



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

**TO ALL: ACCOUNTING OFFICERS OF DEPARTMENTS
 HEAD OFFICIALS OF PROVINCIAL TREASURIES
 PROVINCIAL ACCOUNTANTS-GENERAL**

NATIONAL TREASURY INSTRUCTION NO. 1 OF 2021/2022

MODIFIED CASH STANDARD

1. PURPOSE

The purpose of this Treasury Instruction is to prescribe the Modified Cash Standard (**Annexure A**) for application by departments, except government components applying generally recognised accounting practice¹, and the Revenue Funds.

2. BACKGROUND

- 2.1 Section 40(1)(b) of the Public Finance Management Act, 1999 (Act No. 1 of 1999 – the PFMA) requires the accounting officer of a department to “*prepare financial statements for each financial year in accordance with generally recognised accounting practice.*”¹ The generally recognised accounting practice as envisaged in section 40(1)(b) of the PFMA has, to date not been prescribed for application by departments.
- 2.2 Treasury Regulation 18.2 provides that in the absence of any implementation dates for the application of the standards referred to in section 40(1)(b) of the PFMA, generally recognised accounting practice shall comprise of financial statements prepared on a modified cash basis in respect of national and provincial revenue funds and national and provincial departments. To make the application of this requirement clear, Government Notice 322 of 8 April 2021 (**Annexure B**) exempts national and provincial departments and government components applying Modified Cash Standard (MCS) from complying with section 40(1)(b) of the PFMA for a period of five years.
- 2.3 The modified cash basis has been developed by National Treasury into a norm and standard, as permitted in section(2)(a) read with section 6(1)(g) of the PFMA, and is referred to as the MCS.

¹ “generally recognised accounting practice” is defined in section 1 of the PFMA as an accounting practice complying in material respects with the standards issued by the Accounting Standards Board. I.e., The Standards of Generally Recognised Accounting Practice (GRAP)

3. MODIFIED CASH STANDARD

- 3.1 The MCS (**Annexure A**) is hereby prescribed for application by departments, except government components already applying the Standards of GRAP, and Revenue Funds.
- 3.2 The MCS sets out the principles and rules for the recognition, recording, measurement, presentation and disclosure of information in the annual financial statements and notes thereto. Departments must comply with the requirements in the MCS in order to achieve fair presentation and compliance with the PFMA.
- 3.3 All supplementary information and / or guidance on the MCS is available on the website of the National Treasury's Office of the Accountant-General.

4. APPLICABILITY

- 4.1 This Treasury Instruction applies to all departments. Government components that applied the MCS in the 2020/2021 financial year may continue to apply MCS for financial reporting purposes until indicated otherwise.
- 4.2 National Treasury and a provincial treasury must prepare financial statements in respect of the National Revenue Fund and a Provincial Revenue Fund in accordance with the MCS.

5. EFFECTIVE DATE

This Treasury Instruction applies to the financial year ending 31 March 2022 and subsequent financial years.

6. DISSEMINATION OF INFORMATION CONTAINED IN THIS TREASURY INSTRUCTION

- 6.1 Head officials of provincial treasuries are requested to bring the contents of this Treasury Instruction to the attention of all accounting officers of departments in their respective provinces.
- 6.2 Accounting officers of national and provincial departments must bring the contents of this Treasury Instruction to the attention of chief financial officers in their respective departments.

7. AUTHORITY FOR THIS INSTRUCTION

- 7.1 This Treasury Instruction is issued in terms of section 76(4)(a) of the PFMA, read with section 6(2)(a) of the PFMA.
- 7.2 Treasury Instruction No. 6 of 2014/2015 is hereby repealed.

8. CONTACT INFORMATION

Enquires related to this Treasury Instruction may be directed to:

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KAREN MAREE
ACCOUNTANT-GENERAL (ACTING)
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