

MFMA Financial Year-End: Reporting Process

Annual Financial Statements of Municipalities

30 June 2021

PRESENTER OVERVIEW



Garth Pretorius CA(SA), RA
Founder and Principal Owner
GPA Consulting and Training

My career trajectory



1	CA(SA) and RA
2	15 Years of Public Sector experience
3	Journey prior to starting GPA Consulting and Training: <ul style="list-style-type: none">- Partner for Ernst & Young Advisory Services (Pty) Ltd; and- Senior Manager: Technical for the AGSA.
4	Achieving SAICA top 35 under 35 in 2016

My key experiences

1	External audit: all three spheres of government
2	CFO technical and strategic support: all three spheres of government
3	Transformation projects: various organs of state
4	A skills transfer and capacitation: various organs of state/all three spheres of government

COMMUNICATE

For the purposes of today's presentation, when either of these symbols appear dialogue will be encouraged -

Symbol	What is encouraged?
	This symbol will appear at the end of specific sections to allow for clarification questions to be asked around the topic discussed within the given section.
	This symbol will appear to indicate an open discussion around a practical example presented.

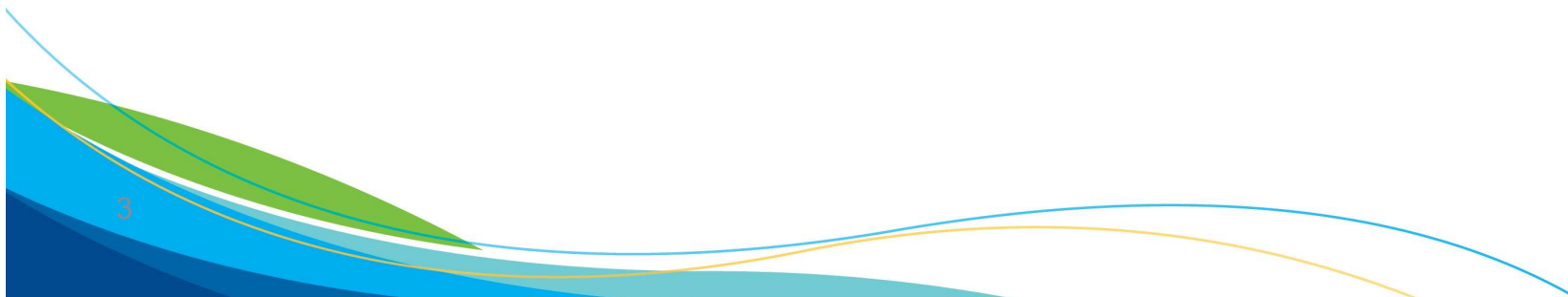










TABLE OF CONTENTS

Detailed below is an overview of the content of today's presentation –

1.	 Purpose
2.	 Introduction
3.	 2020/21: Reporting and Annual Financial Statements
	 Impact and considerations for the 2019/2020 emerging risks.
	 Practical challenges and considerations – reflecting on the 2018/19 and 2019/20 audits
	 Prevalent 2019/20 audit qualifications – corrections and restatements.
4.	 Quality of AFS and the overall audit submission
5.	 General questions and answers



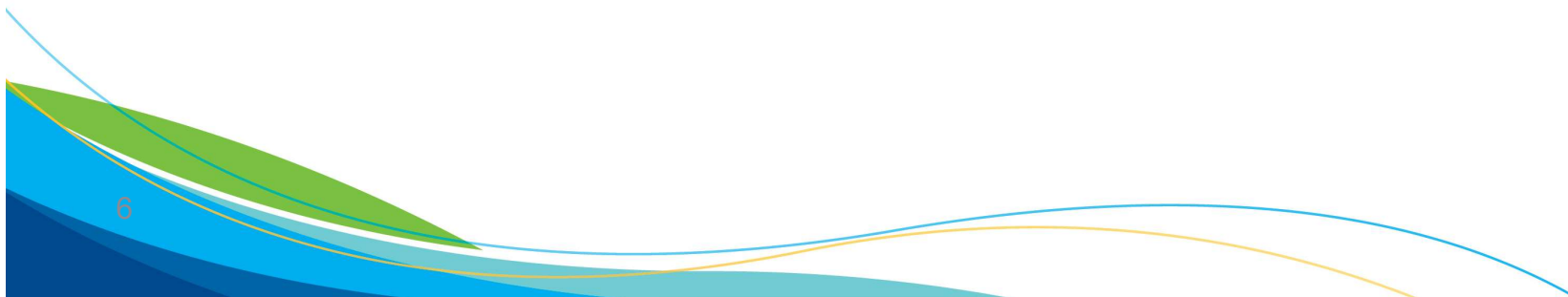
PURPOSE

FOCUS FOR TODAY

The overall purpose of this workshop / technical update and refresher is to provide guidance on the Generally Recognised Accounting Practices (GRAP) reporting framework, as it applies to local government for the financial year ended 30 June 2021.

For the purposes of today, we will draw focus to-

- | | |
|----|---|
| 1. | The GRAP Framework for 2020/21, with a focus on certain key aspects . |
| 2. | Key matters that should be considered during the reporting process and drafting of the 2020/21 Annual Financial Statements (AFS). |
| 3. | Qualitative aspects for the compilation of the AFS and the related audit submission. |



INTRODUCTION

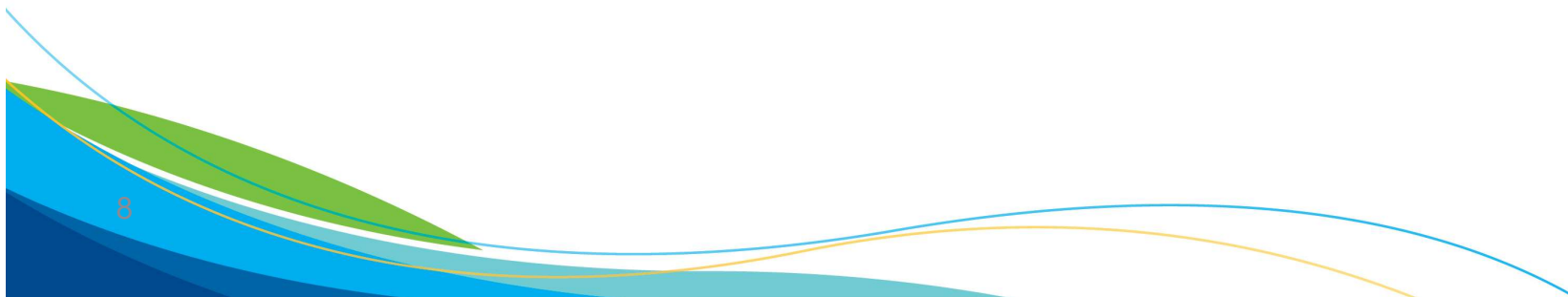
FRAMEWORK COMPLIANCE

Financial reporting framework applicable to the 2020/2021 audit cycle -

- | | |
|----|---|
| 1. | GRAP Directive 5 on determining the GRAP reporting framework. |
| 2. | GRAP Directives 3 and 4: Transitional arrangements |

