The value of central government accrual consolidated financial statements: A qualitative cost-benefit analysis.

THE VALUE OF CENTRAL GOVERNMENT ACCRUAL CONSOLIDATED FINANCIAL STATEMENTS: A QUALITATIVE COST-BENEFIT ANALYSIS

by

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DECLARATION

I hereby declare that the dissertation submitted for the Degree MTech: Cost and Management Accounting, at the Tshwane University of Technology is my own original work and has not previously been submitted to any other institution of higher education. I further declare that all sources cited or quoted are indicated and acknowledged by means of a comprehensive list of references.

SJ MALULEKE

DEDICATION

This study is dedicated to the following people for their support and understanding throughout my studies:

- My late father, Mr. Resenga Peter Maluleke and my mother, Florah Makhaokane Maluleke;
- My wife, Nancy Maluleke;
- My two sons, Nhlamulo and Rifumo Maluleke; and
- My daughter, Khanyisa Maluleke.

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ABSTRACT

The Public Finance Management Act (PFMA) requires both the National Treasury and Provincial Treasuries to compile consolidated financial statements (CFS) for national and provincial governments respectively in accordance with Generally Recognised Accounting Practice (GRAP). The CFS, as required by the PFMA in accordance with GRAP is currently not being compiled because of the different accounting bases applied between national and provincial government departments (modified cash basis), and their controlled entities (accrual basis of accounting). Therefore, it will only be possible to compile full accrual CFS as required by the PFMA once the national and provincial departments have completed the transition to accrual accounting.

The primary objective of this study was to establish whether preparing accrual CFS would benefit the South African public service and the South African citizenry. This objective was achieved through qualitative cost-benefit analysis (CBA). To identify the variables utilised in the latter approach (qualitative CBA), a qualitative content analysis method was adopted. The unit of analysis included various government documents as well as relevant literature from various countries which had adopted the accrual consolidation model. On the one hand, the study revealed a number of benefits attributed to the compilation of accrual CFS. However, certain benefits were disputed by independent research studies. On the other hand, this study also identified a variety of costs associated with the adoption of accrual CFS. Unfortunately, despite extensive searches, no independent research study could be

retrieved to dispute the costs. The study revealed that while accrual CFS may have certain value in terms of the benefits identified, the costs might be significant. The study concluded that South Africa could benefit by applying GRAP 6 on Consolidated Financial Statements, provided that the stated benefits are realised. However, the benefits should be weighed against the costs and competing public needs.

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LIST OF ABBREVIATIONS

AGSA	Auditor General of South Africa
AASB	Australian Accounting Standard Board
ASB	Accounting Standards Board
ASRB	Accounting Standards Review Board
CBA	Cost-Benefit Analysis
CFS	Consolidated Financial Statements
CICA	Canadian Institute of Chartered Accountants
DEAT	Department of Environmental Affairs and Tourism
DFD	Department of Finance and Deregulation
DPE	Department of Public Enterprises
ESV	Swedish National Financial Management Authority
FASAB	The Federal Accounting Standards Advisory Board
FRSB	Financial Reporting Standards Board
FRAB	Financial Reporting Advisory Board
FReM	Government Financial Reporting Manual
GAAP	Generally Accepted Accounting Principles
GRAP	Generally Recognised Accounting Practice
GASB	Governmental Accounting Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IFAC	International Federation of Accountants
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
MFMA	Local Government: Municipal Finance Management Act
NT	National Treasury
OAG	Office of the Accountant General
OECD	Organization for Economic Co-operation and Development
PAA	Public Audit Act
PFMA	Public Finance Management Act, Act 1 of 1999
PSA	Public Sector Accounting

PSAB	Public Sector Accounting Board
SAIGA	South African Institute of Government Auditors
SCOPA	Standing Committee on Public Accounts
SCMA	Swedish Council of Municipal Accounting
TBC	Treasury Board of Canada
TR	Treasury Regulations
UK	United Kingdom
USA	United States of America

CHAPTER 1

OVERVIEW OF THE STUDY

1.1. INTRODUCTION AND BACKGROUND

Public financial management has evolved since the early 1990s, which has accentuated the significance of transparency and accountability under the philosophy, New Public Financial Management (Pretorius & Pretorius, 2009:7). Consequently, public sector accounting standards were developed to improve transparent public financial management (IFAC, 2011). This need led to the establishment of the International Public Sector Accounting Standards Board (formerly known as the Public Sector Committee) by the International Federation of Accountants (IFAC), to develop a codification for accounting and reporting by governments globally, which is referred to as International Public Sector Accounting Standards (IPSAS) (IFAC, 2002). Due to certain differences in the application of concepts, many governments that had adopted the New Public Financial Management philosophy, chose to develop their own set of accounting standards according to their own unique conditions that conform to IPSAS (Cavanagh, Flynn & Moretti, 2016).

Several governments have since the 1990s made a gradual transition from the cash basis to the accrual basis of accounting. Countries which apply public sector accounting standards and are consistent with the accrual based IPSASs include: Australia, Canada, New Zealand, United Kingdom and the United States of America

(IFAC, 2007:4). South Africa has also developed a set of accrual public accounting standards based on the IPSAS through its Accounting Standards Board (ASB) referred to as the standards of Generally Recognised Accounting Practice (GRAP) (ASB, S.a.). However, South Africa's transition to accrual accounting has only been completed in the local sphere of government whilst the national and provincial government still apply a modified cash basis of accounting (National Treasury, 2016).

One of the requirements of the accrual basis of accounting in the public sector is the preparation of consolidated financial statements (CFS) for all public institutions and their controlled entities. Various studies that question the benefits of preparing accrual CFS in the public sector were analysed, while affirming that the cost of implementation is high. On the other hand, several governments preparing accrual CFS expressed satisfaction with the implementation, and cited many benefits to justify the cost to prepare the CFS. The South African national and provincial government (public service) will be required to prepare accrual CFS once the transition to full accrual accounting is completed and apply the consolidation standard GRAP 6. Therefore, it is important to determine the benefits and expected costs of the accrual consolidation model to establish whether compiling CFS will be in the interest of South Africa, which is the focus of the study.

1.2. MOTIVATION FOR AND SIGNIFICANCE OF THE STUDY

As stated previously, when the South African public service completes the transition to accrual accounting, one of the requirements hereof would be to compile accrual

CFS. The countries which have implemented accrual accounting in the public sector (and therefore, accrual consolidation), conducted extensive independent research on behalf of the respective governments to inform the decision for the transition to accrual accounting and the implementation of accrual consolidation. The same should apply to South Africa and research should be conducted, hereon to take an informed decision. However, as far as could be determined, there is limited or no research conducted on this particular topic in South Africa.

This study will add value to various role-players in South Africa who will ultimately be responsible for the implementation of accrual consolidation in the public service. The study will add specific value for the National Treasury to determine whether the benefits outweigh the cost of implementing accrual consolidation. From an academic perspective, this study will make a contribution towards the South African financial management knowledge base in the public service, specifically public service consolidation.

1.3. RESEARCH OBJECTIVES

The primary research objective is as follows:

To determine whether preparing accrual consolidated financial statements will benefit the South African public service and its citizenry.

To achieve the primary research objective, the following secondary objectives were considered:

Secondary objective (SO 1): To determine the level at which consolidation should take place in the advent full accrual accounting is adopted by the public service, by reviewing relevant global consolidation models and compare these to the one currently applied by the South African government.

SO 2: To determine the factors that contribute towards non-compliance with the South African consolidation standard, GRAP 6.

SO 3: To determine the costs and benefits of preparing accrual CFS by conducting a qualitative cost-benefit analysis (CBA).

SO 4: To determine whether accrual consolidation will improve the credibility of government financial reporting in South Africa.

A brief overview of the research methodology followed in this study is provided in section 1.3, while the research design and methodology is expounded upon in Chapter three.

1.4. RESEARCH METHODOLOGY

SO 1 of this study was to determine at what level consolidation should take place, specifically in the South African public service, whilst the second SO was to establish factors that inhibit compliance to GRAP 6. These were considered of significance since public sector consolidation standards utilised by countries globally including the South African public service consolidation standard underscores the scope of consolidation. The envisaged final outcome was to determine the level of consolidation that can be applied in the South African public

service. The majority of the information used to achieve the SOs was conducted through an extensive literature review including global consolidation documents.

The third SO was achieved through a qualitative cost-benefit analysis. The cost-benefit method requires the identification of variables that will inform the costs and as well as the benefits. The variables were identified through the qualitative content analysis research design by applying various coding techniques which is presented in Chapter three. The approach was to identify countries that apply the accrual consolidation model in their public sector as well as have their own consolidation standard. The reviewed literature revealed that only six countries were identified to have their own consolidation standard which were utilised as the unit of analysis in the qualitative content analysis.

The aforementioned countries included Australia, Canada, New Zealand, Sweden, United Kingdom and United States of America. The CFS units of observations and other consolidation documents were prepared by these countries. The sampling units comprised of the year in which a particular country produced their first set of accrual CFS to the most recent and relevant publication. Specific content that was analysed in these documents related to comments made by senior treasury officials and the Auditor-General of these respective countries. Research reports were also analysed to establish whether the reports agree with the benefits of accrual consolidation as presented by these countries.

The final SO considered whether the credibility of government financial reporting would improve if the accrual consolidation model is implemented. The objective was

achieved through an e-mail interview with a significant stakeholder in South Africa. The questions posed centred predominantly on the expected usefulness of the accrual CFS for stakeholders such as Parliament. Questions that focused on the level of consolidation were also included in the questionnaire.

1.5. LIMITATION OF THE STUDY

The study relied primarily on information collected from countries that adopted the complete accrual consolidation. However, the listed benefits of consolidation derived by these countries might not necessarily be realised by South Africa. Most of the information was gathered from government documents. Therefore, an independent view was required to confirm the "claimed" benefits. In certain countries under review, no independent research could be retrieved, which implied that it would be impossible to confirm whether the benefits were government propaganda or indeed realised in these countries.

1.6. LAYOUT OF THE STUDY

This dissertation comprises of six chapters. A brief description of each chapter is summarised below starting with chapter two:

CHAPTER 2 ACCOUNTING PRINCIPLES FOR CONSOLIDATION

In this chapter financial management in the South African public service, government departments and respective entities as well as accounting principles for

consolidation are reviewed. A cross-country comparison of the countries which had implemented accrual consolidation is also conducted in this chapter to acquire relevant literature for the South African public service. Furthermore, the countries' consolidation models are compared to the model currently applied by the South African public service.

CHAPTER 3 RESEARCH DESIGN AND METHODOLOGY

The research methods employed in this study to answer the research question and to achieve the research objective are discussed in this chapter. The importance of each section of the literature covered in chapter two is also discussed in this chapter.

CHAPTER 4 INTERNATIONAL ADOPTION OF THE ACCRUAL CONSOLIDATION MODEL – COSTS AND BENEFITS

Costs and benefits of adopting the accrual consolidation model for each of the countries included in the analysis are presented in this chapter. Research findings of independent researchers on the benefits of consolidation "claimed" by the countries in the analysis are also presented in this chapter.

CHAPTER 5 ANALYSIS AND INTERPRETATION OF RESULTS

The costs and benefits of adopting the accrual consolidation presented in chapter four are analysed and interpreted. The cost-benefit matrix is used in this chapter to

analyse the costs and benefits. Furthermore, the results from an interview with a South African role-player is analysed.

CHAPTER 6 CONCLUSION AND RECOMMENDATIONS

This chapter concludes the study and presents the proposed recommendation in terms of whether it will benefit the South African public service to adopt the accrual consolidation model when considering the cost of its implementation.

1.7. CHAPTER SUMMARY

This chapter provided a brief background to the study as well as its significance. The primary research question and the research objectives were provided in this chapter followed by the research methodology adopted to respond to the research question and achieve the objectives. Figure 1.1 illustrates the link between Chapter 1 and the rest of the study.

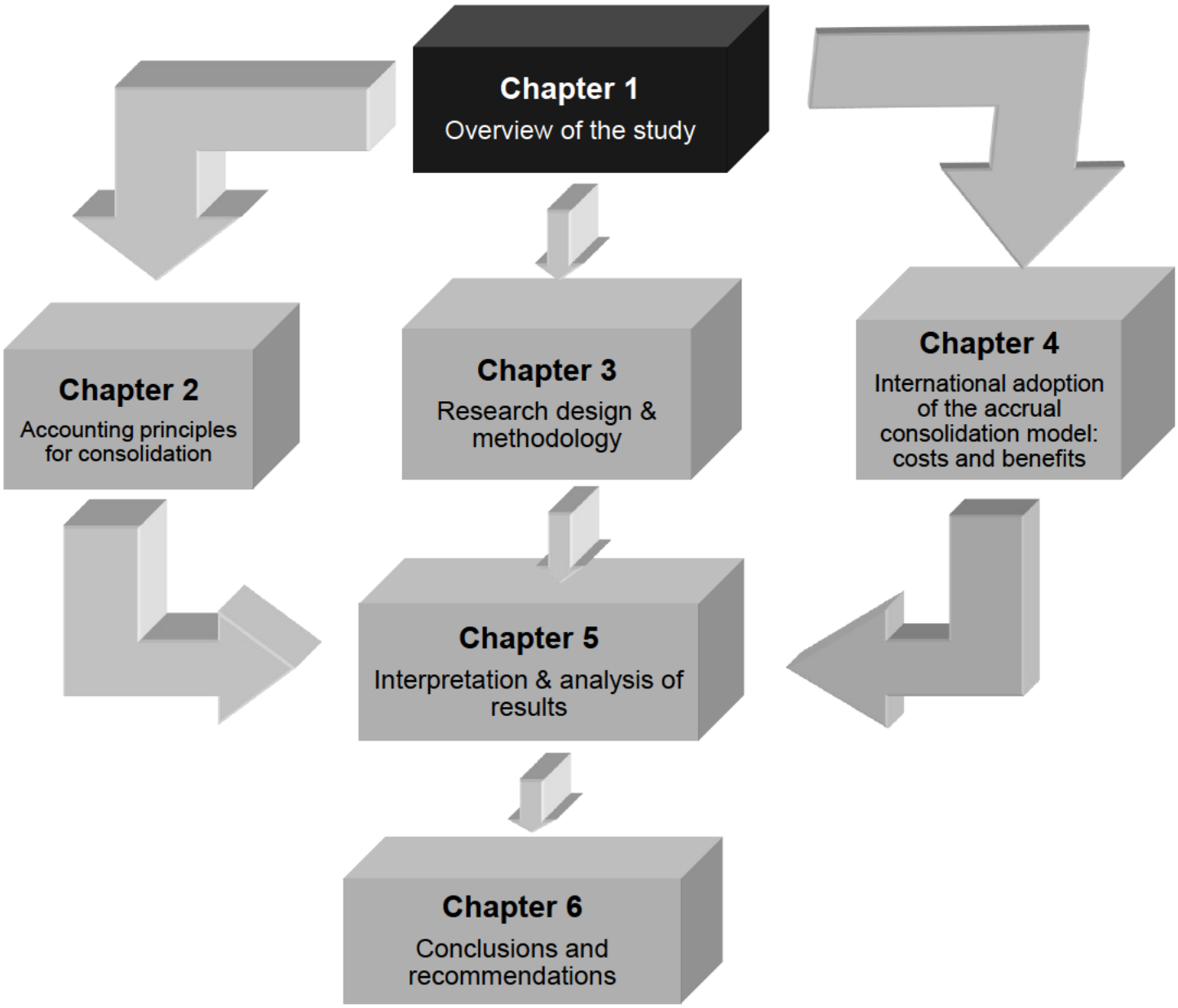


Figure 1.1: Chapter layout – Chapter 1 in relation to the rest of the study.

CHAPTER 2

ACCOUNTING PRINCIPLES FOR CONSOLIDATION

2.1. INTRODUCTION

The objective of consolidation accounting standards in the public sector is to prescribe the circumstances in which CFS are prepared as well as the information for inclusion in the financial statements so that the statements reflect the financial performance, financial position and cash flows of a public economic entity as a single entity (ASB, 2010:7). This view reveals the rationale of the public sector to produce CFS to establish how it has performed when consolidated with public entities in a particular financial year.

The South African Constitution of 1996 (SA, 1996:Sec216) stipulates that GRAP standards be developed and applied by the public sector. Consequently, the ASB was established to develop and issue GRAP standards. GRAP 6: *Consolidated and separate financial statements,* prescribes consolidation for the South African public sector, which is required by legislation in each sphere of government (SA, 2000:15&24; SA, 2004:120).

The National Treasury has complied with Section 8 of the Public Finance Management Act (PFMA) and produced CFS for the national government (which includes: departments, controlled entities, Parliament, South African Reserve Bank, Auditor General and Constitution institutions) for many years, while provincial

treasuries have complied with Section 19 of the PFMA and prepared CFS for their respective provincial governments (which includes provincial departments, controlled entities and respective provincial legislatures). However, this consolidation has not been according to any prescribed accounting standard because central government departments (national and provincial) have not completed the transition to accrual accounting.

Questions have been raised internationally of the usefulness of central government CFS to users in the public sector including the value of producing such statements (Wynne, 2009; Wynne, 2011, Aggestam, Chow, Day & Pollanen, 2014). This chapter provides the literature framework of the development of financial management in the South African public service that will result in the discussion of consolidation in the public service.

Figure 2.1 illustrates the link between chapter two and the other chapters of the dissertation.

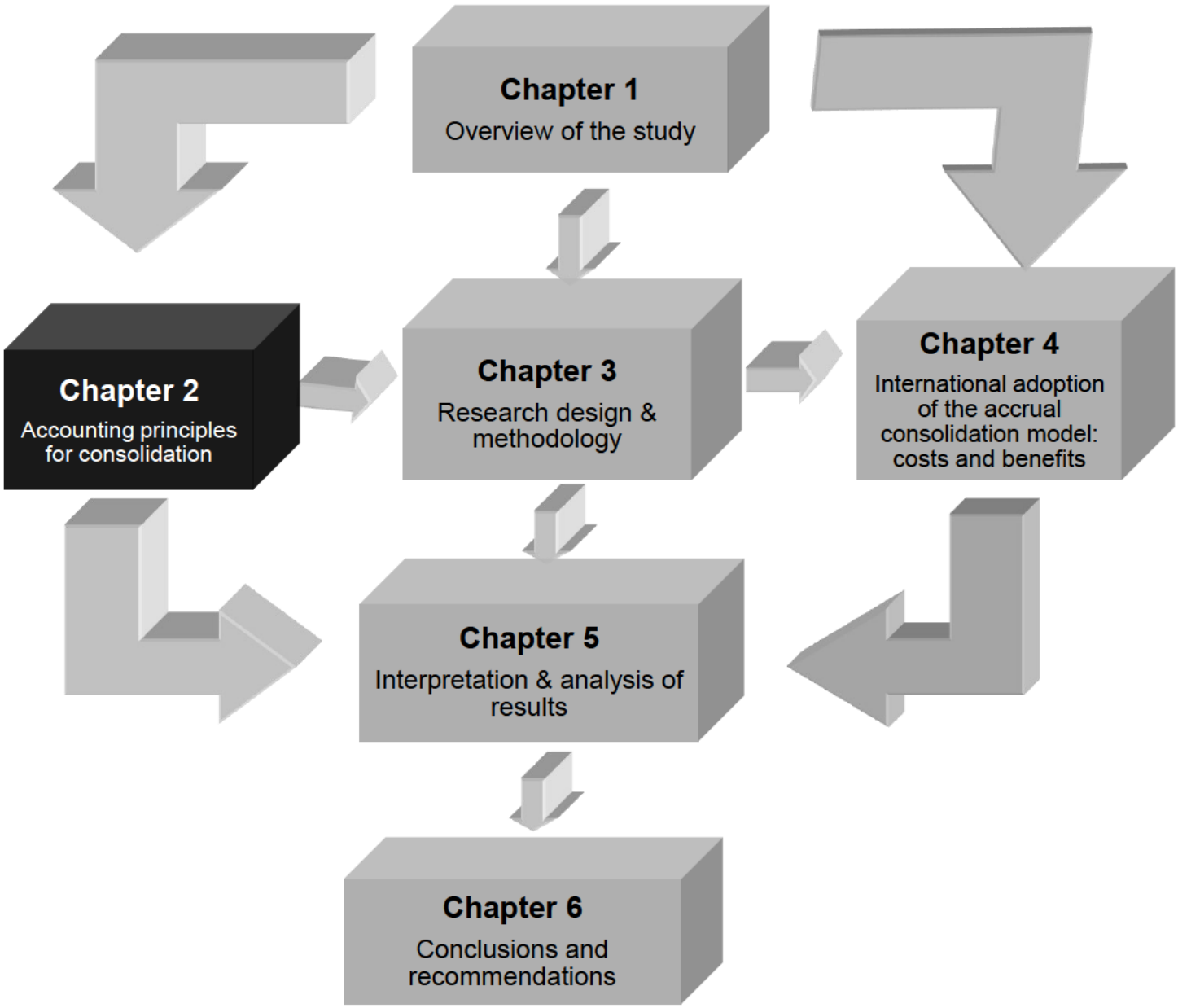


Figure 2.1: Chapter layout – Chapter 2 in relation to the rest of the study.

