

04 October 2024

Head: Office of the Accountant-General (OAG)
National Treasury
240 Madiba Street
Pretoria
0002

EXPOSURE DRAFT (ED) ON AMENDMENTS TO THE MODIFIED CASH STANDARD (MCS)

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to make submissions to the OAG on the ED on amendments to the MCS.
2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 50,000 members who are chartered accountants [CAs(SA)], associate general accountants [AGAs(SA)] and accounting technicians [ATs(SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their respective spheres of operation.
3. Our work in the public sector goes beyond member support but also includes a significant focus on advocacy and capacity building to support and encourage an improvement in public finance management.
4. SAICA appreciates the alignment of wording to the Standards of GRAP as this assists in ensuring that departments are moved closer to the accrual basis of accounting. SAICA, however, cautions that the alignment of the MCS to the Standards of GRAP should be done in such a manner that proper context is provided to the users of the MCS and that the particular sections that are brought into the MCS do not lose their intended meaning when included in the MCS. For example, the section on Binding Arrangements was added to Chapter 14 of the MCS. However, it appears that there is no other mention of Binding Arrangements in this Chapter which brings into question the relevance of this section in this Chapter.
5. In addition, it is also important the OAG considers the availability of capacity and information systems to aid the implementation of the amendments to the MCS that align to the Standards of GRAP. The unavailability of information systems may render the amendments unimplementable by the departments.
6. Our detailed comments on the ED are contained in the annexures as follows:
 - a. **Annexure A: Detailed Comments on the Proposed Amendments**
 - b. **Annexure B: Other Administrative Comments**
7. Members were consulted in compiling the comments and therefore the comment letters incorporate the views of our members.

8. We would also appreciate the opportunity to engage further, and we would be willing to discuss the comments if required. Please do not hesitate to contact Odwa Benxa (odwab@saica.co.za) in this regard.

Kind regards,



Natasha Soopal
Executive: Ethics Standards and Public Sector



Odwa Benxa
Project Director: Public Sector

ANNEXURE A: Detailed Comments on the Proposed Amendments

No.	Affected Chapter	Affected section	Comment	Recommendation
1.	Chapter 3	Objective paragraph .01	SAICA agrees with the addition of the objective paragraph except for the editorial considerations noted and the resultant proposed changes indicated under item 3 in Annexure B below.	The OAG should consider amending paragraph .01 by deleting the word 'entity' as suggested under item 3 in Annexure B below.
		Scope Chapter 3, paragraphs .02 to .04	SAICA agrees with the amendment to add a scope paragraph as this aligns with the format of the Standards of GRAP.	None.
		Material Paragraph .06	SAICA agrees with the amendment to add the section on materiality as it provides additional guidance to the preparers of financial statements on the application of the materiality concept on omissions or misstatements in the financial statements.	None.
		Modified Cash Standard Paragraph .07	SAICA agrees with the amendment to add the section as it provides preparers with better context on what comprises the MCS and the purpose and authority of Guidelines issued by the OAG. SAICA has, however, noted that the Chapter does not include a definition of MCS when compared to GRAP 1, <i>Presentation of Financial Statements</i> which includes a definition of Standards of GRAP. Including a definition of the MCS may assist preparers of departmental financial statements to better understand which material to consider when preparing financial statements.	The OAG should consider adding a definition of MCS in alignment with GRAP 1, <i>Presentation of Financial Statements</i> .
		Fair presentation Paragraphs 24 to 30	SAICA supports the amendments as they provide additional guidance on the understanding of the fair presentation principle from a department perspective. Paragraph 24(c) states that '[A fair presentation also requires a department] to provide additional disclosures when compliance with the specific requirements in the MCS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the department's financial position and financial performance'. SAICA believes that additional guidance may be required to enable the application of this paragraph as it may be subject to vastly different interpretations by preparers of financial statements and negatively impact the comparability of financial statements from one department to the other.	The OAG should consider adding additional guidance on the application of paragraph 24(c). The guidance should consider adding a requirement that the additional information that is disclosed should be relevant and material to the financial statements prior to being disclosed.

