

23 Feb - 13 April 2022

ASSET VERIFICATION PROCESSES

Wednesdays

10:00 - 12:00



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Chartered Institute of
Government Finance, Audit & Risk Officers

SAQA Recognised Professional Body

Disclosure note/s for movable assets in the financial statements - 13 April 2022

- ✓ **Legal background – MFMA and PAA;**
- ✓ **Physical verification;**
- ✓ **Accounting Policy – GRAP 1 and 3;**
- ✓ **Property, Plant and Equipment – GRAP 17;**
- ✓ **Agricultural Assets – GRAP 27;**
- ✓ **Intangible Assets – GRAP 31;**
- ✓ **Heritage Assets – GRAP 103;**
- ✓ **Other Compulsory Disclosures - MFMA**

Legal Background - MFMA

MFMA Act No 56, 2003

Section 122.

(1) Every municipality and every municipal entity must for each financial year prepare **annual financial statements** which—

- (a) 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;
- (b) disclose the information required in terms of sections 123, 124 and 125. (see compulsory)

Legal Background - PAA

Public Audit Act, No. 25 of 2004

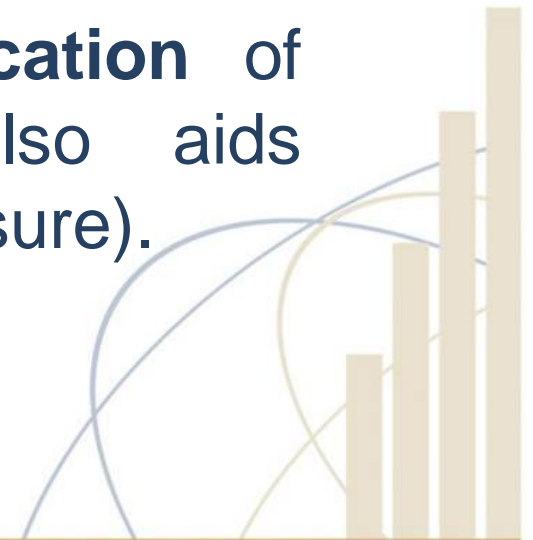
Section 15. (2) The Auditor-General or an authorised auditor may for the purpose of an audit –

- (b) **direct a person to produce**, or to deliver at a specified place and time and in a specified format-
 - (i) any such document, book or written or electronic record or information, including any confidential, secret or classified document, book, record or **information** of whatever nature; or
 - (ii) any such **asset**;
- (c) inspect, and **question** any person about, any such document, book or written or electronic record or information, or any such **asset**;

Physical verification

- ✓ **Existence** – do assets exist at the reporting date (overstatement)
- ✓ **Completeness** – have all assets owned and controlled been recorded (Understatement);
- ✓ **Valuation** – assets at the values commensurate with their condition/ productive capacity/ service potential;
- ✓ Sufficient detail to enable **identification** of each and every asset (this also aids classification, presentation and disclosure).

(As in previous workshop)



Accounting Policies: GRAP

GRAP 1

Disclosure of accounting policies

- .127 An entity shall disclose in the summary of significant accounting policies:
- (a) the measurement basis (or bases) used in preparing the financial statements; and
 - (c) the other accounting policies that are relevant to an understanding of the financial statements.
- .128 It is important for users to be informed of the measurement basis (or bases) used in the financial statements (for example, historical cost, current replacement cost, realisable value, fair value, recoverable amount or recoverable service amount) ... significantly affects their analysis.

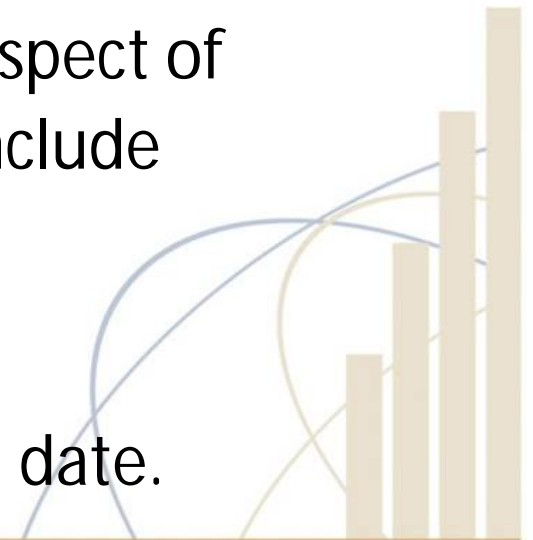
Accounting Policies: GRAP

GRAP 1

Key sources of estimation uncertainty

.135 An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and
- (b) their carrying amount as at the reporting date.



