PUBLIC SECTOR ACCOUNTING FOR PUBLIC-PRIVATE PARTNERSHIPS

by

LEBOGANG BRIAN JANTJIES

MINOR DISSERTATION

Submitted in partial fulfilment of the requirements for the degree

MAGISTER COMMERCII

in

INTERNATIONAL ACCOUNTING

in the

FACULTY OF ECONOMIC AND FINANCIAL SCIENCES

at the

UNIVERSITY OF JOHANNESBURG

SUPERVISOR: MARISKA MCKENZIE

2015

ABSTRACT

Infrastructure development and the provision of basic services is primarily the government's responsibility. In order to execute these responsibilities, the states increasingly enter into various partnerships, such as cooperative arrangements, with the private sector, whereby they share the risks and responsibilities.

The partnerships are particularly pertinent to South Africa, in that the country is faced with service delivery challenges. For example, one of the challenges faced by municipalities primarily responsible for service delivery is rural development, which includes a massive infrastructure backlog, which requires measures addressing funding and delivery capacity requirements.

This research on public sector accounting for public-private partnerships (PPP) assesses the extent to which the current available accounting standards cover the complexities that may arises from PPPs arrangements. The dissertation is a case study on actual PPP arrangements to establish whether the private sector and public sector accounting standard's guidelines on PPP provide sufficient appropriate guidance on how to account for these complex PPP arrangements. The current available standards that form part of the study are GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor, Guideline on accounting for public-private partnerships and IFRIC 12 Service Concession Agreements.

ACKNOWLEDGEMENTS

Public Private Partnerships accounting is a complex topic, which made working on this paper challenging. Without guidance, assistance, support and motivation from the following people, writing this paper would not have been possible. I appreciate their encouragement.

- Professor Danie Coetsee who helped me to crystallise the problem statement and structure of the paper.
- Mariska Mckenzie who was my supervisor, her knowledge of the public sector and commitment to me completing this paper, encouraged me immensely.
- Mr M Mudau the Chief Financial Officer of the Department of Health in Limpopo for allowing me to access some of the contracts utilised for the research.
- My wife Andile Jantjies for motivating me and allowing me the time to complete the paper.
- Bokamoso and Lwazi my daughters who had to spent time without me during the busy time.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

1.1 Problem statement

This chapter introduces the research problem on the usage of the public-private partnerships (PPPs) and the related accounting standards. The purpose of this paper is to determine whether the accounting standards are adequately addressing the complexities that arise from the various PPP arrangements.

1.2 Background information on the general usage of public-private partnerships

The rights to basic services are stipulated in the Constitution of the Republic of South Africa. Hence, the government needs to ensure that this constitutional mandate is fulfilled taking into account the resources at its disposal (South Africa, 1996).

For the state to fulfil its mandate of providing basic services, the development of enabling infrastructure is important. The development of infrastructure is also critical in ensuring future economic competitiveness and accommodating expanding populations in urbanising environments (Urban Land Institute, 2012 & Ernst and Young, 2012). Infrastructure development lies at the heart of the South African government's stimulatory fiscal plan (Development Planning Division & Development Bank of Southern Africa, 2012).

As noted above, infrastructure development and the provision of basic services is primarily the government's responsibility. In order to execute these responsibilities, the state enters into various partnerships, such as cooperative arrangements, with the private sector, whereby they share the risks and responsibilities.

These public-private partnerships are a key part of the government's strategy for maximising service delivery and facilitating economic growth and development (Heymans, C & Schur, M, 1999). These partnerships are particularly pertinent to South Africa, in that the country is currently faced with service delivery challenges. For example, one of the challenges faced by municipalities primarily responsible for service delivery is rural development, which includes a massive infrastructure backlog, which requires measures addressing funding and delivery capacity requirements (Department of Cooperative Governance and Traditional Affairs, 2009). This emphasises the need for partnership between the public and private sector.

There are opportunities and challenges that come with the introduction of PPPs (Heymans, C & Schur, M, 1999). Two main issues in recent literature about these arrangements are: return on investment and how to account for these arrangements in the financial statements (Heald & Georgiou, 2011). Establishing PPPs include benefits such as:

a) Bringing new capital assets without, or a limited amount of, public expenditure (Heald & Georgiou, 2011);

b) Transfer and sharing of technology and innovation from the private sector, which could result in improved service delivery in public sector;

c) Increased private sector participation in the public sector, this is particularly relevant in securing direct investments. PPPs can be structured in a way that capacitates and empowers the public sector, through transfer of skills and innovation;

d) With infrastructure being important to economic development, the infrastructure development PPP arrangement is vital to creating an economically competitive country;

e) Assisting the public sector to provide for the increase in demand for infrastructure;

f) Value for money benefit through risk between the private sector party and the public sector. (World Bank Group Public-Private Partnerships Infrastructure Resource Center, 2014);

However, there are some complexities that may arise in accounting for PPP arrangements. These are:

- Whether the assets or liabilities should be recognised;
- Who should recognise the assets or liabilities between the private and public parties concerned in terms of determining the resultant agreement;
- How the assets or liabilities are evaluated and subsequently valued;
- The existence or non-existence of a lease agreement and how either of these is accounted for;
- How to account for revenue arising from the arrangement.

PPP agreements (ASB, 2008:1.2) are an alternative to the traditional procurement methods used by public sector entities. They are aimed at improving value for money through high quality services, resulting in a net benefit to the entity in terms of cost, price, quality and/or risk transfer or a combination thereof. The infusion of private capital and management can: ease fiscal constraints, increase efficiency, and lead to better quality services for citizens.

A PPP is defined (South Africa, 2005) as a commercial transaction between a government institution and a private party in which the private party:

a) Performs an institutional function on behalf of the institution; and/or
b) Acquires the use of state property for its own commercial purposes; and
c) Takes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
d) Receives a benefit for performing the institutional function or from utilising the state property, either by way of:
    i. **Consideration**, derived from the Revenue Fund, which is paid by the institution; or, alternatively, in the case where the institution is a national government business enterprise, from the revenues of such an institution; or
    ii. **Charges or fees** collected by the private party from users or customers of the service provided to them; or
    iii. A combination of the two.

The pioneering PPP projects in South Africa were undertaken between 1997 and 2000 by: SA National Roads Agency in implementing the N3 and N4 toll roads; the Departments of Public Works and Correctional Services for two maximum-security prisons; two municipalities for water services; and the SA National Parks for tourism concessions.

In April 1997, the South African cabinet approved the development of an inter-departmental task team to develop and package policy and make legislative and institutional reforms in order to create an enabling environment for PPPs. This PPP framework was approved in 1999, and, in 2000, Treasury Regulations for PPPs were issued in terms of the Public Finance Management Act (PFMA) (National Treasury Public Private Partnership Unit, 2013).

Globally, PPPs have been in use in developed countries for over 30 years. Naturally, the various countries' implementation of PPPs matured at different levels. Trendsetting countries, with regard to PPPs, include the United Kingdom and Australia, with other economies following suit. In 2003 and 2004, the United Kingdom led the top 10 countries in the world utilising PPP arrangements. Some of the countries included in the top 10 were the United States of America, Australia and South Korea. In the emerging economies (such as China, Brazil, Chile and South Africa), the operation of PPPs is also well underway (Lanham MD and New York, 2010). Chile and South Africa were identified as countries that experienced less challenges in the implementation of initial PPPs primarily due to PPPs' legal frameworks in these countries (OECD, 2008).

However, the nature relationships in PPPs leads to complex financial accounting issues related to taxation, cash flow budgeting and disclosures (Grimsey & Lewis, 2005). There are currently no accounting standards dedicated to the establishment of PPPs (International Atlantic Economic Society, 2009). However, the International Financial Reporting Standards (IFRS) Interpretations Committee (IFRIC), the interpretative body of the IFRS foundation, has issued IFRIC 12 *Service Concession Arrangements* to address the accounting issues pertaining to accounting for PPPs.

The Accounting Standards Board (ASB) is a body that is legislated to determine Generally Recognised Accounting Practices (GRAPs). This GRAP framework is used by the public sector in South Africa. The ASB is also legislated (South Africa, 1999: 89) to prepare and publish instruction notes and guidance on the standards of GRAP.

These standards are based on the International Public Sector Accounting Standards (IPSASs), which are accounting standards issued by the International Public Sector Accounting Standards Board (IPSASB) [1] These have, however, been modified to take into account the relevant local legislative structures and eliminate accounting options where possible (EY, 2014).

In November 2008, the ASB published the *Guideline on Accounting for Public-Private Partnerships*, which outlined the board's views on PPPs. The guideline also encouraged application of the principles contained in IFRIC 12 *Service Concession Arrangements.* It is worth noting that, in developing PPP guidelines, the ASB considered the principles in *IFRIC 12 Service Concession Arrangements* as no public sector guidance was available at that time

[1] IPSASB is a body that issues International Public Sector Accounting Standards guidance and resources for use by public sector entities around the world for the preparation of general-purpose financial statements.

(ASB, 2008). The ASB agreed to reconsider its PPP guidelines when IPSASB issued its pronouncement dealing with Service Concession Arrangements.

In January 2013, the ASB issued an exposure draft (ED) 108 — *The Proposed Standard of GRAP on Service Concession Arrangements: Grantor and The Proposed Interpretation of the Standard of GRAP on Service Concession Arrangements where the Grantor Controls a Significant Residual Interest in an Asset.* The ED is based on principles contained in IPSAS' 32 *Service Concession Arrangements: Grantor*. ED 108 has subsequently been converted into a standard (GRAP 32 *Service Concession Agreements: Grantor).* The Minister of Finance has not yet announced the effective date of the standard though.