Reforms that have taken place in public financial management in South Africa are discussed; literature on government departments and their public entities including consolidation and the principles of consolidation is reviewed; followed by conducting a cross-country comparison of consolidation.

2.2. DEVELOPMENT OF PUBLIC FINANCIAL MANAGEMENT IN SOUTH AFRICA

Democracy has seen a radical change in the financial management of the South African public sector. Transforming from the apartheid regime that was characterised by "dictatorship and state control over the economy, openly admitting massive military and security spending financed from tax payers' money" (Bekker, 2009:2), a more democratic approach to financial management was required (Gildenhuys, 1997:31). Buso (2007:26) asserts that financial management is the cornerstone of any democratic government and best practices in accounting ensure transparent accountability.

In this context, accountability largely refers to government which provides an account for the utilisation of monies entrusted to it. Van der Waldt, Van Niekerk, Doyle, Knipe and du Toit (2002:13) assert the following with regard to accountability:

> *"Financial accountability is crucial if the financial resources of a country are to be managed effectively and efficiently. Those public institutions and persons responsible for the management and administration of public funds are accountable to the taxpayers for the effective and efficient execution of tasks, and this includes both collecting and spending of public money".*

The democratically-elected government faced the challenge of addressing service delivery backlogs as a result of the apartheid regime including the challenge of managing public finances in South Africa (Fölscher & Cole, 2006:2). This required

financial management interventions along with stricter control and oversight over public funds. Prior to the introduction of the 1996 Constitution, Public Financial Management (PFM) was inefficient and did not encompass the principle of accountability required in a democratic government (Ajam & Aron, 2007:3).

Thus the adoption of the Constitution in 1996 saw a radical change in the PFM. Section 216 of the Constitution requires national legislation to establish a National Treasury and prescribes measures to ensure both transparency and expenditure control in each sphere of government by introducing "generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards" (SA, 1996).

Appropriate interventions for effective financial management were introduced in the PFMA in 2000 (SA, 2000) and the MFMA in 2004 (SA, 2004) for national and provincial departments, public entities, including local government respectively. This initiative received praise for its progressiveness from financial experts. De Jager (2001:1) posited that the South African public sector has the most advanced legislation with respect to financial management in the world. Interventions that were made with respect to financial management in countries such as New Zealand, Canada, Australia and others were adapted for the South African conditions.

These interventions aimed at improving the components of financial management and financial administration in government reforms since 1994, giving recognition to improve the value for money that the public sector provides to the citizens of South Africa (SAIGA, S.a.). The PFMA is complemented by the Treasury Regulations,

Public Audit Act (PAA), and other regulatory and directive documents issued by the National Treasury. Fölscher and Cole (2006:20) expressed the following about the PFMA:

> *"It was developed to transform an environment where financial administration was rule-bound and management exclusively input-focused, where policy and financial responsibilities in departments were separated, where capital resources and liabilities were not properly managed, and where there was a great lack of reliable and timely information."*

Section 87 of the PFMA provides for the establishment of the Accounting Standards Board (ASB), which has a mandate to develop GRAP in terms of Section 216 of the Constitution for (SA, 2000):

i. *departments;*
ii. *public entities;*
iii. *constitutional institutions;*
iv. *municipalities and Boards, commissions, companies, corporations, funds or*
v. *other entities under the ownership control of a municipality; and*
vi. *Parliament and the provincial legislatures.*

The ASB developed public accounting standards which are consistent with International Public Sector Accounting Standards (IPSAS) in an effort to move from the modified cash basis of accounting to accrual accounting. However, this transition was only completed in the local sphere of government. The ASB has thus far issued 35 standards of GRAP approved by the Minister of Finance, however, only 31 standards are currently effective (ASB, S.a.). Table 2.1 illustrates the Standards of GRAP approved and dates of issue.

Table 2.1: GRAP standards approved and effective with their dates of issue

STANDARD	DESCRIPTION	DATE OF ISSUE
GRAP 1	**Presentation of Financial Statements**	April 2004
GRAP 2	**Cash Flow Statements**	April 2004
GRAP 3	**Accounting Policies, Changes in Accounting Estimates and Errors**	April 2004
GRAP 4	**The Effects of changes in Foreign Exchange Rates**	July 2007
GRAP 5	Borrowing Costs	July 2007
GRAP 6	**Consolidated and Separate Financial Statements**	**November 2005**
GRAP 7	**Investments in Associate**	November 2005
GRAP 8	**Interest in Joint Ventures**	November 2005
GRAP 9	**Revenue from Exchange Transactions**	May 2006
GRAP 10	**Financial Reporting in Hyperinflationary Economies**	July 2007
GRAP 11	**Construction Contracts**	December 2006
GRAP 12	**Inventories**	October 2004
GRAP 13	Leases	October 2004
GRAP 14	**Events after the reporting date**	May 2007
GRAP 16	**Investment Property**	November 2004
GRAP 17	**Property Plant and Equipment**	November 2004
GRAP 18	**Segment reporting**	April 2015
GRAP 19	**Provisions, Contingent Liabilities and Contingent Assets**	June 2007
GRAP 21	Impairment of Non-cash-generating Assets	March 2009
GRAP 23	Revenue from Non-exchange Transactions	February 2008
GRAP 24	Presentation of Budget Information in Financial Statements	November 2007
GRAP 25	Employee Benefits	November 2009
GRAP 26	Impairment of Cash-generating assets	March 2009
GRAP 27	Agriculture	March 2012
GRAP 31	Intangible assets	March 2012
GRAP 100	**Discontinued Operations**	May 2006
GRAP 103	Heritage Assets	July 2008
GRAP 104	Financial Instruments	October 2009
GRAP 105	Transfer of functions between entities under common control	April 2015
GRAP 106	Transfer of functions between entities not under common control	April 2015
GRAP 107	Mergers	April 2015

Source: (ASB, S.a)

The PFMA requires accounting officers to prepare financial statements in accordance with the Standards of GRAP (SA, 2000), based on accrual accounting. However, since the public service is still in transition to full accrual accounting, the National Treasury in 2013 issued the modified cash standards to serve as GRAP for the purposes of adherence to the PFMA (National Treasury {**NT**}, 2016).

As previously mentioned, National Treasury has been compiling separate CFS since the inception of the PFMA for national departments and public entities respectively subjected to approved procedures reviewed by the Auditor-General of South Africa (AGSA) (NT, 2012:2; NT, 2013:2; NT, 2014:2; NT, 2015:2; NT, 2016:2). An audit by the AGSA revealed that these statements were not prepared in accordance with the stipulations in Section 8 of the PFMA that requires the statements to be prepared in accordance with GRAP (NT, 2009:47; NT, 2010:42; NT, 2011:38).

The AGSA expressed the same opinion of the CFS dating back to the 2008/9 and 2010/11 financial year of the financial reporting framework as quoted below (NT, 2009:47; NT, 2010:42; NT, 2011:38):

> *"Section 8(1)(a) of the PFMA requires that the National Treasury prepare consolidated financial statements in respect of the national departments, public entities under the ownership control of the national executive, constitutional institutions, the South African Reserve Bank, the Auditor-General and Parliament. The National Treasury did not prepare such*

consolidation as envisaged in the PFMA. Two separate consolidations were prepared due to a significantly different basis of accounting being applied."

In the 2009/10 general report of the national audit outcomes, the AGSA expressed this opinion with regards to CFS (AGSA, 2010:88):

"At this stage it is not possible to consolidate the financial affairs of all the public entities into one set of financial statements as the processes to allow for the elimination of inter-entity transactions are not in place. In addition, shareholding of these public entities is vested in different departments. The accounting framework does not allow for the consolidation of financial statements in these instances."

From the 2012/13 to the 2016/17 financial year, the National Treasury was granted exemption from the provision of Section 8 of the PFMA by the Minister of Finance in terms of Section 92 of the PFMA (NT, 2013:4; NT, 2014:2; NT, 2015:2; NT, 2016:2). This exemption allows the National Treasury to prepare separate CFS for departments and public entities respectively (NT, 2016:2).

Wynne (2009; 2010) expressed grave criticism of the move to accrual accounting and supports the current modified cash basis of accounting. The concern raised is the fact that countries which adopted accrual accounting have not realised any claimed benefits of this reform, yet the "costs" were significant (Wynne, 2009:15; Wynne, 2010:5). IFAC, however, does perceive the need for governments to move

to accrual accounting (IFAC, 2012), as the accounting fraternity advocates that accrual information will satisfy more user needs.

In a letter dated 6 April 2012, IFAC made four recommendations to the G-20 Nations with regard to public sector financial management, transparency and accountability. The third recommendation reads as follows (IFAC, 2012:4):

> *"IFAC recommends that the G-20 actively encourage and facilitate the adoption of accrual based accounting by governments and public sector institutions, which promotes greater transparency and accountability in public sector finances, and allows for monitoring of government debt and liabilities for their true economic implications."*

South Africa, which is the only country on the African continent that forms part of the G-20 and is leading the way for other African countries to transition to accrual accounting, having completed this transition at municipal government sphere. Public entities on the other hand, have applied the accrual basis of accounting since their inception. The primary purpose of these public entities is to assist government departments to provide services. Consequently, proper account of the financial activities of those entities in the form of CFS is very important. The relationship between government departments and their respective public entities will be discussed in the next section.

2.3. DEPARTMENTS AND THEIR RESPECTIVE PUBLIC ENTITIES

2.3.1. THE NATIONAL ECONOMIC ENTITY

The national government of South Africa has shareholdings in various public entities that aid to achieve certain objectives and for accountability purposes, the PFMA requires national government to prepare CFS that comprises these public entities (NT, S.a:3; SA, 2000). In a typical private sector setting, a company that has shareholding in another company is required to prepare a consolidation which is generally referred to as “group” financial statements encompassing the subsidiary.

The application of GRAP 6 will follow the same concept as in the private sector, that is, financial statements of a “national” economic entity would be required (ASB, 2010). The “national” economic entity comprises of all institutions under the control of the President and Cabinet such as the revenue fund, the departments and government components, as well as all public entities, trading entities and trusts (NT, S.a:6).

There are currently 36 national departments and 105 provincial departments in the South African public service (Government Communication and Information System, S.a), and each department has its mandate in as far as service delivery is concerned. The South African government also utilises public entities contained in schedules one, two and three of the PFMA (SA, 2000) to assist departments to execute these mandates. These public entities operate under the administration of the respective government departments (SA, 2000:11), and receive limited funding

from the latter to execute their functions which conform to the department's mandate.

The executive authority (Cabinet minister (national) or Member of the Executive Council (provincial)) exercises shareholder oversight over these entities (NT, 2005a:6). Figure 2.2 illustrates the oversight management of public entities:

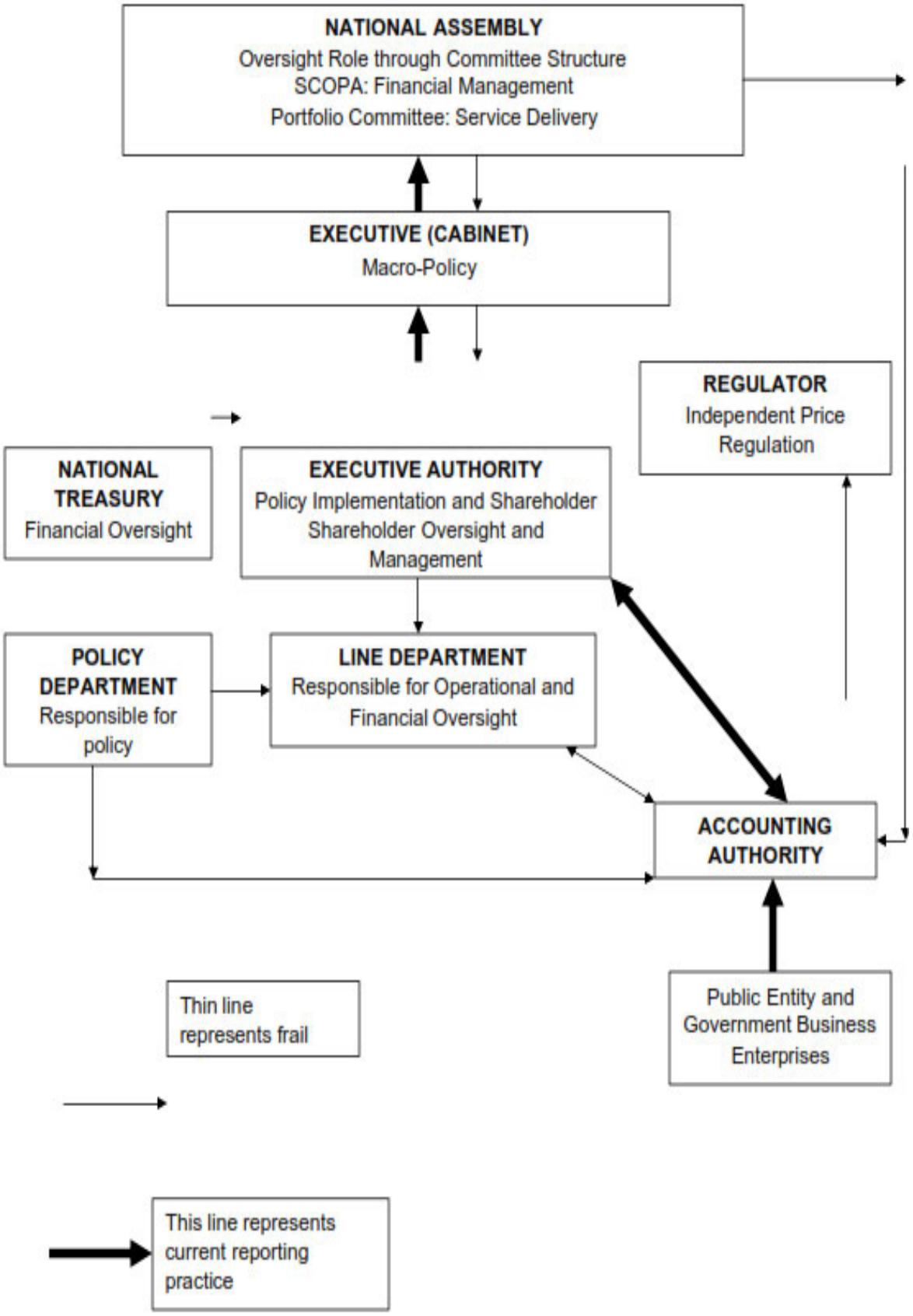


Figure 2.2: Current oversight Management of State Owned Entities

Source: NT (2005a:17)

Public entities deliver many social goods and services to ensure a quality of life for all South Africans which includes the government's achievement of socio politico-economic objectives (Department of Public Enterprises {**DPE**}, 2002). Therefore, an account of the financial activities of these entities through the application of GRAP 6 is significant. In the next section a discussion of the relationship between a department and its public entities is provided.

2.3.2. THE RELATIONSHIP BETWEEN DEPARTMENTS AND THEIR RESPECTIVE PUBLIC ENTITIES

In the private sector, consolidation ensues when a company has a shareholding of more than 50% in its subsidiaries, thereby giving it effective control thereof. In the South African public sector, the government is the sole shareholder in most of the public entities (DPE, 2002). The departments and their respective public entities have a relationship which is similar to the one between a holding company and its subsidiaries, which comprise the following features (DPE, 2002:7):

- a strong interest in the financial performance of the entity;
- reporting and accountability arrangements that facilitate an appropriate oversight by the shareholder; and
- remedial action by the shareholder where the entity's strategic direction deviates from that preferred by the shareholder.

The relationship between a department and its public entities is made formal through a document referred to as a ‘shareholder’s compact’. This document represents an agreement between the relevant executive authority at national or provincial government level, as the majority shareholder and the accounting authority (CEO/Board of Directors) of the public entity with regard to performance expectations and parameters (NT, 2002:3; DPE, 2002:6).

The accounting officer (CEO) for public entities listed in Schedule 2, 3B or 3D are, in consultation with the shareholders, required to compile the shareholder compact annually (NT, 2005:86). The major objective of the shareholder’s compact is to ensure that there is a clear understanding of the relationship between government and the public entities as an extension of delivering public services through business based entities (NT, 2002:3).

The document includes matters such as corporate goals, objectives and key performance indicator, reporting requirements by the public entity, policies, etc. (NT, 2002:6-7). The public entities are required to report and account for their financial and non-financial performance to the shareholder, however, they operate their daily activities autonomously without any shareholder involvement (DPE, 2002:4).

2.4. PUBLIC SECTOR CONSOLIDATION

Globally, governments have been producing CFS on an accrual basis of accounting since the early 1990s, with countries such as the US, Australia and New Zealand being at the forefront of these innovations (Grossi & Pepe, 2009; Walker, 2009; Newberry, 2011). However, only certain governments have been able to adopt these innovations. Consequently, globally, the majority of governments are still on the cash basis of accounting (IFAC, 2007).

The cash basis International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Boards (IPSASB) were developed for the purpose of governments which are on the cash basis of accounting. However, governments have not been able to even apply this cash basis standard because it is required to produce CFS (Parry & Wynne, 2009:25).

2.4.1. DEFINING CONSOLIDATION IN THE PUBLIC SECTOR

Consolidation in the private sector is defined differently in context when compared to consolidation in the public sector. In the private sector, CFS is defined as the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flow of the parent and its subsidiaries are presented as those of a single economic entity (IFRS Foundation, 2014:1). For the public sector, CFS refers to the financial statements of an economic entity presented as those of a single entity (ASB, 2010:8).

Globally, governments have been experimenting with, or compiling CFS referred to as “whole of government accounts (WGA)”. WGA are consolidated financial statements of the entire government, presented as if it were a single reporting entity (Aggestam *et al*., 2014:4). As mentioned previously, a similar consolidation has been taking place in the South African government since the inception of the PFMA to comply with Section 8 of the PFMA. However, the consolidation is not prepared in accordance with an approved accounting standard or GRAP 6, while Section 8 of the PFMA requires compliance with GRAP (NT, 2014:4).

The Minister of Finance grants exemption in terms of Section 92 of the PFMA to the National Treasury from the provisions of Section 8 of the PFMA (NT, 2015:2; NT, 2016:2). Therefore, separate consolidation is prepared for national departments and for public entities. The current consolidation process applied by National Treasury is illustrated in Table 2.2. The most important requirement for consolidation both in the private and public sector, is for *control* to subsist. This aspect is discussed in the next section.

Table 2.2: Current consolidation process applied by National Treasury

	Departmental Consolidation	Entity Aggregation
Coverage (boundary)	All departments and revenue fund (including Parliament)	All public entities (listed or otherwise) All identified trading entities, trusts or other types of legal entities which fall under the control of the government.
Basis of accounting	Modified cash (all accounting policies are aligned)	Accrual using: • Standards of GRAP • Statements of GAAP • IFRS (consistency of accounting policies unknown)
Consolidation process	Combine financial statements line by line by adding like items: net assets, revenue and expenses together	Combine financial statements line by line by adding like items: assets, liabilities, net assets, revenue and expenses

	(information collected from template submitted)	(information collected from template submitted)
Elimination process	Revenue and expenditure between departments and the revenue fund is eliminated in full. Limited elimination of inter-departmental services.	No elimination of inter-entity transactions/balances. (the extent of such transactions/balances are not considered)
Reporting dates of individual entities	All have 31 March year-ends.	All have 31 March year-ends with the exception of the water boards which is has a 30 June year-end. These entities submit management accounts for the period ending 31 March.

Source: NT (S.a:4)

2.4.2. CONTROL: PUBLIC SECTOR CONTEXT

The public sector unlike the private is concerned with delivering services and ultimately accounting for the utilisation of resources entrusted to it. Thus, the purpose that is served by either CFS or separate financial statements differs completely. In the private sector, companies consolidate their financial statements with those of their subsidiaries to illustrate a true and complete picture of their financial standings at a given time. Companies often invest in the shares of other companies for various reasons such as the realisation of short-term capital gains, to earn dividend income or to gain control over the net assets of another company, and as such prepare CFS to reflect their performance when combined with these companies (Coetzee, Ferreira, Janse van Rensburg, Schmulian, Smit, & Von Well, 2010:2).

Contrary to the private sector, in the public service, government departments establish public entities to achieve their departmental mandates and meet service delivery objectives. The relationship a department has with its entities is similar to that of a holding company and its subsidiaries (DPE, 2002:7). However, a clear description of control in the context of the public sector is significant in determining the department's boundaries and establish whether it exists.

