NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 694

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DR S M VAN DYK (DA) TO ASK THE MINISTER OF FINANCE:

(1) (a) When is the conversion from the cash basis of accounting to the accrual basis in terms of the Public Finance Management Act, Act 1 of 1999, expected to be implemented in the public sector and (b) which state departments will be affected;

(2) whether any measures will be introduced for state departments which do not meet the above-mentioned requirements; if not; why not; if so, what measures;

(3) whether, in light of the fact that only 57% of state departments are spending their money according to their cash flow projections (details furnished), the National Treasury has taken or intends taking any steps in this regard; if not, why not; if so, what steps? **N1010E**

REPLY:

(1) (a) It ought to be noted that the PFMA itself does not require the implementation of accrual accounting and is silent on the definition of Generally Recognised Accounting Practice (GRAP). The Minister may, in terms of the Act, prescribe the Standards set by the Accounting Standards Board (ASB), which is based on accrual accounting.

The National Treasury is in the process of developing a position paper as suggested in paragraph 20.5.3 of the Report to SCOPA, to foment discussion on the appropriateness of accrual accounting in the public sector. The document will also set out the strategy, time frames and resource requirements implicit in the move to GRAP. The document is expected to be completed by the end of the current financial year.

(b) All reporting departments and reporting entities will be affected, although certain departments may be exempted during the transition process.

(2) Measures to monitor and deal with Departments that do not comply with the relevant requirements will more appropriately be considered in the context of the position paper being developed as discussed in paragraph (1)(a) above.

(3) As funding for national departments is appropriated, the amounts drawn from the National Revenue Fund are agreed upon prior to the start of the financial year. Accounting Officers are obliged to provide the National Treasury with a projected schedule of draw downs and this has to be approved by National Treasury. Departments then manage their spending within these approved limits, and can approach the Treasury for deviations.

In considering requests for deviations on the drawings schedule, the Public Finance division of the National Treasury plays an advisory and supporting role to departments. This advice seeks to encourage more efficient spending patterns and to improve cash flow management in general. In addition, the Public Finance division is responsible for monitoring expenditure against the budget. The monthly reporting requirement (section 32 reports) includes a schedule that allows departments to report their cash flow projections and any revisions. Departments are supposed to provide an explanation for deviations larger than 5%. The Treasury is then able to follow up on serious deviations and propose corrective actions. The National Treasury is therefore working with CFOs of departments on an ongoing basis to improve both cashflow projections and monthly adherence to agreed schedules.

During the 2003/04 financial year, in-year monitoring efforts uncovered trends where savings generated by departments which represented material variances, were being maintained in Paymaster General Accounts of the Departments. Departments were then required by the National Treasury to surrender such savings to the National Revenue Fund (NRF). Where the departments in accordance with their appropriations again required the funds, they could approach the National Treasury for the allocation.