The IPSASB issued the IPSAS 32 *Service Concession Arrangements: Grantor* during October 2011. The ASB has not yet revised the current PPP guide. However, some of the principles covered in the PPP guide are covered in GRAP 32. For the purpose of the research, all these documents will be considered separately as effective standards.

1.3 Accounting frameworks applicable to public-private partnerships from a South African perspective

In South Africa, the PFMA and the Companies Act 71 of 2008 govern the financial reporting frameworks for public sector reporting in South Africa. The Companies Act empowers the Minister of Trade and Industry, after consulting with the Financial Reporting Standards Council (FRSC), to draft regulations establishing financial reporting standards for companies and close corporations. The PFMA empowers the ASB to set the standards of GRAP and the Minister of Finance, after consulting the Auditor-General, to prescribe the implementation of these standards. The PFMA also empowers the National Treasury to prescribe the accounting standards for public sector entities in the absence of implementation dates for the standards of GRAP. The Public Audit Act No. 25 of 2004 (PAA) empowers the Auditor-General to prescribe the format and content of the financial statements of a public sector entity in the absence of any requirement regarding the financial reporting framework in the legislation applicable to that entity (IRBA, 2013).

The various frameworks prescribed are as follows (IRBA, 2013):

a) National and provincial departments: Modified cash basis of accounting;

b) Municipalities: Standards of GRAP;

c) Public entities: Standards of GRAP or IFRS;

d) Companies and close corporations: IFRS and IFRS for Small and Medium-Sized Entities (SMEs).

National and provincial departments use a modified cash basis framework, that is, the Departmental Financial Reporting Framework (DFRF), prescribed by the National Treasury;

Municipalities are legislated to prepare financial statements in accordance with the standards of GRAP;

There are different categories of **public entities**. The applicable financial reporting frameworks are the standards of GRAP or IFRS, depending on the category of the public entity. The types of entities are described as follows:

- Schedule 2 entities

These are major entities and are operated mainly with the intention to generate maximum profits. They are the most independent entities of all the public entities. The prescribed financial reporting framework for these entities is IFRS.

- Schedules 3B and 3D entities

IFRS is the recommended reporting framework for Schedule 3B and 3D, which are entities that are either substantially self-funded or receive generous government funding. As a result, are less dependent than schedule 2 public entities.

- Schedules 3A and 3C entities

Schedule 3A and 3C entities are normally an extension of a government with a duty to fulfil a specific economic or social responsibility of government. They rely on government funding and public money, either by means of a transfer from the Revenue Fund or through statutory money. The prescribed financial reporting framework for these entities is Standards of GRAP.

- Constitutional institutions

These are institutions that have come into existence solely from their having been drawn directly from the South African Constitution rather than enabling legislation or acts. The prescribed reporting frameworks for these entities are standards of GRAP.

For **companies and close corporations,** public companies that are listed on the Johannesburg Stock Exchange are prescribed to prepare financial reporting in accordance with IFRS; whereas public companies that are not listed on the stock exchange are required to comply with IFRS or IFRS for SMEs, depending on the size of the company. Private companies' financial reporting frameworks also vary from IFRS to IFRS for SMEs depending on the size of the company (South Africa, 2008).

Applicable prescribed financial reporting frameworks can be summarised as follows:

Type of entity	Prescribed financial reporting framework	PPP applicable standard within the framework
National and provincial departments	Departmental financial reporting framework	Guideline on PPP and GRAP 32*
Public entities – 3A and 3C	Standards of GRAP	Guideline on PPP and GRAP 32
Public entities – 3B and 3D	IFRS	IFRIC 12
Constitutional institutions	Standards of GRAP	Guideline on PPP and GRAP 32
Companies and close corporations	IFRS and IFRS for SMEs	IFRIC 12

* The national and provincial departments use the modified cash basis framework. To disclose the PPP, the departments use the standards of GRAP.

The PPP applicable standards will be analysed in the next chapter to highlight the principles that should be applied in the accounting treatment of PPPs. This dissertation is a case study of PPP arrangements to establish whether the private sector and public sector accounting standard's guidelines on PPP, GRAP 32 and IFRIC 12 provide sufficient appropriate guidance on how to account for complex PPP arrangements.

1.4 Accounting for public-private partnerships from an international perspective

From an international perspective, China and the USA are the two largest gross domestic product economies (International Monetary Fund, 2014). These two economies also make use of PPPs for infrastructure and service delivery. In terms of financial reporting, China is at an advanced stage in aligning their financial reporting standards with IFRS (IFRS Foundation, 2014). The US is also making progress in the IFRS convergence project. This will result in an improved level of application of, and compliance with, the guidelines outlined in IFRIC 12 *Service Concession Arrangements.*

In China, there are two recognised standards–setters, the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Ministry of Finance for the People's Republic of China. In 2006, the ministry of finance in China issued the financial reporting framework, Accounting Standards for Business Enterprises (ASBEs) for companies which are significantly converged with IFRS. Companies are prohibited from applying IFRS; however the project to converge the local financial reporting standards with IFRS is continuing (Deliotte, 2012).

The USA has three standards-setting organisations:

(1) The Financial Accounting Standards Board (FASB) that is responsible for setting the financial reporting standards for the private sector;

(2) The Governmental Accounting Standards Board (GASB) that is responsible for setting standards for state and local governments; and

(3) The Federal Accounting Standards Advisory Board (FASAB) that is responsible for issuing standards for federal agencies and government-wide.

Until recently, the Generally Accepted Accounting Principles in the US (U.S. GAAP) did not have a specific standard that dealt with Service Concession Arrangements (PWC, 2014). The FASB issued an exposure draft with similar principles contained in IFRIC 12 in July 2013. The new standard was issued in January 2014 as Accounting Standards Update No. 2014-05. This standard is similar to IFRIC 12 and should be applied by the private sector in the USA. The effective date for this standard is for financial periods beginning on or after 15 December 2014.

For local municipalities, the GASB has issued a standard on Accounting and Financial Reporting for Service Concession Arrangements in November 2010. The standard requires the government entity or department (grantor) to continue to identify expenditures and liabilities and recognise an asset in their books if the arrangement generates assets. The standard requires the grantor to recognise revenue over the term of the arrangement. Overall, there are similarities between these standards and the accounting handling of PPPs as stipulated in GRAP 32 for South African PPPs.

In October 2014, the FASAB issued an exposure draft that requires more disclosures of the risks associated with PPPs (Federal Accounting Standards Advisory Board, 2014). This exposure draft emphasised the need for more disclosures in order to enable financial statement users to understand how taxpayer assets are used and what risks PPP arrangements have for the grantor. The standard has not yet been finalised for application.

The summary of the standard-setters:

South Africa		**China**		**USA**	
Standards-setting body	**PPP standards**	**Standards-setting body**	**PPP standards**	**Standards-setting body**	**PPP standards**
Accounting Standards Board	Guidelines on public-private partnerships	Ministry of Finance of the People's Republic of China	Accounting standards for business enterprises that are substantially converged with IFRS	Financial Accounting Standards Board	U.S. GAAP
	GRAP 32: Standards of GRAP on Service Concession Arrangements (Grantor)	Hong Kong Institute of Certified Public Accountants		Governmental Accounting Standards Board	Setting standards for states and local governments
Minister of Trade and	IFRIC 12: Service			Federal Accounting	Setting standards for

South Africa		China		USA	
Standards-setting body	**PPP standards**	**Standards-setting body**	**PPP standards**	**Standards-setting body**	**PPP standards**
Industry and Financial Reporting Standards Reporting Council	Concession Arrangements			Standards Advisory Board	federal agencies and government-wide

1.5 Objectives of the research

The researcher aims to assess whether the current prescribed accounting standards address the complexities that arise from PPP arrangements from the perspective of the public entity; or those arising from the government department and that of the private sector entity to the arrangement.

1.6 Motivation for the research

As noted above, PPPs are important for the development of the economy and provision of basic services. It is thus important that the accounting and reporting of PPPs address the potential risks and complexities that may arise from them. The identification of the areas that require improvement in the current standards will assist the standards-setters in intensifying the current accounting pronouncements. The objective is not to suggest improvements to the current standards. The aim is simply to identify areas that may need further clarification and thereafter further research can be conducted in addressing the results of this research.

1.7 The extent of the scope of the research

The research is a case study of a sample of PPP contracts that will then be analysed. The terms identified in the contracts will be tested against the prescripts of the standards. Where the prescripts of the standards do not address the terms in the contracts, those areas will be identified as areas that require further research or development of the standards.

1.8 Potential benefits of the research

Public-private partnerships are important for service delivery and economic development as noted in the introduction above. There is an increase in the use of PPPs as a means of infrastructure development (European Economic Association, 2012). In assessing the adequacy of the current prescribed accounting frameworks, the research is responding to the market need for appropriate and sufficient reporting standards. In addition, the accounting treatment of PPPs is likely to have a greater impact on the attractiveness of PPPs, as accounting standards dictate which assets and liabilities should be accounted for on and off the public balance sheet (The Association of Chartered Certified Accountants, 2012).

CHAPTER 2: LITERATURE REVIEW

There are currently various statements and standards available to provide guidance on the accounting and disclosure of PPPs. The standards contain various principles for the identification of PPPs and the recognition and disclosure thereof in the annual financial statements.

