



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

Director of Standards  
Independent Regulatory Board for Auditors  
Building 2  
Greenstone Hill Office Park  
Emerald Boulevard  
Moderfontein

Dear Imran,

**COMMENT ON PROPOSED SAAPS 2 (REVISED 2017), FINANCIAL REPORTING FRAMEWORKS  
AND THE AUDITOR'S REPORT**

The abovementioned publication issued by the IRBA has reference.

Thank you for the opportunity to comment on the revised SAAPS 2. We are pleased by the acknowledgement of the Modified Cash Standard and the role of the National Treasury and are fully in support of the conclusions reached in the proposed document.

As requested, we have included in an annexure our response to the specific matter for comment with supporting motivation for consideration by the CFAS Task Group in finalising the publication.

I trust this will be of assistance.

Regards,

Zanele Mxunyelwa  
Acting Accountant-General: National Treasury

Date: 23/11/2017

**Annexure: Response to specific matter for comment 1**

*Whether you agree that in case of public sector entities, the National Treasury is a recognised standard setter in South Africa as a result of its introduction of the Modified Cash Standard? This is in addition to the Accounting Standards Board (ASB), which is already recognised in the extant SAAPS 2 (Revised November 2013).*

The Office of the Accountant-General is of the firm view that the National Treasury is the recognised Standard Setter in relation to generally recognised accounting practice for the financial statements prepared and presented by all national and provincial departments. The motivation for such assertion is provided below.

**Motivation supporting the Modified Cash Standard (MCS) being a general purpose financial reporting framework**

Paragraph 19 in the Proposed SAAPS 2 (Revised 2017), Financial Reporting Frameworks and the Auditor's Report, states the following:

*"Presently, there is not objective and authoritative basis that has been generally recognised globally for determining the acceptability of general purpose financial reporting frameworks. So, in the absence of such a basis, financial reporting standards established by organisations that are authorise or recognised to promulgate such standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities. This, however, is provided the organisations follow an established and transparent process involving the deliberation and consideration of the views of a wide range of stakeholders. The auditor relies on the processes followed by these organisations to develop general purpose financial reporting frameworks that are acceptable for general purpose financial statements."*

From the above paragraph we note two requirements, the authority of the organisation (or the National Treasury) and the due process followed by such in developing the standard(s). We will demonstrate below how we meet both these in law and established practice.

***Is the National Treasury authorised to promulgate accounting standards, and the MCS?***

According to section 216(1) of the Constitution of the Republic of South Africa,

*"National legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing –*

- a) generally recognised accounting practice;*
- b) uniform expenditure classifications; and*
- c) uniform treasury norms and standards."*

Section 216(2) further stipulates that the national treasury must enforce compliance with these measures.

Section 40(1)(b) of the Public Finance Management Act (PFMA), 1999 specifies that the accounting officer for a department must prepare financial statements for each financial year in accordance with generally recognised accounting practice. This concept is defined in Chapter 1 as "an accounting practice complying in material respects with standards issued by the Accounting Standards Board".

The Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board (ASB) are however not effective for national and provincial departments.<sup>1</sup> These Standards are therefore not available to departments for application.

Section 76 of the PFMA empowers the National Treasury to issue regulations or instructions applicable to departments, concerning any matter that must be prescribed for departments in terms of the Act.

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<sup>1</sup> The effective date is determined by the Minister of Finance and published in the national Government Gazette.

Accordingly the Minister of Finance determined that in the absence of any implementation dates set for the standards of generally recognised accounting practice issued by the Accounting Standards Board, the annual financial statements of departments must be prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury. This determination is contained in Regulation 18.2 of the Treasury Regulations issued in 2005.