Summary of changes to the GRAP reporting framework

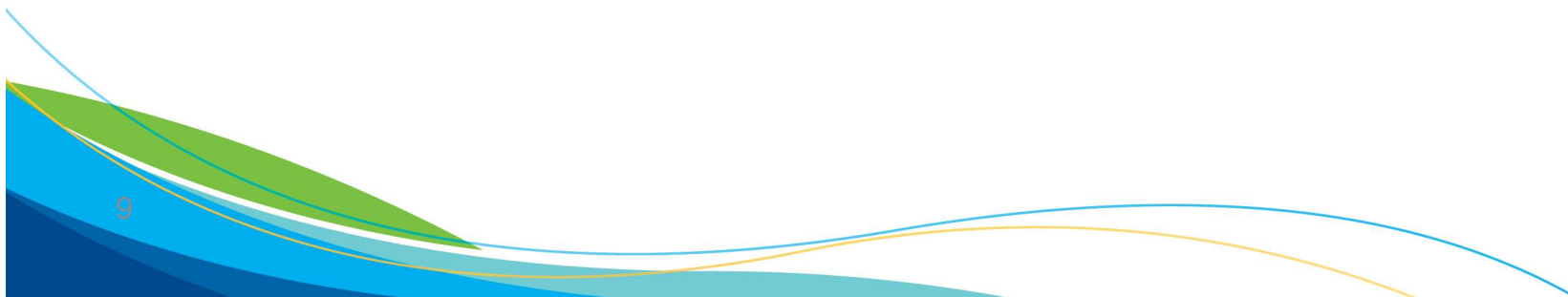
- | | |
|----|--|
| 1. | New and amended GRAP pronouncements effective for the 2020/21 financial year. |
| 2. | GRAP pronouncements issued effective for future financial periods |



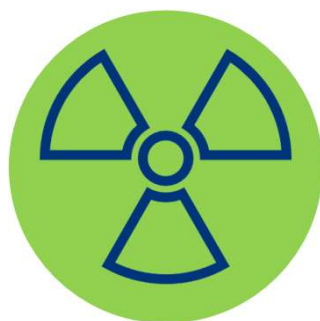
FRAMEWORK NON-COMPLIANCE

Non-conformance to the requirements of the GRAP reporting framework

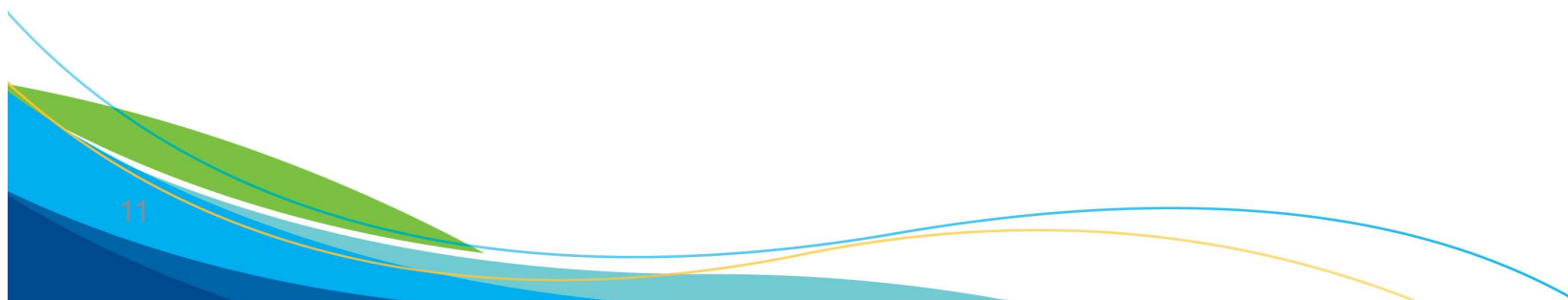
- | | |
|----|--|
| 1. | The 2019/2020 local government audit outcomes |
| 2. | General and practical application challenges |



2020/21 REPORTING & ANNUAL FINANCIAL STATEMENTS



2019/2020 EMERGING 'RISKS'



2019/20 EMERGING 'RISKS'

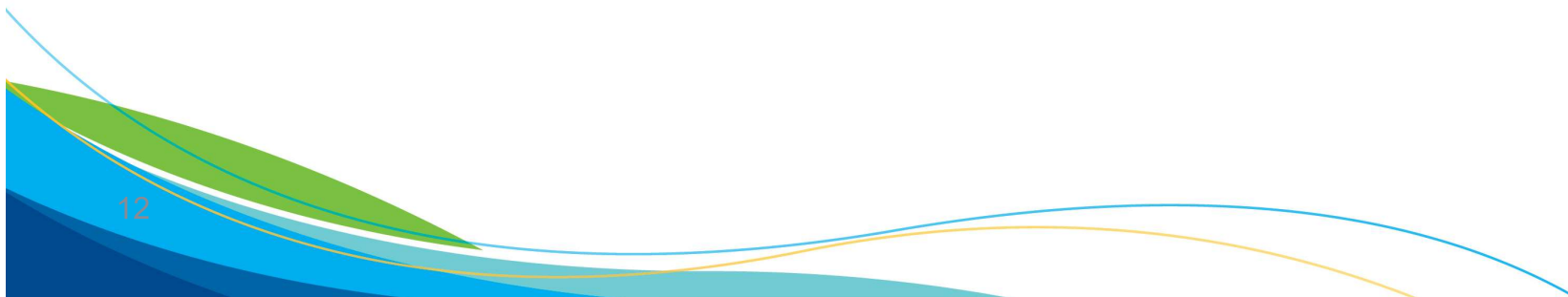
Focusing on –

1. GRAP 18 – *Segment reporting*

NEW PRONOUNCEMENT

Issued and effective –

- | | |
|----|---|
| 1. | Financial statements - summarised and aggregated information about a wide variety of activities undertaken. |
| 2. | Segment reporting - more specific and detailed information about the major events. |
| 3. | Major classifications of activities identified in budget - may usually reflect the segments for which an entity reports information to management. |



2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

What is a segment?	
<i>An activity of an entity -</i>	
1.	Generates economic benefits or service potential .
2.	Results are regularly reviewed - make decisions about resources to be allocated to that activity - assessing its performance .
3.	Separate financial information is available .

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Important considerations

Segments may be aggregated into a single reportable segment.

The aggregation must be consistent with the objective of this Standard.

The segments have similar economic characteristics, and the segments share a majority of the following:

1. The **nature** of the goods and/or services delivered.
2. The **type or class of customer or consumer** to which goods and services are delivered.
3. The **methods used to distribute** the goods or provide the services.
4. *If applicable*, the nature of the **regulatory environment** that applies to the segment.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Other Important considerations	
1.	Aggregation is useful when the number of segments identified is excessive .
2.	The provision of information at such a disaggregated level is no longer useful to users of financial statements.
3.	Parts of an entity which do not meet the definition of a segment are not included in the segment report.
4.	<i>Examples:</i> administrative or functional departments which do not generate economic benefits or have service potential.



2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 1 - Identify reportable segment(s)...		
Definition criteria		
1.	...that generate economic benefits or service potential .	Sale of water and electricity, refuse and sewerage charges, collection of rates, rental of facilities and issuing of fines.
2.	...whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance .	Management normally perform an annual review of income and expenditure of each function and vote informing the budget. <i>Per the services listed in (1) above.</i>
3.	...for which separate financial information is available .	The detail allowed per the mSCOA trial balance for each reportable segment – function section of trial balance can be used.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 2 – Confirm practical impact on municipality

Disclosure requirements

General information –

1.
 - Factors used to identify reportable segments;
 - Segments aggregated and the basis of aggregation; and
 - The types of goods and/or services delivered by each segment.

