

Wednesdays

10:00 - 12:00

23 Feb - 13 April 2022

ASSET VERIFICATION PROCESSES



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011 394 0879



BONAKUDE

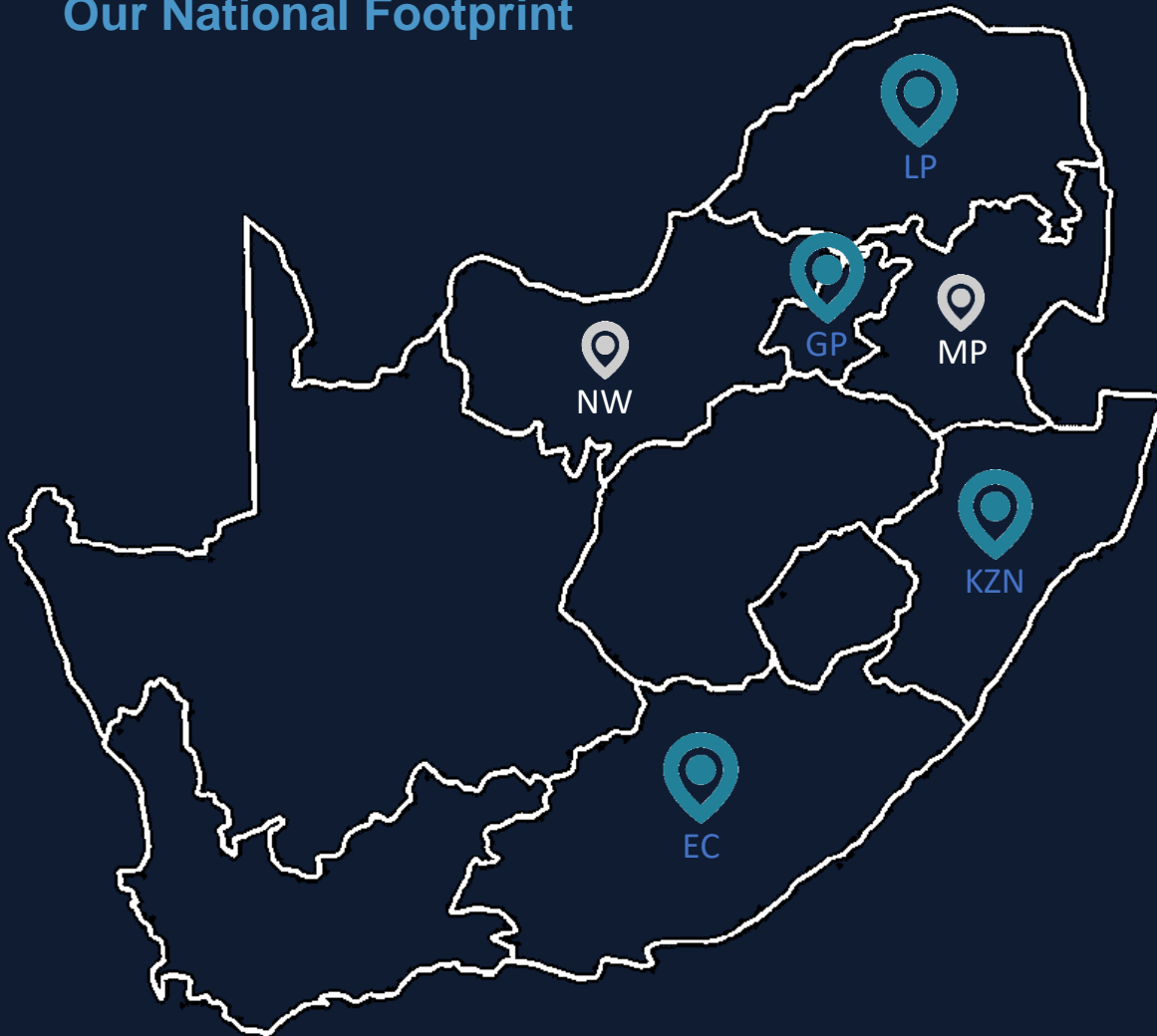
Introduction

Who Are We?

- ❖ BNKD as been in business for 12 years.
- ❖ Highly experienced in the public and private sectors, public entities and non-profit organisations.
- ❖ Our dynamic team of professionals, affectionately known as **BonaPeople**, is comprised of Chartered Accountants CA(SA), Registered Auditors (RA), Certified Internal Auditors (CIA), Professional Accountants (SA); Tax Practitioners, Certified Information Systems Auditors (CISA), Certified Information Security Managers (CISM), ACL Certified Data Analysts (ACDA), and Accredited Training Facilitators.
- ❖ BonaPeople are often deployed as CFO's, Asset Managers, Accountants, and Internal Auditors on a consulting or secondment basis. This demonstrates capacity, experience and the reliability of our people.

Introduction

Our National Footprint



Existing Offices

KZN [Durban]
GP [Johannesburg]
EC [East London]
LP [Polokwane]



Planned Offices

MP [Nelspruit]
NW [Mahikeng]

Introduction

Our Core Product Mix



Introduction

Section 122 of the MFMA states that “Every municipality and every municipal entity must for each financial year prepare annual financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year”

Below is the extract from the AGSA engagement letter:

“In terms of section 15(2)(b) of the PAA and in order to comply with applicable legislated auditing and tabling deadlines in the MFMA, as well as to allow adequate time for conducting the audit in accordance with the relevant auditing standards the municipality should adhere to the following:

- *The trial balance and general ledger that agree to the financial statements, together with the supporting asset register, inventory register and subsidiary-ledgers for receivables and payables, must be submitted with the financial statements. If this information is not provided it will be regarded as a limitation on the audit which could result in a modification of the audit opinion.”*

Introduction

- Unresolved differences on reconciliations of financial records such as the asset register and financial statements remains the key challenge in local government.
- Based on the 2019-20 MFMA General Report, the AGSA noted that only 28% of the municipalities submitted quality financial statements. The key criteria for assessing quality of financial statements by the AGSA is checking if the financial statements and the supporting schedules speak to one another. Therefore, 72% of the municipalities submitted where the supporting schedules such as the asset registers and the financial statements and related notes did not agree.
- It is therefore essential local government strengthens controls and procedures to resolve difference between financial statements and supporting documents.