The following standards will be reviewed in this chapter:

1. Guideline on accounting for public-private partnerships;
2. GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor;
3. IFRIC 12 Service Concession Arrangements

2.1 Guideline on accounting for public-private partnerships

The guideline provides the Accounting Standards Board's (ASB) views on the accounting treatment of PPPs and incorporates principles of relevant GRAP standards. The standard addresses the recognition and measurement of disclosure of assets, liabilities, revenue and expenditure by the grantor under the PPP arrangement (ASB, 2008).

The standard identifies two broad types of PPP arrangements, which are:

- A private party contracted to perform an institutional function; and
- The use of state property, which involves the grantor providing the use of asset to a private party for a defined period. In this case, the private party uses the asset for its own commercial use and the private entity may share a percentage of profits with the grantor.

The parties may also enter into contracts that are a combination of the institutional function and use of state property.

Funding structures of PPPs may take various forms and may include project finance, corporate finance and contributions by the grantor (ASB, 2008:1.22). These are expounded on below.

- **Project finance**

In this case, a special purpose entity, through which financing of the project is channelled, is established between the grantor and the private party. The special purpose entity is responsible for the operations of the PPP and an agreement is signed between the grantor and the private party.

- **Corporate finance**

Here, a private entity derives finances from their own resources, which are then used for funding the capital and operating costs of the project.

- **Contributions by grantor**

This is an arrangement where the grantor is required to contribute funds towards financing the project. Funding could be in a form of an investment or interest acquisition from the private entity. Project finance and contribution by the grantor could result in the public entity owning a share in a separate legal entity, resulting in the grantor being an equity investor. In order to account for its interests in the legal entity, the grantor will have to follow the standards that deal with the consolidation of entities under control.

This research dissertation will not focus on the accounting treatment of investments in legal entities. The study will focus on accounting for the functions transferred to private entities or the right to use public assets in order to generate revenue.

Private party entities may be entitled to compensation from the public entity for services that are rendered by the PPP. Compensation may be in the form of finances paid directly to the private party's funds received from operations of the asset, providing a service, or a combination of both methods.

2.1.1 Accounting approach

The scope or approach of the standard is based on the control of the resources for service potential or for the use to generate future economic benefits. Control is identified if the following are apparent in an arrangement:

a) The grantor controls or regulates what services the private party must provide and to whom it must provide these;

b) The grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the asset at the end of the arrangement.

Public sector reporting frameworks define an asset to include the service potential of the asset, as the role of the public sector is to provide a service and not only to generate profit (ASB, 2010a).

The control requirement does not always refer to legal ownership: it only requires the rights of use of the asset for future economic benefits or service potential. The guidance does not use the risks and rewards approach in determining whether the grantor should account for the asset and related obligation in a PPP agreement.

The approach followed in the guideline is in line with the underlying framework of the GRAP standards' definition of an asset.

In accordance with the control approach, the grantor uses the following criteria to determine whether it controls the use of the asset in the PPP agreement:

- The grantor controls or regulates what services the private party must provide with regard to the associated asset, to whom it must provide them and at what price;
- The grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the agreement.

If the above criteria are not met, the grantor must consider whether the arrangement entered into constitutes a lease and follows the principles contained in IFRIC 4, *Determining Whether Arrangement Contains a Lease.* If it is concluded that the agreement constitutes a lease, then the grantor follows GRAP 13 *Leases*.

If it is concluded that the agreement contains a lease, the grantor needs to consider whether the lease constitutes a financial or operating lease, using the principles contained in GRAP 13 *Leases.*

Where the control approach's requirements are met, the entity follows the approach below:

2.1.2 Recognition of assets and measurement thereof

- Recognition of assets

Once it is concluded that the underlying assets in the PPP agreement should be recognised by the grantor, the grantor considers when those assets should be recognised.

As per the definition, the criteria of recognising assets decree that an asset will be recognised when:

(i) It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and

(ii) The cost or fair value of the asset to the entity can be measured reliably.

- Measurement of assets

Where there are clearly identifiable amounts due and payable, the asset should be recognised at cost. That is, the cost equals the amount equal to the present value of all of the scheduled payments in the future. If, however, the amount is not specified or there is no distinction of the amount that has been paid for the asset, the grantor needs to recognise the asset at fair value at the inception of the arrangement. Subsequent to recognition and assessment of the assets, the grantor should measure them based on the requirements of the applicable standards of GRAP. The following standards may be applicable in this instance:

- GRAP 12 *Inventory*
- GRAP 16 *Investment Property*
- GRAP 17 *Property Plant and Equipment*
- GRAP 31 *Intangible Assets*
- GRAP 103 *Heritage Assets*

2.1.3 Recognition of the obligation or exchange consideration

Private party is required to recognise financial asset, if being party to the PPP contract gives an unconditional right to the private party to receive cash or another financial asset from the grantor. (IASB, 2006)

From a public sector perspective, the converse would apply; the grantor would have an unconditional obligation to deliver cash or another financial asset. The grantor would thus raise a financial liability arising from their participation in the PPP agreement

2.1.4 PPP agreements that involve land that is owned by another sphere of government

In instances where the PPP agreements involve land owned by another sphere of government, the public entity that owns the land would have to account for the land appropriately in their financial statements. If there are assets to be constructed in the land, the public entity would have to apply the definition of an asset and apply control criteria to determine how to account for the constructed assets including the corresponding obligation.

Where there is an agreement on the use of land between the government entities on the use of land. In determining how to account for the land the entities should apply the requirements of IGRAP 3 *Determining Whether an Arrangement Contains a Lease* and GRAP 13 *Leases* to the agreement to determine if the agreement constitutes a lease and the lease type, whether operating or finance lease.

2.1.5 Accounting for revenue received from PPP agreements

In accordance with the requirements of GRAP 9 *Revenue from Exchange Transactions*, money receivable from the contract should be accounted for at fair value of the amount receivable. The revenue should be recognised provided it meets the recognition criteria i) the revenue to be recognised should be measurable and ii) there must be probability of flow to the entity of the of economic benefits and/or service potential.

2.1.6 Payments to the private entity

The grantor may be required in the agreement to make payments to the private party for the various reasons for example payment to the private part for operating an asset or providing a service. The private party should recognise the payments from grantor as revenue, when principles of recognising revenue are met as discussed in 2.1.5 above.

2.1. 7 Other accounting considerations

For costs incurred prior to the commencement of a PPP (which could include environmental impact assessment, consensus survey for land use and other costs of project feasibility assessment), the entity needs to apply the requirements of GRAP 102 *Intangible Assets*, which provides guidance on when to capitalise the development costs.

2.1.8 Provisions and contingent liabilities and assets

The grantor can be liable for payments under PPP agreement the payments to be made take various forms such as i) Unitary payments, ii) PPP agreement termination payments; and iii) Guarantee, indemnity or security on behalf of the private party.

Unitary payments are recognised when the conditions for payment under the arrangement are met. The grantor recognises a liability to the extent that the conditions are met and payment has not been made to the private party.

In certain cases the PPP may need to be terminated due to private party or grantor failing to meet some of their obligations under the agreement. Thus, resulting in early termination of the agreement the grantor may be required to compensate the private party under these circumstances. The grantor is required to recognise liability to the extent that the grantor has an obligation to settle the private party.

- The grantor should apply the standards dictated by GRAP with regard to *Financial Instruments* to both the initial recognition and the first and subsequent measurement of its liability in the instances where a financial guarantee is issued.

Contingent assets from PPP arrangement may arise from claims made against a private party arising from legal proceedings. If the court does not rule against the grantor, then the grantor is required to disclose a contingent asset in its financial statements.

2.1.9 Accounting for the interest of the grantor in a special purpose entity

Private party entering into a PPP shares some risks when they are party to an arrangement including financial risks. Similarly the grantor does incur financial risks, financing of the PPP arrangement may take various forms as discussed above. One of the methods could establishment of a special purpose entity (SPV) in which activities of the PPP arrangement will be conducted.

- Controlling a share in a SPV

The grantor's interest in the SPV is to be accounted for in accordance with the requirements of GRAP 6 *Consolidated and Separate Financial Statements*. This standard requires the grantor to consolidate into its financial statements, the financial statement of an entity in which the grantor has control.

Control is defined in the standard as: 'the power to govern the financial and operating policies of another entity, so as to benefit from its activities' (ASB, 2010b:06).

- Significant influence in an SPV

GRAP 7 *Investments in Associates* provides the principle to be followed by the grantor, where the grantor's interests held does not meet the definition of control. If control criteria are not met, the grantor may have significant control over the SPV.

Significant influence is defined as 'the power to participate in the financial and operating policy decisions of the investee, but it has no control over those policies' (ASB, 2012).

GRAP 7 prescribes the equity method to be applied by the grantor in incorporating a significantly controlled SPV. Under the equity method, the grantor accounts for changes in net asset value of the SPV.

- Investment in a SPV

Where the interest held by the grantor does not meet the control or significant influence, the grantor is to account for the investment in accordance with the requirements of GRAP 104 *Financial Instruments*.

2.2 GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor

The standard is based on the principles contained in *IPSAS 32: Service Concession: Grantor*. It prescribes the accounting for service concession arrangements by the grantor (ASB, 2013).

2.2.1 Recognition and measurement of assets

In accordance with the definition of an asset, GRAP 32 requires the grantor apply the criteria to the elements of the arrangement (ASB, 2013).

