from the following guidelines:

1. Including all immovable assets for which Public Works is the user department in the disclosure notes of the annual financial statements. National DPW should however account for all immovable assets identified by the department.

2. The use of fair value to value assets, which is referred to in the asset management policy set by the National Treasury. National DPW must, however, in the interim account for all capital expenditure on projects transferred from client departments (DTPW Annual Report, 2011).

Key milestones (presented in Table 4.1) were set out to be achieved by departments to qualify for the exemption granted by the National Accountant Auditor General (OAG) for the 2008/09 and 2009/10 financial years.

Table 4.1: Key milestones set out by the Office of the Auditor General for the 2008/09 and 2009/10 financial years

2008/09 financial year (targets)	**2009/10 financial year (targets)**
Accuracy and valuation	
Obtain approval of valuation model from National Public Works and National Treasury.	Perform the valuation of all immovable assets that vest in the Provincial Government.
Obtain an approved accounting policy aligned to GIAMA from National Public Works and National Treasury.	Implement the accounting guidelines emanating from GIAMA.
Implement an approved system of immovable asset management that complies with the provisions of GIAMA	Implement the valuation model for immovable assets as agreed between National Public Works, Land Affairs, Treasury and the Auditor-General.
	Implement interfaces between the asset management system and the accounting system.
Ownership and completeness	
Agree with National Public Works and Land Affairs on the timelines for the completion of the vesting process.	Implement the vesting process according to the agreed timelines with National Departments.
Obtain the approved implementation plan of GIAMA from National Public Works and	Participate in the GIAMA implementation plan according to the agreed roles and

National Treasury.	responsibilities.
Update the asset register of Public Works with the verified list of properties that are devolved in terms of rates and taxes from National Public Works.	Drive and coordinate the development of user asset registers and immovable asset management plans of the province.
	Update asset register with all other properties not included in the devolution of rates and taxes.

The DTPW had bettered their qualified audit opinion for the 2008/09 financial year to an unqualified audit opinion for the 2009/10 and 2010/11 financial years. This is an indication that the department's financial management capability has been significantly enhanced.

4.4 INTEGRATED SYSTEMS

DTPW utilises the transversal financial administration systems, namely BAS, PERSAL, LOGIS and VULINDLELA which are compatible with one another in the sense that BAS, being the integral accounting system, allows financial information from the above mentioned systems to interface with it. However, there are other systems such as MDA and ENATIS that are utilised by the DTPW only, which are not compatible with BAS. In other words, interfacing between these systems and BAS currently is not possible. The required financial information is recorded and maintained by these independent side systems and manually reconciled. Apart from the aforementioned shortcomings, inadequacies also are present in the existing transversal systems to the extent that it does not fully address GRAP standards, consolidation of AFS, asset management, etc. Thus there is a growing need for an integrated financial system that will address these issues. The NT is currently investigating the development of an IFMS that will be based on the requirements of user departments. The various disciplines within the PT will be actively involved with NT in the development of this system by providing inputs on user requirements related to accounting, budgets, systems, etc.

Table 4.2 below reflects the non-transversal subsystems that incorporate financial transactions and are maintained by the DTPW.

Table 4.2: Non-transversal subsystems

Transport and Public Works	• Local Transport Permit System (LTPS) • Management Maintenance System (MMS) • Management Accounting System (MDA) • EWORKS (Capital projects) • Electronic National Traffic Information System (ENATIS) • Internet Number Plate Administration System(INPAS) • Debtors Management System (DMS) • PABX telephone system.

Source: Accounting Review (DTPW Annual Report, 2011)

4.5 FINANCIAL MANAGEMENT OBJECTIVES FOR 2011/12

The financial management objectives for 2011/12 are to improve the quality of financial management towards maintaining unqualified audit reports, achieving clean audit reports, and achieving a financial management capability rating of level 3. Compiling and implementing financial standard operating procedures to create a control environment that will be conducive to the preparation of Annual Financial Statements that fairly represent the affairs of the department are part of this. It also involves updating the rolling Financial Management Improvement Response Plan with the 2010/11 external audit and internal audit outcomes and other findings, and implementing the required remedies to reduce the number of audit findings and promote sound financial management. Roll-out of the fraud prevention implementation plan is envisaged. Depending on the outcome of Organisation Development's evaluation of the reviewed micro organisational structure for financial management (excluding supply chain management), a beginning is to be made with the implementation thereof and the re-engineering of the supply chain (inclusive of the

Accounting Officers System, micro organisational structure and the moveable asset management system) and interim quick wins will be continued (DTPW Annual Report, 2011).

4.6 SUMMARY OF CASE STUDY

This chapter has presented the DTPW as a case study to investigate the readiness for implementing GRAP in a specific organisation. A brief background of DTPW was provided which included the vision, mission and core functions and responsibilities of the organisation. The DTPW, as the custodian of immovable assets in the Province, plays a vital role in executing its legislative mandate in terms of the Public Finance Management Act, 1999, and Municipal Finance Management Act, 2003, on local government, provincial government and on national government levels. A review of the current state of financial reporting in the department highlighted that the financial statements of all national and provincial departments are prepared using a modified cash basis of accounting. In the South African public sector, the modified cash basis of accounting has been defined as 'the cash basis of accounting modified for the recognition of certain near-cash balances and supplemented with disclosures on transactions and balances not recognised in the primary statements (National Treasury, 2011). The supplementary disclosures are based on the equivalent GRAP after considering the availability and usefulness with regard to making decisions on the information.

Re-examining the transversal accounting systems BAS, PERSAL, LOGIS and VINDLELA that can integrate with each other and non-transversal systems of the department which are manually reconciled discloses that there is a growing need for an integrated financial system that will address these issues. The department's financial objectives for 2011/12, reveal that the department anticipated compiling and implementing financial standard operating procedures to create a control environment that would be conducive to the preparation of Annual Financial Statements that fairly represent the affairs of the department; to improve the quality of financial management towards maintaining unqualified audit reports; achieving clean audit reports and achieving a financial management capability rating of 3.

The next chapter provides an outline of the research design, data gathering method and methodology applied for this study.

CHAPTER 5
RESEARCH DESIGN AND METHODOLOGY APPLIED

5.1 INTRODUCTION

According to Leedy & Ormrod (2005:135), a case study may be especially suitable for learning more about a little known or poorly understood situation. They explain that data for case studies are derived from observations, interviews and documents. A case study was undertaken to assess the readiness for implementing GRAP in the DTPW. This case study is presented in Chapter 4.

A brief background of the DTPW in terms of core functions and responsibilities, vision and mission, as well as the current organisational structure, is provided below. This is followed by a discussion on the background to the current state of financial reporting to assess the readiness of the department to implement accrual accounting (GRAP). The information generated for the case study was obtained through secondary and primary research. In terms of the case study it is clear that DTPW will definitely need an integrated financial accounting system to implement GRAP successfully.

5.2 RESEARCH METHODOLOGY

5.2.1 Data sources

The researcher followed a qualitative research design to 'collect' data. Mason (2005:52), however, points out that it would be more appropriate to speak of data generation than data collection. According to Mason, data generation implies intellectual, analytical and interpretive activities compelling a researcher to focus on how to best generate data from the chosen data sources. The data generated for this research can be divided into secondary data and primary data.

5.2.2 Secondary data

Secondary data comprise information that has already been gathered or generated by another researcher and is made available through a variety of sources. The secondary data used for this research were generated from a plethora of books, journals, magazine articles, and internet articles to construct the literature review. Many articles were found in journals on the EBSCOhost online research database, whereas others were found on the Internet and in books. The secondary data was analysed and interpreted and organised from the literature review to address the research questions. Information about legislation presented in Chapter 3 was obtained from the South African government website and was then organised in a meaningful way.

5.2.3 Primary data

The researcher was guided by Leedy & Ormrod (2005:135) to make decisions regarding the generation of primary data from case studies that are derived from observations, questionnaires, interviews and documents. The researcher decided to generate primary data through unstructured interviews and a survey questionnaire. The unstructured interviews were conducted with Mr Terence Arendse (PAG) on 2011/07/06 and Mr Cedric Ismay on 2011/07/04 in line with guidance from Wellman *et al*. (2005:194). The specific individuals were purposely selected because it was believed that they would be able to provide the most relevant data to address the research questions.

5.3 SAMPLING METHODS

In purposely selecting the respondents with whom the unstructured interviews were conducted, the researcher was using non-probability sampling (Wellman *et al*., 2005:204). Neuman (1997:206) and Leedy & Ormrod (2005:145) agree that purposive sampling as a non-probability sampling method is common in qualitative research and that a researcher normally uses this method to select individuals for interviews from whom the most information can be drawn. Mr Arendse, in his position as the Provincial Accountant General of the PGWC, was able to provide detailed information on the readiness of the DTPW to implement GRAP. Mr Ismay, in his capacity of Chief Financial Officer of the DTPW, could provide much needed information on the readiness and current state of implementing GRAP in the DTPW.

Survey questionnaires were used to assess the readiness of implementing GRAP in the DTPW. The questionnaire consisted of three sections, the first section covering the readiness of DTPW to implement GRAP. The second section contained questions on the challenges that the DTPW anticipated with implementing GRAP. The third section contained questions on the obstacles the DTPW expected to encounter with key issues extracted from research conducted on international countries that already implemented accrual accounting. The survey questionnaires were e-mailed and some were hand delivered to 15 selected senior employees in the DTPW, PT, NT, AGSA, and Internal Auditors, with a request to respond electronically via e-mail. Twelve of the 15 selected employees responded. This constituted a sample of 80 percent of the selected sampling frame of 15 employees.

Semi-structured Interviews

Semi-structured interviews represented a multipurpose method for accumulating data, with the researcher using a pre-determined list of questions. Face-to-face interviews were conducted with key respondents from the Department of Transport and Public Works, the Provincial Accountant General and the Department of the Provincial Treasury in the Western Cape Provincial Government, with the use of a pre-determined questionnaire for gathering rich and comprehensive qualitative data on accrual accounting implementation readiness. The interview guide that was used in the semi-structured interviews is included as Appendix A.

The preparers, users and auditors of financial reports were expected to be in the best position to respond to the questions and therefore formed the basis of the research method followed.

The interview guide and questionnaires were developed on the basis of current literature, and were designed to cover key research topics pertaining to accrual accounting implementation readiness, challenges and risks that have been identified. The research questions focused on three strategic themes or areas of interest.

To conclude the face-to-face interviews, respondents were allowed to add, of their own free will, any concern relating to accrual accounting implementation that was not considered during the interview.

Data analysis

Bogdan & Biklen (1982:145) define qualitative data analysis as ’working with data, organizing it, breaking it into manageable units, synthesizing it, searching for patterns, identifying and highlighting what is the important key findings and lessons to be learned’.

The primary data obtained from the semi-structured consultations and existing documentation, as well as the secondary data, were analysed in manageable chunks to determine links between the data to facilitate classifying data according to categories. To facilitate data analysis, the scrutiny of the information involved re-examination of the categories identified (Strauss & Corbin, 1990).

Within the framework provided by Collis & Hussey (2003:240), the analysis included the following sequential steps set out by these authors:

- Define a set of categories to define the classification of units of analysis, derived from both the literature underpinning the study and the interview transcripts;
- All responses will be taken into account to illustrate the support findings;
- Discuss, analyse and interpret the key findings emerging from the data within the context of the theoretical framework developed for the study.

Chapter 6 presents the research findings derived from the primary and secondary data generated for this research.

CHAPTER 6
RESEARCH FINDINGS

6.1 INTRODUCTION

This chapter includes a presentation of the primary and secondary data that were generated. The unstructured interviews were converted into write-ups according to Wellman *et al*. (2005:211). These write-ups have been analysed for recurring themes. As mentioned earlier, the data that were generated through the interviews and questionnaire mainly were to address objectives 3 and 4 as outlined in Chapter 1 of this study. The interview results on objectives 3 and 4 are discussed first and will be followed by the survey questionnaire that focused on objectives 3 and 4, which is provided to assist with cross-referencing between the questionnaire and the interviews that were conducted.

