

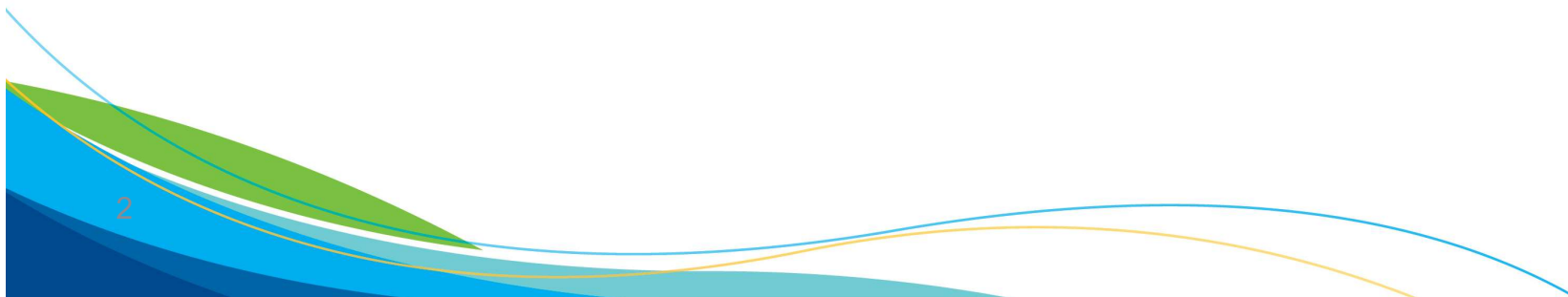
# **MFMA Financial Year-End: Reporting Process**


## *Frequently Asked Questions (FAQs)*

**Annual Financial Statements of Municipalities**  
**30 June 2021**

# PURPOSE

This document was compiled to provide a formal response to all the questions raised during the session held on 9 July 2021.





# GENERAL QUESTIONS AND ANSWERS?

# QUESTION 1

1.

Municipal entities are considered a vote from the parent municipality, should they applying GRAP 18 fully as they are a segment of the parent municipality?

## Response

Both the municipality and municipal entity prepares separate financial statements. In preparing their separate financial statements both the institutions should consider the requirements of GRAP 18 to identify reportable segments for disclosure and presentation.

The municipality would consider the following to confirm whether the municipal entity would constitute a reportable segment:

- Generates economic benefits or service potential.
- Results are regularly reviewed - make decisions about resources to be allocated to that activity - assessing its performance.
- Separate financial information is available.

# QUESTION 2

2.

If we consider the GRAP 18.21 requirement w.r.t the level of detail to be presented – would a municipality still be required to present a detailed breakdown i.t.o this GRAP requirement even where management does not review or perform an assessment at that detail level?

## Response

It is important to understand what is defined as a reportable segment in terms of GRAP 18. One of the definition criteria is:

*...whose **results are regularly reviewed** by management to **make decisions** about resources to be allocated to that activity and **in assessing its performance**.*

Considering this criteria, the segment information to be disclosed is based on the information available to management when performing their reviews and assessments.

*A further transversal consideration for municipalities would be the implementation of mSCOA and the resultant standardisation of the accounting processes at a transactional level. This would result in some level of consistency of available information across municipalities.*



# QUESTION 3

3.

GRAP 110 - We plan to disclose the mega liters of water that the municipality is allocated or licensed from the rivers or dams. Would this be appropriate considering the disclosure requirements ?

## Response

The disclosure requirements for non-living resources is to include a description of the following for each group:

- Nature and types of non-living resources for which responsible
- Liabilities and/or contingent liabilities that arise as a result of non-living resources
- If not disclosed separately on face of financial performance, amount of compensation from 3rd parties

Given the requirements of the standard, disclosure at such a detail is not specifically required. However, should the municipality want to disclose the mega liters allocated or licensed it is recommended to included as part of *nature* disclosure.

*NB. The response assumes that the municipality has considered the **extraction rule** in determining whether the water is (i) non-living resource per GRAP 100 or (ii) inventory per GRAP 12.*

# QUESTION 4

4.

What would be practical examples of living and non-living resources for municipalities ?