The grantor is to recognise an asset in its financial statements if it controls or regulates what services are to be provided with asset and to whom should the services be provided and at the end of the PPP the grantor is entitled to the significant remaining interest from the asset. This could be if the grantor is entitled to dispose the asset for its benefit at the end of the contract.

The grantor will initially measure the service concession asset at its fair value. If the asset which is being utilised under the PPP arrangement is already accounted for in the financial statements of the grantor, the grantor is not required to recognise the asset again, however is required to reclassify the asset as service concession asset.

Dependent on the type of the asset the grantor may recognise the asset as an investment property in accordance with GRAP 16 *Investment Properties*, where the assets are held in production they are to be recognised as property plant and in equipment in accordance with GRAP 17 *Property Plant and Equipment*, where assets are no monetary assets with no physical substance GRAP 31 *Intangible Assets* and GRAP 103 *Heritage Assets* is to be applied for heritage assets.

2.2.2 Recognition and measurement of liabilities

Where the grantor recognises a service concession asset, it will also recognise a corresponding liability. The liability that is acknowledged is to be measured at the amount equivalent to the concession asset recognised net of any contributions made by the grantor to the private party, or vice versa (ASB, 2013).

- Financial liability model

Where the grantor has an unconditional obligation to pay cash or another financial asset to the private party, it is compelled to account for the liability recognised at the fair value that is adjusted by the amount of any other consideration (e.g. cash) from the grantor to the private party, or from the private party to the grantor.

The grantor will then allocate payments to the private party and account for them according to their substance as a reduction in the liability, a finance charge and charges for services provided by the private party.

The financial charge and charges for services provided by the private party in a service concession arrangement that has been determined will be accounted for as expenses.

- Grant of a right to the private party model

Compensation of the private party by the grantor may be in a form of a right to the private party to earn returns from users of the asset that is controlled by the grantor. In this instance the grantor is required to recognise a liability to the extent that there are returns due to the private party that have not yet been earned.

- Dividing the arrangement

If the arrangement requires the grantor to pay for the construction, development, acquisition or upgrade of a service concession asset by incurring a financial liability, and partly by granting a right to the private party; these two different liabilities items are to be recognised separately.

2.2.3 Other liabilities, contingent liabilities and contingent assets

The grantor must account for other liabilities, contingent liabilities and contingent assets arising from a service concession arrangement in accordance with the standards of GRAP on provisions, contingent liabilities and contingent assets and financial instruments (ASB, 2013).

2.2.4 Other revenues

The grantor must account for revenues from a service concession arrangement in accordance with the standards of GRAP on revenue from exchange transactions (ASB, 2013).

2.3 IFRIC 12 Service Concession Agreements

A Service Concession Arrangement is defined in IFRIC 12 as “an arrangement whereby a government or other public sector body contracts with a private party (operator) to develop (or upgrade), operate and maintain the grantor's infrastructure assets such as roads, bridges, tunnels, airports, energy distribution networks, prisons or hospitals.”

Similar to the definition of control of an asset under GRAP standards, the grantor is to control or regulates what services the private party must provide and to whom are the services to be provided and also regulates the pricing of the services and controls the remaining interest is the asset at the end of the contract.

The objective of IFRIC 12 is to clarify how certain aspects of existing IASB literature are to be applied to Service Concession Arrangements (IASB, 2006).

IFRIC 12 draws a distinction between two types of Service Concession Arrangements, namely:

- The private party receives a **financial asset** — specifically an unconditional contractual right to receive a specified or determinable amount of cash or another financial asset from the government — in return for constructing or upgrading a public sector asset, and then operating and maintaining the asset for a specified period of time. This category includes a guarantee by the government to pay for any shortfall between amounts received from users of the public service and specified or determinable amounts.
- The private party receives an **intangible asset,** that is, the party is afforded the right to charge for use of a public sector asset that it constructs or upgrades and then must operate and maintain for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

IFRIC 12 allows for the possibility that both types of arrangement may exist within a single contract.

2.3.1 Accounting – financial asset model

The private party recognises a **financial asset** as an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction services. The private party has an unconditional right to receive cash if the grantor contractually guarantees to pay the private party (IASB, 2006) either:

(a) Specified or determinable amounts; or

(b) The shortfall, if any, between amounts received from users of the public service and specified or determinable amounts, even if payment is contingent on the private party ensuring that the infrastructure meets specified quality or efficiency requirements.

The private party measures the financial asset at fair value.

2.3.2 Accounting – intangible asset model

The private party acknowledges an intangible asset to the extent that it receives a right (a licence) to charge users for the public service. The right to charge users for the public service is not unconditional entitlement to receive cash, because the amounts are contingent on the extent that the public uses the service (IASB, 2006).

The private party measures the intangible asset at fair value.

2.3. 3 Operating revenue

The private party of a Service Concession Arrangement identifies and measures revenue in accordance with IASs 11 and 18 for the services it performs (IASB, 2006).

CHAPTER 3: RESEARCH METHODOLOGY

This chapter will include the explanation and motivation for the method utilised, the qualitative content analysis. The assumptions made in the study and justifications of the assumptions made are covered in this chapter.

The research will use a qualitative empirical research methodology in order to identify all the issues that are in the selected contracts. The qualitative research method requires the researcher to become more than just an observer; but ensures that the researcher is closer to the research subject (Babbie, E & Mouton, J, 2008). The qualitative research method allows the researcher to study real world situations as they unfold naturally, in a manner that is non-manipulative and not controlling, with openness to whatever emerges. In this method, there is lack of predetermined constraints on findings.

Here, the researcher has direct contact with the entity and is immersed in the situation and/or phenomenon under study. His/her personal experiences and insights are an important part of the enquiry and critical to understanding the phenomenon. This research methodology also allows for purposeful sampling. Cases for study are selected in accordance with the degree to which they are manifestations of the phenomenon of interest. Sampling then is aimed at insights about the phenomenon, not imperial generalisation from sample to population. (Patton, M.Q, 2002).

The qualitative researcher analyses data inductively. He/she does not set the data to prove or disprove the hypothesis that they have prior to the study. Theories come from the bottom up rather than the bottom down. The theory is grounded in the data and is thus created as the research progresses. The researcher does not assume to know the important questions and findings prior to beginning the research (Patton, M.Q, 2002).

The qualitative research method is the most appropriate method, as it will allow the researcher to be the preparer of the financial statements thus giving first-hand in application of the reporting standards. The review of the standards and contracts is not aimed at proving or disproving any position. It is intended to determine the adequacy of available standards in accounting for PPPs. The findings and conclusion will be informed by the data, the selected contracts and the standards available for accounting for such contracts. The review of the contracts and assessing of the complexities in the contracts allow for proper and in-depth analysis and first-hand experience by the researcher.

When conducting the research it will be assumed that GRAP 32 is effective and that therefore the assessment of the standard will be an effective standard. This assumption will be made based on the expectation that the Minister of Finance will provide the effective date without any changes to the standard. This premise is made based on the fact that the standard is based on IPSAS and the correct due process has been followed in developing the standard.

The review of the standards will be conducted by the grantor and the private party that prepares financial statements on IFRS as the Companies Act and regulations prescribes for companies.

Two contracts have been obtained for the purpose of the research. The two have been obtained from a provincial department. For the confidentiality of the parties involved in the contracts, the name of the province and the other parties involved will not be disclosed.

3.1 Public-private partnership contract to build a new private hospital

The provincial department (grantor) concluded a PPP agreement with a private party. In fulfilling the agreement the grantor agrees to provide premises (an old hospital) that the private party can utilise in order to generate revenue. The terms of the PPP agreement requires the private party to: develop the premises into a private hospital, provide private hospital services and manage it as a private hospital facility. The contract is for 15 years, which includes the period of refurbishment of the old building and the running of the new private hospital. After the operation of the facility is run by the private party, the operational management of the hospital will then transfer control to the grantor for continued operation.

3.2 Public-private partnership contract to refurbish old renal dialysis unit

The grantor concluded a PPP agreement with a private party to design, construct and upgrade the existing dialysis unit in order to establish a new one. The private party was also required to provide: operational services, facilities management, refreshment and replacement of renal dialysis equipment, furniture, consumables and staff. The unit upgraded is within the facility operated by the grantor.

CHAPTER 4: SUMMARY OF CONTRACTS

The contracts selected are summarised in this chapter. Contracts have been reviewed and various components identified. In addition, all the complex issues contained in the contracts, are to be discussed in this chapter.

4.1 Public-private partnership contract to build a private hospital

- Contract overview

The grantor has provided rights to use the premises to the private party for the period of 15 years, and, within this period, the private party is required to:

- Refurbish the premises into a private hospital facility;
- Provide private health care services in a private hospital facility following the refurbishment;
- Maintain the new private hospital facility;
- Manage the facility until the management of the private hospital facility will be transferred back to the grantor.

4.1.1 Assets

- Property

The grantor transfers the right to use the property and fixtures to the private party, but retains ownership. The private party takes responsibility for the risks associated with the construction of the new private hospital. The private party is required to insure the property and fixtures after handover and during operation of the private hospital. The grantor remains liable for all rates, taxes, charges, levies and assessments that the relevant authority may levy in connection with the property.

- Fixtures and movable assets

The grantor provided the private party with the property including fixtures, but removed all movable assets. The private party is required to return the property with all the fixtures. The private party may replace the fixtures with similar assets, if required, for the effective functioning of the new private hospital. The private party may dispose of old fixtures and is entitled to the losses or benefits from this disposal.