The questionnaire was developed and distributed to the Chief Financial Officer (CFO) and senior finance staff of the Department of Transport and Public Works in the Western Cape Provincial Government during the course of May 2011. Questionnaires, with similar content to the above were forwarded to senior auditor-general officials, internal and external auditors involved in the auditing of the Department of Transport and Public Works, senior officials at the Provincial Treasury and the National Treasury. The questionnaires for different groups of respondents were selectively adapted to suit the necessary accounting background for responding to the questions. A total population of 15 was identified for the distribution of the questionnaires. The CFO of Department of Transport and Public Works were interviewed and the three most senior accounting staff and audit manager's questionnaires were delivered by hand with a request that it should be completed. The Deputy Director-General (DDG) in his capacity as Provincial Accountant-General (PAG) was interviewed. Senior staff of the Department of Provincial Treasury Accounting Services as driver to the roll-out of the accounting frameworks and standards for the departments and entities was requested to complete the questionnaire. The National Treasury, in the capacity as driver of the implementation of the transition to accrual accounting, was requested to complete the questionnaire.

6.2 OBJECTIVE 3 – FINDINGS FROM PARTICULARS OF THE INTERVIEW

Objective 3 was formulated to assess the capabilities of the organisation, human resources, and systems of entities to effectively put into practice accrual accounting (GRAP).

6.2.1 Interview Results – Mr Terence Arendse

According to Mr Arendse, the current state of financial reporting in the Department of Transport and Public Works involves a generic framework based on a modified cash basis of accounting. The department applies basic cash accounting and certain aspects involve accrual reporting, which relates to the asset register and other disclosure notes on accrual accounting. Mr Arendse indicated that the process of implementing accrual accounting in the DTPW is at an elementary stage. The DTPW has basically just completed annexures as part of the AFS to provide more detailed information to the users of the statements; no system has been put in place, thus the process of implementation of accrual accounting is still at a fundamental stage. The DTPW will not be able to ensure that South Africa's departments comply with standards of GRAP by the due date of 2015, as indicated, since the NT is the custodian and driver of the accounting frameworks and roll-outs of accounting prescripts (Arendse, 29 July 2011).

6.2.2 Interview Results – Mr Cedric Ismay

Mr Ismay confirmed that the DTPW currently reports on a modified cash basis of accounting. He emphasised that the DTPW reports on three standards of GRAP (1, 2 and 3) that are effective, plus disclosure of annexures to the AFS that give the user of the AFS more detail on the accounting reporting of the AFS. Mr Ismay indicated that the process of implementing GRAP has progressed as far as the GRAP standards are implementable and that, so far, only three GRAP standards were effective. The department cannot implement GRAP without a proper accounting system that supports GRAP. Furthermore, there are obstacles of which the accounting system is one, but the key obstacle for DTPW concerns accounting for assets, which is the case in the rest of the country. Mr Ismay stressed that it is not possible for the DTPW to ensure that GRAP will be implemented by 2015, which is in three years' time, seeing that we are already in 2011. The requirement expects that there must be an up and running GRAP accounting system in 2015; everything must be aligned – policies, procedures, systems, etc. Everything must be in place and a proper project plan should already have been in progress if the implementation of 2015 is to be reached. As this is not the case, implementation by 2015 will not be realised. For the DTPW to prepare for the implementation, it is important that the department acquires staff trained in accordance with GRAP standards which are currently approved and effective in terms of the ASB, to equip the department with the necessary knowledge of the GRAP standards. The DTPW will have to position itself to apply GRAP and encourage staff to equip themselves with proper academic qualifications, thereby to ensure that the correct policies, procedures, systems, data, technology and people are available to implement GRAP (Ismay, 4 August 2011).

6.3 OBJECTIVE 4 – FINDINGS FROM THE PARTICULARS OF THE INTERVIEW

Objective 4 was set to investigate the potential challenges and risks of the implementation process.

6.3.1 Interview Results – Mr Terence Arendse

Challenges to implementing GRAP in the DTPW

Mr Arendse indicated that the DTPW cannot guarantee that the GRAP implementation time frame of 2015 will be met; the DTPW could only guarantee the implementation of GRAP if they had the right systems in place, which they do not. Furthermore Mr Arendse pointed out that the NT is busy rolling out the IFMS and the WC Department of Health is one of the pilot sites used to test the IFMS, and that the focus at this stage is on Supply Chain Management (SCM) and not on Financial Management. Mr Arendse indicated that the DTPW could determine the capacity, e.g. training needs and workloads over the implementation period. The PT conducted a capacity audit on the qualifications of accounting staff in departments and highlighted that the majority of staff that compile the annual financial statements only have a matric qualification. Mr Arendse pointed out that the DTPW was basically on board in assessing the capacity needed and the level of training required to capacitate the staff for readiness for the GRAP standards required for the implementation process. Looking at recruiting policies will also assist the department in appointing the right people with accrual accounting knowledge and expertise for the job, but while the systems were not in place to cater for accrual accounting, everything remained theoretical. The implication is that the financial management systems, processes and policies provide an enormous challenge for the department. Once the necessary financial management systems, procedures and policies are in place, the financial system will have to be tested and reviewed to assess the readiness for GRAP implementation. Separation of duties will be an important factor to determine; for example, the person who issues a request for payment does not authorise the payment, therefore there are internal controls. This makes it important that standard operating procedures are put in place and are aligned with the GRAP standards to determine each official's responsibility. Accounting policies should also be aligned with the GRAP standards to effect the GRAP implementation. Mr Arendse highlighted the importance of noting that GRAP standards (see Appendix B) are currently approved by the minister for implementation and that the DTPW can use the approved GRAP standards to get ready for the implementation of GRAP in terms of the Accounting Standards Board (ASB) (Arendse, 29 July 2011).

Risks to the implementation of GRAP in the DTPW

The DTPW anticipates obstacles to the implementation of GRAP with regard to the following capacities:

Skills – Mr Arendse indicated that the DTPW should assess staff with regard to the qualifications and training needs required and ensure that new appointees have a basis in accrual accounting to ease the implementation process.

Organisational Capacity – Mr Arendse indicated that the organisational capacity is dependent on the requirement to meet the GRAP standards.

Systems – Mr Arendse emphasised that the lack of necessary systems is the major obstacle and that the DTPW will not be able to establish if the conversion to GRAP will be effective until the financial systems are in place. Looking at the standards and determining what systems are needed indicated that the standards were driving the system, not the system the standards.

Policies – Mr Arendse indicated that the risk related to the implementation, application, management and alignment of policies to the GRAP standards. All accounting policies should be reviewed and be brought in line with the GRAP procedures.

Procedures – Mr Arendse indicated that the risks to procedures depend on standard operating procedure: how it is implemented, applied, managed and aligned to the GRAP standards.

Technology – Mr Arendse pointed out that the DTPW will have to keep up with technological changes and update systems on a regular basis to ensure that the most updated version is utilised to cater for GRAP standards and he signified that successful change will partially depend on GRAP standards and to a degree on changes in technology (Arendse, 29 July 2011).

6.3.2 Interview Results – Mr Cedric Ismay

Challenges to implementing GRAP in the DTPW

Mr Ismay indicated that the DTPW cannot guarantee that the GRAP implementation time frame of 2015 will be met. The implementation of GRAP is a collective approach of the PT, the NT and the DTPW. Mr Ismay indicated that change management and training will affect the implementation process and that staff dealing with AFS must know the GRAP standards by heart. He highlighted his concern that a performance audit was not done to determine the readiness to report in terms of GRAP. He pointed out that systems cater for only one part of the implementation and emphasised that an accounting practitioner must know the GRAP standards by heart and implementation of GRAP could maybe be guaranteed (Ismay, 4 August 2011).

The DTPW will only be able to determine the capacity, e.g. training needs and workloads over the implementation period, once the accounting system is being implemented. Mr Ismay highlighted that an analysis has to be conducted by the department to determine the workload and the training needs required. He emphasised that officials that compile the AFS should be given training on the GRAP standards and not be trained to be on par with third-year academic accounting qualifications. He pointed out that training is done on different levels of accounting and questioned where we wanted to be to apply GRAP standards, saying that the most important aspect was to get officials trained to be knowledgeable about the GRAP standards (Ismay, 4 August 2011).

Mr Ismay indicated that DTPW must align financial management systems, processes and policies with GRAP. He emphasised that officials currently working in a property lease and asset environment are trained in GRAP due to the requirement of lease and assets information in the notes to the AFS. He further indicated that management systems must be aligned to GRAP standards, standard operating procedures must be in place to ease the implementation process and all policies, not just accounting policies, must be aligned to GRAP (Ismay, 4 August 2011).

Risks to the implementation of GRAP in the DTPW

The DTPW anticipates obstacles to the implementation of GRAP with regard to the following capacities:

Skills – Mr Ismay indicated that officials showed lack of enthusiasm to improve academic qualifications with accounting as a subject. The DTPW does not have a proper auditing tool to assess the skills capacity and he indicated that a self-assessment of the skills capacity did not add value. Another obstacle in the accounting domain is that DTPW does not know the requirements for the successful implementation GRAP within the department.

Organisational Capacity – Mr Ismay put emphasis on the obstacle of the DTPW being fragmented, which makes control difficult to manage. This had been addressed with the Department of Organisation Development of the Premier to get structures centralised to manage controls properly.

Systems – Mr Ismay indicated that the biggest obstacle was that there is no system. The system facilitates the accounting standards. The DTPW uses subsystems that do not interface with BAS and LOGIS to provide information for financial management reporting purposes. Information must be compiled manually and be manipulated to provide valuable information for the reporting purpose.

Policies – Policy is currently aligned with modified cash accounting and must be aligned to GRAP. Mr Ismay's concern was that policies were not uniform, but differed from department to department; they are not consistent.

Procedures/processes – Mr Ismay highlighted that the procedures and processes have not been documented properly and should be aligned to GRAP.

Technology – Mr Ismay indicated that there is no transversal contract to assist in technology and how to utilise the technology to keep up to date with change and align with GRAP standards.

People – Mr Ismay emphasised that accounting practitioners for the department must be on the same level for similar jobs and be able to move around, thus uniformity among departments is required.

Data – Data are not managed properly and analysed for financial management reporting (Ismay, 4 August 2011).

In the sections that follow, the survey questionnaire used in the research is discussed, as outlined in Chapter 1 of the study.

The response rate of respondents in submitting completed questionnaires was high, with 12 of the 15 questionnaires being completed and sent back for processing. This represented an 80% response rate. It should be noted that, although the study focused on the Department of Transport and Public Works in the Western Cape Provincial Government, the findings and the applications of this study can also be generalised to other departments. This statement was tested in the questionnaire, and 80% of the respondents indicated that the Department of Transport and Public Works was representative of other provincial departments in the Western Cape Provincial Government. The respondents represented the categories shown in Table 6.1.

Table 6.1: Particulars of the Questionnaire

Category	No of respondents
Chief financial officer and staff of TPW	3 of 3 (100%)
Senior staff of National Treasury	1 of 2 (50%)
Senior staff of Provincial Treasury	5 of 5 (100%)
Auditor-general and Internal auditors	1 of 3 (33.3%)
Senior staff of GMT	2 of 2 (100%)

6.4 OBJECTIVE 3 – FINDINGS FROM THE PARTICULARS OF THE QUESTIONAIRE

Objective three was set to assess the capabilities of the organisation, human resources, and systems of entities to effectively put into practice accrual accounting (GRAP). This was investigated by means of a questionnaire. The results of this investigation are presented question by question.

6.4.1 Readiness of the DTPW to implement GRAP

Question 1: What is the current state of financial reporting within the DTPW?

Van Wyk (2003) conducted an empirical study and revealed that 52% of respondents agreed on the effectiveness of financial reporting in the provincial government sector. The efficacy rating referred to how auditors, preparers and users of financial statements rated the usefulness and standard of financial reporting of provincial departments. It was evident that financial statements enhance performance measurement processes in the public sector. This rating in 2003 was regarded as unsatisfactory. A similar study was conducted in July 2006, with the same questions included in the questionnaire. Compared to the results of the 2003 study there had been no improvement; the effectiveness rating only increased by 0,4% from 52% in 2003 to 52,4% in 2006. Van Wyk (2006) demonstrated the slow pace of transformation in financial reporting in the public sector. The reason for lag in all likelihood was related to the slow pace at which accrual accounting is being implemented in the South African public sector.

The current research conducted on the state of financial reporting within the DTPW in June 2011 found that 80 percent of the respondents reported that the department prepares Annual Financial Statements on a modified cash basis of accounting. This implies that cash transactions are recognised in the annual financial statements, but only certain accrual transactions are disclosed in disclosure notes as prescribed by the National Treasury, who determines the financial reporting framework for government. Standards of GRAP 1, 2 and 3 are incorporated in the reporting framework. Assets are disclosed in terms of book value and are not yet depreciated. The department's AFS consists of a Performance Statement, Position Statement with no accounting of assets on the face of the Position Statement, Cash flow Statement and Statement of Changes in Net Assets and Disclosure notes to the AFS to provide detailed information on assets and accrual information that does not form part of the AFS.