## Response

### Living resources:

It is important to understand the purpose of the standard before drawing conclusions surrounding the definitions of GRAP 110. The intention is to allow the users to understand which living resources are controlled similarly to other assets such as PPE, Investment Property and Heritage Assets

For example, a Zoo would have specific interventions to care for the animals. Similarly, if a very rare type of fauna is found in a municipality, only when the municipality endeavours to care for the plant in terms of protecting it from the elements and ensuring soil quality is not contaminated or by restricting others from damaging or removing the plant. In most cases, living resources would be managed in terms of the growth and care of the animal or plant similar to zoo animals.

# QUESTION 4

4.

What would be practical examples of living and non-living resources for municipalities ?

## Response

In the case of plants, more complex application of judgement is required.

Some consider that watering a plant is a human intervention resulting in sustaining the plants. This is in fact true however consideration should be given – are the watering and trimming of plants undertaken as part of ongoing maintenance on an as needed basis? Does formal maintenance plans exist for ensuring that plants' health and care is prioritised ?

GRAP 110.25 makes specific reference to controlled veld fires which are used to stimulate growth of seedlings and eliminate unwanted invasion species. A controlled fire could well be used as a mechanism to intervene in the fauna of the area, however are these activities are conducted in order to prevent future uncontrolled veld fires, rather than for scientific reasons to stimulate growth.

Judgement by management as to management's intent in terms of intervention with reference to the GRAP requirements are therefore important.



# QUESTION 4

4.

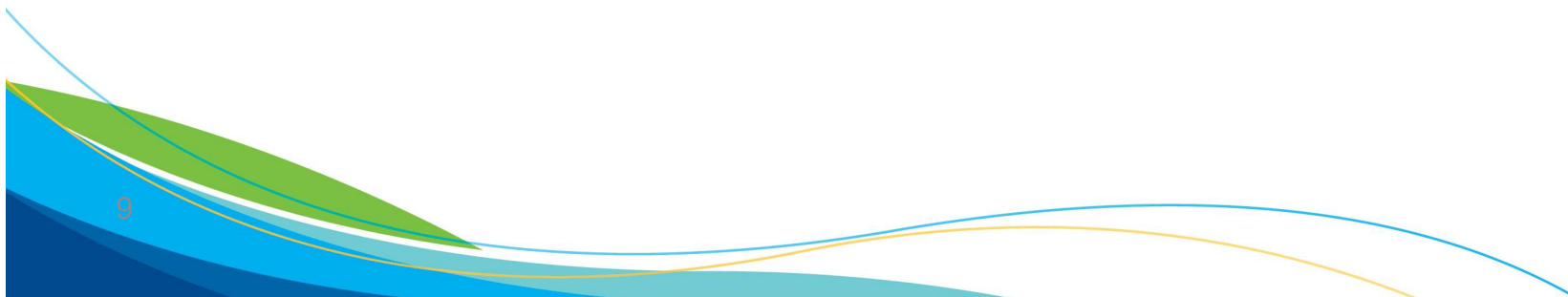
What would be practical examples of living and non-living resources for municipalities ?

## Response

### Non-living resources:

Non-living resources are those resources that occur naturally and have not been extracted. Minerals, oil, water and land are examples hereof.

Water contained in reservoirs and pipes are considered to be extracted and is therefore accounted for as Inventory in terms of GRAP 12.



# QUESTION 5

5.

Considering a service concession arrangement where a district municipality supplies water to the local municipalities - Where the water inventory not distributed belongs to the district – would it be correct to say that the water in the service concession asset not yet extracted are the non-living resources of the district and not the municipality?

## Response

The response assumes that the municipality has already considered the requirements of *GRAP 32 – Service Concession Arrangements: Grantor*. Based on how the question is asked, It is also assumed that the district municipality is the operator (as defined in the standard).

Given the assumptions applied – the district has custodian of the dam and the water held.

When the municipality acts as a custodian over a living or non-living resource or group of living or non-living resources – explain the nature of custodial responsibility including legislation or similar means that establishes custodial responsibility – may include cross reference in fin statements if this information is included in another public document.

# QUESTION 6

6.