- Maintenance of the new private hospital facility

The private party is required to conduct proper maintenance of the facilities to ensure effective functioning upon handover to the grantor. The private party is also obliged to provide a planned maintenance schedule for the years under the contract. At the end of the PPP term, the private party is required to appoint an independent party to carry out a maintenance survey to assess the extent of maintenance and costs incurred, if any, at the end of the contract. **The private party is required to cover the maintenance costs.**

4.1.2 Services provided at the new private hospital

The private party is required to provide private health services at the private party's own risk and costs. The grantor is entitled to refer public patients to the private hospital, if there is a need. The private party is entitled to charge government employees' medical aid scheme rates less 15% discount to the grantor. The PPP contract details all the services that are to be provided by private party at the new private hospital.

4.1.3 Financing

- Payment by the grantor

The grantor is required to pay a fixed fee on a monthly basis to the private party, after handing over the property. The fee payable is as follows:

i) First six months — R50 000.00;
ii) From six to 18 months — R75 000.00;
iii) 18 months to expiry of the contract — R100 000.00 which is adjusted according to inflation.

- Payment by the private party

The costs estimated for refurbishment of the old property to a private hospital that are to be borne by the private party are estimated to be R74, 000,000.

At the end of each financial year, for the duration of the PPP arrangement, the private party is required to pay the grantor a variable fee based on the operations of the private hospital. The variable fee payable is as follows:

i) For revenue above R70 million but below R80 million – 2.5% of the portion of revenue that exceeds R70 million must be paid;
ii) For revenue exceeding R80 million – 3% of the portion of revenue that exceeds R80 million must be paid.

The private party is required to provide the grantor with audited financial statements for it to ascertain the fees that are receivable to it.

- Termination compensation

On termination of the agreement resulting from a default by the grantor, the grantor will pay the private party the value of the asset as determined in the table below. In cases of default by the private party, the grantor will pay the private party 60% of the determined value.

End of year		**Estimated rand value of assets**
1	2011	75 000 000.00
2	2012	86 000 000.00
3	2013	79 000 000.00
4	2014	73 000 000.00
5	2015	66 000 000.00
6	2016	60 000 000.00
7	2017	53 000 000.00
8	2018	46 000 000.00
9	2019	39 000 000.00
10	2020	33 000 000.00
11	2021	27 000 000.00
12	2022	20 000 000.00
13	2023	13 000 000.00
14	2024	6 600 000.00
15	2025	-

4.2 Public-private partnership contract to refurbish a dialysis unit

- Contract overview

The contract is for 10 years, and, within this period, the private party is required to refurbish an existing renal dialysis unit within the hospital complex into a new dialysis unit and operate the new unit. The grantor operates the hospital complex and the old renal dialysis unit. The contract has four requirements of the private party that should:

- Design, construct and upgrade the existing renal dialysis unit;
- Provide services at the new dialysis unit;
- Provide goods, inventory, consumables, materials and equipment;
- Maintain the new dialysis unit.

4.2.1 Assets

- Ownership of the premises

The grantor transfers the right to use the old renal dialysis unit and facilities, within a hospital complex, to the private party. The grantor retains ownership of the hospital complex and the renal dialysis unit. The private party takes responsibility for the risks associated with the construction of the new renal dialysis unit. The contract states that the grantor does not confer a lease to the private party for the facilities. The project site and facilities including improvements vest in the grantor. The private party is required to hand over the facilities to the grantor upon expiry of the contract. The private party is required to take out insurance cover on this project and the services provided, as compulsory by law. The grantor will provide the private party with the utilities that are required. The private party is required to pay for the utilities at the rate at which the utilities provider charges the grantor. The grantor will be liable for all rates and taxes that the authority levies in connection with the premises.

The grantor and private party have agreed on the works programme which contains the planned work to be done and timelines within which the private party needs to comply in conducting the refurbishment of the old renal dialysis unit. If the works programme has not been complied with, the grantor may force the private party do so at its own expense.

The private party will design the new renal dialysis unit and submit the design to the grantor for approval prior to commencement of refurbishment. The design will be assumed to comply with the requirements of the regulatory bodies and legislative framework that govern the industry and, by the grantor approving the design, the risk lies with the private party. Upon conclusion of the refurbishment of the new renal dialysis unit, the private party must deliver a certificate stating the completion of the unit and availability for use to the grantor.

- Project assets

The grantor provided the private party with the old renal dialysis equipment including the fixtures. The private party is required to return the new renal dialysis unit with all of these. The private party may replace the fixtures with similar assets if required for effective functioning of the new renal dialysis unit. The private party may dispose of old elements and is entitled to the loss or benefits derived from this disposal. The private party is required to keep current and maintain an electronic asset management system in respect to all the project assets for the duration of the project term.

- Goods, stocks, consumables, materials and equipment

The private party is responsible for ensuring that the goods, stocks, consumables, material and equipment in the new renal dialysis unit are maintained in a safe, serviceable and clean condition and one that complies with the relevant laws and regulations. The grantor may, at any point, request proof of compliance with the above requirements.

- Maintenance of the new dialysis unit

The private party is required to maintain the equipment and facilities in accordance with industry requirements. The private party is required to provide a planned maintenance schedule for the year one month prior to commencement of the financial year. On the 3^{rd} and 7^{th} year anniversaries of the contract, the grantor may perform an equipment and facilities maintenance survey to determine compliance with the maintenance requirements by the private party. At the end of the of the PPP period, the private party is required to appoint an independent party to carry out a final maintenance survey to assess the extent of maintenance and costs incurred, if any, at the end of the contract. The private party is required to cover the costs of the final maintenance.

4.2.2 Services provided at the new renal dialysis unit

The private party is required to operate the new renal dialysis unit upon conclusion of refurbishment. The grantor and the private party have agreed on the services to be conducted and the required standard for services rendered. The private party is required to provide services at its own risk and costs and is entitled to payment for the services rendered.

The grantor may, at its own expense, conduct performance monitoring of the services that provided by the private party as agreed in the contract. If services rendered are not as determined the contract, the private party may incur penalties. The grantor will nominate staff who will be transferred to the private party for training on how to utilise the new renal dialysis unit.

4.2.3 Financing

- Payment by the department

The department is required to pay a unitary payment on a monthly basis to the private party. The payment is based on the number of public patients that have received services from the facility. The fee payable is as follows:

Number of treatments in the payment period		**Cost per treatment in the first financial year**
From	**To**	**Rand value**
0	240	1800
241	300	1500
301	360	1370
361	420	1310
421	480	1220
481	540	1150
541	600	1101
601	660	1083
661	720	1042
721	780	1011
781	840	1003

Number of treatments in the payment period		Cost per treatment in the first financial year
From	**To**	**Rand value**
841	900	977
901	960	953
961	1020	934
1021	1080	931
1081	1140	901
1141+		903

The unitary payment for the period is determined by multiplying the number of public patients who received the service by the rand value rate, which was obtained by referring to the range of the number of treatments. The range is conducted on a monthly basis. When determining the number of patients in the range, private patients are also taken into account.

The unitary amount incorporates penalties, and thus the department will reduce the payment due according to costs allocated to penalties. The penalties are defined as service failures and occur when the services have not been delivered to patients.

- Payment by the private party

The private party will be responsible for the payment of the cost of: design, construction and upgrading the existing renal dialysis unit; providing services at the new dialysis unit; providing goods, inventory, consumables and materials; as well as equipment and maintenance of the new dialysis unit. There are no specific costs stated in the contract, however, there are specifications on the quality of the equipment and maintenance levels required. The grantor also needs to approve the design of the new renal dialysis unit.

The private party is required to ring fence the project as a separate operation/business unit within the private party business.

The private party is required to submit a copy of its audited financial statements and a reconciliation of the profit and loss and the budget for the financial year to the grantor within 120 days after the financial period.

- Termination compensation - compensation on termination for grantor default

The grantor must pay the private party an amount equal to the aggregate of, sub-contractor costs, equity compensation and redundancy payments and any other termination payments required payable under law for employees of the private party in relation to the project, less any amounts that are due to the department from the private party.

- Termination compensation - compensation on termination for private party default

The grantor will pay the adjusted estimated project value of the department and is required to appoint an expert to determine what the value will be at date of termination.

CHAPTER 5: APPLYING THE STANDARDS REQUIREMENTS TO THE CONTRACTS

In applying the requirements of the contract requirements, PPP guidelines will be applied to the contract to renovate a private hospital. GRAP 32 *Standard of GRAP on Service Concession Arrangements: Grantor* will be applied to PPP contract no. two on refurbishment of the renal dialysis unit. The two standards have similar principles; hence the contracts will be applied to different contracts (ASB, 2008). The two standards will be applied in the instance of the grantor and IFRIC 12 will be applied in the instance of the private party. Thus, the contracts will be analysed twice for the grantor and once in the case of the private party.

5.1 Public-private partnership contract to build a private hospital

5.1.1 Grantor applying the Guideline on Accounting for Public-Private Partnerships

The guideline requires application of the control approach to determine if the grantor controls the underlying asset in the PPP arrangement (ASB, 2008).

(a) Scope or control approach

- **Grantor regulates or controls services to be rendered**

Under the public-private partnership contract to build a private hospital, the private party is required to provide private health care services. The contract specifies the services that the private party is required to provide. It does not specify the rates that the private party is to charge for services and it does not specify the recipients of these services. The grantor is entitled to refer public patients if there is a need, and these transferred patients are to be charged at a set fee. The private party is required to provide services at its own risks and costs.