Question 2: How far has the process of implementing accrual accounting progressed in the DTPW?

According to National Treasury (2006) strategy, it was recommended that a 'big bang' approach for conversion to accrual accounting be followed. It recognised that sufficient preparation time was needed before transition and therefore anticipated a conversion period of ten years in total, with the last three years involving the actual conversion. Specific activities were identified that were required for preparation before the 'big bang' conversion in the last three years according to the classification of departments. The basis for classification was a readiness assessment rating according to the complexity of the department and the number of issues of concern identified through a questionnaire process. According to this classification, the less complex departments would have to convert in the first year, and then followed by the more complex departments in the next two years depending on the degree on complexity (National Treasury, 2006).

The respondents were asked how far the process of implementing accrual accounting in the DTPW had progressed. All (100 percent) of the respondents reported that government departments were still using cash accounting which had been modified to include accrual adjustments when financial statements were prepared. Accrual accounting was being phased in, in the sense that certain accrual transactions were disclosed. Certain standards of GRAP, or parts thereof, likewise form part of the National Treasury's reporting framework, although these Standards have been developed for entities that report in terms of GRAP. The department had to implement manual records in order to generate the required information to be disclosed, since the National Treasury has not yet implemented an integrated financial management system that will cater for accrual accounting within the public sector departments.

Question 3: What must the DTPW do to ensure South African departments comply with standards of GRAP by the due date of 2015 as indicated by National Treasury?

The respondents were asked what the DTPW should do to ensure compliance with the GRAP standards by 2015. All (100 percent) indicated that the standards of GRAP are applicable to entities that report in terms of the accrual basis of accounting. As such, the Accounting Standards Board has already issued many such standards, and is in the process of compiling further standards, which will become effective prior the conversion to accrual accounting by the Department. The department thus has access to the Standards of GRAP that it will comply with by 2015. Respondents further indicated that, apart from the training initiative to improve the capacity of current staff and a staff recruitment policy targeted at obtaining suitably qualified accounting staff, the department has identified its control and reporting of assets as a major point of departure in its quest to prepare for 2015. It is thus imperative that the values and existence of all assets be determined, so that these can be reported in terms of fair value and to allow for future depreciation. Asset registers therefore need to be fully updated, including information and values of all provincial roads within the province. This still poses a challenge since there is not yet agreement on the valuation methods to be applied for roads, especially tarred roads, where the foundation, centre and top layers of the roads depreciate at different rates.

6.5 OBJECTIVE 4 – FINDINGS FROM THE PARTICULARS OF THE QUESTIONAIRE

Objective 4 focused on investigating the potential challenges and risks to the implementation process.

6.5.1 Challenges to implementing GRAP in the DTPW

Question 4: How will the DTPW guarantee that the GRAP implementation time frame of 2015 will be met?

When the question whether the Department of TPW will meet the 2015 time frame of GRAP implementation was posed to the respondents, all (100 percent) were in no doubt that the department could not guarantee the time frame of 2015. Standards of GRAP or parts thereof, form part of the National Treasury's reporting framework, although these standards have been developed for entities that report in terms of GRAP. Since the National Treasury has not yet implemented a transversal integrated financial management system that will cater for accrual accounting within the public sector departments, it is difficult to guarantee implementation by 2015.

Question 5: How will the DTPW determine the capacity, e.g. training needs and workloads over the implementation period?

When posed the question on how the DTPW will determine the capacity, thus training needs and workload, over the implementation period, all (100 percent) of the respondents emphasised that the Department should immediately (proactively) undertake a knowledge and skills audit of its finance staff to identify the skills gap in line with the GRAP requirements and provide the necessary training to close the gap. Training could be provided in-house by skilled staff or through the procurement of an appropriate service provider with practical GRAP knowledge. It is often found that consultants have theoretical knowledge of the GRAP standards but not the practical implementation of it. They do not fully understand the environment (provincial and local spheres) to successfully implement GRAP. This was observed with the implementation of GRAP in municipalities and the trading entity Government Motor Transport (GMT).

Question 6: How will the DTPW determine the implications on financial management systems, processes and policies?

The respondents again stressed that the DTPW could not determine the implications of the GRAP implementation on financial management systems, processes and policies, since the National Treasury was the driver of the accounting frameworks and responsible for new accounting systems that support accrual accounting. Technology is central to financial management systems, processes and policies. It is evident that, with the implementation of accrual accounting, management information will be more supportive to management decision making. However, securing an appropriate accounting/management system that supports accrual accounting and management information is the responsibility of National Treasury and not of the DTPW. The process of moving from cash to accrual accounting is a national project and not really a DTPW process. The reforms being introduced by the National Treasury are meant to introduce and migrate departments to full accrual accounting. So far, the fact that the DTPW continues to receive an unqualified audit report indicates the progress made by the department towards accrual accounting.

6.5.2 Risks to the implementation of GRAP in the DTPW

Question 7: What obstacles does the DTPW anticipate with the implementation of GRAP with regard to the aspects listed below?

Skill capacity

The research highlighted the fact that certain members of the current accounting staff are not suitably qualified or skilled to deal with the implementation of accrual accounting; many of the older generation have qualifications which are no longer relevant. If they cannot be trained as part of the skills upgrade, they will be given the option of deployment elsewhere or early retirement. Such drastic measures could result in strong reaction from employees, which could require mediation at high level.

Organisational capacity

The existing structure may be suitable for the existing cash environment but not suitable for supporting accrual accounting. All of the respondents confirmed that the organisational capacity needed to be re-determined in terms of structure, staff and controls, which should be aligned to the IFMS and accrual accounting. Thus, organisation re-structuring is the order of the day to determine organisational capacity. The problem that was mentioned is that newly graduated officials could be employed, but they will still have to be trained in GRAP itself. This, however, will only address part of the problem, the other part being that current staff, including management, does not have sufficient understanding of accrual accounting to implement the necessary controls and processes.

Systems

The respondents concurred that the current systems are cash-based and inadequate for providing information required to effectively manage the resources and enable accrual reporting. The existing systems are not fully integrated. The research draws attention to the fact that systems are centrally determined and procured by the National Treasury to ensure consistency country wide. It is not known whether the IFMS will be ready in time for the implementation of accrual accounting in 2015. The department will use the prescribed transversal system as rolled out by the National Treasury. The Provincial IT department will assist the departments with the migrations, conversion and transfer of data to the new systems.

Policies

Although current policies are being updated to support 'modified cash accounting' as determined by NT, the policies are not sufficient to fully support accrual accounting. All of respondents (100 percent) were of the same opinion, namely that the current accounting policies need to be re-aligned to accrual accounting in terms of the GRAP standards. The problem is that the policies need to be amended, but the officials who initially compiled the policies are not conversant with accrual accounting and will not be in a position to revise the policies in time, whilst staff would feel a dire need to know what the policies of the department represent.

Procedures

All of the respondents concurred that the standard operating procedures had to be drafted in support of implementing accrual accounting and the current accounting procedures needed to be re-aligned with accrual accounting in terms of the GRAP standards.

Technology

As highlighted by the research, the department will be subject to the National Treasury software requirements which need to be identified and sourced, but it is too early, at this stage, to indicate what will be required. All accounting areas also need to be supported by a reliable financial accounting system, as well as related information systems to meet the requirements for disclosure. The system has to be fully integrated to ensure that the financial system interfaces with all subsystems and no duplication of information is required.

6.6 SUMMARY

Chapter 6 documents the research findings of this research. The data were gathered to address the following objectives, as stated in Chapter 1:

Objective 3 - To assess the capabilities of the organisation, human resources, and systems of entities to effectively put into practice accrual accounting (GRAP)

Unstructured interviews were conducted with Mr Terence Arendse, the Provincial Accountant General, and with Mr Cedric Ismay to generate data for Objective 3. These interviews were supported by the survey questionnaire. The following interpretations therefore flow from the data that were generated for Objective 3:

Mr Arendse highlighted that the conversion to GRAP is still in its elementary stage and much needed to be done to implement GRAP by 2015. Mr Ismay does not foresee that the DTPW will be implementing GRAP by 2015, as required by the NT. The research concurs that the transformation from the modified cash basis of accounting to accrual accounting will present definitive challenges and obstacles to the DTPW. The current research conducted on the state of financial reporting within the DTPW in July 2011 therefore makes it known that 100 percent of the respondents (from an 80 percent response rate) reported that the standard of financial reporting in the public sector has increased significantly, compared to a study conducted by Van Wyk in 2006. It is noted that current financial reporting in the provincial public sector departments has improved considerably, as is evident from the Western Cape Provincial Government's audit outcomes for the 2009/10 and 2010//11 financial years. In terms of the modified cash basis of accounting, reporting on REAL is sound with unqualified audit opinions having been received for the last two financial years. All the respondents indicated that accrual accounting is being phased in, in the sense that certain accrual transactions are disclosed. Similarly, certain Standards of GRAP, or parts thereof, form part of the National Treasury's reporting framework, although these standards have been developed for entities that report in terms of GRAP. The department had to implement manual records in order to generate the information required to be disclosed, since the National Treasury has not yet implemented an integrated transversal financial management system that will cater for accrual accounting within the public sector departments.

Objective 4 – To investigate potential challenges and risks in the implementation process

Unstructured interviews were conducted with Mr Terence Arendse as the Provincial Accountant General of the Province and Mr Cedric Ismay as Chief Financial Officer of the DTPW. The interview with Mr Arendse, on the potential challenges the department will face, highlights the importance of a transversal accounting system and the alignment of accounting policies and procedures with GRAP standards in affecting the GRAP implementation process. The risks will involve the capacity of staff and equipping officials with the required knowledge of GRAP to efficiently implement the GRAP standards when the implementation becomes effective. Mr Arendse emphasised that the GRAP standards determine the accounting system and not the accounting system the GRAP standards. The interview with Mr Ismay again focused attention on the lack of a proper accounting system that interfaces with other subsystems utilised in the department, for example ENATIS, MDA, etc. According to Mr Ismay, the implementation of GRAP will only be successful if a proper accounting system is in place. This is evident from GMT, the entity under the department that has implemented a new accrual accounting system since 1 April 2011. For the six months under review ending 30 September 2011, GMT has already shown significant improvement regarding information sharing with provincial departments with regard to vehicle expenditure, which previously was not possible with the BAS system. Mr Ismay's concern with regard to the risks is focused on capacity and changing the mindset of officials to implement GRAP, which, according to the NT's implementation plan, is still going to happen in 2015, with the department currently still applying modified cash-based accounting. All the respondents agreed that the major obstacle for the department is a proper financial system to cater for accrual accounting. The respondents concurred that the current staff must be capacitated with GRAP knowledge to be able to apply such knowledge when the conversion is put in practice in 2015, which will be a big challenge for the public sector as a whole.

It is evident from the research that the major obstacle that will seriously hamper the process of transformation from the modified cash basis of accounting to accrual accounting will be delays in acquiring a new accounting system for the public sector, because BAS and LOGIS are cash-based systems that cannot meet the accrual accounting requirements. All the respondents indicated that other challenges will include aligning current organisational structure, policies and processes with GRAP and the skills capacity and training of officials to change their mindset from cash-based accounting to accrual accounting. Neither Mr Arendse nor Mr Ismay could give assurance that the implementation process of 2015 will come to pass.

The next chapter will draw all the results of the research findings of the primary and secondary data together and be focused on the analysis of the research.

CHAPTER 7
ANALYSIS OF RESEARCH FINDINGS

7.1 INTRODUCTION

The research conducted to assess the readiness of the DTPW to implement GRAP has revealed significant findings regarding various factors and areas that need to be reviewed to successfully implement GRAP. The analysis of findings from the interviews that were conducted will be discussed first, to be followed by the analysis of findings from the questionnaire.

This chapter examines the results and findings of data and information gathered to satisfy the objectives of this study as outlined in Chapter 1 of the study.

- **Objective 1** – To analyse the theoretical accrual accounting (GRAP) framework underpinning the empirical investigation.
- **Objective 2** – To investigate how accrual accounting was implemented in other countries and what lessons South Africa can learn from the experience of such countries to improve the course of implementation.
- **Objective 3** – To assess the capabilities of the organisation, human resources, and systems of entities to effectively put accrual accounting (GRAP) into practice.
- **Objective 4** – To investigate the potential challenges and risks that might arise during the implementation process.

In the sections that follow, the objectives of the study are discussed as outlined in Chapter 1 of the study.