Reported segment surplus or deficit –

2.
 - Specified revenues and expenses; and
 - Segment assets and segment liabilities, and the basis of measurement.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 2 – Confirm practical impact on municipality

Disclosure requirements

Reconciliations –

- 3.
- The total(s) of segment revenues;
 - Reported segment surplus or deficit;
 - Segment assets;
 - Segment liabilities; and
 - Other material segment items.

Material reconciling items - separately identified and described.

Reconciliations are provided for each period presented.



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rius\Desktop\exam

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

	Reportable segments					Reconciliation back to entity figures		
	Energy Sources	Water Management	Waste Management	Waste Water Management	Resorts	Eliminations	Unallocated services	Total
Revenue								
Revenue from exchange transactions								
Service Charges								0
Construction contracts								5
Rental of facilities and equipment								3
Interest earned - external investments								2
Interest earned - outstanding receivables								3
Agency fees								3
Licences and permits								3
Other income								6
Internal billing								-
Total revenue from exchange transactions								9
Revenue from non-exchange transactions								
Interest earned - outstanding property rates								2

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – Segment reporting

Other income	1
Total revenue from non-exchange	8
Total revenue	7
Expenditure	
Employee related cost	2
Remuneration of councillors	4
Depreciation and amortisation	5
Impairment of assets	5
Finance costs	0
Bad debts written-off	8
Bulk purchases	-
Contracted services	3
Transfers and subsidies	
Inventories written-off	9
General expenses	6
Internal charges	1
Total expenditure	7
Operating surplus	0
Gains and losses	
Actuarial gains	3
Fair value adjustments	0
Gain on reversal of provision	

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Gain on reversal of provision	
Loss on disposal of assets and liabilities	3
Gain (loss) on foreign exchange	3
Surplus for the year	5
<hr/>	
Capital Expenditure	3

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 2 – Confirm practical impact on municipality

Disclosure requirements

Restatement of comparative information –

4.

- Restatement would result from changes in the internal structure of a municipality; and
- Results in the composition of its reportable segments to change.

Availability of information and cost to be considered.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 2 – Confirm practical impact on municipality

Disclosure requirements

Explanation of the measures –

- Segment surplus or deficit; and
- Assets and liabilities.

5.

Minimum disclosures – amongst others, (i) the basis of accounting for transactions between reportable segments (for example, at cost or at arm's length), (ii) different measurement basis between segments.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 18 – *Segment reporting*

Issued and effective –

Step 2 – Confirm practical impact on municipality

Disclosure requirements

6.

Geographical areas in which it operates that are **relevant for decision-making purposes** include the following information attributed to geographical areas, unless the information is not available and the cost to develop it would be excessive:

- External revenues;
- Total expenditure; and
- Non-current assets other than financial instruments, etc.

If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed.



2019/20 EMERGING 'RISKS'

Focusing on –

1. GRAP 110 – *Living and non-living resources*

NEW PRONOUNCEMENT

Issued and effective –

- | | |
|----|--|
| 1. | Non-living resources: <ul style="list-style-type: none">• Only disclosed;• Only land is recognized (other relevant standard); and• Other – not yet extracted. |
| 2. | Living resources: <ul style="list-style-type: none">• Other than GRAP 12, 17 and 27;• Recognition, measurement, presentation and disclosure; and• Asset – control. |

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Issued and effective –

Non-living resources	
1.	Includes: land and water, minerals, oils and gas which has not been extracted .
2.	At the point of extraction – no longer in its natural state – no longer classified as a non-living resource.
3.	Judgement required to confirm point of extraction – this will vary based on the infrastructure in place.
4.	<i>Example:</i> the point of extraction of water will impact when to apply GRAP 12.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Issued and effective –

Living resources	
1.	Control could be evidenced by - <ul style="list-style-type: none">• Legislation or similar means – service delivery objectives;• Acquisition; or• Non-exchange transaction.
2.	Demonstrate control – list of indicators not exhaustive, require judgement: <ul style="list-style-type: none">• Intervention in the management of physical condition;• Ability to restrict movement; and/or• Ability to direct the use.
3.	Only disclose – meets definition of asset but cannot reliably measure.

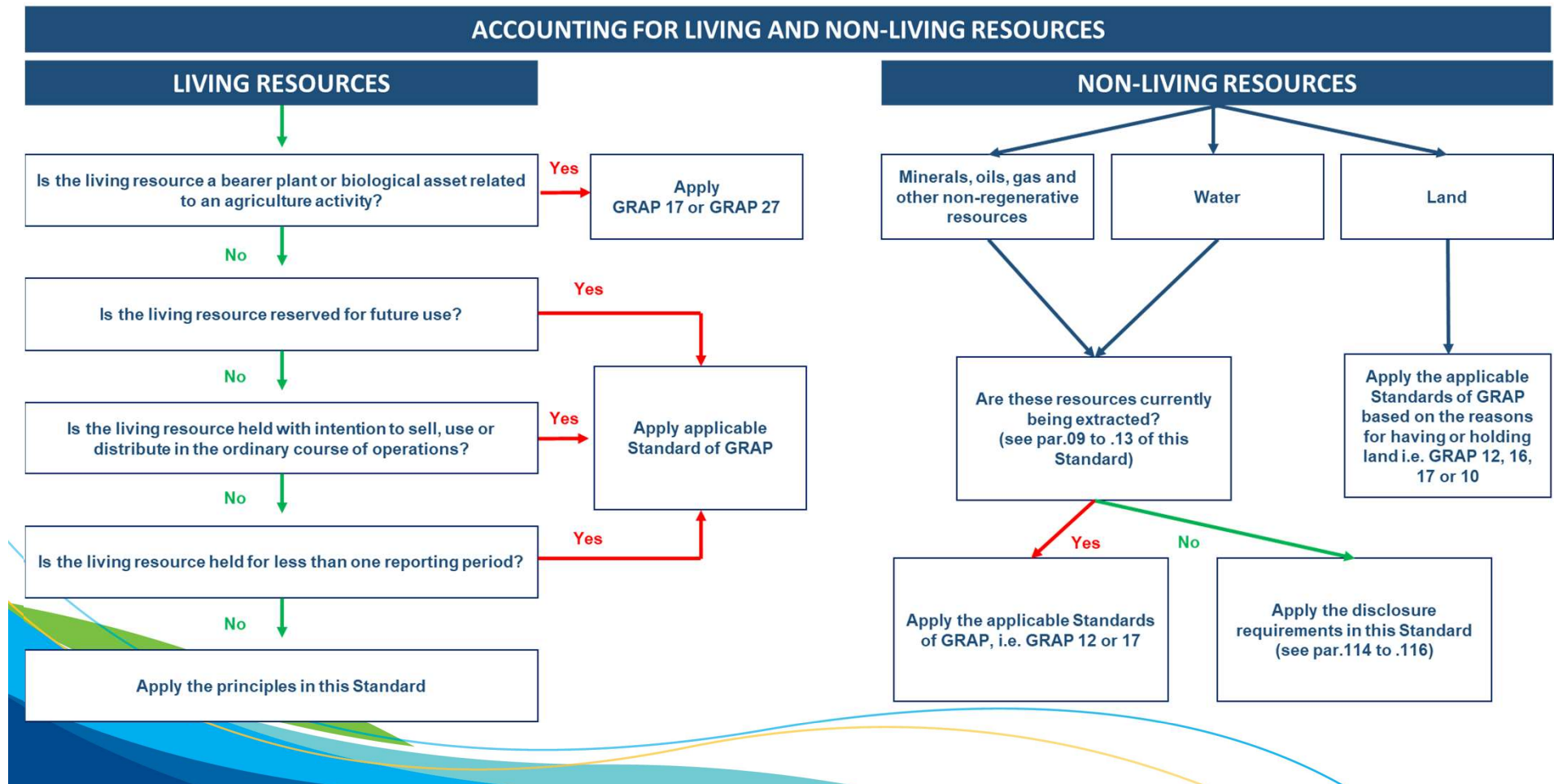
NB! Must be managed as if these living resources are asset – growth and care!