GRAP 6 defines control as the power to govern the financial and operating policies of another entity so as to benefit from its activities (ASB, 2010:7). IPSAS 35 on Consolidated Financial Statements provides a more comprehensive definition of control: "an entity control another entity when the entity is exposed, or has rights,

to variable benefits from its involvement with other the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity" (IPSASB, 2015:7). From these definitions of control, it can be deduced that control exists if a department has the power to govern the public entities' financial and operating policies that report to the respective Minister including the benefits from the activities of that public entity.

GRAP 6 expands the definition of control by providing comprehensive guidance and indicators on which control for the purpose of reporting may exist. This *standard* states that consideration needs to be given to the two elements in the definition of control, namely: the power element (the power by the department to govern the financial and operating policies of its public entities) and the benefit element (which represents the ability of the department to benefit from the activities its public entities) (ASB, 2010:10). The standard also provides power and benefit conditions, and if at least one or more exist between a government department and its entities, control will be presumed to exist. The power and benefit conditions and indicators are state in table 2.3.

Table 2.3: Power and benefit conditions and indicators

Power Conditions	Power indicators
a) The entity has, directly or indirectly through controlled public entities, ownership of a majority voting interest in the other entity. b) The entity has the power, either granted by or exercised within subsisting legislation, to appoint or remove a majority of the members of the Board of Directors or equivalent governing body and control of the other entity is by that Board or body. c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity. d) The entity has the power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body, and control of the other entity is by that Board or body.	a) The entity has the ability to veto operating and capital budgets of the other entity. b) The entity has the ability to veto, overrule or modify governing body decisions of the other entity. c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity. d) The mandate of the other entity is established and limited by legislation. e) The entity holds a “golden share” (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity. f) The entity has the ability to establish or amend the mission or mandate of the other entity. g) The entity has the ability to establish borrowing or investment limits or restrict the other entity’s investments. h) The entity has the ability to restrict the revenue-generating capacity of the other entity, notably the sources of revenue.

Benefit conditions	Benefit indicators
a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.”	a) The entity holds direct or indirect title to the net assets of the other entity with an ongoing right to access these. b) The entity has a right to a significant level of the net assets of the other entity in the event of liquidation or in a distribution other than liquidation. c) The entity is able to direct the other entity to co-operate with it in achieving its objectives. d) The entity is exposed to the residual liabilities of the other entity. e) The entity has ongoing access to the assets of the other entity, has the ability to direct the ongoing use of those assets or has ongoing responsibility for deficits.”

Source: ASB (2010)

The standard states that when one or more of the power and benefit conditions listed above do not exist, the power and benefit indicators are likely, either individually or collectively, to be indicative of control (ASB, 2010:14): From the above, it is clear that GRAP 6 provides comprehensive guidance on which control may be presumed to exist. Therefore, it should not be difficult to establish whether control exist between a department and its controlled entities for purposes of consolidation. Most of the public entities are established in terms of Acts of Parliament which grants Ministers control over these entities, for example, Section 8 of the National Energy Act grants the Minister of Energy the power to appoint the South African National Energy Research and Development Institute board of directors (SA, 2008:12). Figure 2.3 below illustrates how control of another entity is established for financial reporting purposes.

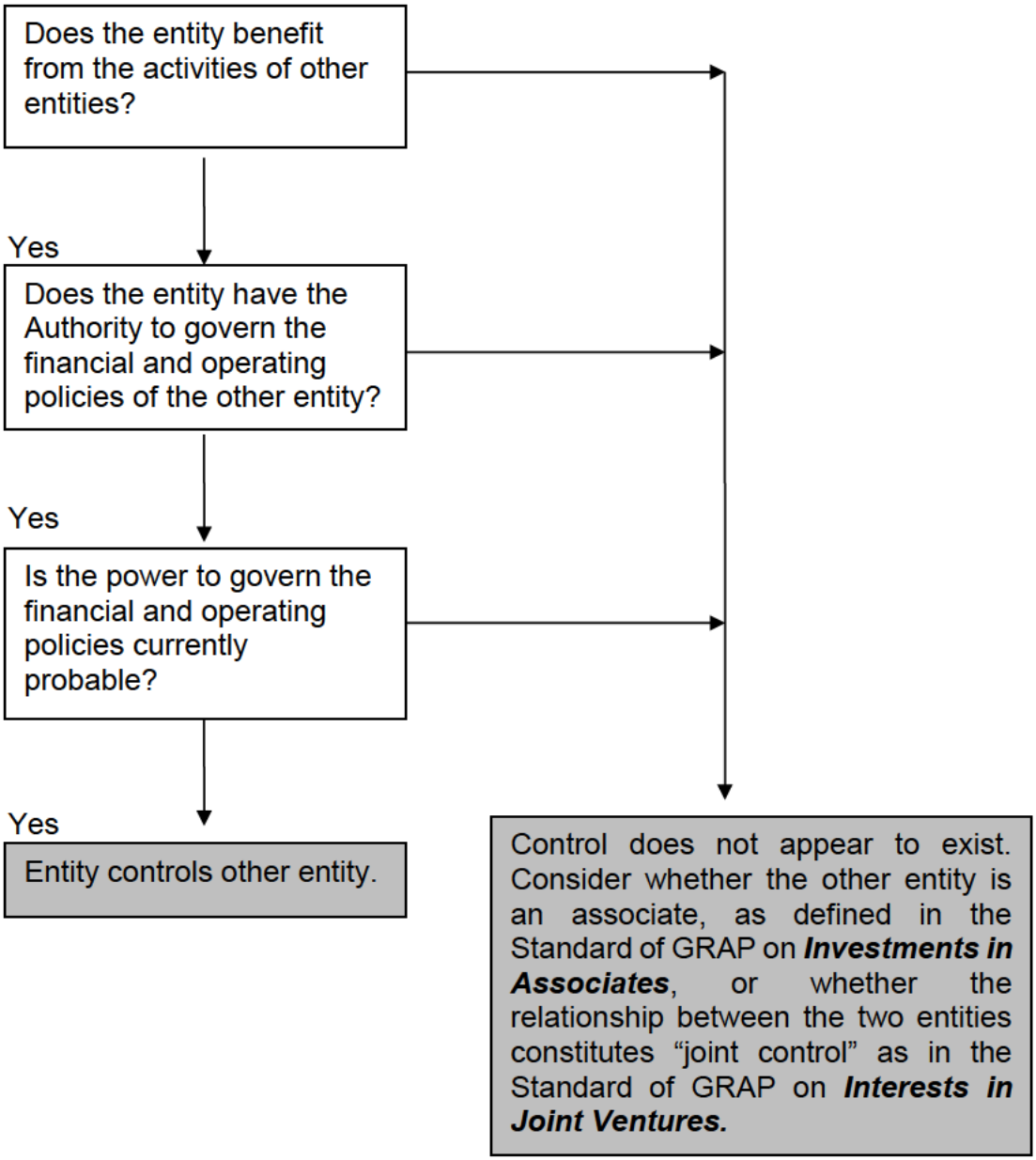


Figure 2.3: Establishing control of another entity for financial reporting purposes

Source: ASB (2010:20)

From the discussion in the previous section on control, one can conclude that GRAP 6 can be utilised to define consolidation at departmental level, however, at the national or provincial sphere, it is difficult to apply the principle. Therefore, it may not be possible to present CFS at either the national or provincial spheres in accordance

with the provisions to present WGA. The CFS is prepared by the Treasuries in countries that adopted the accrual consolidation model. Consequently, it is of significance to evaluate on which basis consolidation is prepared compared to South Africa. This discussion follows in the next section.

2.4.3. CONSOLIDATION IN OTHER COUNTRIES: A CROSS-COUNTRY COMPARISON

The world has become a ‘global village’ (McLuhan, 1964), thus making it difficult for a country to successfully operate a uniquely different set of accounting standards (Sairam, 2012). As a result, even though countries do apply different accounting standards, there is a limited difference in the accrual accounting practices. It is, therefore, important to learn the experiences of other countries which have implemented the consolidation model in their public sector.

Currently, 11 countries compile CFS in their public sectors (Sweden, United Kingdom (UK), United States of America (USA), Canada, New Zealand, Australia, Austria, Finland, France, the Netherlands, and Switzerland), all of which are First World countries, only six of these countries have established consolidation standards (UK, Sweden, USA, Canada, New Zealand, and Australia) (Grossi & Pepe, 2009: 251). For the purposes of this study, focus was placed on the latter since South Africa also applies a consolidation standard. A comparison is drawn as illustrated below in Table 2.4.

2.4.3.1. The United Kingdom

The UK treasury issues a technical accounting guide for the preparation of financial statements referred to as the government financial reporting manual (FReM) and it is prepared following consultation with the FRAB (HM-Treasury, 2016a:1). The legislation that requires consolidation in the UK public sector is Section 9 of the Government Resources and Accounts Act of 2000 (HM-Treasury, 2015:39). The UK government follows IFRS standards, however, the latter is adapted and interpreted in the public sector context. Thus the consolidation standard is IAS 27: Consolidated and Separate Statements. This standard defines control as the power to govern the financial and operating policies of an entity to acquire benefits from its activities. The consolidation boundary in the 2015/16 financial year included approximately 6000 bodies across the central and local government as well as public corporations as illustrated in Table 2.2 (HM-Treasury, 2017:3). Their first set of WGA was published in the 2009/10 financial year (HM-Treasury, 2011).

Table 2.4: Composition of bodies within Whole of Government Accounts

Central government	Central government departments, including devolved administrations	Non-departmental public bodies
		National Health Service trusts
		Foundation trusts
		Academies
Local government	England	Includes local authorities, police and fire authorities, and transport for London
	Scotland	Includes local authorities, and police and fire authorities
	Wales	Includes local authorities, and police and fire authorities
	Northern Ireland	Includes local authorities, and police and fire authorities
Public Corporations	Trading funds	
	Public corporations	
	Other bodies	

Source: HM-Treasury (2017:30)

2.4.3.2. The United States of America

The USA's public service comprises of three levels of government, namely: Federal, State and Local government. The Federal Accounting Standards Advisory Board (FASAB) sets accounting standards for the Federal government (FASAB, 2011) while the Governmental Accounting Standards Board (GASB) publishes standards for the State and Local government (GASB, 1991).

FASAB's *Statement of Federal Financial Accounting Concept 2: Entity and Display* (SFFAC 2), prescribes circumstances on which consolidation may take place for the Federal government, and GASB's Statement No. 14: *The Financial Reporting Entity*, prescribes consolidation for the State and Local government. Therefore, the USA government does not fully prepare WGA, instead, they prepare separate accounts for the Federal government and the accounts for the State and Local government are also prepared independently.

The legislation that requires consolidation at Federal government is the U.S. Code (USC), Title 31, Subtitle I, Chapter 3, Subchapter II, Section 331 which requires the Secretary of the Treasury to prepare the CFS no later than 31 March (USA, 1982). The consolidation boundary in the 2014/15 financial year covered a total of 154 entities composed of 24 Chief Financial Officer Act agencies, 15 additional significant entities as well as 115 additional funds (Department of Treasury {DOT}, 2016:229-230). The first audited set of CFS was published in the 1996/97 financial year (DOT, 1997).

The Federal government utilises two criteria to determine entities included in the consolidation (FASAB, 2011:14). The first is the "conclusive" criteria, which uses an "inherent" conclusion that if an entity appears in the Federal budget section entitled "Federals Programs by Agency and Account" then that particular entity will form part of the consolidation (FASAB, 2011: 14-15).

While the second, the “indicative” criteria determines that an entity meets the criteria to be consolidated if it (FASAB, 2011: 15-16):

- *“Exercises any sovereign power of the government to carry out Federal functions;*
- *Is owned by the Federal government, particular if the ownership is of the entity and not just the property;*
- *Is subject to the direct or continuing administrative control of the reporting entity;*
- *Carries out Federal missions and objectives;*
- *Determines the outcome or disposition of matters affecting the recipients of services that the Federal government provides; and*
- *Has a fiduciary relationship with a reporting entity.”*

2.4.3.3. Australia

In Australia the Australian Accounting Standard Board (AASB) issues financial reporting standards for the private and public sector (AASB, 2011:4). For consolidation purposes, the Australian government follows AASB 127: *Consolidated and separate financial statements*, which describe circumstances during which consolidation may take place (AASB, 2011). This standard is derived primarily from IAS 27: *Consolidated and Separate Statements* as issued by the IASB. However, it contains additional paragraphs for the Australian context. In Australia the Act that requires consolidation is Section 48 of Public Governance, Performance and Accountability Act of 2013, which replaces the former consolidation Act (Section 55

of the Financial Management and Accountability Act of 1997) for financial year starting on 1st July 2014 (Department of Finance [DOF], 2014:62).

The Australian definition of whole of government accounts is different since jurisdiction is the defining feature (Aggestam *et al*., 2014:6). Although Australia operates a three tier federal system (Commonwealth, state and local governments), and each tier produces CFS separately, in practice the latter is produced by each tier has generally been interpreted as whole of government accounts (Walker, 2011:478). The boundary of the Commonwealth CFS covers the Australian government departments of state, Parliamentary departments, other non-corporate Commonwealth entities, corporate Commonwealth entities and Commonwealth companies in which the Australian government holds a controlling interest (DOF, 2015:61).

2.4.3.4. Canada

In Canada the accounting standard body responsible for setting standards for the public sector is the Public Sector Accounting Board (PSAB) (Financial Reporting and Assurance Standards Canada, S.a). The Canadian government utilises the *Public Sector Accounting (PSA) Handbook,* which comprises the accounting standards for federal, provincial, territorial and local governments and government organizations (Province of Nova Scotia, 2010). Section PS 1300 of the *PSA HANDBOOK* provides specific provisions in relation to CFS for the Canadian public sector (Province of Nova Scotia, 2010:5). Legislatively, consolidation is required by

Section 64 of the Financial Administration Act of 1985 as amended on 2016 (Canada, 2016:56).

Prior to 2003, the Receiver General for Canada (RGC) had been preparing the CFS for the government of Canada using the modified accrual basis of accounting (RGC, 1995; RGC, 1996; RGC, 1997; RGC, 1998; RGC, 1999; RGC, 2000; RGC, 2001; RGC, 2002;). It was only in the 2003 financial year that the government implemented full accrual accounting, which was initially set to have been implemented in the 2001/02 financial year (RGC, 2003).

Canada prepares individual consolidated accounts for the Federal government, each of the 10 provincial and three territorial governments and the local governments (Chow, Day, Baskerville, Pollanen & Aggestam, 2015:6). In the Federal CFS, all organisations are defined as departments and crown entities are consolidated, as well as other organisations which meet the definition of control (RGC, 2015:2.9).

2.4.3.5. New Zealand

In New Zealand (NZ), accounting standards are issued by the NZ Accounting Standards Board (ASB) (NZ ASB, S.a). NZ's first set of CFS was published in 1992, making them the first sovereign government to publish comprehensive accruals-based CFS (Lye, Perera & Rahman, 2005:786).

The consolidation standard in this country was SSAP-8: *Consolidated Financial Statements*, which identified the entities for inclusion in the CFS (Newberry, 2011:502), which was replaced in 2004 with the introduction of the NZ IFRS (The Treasury, 2005). The NZ IFRS was applied till the 2013/14 financial year and replaced with Public Benefit International Public Sector Accounting 6: consolidated financial statements (PBE IPSAS 6) for CFS prepared from the 1 July 2014 financial year (The Treasury, 2015:4; NZ Accounting Standards Board, 2013).

Legislation that requires public sector consolidation in NZ is Section 27 of the Public Finance Act of 1989 (NZ, 1989:66). NZ prepares individual CFS for the central government and all local government entities (Chow *et al*., 2015:6). The reporting entity in the NZ central government CFS comprises of (NZ, 1989:67):

- Government departments;
- State-owned enterprises;
- Offices of Parliament;
- Crown entities;
- Organisations named in Schedule 4 to the Public Finance Act of 1989; and
- Others (Government Superannuation Fund, NZ Superannuation Fund & Reserve Bank of New Zealand).

2.4.3.6. Sweden

In Sweden the accounting standard setting body is the Swedish National Financial Management Authority (ESV) which is responsible for financial management and the development of Generally Accepted Accounting Principles (GAAP) in its central

government (ESV, 2001:5). In 1998 after the introduction of the Municipal Accounting Act 1998, the Swedish Council of Municipal Accounting (SCMA) was founded and allocated the responsibility to develop and interpret the GAAP within the municipal sector (Falkman & Tagesson, 2008; Grossi & Pepe, 2009: 252).

The Swedish government has been producing consolidated financial statements for the central government since the 1993/94 financial year (ESV, 2001:7). "For the purpose of consolidation, control exist when the controlling entity has majority control of the voting rights, the ability to approve the statute or similar documents, or the ability to appoint the majority members of the board of directors of the controlled entity or entities" (Grossi & Pepe, 2009: 252) .

Consolidation is required by Chapter 10, Section 5 of the Budget Act of 2011 which states that the central government annual report should be presented to the *Riksdag* (Swedish Parliament) no later than 15 April (Sweden, 2011:12). The reporting entity in the central accounts for the 2007 financial year comprised of 250 government agencies, four public enterprises and state-owned enterprises (Ministry of Finance, 2007:6).

TABLE 2.5 SUMMARY COMPARISON OF CONSOLIDATION IN OTHER COUNTRIES WITH SOUTH AFRICA

	UK	USA	Sweden	Canada	Australia	New Zealand	South Africa
Legislation requiring Consolidation	Government Resources and Accounts Act of 2000.	US Code title 31.	Budget Act.	Financial Administration Act.	Financial Management and Accountability Act of 1997.	Public Finance Act 1989.	Public Finance Management Act of 1999
Consolidation Standard	IAS 27.	SFFAC 2. (Governmental Accounting Standards Board Statement No. 14 for municipalities)	GAAP.	PS 1300.	AASB 1049.	NZ IAS 27. They used SSAP 8 prior to 2004.	GRAP 6.
Implementation Year	2000, however, produced their first set CFS in 2011.	1997.	1993.	1999.	1998.	1992.	2001.
Basis of Accounting	Accrual	Accrual	Accrual	Accrual	Accrual	Accrual	Modified cash basis for government departments and accrual accounting for public entities.
Compiler	HM-Treasury	Department of the Treasury	Swedish National Financial Management Authority	Receiver General	DEPARTMENT OF FINANCE	The Treasury.	National Treasury
Scope of Consolidation	Whole of government	Whole of Federal government. (Also prepares CFS at the state and municipal level)	Whole of Central government. (Also prepares CFS local government level)	Whole of Federal. (Also prepares CFS at provincial government level and local government level)	Whole of Federal government. (Also prepares CFS at the state and local level)	Whole of Central government. (Also prepares CFS for all local government entities)	Whole of National government. (Individual provinces are required to prepare CFS. The same applies for individual

							municipalities and their public entities)
Parliamentary scrutiny	Public Accounts Committee		Swedish National Audit Office	Standing Committee on Public Accounts	Public Accounts Committee	Finance and Expenditure Committee	Standing Committee on Public Accounts
Audit opinion since first publication	Qualified audit opinion since first publication.	Disclaimer of opinion since the fiscal year ended 1998.	Not available	Consistently received unqualified audit opinions since first publication.	Received qualified audit opinions since 1998 including the 2007 financial year. The subsequent CFS had slight improvements.	Consistently received unqualified audit opinions since first publication.	Consistently received a qualified audit opinion since first publication.

The international comparison revealed that as is the case with South Africa, consolidation is required by legislation and the CFS is prepared by the Treasury in all the countries. Secondly, the UK is the only country that prepares CFS at a whole, comprising of the entire government from local to central level, and the remainder of the countries prepare either at central or federal level. In contrast to South Africa, all the countries are on the accrual basis of accounting which makes full accrual consolidation possible. It appears that most of these countries struggled to acquire a favourable audit opinion on their CFS.

In terms of the boundary of consolidation, South Africa follows the same approach as the Australia, Canada and the USA, that is, prepare for each sphere of government. However, the difference with South Africa is that each individual provincial government prepares CFS for its respective government departments and their respective public entities rather than a single consolidation for the entire provincial sphere. The same applies to the local sphere at which individual municipalities prepare CFS between a respective municipality and its controlled entities rather than one consolidation for the entire local sphere of government.

2.5. CHAPTER SUMMARY AND CONCLUSION

Chapter two provided a review of relevant literature. The first section of the literature reviewed demonstrated how financial management in the South African public service was reformed after the inception of the democratic government in 1994 and ultimately the establishment of the ASB as a body tasked with the development of

accounting standards for all three spheres of government. This information was readily available from research conducted by scholars as well as government resources accessed from the internet.

The next section evaluated the relationship between government departments and their respective public entities as well as the legislative framework which governs these relationships to demonstrate the significance of producing a single consolidated report detailing the performance of a department with its respective public entities. A brief comparison revealed how a percentage of ownership in a subsidiary is utilised in the private sector as a justification for consolidation to the ownership of government in public entities. The internet was utilised extensively to gather information of how public entities deliver on certain mandates assigned to government departments.