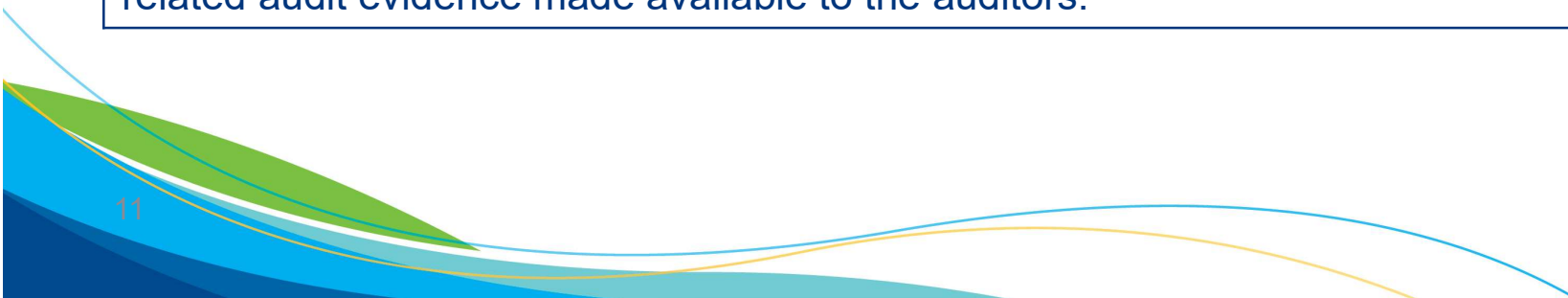
What would be an example of how the COVID-19 considerations will be disclosed in an instance of increase in provision of doubtful debts ?

## Response

Covid-19 considerations are also qualitative in nature and should be considered during the reporting process. Such considerations would impact the amounts recognised and disclosed in the financial statements.

Such considerations would therefore directly impact the calculation of the doubtful debt provision (i.e., the assumptions applied). The assumptions should be clearly documented in support of the calculation for audit purposes.

The impact in the case of this example would not trigger additional financial statement disclosure but as alluded to consideration should be given to the calculation and the related audit evidence made available to the auditors.



# QUESTION 7

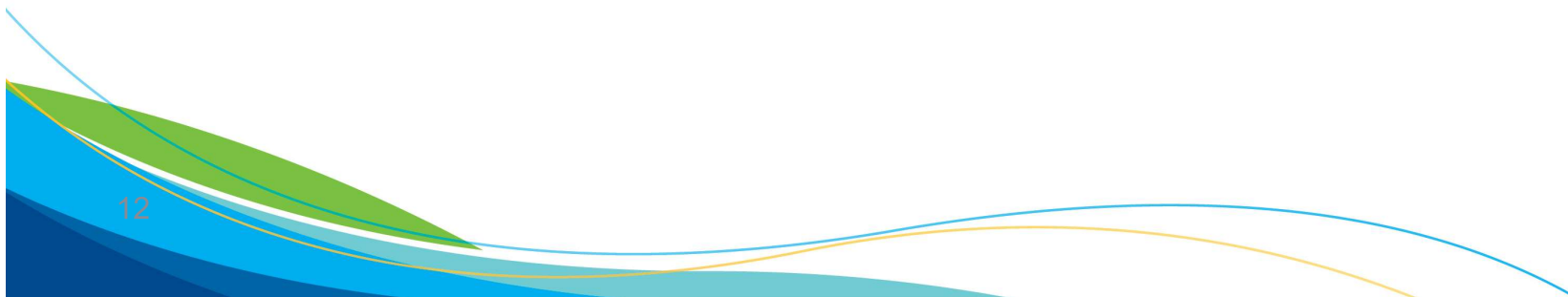
7.

GRAP 108: National grants are in terms of DORA and do not require any additional agreements. Provincial grants do however do require additional agreements to be concluded in addition to the gazette. Does grants in terms of provincial agreements fall within the scope of GRAP 104 and national grants in GRAP 108?

## Response

GRAP 108 and 104 with statutory receivables and financial instruments, respectively.

Given the nature of grants (specifically conditional) – it is normally allocated and transferred to the municipality in the fiscal year for which the funding has been set aside. With this said, grant funding impacts revenue and payables (to the extent that the grant conditions are not met at year-end).