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Decision tree



2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 1 – *Presentation of Financial Statements*

	Reference	Change
Amended	1.79	“Living resources” was added as a line item that must be presented on the face of the statement of financial position.

GRAP 3 – *Accounting policies, changes in accounting estimates and errors*

	Reference	Change
Amended	3.19	The initial application of a policy to revalue living resources is a change in an accounting policy to be dealt with as a revaluation in accordance with GRAP 110.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 12 – *Inventories*

	Reference	Change
Amended and added	12.02 (amended)	The amendments exclude water that occurs naturally and that has not been extracted , as well as minerals, oils and gas, and other non-regenerative resources that have not been extracted from the scope of GRAP 12.
	12.02A (added)	As soon as these resources are extracted , they no longer meet the definition of a non-living resource in GRAP 110 and an entity must apply judgement to determine at what point the resource is extracted and must be accounted for in accordance with GRAP 12

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 12 – *Inventories*

	Reference	Change
Added	12.50A	The amendment requires an entity to disclose a description of the key judgements made and the assumptions applied to decide at what point water, minerals, oils and gas and other non-regenerative resources meet the definition of inventory .

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 16 – *Investment properties*

	Reference	Change
Amended	16.04	The amendment excludes living and non-living resources other than land from the scope of GRAP 16.

GRAP 17 – *Property, plant and equipment*

	Reference	Change
Amended	17.02	The amendment excludes living and non-living resources other than land from the scope of GRAP 17.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 27 - *Agriculture*

	Reference	Change
Amended	27.03	The amendments explain that although living resources as defined in GRAP 110 can meet the definition of a biological asset in GRAP 27, such living resources are only accounted for in terms of GRAP 27 if they are used to undertake agricultural activities.
Added	27.10 A	
		Living resources, other than those that are biological assets that are used in agricultural activities, are therefore excluded from the scope of GRAP 27.

2019/20 EMERGING 'RISKS'

Focusing on –

GRAP 110 – *Living and non-living resources*

Consequential amendments to GRAP pronouncements

GRAP 103 – *Heritage assets*

	Reference	Change
Amended	103.02	The amendment excludes living and non-living resources other than land from the scope of GRAP 103.
Deleted	103.03	As part of the scope exclusion that excludes living and non-living resources from the scope of GRAP 103, reference is made to GRAP 110 that now contains the guidance previously included in the deleted GRAP 103.03.



2019/20 EMERGING 'RISKS'

Focusing on –

1. IGRAP 20 – *Accounting for adjustments to revenue*

NEW PRONOUNCEMENT

Issued and effective –

- | | |
|----|---|
| 1. | Adjustments to revenue already recognised – charged by way of legislation or similar means . |
| 2. | Exchange and non-exchange revenue + interest and penalties i.r.t revenue already recognized. |
| 3. | <i>Exception</i> – charged due to contractual terms – may be applied if fact pattern /issue is similar. |
| 4. | Does not deal with: <ul style="list-style-type: none">• Classification of revenue;• Application of the probability test;• Principal agent arrangements; and• Changes to the measurement of receivables/payables - other than those arising from this interpretation. |

2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Issued and effective –

What is the fact pattern?	
1.	Revenue based on prescribed tariffs, basis, percentages or formulas - legislation or similar means.
2.	Revenue charge can be appealed (by the person/entity responsible for payment) through a process: <ul style="list-style-type: none">• Municipal appeal/objection process;• Legislation or similar means establishes an appeal/objection process; and/or• Another legal process. Own internal municipal review processes to confirm revenue is correctly charged.

2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Issued and effective –

Outcomes of the process...	
1.	Due process not followed;
2.	Tariff, basis, percentage or formula incorrectly applied; and/or
3.	Changes in circumstances - revision required.
Applying this interpretation...	
1.	GRAP 3 – <i>Accounting policies, changes in accounting estimates and errors.</i>
2.	Correction of an error – <i>could reasonably have known or was incorrectly used/applied.</i>
3.	Change in accounting estimate – <i>change in circumstances.</i>



2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Example 1

Municipality A levies property rates on a municipal valuation roll that is effective for a period of four years.

At the commencement of the current reporting period, Municipality A updated its municipal valuation roll. However, Municipality A neglected to publish the valuation roll in the Government Gazette for public inspection and comment. After Municipality A followed its own internal review process, it concluded that the new values in the valuation roll cannot be used to levy property taxes as it did not follow the legislative due process.

As a result, the difference between the property tax levied using the valuation roll that was not promulgated, and the property tax that should have been levied using Municipality A's existing valuation roll, is accounted for as a correction of an error, or a prior period error.



2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20– *Accounting for adjustments to revenue*

Example 2

Municipality A issues Mr. X with an infringement notice following a traffic violation. Mr. X makes a representation to the Road Traffic Infringement Agency that appoints a representation officer to consider the representation made by Mr. X.

The representation officer concludes that the infringement of Mr. X should be reduced due to Mr. X's personal circumstances, and that Mr X should not be held liable to pay the full fine.

Based on the outcome of the appeal by Mr X, Municipality A needs to account for the adjustment to revenue as a change in an accounting estimate as a result of the new information that became known.

The effect of the change in the accounting estimate is accounted for in the current period's surplus or deficit, even if Municipality A accounted for the traffic fine in a previous reporting period.



2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Example 3

Assume the same fact pattern as in example 2, except that the representation officer concludes that Municipality A did not recalibrate the traffic camera that led to Mr X's traffic fine.

The representation officer concluded that Mr X's traffic fine should be voided as Municipality A did not comply with the legislative requirements in relation to the recalibration of traffic cameras.

As a result of the non-compliance with legislation, the adjustment to revenue already recognized is accounted for as a correction of an error or prior period error by Municipality A.



2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Consequential amendments to GRAP pronouncements

IGRAP 1 - Applying the probability test on initial recognition

	Reference	Change
Amended and added	1.02 - .03 1.06 - .07 1.08 -.09 (Amended)	In addition to the exiting guidance in the IGRAP on how an entity applies the probability test on the initial recognition of revenue when uncertainty exists about the collectability of such revenue, the IGRAP was expanded to provide guidance on how to apply the probability test when other factors also impact the inflow of future economic benefits or service potential to the entity.
	1.08A - .08B 1.11A (Added)	Examples of such factors include circumstances where early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria are granted, or where adjustments to revenue already recognised are made following the outcome of any review, appeal or objection process in accordance with IGRAP 20 on Accounting for Adjustments to Revenue.

Continued in next slide...