Accounting Policies: GRAP

GRAP 3

Selection and application of accounting policies

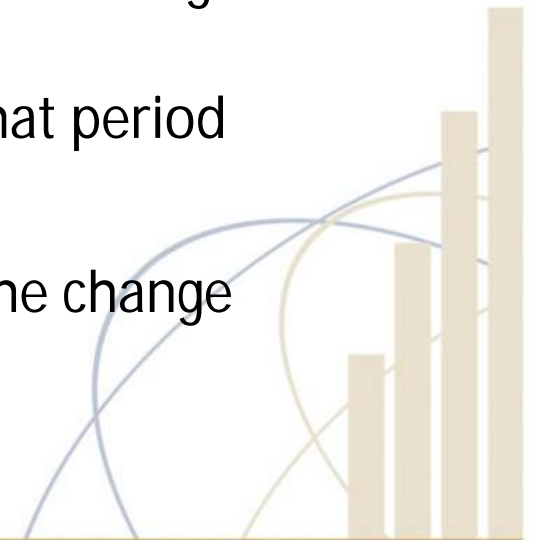
- .06 When a Standard of GRAP specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Standard and considering any applicable Interpretations and Directives issued by the ASB for the Standard.
- .29 When it is impracticable for an entity to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the entity, in accordance with paragraph .25, applies the new policy prospectively from the start of the earliest period practicable.

Accounting Policies: GRAP

GRAP 3

Changes in accounting estimates

- .34 As a result of the uncertainties inherent in delivering services, conducting trading or other activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information.
- .38 The effect of a change in an accounting estimate, other than a change to which paragraph .39 applies, shall be recognised prospectively by including it in surplus or deficit in:
- the period of the change, if the change affects that period only; or
 - the period of the change and future periods, if the change affects both.



GRAP 17

- .85 The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:
- (a) the measurement bases used ...;
 - (b) the depreciation methods used;
 - (c) the useful lives or the depreciation rates used;
 - (d) the gross carrying amount and the accumulated depreciation .. at the beginning and end of the period; and
 - (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 - (ii) disposal; ..
 - (v) impairment losses recognised in surplus or deficit .. (if any);
 - (vi) impairment losses reversed in surplus or deficit .. (if any);
 - (vii) depreciation;
 - (ix) other changes.
- .88 An entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.



PPE AFS Note



XXX MUNICIPALITY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 20XX

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

8. Property, plant and equipment

Reconciliation of property, plant and equipment - 20XX

	Opening carrying value	Additions	Disposals	Transfers	Depreciation	Total
Buildings	46 914 533	13 221 291	-	6 463 814	(2 298 442)	64 301 196
Land	12 413 300	-	-	-	-	12 413 300
Infrastructure under construction	625 474 690	373 905 050	-	(240 149 354)	-	759 230 386
Infrastructure	815 732 210	1 115 391	(148 489)	240 974 527	(44 315 481)	1 013 358 158
Assets under construction	8 168 983	411 776	-	(7 288 987)	-	1 291 772
Other assets	15 671 253	3 284 937	(1 435 373)	-	(3 881 400)	13 639 417
Total	1 524 374 969	391 938 445	(1 583 862)	-	(50 495 323)	1 864 234 229

PPE AFS Note (Cntd)



XXX MUNICIPALITY

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 20XX

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

8. Property, plant and equipment

	20XX			20IX		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	81 305 876	(17 004 679)	64 301 197	61 802 962	(14 888 429)	46 914 533
Land	12 413 300	-	12 413 300	12 413 300	-	12 413 300
Infrastructure under construction	759 230 386	-	759 230 386	625 474 690	-	625 474 690
Infrastructure	1 351 255 017	(337 896 859)	1 013 358 158	1 109 329 559	(293 597 349)	815 732 210
Assets under construction	1 291 772	-	1 291 772	8 168 983	-	8 168 983
Other assets	34 395 397	(20 750 754)	13 644 643	33 658 831	(17 982 362)	15 676 469
Total	2 239 891 748	(375 652 292)	1 864 239 456	1 850 848 325	(326 468 140)	1 524 380 185

