

Reference: T7/2/1

TREASURY CIRCULAR 17/2015

THE PREMIER

THE MINISTER OF ECONOMIC OPPORTUNITIES
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS
THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

} For information

THE ACCOUNTING OFFICER: VOTE 1: PREMIER (ADV B GERBER)
THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS BH FAKIRA)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (MR G MORRIS)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MS P VINJEVOLD)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (DR B ENGELBRECHT)
THE ACCOUNTING OFFICER: VOTE 7: SOCIAL DEVELOPMENT (DR R MACDONALD)
THE ACCOUNTING OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR T MGULI)
THE ACCOUNTING OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR P VAN ZYL)
THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MS J GOOCH)
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (DR H FAST)

THE CHIEF FINANCIAL OFFICER: VOTE 1: PREMIER (MR D BASSON)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MS N PETERSEN)
THE CHIEF FINANCIAL OFFICER: VOTE 3: PROVINCIAL TREASURY (MR A GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COMMUNITY SAFETY (MR M FRIZLAR)
THE CHIEF FINANCIAL OFFICER: VOTE 5: EDUCATION (MR L ELY)
THE CHIEF FINANCIAL OFFICER: VOTE 6: HEALTH (MR A VAN NIEKERK)
THE CHIEF FINANCIAL OFFICER: VOTE 7: SOCIAL DEVELOPMENT (MR JO SMITH)
THE CHIEF FINANCIAL OFFICER: VOTE 8: HUMAN SETTLEMENTS (MR F DE WET)
THE CHIEF FINANCIAL OFFICER: VOTE 9: ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING (MR T GILDENHUYS)
THE CHIEF FINANCIAL OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MR CR ISMAY)
THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLALL-SINGH)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (MR Z HOOSAIN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR A HARDIEN) (ACTING)
THE HEAD: PUBLIC POLICY SERVICES (MS M KORSTEN)
THE HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR H MALILA) (PRO TEM)
THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)

THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
THE SENIOR MANAGER: FINANCIAL GOVERNANCE (MR B VINK)
THE SENIOR MANAGER: FISCAL POLICY (MS S DAVIDS) (ACTING)
THE SENIOR MANAGER: INFRASTRUCTURE (MR P CHANDAKA)
THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MR Z HENDRICKS) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MS L MCCARTNEY)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR R MOOLMAN)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M KORSTEN) (PRO TEM)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)
THE PROVINCIAL AUDITOR
MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
THE DEPUTY DIRECTOR-GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

REQUEST TO ASSIST WITH THE RESEARCH ON THE TRANSITION FROM THE MODIFIED CASH BASIS OF ACCOUNTING

PURPOSE

1. To request Accounting Officers and Chief Accounting Officers to complete the attached questionnaire from National Treasury on the transition from the Modified Cash Basis of Accounting.

BACKGROUND

2. Departments are required to "prepare financial statements for each financial year in accordance with generally recognised accounting practice" as prescribed by the Public Finance Management Act (PFMA), No 1 of 1999. In conjunction with this, accounting officers have to ensure that annual financial statements are prepared according to the reporting framework as prescribed by the National Treasury Regulations.
3. Departments are requested to assist with the research on the transition from the modified cash basis of accounting, as per National Treasury's request dated 02 April 2015 (attached).

REQUIRED

4. Departments are to complete the attached questionnaire and submit it via email to Ms E Terblanche (Elandie.Terblanche@westerncape.gov.za) at Provincial Treasury: Government Accounting and Compliance before or on Wednesday, 29 April 2015.
5. The corporation of Departments will be appreciated.



DIRECTOR: PROVINCIAL GOVERNMENT ACCOUNTING AND COMPLIANCE

Date: 21/04/2015



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Private Bag X115, Pretoria, 0001 Tel: +27 12 406 9033, Fax: +27 12 315 5568

Dear Colleague

REQUEST TO ASSIST WITH THE RESEARCH ON THE TRANSITION FROM THE MODIFIED CASH BASIS OF ACCOUNTING

The Public Finance Management Act (PFMA), No 1 of 1999, requires departments to "prepare financial statements for each financial year in accordance with generally recognised accounting practice". The Treasury Regulations require the accounting officer of a department to ensure that the annual financial statements are prepared in accordance with the reporting framework, as determined by the National Treasury.

Departments are currently reporting on a modified cash basis of accounting as prescribed by the Office of the Accountant-General (OAG). This basis of accounting does not provide a complete view of the financial position of a department in a singular statement.

The National Treasury is therefore considering transitioning from this basis to either a modified accrual basis of accounting (comprising of Modified Accrual Reporting Standards) or the Standards of Generally Recognised Accounting Practice (GRAP).

My office with the support of KPMG is developing a strategy and conversion plan to one of the above bases of accounting. Your assistance is required to assess the impacts and dependencies etc. in finalising the plan and approach. To this effect a questionnaire is attached for completion by your department.

Thanking you in advance for your cooperation.