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		Going concern Paragraphs .31, .32 and .34	SAICA agrees with the amendments to add more guidance on going concern as this allows for preparers of financial statements to better apply the going concern principle when preparing the financial statements.	None.
		Materiality and aggregation Paragraphs .39 and .40	SAICA agrees with the amendments to paragraphs .39 and .40 as they provide additional guidance to the application of the materiality concept in aggregating information in the financial statements and disclosures in the notes to the financial statements.	None.
		Statement of changes in net assets Paragraphs .69 and .70	SAICA agrees with the amendment to add a section on the statement of changes in net assets as this provides additional guidance on the presentation and disclosure required in the statement of changes in net assets.	None.
		Notes Paragraphs 72 to 74	SAICA agrees with the amendment as it provides additional guidance to preparers about the information to consider when making disclosures in the notes to the financial statements. It also provides additional context in terms of the judgements that need to be applied when disclosing information in the notes to the financial statements.	None.
2.	Chapter 6	Objective Paragraph .01	SAICA agrees with the addition of the objective paragraph as it provides detailed guidance on the purpose of a cash flow statement and the information that cash flow statements provide to users of the financial statements.	None
		Scope Paragraph .02	SAICA agrees with the amendment to the scope paragraph as it provides additional guidance on the usefulness of, and the need for a cash flow statement.	None.
		Benefits of cash flow information Paragraphs .04 to .06	SAICA notes the addition of the section on 'Benefits of cash flow information'. The scope and objective paragraphs already provide guidance on the purpose and the usefulness of the cash flow statement. It is thus unclear what this section aims to achieve and how it is relevant to the Chapter.	The OAG should consider reviewing the relevance of the section and consider the need to include it in this Chapter.
3.	Chapter 13		SAICA notes the amendments to the Chapter. However, the following should be noted: <ul style="list-style-type: none"> The Chapter introduces additional disclosure requirements that are highly complex in nature without an IT system that supports the collation of the information required to enable the required disclosures which may lead to material misstatements in the financial statements and thus negative audit outcomes for departments. 	National Treasury should support departments with procuring effective information systems that will support the collation of data to allow for the implementation of the requirements of

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			<ul style="list-style-type: none"> Expenditure is currently on a cash basis and the assets and liabilities are not being presented on the face of the statement of financial position. This brings into question the relevance and value of the required disclosures. The current available IT system (Logis) does not appear to be geared towards the accounting for leases by departments. There may thus be a risk of human error leading to material misstatements in the financial statements and thus negative audit outcomes for departments. 	the Chapter. This should be prior to requiring the implementation of the Chapter.
4.	Chapter 14	Objective Paragraph .01	SAICA agrees with the amendments to the objective of the Chapter as the amendments provide better context on the need for a Chapter on provisions, contingent liabilities and contingent assets.	None.
		Binding arrangements Paragraph .05	Paragraph .05(b) refers to municipal councils which may not be appropriate for departments.	The OAG should consider removing the reference to municipal councils in the Chapter.
		Provisions and other liabilities Paragraph .06	SAICA agrees with the addition of paragraphs .06(a) and (b) as they provide additional guidance to preparers on what constitutes payables and accruals.	None.
		Binding arrangements Paragraph .07	SAICA has noted that a section that describes what evidences binding arrangements has been added to this Chapter. However, other than in paragraph .07, there is no other reference to binding arrangements which makes it unclear as to why the section was brought into this Chapter.	The OAG should review the relevance of the section to this Chapter and consider the need to remove it.
5.	Chapter 17	Objective Paragraph 1	<p>SAICA supports the amendment to add the paragraph that describes the objective of the chapter as it provides additional context about the purpose of the Chapter.</p> <p>SAICA has however noted that the word 'assumption' may have been omitted in the sentence beginning with 'This Chapter also requires'.</p>	The OAG should consider adding the word 'assumption' such that the sentence reads as follows: 'This Chapter also requires that a department should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern <i>assumption</i> is not appropriate.
		Recognition/ recording and measurement Paragraph .09	SAICA agrees with the amendments as it provides better clarity on how announcements about the government's intention that are made between the reporting date and the date of authorisation for issue should be considered to determine whether they are adjusting or non-adjusting events after the reporting date.	None.