# QUESTION 8

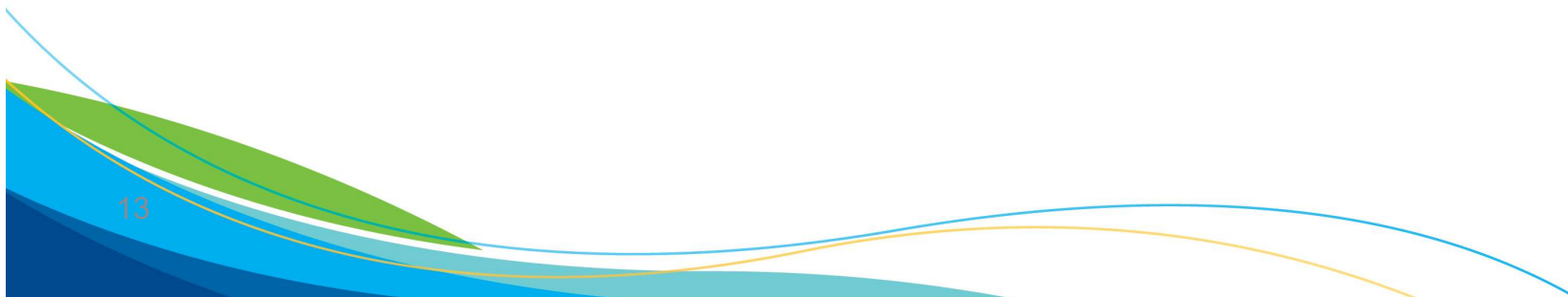
8.

GRAP 109 – what value is added when the principal reports on the modified cash standard.

## Response

The substance of the arrangement between a national/provincial organ of state and a municipality considers the requirements for principal-agent arrangement in terms of either the MCS or SA GRAP, respectively.

The respective principles/requirements across the two standards does not have any contradictions. With this said, the substance of the relationship will be fairly presented in terms of the requirements of the respective financial reporting framework.



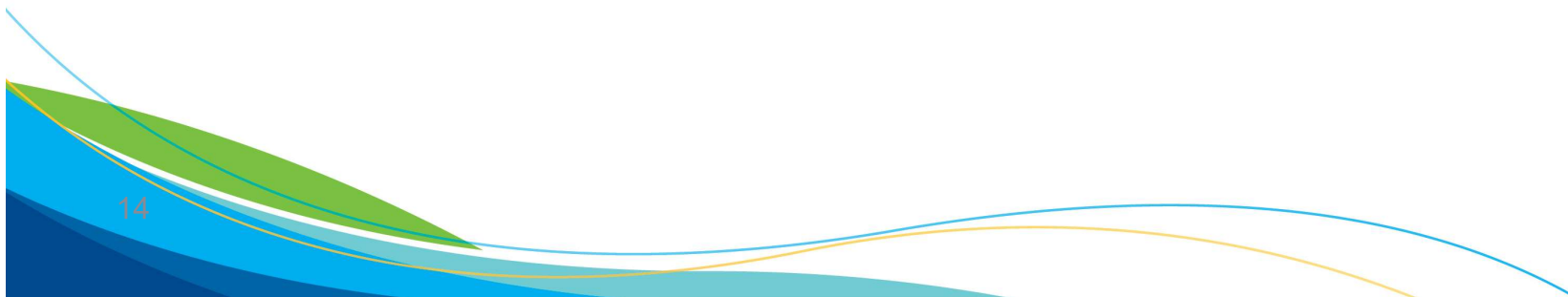
# QUESTION 9

9.

For discussion of the key management should allowances for bonuses be disclosed specifically acting in senior management positions. Furthermore, should these allowance be apportioned for the period of acting in the position ?

## Response

Acting positions for key management needs to be disclosed. Even if the acting period was only for a portion of a financial year.





# QUESTION 10

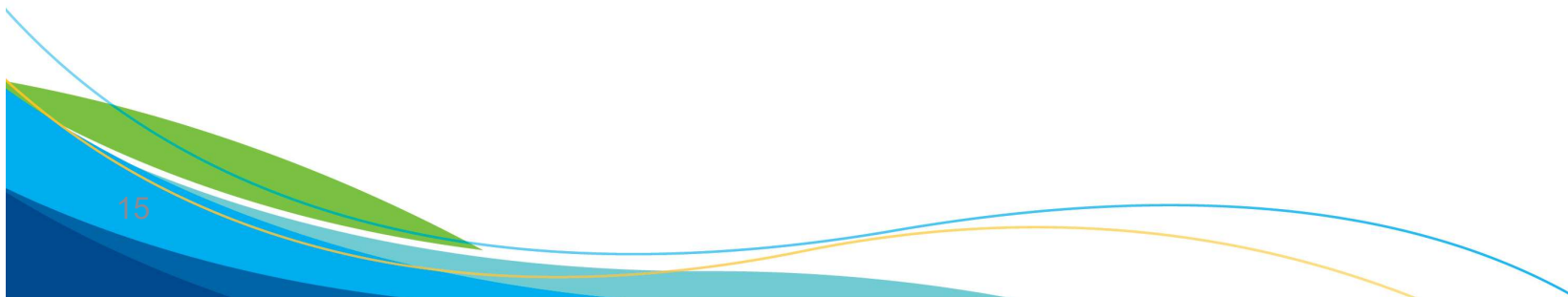
10. What is the last year of the transitional arrangement for GRAP 108 and 109 ?