7.2 DISCUSSION OF RESULTS

7.2.1 Objective 1 – To analyse the theoretical accrual accounting (GRAP) framework underpinning the empirical investigation. The South African public sector has firm guidelines according to the Public Finance Management Act, Act 1 of 1999 for finalising the required accounting standards and the Accounting Standards Board (ASB) is responsible for outlining general recognised accounting standards for all facets of government. The International

Federation of Accountants (IFAC), as the international forerunner in standard setting for the public sector, is used as the main source of input into the local public sector accounting standards. The ASB worked diligently with the IFAC in the drafting of public sector accounting standards, which permit ASB to adopt IFAC standards with no or little changes for particular South African circumstances (De Vos, 2009).

According to Robinson (2000:127), 'accrual accounting has given government's statements value by recognising all assets and liabilities on the statement of position'. It was evident from the current research that accrual accounting has been undertaken to reform public sector accounting as a starting point for wider New Public Management (NPM) reforms of the public sector (Ellwood & Newberry, 2007). Accrual accounting anticipates the results for government and the society it serves, which results in greater management economy and, hence, enhanced efficiencies and effectiveness. It is a way, to a certain degree, of shifting the prominence of the budgetary method away from inputs of cash to outputs and outcomes. The NPM is very concerned with the constant decreasing of the costs of a 'product' and getting 'the best value for money', which is enhanced by accrual accounting. This underlying feature of the NPM model allows room for the implementation of a performance measurement management system. All seven principles of public management (Hood, 1991) are performance-centred, and it would have been very difficult to justify a major change in the public sector without performance management.

Wheeler (1999:2) emphasised the need to find solutions to one of the most pressing needs in the public sector, that of an honest and sound system of financial management. It has been proven in the government that sound financial management can be achieved through committed and competent line managers; outcome-based budgeting and accrual-based reporting. 'Effective financial management on the basis of accrual accounting will possibly convey numerous reimbursements to be made available to the citizens, given the quantity and quality of the service' (Wheeler, 1999:2).

From the perspective of the public sector, accrual accounting would generally entail the preparation of accrual-based financial statements and the recording of transactions on an accrual basis. An accrual accounting framework is crucial for systematically establishing the overall costs of the performance of a government.

7.2.2 Objective 2 – To investigate how accrual accounting was implemented in other countries and what lessons South Africa can learn from the experience of such countries to improve the course of implementation.

The investigation of international sources provided an understanding of the different approaches and matters considered by the various countries during the conversion process. Some countries have published reports or articles on the lessons learned during the process, many of which can be applied in the South African environment or should at least be considered. The main factor to consider at this stage is that significantly more work needs to be done to prepare and rectify the control environments and processes within departments for the conversion to be a success. As a result, the plan and time frames need to accommodate the preparation time before the actual implementation can take place. This was seldom, if at all, a concern for those countries that have already converted to accrual accounting due to the streamlined cash environments in which they operated.

Some of the more technical aspects that have been identified and that require further consideration for incorporation into the approach are summarised below.

- The period for conversion varies depending on the circumstances. In most cases a period of eight to ten years is expected to be reasonable for full implementation.
- A multi-stage approach of sorts was adopted by most countries, dependent on the environment and circumstances within which each operated. Actual conversion of accounting records only commenced once systems had been fully implemented and operational, with full accrual reporting only three to five years later.
- Some countries had pilot sites for the implementation of the information system, whereas others piloted the complete conversion process at one or a few institutions.
- Parallel systems were used by some over a period of three years, with a compliance review of the accrual financial statements in the second year and the audit thereof only in the third. Parallel systems can be used in all departments or be limited to pilot sites, whichever is more suitable.
- Standardised guidance on the requirements and the implementation thereof was issued to ensure consistent application by all parties involved, whereas the lack

thereof delayed the process and resulted in different interpretations and complications with the consolidation process.

- Alignment of the accrual system with the Government Finance Statistics (GFS) requirements for financial reporting is needed to ensure that the system can provide information in the format required without the need for an additional system.

This research revealed that reports from most observers in New Zealand, in general seem to agree that the accrual measures have provided better information for purposes of asset management and cost calculations. Additionally, it is evident that many believe that the accrual measures have produced much greater fiscal discipline, especially in as much as legislators and other government officials can more easily ascertain the fiscal sustainability (or lack thereof) of government programmes – New Zealand has, in fact, demonstrated strong fiscal restraint since implementing the reforms. The country has also reported budget surpluses in nearly every year since the early 1990s and net debt has decreased significantly, from approximately 52% of GDP in 1992 to near 10% in 2005. During the same time, New Zealand also experienced moderate to strong economic growth.

Australia also produced a budget surplus in every year for close to a decade, and it has also succeeded in reducing its net debt. Its gross financial liabilities have decreased and the country at the same time also enjoyed economic growth in real GDP. New Zealand and Australia have succeeded in using accrual accounting for such future liabilities, which has made the overall financial statements more accurate in terms of the actual financial position of the government.

7.2.3 **Objective 3** – To assess the capabilities of the organisation, human resources, and systems of entities to effectively put accrual accounting (GRAP) into practice

7.2.3.1 Readiness of the DTPW to implement GRAP

What is the current state of financial reporting within the department of DTPW?

According to Mr Arendse, financial reporting took place in terms of a generic framework of a modified cash basis of accounting. Mr Ismay emphasised that the DTPW reported on three standards of GRAP (1, 2 and 3) that are effective, plus added information to the notes of

AFS that provide the users with more details on the accounting reporting of the AFS. The department would not be able to implement GRAP without a proper accounting system to support GRAP. The department is applying basic cash accounting but certain aspects are dealt with through accrual accounting. The research found that the DTPW has improved their qualified audit opinion for the 2008/09 financial year to an unqualified audit opinion for the 2009/10 and 2010/11 financial years. The Department is doing fairly well on the modified cash basis of accounting (partly accrual accounting). Audit reports issued with financial statements are properly dealt with, therefore problems do not reoccur year after year. It is clear that the current financial reporting in the provincial public sector departments has improved significantly and chief executive officers of provincial government departments place high priority to rectifying negative audit outcomes. The above-mentioned audit outcomes are illustrated in Table 7.1.

Table 7.1: Audit Outcomes

Type of audit opinion	Audit outcomes 2010-11	Audit outcomes 2009-10
Disclaimer	0	0
Adverse	0	0
Qualified	0	0
Financially unqualified with findings on predetermined objectives and/or compliance with laws and regulations	11	6
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	3	7
Total number of audits reported on	14	13
Number of audits not completed by 31 July 2011	0	0
Total number of audits	14	13
Entities with findings arising from AGSA other legal reporting responsibilities:		
Predetermined objectives	2	4
Compliance with laws and regulations	11	5
Both predetermined and compliance with laws and regulations	1	3

Source: AGSA Audit Outcomes 2010/11

How far has the process of implementing accrual accounting progressed in the department of DTPW?

Mr Arendse indicated that the process of implementing accrual accounting in the DTPW is at an elementary stage; the DTPW has just completed annexures as part of the AFS to provide detailed information to the users of the statements. There is no system in place to support accrual accounting. Mr Ismay indicated that the process of implementing GRAP has proceeded as far as the GRAP standards are implementable – only three GRAP standards

(1, 2 and 3) were effective and the DTPW reported on these standards. With accrual accounting being required by GRAP 1, it only had to be in force for the 2006/2007 financial year; therefore audit reports qualified prior to this date are qualified for not applying accrual accounting.

To the question of how long they envisaged it would take to implement accrual accounting, respondents estimated that the process would take longer than five years, which indicates slow moving, as Van Wyk (2003:132) reported five years ago that the process was to take another four years. The responses are illustrated in Table 7.2. With the time for implementation having been extended till 2015, it is unlikely that government departments will be able to comply with the requirements of GRAP standards by the 2014/2015 financial year. While all assets have been recorded in asset registers and disclosed in audited financial statements as part of disclosure notes in terms of the modified cash basis of accounting, further steps towards accrual accounting will depend on the use of a financial system that supports accrual accounting.

Table 7.2: Years needed to implement accrual accounting

	Department of TPW Officials	Provincial Treasury Officials	National Treasury Official	Auditor General and Internal Auditors	Average
Years	8	5	5	5	5.75

Source: Questionnaire Outcomes 2010/11

What must the DTPW do to ensure that South African departments comply with standards of GRAP by the due date of 2015 as indicated by National Treasury?

Mr Arendse believed that, from a national perspective, the due date for compliance could be put into effect (Arendse, 29 July 2011), but Mr Ismay pointed out that the DTPW could do much to ensure compliance with the standards of GRAP by the due date of 2015. To prepare for implementation, the department needed the staff to be trained on the GRAP standards that have been approved to equip the department with knowledge of the GRAP standards. The DTPW will have to position itself to apply GRAP and encourage staff to equip themselves with proper academic qualifications and to ensure that the correct policies, procedures, systems, data, technology and people are in place to implement GRAP (Ismay, 4 August 2011).

7.2.4 Objective 4 – To investigate potential challenges and risks in the implementation process

7.2.4.1 Challenges to implementing GRAP in the DTPW

How will the DTPW guarantee that the GRAP implementation time frame of 2015 will be met?

The DTPW cannot guarantee that the GRAP implementation time frame of 2015 will be met; they are dependent on the NT for the roll-out of frameworks. The DTPW could only guarantee the implementation of GRAP if they had the systems in place, which they do not. The implementation of GRAP is a collective approach of PT, NT and the DTPW. Change management and training will affect the implementation process and staff dealing with AFS must know their GRAP standards by heart. The concern that was highlighted is that no performance audit is done on GRAP readiness in terms of GRAP reporting, although it is a requirement of the PFMA of 1999. The research highlighted that the department should employ a contractor to assist with the implementation of GRAP. There is a need to analyse accounting processes as required in terms of the specific GRAP standards. The DTPW has adopted an employment development plan to address the training needs of the department and a recruitment policy that will ensure the appointment of suitably qualified officials in positions requiring knowledge of financial accounting up to third-year level. The respondents emphasised that the DTPW must have the following in place in order to ensure compliance with GRAP standards by 2015: A GRAP implementation plan, GRAP check list, GRAP training, analysis of business processes to ensure GRAP alignment and appropriate accounting systems that are compatible with GRAP.

How will the DTPW determine the capacity, e.g. training needs and workloads over the implementation period?

The DTPW is basically on board in assessing the capacity needed and the level of training required to capacitate the staff for the readiness of GRAP standards needed for the implementation process. Examining recruiting policies will also assist the department in appointing the right people with an accrual accounting basis for the job, but until the systems are in place to cater for accrual accounting everything will remain theoretical. A GAP analysis needs to be conducted by the department to determine the workload and the training needs required. This involved that officials who compile the AFS should be trained to acquaint them with GRAP standards and are not necessarily required to be on par with third-year academic accounting qualifications; what is required in this respect is knowledge of GRAP standards .The requirement for the implementation of full accrual accounting is that officials should have in-depth knowledge of financial accounting and the latest Standards of GRAP in particular. Newly employed officials will have the accounting knowledge, but will have to receive further training in GRAP. Such training is being arranged by the Provincial Treasury and will thus be available to new employees as well as current staff who have completed the necessary bridging course towards Financial Accounting 3. The respondents highlighted that the department should appoint a project team to do the GRAP implementation to be able to deal with capacity problems and challenges.

How will the DTPW determine the implications for financial management systems, processes and policies?

Research reveals that the DTPW must align financial management systems, processes and policies with GRAP. Officials working in the property lease and asset environment in the DTPW currently are being trained in GRAP due to the information required on leases and assets in the notes of the AFS. Furthermore, management systems must be aligned with GRAP standards, standard operating procedures must be in place to ease the implementation process and all policies (not just accounting policies) must be aligned with GRAP. The National Treasury is in the process of developing an Integrated Financial Management Solution (IFMS) that will address the issues of accrual accounting and management information systems. According to the National Treasury, the time frame for the roll-out of the IFMS is 2012. Once this system is in place, appropriate processes and policies aligned to the IFMS and accrual accounting respectively will be put in place. If the Department has a GRAP implementation plan, it will include steps to address the impact on internal controls, internal systems and processes, as well as on internal processes and policies. Duties and due dates have been identified in this regard and standard operating procedures will be revised as part of the process, including the addressing of the budget implications. All standard operating procedures and policies will be aligned with GRAP. The PT task team that involves the DTPW will have to analyse the GRAP standards, identify accounting processes and develop procedures and system requirements in order to comply.