In March 2015, the Office of the Accountant-General (OAG) officially issued the MCS by way of a Treasury Instruction. The development of the MCS emanated from concerns raised by the AGSA on the acceptability of the previous reporting requirements, referred to as the Departmental Financial Reporting Framework. Unlike its predecessor, the MCS aligns to the principles, explanations and disclosure requirements in the Standards of GRAP. Modifications are made to the recognition and measurement requirements to bring these into line with the prescribed basis of accounting.

In summary, the National Treasury, specifically the OAG is authorised by the Minister of Finance to set the reporting requirements for all national and provincial departments. In doing so the OAG, aligns the requirements as far as possible with the Standards of GRAP in order to ensure that there are no competing requirements in the public sector.

***Does the National Treasury follow an established and transparent process involving the deliberation and consideration of the views of a wide range of stakeholders?***

Paragraphs .13 - .15 in Chapter 1 of the MCS on the *Preface to the Modified Cash Standard* discusses the due process followed.

*The Standard was developed through a due process that involves accountants, auditors, preparers and the users of the departmental financial statements.*

*In developing the Standard, research was carried out to identify and review issues associated with the topic and to consider the application of the concepts and principles to the issues. The principles in the existing accounting standards, such as Generally Recognised Accounting Practice (GRAP), International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS), were also studied. Where required, the national and provincial legislation was consulted to develop principles and or required disclosures.*

*The draft Standard was exposed for comment by interested parties including auditors, preparers, standard setters, public sector consultants and individuals. The draft was published on the OAG's website for a period of time to allow interested parties to consider and comment on the Standard. The OAG considered all comments received and made modifications where appropriate.*

A further explanation on the public consultation process is provided below:

- ✓ The draft MCS is published on the website of the OAG for comment and is accompanied with a summary of updates and/or amendments made thereto along with any related documents;
- ✓ Departmental CFO's, the Provincial Accountants-General and other key stakeholders such as the AGSA are informed of the publication and are requested to provide inputs by a specified date;
- ✓ All comments subsequently received are incorporated into a comments register;
- ✓ A team of subject matter experts review the comments and provide proposed responses and amendment to be effected where appropriate;
- ✓ On completion, the subject matter experts confirm the final responses, amendments to the MCS and any related documents;
- ✓ A final set of documents are published on the website with a summary of changes made.

The most recent process included formal comments from the following stakeholders:

- ✓ Free State Provincial Treasury;
- ✓ Limpopo Provincial Treasury;

- ✓ Northern Cape Provincial Treasury;
- ✓ Eastern Cape Provincial Treasury;
- ✓ Gauteng Provincial Treasury;
- ✓ Western Cape Provincial Treasury;
- ✓ National Department of Environmental Affairs;
- ✓ The Dti;
- ✓ Home Affairs;
- ✓ AGSA;
- ✓ Divisions within National Treasury;

Therefore from the above, the OAG is of the view that the requirements within ISA 200 have been met.

### **Fair presentation and compliance frameworks**

Paragraph 26 in the Proposed SAAPS 2, states

*In considering whether a framework may be classified as a fair presentation framework, the auditor considers whether it contains the acknowledgments in the definition of a fair presentation framework. It should be noted that the departures referred to in the acknowledgements can only be to achieve fair presentation, and for no other reason.*

Paragraph .03 of the MCS Chapter 1, discusses fair presentation and compliance with the MCS and related legislation.

*Departments and any other entity that claims compliance with the modified cash basis of accounting must adhere fully with the principles, presentation and disclosure requirements contained in this Standard in order to achieve fair presentation, and compliance with the PFMA and its regulations.*

The fair presentation override, is provided for in paragraph .18 of Chapter 1:

*In the extremely rare circumstances when management, in consultation with the Office of the Accountant General, concludes that compliance with a requirement of this Standard would be so misleading that it would conflict with the overall objectives of the Standard with regard to fair presentation, the department shall depart from that requirement in the manner set out in par .19 and .20:*

The referenced paragraphs detail the disclosures to be made by the preparer. These are similar to the requirements in the equivalent Standard of GRAP.