Since guidelines for effective financial management in the South African public service is regulated, it was important to discuss the financial management regulations which guide government departments and their respective public entities. Sections of the legislation require that consolidation should take place and prescribed the standards that should be followed in this regard. Online government gazettes and Treasury guidelines were utilised to identify the sections that require consolidation.

A review of research by various scholars on consolidation, made it possible to establish whether consolidation in the public sector is defined differently to the private sector. It was, therefore, important to define consolidation in the public sector context in the next section. Research articles on consolidation as well as documents from the International Public Sector Accounting Standards Board (IPSASB) were acquired from the internet for this purpose. The definition of consolidation in the public sector raised a significant question of the defining criteria for consolidation.

For this reason, the fifth section explored control as it applies in the public sector context. This was done to establish the conditions that should be met before forming an opinion that a certain entity has control over another. The GRAP standard on consolidation acquired from the ASBs website was utilised because it contained detailed requirements and conditions that should be met for an entity to be considered to have control over another.

The current consolidation model adhered to by the South African service was reviewed. Therefore, the sixth section provided a detailed discussion of how National Treasury compiles CFS for national government including the accounting basis that is followed. To achieve this, the CFS published in the National Treasury's website was reviewed. It was revealed that the requirements of Legislation that requires consolidation due to different accounting bases applied by government departments and public entities was not complied with. Moreover, the South African government intended to implement full accrual consolidation as recommended by the IPSASB.

Therefore, a cross-country comparison of countries that had adopted the accrual consolidation model was dealt with in the last section. This was done to compare the following aspects: legislation that requires consolidation in these countries; consolidation accounting standard utilised; year accrual consolidation was implemented; basis of account; and the scope of consolidation. This was followed by a comparative summary in tabular format which included South Africa and the aforementioned aspects.

The literature review revealed that limited studies had been conducted to establish the benefits of the accrual consolidation model in government weighed against the costs (Refer to Chapter 4). To achieve the objectives of this study, certain research tools were required. These are discussed in the next chapter.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

Chapter two concluded that although full accrual consolidated financial statements (CFS) at the national sphere of government is stipulated according to Section 8 of the PFMA, a cost-benefit analysis (CBA) was mandatory to establish the benefits and cost of this requirement. The literature review focused on the research questions and objectives which were identified in Chapter one. These referred to the value added by accrual whole of national accounts (WNA) in the South African public service and the scope of consolidation in national government. In this chapter the research methodology is discussed to establish whether there is any value in adopting the accrual consolidation model and the level at which consolidation should take place i.e. scope of consolidation. Figure 3.1 illustrates the link between Chapter three and other chapters of the study.

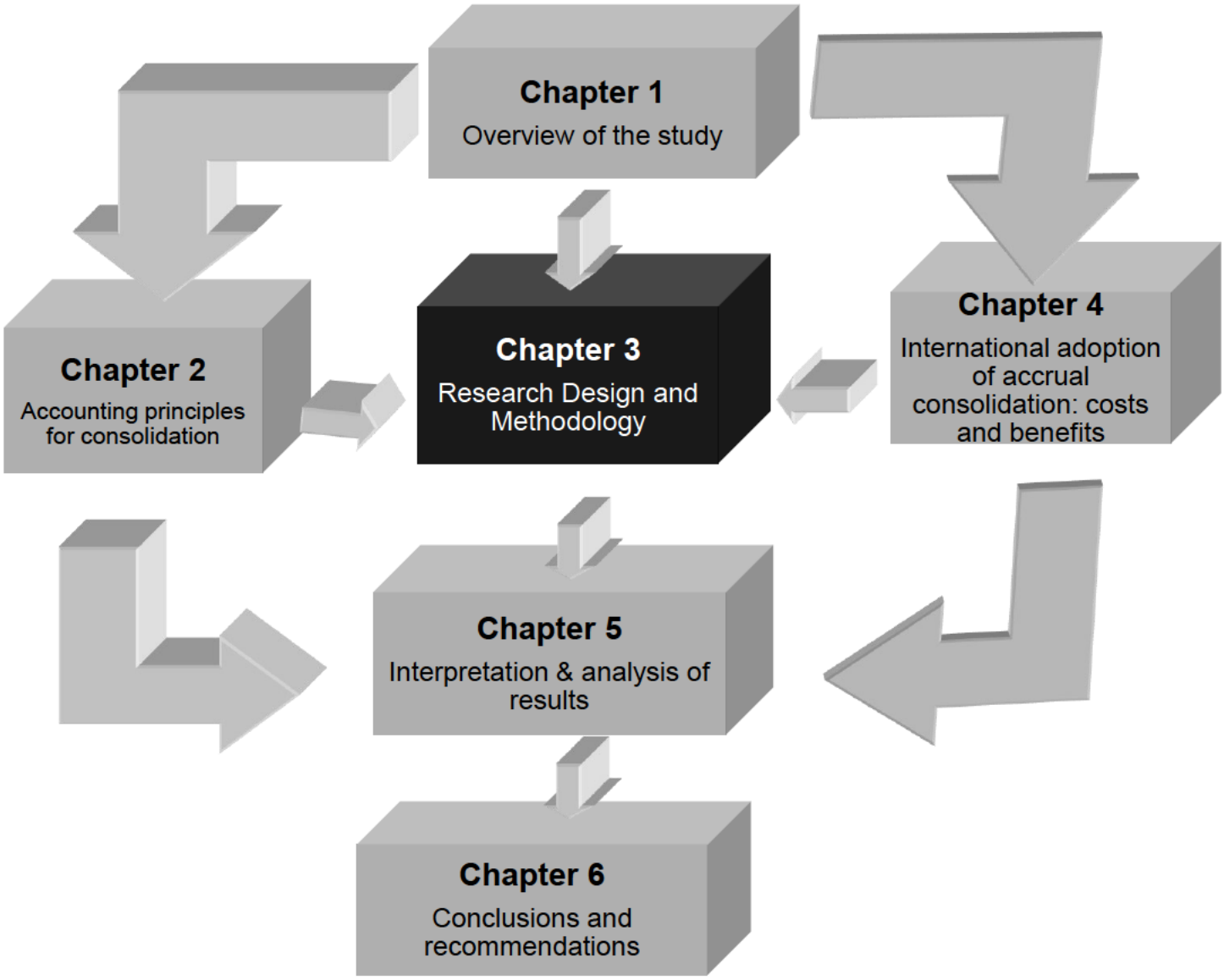


Figure 3.1: Chapter layout – Chapter three in relation to the rest of the study.

The following sections describe the research methodology and the research design adopted for this study.

3.2. RESEARCH DESIGN AND METHODOLOGY

According to Babbie and Mouton (2001:74), a research design is a plan or blue print that has to be followed to realise the research objectives of the study. Krippendorff (2013:82) defined it as a network of steps a researcher takes to conduct research. Therefore, research design represents the master plan that specifies the methods and procedures to collect and analyse the required information.

The study followed an interpretive research paradigm because it relies on the principles from the interpretive science thereby enabling new insight of a particular phenomenon and discover the problem that subsists within the phenomenon (Leedy & Ormrod, 2010:136; Neuman, 2011:165). The interpretive research paradigm was also considered with the research objectives mentioned in Chapter one. Since the positivist research paradigm accentuates measuring variables and testing hypotheses (Neuman, 2011:165), it was not considered appropriate for this study. The study applied qualitative research methods to achieve the objective of the study. This section describes how the selected research designs and methods were applied to address the research problem.

3.2.1. QUALITATIVE CONTENT ANALYSIS

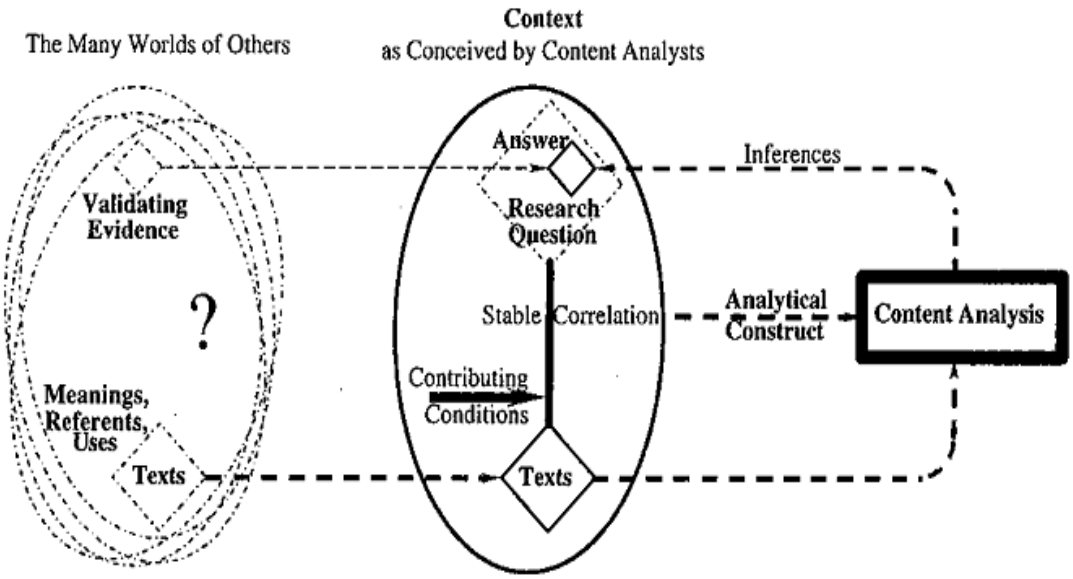
One of the objectives of this study was to determine the value of accrual public sector consolidation by conducting a qualitative cost–benefit analysis of the countries that had adopted this model. To determine the variables that informed the costs and benefits, a qualitative content analysis method was adopted. Neuman (2003:310) defines content analysis as “a technique for gathering and analysing the content of text”. Krippendorff (2013:24) defines it as “a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the context of their use”. Hsieh and Shannon (2005:1278) defined it as “a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns”.

The content/text includes books, speeches, newspaper articles, letters, and transcripts of conversations, laws and constitutions. Leedy and Ormrod (2010:144) defined content analysis broadly as a “detailed and systematic examination of the contents of a particular body of material for the purpose of identifying patterns, themes, or biases”. In the context of this study, the body of material included CFS of these countries including related documents.

Since all these countries are located beyond the borders of Africa, it limited one’s direct observation or conduct interviews regarding the selected model in these countries. Consequently, the content analysis approach was adopted. The major

advantage hereof is the fact that it is an unobstructive method and does not rely on the research subject's response rate. This implies that the bias and errors linked to interaction between the researchers and the research subjects are averted.

However, one has to be mindful of Krippendorff's (2013:32) correct assertion that documents used in content analysis should be placed in the correct context. Documents which are placed in the incorrect context may result in interpretations that do not make sense. Therefore, it was important to 'connect' the body of knowledge, research question and objective of the study and thereby place the relevant literature in the correct context. Furthermore, draw inferences that intend to respond to the research question as well as validate the evidence (Krippendorff, 2013:35). Figure 3.2 provides a simple framework for content analysis:



(Source: Krippendorff, 2013:36)

FIGURE 3.2: Framework for Content Analysis

The selected countries' CFS documents which formed part of the content analysis were analysed in the context of determining the value of preparation to draw inferences from the analysis through coding. The CFS documents that were analysed focused on the Accounting Officer's comments, management discussions as well as the AGSA's report. Content analysis does, however, present a major disadvantage in terms of validity and reliability of utilised information sources (Babbie & Mouton, 2001:393). Since no interaction would take place with the research subject, there was limited room to validate or confirm the content of the public documents under review. This disadvantage was addressed in 3.2.4, which was utilised as a measure of the quality of the information collected through this method.

Content analysis can be applied qualitatively as well as quantitatively. Krippendorff (2003:87) states that "quantification is not a defining criterion for content analysis". Quantitative content analysis is widely used in communication research studies to count "manifest textual elements", while qualitative content analysis explores the meanings underlying physical messages and this process is designed to reduce raw data to categories or themes on valid inferences and interpretations (Zhang & Wildemuth, 2009:308-309). In contrast to quantitative content analysis which produces counts and statistical significance, qualitative content analysis "uncover patterns, themes, and categories important to a social reality" (Zhang & Wildemuth, 2009:308-309).

This study adopted the qualitative content analysis approach. Hsieh and Shannon (2005) provide three approaches to qualitative content analysis, namely: conventional, directed, and the summative approach. The conventional content analyst derives categories from information during data analysis, while the summative content analyst identifies and quantifies content with the purpose to comprehend the contextual utilisation of the content (Hsieh & Shannon, 2005:1283; 1286). This study adopted the directed content analysis, which develops the initial coding scheme prior to beginning to analyse the information from subsisting theory or prior (Hsieh & Shannon, 2005:1286).

A further distinction of content analysis is whether to follow the deductive approach which is primarily utilised in quantitative content analysis or the inductive approach in qualitative content analysis (Elo & Kyngäs, 2007; Zhang & Wildemuth, 2009). When using the inductive approach, “themes and categories emerge from the data through the researcher’s careful examination and constant comparison” (Zhang & Wildemuth, 2009:309). The choice of information and the unit of analysis to be observed will depend on what the researcher intends to establish (Zhang & Wildemuth, 2009:310).

3.2.1.1. Unit of analysis

Krippendorff (2013:98) asserts that the first task for a researcher in any empirical study is to decide what is to be observed. Babbie and Mouton (2001:384) draw a distinction between unit of analysis and unit of observations in their explanation of

content analysis. The unit of analysis in this study includes the countries that implemented the accrual consolidation model, while the unit of observation are the documents that were analysed.

An important factor that had to be considered was the sampling units. Krippendorff (2013:99) defines sampling units as “units that are distinguished for selective inclusion in an analysis”. He further notes that “content analysis must define sampling units so that connections across sampling units, if they exist, do not bias the analysis, and all relevant information is contained in individual sampling units, or, if not, the omissions do not impoverish the analysis” (Krippendorff, 2013:98). This was taken into account when selecting units for inclusion in the analysis.

Babbie and Mouton (2001:166) state that in certain instances it is appropriate for a researcher to select a sample based on the researcher’s own knowledge of the population, its elements and the nature of the research aims. This study used purposive sampling, also referred to as “relevance” sampling by Krippendorff, (2013:120). This type of non-probability sampling aims “at selecting all textual units that contribute to answering given questions” (Krippendorff, 2013:120).

The financial statements of the six governments reviewed included: audit reports thereof as well as an analysis of the research papers on public sector consolidation to identify the costs and benefits to prepare these statements. Themes emerged

from the analysed statements. Table 3.1 illustrates the content that was analysed in the six identified countries:

TABLE 3.1: Volume of content analysed per country

Unit of analysis	Unit of observation	Sampling Units	NUMBER OF DOCUMENTS ANALYSED
United Kingdom	Whole government accounts, audit reports, fiscal sustainability reports, scoping study	1998, 2011, 2012, 2013,2014, 2015, 2016	7
United States of America	Financial report of the USA, audit reports	1998 – 2016	19
Australia	Consolidated financial statements, audit reports, Australian National Audit Office paper on accrual whole of government accounts, guide to financial statements, Report of joint committee on public accounts	1997 – 2016	24
Canada	Public accounts	1995 – 2012	18
New Zealand	Financial Statements of the government, research articles	1994, 2000 – 2012	19
Sweden	Swedish Financial Management Authority's paper on accrual accounting, research paper	2001, 2011	2

The sampling units were selected on the basis of the year in which a particular country progressed to full accrual consolidation. For instance, in the case of Australia, full accrual consolidation was implemented in the 1997/98 financial year. Hence, documents from that particular financial year was analysed. The availability of documents was also a factor in selecting the sampling units, for example, New Zealand which published their first set of accrual consolidated financial statements in 1992. However, the 1999/00 financial year consolidated financial statements were available and as such, the analysis included CFS from that financial year.

In the case of Sweden, all CFS were in Swedish only with the exception of two documents related to accrual consolidation in English. These two documents, as mentioned in Table 3.1 provided information related to costs and benefits.

3.2.1.2. Coding

Babbie and Mouton (2001:388) assert that “content analysis is essentially a coding operation.” While Krippendorff (2013:126) states that coding is a significant component of content analysis. This study used two coding methods taken from the many provided by Saldaña (2009) namely: descriptive coding, and *in vivo* coding. When using descriptive coding, a content analyst summarises the primary topic of an excerpt to a word or short phrase (Saldaña, 2009:70). However, when utilising *in vivo* coding, the content analyst takes a word or a short phrase from the actual excerpt (Saldaña, 2009:74).

Descriptive and *in vivo* coding methods were applied to the unit of observation for the UK and the USA as a pilot study to generate categories for both the costs and benefits of the accrual consolidation model. The codes that were identified in the pilot study were utilised to create a coding manual that was applied to the remainder of the units of observation. However, different costs and benefits were identified in the pilot study which gave rise to new codes. The new codes were added to the coding manual and the consistency thereof examined for the USA and the UK. This was done in an effort to increase the reliability of the coding manual.

Table 3.2 illustrates the final coding manual that was utilised to identify the costs and benefits. Certain codes such as transparency, as reflected in Table 3.2, both methods, descriptive and *in vivo*, were applied because in certain instances the code appeared as part of the excerpt while in another, it was utilised to summarise the primary topic of the excerpt.

TABLE 3.2: Coding manual

Category	Definition	Example	Coding Rules	Method
C1:Transparency	Government's obligation to share information with citizens.	"Provides the President, Congress, and the American people with a comprehensive view of the Federal government's finances."	Aspects of the excerpt have to point to the definition of transparency.	Descriptive and *In vivo*
C2:Accountability	Ensuring that government is answerable for its actions and that there is redress when duties and commitments are not met.	"Can be used as a key means through which Parliament might scrutinise public finances and hold the government to account."	The word/s "accountability or "to account" should appear in the excerpt.	*In vivo*
C3:Decision-making	Government finance decision-making and processes.	"The CFS inform long-term fiscal analysis and decision-making."	The word "decision-making" should appear in the excerpt.	*In vivo*
C4:Once-off costs	Cost that is incurred only once, in the process of implementing a system.	"The RGC had to harmonise the accounting policies of certain Crown entities with the government's accounting policies."	Aspects of the excerpt have to point to cost that will only be incurred once, otherwise they would be under C7.	Descriptive
			The word "training" should appear in the excerpt. However, a sentence that	

C5:Education and Training	The process of furthering ones knowledge and skills.	"Treasury had to increase its formal and informal training of agency financial management personnel."	suggests education and training was considered.	Descriptive and *In vivo*
C6:IT costs	Costs that relate to software upgrades and IT consultants.	"Treasury implemented a new reporting system referred to as the government-wide Financial Reporting System to effect consolidation."	Aspects of the excerpt have to be reflective of IT costs.	Descriptive
C7:Continuing annual costs	Costs that are not once-off, i.e. that would continue to be incurred even after the system has been implemented.	"The IT costs will amount to around £150,000 per annum after the new system has been implemented."	Aspects of the excerpt have to be reflective of continuing annual costs.	Descriptive
C8:Risks	Results that may affect the credibility of the consolidated financial statements.	"Some entities did not prioritise the submission of information to central agencies which leads to delays in producing the CFS."	The excerpt should reflect an event or word that would lead to a risk of delays, misstatements, audit qualifications etc.	Descriptive and *In vivo*

3.2.2. QUALITATIVE COST-BENEFIT ANALYSIS

As mentioned in Section 3.2.1, this study adopted a qualitative CBA to determine the costs and benefits of the accrual consolidation model. The variables thereof were identified by means of a qualitative content analysis.

CBA is defined as a method or tool that is used to conduct an evaluation or assessment of an investment, project, a change in policy or regulatory arrangement, to support decision-makers to make a choice concerning scarce resources (NZ Treasury, 2005:6; Department of Finance, 2006:4; Trebilcock, Yatchew & Baziliauskas, 2007:3). In the context of government, CBA is largely concerned with the social welfare of society as well as determine whether projects or policies will improve the welfare of the citizens and should thus be supported (Perkins, 1994:9; Nas, 1996:148-149; De Rus, 2010:20). The basic principle of CBA is that costs should be weighed against the benefits (Hansson, 2007:163).

Therefore, the costs and benefits of an intervention are determined to evaluate whether there are net benefits associated with that particular intervention. Traditionally, CBA quantifies the costs and benefits and reduces the relationship between the costs and the benefits to a ratio (Perkins, 1994; Nas, 1996; De Rus, 2010). The basic premise of a CBA is that if the benefits of an intervention exceed the costs, then the intervention is viable, however, if the costs exceed the benefits then the opposite is true.

However, with the latter it may not necessarily imply that the intervention will not produce benefits, because certain benefits could be of a qualitative nature and

cannot be quantified. This implies that even if the quantified costs exceed the quantified benefits, the intervention could be supported based on its qualitative benefits.

