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In this edition, we talk about the new IPSAS standards and their impact on South African public sector auditors and accountants.

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NEW IPSAS STANDARDS AND THEIR IMPACT ON SOUTH AFRICAN PUBLIC SECTOR AUDITORS AND ACCOUNTANTS

The International Public Sector Accounting Standards Board (IPSASB) has issued five significant new standards: IPSAS 45 on Property, Plant, and Equipment, IPSAS 46 on Measurement, IPSAS 47 on Revenue, IPSAS 48 on Transfer Expenses, and IPSAS 49 on Retirement Benefit Plans. These standards aim to improve financial reporting in the public sector, ensuring more transparency, consistency, and accountability. For auditors and accountants in South Africa's public sector, these changes will have profound implications, requiring adjustments in financial reporting, auditing approaches, and compliance measures.

IPSAS 45: Property, Plant, and Equipment

IPSAS 45, issued in May 2023, replaces IPSAS 17 and introduces a more refined approach to valuing and disclosing property, plant, and equipment (PPE). The major highlights of IPSAS 45 include:

1. Introduction of Current Operational Value (COV):

- The standard mandates the use of COV as a measurement basis for assets used in service delivery, rather than relying solely on historical cost or fair value.
- COV reflects the cost to replace an asset with a similar asset that can provide equivalent service potential.
- This change ensures that public sector assets are valued based on their operational use rather than purely market-driven valuations, providing a more accurate reflection of the asset's role in service delivery.
- Auditors must assess whether the transition to COV is properly implemented and ensure entities have documented their valuation methodologies.

2. Enhanced Disclosure for Heritage and Infrastructure Assets:

- Greater transparency is required for heritage assets (e.g., historical buildings and monuments) and infrastructure assets (e.g., roads, bridges, and water systems).
- Entities must provide information on maintenance costs, depreciation policies, and valuation methodologies.
- Heritage assets, previously undervalued or even omitted from financial statements, must now be recognized based on their operational significance rather than market price.
- Public sector accountants must work closely with asset management teams and valuation experts to ensure compliance with new disclosure requirements.
- Auditors will need to verify that sufficient documentation exists to support the valuations and ensure entities consistently apply the new measurement criteria.

3. Impact on South African Public Sector Auditors and Accountants:

- Accountants must update asset registers to align with COV principles, ensuring the valuation reflects service potential rather than simply market value.
- Auditors will need to verify that public sector entities comply with new disclosure requirements, particularly for assets previously not fully recognized.
- There will be increased scrutiny on valuation methods, necessitating collaboration between accountants and valuation experts.
- Government entities may need to invest in specialized training for finance teams to ensure proper application of the new measurement and disclosure requirements.
- The shift to COV may impact budget planning and asset management decisions, influencing long-term financial sustainability.

IPSAS 46: Measurement

IPSAS 46, issued alongside IPSAS 45, provides a comprehensive framework for measurement across public sector financial reporting. It establishes principles for selecting and applying measurement bases, ensuring consistency in valuation approaches across different assets and liabilities.

1. Standardized Measurement Bases:

- IPSAS 46 defines key measurement bases, including historical cost, fair value, and COV, ensuring a uniform approach to financial reporting.
- The standard emphasizes the importance of relevance and faithful representation in selecting measurement bases for financial statement elements.
- Public sector accountants must evaluate which measurement basis is most appropriate for specific transactions and assets.
- Auditors will need to review whether the chosen measurement bases align with IPSAS 46 guidelines and are applied consistently.

2. Clarification on Fair Value and COV Applications:

- The standard provides explicit guidance on when to use fair value (for market-driven assets) and when to use COV (for service-oriented assets).
- Entities must document their rationale for measurement choices, ensuring transparency and comparability.
- Accountants must integrate IPSAS 46 requirements into financial statement preparation, ensuring assets and liabilities reflect their true economic value.
- Auditors will be responsible for verifying that measurement principles have been correctly applied and justified in disclosures.

3. Impact on South African Public Sector Auditors and Accountants:

- Improved standardization in measurement practices enhances comparability across government financial reports.
- Accountants must update policies to ensure IPSAS 46-compliant measurement techniques are applied consistently.
- Auditors will have a clearer framework for assessing whether entities are appropriately valuing assets and liabilities.
- Training and capacity building will be essential to help public sector professionals understand and implement IPSAS 46 effectively.
- Enhanced clarity in measurement techniques will improve financial decision-making and long-term asset management strategies.

IPSAS 47: Revenue

1. Improved Revenue Recognition Framework:

- Clarifies accounting for revenue from binding arrangements and transactions without performance obligations.
- Ensures consistency in recognizing revenue across different types of public sector revenue streams.

2. Impact on Financial Statements:

- Public sector entities must assess and classify revenue streams under the appropriate recognition models.
- Changes in timing of revenue recognition may impact reported financial performance and decision-making.

3. Audit Considerations:

- Auditors must ensure compliance with the new revenue recognition criteria.
- Verification of revenue classification and assessment of whether obligations are met before recognizing revenue.

IPSAS 48: Transfer Expenses

1. Standardized Recognition of Transfer Expenses:
 - Provides a clear framework for recognizing and measuring transfer expenses.
 - Covers both monetary and non-monetary transfers, ensuring consistency in financial reporting.
2. Impact on Budgeting and Financial Statements:
 - Entities must review their treatment of transfer expenses and adjust budget allocations accordingly.
 - Enhanced comparability across public sector financial statements improves transparency.
3. Audit Considerations:
 - Auditors will need to assess whether entities appropriately recognize and disclose transfer expenses.
 - Verification of compliance with IPSAS 48's recognition and measurement principles.

IPSAS 49: Retirement Benefit Plans

1. Recognition and Measurement:
 - Defines how retirement benefit obligations should be recognized in financial statements.
 - Aligns public sector pension plan reporting with international best practices, ensuring comparability and transparency.
2. Improved Disclosure Requirements:
 - Entities must provide clear information on actuarial assumptions, funding status, and expected future obligations.
 - Enhanced reporting enables stakeholders to assess the sustainability of public pension schemes.
3. Impact on South African Public Sector Auditors and Accountants:
 - Accountants must reassess pension liabilities and ensure accurate actuarial calculations are used in financial statements.
 - Auditors will need to evaluate whether retirement benefit obligations are properly recorded and disclosed, reducing the risk of underfunded pension liabilities going unnoticed.

Conclusion: Preparing for the Transition

The introduction of IPSAS 45, IPSAS 46, IPSAS 47, IPSAS 48, and IPSAS 49 represents a major shift in public sector financial reporting. South African public sector accountants and auditors must take proactive steps to implement these changes, including training, updating policies, and enhancing audit methodologies. By embracing these changes, South Africa's public sector can improve financial accountability, support better decision-making, and enhance public trust in government financial management.

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