Regards


Michael Sass
Accountant-General

Date: 2 APRIL 2015



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Questionnaire

Accounting Strategy for Departments

A. Scope

The Public Finance Management Act (PFMA), No 1 of 1999, requires departments to “prepare financial statements for each financial year in accordance with generally recognised accounting practice”. The Treasury Regulations require the accounting officer of a department to ensure that the annual financial statements are prepared in accordance with the Departmental Financial Reporting Framework, as determined by the National Treasury.

Departments are currently reporting on a Modified Cash basis of accounting (MCS) as prescribed by the Office of the Accountant General (OAG). Using this basis of accounting the revenue, expenses, assets and liabilities of the department are only recognised when cash is received or paid out. Therefore, the National Treasury is considering transitioning from Modified Cash Basis of accounting (MCS) to either Modified Accrual Reporting Standards (MARS) or Generally Recognised Accounting Practice (GRAP) to enhance accountability and decision making.

B. Objective

The objective of the questionnaire is to gain an understanding of the potential challenges that could be faced by departments when transitioning from Modified Cash basis of accounting (MCS) to either Modified Accrual Reporting Standards (MARS) or Generally Recognised Accounting Practice (GRAP) and determine the impact thereof.

The information gathered from the departments will assist in the development of the cash to accrual strategy and the selection of either Modified Accrual Reporting Standards (MARS) or Generally Recognised Accounting Practice (GRAP).

This questionnaire is intended for the National and Provincial departments. The departments are required to respond to the questionnaire by **Thursday, 30 April 2015**.

C. Submission of Questionnaire

Please submit the completed questionnaire to the following OAG official(s) who will also attend to queries that you may have pertaining to the questionnaire:

Name of OAG Contact Person	Ledile Mello
Telephone	(012) 315 5768
e-mail address	Ledile.Mello@treasury.gov.za

D. Details of the Departments

<i>Name of the Department</i>	
<i>National/Provincial (If Provincial, State name of the Province)</i>	
<i>Name of Person who completed Questionnaire</i>	
<i>Designation</i>	

E. Questions

1.	Aspects of migration to MARS/GRAP
1.1	<i>What is your understanding of cash to accrual migration?</i>
1.2	<i>What do you foresee to be the impact of the migration on the following aspects:</i>
	<i>a) Regulatory</i>
	<i>b) Skills and resources.</i>
2.	IT System
2.1	<i>As migration from cash to accrual involves the development of a new system and given the legacy issues that some of the departments might face in terms of data integrity, will it be desirable to use the new system parallel to the old system versus immediately adopting the new system?</i>
2.2	<i>If the response to 2.1 above is yes, will the department have adequate resources and capacity to use both systems? Please support your answer.</i>

3.	State of readiness
3.1	<i>What do you deem to be the state of readiness for the departments in terms of financial management given the audit outcomes?</i>
3.2	<i>Besides the IT Systems, what type of considerations should be made when adding or enhancing AFS reporting requirements?</i>
4.	Transition approach
4.1	<i>Who do you think are the key stakeholders that will enable the transition?</i>
4.2	<i>What process would you recommend to ensure a smooth transition involving the key stakeholders?</i>
4.3	<i>What type of support will be needed to ensure successful conversion?</i>
4.4	<i>Which people (position and level) in your department do you think should be should be involved to implement accrual accounting?</i>

5.	Budget preparation basis
5.1	<i>Should the current basis of budgeting be maintained or is accrual budget conversion necessary? Please support your answer.</i>
6.	Elements of financial statements
6.1	<i>Of the elements of the financials to be converted (i.e. assets, liabilities, income or expenses), which are expected to be most complex or/and time consuming? Please support your answer.</i>
6.2	<i>Will respective departments have the information on assets and liabilities such as fair values so as to prepare an opening statement of financial position at the date of conversion to accrual accounting? Please support your answer.</i>
6.3	<i>Can the department determine ownership of various assets (capital and current assets)? Where the answer is "no", please specify situations where ownership is unclear?</i>

6.4	<i>What are the processes in place to determine the cost or fair value information for the capital assets that are recorded in the asset register at R1? This applies to both movable and immovable assets. Relevance of categorising minor assets should also be considered</i>
6.5	<i>Capital assets are currently categorised as minor and major assets. In an accrual environment, how should the issue of low value assets be dealt with?</i>
6.6	<i>What are the mechanisms in place that will be used to determine the useful lives, impairment on assets and assets no longer in use?</i>
6.7	<i>What processes and controls are in place to identify related party transactions? What processes can you recommend to enable appropriate reporting of these transactions?</i>
6.8	<i>What processes can you recommend to enable appropriate reporting of intergovernmental transactions?</i>
6.9	<i>What processes and controls are in place to identify accruals, provisions, commitment and contingencies? What processes can you recommend to enable appropriate reporting of accruals, provisions, commitment and contingencies?</i>

6.10	<i>What are the processes and controls in place to identify leases entered into by departments? What processes can you recommend to enable appropriate reporting of leases?</i>
7.	Consolidation
7.1	<i>What is your view on the current process of preparing Consolidated Financial Statements? How will accrual accounting impact the consolidation going forward? What are your recommendations pertaining to preparing credible Consolidated Financial Statements?</i>
8.	Other
8.1	<i>Please specify any other considerations on the migration from cash to accrual accounting?</i>

Thank you for taking time to complete the questionnaire.