3.2.2.1. The idea of utilising a qualitative of cost-benefit analysis for governmental decisions

CBA has been subject to certain forms of criticism primarily from environmentalists and a number of academics due to its requirement of attaching a monetary figure to identified variables, which in certain instances is difficult or even impossible to do as well as the "bias" results it produces (Heinzerling & Ackerman, 2002; Sustein, 2005; Driesen, 2006; Hahn & Dudley, 2007; Hansson, 2007). Since certain variables are difficult to quantify, certain CBAs which are conducted, generally omit significant variables, more especially those that relate to benefits (Driesen, 2006:340-341).

Furthermore, it is occasionally difficult to conduct a quantitative CBA in a study that has many dimensions, because it may lead to spurious accuracy. Rogers, Stevens and Boymal (2009:84) also stated that "it is not always possible to quantify and convert to a dollar figure the costs and benefits associated with an intervention, even using techniques such as 'willingness to pay'". Although this statement is debatable as soon as the decision-maker wants to decide, not on the basis of a profile, but on the basis of information aggregated into a single dimension, one has to be aware that valuation is subjective, i.e. it depends on the objectives and the decision field of the decision-maker – and even these may change over time. Therefore, coefficients, weights etc. may easily be adjusted to receive arbitrary or desired

results (Klingelhöfer, 2006:2-3, 27-29). Problems of such monetisation can thus be avoided by a qualitative CBA.

Therefore, a qualitative CBA was adopted for this study to determine the costs and benefits of CFS to avoid identified problems of the former. Rogers, Stevens and Boymal (2009:84) further stated that a “more comprehensive and rigorous identification of costs and benefits may be more useful, and less prone to misuse and confusion, than premature quantification of an incomplete set of costs and benefits”.

A qualitative CBA is, however, not the most frequently used approach compared to a quantitative CBA, because as Ziller and Phibbs (2003:142) acknowledge, “quantifiable costs and benefits are often preferred, not necessarily because the person commissioning the evaluation believes these are more important but because it is this part of a CBA that will win the day”. Furthermore, one has to take into account that considerable parts of the cost and often even of the benefits are already quantified in monetary units. Nevertheless, monetising the non-monetary cost and benefits requires a transformation accepted for the purpose. Since this is often a political decision, depending on the given or followed implemented objective system, performing the conversion might lead to arbitrary results. A CBA matrix is utilised in this study to analyse the qualitative costs and benefits of CFS which is discussed in the next section.

3.2.2.2. CBA matrix approach

Ziller and Phibbs (2003) developed an integrative CBA matrix in their evaluation of the New South Wales Area Assistance Scheme (2002) to enable them to include a wide range of costs and benefits, both quantifiable and ones that are difficult to quantify. Their approach used a participatory framework which enables stakeholders to contribute towards the CBA (Rogers, Stevens & Boymal, 2008:11). Ziller and Phibbs (2003:142-143) completed the matrix through face-to-face meetings with stakeholders to identify and discuss the costs and benefits.

The CBA matrix approach provides social impacts equal standing with other impact variables, unquantified data equal standing with quantified data, and it presents the relationship between various costs and benefits without reducing this relationship to a ratio (Ziller & Phibbs, 2003:142; Rogers, Stevens & Boymal, 2008:11). The result is a multi-dimensional risk profile which allows the decision-maker to make up his/her own mind and/or to use his/her own parameters to weigh the given dimensions. Table 3.3 illustrates an example of the matrix which will be presented in chapter five.

TABLE 3.3: COST-BENEFIT ANALYSIS MATRIX

STAKEHOLDERS	NON-FINANCIAL BENEFITS	FINANCIAL BENEFITS	NON-FINANCIAL COSTS	FINANCIAL COSTS
Expected Costs and Benefits for the public sector	Transparency	Fiscal-policy decisions	Audit Qualifications	Training and Education

Adapted from Zille and Phibbs (2003)

The matrix in this study is different from the one of Ziller and Phibbs (2003) utilised to determine the costs and benefits. In this study the costs and benefits were determined through a content analysis of CFS, other relevant government documents and articles in countries that adopted the consolidation model as mentioned in Section 3.2.1.

3.2.3. E-MAIL INTERVIEWS

The purpose of interviews in this study was primarily to enrich the CBA findings with opinions expressed by stakeholders in South Africa. An advantage of this method is that it "allows participants to take their time in answering questions and to take part in the interviews in a familiar environment which may make them feel more relaxed expressing themselves and in responding when and how they feel comfortable" (Meho, 2006:1290). This method however, requires the researcher to structure the questions in such a manner that they are self-explanatory to avoid miscommunication and misinterpretation of the question (Meho, 2006:1290). Every effort was taken to formulate the questions as self-explanatory as possible.

3.2.3.1. Selection of participants

The participants were selected on the basis of a stakeholder's role in the CFS. The approach of the interviews was to solicit the official stance of an organisation rather than the view of a participant in their personal capacity. The justification for selecting a participant in this manner was that in the event government decided to implement full accrual consolidation, these institutions would be affected the most. For

example, the compiler would change from compiling the CFS utilising the modified cash basis to full accrual accounting and the auditor's scope and method of audit might change. The study envisaged to interview the participants in Table 3.4, however, only participant Number 1 responded. The responses provided by this participant was deemed adequate to enhance the literature review and CBA findings because this response was perhaps the most significant since they are responsible for the development and issuing of the CFS standard.

TABLE 3.4: INTERVIEW PARTICIPANTS

Organisation	Role
1. Accounting Standards Board	Responsible for drafting the accounting standards.
2. National Treasury: Office of the Accountant General	Responsible for the implementation of the GRAP standards and preparing consolidated financial statement.
3. Auditor-General of South Africa	Responsible for auditing the consolidated financial statements.

3.2.3.2. Interview schedule

The following aspects were covered by the interview questions:

A. Resources

- Resources required to compile the CFS using the current consolidation model in contrast to the resources that would be required to compile the CFS using the accrual consolidation model (IT requirements, Accounting consultants etc).

- Resources required to audit the current consolidation model contrasted with resources that would be required to audit the accrual consolidation model.

B. Education and Training

- The training requirements that are currently provided to departments and public entities on an annual basis of the consolidation model in contrast to the training that would be required with the accrual consolidation model.
- The training requirements for the audit team that audits the CFS in the advent the accrual consolidation model is adopted.

C. Compliance

- Adopting the accrual consolidation model to comply with the requirements of the PFMA.
- The effect of complying with the PFMA, by adopting the accrual consolidation model, will have on the audit opinion.

D. Information requirements of users

- Information that institutions such as Parliament use in the CFS as a tool to measure government performance.
- Additional information required by users who are not provided by the current consolidation model.

E. Opportunity cost

- The forgone use of the resources that would be required to implement the accrual consolidation model.

3.2.4. TRUSTWORTHINESS

Zhang and Wildemuth (2009:313) state that “validity, reliability, and objectivity are the criteria that is used to evaluate the quality of research in the conventional positivist research paradigm”. Brink (1993:35) asserts that validity and reliability are key aspects of all research. However, Neuman (2011:208) asserts that “reliability and validity are ideas that help to establish the truthfulness, credibility, or believability of findings”. However, various researchers posit that validity and reliability are terms utilised primarily in the quantitative paradigm to measure quality of research. Therefore, since there is a difference in the purpose of evaluating quality in quantitative and qualitative studies, most qualitative researchers utilise the term “trustworthiness” (Brink, 1993:35; Golafshani, 2003:601; Zhang & Wildemuth, 2009:313).

Since this study followed the qualitative paradigm as mentioned above, the term “trustworthiness” was utilised as a measure of quality. According to Lincoln and Guba (1985) as cited by Golafshani (2003:601), the essential criterion for quality in the qualitative paradigm is “credibility, transferability, dependability, and confirmability”. With regard to the content analysis in this study, trustworthiness was evaluated as follows:

- Transparent processes were designed for coding. Precise coding definitions and clear coding procedures as reflected in Section 3.2.1.2, to ensure credibility of the coding procedure.
- Although transferability cannot be claimed in this study, the coding scheme that was utilised is listed in Section 3.2.1.2. It included identification numbers, category names, category definitions, coding rules, the method of coding used and examples. “This documentation of the coding scheme makes it easier for future researchers to judge the transferability of the criteria to other user populations or other situational contexts” (Zhang & Wildemuth, 2009:315).
- A transparent coding process and clear distinction between categories ensure dependability. Consistency of the coding process was ensured by utilising the same coding manual for the selected countries.
- Research results on the accrual consolidation model from independent researchers was considered to ensure that information (especially benefits) established through content analysis was confirmed by the independent researchers and not propagated. Hence, confirmability was ensured.

3.3. ETHICAL CONSIDERATIONS

Ethical considerations were taken into account for this study. With regard to information acquired online from the selected countries’ Treasuries utilised in this study, the disclaimer on the website was examined to ensure that it was permissible to utilise the work gathered for research purposes. The participants were provided with a letter of consent to sign before the interviews were conducted. They were

also informed that their views and comments might be quoted in the research report. Generally, the following ethical norm and values are adhered to:

- Ascribed authorship appropriately;
- Abstained from any form of plagiarism;
- Abstained from falsifying information;
- Strived for objectivity and integrity;
- Respected the right to privacy; and
- Respected the right to confidentiality.

3.4. CONCLUSION

Chapter three described the research design and the methodology adopted to achieve the objectives of the study stated in Chapter one. The content analysis approach was adopted to gather information from selected countries, while e-mail interviews were utilised primarily to lobby South African stakeholder perceptions to enhance the CBA findings. However, as stated in Section 3.2.3.1, only the ASB responded. It must be noted that the single response did not invalidate the CBA findings. The primary aim of the e-mail interviews was to enrich the CBA findings. The core of this study was to determine the costs and benefits of adopting the accrual consolidation model which are presented in Chapter four.

CHAPTER 4

INTERNATIONAL ADOPTION OF THE ACCRUAL CONSOLIDATION MODEL: COSTS AND BENEFITS

4.1. INTRODUCTION

Chapter two concluded that consolidation at the national sphere of government is necessary to reflect its performance when consolidated with the public entities. The biggest challenge as noted in Chapter two preventing consolidation as required by Section 8 of the PFMA to take place, is, the different accounting bases applied by departments and public entities. This study focused on the cost and benefits of preparing full accrual CFS rather than the transition to accrual accounting.

This chapter presents the cost and benefits of adopting full accrual consolidation from an international perspective. The views of those who are critical of the move to full accrual consolidation and those who question the “claimed” benefits thereof including those who advocate its implementation are presented in Section 4.3. Figure 4.1 illustrates the link between Chapter four and other chapters of the dissertation.

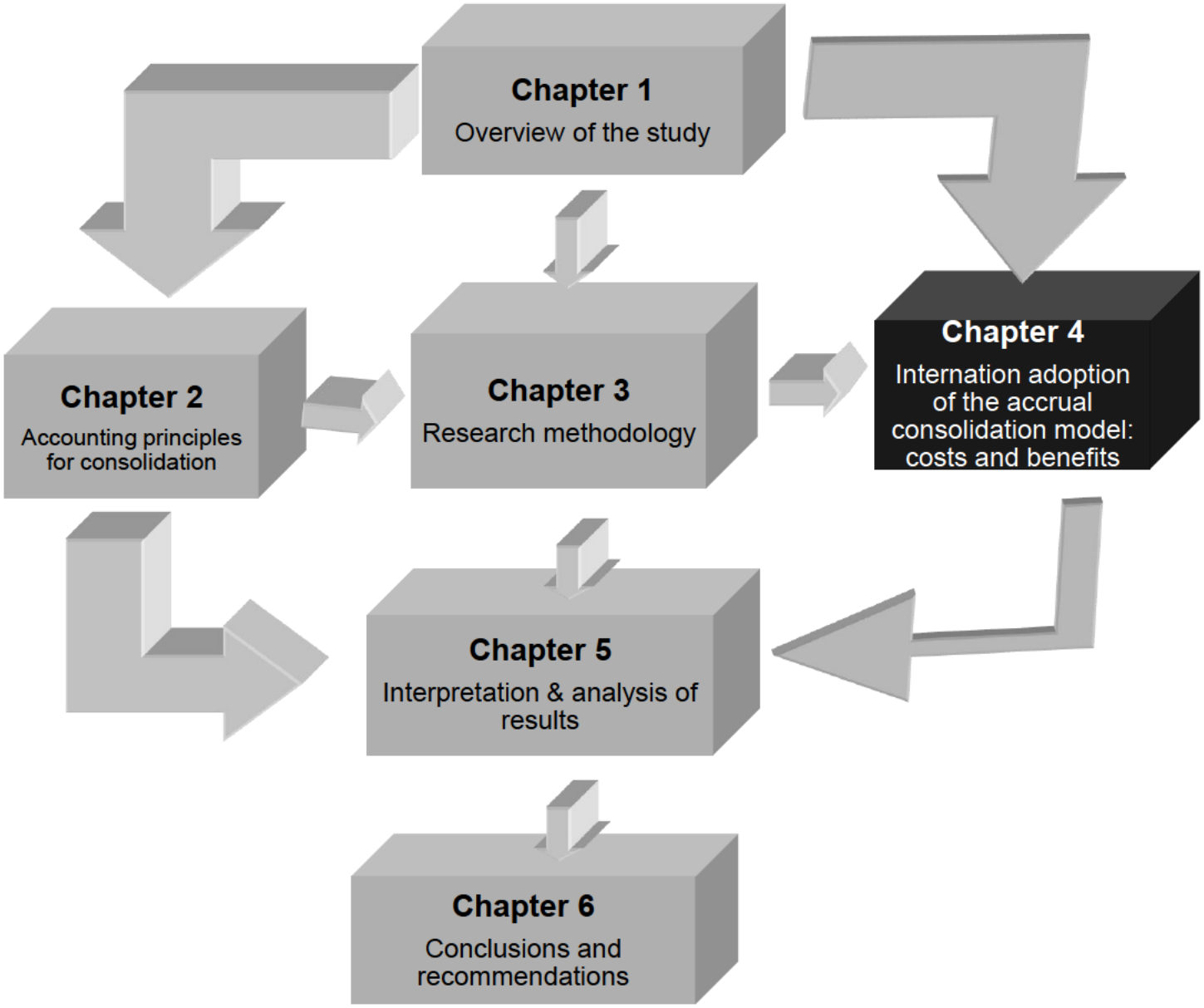


Figure 4.1: Chapter layout – Chapter four in relation to the rest of the study.

The following sections present the cost and benefits acquired through content analysis of various countries. At the end of the chapter, the views of those critical of and those who advocate the accrual consolidation model are discussed.

4.2. QUALITATIVE COSTS AND BENEFITS OF PUBLIC SECTOR ACCRUAL CONSOLIDATION

The cost and benefits were identified from the six countries that were reviewed in Chapter two. The aim was to identify the type of costs South Africa can expect should they migrate to full accrual consolidation at central government sphere. Of outmost significance was to determine whether the accrual consolidation model presents any benefits to justify the costs. The cost definition in this study is adapted from the business dictionary which defines it as a monetary valuation of: (1) effort, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of a good or service (Business dictionary, S.a). The countries that were reviewed included: UK, USA, Australia, Canada, New Zealand and Sweden.

4.2.1. THE UNITED KINGDOM

The UK's move to full accrual consolidation was hailed by many professional bodies such as Moody's and the International Monetary Fund (IMF) (HM-Treasury, 2012:72). As mentioned in Chapter two, the first set of accounts was produced on November 2011 for the 2009/10 financial year and the current set for the 2015/16 financial year produced on July 2017. A content analysis of the seven publications and other reports, (focus was placed on the sections that expressed the views of the AO of the HM-Treasury and the Comptroller and Auditor-General (CAG)), revealed the following benefits and costs related to the CFS:

Benefits:

- The IMF praised the WGA's wide coverage and completeness in its evaluation of UK's fiscal transparency and acknowledged its potential relevance to policy decisions (HM-Treasury, 2017:122). ***Category (C)3***
- The CFS is perceived as "a major step forward in transparency and accountability" (HM-Treasury, 2013:3; HM-Treasury, 2014:3). ***C1***
- The Treasury utilises the WGA to monitor fiscal risks, in particular contingent liabilities since these have the potential to impact public spending choices and a close review hereof particularly financial guarantees, are crucial for the effective management of public finances (HM-Treasury, 2015:6). ***C2***
- The CAG stated that the CFS can be used "as a key means through which Parliament and other stakeholders might gain greater insight into the wide range of activities that the government undertakes, scrutinise public finances and hold the government to account" (HM-Treasury, 2011:43; HM-Treasury, 2012:49; HM-Treasury, 2013:156). ***C2***
- The data from the CFS was also utilised to review the public sector asset base and challenge of how assets are used to deliver public services (HM-Treasury, 2013:4; HM-Treasury, 2014:5; HM-Treasury, 2015:5). ***C2***
- The publication of data in this account is a major step forward in ensuring transparency and accountability of public finances (HM-Treasury, 2011:3, 27). The CAG also shared this view and stated that "the WGAs aid the transparency of public finances" (HM-Treasury, 2013:182). ***C1***
- They also offered insight into the long-term sustainability of public finances (HM-Treasury, 2011:6; HM-Treasury, 2012:12). ***C3***

- The Office of the Budget Responsibility (OBR) utilises the WGAs to assess the fiscal impact of past government activity (OBR, 2011:4). "It is also being used to support longer term fiscal analysis, as evidenced by the Office of Budget Responsibility's use of WGAs data to inform its annual Fiscal Sustainability Report" (HM-Treasury, 2013:3). ***C3***
- The CAG stated that the CFS can inform long-term fiscal analysis and decision-making which can further be utilised as a baseline to judge the success of the government's Spending Review and the reduction of its deficit (HM-Treasury, 2011:57; HM-Treasury, 2012:48). ***C3***

Costs:

The following costs were evident:

- Progressive steps were taken to harmonise accounting standards across the public sector (HM-Treasury, 2011:4; HM-Treasury, 2012:10;). ***C4***
- To support the AO for WGAs in his/her role, HM Treasury formed a WGAs Assurance Committee to advise the AO. The Assurance Committee members drew on a range of expertise to offer advice (HM-Treasury, 2011:5; HM-Treasury, 2012:11; HM-Treasury, 2014:40; HM-Treasury, 2015:42). ***C7***
- HM Treasury utilised the Combined Online Information System (COINS) to effect the consolidation of WGAs. It was in the process of replacing COINS with a new consolidation tool which was envisaged for the 2012-13 preparation of accounts (HM-Treasury, 2011:197; HM-Treasury, 2012:223; HM-Treasury, 2016b:176). ***C6***
- HM Treasury had to train and educate departments of how WGAs would affect them and what processes would have to be undertaken to comply with

WGAs requirements. This was done through training events designed to update staff on the progress of the WGA project (Chow, Humphrey & Moll, 2008:15). ***C5***

- "Continuing Professional Development forums are held to update Treasury staff on WGA progress, while a phone line and a website provide support for government departments that require further assistance in submitting their accounts to Treasury" (Chow, Humphrey & Moll, 2008:15). ***C7***
- The WGAs were published 19 months after the end of the financial year for the first two publications, which implied that they revealed the previous government's financial position of 19 months rather than the current position (HM-Treasury, 2011:44; HM-Treasury, 2012:75). Although there was a slight improvement from the third publication to the current (HM Treasury, 2017) (published 16 months after the end of the financial year), this compromised reliability of the CFS. ***C8***
- The following risks were evident (HM-Treasury, 2011:31-32; HM-Treasury, 2012:36; HM-Treasury, 2013:27;; HM-Treasury, 2015:162; HM-Treasury, 2017:40) ***C8***:
    - Audit qualifications;
    - Inaccuracies in entities' WGAs returns, resulting in materially misstated balances;
    - Failure to provide data or delays in the submission of WGAs returns;
    - Mismatching and non-elimination of intra-group transaction streams and balances, resulting in materially misstated figures;
    - Risks of inconsistent application of accounting policies in the public sector; and

- Risk of government bodies not always prioritising the WGAs submissions.

4.2.2. UNITED STATES OF AMERICA

A content analysis was conducted of the CFS from the 1997/98 to the 2015/16 fiscal year to determine the benefits and cost of CFS as the UK, focus was placed on key management discussions as well as the Comptroller-General (CG)). The benefits and the costs are presented below.