7.2.4.2 Risks to the implementation of GRAP in the DTPW

What obstacles does the DTPW anticipate with the implementation of GRAP with regard to the aspects listed below?

Skills capacity/People

Assessing own staff on required qualification and training needs and making sure that new appointees have an accrual accounting basis to ease the implementation process was mentioned as a problem. It was highlighted that lacking training and experience in accounting in terms of accrual accounting, not having the Accounting 3 qualification and not understanding accrual accounting principles is evident. Currently, approximately 70% of the department's finance staff has only reached matric as a level of education. This will be a drawback in implementing accrual accounting unless they can be trained quickly. To implement GRAP, one needs to achieve this; one needs three years of study in a tertiary institution. This would be difficult to achieve, especially in light of the implementation date being 2015.

Staff members who have been in the department for a long time and are accustomed to working in a cash environment and who may not understand accrual accounting are in dire need of training in accrual accounting. The respondents felt that the department should institute drastic measures to train accounting officials in the standards of GRAP and to change their minds about accrual accounting. Accounting practitioners of the departments must be placed on the same level for similar jobs and must be able to move around to ensure uniformity among departments.

Organisational capacity

The obstacle identified during the research is that the DTPW is fragmented, which makes control difficult to manage. The organisational capacity is dependent on the requirement to meet the GRAP standards. As a result, the department will be heavily dependent on the use of consultants and guidance from the Provincial Treasury. Establishments will have to be expanded to implement accrual accounting processes. This creates an unknown factor that needs to be investigated in terms of budget implications.

Systems

The biggest obstacle is that there is no system. The system facilitates the accounting standards. The absence of a supporting system therefore is the major obstacle and the DTPW cannot ensure that the conversion to GRAP will be effective until the financial systems are in place. In looking at the standards and determining which systems are needed, it is clear that the standards drive the system, not the system the standards. The only risk or problem foreseen is that the department has a number of subsystems which ideally have to interface with the transversal system and arranging this with the National Systems might present problems due to the uniqueness of the local systems. The IFMS might not be capable of providing system support in terms of accrual accounting. It is imperative that the IFMS be subjected to thorough testing before implementation. The capacity required to conduct this type of testing based on Government requirements needs to be measured.

Policies

Policy currently aligned with modified cash accounting must be aligned with GRAP. Policies are not uniform but differ from department to department. This is of concern. The problem is that the policies need to be amended, but the officials who compiled the policies are not conversant with accrual accounting and will not be in a position to revise the policies timeously, whilst there would be a dire need for staff to know what the policies of the department represent. Internal policies and procedures might not be aligned to provide information on accrual accounting requirements. As part of the preparation phase during the year or two before implementation, existing policies and procedures will have to be scrutinised and revised.

Procedures

Procedures and processes have not been documented properly and should be aligned to GRAP. The problem is that the procedures also need to be amended, but the officials who initially compiled the policies are not conversant with accrual accounting. The system being investigated for the country is the IFMS. Current hardware will be sufficient and no special equipment will be needed. This is provided that the new transversal system is set up in such a way that current users or access points will still have the necessary access and that transactions on the system will not require more systems time.

Technology/data

As evident from the research, the system has to be fully integrated to ensure that the financial system interfaces with all subsystems and no duplication of information is required. Again, this has to be one of the top priorities as the information system implementation is a prerequisite to the actual conversion. As stated earlier, the requirements for an adequate financial accounting system and reliable data information is a prerequisite to implement GRAP effectively in the public sector departments.

7.3 SHORTCOMINGS OF THIS RESEARCH

The researcher is aware of the fact that more supportive data could have been generated by inputs from the Auditor-General (AGSA) and the Accounting Standards Board (ASB); the questionnaire was forwarded to officials at the above entities but responses received explained that they could not give inputs due to their independent role as a national entity. The researcher therefore relied on an analysis of the face-to-face interviews with Mr T Arendse and Mr C Ismay and the survey questionnaire inputs from officials from the DTPW, PT, and NT regarding the issues identified to assess the readiness for GRAP implementation in the department.

7.4 SUMMARY

Chapter 7 documents the research findings and results, and a discussion of the research results, as well as the shortcomings of this research. The data was gathered to address the four objectives as stated in Chapter 1.

7.4.1 Objective 1 – To analyse the theoretical accrual accounting framework (presented in GRAP) that underpins the empirical investigation.

The main factor to consider at this stage is that significantly more work needs to be done to prepare and adjust the control environments and processes within departments to make the conversion a success, while ensuring that the plan and time frames accommodate the preparation time before the actual implementation can take place.

Appendix D presents the proposed time frames for the implementation of GRAP in public sector departments.

7.4.2 Objective 2 – To investigate how accrual accounting was implemented in other countries and what lessons South Africa can learn from the experience of such countries to improve the course of implementation.

The South African environment is very different from that of other countries. For this reason, none of the approaches adopted by the other countries can simply be adopted without adjusting it to address the specific needs and gaps in our environment. Research provided an understanding of the different approaches and matters considered by the various countries' reports or articles on the lessons learned during the process and provided lessons that can be applied in the South African environment or should at least be considered.

7.4.3 Objective 3 – To assess the capabilities of the organisation, human resources, and systems of entities to effectively put into practice accrual accounting (GRAP).

The research concurs that the transformation to accrual accounting will present challenges and obstacles for the DTPW. Respondents in the current research reported a significant improvement in the standard of financial reporting in the public sector, compared to an earlier study. The respondents also indicated that accrual accounting is being phased in, in the sense that certain accrual transactions are disclosed. Certain Standards of GRAP form part of the National Treasury's reporting framework, but the department has to implement manual records in order to generate the required information to be disclosed, since the National Treasury has not yet implemented an integrated transversal financial management system that will cater for accrual accounting within the public sector departments.

7.4.4 Objective 4 – To investigate potential challenges and risks in the implementation process.

The research highlighted the importance of a transversal accounting system and the alignment of accounting policies and procedures with the GRAP standards that may affect the GRAP implementation process. The risks are related to the capacity of staff and to equipping officials with the knowledge to efficiently implementing the GRAP standards when implementation becomes effective. Mr Arendse emphasised that the GRAP standards determine the accounting system and not the accounting system the GRAP standards. Mr Ismay drew attention to the lack of proper accounting systems that interface with other subsystems utilised in the department. According to Mr Ismay the implementation of GRAP will only be successful if a proper accounting system is in place. Other challenges identified by the respondents concerned the alignment of current organisational structure, policies and processes with GRAP, the skills capacity, and training of officials. Respondents could not give assurance that the implementation process of 2015 would come to pass.

The next chapter is the concluding chapter of this thesis, in which the results reported in the previous chapters are drawn together.

CHAPTER 8
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 SUMMARY OF STUDY

8.1.1 Introduction

The PFMA (1999) has set firm guidelines for final implementation of the required GRAP standards by the South African public sector and the ASB is responsible for outlining GRAP standards for all facets of government. In terms of section 6 (2) (c) and (d) of the PFMA, the NT must monitor and assess the implementation of this Act and may assist departments in building their capacity for effective, efficient and transparent financial management. The implementation of GRAP will assist in managing the use of resources in an effectual, resourceful, financially viable and transparent manner to improve financial management and ultimately the service delivery within the public sector environment.

The aim of this study was to assess the readiness of the DTPW to implement GRAP and to establish which challenges and obstacles will hamper the implementation process, through lessons learned from accrual accounting implementation in other countries that have successfully implemented the process. The PGWC, as a provincial government within the national government, plays a significant role in the transition and conversion process to implement GRAP in the Western Cape.

The further aim of the study was to make recommendations to the departments in the public sector to ensuring an approach and conversion plan that is relevant and practical in the current environment and addresses all challenges and concerns identified within a reasonable time frame.

8.1.2 The theoretical foundation of accrual accounting (GRAP) implementation

The objective of this study firstly was to assess the readiness of the DTPW to implement GRAP. Secondly, this study was directed at evaluating the lessons learned from international countries that have already implemented accrual accounting (GRAP) successfully. Thirdly, an attempt was made to identify challenges and obstacles that the

Department might encounter when implementing GRAP. A discussion on the theoretical framework of accrual accounting and financial management was presented with reference to the assessment conducted by the National Treasury, using the Canadian Model of FMCMM to assess the readiness of departments nationally. Chapter 2 provided definitions and explanations of key concepts used in the context of implementing accrual accounting. The chapter also focused on how GMT has been implementing the accrual accounting system, and lessons learned from the implementation process and the challenge in the DTPW to achieve a level-3 FMC to get ready for GRAP implementation by 2015.

8.1.3 The legislative and financial policy framework for the implementation of GRAP in the Departments in the South African public sector

Chapter 3 provides a discussion of the legislative and financial policy frameworks within which the departments in the South African public sector derive the policy mandate to implement GRAP in all government institutions. The legislative framework provides the right and supports the idea to implement GRAP in the public sector service.

8.1.4 Case study: The DTPW's readiness to implement GRAP in the Department

Chapter 4, which presents the case study for the research, focuses on the readiness of DTPW to implement GRAP. A brief background to the core functions and responsibilities of the Department is provided. The current status of the Department's financial reporting is highlighted as a cash basis of accounting modified for the recognition of certain near-cash balances and supplemented with disclosures on transactions and balances not recognised in the primary AFS of the Department. Re-examining of the transversal systems utilised by the Department revealed that there is a growing need for an integrated financial system. Various factors referred to depict the readiness of the DTPW to implement GRAP.

8.1.5 Research design and methodology applied

In Chapter 5 the qualitative research design which was followed is discussed and the data generated for this research are identified as primary and secondary data. The secondary data were obtained through a review of the literature presented in books, journals and internet articles to construct the research questions. The primary data were generated through a case study of the DTPW concerning their core responsibilities and financial management status. The information was obtained by means of unstructured interviews with key individuals of the DTPW and the PT and a survey questionnaire distributed to selected officials in the DTPW, the NT and the PT.

8.1.6 Research findings

Chapter 6 presents the research findings derived from a total population of 12 respondents identified for completing the questionnaire. The CFO of the Department of Transport and Public Works and The Deputy Director-General (DDG) in his capacity as Provincial Accountant-General (PAG) were interviewed. The data that were generated through the interviews and questionnaire mainly addressed Objectives 3 and 4 as outlined in Chapter 1 of this study. The results obtained from the interviews and the survey questionnaire concerning Objectives 3 and 4 were converted into write-ups to assist with cross-referencing between the questionnaire and the interviews. The interview results for Objectives 3 and 4 were discussed first, and then the survey questionnaire results for Objectives 3 and 4.

8.1.7 Analysis of research findings

Chapter 7 documents the research findings and results, a discussion of the research results, as well as the shortcomings of this research. This chapter examines the results and findings from data and information gathered to investigate all four objectives of this study. The analysis of findings from the interviews is discussed, followed by the analysis of the findings from the questionnaire.

8.2 CONCLUSIONS FROM THE STUDY

After weighing up the research findings to assess the readiness of the DTPW to implement GRAP in the South African public sector, a number of conclusions can be drawn. The main conclusions of the research as per each research objective stated in Chapter 1 are as follows:

Objective 1 – To analyse the theoretical accrual accounting (GRAP) framework underpinning the empirical investigation.

The theoretical framework defines accrual accounting as a concept that refers to a methodology under which transactions are recognised when the underlying economic events occur, regardless of the timing of the related cash receipts and payments. According to Robinson (2000:127), 'accrual accounting recognises all assets and liabilities and represents government's value in the public sector'. Although departments still use modified cash-based accounting, the rationale behind the use of the modified cash-based method as opposed to the accrual method is not logical.

The significance of accrual accounting is that it enhances transparency, with better focus on management of assets and liabilities. The study reveals that it is evident that effective financial management plays a vital role in the move to accrual accounting. The implementation of accrual accounting will, however, be fruitless and wasteful unless effective public sector management is the order of the day.

Accrual accounting anticipates the results of transactions for government and the society that is served. This result is improved management of the economy and, hence, enhanced efficiency and effectiveness.

Objective 2 – To investigate how accrual accounting was implemented in other countries and what lessons South Africa can learn from the experience of such countries to improve the course of implementation.

The research provided understanding of the different approaches and matters considered by the various countries in the conversion process. The best from each approach, if relevant, can be incorporated where appropriate in the South African approach.

According to Chan *et al*. (2002), Australia is one of the predecessors regarding financial management restructuring. The Australian government has worked with accrual-based outcomes and outputs budgeting and a reporting framework since the fiscal year 1999/2000. The British government also progressed to a new resource-based (or accrual-based) financial management system in the public sector in April 2001 (HM Treasury, 2001).