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		Adjusting events after the reporting date Paragraph .11	SAICA supports the addition of examples of adjusting events as this provides additional guidance to the preparers of financial statements. SAICA further notes that the words 'recognised' and 'recorded' are used in the paragraph. It may be appropriate to include additional context to clarify that where amounts were initially recognised as primary information or recorded as secondary information, the same process would be followed to adjust the amounts for an adjusting event. This may assist in ensuring that there is no confusion for the preparers in terms of where the adjusting events would be accounted for.	The OAG should consider adding a paragraph to clarify that where amounts were initially recognised as primary information or recorded as secondary information, the same process would be followed to adjust the amounts for an adjusting event.
		Non-adjusting events after the reporting date Paragraph .13	SAICA agrees with the addition of the example as it provides guidance on what events can be considered as non-adjusting events.	None
		Restructuring Paragraph .21	SAICA notes the addition of paragraph .21 which provides guidance about the disclosures that are required where a restructuring of a department is announced. However, SAICA has noted that the paragraph refers to a disposal of a component of a department which does not appear to be appropriate in a departmental context. It would therefore be appropriate that additional guidance is provided on the application of this paragraph.	The OAG should consider providing additional guidance on the application of the paragraph to minimise any potential confusion that may arise.

ANNEXURE B: Other Administrative Comments

No.	Affected Chapter	Comment	Recommendation
1.	All Chapters	It appears the acronym 'MCS' versus the word 'Standard' is not consistently used across the various Chapters.	<ul style="list-style-type: none"> The OAG should consider reviewing the Chapters for the consistent use of the acronym 'MCS' and the word 'Standard' in reference to the various Chapters.

No.	Affected Chapter	Comment	Recommendation
			<ul style="list-style-type: none"> The acronym 'MCS' should be defined when first used in the document and thereafter applied consistently throughout the document.
2.	All Chapters	It appears there is no document that summarises the key purposes of, and the key issues addressed by the ED.	The OAG should have an accompanying summary that explains the purpose of the ED and the various changes at a high level to assist stakeholders to better understand the reasons for requesting comments on the ED.
3.	Various Chapters and sections Chapter 3, paragraph .01 Chapter 3, paragraph .51 Chapter 6, paragraph .03 Chapter 13, paragraph .04	The word 'entity' appears to have been erroneously included in the paragraph.	The OAG should consider deleting the word 'entity'.
4.	Chapter 3 Paragraph .11	The sentence beginning with the word 'Departments that make' appears to be incomplete. Alternatively, the word 'and' should be removed from the paragraph.	The OAG should reconsider the text in paragraph .11 to ensure that it is appropriate and complete.
5.	Chapter 6 Paragraph .29	The sentence beginning with the words 'This amount is presented' appears to be incomplete and/or may contain errors.	The OAG should reconsider the text in paragraph .29 to ensure that it is appropriate and complete.
6.	Chapter 13 Paragraph .05	The paragraph contains the words 'entity' which should be removed.	The OAG should consider removing the word 'entity' from the paragraph.
7.	Chapter 13 Paragraph .11 and .12	Paragraphs .11 and .12 appear to be duplicates of each paragraph.	The OAG should review paragraphs .11 and .12 to ensure that there is no duplication.
8.	Chapter 14 Provisions and other liabilities section	There appears to be an apostrophe that has been erroneously added on the heading 'Provisions and other liabilities'.	The OAG should review the heading and remove the apostrophe.
9.	Chapter 14 Paragraph .45	Paragraph .45 appears to erroneously makes reference to provisions referred to in paragraph .45 instead of provisions referred to in paragraph .44	The OAG should review paragraph .45 to ensure that the correct paragraph is referenced.
10.	Chapter 17 Paragraph .06	Paragraph .06 appears to erroneously refer to 'accounting office' instead of accounting officer/	The OAG should consider amending the wording to refer to 'accounting officer'.

No.	Affected Chapter	Comment	Recommendation
11.	Chapter 17 Paragraph .13	Paragraph .13 refers to 'paragraph xx' instead of 'paragraph .26'.	The OAG should review paragraph .13 and adjust it for the correct paragraph reference.