2019/20 EMERGING 'RISKS'

Focusing on –

IGRAP 20 – *Accounting for adjustments to revenue*

Consequential amendments to GRAP pronouncements

IGRAP 1 - Applying the probability test on initial recognition

	Reference	Change
Amended and added	1.02 - .03 1.06 - .07 1.08 -.09 (Amended)	On initial recognition of revenue, an entity only recognises the revenue it is entitled to, and must consider all factors (collectability uncertainty, as well as other factors) that will impact the probable inflow of future economic benefits or service potential to determine the revenue it is entitled to, by applying judgement based on past experience and the facts and circumstances that exist on initial recognition.
	1.08A - .08B 1.11A (Added)	



2019/20 EMERGING 'RISKS'

Focusing on –

- | | |
|----|-------------------------|
| 1. | Accounting for COVID-19 |
|----|-------------------------|

Why? –

1.	Unavoidable effects on the operations and reporting of local government (i.e. municipalities and metros).
2.	Material effects need to be disclosed.
3.	Impact and effects are not uniform .
4.	2019/20: High-level areas for consideration
5.	2019/20: Events after reporting date for material matters.
6.	2020/21: Effects of the 2019/20 considerations – qualitative Same considerations as in prior year.

2019/20 EMERGING 'RISKS'

Focusing on –

1. Accounting for COVID-19

Guidance – assess municipal specific circumstances

Fundamental presentation principles	
Enhanced disclosures in the financial statements	
1.	Information on estimation uncertainty, this will include:
	<ul style="list-style-type: none">• Key assumptions concerning the future, e.g., discounted cash flows; and• Key sources of estimation uncertainty.
2.	Where specific COVID-19 and going concern assessment is performed – disclose the assumptions applied and uncertainty that exists.
3.	Could be information that is not generally required by GRAP.

2019/20 EMERGING 'RISKS'

Focusing on –

1. Accounting for COVID-19

Guidance – assess municipal specific circumstances

Fundamental presentation principles	
Other	
1.	Review of accounting policies – <i>still appropriate?</i>
2.	Consider how financial information is presented – <i>separate presentation or disclosure warranted based on materiality?</i>
3.	Legislative reporting requirements – <i>e.g. losses incurred.</i>

2019/20 EMERGING 'RISKS'

Focusing on –

1. Accounting for COVID-19

Guidance – assess municipal specific circumstances

Key components of financial statements	
Performance statement	
1.	Revenue – impact on the: <ul style="list-style-type: none">• Revenue recognized – IGRAP1 probability test ; and• Financial support on revenue – revenue forgone, <i>e.g., delayed payments/provision of subsidies.</i>
2.	Expenditure – <ul style="list-style-type: none">• Increased expenses on government programmes – liability / commitments; and• Statutory disclosures – specific to funding received.

2019/20 EMERGING 'RISKS'

Focusing on –

1. Accounting for COVID-19

Guidance – assess municipal specific circumstances

Key components of financial statements	
Position statement	
1.	Non-monetary assets – <ul style="list-style-type: none">• Impact on valuation?• Impact on useful life of assets – rate of depreciation?• Impairments?• Suspending capitalization of borrowing costs?• WIP - significant delays?
2.	Monetary assets – <ul style="list-style-type: none">• Valuation – economic impact and observable evidence of impairment loss, e.g., <i>default or delayed payments.</i>

2019/20 EMERGING 'RISKS'

Focusing on –

1. Accounting for COVID-19

Guidance – assess municipal specific circumstances

Key components of financial statements

Position statement

3. Liabilities - understand commitments, promises or obligations made:
 - Financial liabilities – are modifications significant? *E.g. does the effective interest rate differ by 10% or more?*
 - Financial or other guarantees issued.
 - Onerous contracts.

Other issues

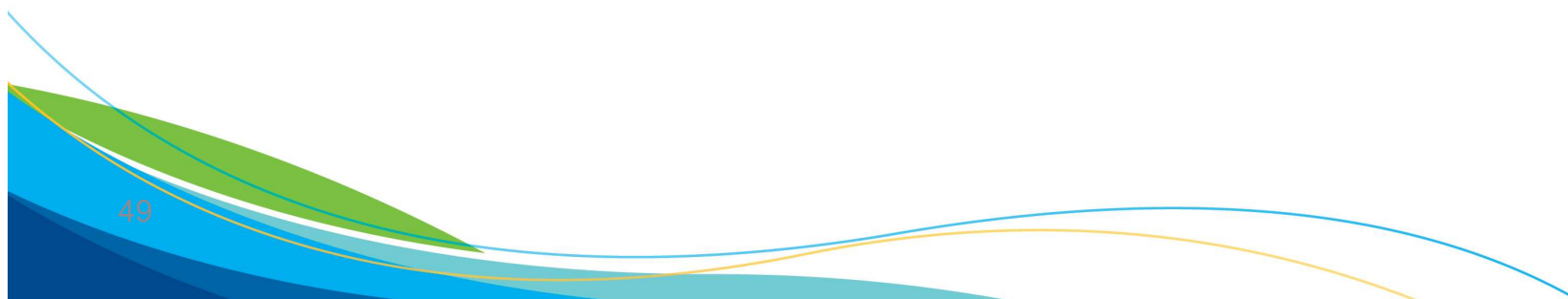
1. Events after reporting date: adjusting versus non-adjusting.
2. Presentation of budget and actual information - **had a huge impact for 2019/20.**
3. Risk disclosures – predictive information on financial health.





PRACTICAL CHALLENGES AND CONSIDERATIONS

REFLECTING ON 18/19 AND 19/20 AUDITS



PRACTICAL ASPECTS

Focusing on –

1. GRAP 108 - Statutory receivables

Important aspects to note -

- GRAP 108 became effective for 2019/20.
- Consequential amendments to GRAP pronouncements - GRAP 09 and 104.

What is the distinction between statutory receivables and financial receivables?

No	Reference	
1.1	104.13 108.05	<ul style="list-style-type: none">• Any contract that gives rise to a financial asset - contractual right.• Arise from legislation, supporting regulations, or similar means.

No	Guidance
1.2	<ul style="list-style-type: none">• Public sector entities are highly regulated - activities they undertake are largely governed by several overarching acts and regulations.• Misconception – all receivables are statutory.

PRACTICAL ASPECTS

Focusing on –

1. GRAP 108 - *Statutory receivables*

Important aspects to note -

No	Guidance
1.	<ul style="list-style-type: none">• Key distinction - legislative framework that governs them.• Financial receivables are governed by common law and may be subject to general overarching legislation (<i>for example, municipalities' responsibility to provide electricity in terms of the Constitution and the Municipal Structures Act</i>).• Statutory receivables are governed by and result from transactions undertaken in terms of specific legislation, regulations, by-laws, and other documents issued in terms of legislation (such as ministerial orders, cabinet and municipal council decisions).• Considerations should be kept in mind when distinguishing:<ul style="list-style-type: none">○ Financial receivables can only result from contractual arrangements. Receivables arising out of non-contractual arrangements do not meet the definition of a financial asset in GRAP 104.

Continued in next slide...