Benefits:

- The CFS is considered a significant management tool for policy-makers (DOT, 1999:1). ***C3***
- Information about the fiscal position of the country, GDP growth, employment figures etc. is provided in one document (DOT, 2011:17-22; DOT, 2012:15-21; DOT, 2013:14-19). **C1**
- The CFS can assist citizens in understanding current fiscal policy including the significance and magnitude of policy reforms necessary to ensure sustainability (DOT, 2013:16). ***C1***
- It “provides the President, Congress, and the American people with a comprehensive view of the Federal government’s finances” (DOT, 2012:1; DOT, 2013:1). ***C1***
- The CFS is a valuable tool to analyse the government’s financial condition (DOT, 1999; DOT, 2000). **C3**

- The CG stated that long-term sustainability of fiscal policies could also be helpful for decision-makers who consider the government's financial position and make decisions about resource allocation (DOT, 1998:24). **C3**
- The CG further stated that the CFS would also help inform budget deliberations by providing additional information beyond that provided in the budget on the long-term cost implications for a wide range of government programs (DOT, 1999:24). ***C3***

Costs:

- Treasury had to increase its formal and informal training of agency financial management personnel. The training addressed common errors identified in agency information used in the preparation of the U.S. government's 1997 CFS (DOT, 1999:10-11). ***C5***
- In 2004 the Treasury implemented a new reporting system referred to as the government-wide financial reporting system to collect agency financial statement information directly from federal agencies' audited financial statements rather than utilise Standard General Ledger data as Treasury had done in previous years to compile the CFS (DOT, 2006:44). ***C6***
- The CG was not able to render an opinion on the CFS (disclaimer of opinion) since its first publication to date (DOT, 2017:239; DOT, 2016:227; DOT, 2015:222; DOT, 2014:226; DOT, 2013:214; DOT, 2012:225; DOT, 2011:213; DOT, 2010:168; DOT, 2009:161; DOT, 2008:150; DOT, 2007:136; DOT, 2006:29-34; DOT, 2005:29-39; DOT, 2004:29-39; DOT, 2003:25-33; DOT, 2002:23-28; DOT, 2001:21; DOT, 2000:21; DOT, 1999:16). ***C8***

- A task force was established to address problems experienced with regard to identifying and eliminating transactions between agencies (DOT, 2000:11). ***C7***
- There were and currently risks of misstatements in the CFS, which affects the reliability of the amounts reported due to the government's inability (DOT, 1999:15; DOT, 2000:19-29; DOT, 2001:20-28; DOT, 2002:23-35; DOT, 2003:25-39; DOT, 2004:29-48;DOT, 2005:29-47;DOT, 2006:29-34; DOT, 2007:138-150;DOT, 2008:153-161;DOT, 2009:162-163; DOT, 2010:169-170; DOT, 2011:213-214; DOT, 2012:225-226; DOT, 2013:214-215; DOT, 2014:227; DOT, 2015:222; DOT, 2016:227; DOT, 2017:239) ***C8***:
    - properly identify and eliminate transactions between federal government entities and agency adjustments that affected net position which result in Asset, Equity and liability misstatements;
    - properly account for and report billions of dollars of property, equipment, materials and supplies;
    - properly estimate the cost of most federal credit programs and the related loans receivable and loan guarantee liabilities;
    - estimate and report material amounts of environmental and disposal liabilities and related costs;
    - determine the proper amount of various reported liabilities, including postretirement health benefits for military and federal civilian employees, veterans compensation benefits, accounts payable, and other liabilities;

- accurately report major portions of the net costs of government operations;
- determine the full extent of improper payments that occur in major programs and annually estimated to involve billions of dollars;
- properly account for billions of dollars of basic transactions, especially those between governmental entities;
- ensure that the information in the CFS is consistent with agencies' financial statements;
- ensure that all disbursements is recorded properly; and
- effectively reconcile the change in net position reported in the financial statements with budget results.

4.2.3. AUSTRALIA

In Australia, a number of key government officials have prior to the first publication of full accrual CFS praised the move, citing many benefits which are presented below, along with the costs. The Department of Finance (DOF) stated in a booklet issued to Parliament and the public that the CFS provided information to (DOF, 1997:1-5):

- assist users to assess the performance and financial position of the Commonwealth public sector, ***C1***
- assist the government in its financial planning, ***C3***
- accountability to the citizens for the government's overall financial management, ***C2***

- The CFS assists the government to establish goals for the future and apply financial targets to individual entities, ***C3***
- Consolidation of the financial statements of different entities helps to facilitate the overall performance and financial position of the public sector, the reason for changes in the financial results and the impact of government policies on the economy. ***C3***

The Australian National Audit Office's (ANAO) views of the CFS were as follows (ANAO, 1997:2-5):

- CFS is the cornerstone towards greater government financial transparency and accountability, ***C1 & C2***
- the CFS provides an overview of the Commonwealth's financial position, its assets and liabilities and cash flows, ***C2***
- credible information is provided upon which informed decisions can be made on the government's overall objectives and in respect of choices that it considers in the allocation of scarce resources to its various priorities and commitments, ***C1***
- the CFS enables the reader to assess the degree to which the Commonwealth is building or running down its asset or liabilities, ***C1***
- they further reveal how government is funding expenditure and changes to the revenue base that reflects a complete picture rather than the limited interpretation provided by traditional cash statements and reporting systems, ***C1***
- the CFS will also facilitate financial analysis of the Commonwealth's policy and operations on different sectors of the economy. ***C3***

The views of the Joint Committee on Public Accounts (JPCA) with regard to the CFS were as follows (JCPA, 1995:12):

- the CFS aid in appreciation of the long-term financial effects of government decisions, ***C3***
- they provide one reference source to enable strategic assessments and planning at government level, ***C3***
- assessments can be made of the performances of government in their stewardships of resources available to them, ***C2***
- they enhance the transparency and visibility of government performance and strengthen accountability, ***C1***
- they enhance scrutiny of public finances and also offer other benefits for financial planning and fiscal policy development. ***C3***

Costs:

- A number entities failed to meet submission deadlines of audited financial information to the DOF (ANAO, 2008:11). ***C8***
- The Department of Finance advised that costs would be incurred in setting up a system for CFS and structures to be able to process the information. The Auditor-General at the time stated that if new systems were required then costs could be significant (JCPA, 1995:12). ***C6***
- The CFS received qualified audit opinions since the first publication to the current for the 2015/16 financial year (DOF, 2010; DOF, 2011; DOF, 2012; DOF, 2013; DOF, 2014; DOF, 2015; DOF, 2016). ***C8***

- Audit expenses to audit the CFS. (DOF, 2010:221; DOF, 2011:222; DOF, 2012:176; DOF, 2013:191; DOF, 2014:221; DOF, 2015:181; DOF, 2016:166). ***C7***

4.2.4. Canada

In contrast to the above countries, Canada started producing CFS before implementing full accrual accounting, whereas the preceding countries implemented the mentioned accounting system initially after which the consolidation model followed. Therefore, the benefits identified below are in the majority of how full accrual accounting improved Canada's CFS including the costs which were incurred as a result of this transition to full accrual accounting.

Benefits (HM-Treasury, 1998:145; RGC, 1999 RGC, 2003; RGC, 2004; RGC, 2005):

- The first noted benefit was that the transition to full accrual accounting resulted in recording tens of billions of dollars in additional assets and liabilities in the CFS such as capital assets, taxes payable and receivable, which did not appear in the prior years. ***C1***
- The CFS serves as a key accountability document of the government of Canada to Parliament and the public. ***C2***
- The annual deficit reported in the WGAs is the key indicator of fiscal management by the government. Moreover, the deficit target influences decision-making profoundly throughout the year. Therefore, CFS is utilised as a tool for fiscal policy. ***C3***

- The CFS enables the public to have a broader understanding of the government's financial operations. ***C1***
- The document provides comparisons of the government financial results to the gross domestic product, which is considered as appropriate indicators of the trends in the government's financial performance. ***C2***
- The CFS provides information of the total assets owned by the government of Canada as well as information of who and what the government owes. ***C1***

Costs (RGC, 1999; RGC, 2000; RGC, 2003; RGC, 2006; RGC, 2008; RGC, 2009; RGC, 2012):

- The RGC implemented a new financial information central system which allows departments to connect their own financial systems to the central system, for the purpose of producing CFS. ***C6***
- Accounting policies and practices had to be updated, and communicated to departments and agencies to enable standardised accounting policies. ***C4***
- Training had to be provided to departments' and agencies' financial management personnel. ***C5***
- The RGC had to harmonise the accounting policies of certain Crown entities with the government's accounting policies. ***C4***
- In the 2005/06 fiscal year, Canada adopted a new requirement to determine which entities should form part of the CFS. The previous standard considered ownership and accountability, while the new standard considered control. This resulted in a restatement and reclassifying of prior years' results and accumulated deficits presented for comparative purposes to conform to the 2005/06 presentation. ***C8***

- Certain entities did not prioritise the submission of information to central agencies which lead to delays in producing the CFS.
- Certain entities made a transition to International Financial Reporting Standards (IFRS), which resulted in the following:
    - The RGC had to identify the differences between the old and new accounting policies to ensure that it has the information necessary to adjust the required to prepare the CFS,
    - The RGC also had to provide proper guidance to Crown corporations for reporting the required adjustments, ***C5***
    - Complying with the changeover to international standards involved a rigorous conversion process and a significant investment in human and financial resources and a change in information systems.***C5 & C6***

4.2.5. New Zealand

As stated in Chapter two, the New Zealand government was the first country to adopt full accrual consolidation. Therefore, most countries utilised their approach as a guideline. The benefits and costs of the New Zealand context is presented below:

Benefits (Warren, 1994; HM-Treasury, 1998:145; New Zealand Treasury, 2000; New Zealand Treasury, 2001; New Zealand Treasury, 2002; New Zealand Treasury, 2003; New Zealand Treasury, 2004; Lye, Perera & Rahman, 2005; New Zealand Treasury, 2005(**b**); New Zealand Treasury, 2005 (**a**); New Zealand Treasury, 2006; New Zealand Treasury, 2007; New Zealand Treasury, 2008; New Zealand Treasury,

2009; New Zealand Treasury, 2010; New Zealand Treasury, 2011; Newberry, 2011; New Zealand Treasury, 2012):

- The CFS provides a snapshot of the progress the government has made in implementing its fiscal strategy. ***C1***
- They provide a comprehensive overview of all the Crown's resources. ***C1***
- The CFS provides better information on the government's fiscal position and stewardship. ***C1***
- They enhance Parliaments ability including others to hold the Executive to account. ***C2***
- The CFS provides an improved basis on which fiscal policy decisions can be taken. ***C3***
- The CFS assists financial information users to comprehend the government's fiscal performance. ***C2***
- The publication of the CFS promotes better benchmarking and analysis of government services leading to performance improvements. ***C3***
- Evidence from the CFS suggests that there was an improvement in asset management. ***C3***
- The government utilises the CFS to provide a comprehensive account of the resources utilised including its assets and liabilities. ***C2***
- The CFS enables users to assess the overall financial operations and the government's financial position. ***C2***
- Government uses the CFS to demonstrate its accountability for its actual financial performance against forecasts. ***C2***
- The CFS provides users with information on the degree to which the government can increase its financial resources to respond to rising

commitments, by either expanding its revenues or increasing its debt burden. ***C2***

- The CFS provides information of the cost of current services and the current infrastructure for the provision of services. ***C2***

Costs (Warren, 1994; New Zealand Treasury, 2005(**b**); New Zealand Treasury, 2006; New Zealand Treasury, 2008):

- A project steering committee and sub-project teams were established and resourced to provide an overview of processing the production of the new series of accrual CFS. ***C4***
- A process was implemented to develop uniform accounting policies for the government, which were subjected to an external review by accounting experts. ***C4***
- A commercial collection and consolidation software package was purchased which streamlined the data collection process by allowing the information to be collected electronically and consolidated automatically. ***C6***
- Treasury visited each department at which individual issues were discussed and group seminars were held on the entire CFS process. ***C5***
- The CFS was marketed through a consultation processes on the accounting policies and format thereof. These were followed by presentations for Ministers, Members of Parliament, financial market analysts and the media on the significance and interpretation of the first set of financial statements. ***C5***
- The government's transition to New Zealand IFRS in 2007, led to the following:

- The Treasury had to develop New Zealand IFRS accounting policies for the CFS;
- Draft New Zealand IFRS policies were provided to entities for consultation;
- Disclosures and systems had to be updated to capture changes in policy;
- Treasury provided guidance on implementation procedures to entities;
- Comparative figures were reaffirmed to align with New Zealand IFRS. However, the reaffirmed data prior to 2007 was not subjected to an audit.

4.2.6. Sweden

In the case of Sweden, it was not possible to review their central accounts or most of the financial management regulations and documents because these are published in Swedish and English translations were not available. Only two relevant documents could be found which were translated to English. The documents primarily addressed accrual accounting adoption as a whole, and not specifically consolidation. Sweden produced their first set of CFS in the same year they adopted accrual accounting which was in 1993 (ESV, 2001:6). Therefore, the benefits and costs presented below is partially accrual accounting because it relates to the CFS rather than consolidation in isolation.

Benefits (ESV, 2001; Söderhult, 2011):

- The CFS provides essential information to Parliament on the central government's financial operation. ***C2***
- The statements serve as a central source of information to Parliament to assess whether the government administered the funds placed at its disposal in the intended manner. ***C2***
- The CFS provides an account of the costs of government operations and decisions related to resource allocation. ***C2 & C3***

Costs (ESV, 2001; Söderhult, 2011):

- Accounting policies had to be formulated and harmonised for the entire central public sector. ***C4***
- Education, training and information activities were conducted to provide an overview of accrual accounting. ***C5***
- The agencies transfer their financial information to the ESV which is stored in the Aggregated Central Government Accounting System (Hermes). ***C6***
- To effect consolidation, ESV utilises IBM Cognos Controller as software. ***C6***

Important costs that were not mentioned above include the continuing annual costs (audit costs, operating the consolidation IT system, consultants etc.) to produce the CFS. Although it was suggested that the continuing annual costs are minimal once the public sector has adopted the model (HM-Treasury, 1998:44), these costs are taken into account in the cost-benefit analysis (CBA) matrix. The next section considers views by independent researchers.

4.3. CONSIDERATION OF CRITICAL VIEWS ON THE BENEFITS OF ACCRUAL CONSOLIDATION

The benefits presented in this chapter were primarily gathered from assertions provided by government officials and organisations. Consideration was given to the fact that any regime that implements a system may attempt to justify their actions by propagating sound benefits and downplay the negative aspects. Therefore, to balance the analysis, it was important to consider other views of the benefits provided by accrual consolidation, whether positive or negative. Independent researcher's views were considered. Although there is a fair amount of literature on public sector accrual consolidation, studies that specifically address the benefits/usefulness of accrual CFS are limited, especially for the USA (no studies were found that deal specifically with the benefits of consolidation in the USA). The limited studies that were analysed are presented in Table 4.2.

The Association of Chartered Certified Accountants (ACCA) produced two reports of a two-part study by Aggestam, Chow, Day and Pollanen (2014), and Chow, Day, Baskerville, Pollanen and Aggestam (2015) on WGAs. The first part of the study aimed to establish who utilised the WGAs, while the second part aimed to determine how the WGAs are used based on an account of participants they interviewed from five countries (UK, USA, Australia, New Zealand and Sweden) (Aggestam *et al.*, 2014; Chow *et al.*, 2015). Both studies were very critical of the "claimed" benefits of WGAs, suggesting that there is limited evidence of how they are used or if financial markets, credit rating agencies and other analysts utilise WGAs (Aggestam *et al.*, 2014:5; Chow *et al.*, 2015:4).

Moody's credit rating agency praised the UK's move to full accrual consolidation in their weekly credit outlook at the time the UK published their first set of WGAs, that is, "the publication of WGAs will add further strength to the process of developing the country's long-term fiscal policy objectives" (HM – Treasury, 2011:72). There is, however, limited evidence to suggest that Moody's actually utilises the WGAs. Other views that were considered were expressed by the following researchers:

- Walker (2009) compiled a list of eighteen potential judgements that could be made by various participants on the basis of aggregate financial information;
- Newberry and Pont-Newby (2009) analysed the ownership form of control in the New Zealand WGAs;
- Heald and Georgiou (2011) evaluated the macro-fiscal role of the UK WGAs;
- Chow, Humphrey and Moll (2008) assessed the implementation of WGAs in the UK;
- Challen and Jefferey (2003) conducted a study on the harmonisation of government finance statistics and Generally Accepted Accounting Principles;

TABLE 4.1 ANALYSIS OF INDEPENDENT RESEARCHERS' VIEWS ON PUBLIC SECTOR ACCRUAL CONSOLIDATION

	Negative	Positive
The UK	- Chow *et al*. (2015:4) stated that in the UK, the participants struggled to provide an example of a decision made on the basis of WGAs. - Chow, Humphrey and Moll (2008:21) cited Chow *et al*. (2007) that "doubts in the UK about the usefulness of WGAs information were fuelled further when the government professed that WGAs information will only be one of a number of indicators used for its long-term planning of public finances". - Chow *et al*. (2015:10) asserted that the perspective of a Member of Parliament who participated in their study reflected that "there is a general belief that WGAs lack the user-friendliness needed to encourage non-specialists or non-accountants to engage more fully with the published report and the parliamentary debates that ensue". - Chow *et al.* (2015:34) revealed that in the UK there were certain participants who expressed scepticism of the value of utilising WGAs for anything more than accounting-centric functions such as compliance reporting and audit.	- Heald and Georgiou (2011:470) assert that WGA in the UK can contribute towards greater fiscal transparency by generating and provide the public domain with information relevant to policy debates. - Chow *et al*. (2015:11) assert that "the move to consolidation at the WGA level has enabled HM Treasury to work better with finance teams within government, especially those with asset and liability heavy departments such as the Ministries of Defence". - The Chartered Institute of Public Finance and Accountancy (CIPFA) (2015:3) states that the "publication of WGA improves the transparency of government spending decisions and their impacts on the public finances by providing a more complete picture of the government's financial position than the National Accounts".
Australia	- Chow *et al*. (2015:5) posit that in Australia, the participants revealed that WGAs are "generally not used or understood by parliamentarians; they attract limited media attention and public interest; and have limited use by credit rating agencies". - Walker (2009:171) concluded that the financial information relevant to the judgements provided by WGA users was previously provided by other sources such as budget documents and government finance statistics (GFS). - Chow, Humphrey and Moll (2008:21) state that the introduction of WGAs in Australia has led to confusion over identifying the differences in the information presented by the subsisting GFS accrual reports and the newer GAAP-based accrual reports. - In Australia, WGAs could be considered less important because the common view was that the focus of parliamentarians and other interest	- Chow *et al*. (2015:14) posit that one of the participants asserted that a "potential tangible benefit of WGA is that it can illuminate difficult debates on the effects of current public spending policies on intergenerational fairness".

	groups was on the budget numbers. Furthermore, the media was more interested in the budget because government announces aspects which have an impact on people (Aggestam *et al*., 2015:14). - In earlier studies, Challen and Jeffery (2003:50) asserted that since WGAs are produced long after the end of the financial year (six to eight months) and are incomparable to the primary budget documents for the relevant year, financial markets, credit-rating agencies and other analysts generally make limited utilisation of the WGA. A credit rating manager interviewed by Aggestam *et al*. (2015:13) stated that WGAs in Australia "were used only in a relatively small part of the credit rating evaluation (about 20%)".	
Canada	- WGAs "are not used for management planning, decision-making and internal accountability purposes to any significant degree" (Aggestam *et al.,* 2015:4). - A participant in the study by Aggestam *et al*. (2015:18) held that the complexity of WGAs creates a limitation for parliamentary accountability; an accounting background is required to understand the WGAs. - Aggestam *et al*. (2014:20) assert that departments and agencies still maintain their own duplicate accounting system for managerial decision-making purposes, therefore, the value of WGAs to senior administrators and managers for planning, decision-making and control is limited.	
New Zealand	- The New-Zealand Finance and Expenditure Parliamentary Committee commented that they do not utilise the CFS for decision-making (Newberry & Pont-Newby, 2009:239)	- Chow *et al*. (2015:16) stated that in New Zealand, the participants "were able to identify a clear link between WGAs and policymaking at the macro-economic level, as well as improved planning for the capital maintenance of public sector assets." - The comprehensiveness of the WGAs in the New Zealand "allows better assessment of the long-term consequences of current decisions, and enables identification of high-risk strategies combined with the ability to compare actual performance with what was planned" (Aggestam *et al*., 2014:16). - Newberry and Pont-Newby (2009:239) asserted in their study that the New-Zealand Finance and Expenditure Parliamentary

		Committee supported the rationale of stronger accountability as a result of the accrual CFS.
Sweden	- Chow *et al*. (2015:5) assert that the preparation of CFS in Sweden does not have a primary objective to strengthen financial reporting in the public sector, but is rather perceived as a supplementary benefit of having implemented accruals. - In Sweden, the state budget is the primary instrument through which government implements its economic policies and Parliament exercises its financial power; WGAs is not utilised for this purpose (Chow *et al*., 2015:21). - Chow *et al*. (2015:21) posit that the respondents in Sweden struggled to articulate the extent to which WGAs had any significant impact on government activities and on the parliamentary accountability process. - In the study by Chow *et al*. (2015:23), a respondent "suggested that there was some indication that the media and other stakeholders might not be aware of how to understand and use the information provided in the consolidated statements and thus they were more comfortable in using the more familiar document such as the budget proposition and reports on national debt".	- "… the production of central government consolidation have led to an improved framework for stronger governance and internal control in Sweden" (Chow *et al*., 2015:22).