Ross & Kelly (1983) indicated that there also is a requirement to put emphasis on financial assets and make sure that they are measured reliably. Recognising assets and liabilities in existence as at a reporting date is evident of accrual-based reporting.

The following technical aspects which require further consideration for incorporation into this research were identified:

- The period for conversion will vary depending on the circumstances. In most cases a period of eight to ten years is expected to be reasonable for full implementation.
- A multi-stage approach of sorts was adopted in most countries, dependent on the environment and circumstances. Actual conversion of accounting records only commenced once systems were fully implemented and operational, with full accrual reporting following three to five years later.
- Some countries had pilot sites for the information system implementation, whereas others piloted the complete conversion process at one or a few institutions.
- Parallel systems were used by some over a period of three years with a compliance review of the accrual set of financials in the second year and the audit thereof only in the third. Parallel systems can be used at all departments or be limited to pilot sites, whichever is more suitable.
- Standardised guidance on the requirements and the implementation thereof were issued to ensure consistent application by all parties involved, whereas the lack thereof delayed the process and resulted in different interpretations and complications within the consolidation process.

Alignment of the accrual system to the Government Finance Statistics (GFS) requirements for financial reporting is needed to ensure that the system can provide information in the format required without the need for an additional system.

Objective 3 – To assess the capabilities of the organisation, human resources, and systems of entities to effectively put into practice accrual accounting (GRAP).

The DTPW cannot guarantee that the GRAP implementation time frame of 2015 will be met; the department is subordinate to the NT for the roll-out of frameworks; the only way for DTPW to guarantee the implementation of GRAP is to have the systems in place. The implementation of GRAP is a collective approach by the PT, the NT and the DTPW. Change management and training will affect the implementation process and staff dealing with AFS must know their GRAP standards by heart. The concern that was highlighted is that there has not been a performance audit on the readiness for GRAP in terms of GRAP reporting, which is a requirement of the PFMA of 1999. The research highlighted that the department should employ a contractor to assist with the implementation of GRAP. Analysing of accounting processes required in terms of the specific GRAP standards and a GAP analysis needs to be conducted by the department to determine the workload and the training needs required. An employment development plan to address the training needs of the department has been adopted, as well as a recruitment policy that will ensure the appointment of suitably qualified officials in positions requiring knowledge of financial accounting.

Furthermore, management systems must be aligned to GRAP standards; standard operating procedures must be in place to ease the implementation process and all policies, not just accounting policies, must be aligned with GRAP. Currently the National Treasury is in the process of developing an Integrated Financial Management Solution (IFMS) that will address the issues of accrual accounting and management information systems. According to the National Treasury, the time frame for the roll-out of the IFMS is 2012. Once this system is in place, appropriate processes and policies aligned to the IFMS and accrual accounting respectively will be put in place. If the Department has a GRAP implementation plan, it will include steps to address the impact on internal controls, internal systems and processes.

Objective 4 – To investigate potential challenges and risks in the implementation process.

All the respondents agreed that the actual conversion cannot take place without a fully integrated accrual information system having been implemented and being operational in all departments.

It is noted that a process of this nature and complexity, with all the different role-players, dependencies and over such an extended period, is subject to numerous challenges and risks that have to be managed in order to succeed without any unreasonable delays or compromises.

The following challenges and risks were highlighted during the research:

- Without addressing the current weaknesses in the control environment and business processes, audits will continue to be qualified irrespective of the basis of accounting and environments may even deteriorate further.
- Without adequate capacity of skilled staff within the departments, the treasuries and PALAMA to develop, train others, implement and support the conversion process, existing timelines will not be met.
- Without a fully integrated accrual information system implemented and operational at all departments, the actual conversion cannot take place.
- Not having a dedicated project team with authority to plan, manage, monitor and coordinate the process, work will be duplicated, certain gaps may not be addressed, timely adjustments to the plan will not be made on the basis of the new information available and the success of the project will be compromised.
- Without continued commitment and support from political heads and senior management of a department, sufficient resources will not be made available to treat the project as a priority, which, again, will jeopardise timelines.
- Uninformed or ill-informed staff members and role players are not committed or will not remain committed over the period, without knowing the objective, challenges and the progress of the process, thus proper communication will be needed.
- Without improving the state of readiness of departments to an appropriate level, the implementation period will have to be extended further and audit findings will merely increase.

- Not having a proper monitoring process that frequently monitors progress against the targets and reports on any noncompliance will result in the responsible parties not accepting accountability for the process and adjustments will not be made in time.
- Not considering the impact of the change on the organisational and management structures up front will result in these structures not accommodating the new systems and processes, which will result in inefficiencies in the process.

Further conclusions about an approach to conversion from modified cash-based to accrual accounting cannot be formulated without taking into account these specifics of the current environment:

- The departments vary in nature, not only in size and complexity, as in the case of municipalities. As a result the degree of difficulty experienced in implementing the individual standards will be different for each sector, which may impact on implementation time frames.
- Specific weaknesses within departments have been identified that will affect the success of the conversion. To rectify and improve these areas must be a priority and sufficient preparation time and effort will be needed.
- The conversion is dependent on an integrated accrual information system which has to be developed. This will impact on and, to an extent, determine the final time frames of the conversion. The time for the development of the system has to be utilised by the departments to achieve an acceptable level of readiness, while the conversion project team needs to ensure that contingency plans are in place.
- Sufficient capacity within the project team, treasuries, departments and all levels of government involved has to be established, as the lack thereof will delay the conversion time frames.

The PGWC has to commit as a province to drive the implementation of GRAP in preparing for the conversion to accrual accounting by 2015. As evident from the research that was conducted, the time frame is very optimistic and all (100 percent) of the respondents concur that 2015 is not possible unless a ‘big bang’ approach, which is very unlikely to come from the National Treasury, is taken. Taking into consideration that the municipalities and the public and entities are well ahead of the Departments with regard to some aspects of GRAP, the PGWC cannot escape the fact that it finds itself at a transitional stage of development within a developing country.

8.3 RECOMMENDATIONS

Having assessed the readiness of DTPW to implement accrual accounting (GRAP) in the South African public sector, the recommendations that follow could be considered.

The recommended approach and time frames as set out below should incorporate all the issues identified to address the risks and challenges identified within the DTPW. The dependencies within the process and the impact on final deliverables of the department are acknowledged. Flexible time frames should allow for revision as progress is made, while the roadmap (see Appendix G) should provide a starting point to adjust and incorporate new information and circumstances as this becomes available in the department. The recommended approach should also address the priorities upfront to ensure sufficient time to be spent and the limitation of delays later in the process. It should be noted, however, that the approach is formulated with achievable steps, which make it both practical and reasonable, assuming that sufficient and appropriate resources are made available.

It is evident that the conversion process should take a multi-stage approach of at least 5 to 10 years. It is not possible, however, to now already specify the exact actions required within each period due to the number of dependencies impacting the time frames. For this purpose a roadmap (see Appendix G) of broad activities should be compiled, specifying the conversion activities identified at this stage, but without the allocation of specific timelines. The roadmap-approach should enable realistic time frames.

The approach should include only a high-level five-year plan of the main conversion activities identified. This should ensure that projects identified as priority and main dependencies are scheduled to commence within the first two years, allowing that any related challenges are identified and addressed upfront, so that delays due to not being ready and available when needed are prevented at a later stage. These first years should also be used as a time of preparation for the actual conversion, whether through developing the various tools and guidance needed, or the improvement or establishment of suitable environments within the departments in readiness for conversion. By the end of three years, most projects should have commenced and the roadmap and time frames should be reassessed in terms of the progress made.

The approach according to the broad time frames is set out below.

- ***Year one***

  After establishment of a dedicated conversion ***project team***, the main priority of the first year is an in-depth ***gap or needs analysis*** of the requirements in terms of GRAP and the systems, policies and procedures, skills, organisational structure and reporting requirements in relation to the status quo. The change impact analysis should identify specific actions required to address the gaps and needs identified which should be used to update the conversion roadmap with more detail or add those activities not yet included. The information obtained should form the basis of a number of activities, such as determining the user requirements for system development, or skills requirements for inclusion in the skills database and used for the skills assessment and staff recruitment. Planning for these other projects can only commence when this information is available. This process is of utter importance and justifies sufficient time and capacity being allocated.

  The project team should also be responsible for ***detailed risk assessment*** to ensure that the roadmap addresses all risks identified and contingency plans are in place.

  It is also important already to establish ***commitment and support from Parliament*** and management in the first year. To get the buy-in of all staff involved, ***awareness training*** or road shows should be scheduled to inform staff of the roll-out of the conversion strategy.

- ***Years two to five***

  By the end of the first year, the main planning processes should be completed in order to ***finalise the roadmap*** with preliminary timelines and specific measures or targets for the first three to five years. Once at this level, the roadmap can be issued to departments for the development of ***tailored conversion plans*** for their environments, with the assistance of the conversion project team. The roadmap should include sufficient detail to enable departments to understand the requirements and the impact thereof on their environments. As a result, the conversion plan of each department should vary according to the department's state of readiness, which also should assist in determining the capacity required to achieve the planned targets.

To assist with the development of the individual conversion plans, the departments should refer to their respective FMCMM assessment results, which will help them to plot their status in relation to the requirements as set out in the roadmap and thereby identify what is needed in order to convert. The ***FMCMM tool*** should be utilised as an annual assessment tool to monitor progress and the state of readiness of the departments.

Additional ***monitoring of compliance*** against the conversion plans should be established through the annual audit processes. The specific requirements and targets should be communicated to the auditors upfront to allow sufficient time for incorporation into the audit programmes. The nature and extent of the procedures will depend on the specific requirements and noncompliance should be reported in some form in the audit report.

The focus in the next three to five (preparation) years includes the following activities:

- improvement and establishment of the ***control environments***, business processes and policies and procedures;
- the establishment of ***capacity in terms of skills and resources*** required through a comprehensive training programme and recruitment;
- determining the impact on the ***organisational structures*** and making the necessary changes;
- establishment of ***support structures*** by the treasuries;
- development of ***standardised guidance***, tools, templates and training material;
- development and roll-out of a ***change management*** strategy and training;
- classification of departments; and
- establishment of transitional provisions.

Although these activities are made up of different interrelated projects, it is not possible to determine the sequence without detailed planning and the information from the change impact analysis. It is the intention, however, to commence with as many of the projects as possible as soon as is practical, based on the capacity available and the dependency on the outcomes or input from other projects.

The ***classification of departments*** should be considered in relation to the size and complexity and the capacity at departments. For this purpose, it is recommended that it should be based on a weighted average rating of the size and complexity of the department on the one hand, and its maturity rating on the other. The FMCMM tool used annually by the WCPG as an assessment tool should provide a clear indication of the state of readiness in the department, taking into consideration the staff, systems, processes and management requirements as identified. The assessment results or maturity level will be indicative of the capacity at departments.

The ***transitional provisions*** should be developed, taking into account the nature and complexity of the standards, the applicability to departments and the capacity of departments to implement. Specific requirements should be phased in at departments according to the classification, which would allow for the consideration of the impact of a specific requirement (nature and complexity) in relation to the size, complexity and capacity at departments. The transitional period may vary between three to five years, depending on the complexity and practicality of the implementation. The provisions should be very clear and specific. It may require recognition and disclosure at first, with proper valuation only at a later stage. The extent to which requirements such as recognition and disclosure may be incorporated into the annual financial statements prior to the actual conversion, to thereby limit the transitional provisions to the more complicated requirements, such as valuations, should also be considered. The impact on the accounting framework and audit opinion should be considered.

Since most of the departments nationally are currently only at FMCMM level 2, the developmental level, there is a huge need for improvement before conversion. For this purpose, the preliminary classification should only be scheduled for the end of year three, to allow time for the departments to improve their overall maturity through the implementation of the ‘preparation’ projects identified. It should provide a better indication of the state of readiness to be considered in determining the transitional provisions. The final classification of departments for the conversion process should be planned to take place only after five years, at which stage improvement of the control environments through the implementation of policies and procedures, building capacity through training and recruitment of skilled staff and changes to the organisational structure, as well as any other relevant need identified, should have been possible and evident.

