TO ALL: ACCOUNTING OFFICERS OF NATIONAL DEPARTMENTS
ACCOUNTING OFFICERS OF PROVINCIAL DEPARTMENTS
PROVINCIAL ACCOUNTANTS-GENERAL

DIRECTIVE ON THE MODIFIED CASH STANDARD FOR THE 2020/2021 FINANCIAL YEAR

1. PURPOSE

The purpose of this Directive is to inform accounting officers and chief financial officers of national and provincial departments of the reporting framework to be applied in the preparation of financial statements in terms of section 40(1)(b) of the Public Finance Management Act (PFMA), No 1 of 1999.

2. BACKGROUND

2.1 The PFMA requires departments to "prepare financial statements for each financial year in accordance with generally recognised accounting practice", which is defined as an accounting practice complying in material respects with standards issued by the Accounting Standards Board (ASB).

2.2 In fulfilling its mandate, the ASB determined that the Standards of Generally Recognised Accounting Practice (GRAP) are to be developed for financial statements prepared and presented under the accrual basis of accounting.

2.3 Since the inception of the PFMA departments have applied the modified cash basis of accounting in the preparation and presentation of financial statements. Under the modified cash basis of accounting, only certain elements are recognised in the Statement of Financial Position and Statement of Financial Performance, while others are recorded for presentation as notes.

2.4 The transition to the accrual basis of accounting and thus the Standards of GRAP is managed by the Office of the Accountant-General, within National Treasury. Thus the promulgated Standards of GRAP issued by the ASB and published in the national government gazette by the Minister of Finance for implementation in terms of section 89 of the PFMA have no effective date for application by national and provincial departments.

2.5 Accordingly, and in terms of Treasury Regulation 18.2, the National Treasury is mandated to set the generally recognised accounting practice for national and provincial departments. These accounting principles and practices are contained within the Modified Cash Standard (MCS).

3. REPORTING FRAMEWORK

3.1 The MCS is the primary authoritative document for application by national and provincial departments. Asserting compliance with MCS means that the department has considered and applied the principles, presentation and disclosure requirements in all material respects in preparing and presenting its annual financial statements.

3.2 In assisting departments in the preparation of their financial statement, the National Treasury issues various supporting documentation with useful explanations, interpretations and/or illustrations of the
principles and requirements in the MCS. These publications are non-authoritative unless specified otherwise.

3.3 **Appendix A** sets out the authoritative material, prescribed formats for the financial statements and application guidance to be considered by departments for the 2020/2021 financial reporting cycle.

4. **EFFECTIVE DATE**

This Directive applies to the financial statements prepared and presented as at 31 March 2021.

5. **DISSEMINATION OF INFORMATION CONTAINED IN THIS DIRECTIVE**

Accounting officers of national and provincial departments are requested to bring the contents of this Directive to the attention of Chief Financial Officers and other affected officials in their respective departments.

KAREN MAREE

**ACTING ACCOUNTANT-GENERAL**

**DATE:** 31 March 2021
ANNEXURE A: DEPARTMENTAL FINANCIAL REPORTING FRAMEWORK

The lists below stipulate authoritative and non-authoritative material of the Departmental Financial Reporting Framework. The material can be accessed from the Office of the Accountant-General website. The following link can be used:

(oag.treasury.gov.za/Publications/AnnualFinancialStatements/ForProvAndNatDepartments)

AUTHORITATIVE MATERIAL FOR 2019/20 FINANCIAL YEAR

Given the exemption granted by the Minister of Finance delaying the reporting deadlines for the 2019/2020 financial year, a decision was taken not to substantially amend the authoritative material for the 2020/2021 financial year.

1. The Modified Cash Standard (MCS), Effective 1 April 2020
2. Accounting and Reporting for Immovable Assets (Property), Effective 1 April 2019;

PRESCRIBED FORMATS

The documents below are prescribed formats that should be utilised to achieve consistency when preparing financial statements in terms of the MCS:

1. Specimen Annual Financial Statements, February, 2021;
2. Departmental Financial Statement Template;

APPLICATION GUIDANCE FOR 2019/20 FINANCIAL YEAR

Application guidance below comprises of publications that provide accounting guidance in preparing financial statements in terms of the MCS. Frequently Asked Questions (FAQs)

5. Accounting Manual for Departments: Chapter 5 on Appropriation Statement, February, 2021;
7. Accounting Manual for Departments: Chapter 7 on Revenue, February, 2021;
8. Accounting Manual for Departments: Chapter 8 on Expenditure, February, 2021;
11. Accounting Manual for Departments: Chapter 12 on Inventories, February, 2021;

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1 An amendment was made to the MCS to include relief for acquirers / combining entities involved in a transfer of function / merger where the transfer of function / merger is incomplete at the reporting date.
2 MCS Chapter 12 on Inventory and the respective AMD will be effective on a date to be determined by the Office of the Accountant-General.
3 This prescript is applicable to Human Settlements Departments only. It will be phased out by the Transition Guide: Human Settlements Departments issued in December 2019, whose transition period begins on 1 April 2020.
15. Accounting Manual for Departments: Chapter 16 on Accounting by Principals and Agents, February, 2021;
16. Accounting Manual for Departments: Chapter 17 on Events After the Reporting Date, February, 2021;
17. Accounting Manual for Departments: Chapter 19 on Transfer of Functions, February, 2021;
19. Departmental Guide: Interdepartmental Transactions and Balances, April 2013;
20. Accounting for Library Material, March 2012;
21. Frequently Asked Questions (FAQs) for 2020/21 (not yet required at the time of finalisation of this document).