4.4. CHAPTER SUMMARY

This chapter presented the costs and benefits of adopting the accrual consolidation model. The first part (Section 4.2) presented the costs and benefits from statements provided by government officials and other government oversight agencies of the six countries reviewed. The second part (section 4.3) presented independent researchers' views of the "claimed" benefits of adopting the accrual consolidation model.

It was evident from this chapter that the most stated benefits across all the countries reviewed centred around transparency and accountability. Only a limited number of benefits focused on decision-making. The reason for the focus on transparency and accountability when advocating the move to accrual consolidation may very well be the fact that transparency is the cornerstone of any democratic government. Governments are required to be accountable to the citizenry for the utilisation of resources.

As reflected in Table 4.1, not many studies could be found that supported the assertion that accrual consolidation improves transparency and accountability. To the contrary, most of the studies disputed this assertion that transparency and accountability will improve on the basis of the implementation of accrual consolidation. Only studies in the UK and New Zealand drew a link between accrual consolidation and the state benefits. The decision-making benefit was widely rejected by the independent studies, citing that other financial information such as budget documents and government financial statistics are preferred by users. It was

only in New Zealand that a clear link between CFS and decision-making could be drawn.

The costs that were incurred across the reviewed countries included IT costs, training and education, and various consolidation task teams. The accrual consolidation model requires the utilisation of a consolidation accounting software. Therefore, a government that intends to move to accrual consolidation would have to invest in such a software. The costs and benefits presented in this chapter are analysed in the following chapter.

CHAPTER 5

ANALYSIS AND INTERPRETATION OF RESULTS

5.1. INTRODUCTION

The primary objective of the study was to determine the cost and benefits of preparing accrual CFS in the public service. This, as mentioned in Chapter three, was achieved through a qualitative content analysis which was utilised to identify the variables for the qualitative CBA. In this chapter the results of the qualitative content analysis is analysed, interpreted and translated to the cost-benefit matrix. Figure 5.1 illustrates the link between Chapter five and related chapters of this study.

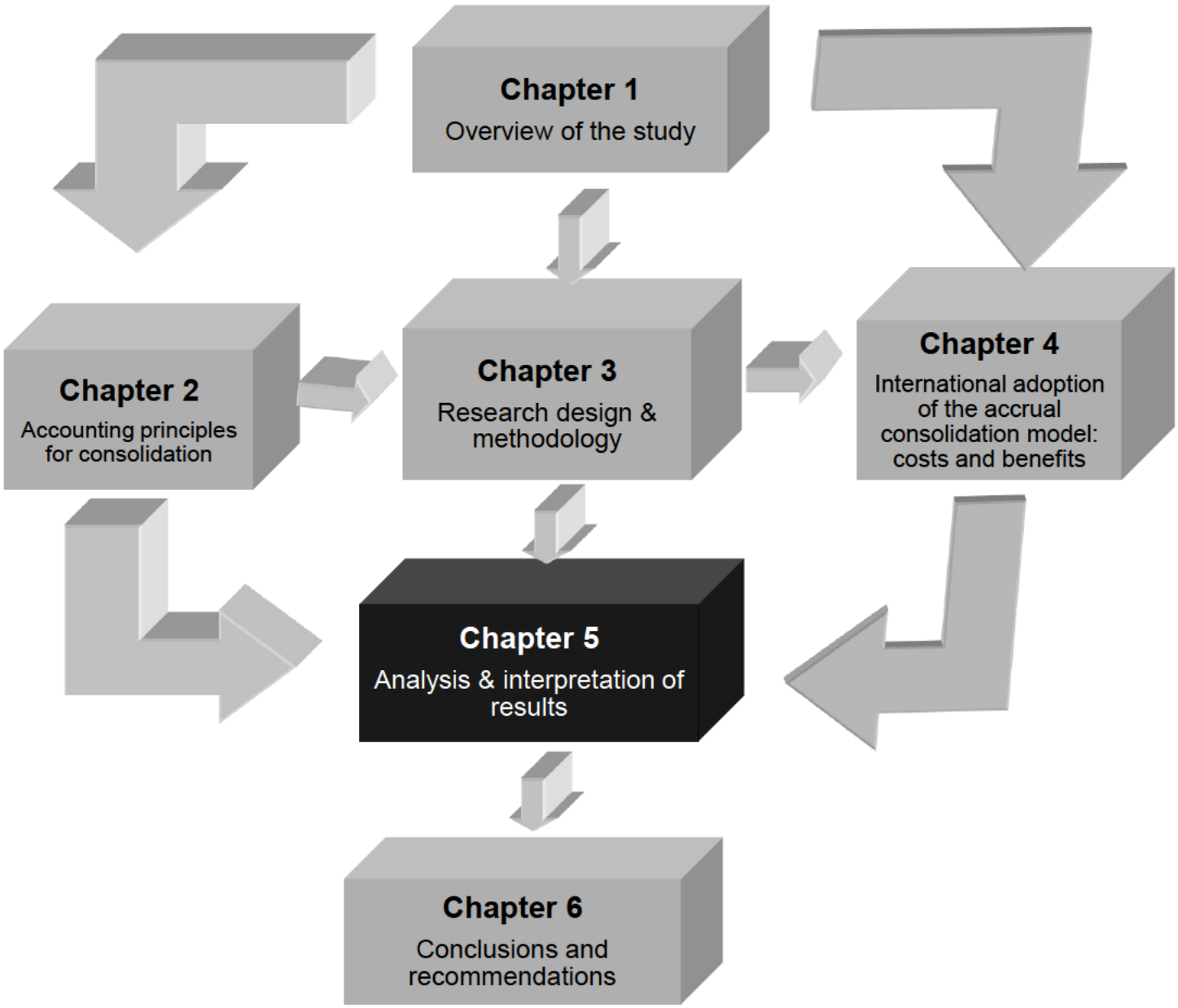


Figure 5.1: Chapter layout – Chapter 5 in relation to the rest of the study.

The following sections provide an analysis of the costs and benefits that were identified through qualitative content analysis.

5.2. ANALYSIS AND INTERPRETATION OF CONTENT ANALYSIS RESULTS

The coding manual in Chapter three identified eight categories of costs and benefits which were applied to the selected reviewed countries through various coding rules and types. Below is an analysis of each of the selected reviewed countries' categories with specific focus on the benefits. The analysis considered the number of benefits that were identified in each country from government documents utilised in the content analysis. The analysis also revealed whether any independent research studies were conducted that agree with the stated benefits or dispute those as propagated.

In certain categories of benefits no research could be found that either supported or disputed the benefits identified for a particular country. This implied that the only source for those benefits was government documents for that particular country. Therefore, in those instances it was difficult to draw a conclusion whether the South African government was likely to derive similar benefits should they implement full accrual consolidation.

The analysis focuses on the following categories of benefits which were identified in Chapters three and four: (a) transparency; (b) accountability; and (c) decision-making. With regard to costs, none of the studies disputed the costs identified. Consequently, it was difficult to conduct an analysis of the costs. Therefore, a comparison of the costs identified from the selected reviewed countries is conducted in Table 5.4 to identify costs that are common in all the countries. Table 5.4 also includes a comparison of similar benefits of the selected reviewed countries. The costs and benefits in Table 5.4 are analysed in the cost-benefit matrix in Table 5.5

because they were most likely to be similar for South Africa should the accrual consolidation model be implemented.

TABLE 5.1: C1 – TRANSPARENCY

Australia	Canada	New Zealand	Sweden	UK	USA
- Six benefits were identified that related to this category of benefits. - No research was found that supported this benefit. - A question could arise around the intended audience of the CFS. The CFS in Australia attracted limited media attention and public interest.	- The content analysis identified three transparency benefits. - No research was found that either supported or disputed these benefits.	- Three transparency benefits were identified. - No research was found that either supported or disputed these benefits.	- No benefits were identified that relate to this category.	- The content analysis identified two benefits of accrual consolidation that related to transparency. - Table 4.1 in Chapter four identified two independent research reports that supported the view that accrual CFS contributed towards greater fiscal transparency. - No independent research could be found that disputed the transparency benefit.	- Two benefits related to this category were identified. - No research was found that either disputed or supported these benefits.

Table 5.2: C2 – ACCOUNTABILITY

Australia	Canada	New Zealand	Sweden	UK	USA
- The content analysis identified four benefits that related to this category. - No research was found that either supported or disputed the benefits listed in this category.	- Two benefits were identified that relates to this category of benefits. - No studies that either support the stated benefits were found. - However, these benefits were disputed because the complexity of CFS creates a limitation for Parliamentary accountability.	- The content analysis identified seven benefits in this category. - The New-Zealand Finance and Expenditure Parliamentary Committee supported the rationale of stronger accountability as a result of the accrual CFS. - No study was found that disputed these benefits.	- Three benefits were identified in this category. - No study was found that supported these benefits. - Instead, the participants in one of the studies struggled to articulate the extent to which the use of CFS had any significant impact on the Parliamentary accountability process.	- For the UK, two benefits related to this category were identified. - The analysis in Table 4.1 in Chapter four revealed that no research was found that either supported or disputed this benefit.	- No benefits were identified that related to this category of benefits.

TABLE 5.3: C3 – DECISION-MAKING

Australia	Canada	New Zealand	Sweden	UK	USA
- Seven benefits were identified that relate to this category. - No research was found that supported the state benefits. - Various researchers disputed the benefits stated under this category. - A conclusion was drawn in one of the studies that judgements made by CFS users of are already supplied by other sources such as budget documents and the government finance statistics. - Parliamentarians and other interest	- One benefit identified in this category, was disputed. - One of the studies revealed that in Canada, CFS was not used for planning and decision-making to a significant degree. - Another stated that the value of CFS to senior managers for planning and decision-making is reduced since departments maintain their own duplicate accounting system for	- The content analysis identified three benefits in this category. - Participants in the studies were able to identify a clear link between CFS and policy-making in New Zealand. - Another study stated that the comprehensiveness of CFS allows better assessment of the long-term consequences of current decisions. - However, in an earlier study, the New-Zealand Finance and Expenditure Parliamentary Committee commented that they do not use the	- One benefit was identified in this category. - In Sweden the state budget is the primary instrument through which government implements its economic policies and Parliament exercises its power, therefore there is limited utilisation of CFS in this regard. - No study was found that supported this benefit.	- In this category, four benefits were identified. - No research could be found that supported these benefits. - Participants of one of the studies could not provide an example of a decision made on the basis of the CFS.	- Three benefits were identified that related to how the CFS assists government in the budget and fiscal policy decision- making. - No independent research study was found that either supported or disputed the benefits identified.

groups focus on budget numbers rather than the CFS. - Credit rating agencies make limited use of CFS. This was echoed by another study, which stated that in evaluating the credit rating, CFS are only used in a relatively small part.	managerial decision-making purposes.	CFS for decision-making			

It can be inferred from the tables 5.1, 5.2 and 5.3 that in the majority of the countries, no studies either supported or disputed the state benefits. No studies could be identified in all categories that supported the stated benefits in either Sweden or the USA. With regard to the transparency benefits, only the UK could, through independent researchers and institutions, confirm this benefit, whereas in New-Zealand, the independent researchers confirmed the accountability and decision-making benefits. However, the rest of the countries could not provide an instance during which a decision was taken on the basis of the CFS or how it is utilised to hold government to account for the utilisation of resources.

In Chapter four, a number of benefits and costs were presented for each of the selected reviewed countries. Certain benefits and costs, which were common in all these countries are compared in Table 5.4.

TABLE 5.4: CROSS-COUNTRY COMPARISON OF THE COST AND BENEFITS OF CONSOLIDATION

Category	United Kingdom	USA	Australia	Canada	New Zealand	Sweden
Transparency, Accountability and reporting	- Major step forward in transparency and accountability - Can be used as a key means through which Parliament might scrutinise public finances and hold the government to account.	- Assist citizens in understanding current fiscal policy. - Provides the President, Congress, and the American people with a comprehensive view of the Federal government's finances.	- Provides information for the accountability to the citizens for the government's overall financial management. - Enhance the transparency and visibility of government performances and strengthen accountability.	- Key accountability document of the government of Canada to Parliament and the public. - The CFS provides the public with a wider understanding of the government's financial operations.	- They enhance the ability of Parliament and others to hold the Executive to account. - The government utilises the CFS to provide a comprehensive account of the use of resources and its assets and liabilities.	- The CFS provides essential information to Parliament on central government's financial operation. - The statements serve as a central source of information to Parliament for its assessment whether the government has administered the funds placed at its disposal in the manner intended.
Decision-Making	- The Office of the Budget Responsibility utilises the WGAs to assess the fiscal impact of past	- Helpful for decision- makers considering the government's financial position and decisions related to resource allocation.	- Assists the government in its financial planning. - Assists the government to establish goals for the future	- The annual deficit reported in the CFS is the key indicator of fiscal management of the government and the deficit target heavily	- Provides an improved basis on which fiscal policy decision can be taken. - The publication of the CFS promotes better	- The CFS provides an account of the costs of government operations and aid in resources

	government activity and to inform its annual Fiscal Sustainability Report. - The CFS inform long-term fiscal analysis and decision-making and can further be used as a baseline for judging the success of the government's Spending Review and the reduction of its deficit.	- The CFS also helps inform budget deliberations.	and applying financial targets to individual entities.	influences decision making throughout the year.	benchmarking and analysis of government Services leading to performance improvements.	allocation decisions.
Once off costs, Education and training, IT costs and Continuing annual costs.	- IT costs: the Combined Online Information system is used to effect consolidation. - Accounting standards were harmonised across the public sector. - A WGAs Assurance	- IT costs: Treasury implemented a new reporting system referred to as the government-wide Financial Reporting System to effect consolidation. - Treasury had to increase its formal and informal training of agency financial management personnel.	- IT costs: the DFD advised that a new system had to be implemented to effect consolidation. - Audit expenses for the audit of the CFS amounted to $700 000 for the 2012, 2011, 2010	- IT costs: The RGC implemented a new financial information central system which allows departments to connect their own financial systems to the central system, for the purpose of producing CFS.	- IT costs: A commercial collection and consolidation software package was purchased to effect consolidation. - Visits were made by the Treasury to each department, where individual issues were	- IT costs: ESV uses IBM Cognos Controller as their consolidation software. - Accounting policies had to be developed and harmonised for the whole of the central public sector.

	Committee assurance committee was formed to support the WGAs Accounting Officer in his role.	- A task force was setup to address problems that were experienced with regards to identifying and eliminating transactions between agencies.	and 2009 financial years.	- Training had to be provided to departments' and agencies' financial management personnel. - The RGC had to harmonise the accounting policies of certain Crown entities to those of the government. - The RGC had to harmonise the accounting policies of certain Crown entities to those of the government.	discussed and group seminars were held on the whole process of CFS. - A project steering committee and sub-project teams were established and resourced to provide an overview of accrual CFS. - A process was implemented to develop uniform accounting policies for the government, which were subjected to an external review by accounting experts.	
Risks	- Audit qualifications. - Materially misstated balances. - Mismatching and non-elimination of intra-group transaction streams and balances.	- Disclaimer of opinion since first publication of the CFS to date. - Inability to eliminate inter-entity transactions. - Material misstatements in the CFS due to factors such as the government's	- A number entities failed to meet submission deadlines of audited financial information to the DFD. - Qualified audit opinions since	- Certain entities did not prioritise the submission of information to central agencies which led to delays in producing the CFS.	- Due to the transition to NZ IFRS in 2007, comparative figures were restated. However, these were not subject to an audit.	

	- Inconsistent application of accounting policies in the public sector. - Government bodies did not always prioritise their WGAs submissions.	inability to properly account for billions of dollars of basic transactions between governmental entities and ensure that the information in the CFS is consistent with agencies' financial statements.	first publication.			

It can be inferred from the comparison above, costs and benefits that were common for all the countries under review are more likely to be the same for South Africa when the accrual consolidation model is implemented. The benefits in Table 5.4 are analysed below in the CBA matrix. The matrix is divided into financial and non-financial benefits, and financial and non-financial costs as discussed in Chapter three.

TABLE 5.5 COST- BENEFIT MATRIX

	NON-FINANCIAL BENEFITS	FINANCIAL BENEFITS	NON-FINANCIAL COSTS	FINANCIAL COSTS
Costs and Benefits of accrual consolidation model	Transparency, Reporting and accountability - Improved financial reporting to Parliament and to the taxpayer. - Improved information and data quality. - Promotion of better benchmarking and analysis of government services leading to performance improvements. - Greater public understanding and debate of the government's operating costs and financial position. - A better understanding of the effects of financial decisions, improved departmental and Ministry management and information on the cost of operations.	Decision-making - Better fiscal policy decision-making in government. - They add strength to the process of developing government's long-term fiscal policy objectives. - The CFS support better decisions on resource allocation within programmes in the public sector. - Provide improved basis for capital planning, including programmes of maintenance and replacement to retain the public sector capital base at an appropriate level, both in aggregate and by sector. - CFS provide a framework for	Opportunity Costs - Training time and time involved in communication the change, which could have been used on other essential services. - The funds spent on the whole process which could be utilised to deliver essential services to the citizenry. Risks - Receiving qualified audits during the early stages of implementing the systems due to incomplete data in certain cases and sufficient evidence not being available for audit. - Material misstatements - Failing to produce the accounts timeously	Once off costs - Developmental work including pilot study and further research. - Getting consistent accounting policies throughout the public sector. Education and Training - Training will have to be conducted through seminars for the financial management personnel. - Produce written material to give an overview of the reform and to explain the reasoning behind the reform. IT costs - A new Integrated Financial Management Information System will have to be implemented, which can extract accrual data from a variety of

		bringing together the effects of demographic changes and assessing their implications for public spending as a whole.	because of entities not prioritising their submission schedules (e.g. UK 2009/10 and 2010/11 CFS were produced 19 months after the financial year end). - Difficulties in eliminating intra-group transactions. In certain instances not possible to eliminate all such transactions.	systems and provide powerful analytical and reporting tools. Continuing annual costs - Audit costs - Compiling the CFS every year. - Operating the consolidation IT system. - The use of Accounting Consultants in certain instances. - Construction of schedules for entities should accounting information require reformatting and/or inter-entity transaction not readily available.

The non-financial and financial benefits mentioned in the matrix could be of significance when these are weighed in the context of international finance groups such as the IMF, World Bank and credit rating agencies (CRAs), for example, Moody's and Fitch. However, it would be very difficult to place a monetary value on the financial benefits. Both the IMF and the World Bank prescribe strict criteria when lending money to countries which find themselves in a 'cash crunch'. These include but not limited to the quality of fiscal and monetary policies, equitable allocation of public resources, data integrity, transparency and accountability in the public sector (World Bank, 2011; IMF, 2013). The aforementioned are certain benefits of CFS. The IMF described the publication of the UK WGA as "a valuable new perspective on public finances" and "a step forward for fiscal transparency" (IMF, 2011; IMF, 2012). These statements revealed the significance of the publication of CFS. One can conclude that the benefits weigh high in this context.

The financial costs on the other hand, although not quantified, the amount seem to translate into millions being allocated from the public purse to fund the consolidation model, especially when one considers IT costs and training financial management staff. Government officials' accountancy capacity in developing countries must also be considered since these factors could add exponentially to the cost of personnel, systems and training compared to developed countries. However, earlier literature on accrual public sector consolidation suggests that the cost is considerably lower once the framework has been implemented and the public sector adopts the model (HM-Treasury, 1998).

The non-monetary costs are not unimportant, especially opportunity costs. Cost is always “cost price + opportunity costs”. Those who only refer to the cost price is not a fair reflection of the true cost. In comparison to developed countries, opportunity cost could either be high or low in South Africa depending on various factors. For instance, one could argue that not only funding but the time and other resources spent on the process of consolidation could be used to deliver other essential services to the citizens.

On the other hand, it might also be true that in a country with higher levels of inefficiency and much bureaucracy, other restricted capacities define the limiting factor. In such an environment, e.g. staff undergoing training might be valued with very low or even zero opportunity cost. Furthermore, on the one hand, increased training needs for less experienced staff in developing countries could be more expensive, while the opportunity cost of doing so could be less for the same reason. Thus, at this stage, one can infer that it is very important to examine the opportunity cost to implement CFS. However, it is neither an easy task nor does it have a predetermined outcome.

Finally, the risks should not be underestimated. Obviously, this does not do government’s efforts of effective financial management good if it receives qualified audits, but also a delay in information delivery, and confusion or even failure regarding the reliability of the data provided could have a negative effect on decision-making (and, therefore, even lead to monetary consequences).