The establishment of ***valuation methodologies*** should also be a priority due to the complexity and the impact on the financial statements. Sufficient time has to be allowed to carefully consider the options and establish a basis that is appropriate for the individual items and acceptable to the key stakeholders involved. Similarly, ***specific accounting projects*** should be identified in relation to individual or groups of standards that need sufficient development time, or basic preparation by departments, and do not require a system or have to be done prior to the implementation of the system. Such projects should already be scheduled in this preparation period, for instance the identification and recording of items like liabilities and commitments, to ensure the completeness thereof, as in the case of existing asset registers. Those areas currently affecting in the audit findings are a priority and those issues should be resolved and supported by proper systems and processes, before the new items are addressed. After detailed planning, the roadmap should clearly reflect these considerations.

A detailed plan on the ***information system development*** should be drawn up by the NT Systems team once the user requirements are available. Modules should be identified and development work should be prioritised in terms of dependencies. Once developed, the modules should be piloted at the specific pilot sites identified, resulting in the complete system being piloted at these sites over a period of time.

- ***After five years***

The implementation of the information system should greatly impact, if not determine, the start of the conversion process and the transitional provisions becoming effective. It will not be possible to determine the time frames related to the development and piloting of the information systems without detailed planning. Roll-out of the complete system can only commence once all modules have gone through the ***pilot process***. The roll-out process is expected to take another two to three years before the systems will be fully operational. The process going forward in terms of priorities and timelines should be reassessed after five years on the basis of the progress at that stage.

After five years, one of the following scenarios and options should be present:

- *Systems are ready but some of the other projects have not been finalised as planned and therefore departments are not yet ready.*
  The approach going forward should depend on the nature of these projects, the state of readiness at that stage and the impact on the process. It can either result in a delay of the conversion or possible work around it through the revision of the transitional provisions.

- *Systems are not ready*.
  It should depend on which modules are not yet finalised and the reasons for not being available. The conversion process either should be delayed or possibly worked around to accommodate the extra time needed, without a complete delay.

- *Both systems and departments are not yet ready.*
  This should require a complete revision of the roadmap and timelines, depending on the nature and reasons for not meeting the planned time frames, determining the root causes, for example capacity constraints, and ensuring that this is addressed.

- *Both systems and departments are ready for conversion*.
  The transitional provisions become effective and the conversion process commences.

Parallel systems should be running for a period of up to three years. For the first year of conversion, the cash accounts should still be audited, although an accrual set will be prepared. In the second year it should require review by the auditors, with a full audit only by the third year. This process and related time frames should coincide with the transitional provisions still to be determined.

As soon as the valuation methodologies, templates, SCOA and accounting policies are available, departments can start with determining the ***opening balances*** and the preparation of a set of financial statements with comparative figures only. Once available, it should be audited to ensure that all audit queries on the opening balances are resolved before the audit of the complete set of financials. These time frames have to coincide with the transitional provisions and the period of parallel systems.

Once the systems are implemented and fully operational, the actual conversion period should take another three to five years, according to the transitional provisions, until full accrual accounting is practised.

See *Appendix E* for the recommended approach to transition as per the research findings, *Appendix F* for the recommended timetable as per research findings and *Appendix G* for the high-level conversion approach detailed in the diagram.

This research report can serve as a starting point to assess the readiness to fully implement GRAP in government departments in South Africa in order to address the compliance issue presented in The Public Finance Management Act (PFMA), No. 1 of 1999, which requires departments to 'prepare financial statements for each financial year in accordance with generally recognised accounting practice'.

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APPENDIX A (Questionnaire)

Readiness of the DTPW to implement GRAP

- What is the current state of financial reporting within the DTPW?
- How far is the process of implemented accrual accounting in the DTPW?
- What must the DTPW do to ensure South Africa's departments comply with standards of GRAP by the due date 2015 as indicated by National Treasury?

Challenges

How will the DTPW guarantee that the GRAP implementation time frame of 2015 will be met?

How will the DTPW determine the capacity, e.g. training needs and workloads, over the implementation period?

How will the DTPW determine the implications for financial management systems, processes and policies?

Risks: What obstacles does the DTPW anticipate with the implementation of GRAP on the subject of:

- Skills Capacity
- Organisational Capacity
- Systems
- Policies
- Procedures
- Technology

APPENDIX B

This Appendix lists the GRAP standards that are effective 1 April 2009 and approved by the Minister of Finance.

Difficult or contentious matters identified from the review per GRAP standard

Source: Accounting Standard Board, [Online]. Available: **http://www.asb.co.za/** [August 4, 2011]

GRAP standard	Matters Identified
1 Presentation of AFS	Concept of control & ownership - GRAP vs PFMA Align AFS template & SCOA - GRAP vs GFS or reconciliation/ disclosure of differences in annexure - IFMS capabilities Standardised accounting policies - disclosure of departure from GRAP Framework still GRAP compliant if aligned to GFS? Reclassification of comparatives - opening balances Transactions directly against net assets
2 Cash flow	Identification of cash equivalents Disclosure ito Financial Instruments Currently no forex/ interest/ dividends Differences GFS -align? - IFMS capabilities
3 Accounting policies, change in estimates & errors	Standardised accounting policies - disclosure if depart from GRAP Framework still GRAP if aligned GFS? Disclosure on initial application of GRAP Also standards not yet effective - hierarchy Prior period corrections - GFS not only material & all retrospective
4 Effects of changes in foreign exchange rates	Forex management framework Id transactions, balances, operations Classification, recognition & disclosure - recon of movement - IFMS capabilities Accounting policies Forex risk management policies
5 Borrowing Costs	Classification - capitalisation criteria

9 Revenue from exchange transactions	Revenue management framework Change in revenue classification & recognition ito criteria - accounting policies - align SCOA Measurement @ FV & income estimates - deferred revenue - discounting Link with Debt management
11 Construction contracts	Revenue management framework Identification & classification Recognition criteria Measurement DTPW only??
12 Inventory	Inventory management framework - draft 3yr implementation Identification & classification Recognition - thresholds/materiality Measurement - cost formulas Valuation @NRV - diff GFS @FV Systems interface stock levels - procurement = GL - IFMS capabilities
13 Leases	Identification & classification -substance over form (criteria) - control/ownership & risk/rewards - L&B Measurement - diff GFS @FV Disclosure - all lease arrangement info Opening balances
14 Events after reporting date	Identification Recognition criteria
16 Investment property	Bigger asset management framework (reform) Identification & classification - control & ownership - transfers - dual purpose - L&B used but sublease Measurement - diff GFS Valuation methodologies Opening balances

17 PPE	Monitor/ status on asset reform - incomplete registers - R1 values - no useful lives, components - policies on R&M - classification & recognition thresholds Control & ownership - L&B: DPW & land affairs Measurement - acc policy to revalue? - see diff GFS Valuation methodologies - gifted/no value - specialised assets Opening balances Impairment Systems interface AR = GL - IFMS capabilities
18 Segment reporting	Identification of segments Classification/allocation to segments
19 Provisions/ liabilities and contingencies	Liability/contract management framework - debt & cash management - interest Identification & classification - social benefits, decommission, restoration & environmental Recognition - legal/constructive Measurement – estimates & judgements - impact of accounting adjustments on AFS - diff GFS Opening balances Disclosures - detail Systems - IFMS capabilities
23 Revenue from non-exchange transactions	Revenue management framework Change in revenue classification & recognition into criteria - accounting policies - align SCOA Measurement @ FV & income estimates - deferred revenue - discounting Link with Debt management

24 Presentation of Budget info	Disclosure - budget vs actual - recon of actuals to cash vs cash budget - replace appropriation statement - variance explanations Systems - monthly recons - IFMS capabilities Consider budget reform - also accrual budget
100 Non-current assets held for sale & discontinued operations	Bigger asset management framework (reform) Identification & classification - disposal groups - reclassification Measurement Disclosure dependent GRAP 16 & 17
101 Agriculture	Bigger asset management framework (reform) Identification & classification Measurement methods & significant assumptions - diff GFS Valuation methodologies - no FV/MV exist? Recognition of gains/losses - accounting adjustments Opening balances Disclosure – recon of CA
102 Intangible assets	Bigger asset management framework (reform) Identification - meets criteria Classification -aligned to SCOA Measurement - separate acquisition - internally generated: R&D - no value - amortisation, finite/infinite useful life - policy to revalue? - diff GFS Valuation methodologies Opening balances Impairment

103 Heritage assets	Bigger asset management framework (reform) Identification Recognition - ownership/control - dual purpose Measurement @FV Valuation methodologies Impairment ED - Prospective application of provisional amounts - measurement 3 yrs.

APPENDIX C

FMCMM results per province for each department

Source: Strategy for conversion to accrual basis of accounting (National Treasury, 2009)

Department	Province								
	NW	MP	LIM	EC	NC	WC	KZN	FS	Average
Education	2.66	2.10	2.69	2.39	2.43	2,64	2.31	2.71	**2.49**
Health	2.93	2.38	2.68	2.48	2.00	2.50	2.37	2.59	**2.49**
Office of Premier	2.52	2.63	2.79	2.62	2.63		2.21	2.87	**2.61**
Agriculture	2.45	2.24	2.66	2.54	2.50	2.73	2.09	2.46	**2.46**
Provincial Treasury	2.51	2.74	2.39	2.44	2.32	2.47	2.69	2.75	**2.54**
Economic Development	2.71	2.29	2.65	2.32	2.40	2.81	2.07	2.51	**2.47**
Social Development	2.30	2.64		2.07	2.54	2.78	1.66	2.34	**2.36**
Roads & Transport	2.51	2.41	2.69	2.21	2.27	**2.53**	2.69	2.63	**2.49**
Public Works	2.66	2.33	2.72	2.44			2.47	2.89	**2.59**
Local Governments	2.34	2.49	2.73	2.54	2.19	2.70	2.61	2.59	**2.52**
Housing		2.71		1.92			2.89		**2.51**
Sports, Arts & Culture	2.35	2.91	2.66	2.41	2.02	2.58		2.52	**2.49**
Sports & Recreation							2.21		**2.21**
Safety & Security		2.05	2.60	2.61	2.41	2.79	2.79	2.56	**2.54**
Arts Culture And Tourism					2.12		2.71		**2.42**
Royal Household							1.40		**1.40**
Provincial Average Score	**2.55**	**2.45**	**2.66**	**2.41**	**2.34**	**2.66**	**2.35**	**2.62**	

APPENDIX D

International status on conversion to accrual

Source: Strategy for conversion to accrual basis of accounting, (National Treasury, 2009)

	ACCOUNTING				BUDGET			
Country	**2006 Strategy**	**2009**	**Approach**	**Period**	**2006 Strategy**	**2009**	**Approach**	**Period**
Argentina		Accrual-no assets				Cash		
Australia	Full accrual - 1994	Full accrual		< 5 yrs	Full accrual	Full accrual	Swift -first accounting	
Austria	Cash	Cash			Cash	Cash		
Belgium	Cash	Modified cash			Cash	Cash		
Bolivia		Accrual-no assets				Cash		
Canada	Accrual-no assets	Full accrual	Central guidance, multi-stage	> 5 yrs	Accrual-no assets	Accrual-no assets		
Chile		Cash				Cash		
China		Cash				Cash		
Colombia		Full accrual						
Costa Rica		Full accrual				Cash		
Croatia		Cash				Cash		

Cuba		Accrual-no assets				Cash		
	ACCOUNTING	**BUDGET**						
Country	**2006 Strategy**	**2009**	**Approach**	**Period**	**2006 Strategy**	**2009**	**Approach**	**Period**
Czech Republic	Cash	Cash			Cash	Cash		
Denmark	Modified Cash	Modified Cash			Modified Cash	Modified Cash		
Ecuador		Accrual-no assets				Cash		
Finland	Full accrual - 2005	Full accrual	Central guidance, single-stage, advisory board	< 5 yrs	Accrual-no assets	Modified Cash		
France	Full accrual??	Accrual-no assets	Central guidance, single-stage, pilots, advisory board	< 5 yrs	Cash	Cash	Multi-stage	No time-schedule
Germany	Cash	Cash	No plans		Cash	Cash	No plans	
Greece	Full accrual	Full accrual			Cash	Cash		
Guatemala		Full accrual				Cash		
Hungary	Cash	Cash			Cash	Cash		
Iceland	Accrual-no assets	Accrual-no assets			Accrual-no assets	Accrual-no assets		
Ireland	Cash	Cash			Cash	Cash		