Key areas of Reconciliation

Differences on Assets Reconciliations may be identified in the following reconciliations:

- Reconciliation of the Fixed Asset Register to Physical Asset Verification Report and Outcomes.
- Reconciliation of Face of the Financial Statements to Related Assets Notes.
- Reconciliation of Financial Statements to Trial Balance.
- Reconciliation of Trial Balance to the General Ledger.
- Reconciliation of Fixed Assets Register and the General Ledger.

Reconciliation of the Fixed Asset Register to Physical Asset Verification Report and Outcomes

Differences between the fixed asset register and the physical verification outcomes may exist under the following circumstances:

- Assets that belong to municipality were identified during physical verification process but they are not recorded in the asset register(Completeness)
- Assets that are recorded in the asset register no longer exist on the ground based on the physical verification(Existence)

These differences are resolved as follows:

- Assets that are not included in the asset register should be recognized in the asset register and general ledger using available supporting information.
- Assets that no longer should be derecognized from the asset register and the general ledger.

Reconciliation of face of the Financial Statements to Related Assets Notes

The following amounts must reconcile:

- Carrying value of assets on the statement of financial position and assets(PPE, investment property, heritage assets, intangible asset and biological assets) and assets notes.
- Depreciation/amortization expense on the statement of financial performance and related assets notes and depreciation/amortization expense notes.

Typically differences between financial statements and related notes differ because notes are manually captured, and notes are not automatically.

The following are essential to resolve these differences:

- Reconciliation between the face of the financial statements and the related notes must be performed each time AFS are updated with new TB.
- The notes must then be updated to reflect numbers on the latest TB.

Reconciliation of Financial Statements to Trial Balance

- The assets balances and classes of transactions and their related notes must be reconciled to trial balance.
- Typically differences between the financial statements and the trial balance are as result of poor version control.
- It is essential that the trial balance(TB) and financial statements are reconciled and the TB on the audit file is updated with the latest TB whenever the AFS are updated to resolve differences between GL and TB.

Reconciliation of Trial Balance to General Ledger

It is essential that proper reconciliation between the TB and general ledger are prepared, and differences identified and resolved timeously.

Typically differences between the TB and the general ledger result from the following:

- Poor version control when TB and GL on the audit file are not updated at the time.
- System errors. Although they are rare, they do happen.

These differences can be resolved by the following activities:

- Reconciling TB and GL time changes are made on the TB.
- Escalating system related errors to the system providers where necessary.

Reconciliation of Fixed Assets Register and the General Ledger

The reconciliation between fixed asset register and general ledger is important and must at least cover the following:

- Gross value of assets
- Accumulated depreciation
- Depreciation expenses
- Carrying value of assets
- Disposal of assets
- Acquisition of assets

Typically, differences between the asset register and general ledger are as a result of the following:

- Transactions recorded in the general ledger but not updated in the asset register. The asset register should be updated to resolve the difference
- Transactions updated in the asset register, but journals are not passed in the general ledger. Journals should be passed to on the general ledger to resolve the difference.

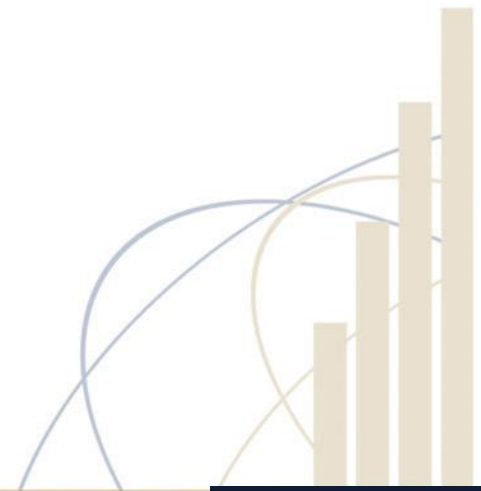
Root Causes of Unresolved Differences on Reconciliation

The following are general root causes of unresolved differences on reconciliation:

- Quarterly asset verifications are not performed to maximize coverage of assets physical verification processes.
- Work in progress is not updated on monthly basis but only at year end. This results in assets preparation being finalized very late to allow time for review process to take place.
- Year end preparation processes are not started and finalized timeously
- The asset register is not updated and reconciled to the general ledger on monthly basis.
- The asset register is finalized too late due to poor planning of the AFS preparation processes.
- Not cut-off date accepting and updating information from end users is applied. This result in late finalization of fixed asset register.
- Year end journals are not centrally controlled to ensure that not asset related journals are passed without the updated fixed asset register as support.

Preventative Controls

- Physical verification should be done at least on quarterly basis.
- Review and capitalization of WIP should be performed throughout the year and not just at year end.
- Year end fixed asset register preparation processes should be planned and the planned should be monitored throughout.
- Fixed asset register should be updated throughout the year.
- Reconciliations should be performed and updated on monthly basis.
- Cut-off for receiving information from the end users should be implemented.
- One person should be responsible for approving asset related journals and reconciling to updated fixed asset register.





Thank You!



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