## Response

Transitional arrangements for municipalities are set out in directives 3 (high-capacity municipalities) and 4 (medium and low capacities).

GRAP 108 – The standard is effective

GRAP 109 - The standard is effective



# QUESTION 11

11.

Actuarial gains on employee benefits - are they recognised as a income or as an offset to employee cost (or will it depend on the materiality of the figure)

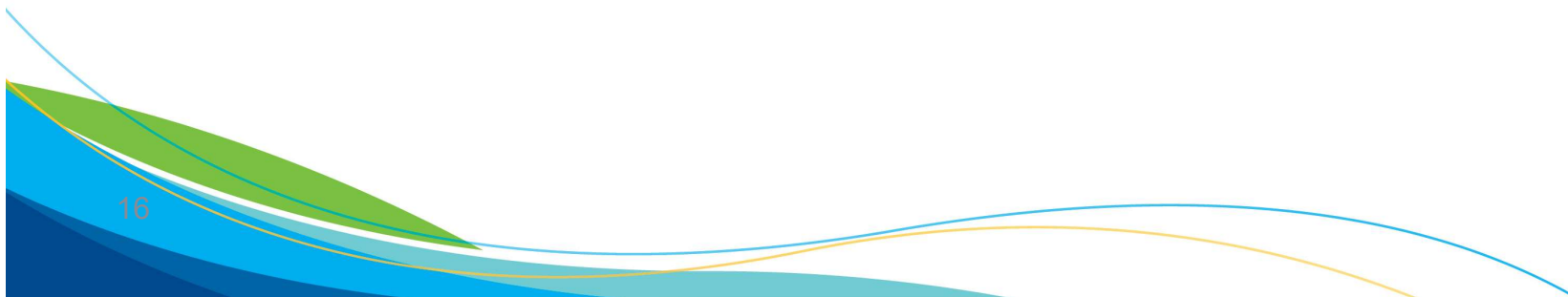
## Response

The actuarial gains and losses are recognised and not offset.

GRAP 25.74 (d)

An entity shall recognise the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

(d) actuarial gains and losses



# QUESTION 12

12.

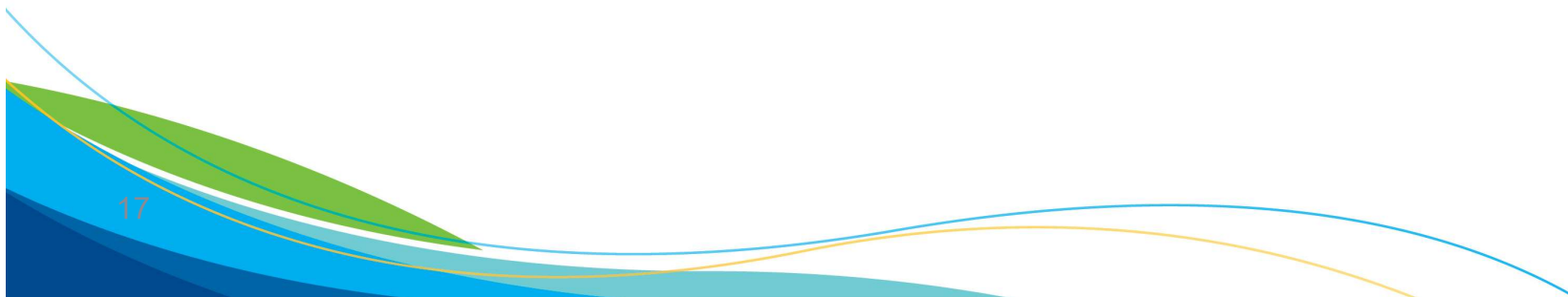
If a municipality has three sets of financial statements outstanding, how should they consider the timelines ?

## Response

Given the delay between the reporting period and when the financial statements are drafted the following should be noted:

- the effects of events or conditions for the earlier two years would in most instances be known or the effect thereof would have already been factored into the amounts and recognised, presented and disclosed

The third period of reporting would then be subject to normal process of considering events after reporting date.



# Thank You.

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