Israel		Full accrual						
	ACCOUNTING	**BUDGET**						
Country	**2006 Strategy**	**2009**	**Approach**	**Period**	**2006 Strategy**	**2009**	**Approach**	**Period**
Italy	Cash & accrual no assets	Cash & accrual no assets	Multi-stage	Ongoing - 10 yrs	Cash & accrual no assets	Cash & accrual no assets	Multi-stage	Ongoing - 10 yrs
Japan	Cash	Cash			Cash	Cash		
Korea	Cash	Cash			Cash	Cash		
Lao PDR		Modified accrual						
Lithuania		Modified cash						
Luxemburg	Cash	Cash			Cash	Cash		
Malta		Modified cash						
Mexico	Cash	Cash			Cash	Cash		
Netherlands	Cash	Cash			Cash	Cash	Planned	
Norway	Cash	Cash			Cash	Cash		
New Zealand	Full accrual-1993	Full accrual	Central guidance, multi-stage: systems, staff, opening balances, cost allocation then only implementation	10 yrs.	Full accrual	Full accrual	Swift - first accounting	

Panama		Cash				Cash		
	ACCOUNTING	**BUDGET**						
Country	**2006 Strategy**	**2009**	**Approach**	**Period**	**2006 Strategy**	**2009**	**Approach**	**Period**
Paraguay		Modified accrual				Cash		
Peru		Full accrual				Cash		
Poland	Modified Cash	Modified Cash			Cash	Cash		
Portugal	Cash	Cash			Cash	Cash		
Russia		Cash				Cash		
Sierra Leone		Modified Cash						
Slovak Republic		Modified Cash						
Spain	Cash	Accrual-no assets	Multi-stage	> 5 yrs	Cash	Cash	Not planned	
South Africa	Modified Cash	Modified Cash			Modified Cash	Modified Cash		
Sweden	Full accrual	Full accrual		< 5 yrs	Cash	Full accrual	Multi-stage, with parallel systems	> 5 yrs
Switzerland	Cash	Full accrual	Single-stage, central guidance	< 5 yrs	Cash	Cash	Not planned	
Turkey		Cash			Cash	Cash		
United Kingdom	Full accrual-2002	Full accrual	Central guidance, multi-stage, pilots,	> 5 yrs	Full accrual	Full accrual	Central guidance, multi-stage,	> 5 yrs

			advisory board				pilots, advisory board	
	ACCOUNTING	**BUDGET**						
Country	**2006 Strategy**	**2009**	**Approach**	**Period**	**2006 Strategy**	**2009**	**Approach**	**Period**
USA	Full accrual-1998	Full accrual, excluding land	Central guidance, multi-stage: pilots, implementation phased according to size of dept.	Initial planning and prep: 10 yrs, Implemen-tation: 5 yrs	Modified Cash	Modified Cash	Not planned	

8	**Cash basis**	**3**
18	**Modified cash basis**	**31**
9	**Accrual – no assets/ Modified accrual**	**4**
14	**Full accrual**	**4**

APPENDIX E

Recommended approach to transition as per the research findings

The transition choice is essentially between a 'big bang' changeover or a process of gradual change. The 'big bang' approach is highly risky but the potential benefits could accrue more quickly. Even so, a 'big bang' changeover could not occur immediately and considerable preparation would be required to provide the necessary training and to develop the required information, such as asset registers and values.

In the United Kingdom the process of preparation to the introduction of accrual accounting took about 8 years from initial Cabinet approval up to and including the first published accrual accounts, with the introduction of accrual budgeting following on from that, although the two reforms were planned together. The National Treasury expects that the process of change in South Africa will probably take about 10 years overall, with the focus in the last 3 years being on accrual accounting financial reporting and the preparation of the whole of government accounts (The latter development lay outside the UK timetable of 8 years.). This timetable also reflects the anticipated release timetable for the IFMS.

A first key step in the process of change will be to secure political commitment to the change. This will be followed by wide-ranging consultation with all potential stakeholders to widen ownership of the policy amongst stakeholders, including the President, the Legislatures, the Auditor-General and Provincial Government, as well as Ministers and senior officials.

Once the timetable for the introduction of accrual accounting has been agreed, with the ASB preparing Standards of GRAP based on the International Public Sector Accounting Standards (IPSAS), the National Treasury will prepare detailed guidance on the application of those standards and, as part of that, will determine the asset valuation principles to be adopted. Other related steps will include:

- *continued development of the asset registers;*
- *identification of all liabilities;*
- *ensuring that the new standard chart of accounts can properly accommodate accrual accounting; and*
- *identifying areas of difference between the accrual accounts as defined and the international economic reporting format (e.g. GFS) to ensure that the software can produce both sets of information from the accounting system.*

At the same time, negotiation with the Legislatures about the information that they will require (and, given the experience of some other countries, this may require the retention and maintenance of some features of the cash system such as annual cash appropriations) will need to commence. Similarly, negotiations with the Auditor-General will be needed to secure external audit confidence in the process, especially over the areas where judgement *is required and in the application and interpretation of accounting standards. This will involve the establishment of a good working relationship with the Auditor-General from the outset.*

Other steps will include:

- *identification of the management reforms that need to be introduced;*

- *development and implementation of a change management strategy that reflects different resource and training needs as the change to accrual accounting is rolled out (this will also include the preparation of the revised organisational structures that will be required);*
- *aligning the timetable for the implementation of the IFMS with that for the implementation of accrual accounting; and*
- *development of specifications for the additional software and IT equipment that will be needed where such software and equipment are not covered by the IFMS project.*

The National Treasury has already prepared a high-level implementation strategy in which asset management reform has an immediate and central focus. Once a decision has been taken on the timing of the change to accrual accounting, the National Treasury will need to prepare a detailed plan for implementation, including the preparation of 'trial run' accrual accounts accompanied by their audit to test processes, systems and capabilities. This, too, will involve negotiations with the Legislatures and other stakeholders. This plan will be a conventional project management plan identifying all the steps that will need to be taken with the detailed tasks and activities, the resources available and the start, intermediate and end dates, focussing especially on those tasks and activities that lie on the 'critical path'.

APPENDIX F

The recommended timetable as per the research finding

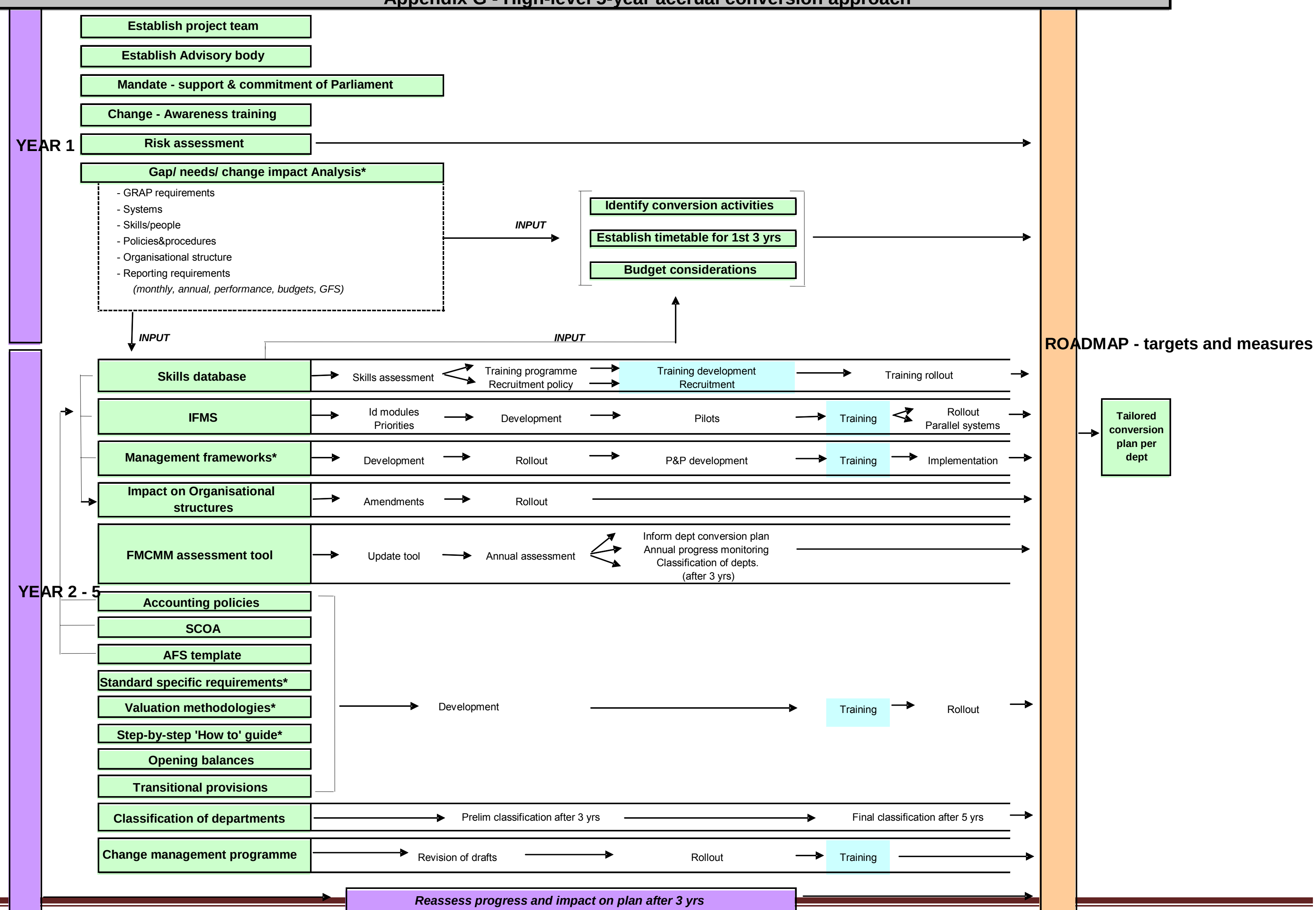
The timetable with key target dates as recommended, taking into account the research findings on primary and secondary data gathered, is set out below.

Conversion activities	**Status**
Financial year ending 31 March 2013 (year 1):	
Start the process of preparing for implementation from 1 April 2012, including the commencement of wide ranging-consultation with stakeholders.	*Partially and informally done*
Completion of the development of a comprehensive change management strategy	*Draft developed*
Completion of training needs analysis (skills audit) of all relevant officials	*As per Capacity building business plan – per department*
Completion of the policies and guidelines applicable to the concept of “control“	*In progress as part of document on consolidations*
Financial year ending 31 March 2014 (year 2):	
Completion of the development of a comprehensive training programme	*Draft developed*
Initiation of comprehensive training programme for all accountants involved in the preparation and presentation of financial information – the training programme will be a continuous initiative	*Draft developed*

Conversion activities	Status
throughout.	
Initiation of retraining programmes for all managers to inform them of the financial information that will become available to them and how to use that information – the training programme will be a continuous initiative throughout.	*Draft developed*
Completion of comprehensive asset policies and guidelines, including but not limited to:	*Departmental Financial Reporting Framework Guide*
▪ the basis and determination of asset valuation;	*Draft developed*
▪ the asset categories to be valued; and	*Departmental Financial Reporting Framework Guide*
▪ the cost of capital charge	*Departmental Financial Reporting Framework Guide*
Financial year ending 31 March 2015 (year 3):	
Complete the asset register implementation phase (including valuation of assets where appropriate).	*Asset registers implemented – not all but* (including valuation of assets where appropriate).
Completion of comprehensive policies and guidelines for revenue recognition from non-exchange transactions, specifically tax revenues	*Departmental Financial Reporting Framework Guide*
Completion of the development of the initial Standards of GRAP, as per the ASB work plan	*With exception of few standards, almost full set approved but not all effective yet*
Financial year ending 31 March 2016 (year 4):	

Conversion activities	**Status**
Projected completion of development of new financial systems	*Partially in development*
Completion of implementation of Standards of GRAP (as per the ASB work plan)	*Not yet applicable*
Financial year ending 31 March 2017 (year 5):	
New financial systems fully operational	*Not yet applicable*
Completion of training programmes including training in the application of the standards of GRAP	*Not yet applicable*
Completion of first specimen annual financial statements for the following financial year for review by Auditor General, ASB and other relevant stakeholders	*Not yet applicable*
Reassess the readiness of all departments to transform to full accrual accounting.	*Not yet applicable*
Financial year ending 31 March 2018 (year 6):	
Preparation of first accrual accounts in parallel with the cash accounts and with consolidation on a modified cash basis; *(Note: This will only apply to those departments that were identified during the readiness review in 2011/2012 that could transform within one year, all other departments still report on modified cash accounts.)*	*Not yet applicable*

Appendix G - High-level 5-year accrual conversion approach



* *Recommended that specialist per accounting area be appointed - follow through from gap analysis , liaison with IFMS, skills, SCOA, FMCMM etc teams and responsible for development of management framework and implementation guidelines of area and related standards*

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