PRACTICAL ASPECTS

Focusing on –

1. GRAP 108 - Statutory receivables

Important aspects to note -

No	Guidance
1.2	<ul style="list-style-type: none">○ If there is no willing party in an arrangement/transaction, then the resultant receivable may be a statutory receivable.○ Although statutory receivables can arise from both exchange and non-exchange transactions, exchange transactions are less likely than non-exchange transactions to result in statutory receivables. <i>(A license fee imposed in terms of legislation where the entity provides an equal-value service as part of issuing the license in return for the fee is an example of an exchange statutory receivable). – Compulsory / Compelled to transact.</i>○ The remedies for non-performance differ.



PRACTICAL ASPECTS

Focusing on –

2 GRAP 109 – *Accounting by agents and principles*

Important aspects to note -

- GRAP 109 became effective for 2019/20

What are the accounting considerations where a public sector entity uses another entity (an implementing agent) to implement a project on its behalf?

No	Reference	
2.1	Definitions	<ul style="list-style-type: none">• Implementing agent - appointed• Principal institution - appoint

No	Guidance
2.2	<ul style="list-style-type: none">• Entities in the public sector often work together to effectively and efficiently achieve their activities in line with their mandate and legislated roles and responsibilities.• Although some arrangements with implementing agents may meet the definition of a “principal-agent arrangement” in GRAP 109, this is not always the case.

Continued in next slide...

PRACTICAL ASPECTS

Focusing on –

2

GRAP 109 – *Accounting by agents and principles*

No	Guidance
2.2	<ul style="list-style-type: none">• “A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf of, and for the benefit of, another entity (principal)”.• Binding arrangement is an arrangement that confers enforceable rights and obligations – contracts, legislation, common law, etc.• Existence of third parties is critical in assessing whether an arrangement between entities is a principal-agent arrangement - In the absence of transactions with third parties, the arrangement is not a principal-agent arrangement.• Avoid misconception with presence of third parties

PRACTICAL ASPECTS

Focusing on –

2

GRAP 109 – *Accounting by agents and principles*

No	Guidance
2.2	<ul style="list-style-type: none">• Identifying the principal and the agent – power, ability to use, level of exposure.• Accounting by the principal and the agent – does not introduce new recognition and measurement requirements.<ul style="list-style-type: none">○ Principal recognises the revenue and expenses that arise from the transaction.○ Agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.○ Assets and liabilities arising from principal-agent arrangements are recognised in accordance with the requirements of other Standards of GRAP.



PRACTICAL ASPECTS

Focusing on –

3 GRAP 20 – *Related party disclosure*

Important aspects to note -

- GRAP 20 became effective for 2019/20

When are organs of state considered not to be related parties?		
No	Reference	
3.1	20.10	<ul style="list-style-type: none">• Ability to :<ul style="list-style-type: none">○ Control (power to govern);○ Jointly control (agreed sharing of control);○ Exert significant influence (power to participate and influence);○ Common control.• Substance and not just legal form.

No	Guidance
3.2	<ul style="list-style-type: none">• Three spheres of government – each has constitutional independence; and• None of these sphere's control, jointly control or significantly influence other spheres - three spheres act autonomously.

PRACTICAL ASPECTS

Focusing on –

3

GRAP 20 – *Related party disclosure*

No	Guidance
3.2	<ul style="list-style-type: none">Organs of state within a sphere – own legislative powers – autonomous.The different spheres of government may have the authority and responsibility for providing a legislated regulatory framework within which organs of state should operate, but it is the ability to govern or participate in an entity's financing and operating policies, which are compiled within that framework, that determines whether the entity is a related party.Within the municipal sphere of government, a municipality and the municipal entities under its control are related parties. Each municipality is unrelated to another municipality and a district municipality is unrelated to the local municipalities under its jurisdiction.Exception - Situations will also have to be assessed:<ul style="list-style-type: none">○ Cross jurisdictional relationship; and○ Organs of state with other types of entities.

PRACTICAL ASPECTS

Focusing on –

3	GRAP 20 – <i>Related party disclosure</i>
No	Guidance
3.2	<ul style="list-style-type: none">• Intervention in terms of sections 100 or 139 of the Constitution –<ul style="list-style-type: none">○ From time to time, an entity in one sphere of government may take temporary control of an entity in another sphere through legislation.○ During this period of temporary control, the entity under temporary control and the entity taking temporary control are related parties, provided the nature and extent of the intervention results in control; i.e., the entity taking temporary control governs or participates in the financing and operating policies of the entity under temporary control.○ Where the legality of a s.100(1) or s.139(1) intervention is subject to legal proceedings or disputes, it will be necessary to obtain a legal view in order to determine:<ul style="list-style-type: none">▪ Whether the intervention to place an entity under administration has been legally established; and▪ The intervention period start and end dates.

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PRACTICAL ASPECTS

Focusing on –

3

GRAP 20 – *Related party disclosure*

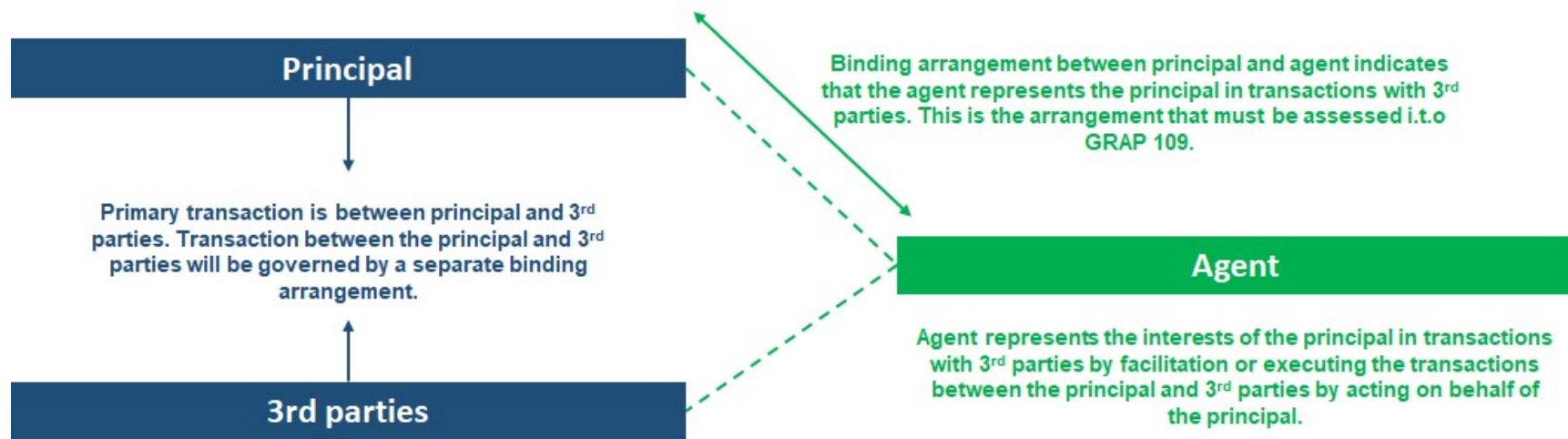
No	Guidance
3.2	<ul style="list-style-type: none">• Related parties for only part of a financial year -<ul style="list-style-type: none">○ When organs of state are related parties for only part of a financial year, the GRAP 20 disclosures are only required for the period during which the organs of state are related.○ Where organs of state are related for part of a financial year, but are no longer related at the reporting date, the relevant GRAP 20 disclosures are still required for the period during which the organs of state were related.○ This applies equally for organs of state that are related parties as a result of a s.110(1) or s.139(1) intervention.