5.3. ANALYSIS AND INTERPRETATION OF E-MAIL INTERVIEW DATA

As mentioned in Chapter three, interview questions were sent via e-mail to the various stakeholders, however, only one ASB responded. The other stakeholders did not respond despite numerous attempts requesting their participation in this study. However, the response from the ASB was considered adequate because the purpose was purely to provide South African stakeholders' opinion in the context of the study. The responses from this stakeholder to each question are analysed.

5.3.1. ROLE OF THE ASB SHOULD GOVERNMENT IMPLEMENT THE ACCRUAL CONSOLIDATION MODEL

The role of the ASB will be limited to standard setting in terms of the powers and functions stipulated in the PFMA because the standard setter should be independent. This is consistent with accounting boards in the selected countries that were reviewed. The latter boards are also limited to standard setting and effect changes thereto if any challenges are experienced with accrual consolidation which is related to its standard.

5.3.2. LEVEL OF CONSOLIDATION FOR WHICH GRAP 6 WAS DEVELOPED

The ASB stated that GRAP 6 is based on the concept of *control*, which implies that the preparer must assess whether *control* exists and then implement the standard accordingly. This presents a challenge because the National Treasury does not have ownership *control* over the entities it consolidates. Therefore, this implies that

even when the accrual consolidation model is implemented, the CFS prepared by National Treasury will not be based on *control* as prescribed by GRAP 6.

The reviewed literature revealed that countries under review experience the same challenges because the Treasuries prepare the CFS, and they also do not have ownership *control* over the entities they consolidate, while their consolidation standards are based on the subsistence of *control*. Only Australia has a standard specifically for WGA which provides improved clarity on which entities should be included in the CFS.

GRAP 6 can, however, be applied at departmental level should government decide to implement accrual consolidation. The entities that are consolidated are under the *control* of the relevant Ministers who are granted power over these entities by Acts of Parliament. These powers are described in GRAP 6 to test whether *control* subsists.

5.3.3. NECESSITY OF DEPARTMENTAL CONSOLIDATION

The PFMA only requires national and provincial CFS to be prepared by the two spheres' Treasuries respectively. Therefore, efforts required to prepare CFS at departmental level even though not by law, would necessitate sufficient justification. The response is based on the fact that the underlying principle in GRAP 6 is that CFS is not necessary at lower levels if prepared at a higher level.

This study revealed that in the UK, CFS is prepared at departmental and agency level, while at the departmental Statement is submitted to the HM-Treasury for compilation for the entire government. This is an approach South Africa can consider because it would also assist National Treasury to eliminate inter-entity transaction since it would already have been completed at departmental level.

5.3.4. DECISIONS PARLIAMENT CAN TAKE ON THE BASIS OF ACCRUAL CONSOLIDATED FINANCIAL STATEMENTS

The information provided by CFS can assist Parliament to hold government to account of how resources were spent and the nature of funding received. This is consistent with certain benefits listed above relating to accountability.

5.3.5. OTHER USERS OF CONSOLIDATED FINANCIAL STATEMENTS

Institutions that would generally utilise information provided by the CFS includes: South African Reserve Bank, Stats SA and bilateral and multi-lateral donors, ratings agencies and/or resource providers. However, the ASB did state that it is uncertain whether these institutions currently utilise the prepared CFS since departments are not consolidated with the various entities. However, separate aggregations are compiled. This implies that the information might not be useful to determine the country's real financial position.

5.3.6. USERS WHO EXPRESSED INTEREST IN ACCRUAL CONSOLIDATED FINANCIAL STATEMENTS

The Group of 20 (G20), an international forum that discusses policy on international financial sustainability (Tigere & Makokera, 2017:4), requires its member states to prepare balance sheets for their governments. This can be perceived as an expression to have full accrual consolidation.

5.3.7. IMPROVEMENT IN GOVERNMENT FINANCIAL REPORTING CREDIBILITY AS A RESULT OF ACCRUAL CONSOLIDATION

The current prepared CFS is merely aggregations and cannot be set to be reflective of the government's financial position. Accrual consolidation would require that a correct consolidation is prepared, which would reflect the country's real financial position. This in turn, would improve the credibility of government's financial reporting.

5.3.8. COST OF IMPLEMENTING THE ACCRUAL CONSOLDIATION MODEL

The ASB stated that costs would be incurred with a new system. However, the benefits are likely to outweigh the costs. The benefits mentioned by the ASB include the following:

- More relevant and useful information will be provided to the financial statement users and which would enhance decision-making,
- Improved financial reporting leads to an increase in transparency,
- Citizens will be provided with the information to equip themselves to hold their representatives accountable,

These benefits are consistent with those identified from the selected countries analysed in this study. However, with regard to the decision-making benefit, it was only in New Zealand that a clear link between CFS and policy-making could be identified. In the other countries this benefit was disputed by various researchers, that is, CFS was not utilised for decision-making purposes.

5.4. Chapter summary

This chapter provided an analysis of the information collected through the qualitative content analysis, and also presented the cost-benefit matrix. The e-mail interview responses were also considered. The next chapter provides the conclusions and recommendations of the dissertation.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1. INTRODUCTION

In this chapter, the conclusions are based on the initial objectives of this study. Each objective is discussed separately. The primary research objective of the study was to establish whether preparing accrual consolidated financial statements will benefit the South African public service and its citizenry. This objective was divided into the following secondary objectives:

- To determine the level at which consolidation should take place in the event that full accrual accounting is adopted in the public service.
- To determine the factors that contribute towards non-compliance with the South African consolidation standard.
- To establish whether accrual consolidation will improve the credibility of government financial reporting in South Africa.
- To determine the cost and benefits of preparing accrual CFS by conducting a qualitative CBA.

All the objectives of the study were achieved. Figure 6.1 illustrates the link between chapter six and other chapters in the dissertation.

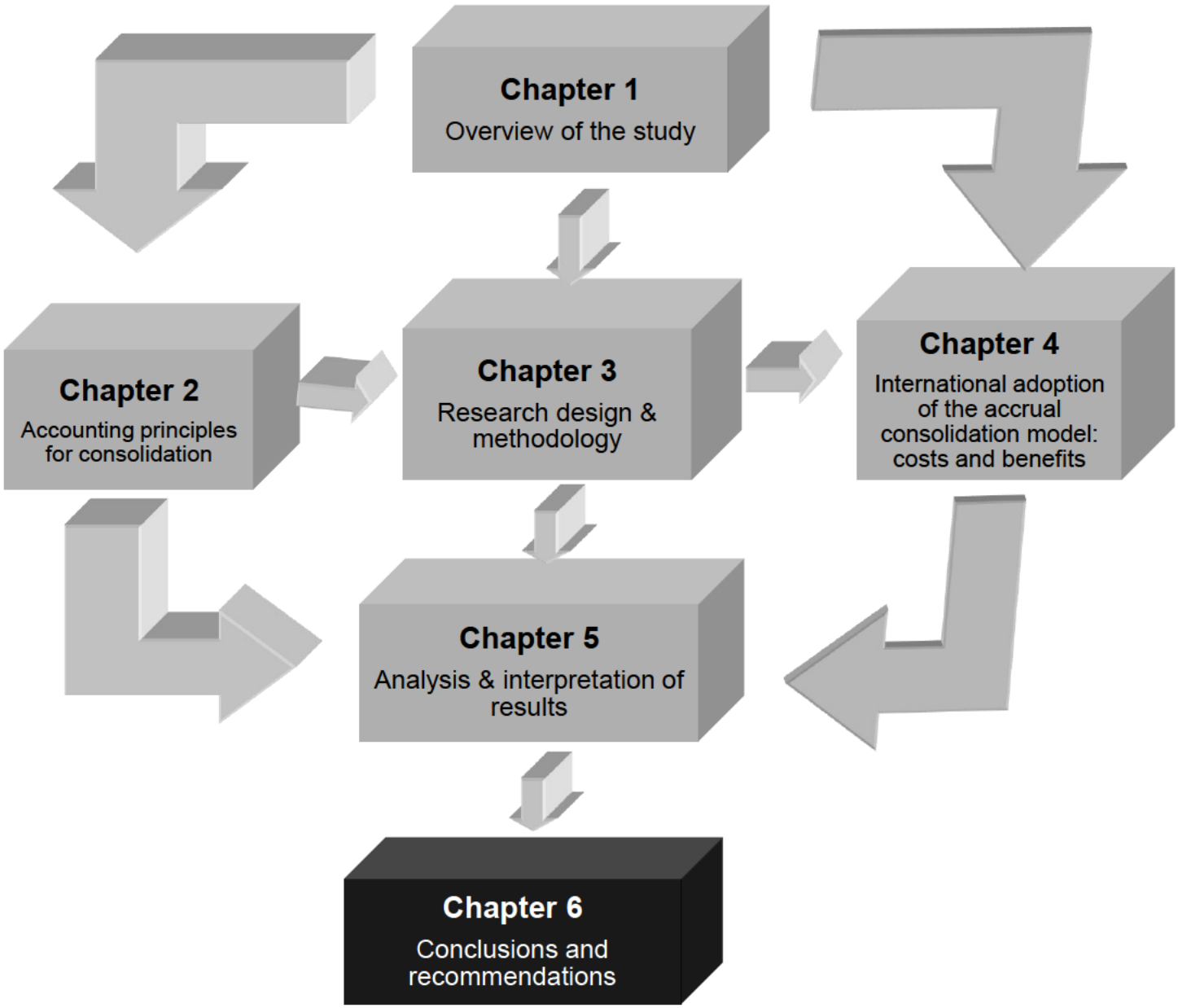


Figure 6.1: Chapter layout – Chapter 6 in relation to the rest of the study.

The following sections provide conclusions on the identified objectives of the study.

6.2. LEVEL AT WHICH CONSOLIDATION SHOULD TAKE PLACE

One of the most significant aspects of consolidation is boundary or level thereof, which largely depends on the term, 'control' defined in Chapter two. The study revealed that the UK is the only country that prepares CFS which includes all spheres of government, while Australia, Canada and the USA prepares these for each sphere of government. New Zealand prepares the CFS at central government level as well as separate statements for the local government.

In all these countries the level at which consolidation should take place is defined in respective legislation that requires CFS to be prepared. The same applies to South Africa, that is, all spheres of government. At the national level, Section 8 of the PFMA stipulates CFS, while at the provincial level, Section 19 of the PFMA applies. At the local government level, Section 122 (2) of the MFMA applies. Therefore, it can be concluded that the current consolidation model applied in South Africa at the national level, (Chapter two), complies with legislation in terms of level and scope of consolidation. The same applies to provincial and local government.

The research objective relating to level of consolidation was expanded to determine whether CFS at government departmental level is necessary. The ASB responded that CFS at department level is unnecessary because CFS is prepared at a higher level. GRAP 6 states that if CFS is prepared at higher level, it (CFS) is unnecessary at a lower level. However, the standard does not prevent CFS from being prepared at a lower level. One should consider that entities that operate under a particular department, receives funds from that department. This implies that when the correct consolidation takes place and full accrual accounting is implemented, this

transaction must be disregarded. It then raises a question of how this elimination would be executed at the national level. Therefore, departmental CFS might be considered necessary since inter-entity transactions can be disregarded at this level.

It is being debated in academia whether *control* should be exercised in the public sector as a criterion to determine whether to consolidate. In the private sector, specifically in South Africa, there is a Companies Act that stipulates a Company CFS for a group company. However, it does not define what constitutes a “group” or what entities should be included in the CFS. This is defined in the relevant accounting standard applied by companies.

In contrast, to the countries reviewed in this study, legislation in South Africa stipulates which entities must be included in the CFS, whilst the consolidation standard does not (GRAP 6 focuses on *control* as the criteria to determine whether to include an entity in the consolidation scope). There are similarities in the criteria provided by GRAP 6 and those are provided by the private sector consolidation standard. This is not ideal because in practical terms, the purpose for preparing CFS is not the same for the public sector and the private sector although the definition in the respective consolidation standard reads the same.

National Treasury stated in the 2015/16 CFS that the purpose of preparing the latter CFS is “to provide a summary of national government’s financial resources and their application for the benefit of the people of the Republic of South Africa” (NT, 2016:2). Furthermore, in the public service, the CFS is prepared by Treasury or provincial

treasury, which does not meet the *control* criteria as defined in the consolidation standard. Consequently, even when the transition to full accrual accounting is completed, the CFS will not comply with GRAP 6 because the *control* criteria as provided for in the standard cannot be followed.

Therefore, the following is recommended in relation to this objective of the study:

- When the transition to full accrual accounting is completed, the South African government should continue with the current scope of consolidation, that is, a separate one for each sphere of government to comply with the PFMA.
- Departmental CFS should be prepared, thereby eliminating transactions between a department and its respective entities at this level. Therefore, instead of departments submitting their separate financial statements to National Treasury on the one hand, and entities also submitting their separate financial statements for consolidation on the other, departments can submit departmental CFS with the elimination of the respective inter-entity transaction which has already been done.
- At national and provincial government spheres, the defining criteria for the scope of consolidation should not be *control*, since the institution that is tasked by law to prepare the CFS does not have control over the departments and entities it consolidated other than those that fall under the direct control of the Minister of Finance. Instead, it is recommended that at this level the criteria for including a particular institution in the consolidation should be as provided for in the PFMA, that is, consolidate the institution that is provided for in this legislation.

6.3. FACTORS THAT INHIBIT COMPLIANCE TO GRAP 6

The standards of GRAP, specifically GRAP 6, is based on the accrual basis of accounting. Consequently, their application requires government to complete the transition to full accrual accounting. The fact that the public service departments are still on the modified cash basis of accounting while their respective entities are on the accrual basis of accounting, implies that consolidation as required by GRAP 6 is not possible. The ASB stated in the interview response that the statements currently produced by national and provincial government are aggregations rather than consolidations.

Furthermore, because the statements are aggregation, it is difficult to eliminate inter-departmental transactions as required by GRAP 6. The AGSA stated in the 2015/16 CFS audit produced by National Treasury that adequate appropriate evidence could not be acquired of “the completeness and accuracy of the inter-entity transactions and balances because government’s systems and processes were not at a maturity level that would enable credible whole of government consolidation” (NT, 2016, 150).

Therefore, it can be concluded that until the transition to full accrual accounting is completed, consolidation as required by GRAP 6 will not be possible and the concerns raised by the AGSA will continue. Overall, the following is recommended:

- A study of the accounting capacity in the various government departments should be conducted before implementing the accrual consolidation model. This will assist to assess whether government departments will be able to prepare what is required for consolidation without consultants.

6.4. WILL ACCRUAL CONSOLIDATED FINANCIAL REPORTING IMPROVE THE CREDIBILITY OF GOVERNMENT FINANCIAL REPORTING?

Users of the CFS are central in responding whether accrual consolidation improves the credibility of financial reporting. As stated, the current CFS prepared at national and provincial government is an aggregation and not really a consolidation, which implies that the notion the statements presents an illustration of government resources is inaccurate. Therefore, users of the CFS cannot make any informed decision based on these statements. Moreover, since certain inter-entity transactions are not excluded accurately, it implies that certain amounts may be over-stated or understated.

The ASB raises the point that preparing accrual CFS may provide users with information that they can be utilised for decision-making. Furthermore, they stated that a number of respondents from the public consultations expressed a desire for the entire government to report financial information. Therefore, it can be concluded that accrual consolidation will improve the credibility of government financial reporting.

The common view in countries that were reviewed was that the accrual CFS improved government reporting and a true representation of what government owns and owes is presented. This enables Parliament to make informed decisions on resource allocation and expenditure priorities. However, the countries reviewed also held that most Parliamentarians did not understand the CFS. This was considered a limitation because basic knowledge of accounting is required to understand the

CFS. Furthermore, the latter was also considered a limitation in respect of being held accountable for ones actions.

This might be the case for the South African Parliament's Standing Committee on Public Accounts (SCOPA), a committee that interrogates the CFS. Therefore, it is recommended that the SCOPA be included in the process of making the transition to full accrual accounting. This will allow the committee to have a basic understanding of how the systems works and enable them to hold government accountable for the utilisation of resources through the CFS.

6.5. COSTS AND BENEFITS OF PREPARING ACCRUAL CONSOLIDATED FINANCIAL STATEMENTS

In chapter four of the dissertation benefits and costs incurred by countries which were reviewed were presented using the qualitative content analysis, which in turn were analysed in Chapter five. It can be deduced from Table 4.1 that certain benefits of accrual public sector consolidation were noted by various researchers which are similar to the ones revealed from the content analysis of the different countries in Section 4.2 (Chapter 4), specifically the UK. In the case of Australia, New Zealand, Canada and Sweden a limited number of studies was retrieved that support the benefits through a content analysis. Instead, the "claimed" benefits presented in Section 4.2 such as facilitating decision-making and the utilisation of credit rating agencies were rejected by these studies. Only New Zealand had implemented a clear link between CFS and policy-making at the macro-economic level.

The most significant concern was the fact that parliamentarians did not understand the CFS because of its complexity. This raised the ultimate question whether the benefit of CFS as an accountability tool could be achieved under such circumstances. Another factor was the information perceived to be provided by the WGA is available in documents such as the GFS and the budget. When one considers the challenges noted such as audit qualifications and problems with the elimination of inter-departmental transactions, it begs the question whether the objective of accrual CFS is being met and ultimately the benefits realised.

One has to, however, be mindful of Heald and Georgiou's (2011:469) assertion that "in the private sector the objective of CFS is to report on the economic entity and to act as a disincentive against financial 'innovations' designed to disguise or obscure the economic substance of transaction", and the fact that this objective is not "always met in the private sector does not invalidate it there; neither do the problems that may be encountered with WGA consolidations". Ultimately, adopting the accrual consolidation model requires a clear political will and whether government is willing to spend on these reforms without an assurance of probable benefits.

Therefore, the following is recommended:

- Government should conduct further extensive research to determine whether the benefits derived from accrual consolidation outweigh the costs.
- A questionnaire should be designed for both external and internal CFS users such as rating agencies, investors and lenders to determine whether they perceive accrual CFS as beneficial. If the response is affirmative, it must be established which information they are specifically interested in, in the

accrual CFS. This will enhance the argument for or against accrual consolidation in the country.

6.6. THE BENEFIT TO THE SOUTH AFRICAN PUBLIC SERVICE AND THE CITIZENRY TO PREPARING AN ACCRUAL CONSOLIDATED FINANCIAL STATEMENT

In determining the benefit to the South African citizenry, one has to classify the categories of people who may express interest in accrual CFS. The ASB's position paper on differential reporting identifies three types of users of government financial statements namely (ASB, 2011:3):

- those who provide resources to the public purse in general such as taxpayers, ratepayers, financial institutions, and creditors;
- those who receive government services; and
- those that represent the interests of resource providers and service recipients.

All of the above users have common requirements from government in that they require transparent financial reporting; be accountable for the utilisation of resources entrusted to them; and take decisions that would advance the interest of all the mentioned users. The three benefit categories identified in the Qualitative CBA include the following:

- Transparency;
- Accountability; and
- Decision – making.

It has been noted that in certain countries, no evidence could be found to suggest that these benefits were realised. On the contrary, these benefits were disputed by independent studies. However, on the other hand, studies suggested that in the UK and New Zealand these benefits were realised. It is difficult to conclusively state whether these benefits will be realised by South Africa should the accrual consolidation model be adopted since circumstances differ to those of the countries reviewed.

Therefore, assuming that the benefits will be realised, preparing accrual CFS will benefit the South African public service and its citizenry. However, these potential benefits should be weighed against expected costs of accrual CFS and the competing public needs in South Africa. This will require extensive further research before implementation.

6.7. TOPICS FOR FURTHER RESEARCH

The following topics are recommended for further research:

- A study to test the extent of *control*, as described in GRAP 6, departments have over their respective entities.
- A study that will design an accounting model for the implementation of full accrual accounting at both the national and provincial spheres of government.

- A study that will determine the reasons why only a limited number of countries have adopted the accrual consolidation model and the including other alternatives that may subsist.

6.8. CONCLUDING REMARKS

Financial reporting is a significant component of a government's functions because taxpayers and Parliament rely on these reports to determine whether allocated resources were utilised for the benefit of the country, while external institutions such as investors and lenders would establish the country's financial position to guide them in whatever financial decisions they are required to make of a country. This implies that there is value in striving to improve the published financial reports only when the benefits of improved transparency and accountability can be realised. In developing countries, these benefits should also be weighed against the costs involved, taking into consideration the service delivery backlogs that may subsist.

LIST OF SOURCES

Acts **see** SOUTH AFRICA.

ASB **see** ACCOUNTING STANDARDS BOARD.

AASB **see** AUSTRALIAN ACCOUNTING STANDARDS BOARD.

AUSTRALIAN NATIONAL AUDIT OFFICE (**ANAO**) **see** AUSTRALIA.

AUDITOR GENERAL of South Africa (**AGSA**) **see** SOUTH AFRICA.

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