national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Modified Cash Standard
and
Related Documents

SAICA Comments

For the 2022/23 financial year

Contents

Chapter 1: Preface to The Modified Cash Standard

No.	Sender	Doc. Name	Subject	Comment	NT Response
1.1	SAICA	MCS	Transition to Accrual	Transition to accrual basis of accounting by Departments. South Africa currently applies both accrual basis and transition to accrual basis. Further, South Africa is part of the countries estimated to be on the full accrual basis by the year 2023. However, due to the current PFMA section 40(1)(b) exemption, and lack of information or communication regarding the National Treasury's transition plans, South Africa may not be able to move to full accrual basis of accounting by 2023 and thus faces the risk of falling behind in international trends. SAICA therefore reiterates the urge for departments to expeditiously move to an accrual basis of accounting.	MCS 1 new paragraph .21 added to address transition from cash to accrual. *.21 The annual review of the MCS involves readiness assessment, consultation with key stakeholders' consultation process and resources availability as the National Treasury incrementally migrates to accrual basis of accounting. The ultimate objective is for departments to adopt the Standards of Generally Recognised Accounting Practice issued by the Accounting Standards Board. The accrual basis of accounting provides the full extent of government's liabilities and the resources available to fund these liabilities or provide government services.*
1.2	SAICA	MCS	Due Process Paragraph .13 to .16	The current process does not allow for wide consultation with stakeholders, as in some instances stakeholders are not aware of the amendments to the MCS as they are unable to locate the document on the website, and the commenting process is not printed in the government gazette as per amendments with other legislation in South Africa SAICA encourages National Treasury to consider a standards amendment process that is similar to the IPSASB's, or locally the Accounting Standards Board. SAICA further recommends that the process for revising the MCS is documented, approved, and is made available to the public. This will ensure that the standards developed are developed with the user in mind, it will ensure that there is fair presentation in the financial statements that	The MCS only provides a high-level due process. Stakeholders may contact the OAG when experiencing challenges with accessing documents on the website and the OAG will gladly share the documents. It should be noted that the target stakeholders of the MCS (preparers are South African Government Department only) are not the same as those targeted by the IPSASB. Therefore, the NT and the IPSASB due will have similarities but will not be identical. In addition to what is articulated in the MCS Chapter 1, stakeholder consultation involves the following:

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<tr><td></td><td></td><td></td><td></td><td>departments produce and that standards developed better enable users to make decisions and address users challenges. It can be noted that the IPSASB process is much more detailed that the National Treasury process and ensures that the process is available to the public as meetings are open to the public and minutes of the meetings are available on the website.</td><td> The MCS and related documents are published for comment on the OAG website (https://oag.treasury.gov.za/), and also on the OAG Technical Support Services subsite (https://ag.treasury.gov.za/org/tss/default.aspx) which are accessible to the public. Any interested party may comment on the documents in accordance with the OAG process using the comment template provided. The due process involves consultation with stakeholders including preparers, auditors, standard-setters and treasuries. An AFS working group comprising of the OAG, representatives of the Provincial Accountants-General (PAGs) and chaired by a PAG serves as an advisory group. Although the following entities are not the sole respondents of published documents, they are targeted as they are key stakeholders whose work is directly affect affected by changes to the MCS and related documents:
<table>
<tr><th>Entity</th><th>Role</th></tr>
<tr><td>Departments</td><td>Preparers of financial statements</td></tr>
<tr><td>Provincial Treasuries</td><td>Provincial Accountants-General</td></tr>
<tr><td>Auditor-General of South Africa (AGSA)</td><td>Auditors</td></tr>
<tr><td>OAG: Accounting Support and Reporting (ASR)</td><td>Client support</td></tr>
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					The OAG considers all respondents comments submitted by the comment due date. Thereafter, the OAG sends responses to each respondent on the comments they sent indicating how each comment were addressed. Other entities, such as the ASB, or units within the National Treasury, such as the Budget Office and the OAG's Governance, Monitoring and Compliance (GMC), are consulted during the research and development phases to obtain relevant information and promote alignment of finance-related prescripts.