GRAP 17 - Approach

- BC2. .. undertaking a detailed assessment of the useful lives of assets on an annual basis is **onerous**, .. using an indicator-based assessment, similar to that used to assess whether an asset is impaired, .. still achieve the overall objective of the requirement.
- BC3. The .. **indicator approach** .. would still require entities to assess the useful lives of assets on a regular basis. ... entities would not be required to review the useful lives of assets every year, only when specific circumstances exist or changed from the prior year.
- BC7. The ... Standard could not describe when an expert is **competent**, but .. the valuations should be undertaken in accordance with the principles established in the applicable Standards of GRAP.
- BC9. As a result of the change made to the text of this Standard, consequential amendments have been made to similar paragraphs in **other** Standards of GRAP.

GRAP 17 – Encouraged Disclosures

Encouraged disclosures

BC11. As users find limited value in these disclosures, the Board agreed to **delete** the following encouraged disclosures:

- Disclosure of **fair values** of assets where the cost model applied.
- Information on assets that were **not utilised** during the reporting period.

BC12. ... the encouragement to disclose information on **fully depreciated** assets still in use. The Board agreed to **eliminate** the disclosure because providing this information in the notes to the financial statements contradicts the principle in this Standard that requires regular assessments of the useful lives of assets. A similar consequential amendment has been made to the GRAP 16 and GRAP 31.

- .46 An entity shall present a reconciliation of changes in the carrying amount of **biological assets** between the beginning and the end of the current period. The reconciliation shall include:
- a) the gain or loss arising from changes in fair value less costs to sell, disclosed separately for bearer biological assets and consumable biological assets;
 - (b) increases due to purchases;
 - (c) increase due to assets acquired through a non-exchange transaction;
 - (d) decreases attributable to sales;
 - (e) decrease due to distributions through a non-exchange transaction;
 - (f) decreases due to harvest;
 - ...
 - (j) other changes.



GRAP 31

.118 An entity shall disclose the following for each class of **intangible assets**, distinguishing between internally generated intangible assets and other intangible assets:

- (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
- (b) the amortisation methods used for intangible assets with finite useful lives;
- (c) the gross carrying amount and any accumulated amortisation ... at the beginning and end of the period;
- (d) the line item(s) of the statement of financial performance in which any amortisation of intangible assets is included; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions, indicating separately those from internal development and those acquired separately;

-----As in **GRAP 17**

- .86 The financial statements shall disclose, for each class of **heritage assets** recognised in the financial statements:
- (a) the measurement bases used for determining the gross carrying amount;
 - (b) the gross carrying amount aggregated with accumulated impairment losses at the beginning and end of the period;
 - (c) a reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions;
 -
 - (v) impairment losses recognised in surplus or deficit in accordance with GRAP 21 or GRAP 26, as appropriate;

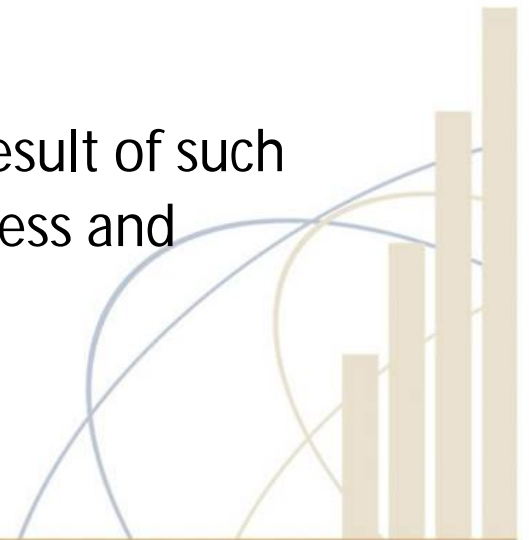


Other compulsory disclosures

MFMA Act No 56, 2003

Section 125. (2) The notes to the annual financial statements of a municipality or municipal entity must disclose the following information:

- (i) any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable;
- (ii) any criminal or disciplinary steps taken as a result of such losses or such unauthorised, irregular or fruitless and wasteful expenditures; and
- (iii) any material losses recovered or written off;





Thank You!



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