Although the grantor does not regulate to whom the services are provided, the grantor does regulate what services are to be provided by the private party. Thus, this requirement for control is met.

- **Grantor controls the underlying asset**

The grantor retains ownership of the property and only provides rights of use to the private party. Private party is required to return the facility back to the grantor at the end of the PPP term. Under this arrangement, the grantor retains control of the underlying asset and the significant residual interest at the end of the arrangement. Thus, once again, the requirement for control is met.

Based on the consideration above, as highlighted above, the control approach is satisfied, thus this PPP arrangement is within the scope of the PPP guidelines.

(b) Recognition of assets

Assets are to be recognised if:

> *(i) It is probable that future economic benefits or service potential associated with the assets will flow to the grantor; and*
>
> *(ii) The cost or fair value of the asset can be measured reliably.*

The private party is required to pay a variable fee to the grantor on the running of the private hospital. The variable fee payable to the grantor is per the table below:

Revenue range	**Payable to the grantor**
R70 million to R79,9 million	2,5% of the portion of revenue that exceeds R70 million
Above R80 million	3% of the portion that exceeds R80 million

The grantor is entitled to refer public patients to the private hospital facility at an agreed fee, to be settled by the grantor. The variable fee payable to the grantor encompasses the economic benefits to them. The entitlement to refer public patients at an agreed fee is the service potential for the grantor.

The cost of refurbishment of the hospital has been estimated at R 74,000,000. Through record–keeping, the actual costs of development of the new hospital can be measured reliably.

The criteria for recognising an asset have been met. The grantor should thus disclose the private hospital as an asset in its financial statements. As contained in the PPP guideline the grantor is to recognise the asset under construction based on the stage of completion (ASB, 2008). Consequently, the grantor should recognise the asset as refurbished at the date of refurbishment until finalisation using percentage of completion. The grantor should continue to acknowledge the asset, even during operation of the private health care facility. The grantor provided the private party with the premises including fixtures and the private party is required to return the property with all the fixtures. The private party may replace the fixtures with similar assets, if required, for the effective functioning of the new private hospital. The fixtures should be recognised together with the structure having been refurbished as the private party is required to return the hospital facility with the fixtures.

The old hospital building would have been in the financial statements of the grantor before transferring it to the private party. The guideline does not cover how the assets should be accounted for in full: for example, whether the grantor derecognises the old asset in their books and endorses the new PPP asset. In addition, it is not stipulated at what value the asset is to be derecognised.

(c) Measurement of the asset

Initial measurement

The grantor is required to recognise the asset initially at cost, which is equivalent to the present value of the future payments. The grantor is required to pay the private party from the date when the old property was transferred to the private party. The grantor is required to include payments to the private party as part of the cost of the asset (ASB, 2008). Payments made by the grantor to the private party are not allocated between services of running the private hospital and payments for the construction of the asset. The grantor is to make the following payments:

	Monthly payment	Total payments
For the first six months	- R 50,000	R 300,000
From six to 18 months		R 900,000

From 18 months to end of 15th year	- R 100,000	R 15,600,000*

*(increased by CPI every year)

Total payable by the grantor	**<u>R 16,800,000</u>**

As the amounts payable are not separated between the asset and the cost of the building, the guideline requires the grantor to determine the fair value of the asset at inception and allocate the money paid at the fair value thereof. The remaining unallocated amount between the total payment and the fair value of the asset at inception is recognised as the cost of services.

An estimated cost of the refurbishment of the old building to a new hospital is R 74,000,000, assuming this is the fair value of the asset when applying the requirements of the guideline.

The grantor will apply the following:

Total payments	R 16,800,000
Fair Value of the asset	R 74,000,000
Difference	**<u>(R 57,200,000)</u>**

Based on the application of the guideline, the grantor should attest to the value of asset at its present value of R 16,800,000. As the amount paid is not in excess of the fair value of the asset, consequently there is no cost for the services incurred by the grantor.

When applying the guideline, the results are a negative amount as noted above. Following the guideline, the difference is payment for services rendered. In this scenario, we have a negative amount, which is not the payment from the grantor. The grantor is thus paying less for the fair value of the property and does not pay for the services. The guideline does not have additional guidance when the service component is a negative amount (ASB, 2008). The negative amount could be interpreted as the private party having to compensate the grantor for the services that the private party provides. This may not necessarily be the case as the primary reason for the private party to enter into a PPP arrangement would be to make a return or profit. In providing the services, the private party will be entitled to receive payments from the private hospital patients. The payment received from private patients could potentially be interpreted as compensation for services. These do not represent payments that come from the grantor. The guideline only focuses on the payment from the grantor for the asset and services rendered.

Subsequent measurement

The guideline requires the grantor to continue to measure the assets in accordance with current accounting policies. If there are depreciated assets over a certain period, the grantor should continue to apply the same policy. For the purpose of this research study, we have not assessed the depreciation period of the grantor. The depreciation period should take into account the expected useful life of the asset.

The guideline does not cover the transition of the asset and does not specify when and how the grantor should derecognise the asset. In this PPP contract, to build a private hospital facility, the grantor had already recognised the old hospital in its financial statements. Clear guidance is needed on whether the grantor should derecognise the old hospital facility in its financial statements and recognise the new PPP asset or whether the new costs be added to the existing asset.

(d) Recognition and measurement of the obligation where the private party receives consideration from the grantor

Financial liability

The grantor has an unconditional obligation to deliver cash to the private party. As noted above, the grantor has an obligation to pay the private party R 16,800,000. Based on the requirements of the guidelines, this obligation is a financial liability.

Initial recognition

The grantor will recognise a financial liability in its statement of its financial position when the grantor is party to the contractual agreement (ASB, 2009). The grantor is party to the PPP arrangement, which raises an unconditional obligation for the grantor to pay the private party. The grantor thus needs to recognise a financial liability in its financial statements due to the fact that the grantor is compelled to pay the private party.

The grantor is required to measure the financial liability at fair value of the amount payable. The amount which is payable over the period (R16,800,000) should be discounted at the effective interest rate in order to determine the fair value.

Subsequent measurement

The financial liability of an entity is subsequently measured at amortised cost(ASB, 2009). Payments are allocated to the capital amount and the interest component at payment intervals until settlement of the balance at the end of the life of the financial liability at the end of year 15.

(e) Services provided at the new private hospital

Compensation of the private party by users

The guideline requires the grantor to recognise only its portion of contributions of payments to the private party. The grantor is not required to account for the payments that will be made to the private party by the users of the private hospital (ASB, 2008).

The grantor is entitled to refer public patients at an agreed fee. There is no additional guidance on how the grantor should account for this in the grantor's financial statements.

(f) Accounting for payment to the grantor by the private party

Initial recognition

The guideline requires the grantor to ratify revenue as the fair value of the consideration receivable when it is probable that the money will be received. The grantor is entitled to receive revenue earned based on a percentage of the revenue exceeding a certain level. The grantor will recognise revenue at a percentage agreed in the agreement when it is probable that the revenue of the private party for the year will exceed R 70 million. To determine the probability of receiving the revenue, the grantor will use the financial statements of the private party as required in a public-private partnership to build a new private hospital. The grantor will document the amount receivable in the statement of financial performance and raise this related to the extent that the private party has not paid the amount receivable.

Guidance on how to account for this is clear and follows the requirements of GRAP 9 *Revenue from Exchange Transactions*.

(g) Provisions, contingent liabilities and contingent assets

Obligations arising from termination of the PPP agreement

The guideline requires the grantor to recognise the liability if the conditions of recognising a liability in GRAP 19 are met. GRAP 19 conditions for recognising a provisions and contingent liabilities are as follows:

Provision may be recognised if:

(i) An entity has a present obligation (legal or constructive) as a result of a past event;

(ii) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(iii) A reliable estimate can be made of the amount of the obligation.

The above conditions may be applied by the grantor on termination of the agreement by either the private party or the grantor. The PPP contract provides for various amounts as stipulated in section 4.1.3 that are payable by the grantor upon termination of the agreement. GRAP 19 has sufficient principles for recognition of the liabilities that may arise upon termination of the arrangement.

5.1.2 Private party applying IFRIC 12 Service Concession Agreements

(a) Scope

IFRIC 12 applies to the service concession arrangements if:

- **The grantor regulates or controls services to be rendered and controls the underlying asset**

Under the public-private partnership contract to build a private hospital, the private party is required to provide private health care services. As noted in 5.1.1 (a), the grantor regulates services to be provided. Grantor also controls the underlying assets and the significant residual interest at the end of the arrangement. Thus, the requirement for control is met.

Based on this consideration, the two required provisions for IFRIC 12 to be applicable are satisfied. Thus, IFRIC 12 applies to the private party involved in this arrangement.

(b) Treatment of the private party's rights over the infrastructure

The private party is not required to recognise a tangible asset as the agreement between the grantor and private party conveys the right to use an asset, and does not stipulate the right for the private party to control the infrastructure. The private party is provided with access to the infrastructure to provide services on behalf of the grantor (IASB, 2006). Thus, the private party is required to recognise the consideration received from the grantor as either a financial instrument or a non-monetary asset without physical substance.

The grantor provides the private party with the rights to use the property and equipment and there is also a contractual obligation to make payments to the private party for the duration of the PPP contract. The rights to utilise the property is a non-monetary asset without physical substance. The private party should thus recognise the right to use the property as an intangible asset. The right to use the property does not meet the definition of a financial asset.

