

IMPLICATIONS OF NATURAL
DISASTER: FLOODING

Modified Cash Standard



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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1. Introduction

Following the severe weather events and the subsequent damage caused in various provinces, a national disaster was declared in terms section 27(1) of the Disaster Management Act, (2022). The response, as announced by the President in his address to the nation on 18 April 2022, is in a phased approach; the first being immediate humanitarian relief, phase two relates to stabilisation and recovery which includes rehousing people who have lost homes and restoring provision of services; and the third phase will focus on reconstruction and rehabilitation.

This document provides guidance on how to report the effects in the **financial statements**. It is important to note that not all departments will be affected in the same manner and/or to the same extent, this guidance should therefore be considered against departmental specific circumstances.

2. Budgeting and reporting

Section 56 of the Disaster Management Act requires government to reprioritise funds to respond to disasters. In line with this approach, the public financial management and budgeting system has measures that can be implemented in the budget. These have been communicated to departments in a document titled "[Budgeting and spending for response to national disaster declared by government notice 2029 of 18 April 2022](#)".

On budget reporting, departments are reminded of the requirements in Chapter 5 of the Modified Cash Standard (MCS) on *Appropriation Statement* to "*provide an explanation of any material differences between the budget and actual amounts. An explanation of the material differences between budget and actual amounts will assist users in understanding the reasons for material departures from the approved budget for which the department is held publicly accountable*"¹. The additional narrative disclosure could explain the reason for the expenditure and how the incurrence contributed to the prevention, alleviation, containment and/or minimisation of the effect of the natural disaster.

Departments are advised to also include an explanation on material changes made to the approved budget to fund the interventions implemented in the reporting period.

Furthermore, departments should review the conditions contained in the Provincial Disaster Relief Grant for any prescribed or relevant disclosures for inclusion in the department's financial statements.

The Frequently Asked Question (FAQ) issued by the Office of the Accountant-General, on 25 April 2022, should be considered by departments in including additional information in the financial statements that has not been specifically prescribed by the MCS (see [FAQ 3.1](#)).

¹ MCS Chapter 5 on Appropriation Statement, paragraph .17 - .18.

Classification of disaster response expenditure

The Standard Chart of Accounts (SCOA) Technical Committee issued guidance in the form of a [classification circular](#) on the classification of disaster response expenditure on 3 May 2022. Departments are required to utilise the Fund and/or the Project Segment as created to track such expenditures for internal and external monitoring and reporting.

Although not specifically required, departments are encouraged to separately disclose the nature and amount of disaster related expenditure incurred in the 2022/2023 financial year, specifically where such expenditure is not already part of any other disclosures. This may be included in the notes to the financial statements or the annual report, where appropriate.

Departments may make use of the existing notes on COVID-19 related expenditure as illustrated in Appendix A.

Other SCOA-related guidance can be accessed from the National Treasury's SCOA website.

3. Aid assistance

Aid assistance received

Any contributions, financial or in-kind, received by a department from the Solidarity Fund (or any other fund, e.g., the Gift of the Givers) should be accounted for in terms of the relevant legal prescripts, such as Treasury Regulation 21 on accepting gifts, donations and sponsorships, and the MCS.

Any assets or inventories received in-kind (i.e. in a non-exchange transaction) from the Solidarity Fund or any other donor are recorded at their fair values on the date of acquisition². It is acknowledged that the MCS Chapter on *Inventories* is not effective, however the recording of these inventories in the inventory management system of a department should be as prescribed, i.e. at fair value. Departments should accordingly request such information from the Solidarity Fund and / or the donor upon receipt of the inventories.

Aid assistance granted

The MCS, effective from 1 April 2022, requires departments to disclose donations made in-kind in the transfers and subsidies note to the annual financial statements. These donations should be measured at the cost or fair value. Where the cost or fair value cannot be reliably determined, the fact should be disclosed along with the nature of the donations made in-kind.

In making any donations, departments are reminded of Treasury Regulation 21 on granting of gifts, donations and sponsorships by the state.

² MCS Chapter 11 on Capital Assets paragraph .63 and Chapter 12 on Inventories paragraph .12

4. Events after the reporting date

The national disaster of the floods that occurred in April 2022 was declared on 18 April 2022 and is a subsequent event for the **2021/2022 financial year**. To this end departments are reminded that amounts in the financial statements must be adjusted to reflect events after the end of the reporting period that provide evidence of conditions that existed at the end of the reporting period. However, events that are indicative of conditions that arose after the reporting period are non-adjusting events. Thus, they are not reflected in the recognition / recording or measurement of items in the financial statements but require disclosure when material.

5. Related party disclosures

It is noted that certain departments, such as defence and police, are required to support other departments in delivering essential services. These departments are reminded that the MCS requires departments to “*disclose information about any in-kind goods or services received from or provided to a related party*”³. Although this disclosure is limited, by the MCS, to related party transactions between departments falling under the same Minister/MEC⁴, a broader disclosure on the nature and value of in-kind goods or services provided to all government departments is encouraged.

³ MCS Chapter 15 on Related Party Disclosures paragraph .18(g).

⁴ MCS Chapter 15 on Related Party Disclosures paragraph .22.

Appendix A – allowed amendment to AFS Specimen for 2022/23

Notes

Current requirements

49. COVID 19 Response expenditure

	Note	20YY/ZZ R'000	20XX/YY R'000
Compensation of employees			
Goods and services			
Transfers and subsidies			
Expenditure for capital assets			
Other			
Total			

Include discussion here where deemed relevant.

Proposed requirements

49. Natural disaster response expenditure *[Indicate the natural disaster/s between the brackets]*

	Note	20YY/ZZ R'000	20XX/YY R'000
Compensation of employees			
Goods and services			
Transfers and subsidies			
Expenditure for capital assets			
Other			
Total	Annex 11		

Include discussion here where deemed relevant.

Annexures

Current requirements

ANNEXURE 11

COVID 19 RESPONSE EXPENDITURE

Per quarter and in total

Expenditure per economic classification	20ZZ					20YY
	Q1	Q2	Q3	Q4	Total	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Compensation of employees						
Goods and services <i>List all applicable SCOA level 4 items</i>						
Transfers and subsidies <i>List all applicable SCOA level 4 items</i>						
Expenditure for capital assets <i>List all applicable SCOA level 4 items</i>						
Other expenditure not listed above <i>List all applicable SCOA level 4 items</i>						
TOTAL COVID 19 RESPONSE EXPENDITURE						

Include discussion here where deemed relevant.

Proposed requirements

ANNEXURE 11

NATURAL DISASTER RESPONSE EXPENDITURE [*Indicate the natural disaster(s) / extraordinary event(s)*]

Per quarter and in total

Expenditure per economic classification	20ZZ					20YY
	Q1	Q2	Q3	Q4	Total	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Compensation of employees						
Goods and services <i>List all applicable SCOA level 4 items</i>						
Transfers and subsidies <i>List all applicable SCOA level 4 items</i>						
Expenditure for capital assets <i>List all applicable SCOA level 4 items</i>						
Other expenditure not listed above <i>List all applicable SCOA level 4 items</i>						
TOTAL NATURAL DISASTER RESPONSE EXPENDITURE						

Where the expenditure is for more than one natural disaster/extraordinary event:

Analysis of expenditure per event

	20YY/ZZ R'000	20XX/YY R'000
Specify event 1		
Specify event 2		
Total		

Include discussion here where deemed relevant.