PRACTICAL ASPECTS

Focusing on –

3

GRAP 20 – *Related party disclosure*



PRACTICAL ASPECTS

Focusing on –

4 GRAP 20 – *Related party disclosure*

Important aspects to note -

- GRAP 20 became effective for 2019/20

Should S&T be included in the disclosure of remuneration of management		
No	Reference	
4.1	20.20	<ul style="list-style-type: none">• Remuneration of management comprises the consideration provided to management for the services that they provided to the entity.• However, remuneration of management excludes payments made to management to reimburse them for expenditure they incurred for the benefit of the entity.
No	Guidance	
4.2	<ul style="list-style-type: none">• Therefore, reimbursement payments to management for S&T expenditure that they have incurred for work-related travel purposes should not be included in the disclosure of remuneration of management.	



PRACTICAL ASPECTS

Focusing on –

5 GRAP 1 – *Presentation of financial statements*

Important aspects to note -

- General questions posed during year-end reporting

Apply judgement to decide how, and at what level of aggregation, to present the required information ?

No	Reference	
5.1	1.102 (c) 16.91(e) 17.88 103.88	<ul style="list-style-type: none">• Disclosure of expenditure incurred to repair and maintain assets (investment property, PPE and heritage assets), it was concluded that materiality and the information needs of the users should be considered, and that judgement should be applied when deciding what information should be presented.

No	Guidance	
5.2	<ul style="list-style-type: none">• The users of financial statements measure the adequacy of an auditee's repairs and maintenance of assets by comparing this expenditure to the value of assets recognised in the statement of financial position.• Requirement become effective for 2016/17.	

Continued in next slide...

PRACTICAL ASPECTS

Focusing on –

6 GRAP 1 – *Presentation of financial statements*

Important aspects to note -

- General questions posed during year-end reporting

Is it correct for a municipality to split-out and separately present as revenue a VAT portion from zero-rated grants received?

No	Reference	
6.1	1.17	• Faithful representation of the effects of transactions.

No	Guidance
6.2	<ul style="list-style-type: none">• VAT principles - where a municipality receives a grant for the purpose of assisting the municipality to make taxable supplies, such a grant is:<ul style="list-style-type: none">○ A deemed supply; and○ Taxed at the rate of 0%.• The receipt of the grant funding is a separate transaction from the expense transactions that will subsequently be incurred in spending the grant funding.

PRACTICAL ASPECTS

Focusing on –

6

GRAP 1 – *Presentation of financial statements*

No	Guidance
6.2	<ul style="list-style-type: none">• There is no output VAT included in the grant received - a zero-rated deemed supply.• Full zero-rated grant amount is presented as a grant• There is 0% output VAT included in the grant amount - will not fairly present the effect and nature of its transactions if a portion of the grant amount is presented as “Indirect taxes - VAT recovered/Government grants - VAT recognised/Other revenue – VAT on grants” revenue.



PRACTICAL ASPECTS

Focusing on –

7

GRAP 23 – *Revenue from non-exchange transactions*

Important aspects to note -

- General questions posed during year-end reporting

What is the difference between a condition and a restriction?		
No	Reference	
7.1		<ul style="list-style-type: none">• Section 38(1)(j) of the PFMA and Treasury Regulation 8.4 gives reference to a transfer being made with conditions.

PRACTICAL ASPECTS

Focusing on –

7

GRAP 23 – *Revenue from non-exchange transactions*

No	Guidance
7.2	<ul style="list-style-type: none">• Assess what those conditions are in terms of the specific agreement.• First - assess whether there is an express obligation in the agreement to return the grant funding if the funds are not used for their intended purpose.• Second - the breach provisions in the agreement would provide further guidance, as using the funds for an unintended purpose would be a breach of the agreement. The breach provisions could then require the funds to be returned, or the future funds to be paid over to the entity to be reduced by this amount.• Assess whether the grant received is received without providing approximately equal value in return - accounted for in terms of GRAP 23.

PRACTICAL ASPECTS

Focusing on –

7 GRAP 23 – *Revenue from non-exchange transactions*

No	Guidance
7.2	<ul style="list-style-type: none">A stipulation in terms of how the grant may be used, and this stipulation may be either a condition or a restriction – conditions that require grant funding must be returned if the stipulations are breached. i.e., only conditions impose a return obligation.



PRACTICAL ASPECTS

Focusing on –

8

General

Important aspects to note -

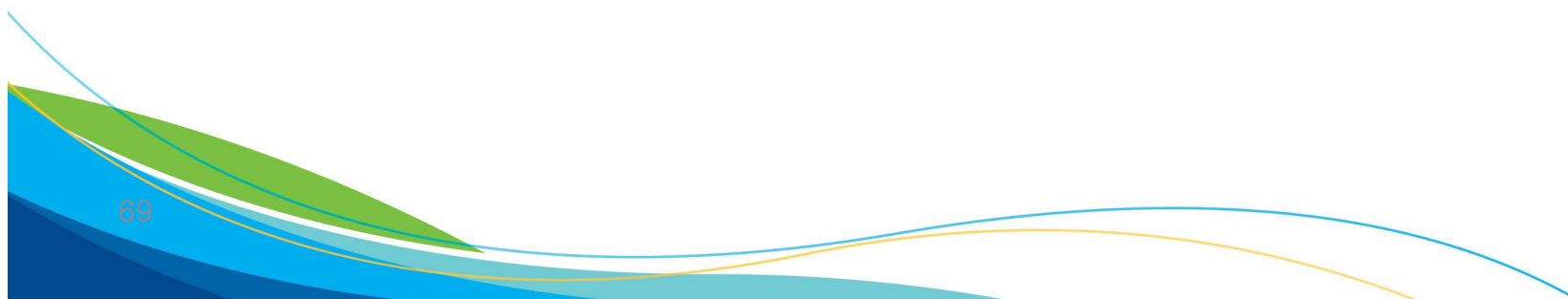
- General questions posed during year-end reporting

What is the status of the mSCOA illustrative financial statements issued by National Treasury?

No	Guidance
8.1	<ul style="list-style-type: none">• National Treasury has issued an mSCOA-aligned specimen / set of illustrative financial statements for the year ended 30 June 2019.• The illustrative financial statements are available from National Treasury's mSCOA website• The specimen financial statements are an illustrative guideline only, and as such, it is not authoritative. Use of the specimen financial statements is not mandatory, but at a municipality's discretion.



2019/2020 AUDIT CONSIDERATIONS



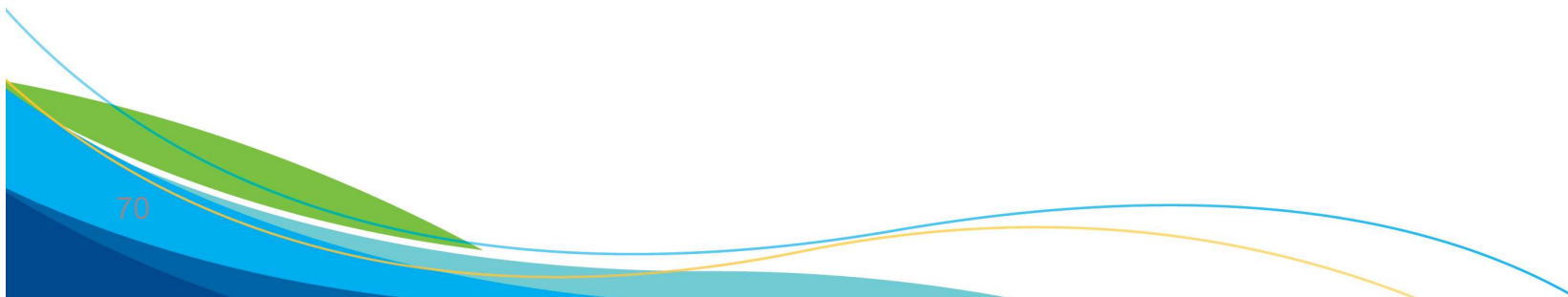
2019/20 AUDIT

Focusing on –

1. Prior year audit qualifications.

Looking at –

Statistics:	
1.	28% submitted quality AFS (i.e., no material adjustments during the audit).
2.	66 Qualified.
3.	6 Adverse.
4.	12 Disclaimers.
5.	Correction and restatements required.