As required in GRAP 31 intangible asset is recognised only if:

(i) There is probability that expected future economic benefits attributable to the asset will flow to the entity; and

(ii) The cost of the asset can be measured reliably.

The private party expects to receive revenue from providing private health services. The cost of the right to use the property and fixtures to provide a service is not available. IFRIC 12 requires the private party to recognise the rights at the fair value of the consideration transferred to the grantor (IASB, 2006). The fair value of the construction of the new facility is R74,000,000. The private party is required to adjust this amount to bring it to what the costs will be if the grantor were to purchase this asset as an ordinary market participant. The private party is allowed to include borrowing costs in the cost of the rights, if applicable. The value of the intangible asset will be realised over the PPP contract period of 15 years.

(c) Contractual obligation to receive payments over the duration of the PPP arrangement

Initial recognition

The grantor has an obligation to deliver cash to the private party over the duration of the agreement. The private party must therefore recognise this contractual right as a financial asset. The private party is required to acknowledge the financial asset if it is party to a contractual agreement as it is thus in a position to be recognised as a financial asset.

Initial measurement

Financial asset is to be measured at its fair value. That fair value will be similar to the amount recognised by the grantor under recognition of an obligation under 5.1.1 (b).

Subsequent measurement

The amount receivable from the grantor is subsequently measured: in accordance with IAS 39 as a loan; or at amortised costs (IASB, 2006) if designated as such upon initial recognition; or a financial asset at fair value through profit or loss, if the conditions for that classification are met.

(d) Contractual obligation for maintenance of the new private hospital on final return to the grantor

The private party is required to conduct proper maintenance of the new private hospital to ensure correct functioning upon handover to the grantor. Private party is to recognise provision in compliance with the requirements of IAS 37 *Provisions* as required in IFRIC 12. The provision is to be recognised at the estimate of the amount required to settle the obligation in the future. The private party will estimate upfront the costs of maintenance and this is the amount at which this provision will be recognised.

5.2 Public-private partnership to refurbish and operate a renal dialysis unit

5.2.1 The grantor applies *GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor*

(a) Recognition of a Service Concession Asset

In accordance with GRAP 32, the grantor should recognise the Service Concession Asset provided that;

(i) The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and

(ii) The grantor controls — through ownership, beneficial entitlement or otherwise — any significant residual interest in the asset at the end of the term of the arrangement.

- **The grantor regulates or controls services to be rendered**

The grantor and the private party have agreed on the services to be conducted at the required standard for services rendered. Thus, the grantor regulates what services the private party must provide. According to the contract, the grantor will make payments to the private party at scaled rates based on the number of patients attended to at the new dialysis facility. The private party is not restricted to provide services only to the public patients, but may provide services to private clients at fees determined by the private party. Overall, the grantor controls services to be provided and the price except for the price for services that will be provided to the private clients, so this requirement was partially met.

- **The grantor controls the underlying asset**

The grantor retains ownership of the dialysis unit, and, after the period of the arrangement; the new dialysis unit will be transferred to the grantor. The grantor only provides the private party with the right to develop and use the facility for a period of 10 years. Consequently, the grantor retains control of the underlying asset and the significant residual interest at the end of the arrangement. This meets the requirement stipulating that the grantor retains control of the asset.

Based on the consideration of the two points above, the grantor needs to certify the asset in its financial statements.

The hospital within which the grantor provides the private party with a right to develop the new dialysis unit is already an existing asset documented in the financial statements of the grantor. GRAP 32 requires the grantor to reclassify the portion granted to the private party as a service concession asset. It further requires the grantor to consider the requirement of the other relevant GRAP standards to account for the reclassified asset.

The following may be relevant standards for the reclassified asset:

- *GRAP 16 Investment Properties;*
- *GRAP 31 Intangible Assets;*
- *GRAP 103 Heritage Assets;*
- *GRAP 17 Property Plant and Equipment;*

The grantor needs to consider the requirements of the above standards in order to accurately reclassify the service concession asset.

GRAP 16 Investment Properties

Investment property refers to land held for capital appreciation or land and/or building held to earn rentals. Investment properties k3lare not held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of an entity's operations.

A portion of the hospital provided to the private party is not held to earn rentals as the private party does not pay the grantor rental. The property is also not held for capital appreciation, but solely for service delivery given as the private party is obligated to provide services to the public. The standard on investment property will therefore not be the appropriate one to apply to this asset.

GRAP 31 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Renal dialysis unit portion of the hospital provided to the private party is a monetary asset and has a physical substance. This standard is also therefore not applicable.

GRAP 103 Heritage Assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The heritage standard is also inapplicable here, and, hence, this asset does not meet the definition of a heritage asset.

GRAP 17 Property, Plant and Equipment

Property, plant and equipment assets are defined as tangible assets held by an entity for use in the production, supply of goods or services, rental to other, or for administrative purposes and are expected to be used during more than one year. This asset is held for supply of services through the private party. Therefore, this standard is the applicable.

Using the requirements of GRAP 17, the grantor would have applied the principles of the standard for reclassified assets.

Applying the requirements of GRAP 17 Property, Plant and Equipment

The grantor has already endorsed the building having been transferred to the private party. Thus, the only change as required by the standard is for the grantor to reclassify the asset as a Service Concession Asset. The refurbishments conducted by the private party should be documented in the financial statements of the grantor as assets.

The refurbishments are to be recognised by the grantor if:

It is probable that future economic benefits or service potential associated with the assets will flow to the grantor; and

The cost or fair value of the asset can be measured reliably.

The grantor has requested the private party to refurbish the building after which the private party is required to operate the asset and provide services to the public. The provision of health care services is the responsibility of the grantor. The criterion of service potential for the grantor is thus met.

The costs of renovation can be determined based on the cost incurred by the private party in the refurbishing of the facility. Thus, cost can be measured reliably. Therefore, the condition for measurability of costs has been fulfilled.

The grantor can therefore recognise the refurbishment in its financial statements as an asset based on the considerations above.

(b) Measurement of the service concession asset

Initial measurement

The PPP terms do not quantify the value of the renovations required and the agreement only states that the required standard and quality of the overhauling should be maintained. The standard requires the grantor to measure the assets at cost. The private party is required to submit to the grantor financial statements that reflect the costs incurred. From this submission, the grantor will be able to determine the costs of refurbishment based on information submitted.

Subsequent measurement

The grantor has two options for either using the cost or revaluation model. The option selected should be aligned with the current grantor's accounting policy. The refurbishments will depreciate in value over the course of time. The PPP arrangement is for 10 years, however, upon completion of the initial 10 years, the asset will revert to the grantor. Depreciation should therefore take into account the expected use and longevity of the refurbishments.

(c) Recognition and measurement of liabilities

The standard requires the grantor to recognise a liability if it has an unconditional obligation to pay the operator a specified determinable amount or has guaranteed to pay the shortfall from revenue generated by the operator. The grantor is not required to make any payments to the private party towards refurbishment. The grantor is only required to make payments for the treatment of patients, on a sliding scale, as per 4.2.3 above. If private party does not provide services, the grantor is not required to compensate it.

As outlined above, the grantor does not have an obligation to compensate the private party for the refurbishment of the unit. GRAP 32 requires the grantor to recognise revenue from exchange of assets with the private party where there is no obligation to pay for the asset. Revenue is recognised over the term of the agreement. Application of the requirements of the standard in terms of journal entries will be as follows:

Journal entries

On completion of refurbishments

Dr Asset (hospital refurbishments)	R xx	
Cr Liability		R xx

Recognition of refurbishment assets arising from the PPP,

Year one to 10

Dr Liability	R xx (Rxx/10)	
Cr Revenue		R xx (Rxx/10)

Recognising revenue arising from the transfer of the asset for year 1 (This journal will be kept for every year that passes)

(d) Other liabilities, contingent liabilities and contingent assets

The grantor does not have any other obligations towards the private party, except for payments based on the number of patients treated at the facility. The private party is required to provide the grantor with a number of patients treated on monthly basis and the grantor will then compensate the private party based on the criteria as stipulated under 4.2.2 above. These payments will be recognised as liabilities to the extent that the grantor has not settled what is due to the private party.

5.2.2 The private party applying IFRIC 12 Service Concession Agreements

(a) Scope

IFRIC 12 applies to the Service Concession Arrangements if:

- **The grantor regulates or controls services to be rendered and controls the underlying asset**

Under the public-private partnership contract to refurbish and operate a renal dialysis unit, as noted in 5.2.1 (a); the grantor regulates what services are to be provided by the private party. The grantor is also in command of the underlying assets and the significant residual interest attained at the end of the arrangement. Thus, the requirement for control has been met.

Thus, IFRIC 12 applies to the private party involved in this arrangement.

(b) Treatment of the private party's rights over the infrastructure

The private party is not required to recognise a tangible asset as the agreement between the grantor and private party conveys the right to use an asset, but does not convey the right for private party to control the infrastructure. The private party is required to recognise the rights to use the renal dialysis facility as either a financial asset or an intangible asset.

Right to use the dialysis facility does not meet the definition of a financial asset, so the private party cannot account for the right to claim it as a financial asset.

Rights to refurbish and use the old renal dialysis unit

The right to refurbish and use the old dialysis unit is an identifiable non-monetary asset without physical substance. The private party should thus recognise the right to use this facility as an intangible asset if it meets the criteria for recognition as such.