Chapter 5: Appropriation Statement

No.	Sender	Doc Name	Subject	Comment	NT Response
5.3	SAICA	MCS	Presentation and disclosure of a comparison of budget and actual amounts Paragraph. 14	Presentation and disclosure of a comparison of budget and actual amounts .14 A department shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate additional financial statement. The comparison shall present the following separately: the approved and final budget amounts; the actual expenditure; .15 Presentation in the financial statements of the approved and final budget amounts and the actual amounts will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. In addition, users can assess management decisions with regard to virements.	This is covered in paragraph. 17 and .18 *.17 A department shall by way of note, provide an explanation of material differences between the budget and actual amounts as well as an explanation of any classification differences between the appropriation statement and the statement of financial performance.* *.18 An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the department is held publicly accountable.*

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				Members agree with the amendment as the disclosure will allow for department disclosures to be aligned with the disclosure requirements for public entities and municipalities that are reporting on Standards of Generally Recognised Accounting Practice (Standards of GRAP); specifically GRAP 24 Presentation of Budget Information in Financial Statements which requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. Further, members supports the rational that presentation in the financial statements of the approved and final budget amounts and the actual amounts will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. GRAP 24, as previously referenced, also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts to ensure that entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget for which they are held publicly accountable. It would therefore be useful for a similar requirement to be included in MCS Chapter 5: Appropriation Statement to further enhance the transparency and accountability principle being	

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				introduced by this chapter in relation to the users of the financial statements.	

Chapter 9: General Departmental Assets and Liabilities

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9.11	SAICA	MCS	Recognition and measurement of financial assets / liabilities and prepayments / advances for the purpose primary financial information Paragraph .06	A department may recognise a prepayment or an advance, made before 1 April 2023, in the statement of financial performance in accordance with Chapter 8 on Expenditure if the prepayment or the advance is material and was budgeted for as an expense in the year in which the actual prepayment or advance was made. Majority of members agree with the amendment. However, based on member consultation, some members disagreed with this amendment with the following reasons: • They should have to recognise the prepayment as an asset; Recognising a prepayment as an expense will be incorrect. At this stage a transaction has not occurred. This opens room for abuse on department that cannot spend their budgets timeously. As at year end, they will make prepayment on contracts where goods and service have not been delivered. The public sector has been suffering from non-performance by contractors and if this amendment is allowed it will increase the problem and not solve it. Prepayment should be the last resort. Operational failures should not be cured by amendments to the accounting standards; We need to define what constitute material prepayment or advance, otherwise the disclosure will be subjective and there will be inconsistency in the application of the standard. SAICA recommends that a materiality guide/ framework. Should be developed to assist	It is correct to state that "They should have to recognise the prepayment as an asset; Recognising a prepayment as an expense will be incorrect." This is the reason for the change to the MCS which no longer permits expensing prepayments and advances paid with effect from 1 April 2023. As a practical expedient, the MCS provided departments with the option to expense prepayments and advances to deal with surrender of funds if prepayments and advances are not expensed. However, this accounting treatment is inappropriate. NT is correcting the inappropriate accounting treatment by discontinuing expensing prepayments and advances. A transition period is required to implement the change. Thus, 1 April 2023 effective date of the discontinuance of prepayments advance expensed was proposed.

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				preparers on how to apply the concept of materiality in the AFS for departments.	

Chapter 11: Capital Assets

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11.7	SAICA	MCS	Scope Paragraph .06.	.06 In addition, this Chapter does not apply to: (a) the initial recognition and initial measurement of capital assets acquired in a transfer of functions (see Chapter 19 on Transfer of Functions) or a merger (see Chapter 20 on Mergers) Members agree with the amendments.	Noted with thanks
11.8	SAICA	MCS	Disclosures Paragraph .104	.104 The scope exclusion Paragraph .05 will be removed from 1 April 2023. By implication a department will record a capital asset subject to a finance lease in accordance with this Chapter on commencement of the lease term as defined in Chapter 13 on Leases. .105 For finance lease agreements entered into prior to 1 April 2023, the department records the capital asset retrospectively in the notes to the financial statements at the present value of the minimum lease payments (determined at the inception of the lease). Members agree with the amendment. In addition, the recommendation stated below in relation to the rate implicit in the lease should be considered.	Noted with thanks

Chapter 13: Leases

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13.3	SAICA	MCS	Secondary Financial Information Recording and measurement – assets acquired under a finance lease Paragraphs .17 to .18	From 1 April 2023 paragraphs .17 - .18 will be amended as follows .17 At the commencement of the lease term, a department that is a lessee shall measure all finance lease assets at: (a) the fair value of the leased asset or, if lower, (b) the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, a reasonable proxy rate such as the prime lending rate at inception of the lease can be used. Refer also to the Transitional provisions in Chapter 11 on Capital Assets. Members agrees with the amendment. National Treasury should consider developing guidance that provides clarity on instances where it would be impractical to determine the rate implicit in the lease. This would also assist with ensuring a consistent application of the standard.	Impracticability depends on the circumstances. Therefore, only broad guidance can be given on impracticability.