If the conditions for recognising an asset below are met, then an intangible asset is recognised:

(i) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(ii) The cost of the asset can be measured reliably.

The private party expects to receive revenue from providing dialysis health services conducted in the refurbished unit. The cost of the right to use the property and fixtures is not available. IFRIC 12 requires the private party to recognise its rights at the cost of refurbishment and maintenance of the dialysis unit.

At initiation of the contract, the private party is to determine what the expected fair value of refurbishment and the costs of maintenance will be and add in a margin in order to estimate what the outlay would be to ordinary market participants. The private party is also allowed to capitalise borrowing costs to the value of the intangible asset if the private party used borrowed funds to renovate the renal dialysis unit. This will be allocated as the costs of the rights to provide renal dialysis services. The private party will amortise the intangible asset over the 10 year period of the right granted.

(c) Contractual obligation to receive payments over the duration of the PPP arrangement

Initial recognition

The grantor does not have a contractual obligation to deliver cash to the private party over the duration of the agreement except from that derived from the patients attended to at the dialysis unit. The private party must recognise this contractual right to receive cash for services rendered as a financial asset as services are provided.

Measurement

The amounts receivable for services provided will be measured at its fair value. The amounts receivable from the grantor are calculated based on a sliding scale as noted in 4.2.2 above. The private party will recognise the financial asset based on the number of patients receiving services at the applicable rate.

Subsequent measurement

The amount receivable from the grantor is subsequently measured in accordance with IAS 39 as a loan or receivable measured at amortised costs (IASB, 2006).

(d) The contractual obligation for maintenance of the renal dialysis on final return to the grantor

The private party is required to maintain the renal dialysis unit in accordance with the industry requirements. IFRIC 12 requires the private party to recognise a provision in accordance with IAS 37 *Provisions*. The provision is to be acknowledged at an estimate of the amount required to settle the obligation in the future. The private party will estimate upfront the costs of maintenance and this estimate will represent the amount at which this provision will be recognised.

CHAPTER 6: CONCLUSION

This chapter focuses on explaining the results in the light of the reviewed literature, and the application of the standards to the two contracts used in the research. The conclusion focuses on the issues identified as per the standards.

6.1 Guideline on accounting for public-private partnerships

The guideline provides provision to the grantor on how to recognise and measure assets. It does not provide guidance on how to perform the transition from a currently recognised asset to assets held under a service agreement. This study investigates a case where the grantor provides the private party with the asset already recognised in its financial statements. There are no principles on derecognition or reclassification of the asset stipulated.

On allocation of unitary payments, where payments are not separated between the payment for services provided by the private party and payment for the asset; the guideline does not provide guidance or considerations when the calculation results in the fair value of asset being more than compensation by the grantor.

6.2 GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor

Application of GRAP 32 to the contract on refurbishment of the renal dialysis unit did not yield any areas that the standard did not cover for the grantor.

6.3 Conclusion on the IFRIC 12 Service Concession Agreements

In application of IFRIC 12 to both contracts for establishing a private hospital and refurbishment of the renal dialysis unit, no areas of uncertainty were identified that the standard did not address or provide guidance on.

6.4 Overall

Overall, the standards developed for PPP arrangements for both public sector and private sector entities provide sufficient guidance for the contracts reviewed. Provision of the effective date for application of GRAP 32 will further enhance the accounting for PPPs as GRAP 32 is similar to the accounting contained in IFRIC 12 and thus allows for similar accounting in public and private sectors. Although it is strongly recommended that the derecognition criteria for existing assets under concession agreements should be expanded upon.

Glossary of terms

Terminology	Definition
Assets	Resources controlled by an entity as a result of past events and from which future economic benefits and/or service potential are expected to flow to the entity.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Contingent asset	A possible asset that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more future events not wholly within the control of the entity.
Contingent liability	A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because: (i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or (ii) The amount of the obligation cannot be measured with sufficient reliability.
Financial asset	A financial asset is any asset that is: (a) Cash; (b) An equity instrument of another entity; (c) A contractual right: (i) To receive cash or another financial asset from another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

	(d) A contract that will or may be settled in the entity's own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include financial instruments classified as equity instruments in accordance with: paragraphs 16A and 16B. These are instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation and are classified as equity instruments in accordance with paragraphs 16C and 16D; or instruments that are contracts for the future receipt or delivery of the entity's own equity instruments.
Financial liability	Any liability that is: (a) A contractual obligation: (i) To deliver cash or another financial asset to another entity; or (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or (b) A contract that will or may be settled in the entity’s own equity instruments and is: (i) A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or (ii) A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments. For this

	purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
Fair value	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Intangible assets	An identifiable non-monetary asset without physical substance.
Liabilities	Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.
Monetary assets	Cash and cash equivalents held and assets to be received in fixed or determinable amounts of money.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners
Unitary payments	The charge payable by the grantor to the private party in connection with the performance of the of the private party's obligations included in project deliverables.

References list

The Accounting Standards Board (ASB). (2008). *Guideline on Accounting for Public-Private Partnerships.* Lynnwood Ridge: ASB.

The Accounting Standards Board (ASB). (2009). *GRAP 104: Standard of Generally Recognised Accounting Practice Financial Instruments*. Lynnwood Ridge: ASB.

The Accounting Standards Board (ASB). (2010a). *GRAP 1: Preparation and of Financial Statements.* Lynnwood Ridge: ASB.

The Accounting Standards Board (ASB). (2010b). *GRAP 6 Consolidated and Separate Financial Statements.* Lynnwood Ridge: ASB.

The Accounting Standards Board (ASB). (2012). *GRAP 7 Investments in Associates.* Lynnwood Ridge: ASB.

The Accounting Standards Board (ASB). (2013). *GRAP 32 Service Concession Arrangements: Grantor*. Lynnwood Ridge.

The Association of Chartered Certified Accountants. (2012). *Taking Stock of PPP and PFI Around the World*. London.

Babbie, E. & Mouton, J. (2008). *The practice of social research: South African edition*. Cape Town: Oxford University Press.

South African Republic, Constitution. (2005) Public Finance Management Act (Act 1 of 1999), Amendment of Treasury Regulations.

Constitution, South Africa (Republic). *Companies Act, 2008 (Act 71 of 2008)*. Pretoria: Government Printer.

Constitution of the Republic of South Africa. (1996, 2009) *(as amended)*. LexisNexis Butterworths.

DBSA and the Presidency, ed. Creamer Media Reporter. (2012). Republic of South Africa, Department: Performance Monitoring and Evaluation and Development Bank of Southern

Africa. (2012). *The State of South Africa's Economic Infrastructure: Opportunities and challenge.*

Department of Cooperative Governance and Traditional Affairs. Republic of South Africa (2009). *State of Local Government in South Africa*.

Ernst & Young. (2012). *Infrastructure 2012: Spotlight on Leadership*. Washington, D.C: Urban Land Institute.

European Economic Association. (2012). The Basic Public Finance of Public-Private Partnerships, 2012.

Federal Accounting Standards Advisory Board. (2014). Public-Private Partnerships Disclosure requirements Statement of Federal Financial Accounting Standards Exposure Draft

Heald, D and Georgiou, G. (2011). The Substance of Accounting for Public-Private - Partnerships. *Financial Accountability and Management*, 27(2): 0267-4424.

Heymans, C and Schur, M. (1999). *National and Provincial PPPs (Public-Private Partnerships): Issues of Supervision and Accountability*. Development Southern Africa.

The Independent Regulatory Board for Auditors (IRBA). (2013). South African Auditing Practice Statement (SAAPS) 2 (Revised November 2013). Financial Reporting Frameworks and the Auditor's Report. Available from IRBA: www.irba.co.za.

International Accounting Standards Board (IASB). (2006). IFRIC *12 Service Concession Arrangements.* London.

International Financial Reporting Standards (IFRS). (2014). IFRS Application around the World, Jurisdictional Profile: People's Republic of China, 2014.

Lanham (M.D) and New York. (2010). Public Private Partnerships. Success and Failure

Michalski-Karl, R; Pernsteiner, S. M; Schaffhauser-Linzatti, M.M. International Atlantic Economic Society. (2009). Signalling Public Private Partnership Activities: Reporting

Behavior within Annual Reports. Factors for in-transition Countries. University Press of America.

The Organisation for Economic Co-operation and Development (OECD). (2008) Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money.

Patton, M, Q. (2002). *Qualitative research and evaluation methods: Third Edition*. Sage Publications Inc.

Websites

Deliotte. (2012). *IFRS in Your Pocket*. (2012). Available from http://www.iasplus.com/en/tag-types/global/publication-series/ifrs-in-your-pocket (Accessed 3 March 2015).

EY. (2014). *IPSAS outlook February – March 2014* Available from http://www.ey.com/GL/en/Industries/Government---Public-Sector/IPSAS-Time-to-update-your-accounting-system (Accessed 3 March 2015).

International Monetary Fund. (2014). *World Economic and Financial Surveys World Economic Outlook Database* Available from http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx. (Accessed 3 March 2015).

PWC. (2014). *IFRS and US GAAP: Similarities and differences October 2014* Available from http://read.pwc.com/i/399652-ifrs-and-us-gaaap-similarities-and-differences-2014/203 (Accessed 3 March 2015).

World Bank Group, Public-Private Partnerships in Infrastructure Development Resources Centre. Available from: http://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives (Accessed 4 March 2015).