2019/20 AUDIT

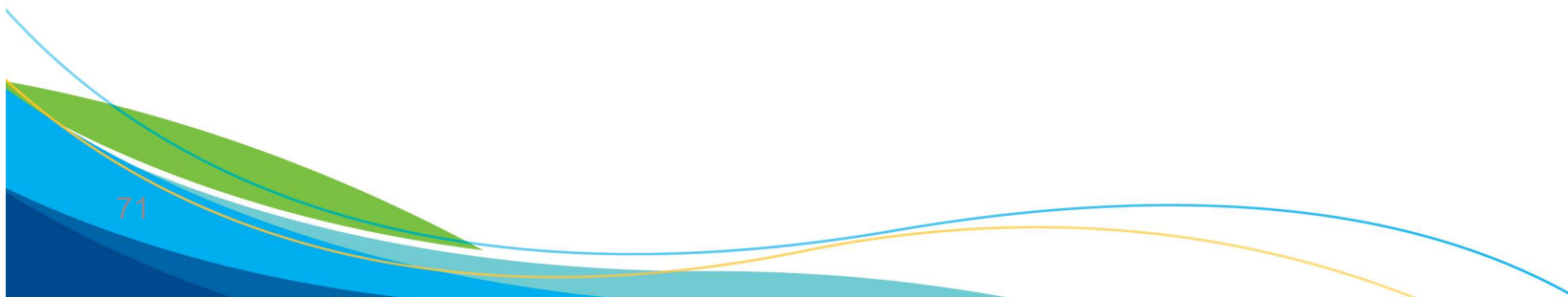
Focusing on –

- | | |
|----|----------------------------------|
| 1. | Prior year audit qualifications. |
|----|----------------------------------|

Looking at –

Common impacted classes of transactions, account balances and disclosure notes:

- | | |
|----|-------------------------------------|
| 1. | Expenditure. |
| 2. | Revenue from exchange transactions. |
| 3. | Property, plant and equipment. |
| 4. | Receivables. |
| 5. | Irregular expenditure. |



2019/20 AUDIT

Focusing on –

- | | |
|----|--|
| 2. | Prior period errors – corrections and restatements |
|----|--|

Looking at –

GRAP 3		
1.	Correct errors retrospectively, unless impracticable.	
2.	Retrospective	
	2.1	Accounting versus reporting.
3.	Impracticable	
	3.1	Need to demonstrate.
	3.2	Prospective correction.
4.	Disclose	
	4.1	Nature of the prior period error.

2019/20 AUDIT

Continuation from previous slide...

Focusing on –

2. Prior period errors – corrections and restatements

Looking at –

GRAP 3		
4.	Disclose	
	4.2	Per reported period the amount of the correction for each line item.
	4.3	Correction at the beginning of earliest period presented (if applicable).
	4.4	Circumstances that led to impracticability.

2019/20 AUDIT

Focusing on –

2. Prior period errors – corrections and restatements.

Looking at –

How to practically approach this:	
1.	Dissect the basis for the audit qualification.
2.	Confirm the nature of the respective findings (material and immaterial).
3.	Develop a correction and restatement methodology and approach – no one size fits all solution. <i>Informed by the nature of the findings and the impact on the respective population.</i>
4.	Create an audit trail of the underlying correction performed to support the resultant restatement.
5.	Consider the relationship between the <i>AFS</i> and <i>APR</i> - i.e., reported line item and performance indicator.
6.	Consider alignment between populations – contra-relationships and the end-to-end business process.



2019/20 AUDIT

Focusing on –

2. Prior period errors – corrections and restatements.

Practical Example

During the previous year, I was unable to obtain sufficient appropriate audit evidence for consumable stores included in the inventory balance of R 12 980 439 due to the status of the accounting records.

The municipality did not have adequate systems of internal control to ensure adequate stock records are kept for purchases and issues made during the year.

My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly.

I was therefore still unable to obtain sufficient appropriate audit evidence to substantiate the inventory balance of R 19 640 722 (2018-19: R 12 980 439) at 31 June 2020.

2019/20 AUDIT

Focusing on –

2. Prior period errors – corrections and restatements.

Practical Example

Consequently, I was unable to determine whether any adjustments were necessary to the inventory balance, stated at R 19 640 722 (2018-19: R 12 980 439).

I was also unable to quantify the possible misstatement of the inventory balance by alternative means.

Consequently, I was also not able to determine whether any adjustments were necessary to inventory of R 12,1 million (2018-19: R 12,3 million), recognised as an expense per notes 7 and 36 to the financial statements; the deficit for the year of R 705 649 (2018-19: surplus of R 8 291 473); and the accumulated surplus, stated at R 166,4 million.

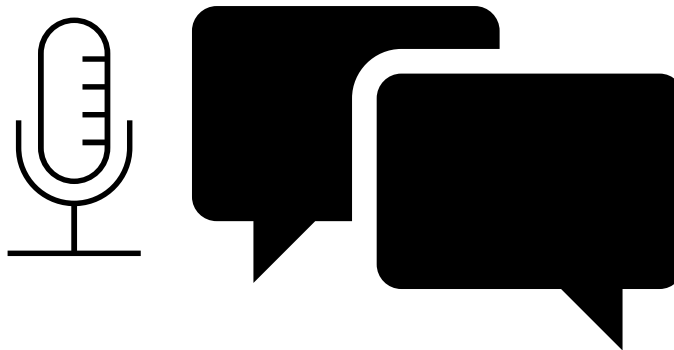
2019/20 AUDIT

Focusing on –

2. Prior period errors – corrections and restatements.

Question posed in relation to practical example one:

Based on the information provided, what should be considered in developing a *correction and restatement methodology and approach*?



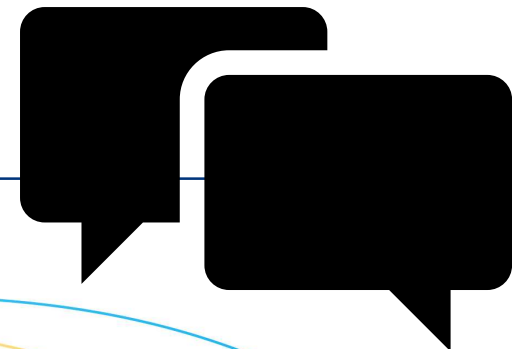
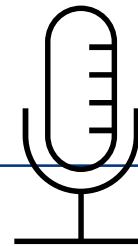
2019/20 AUDIT

Focusing on –

2. Prior period errors – corrections and restatements.

Proposed solution

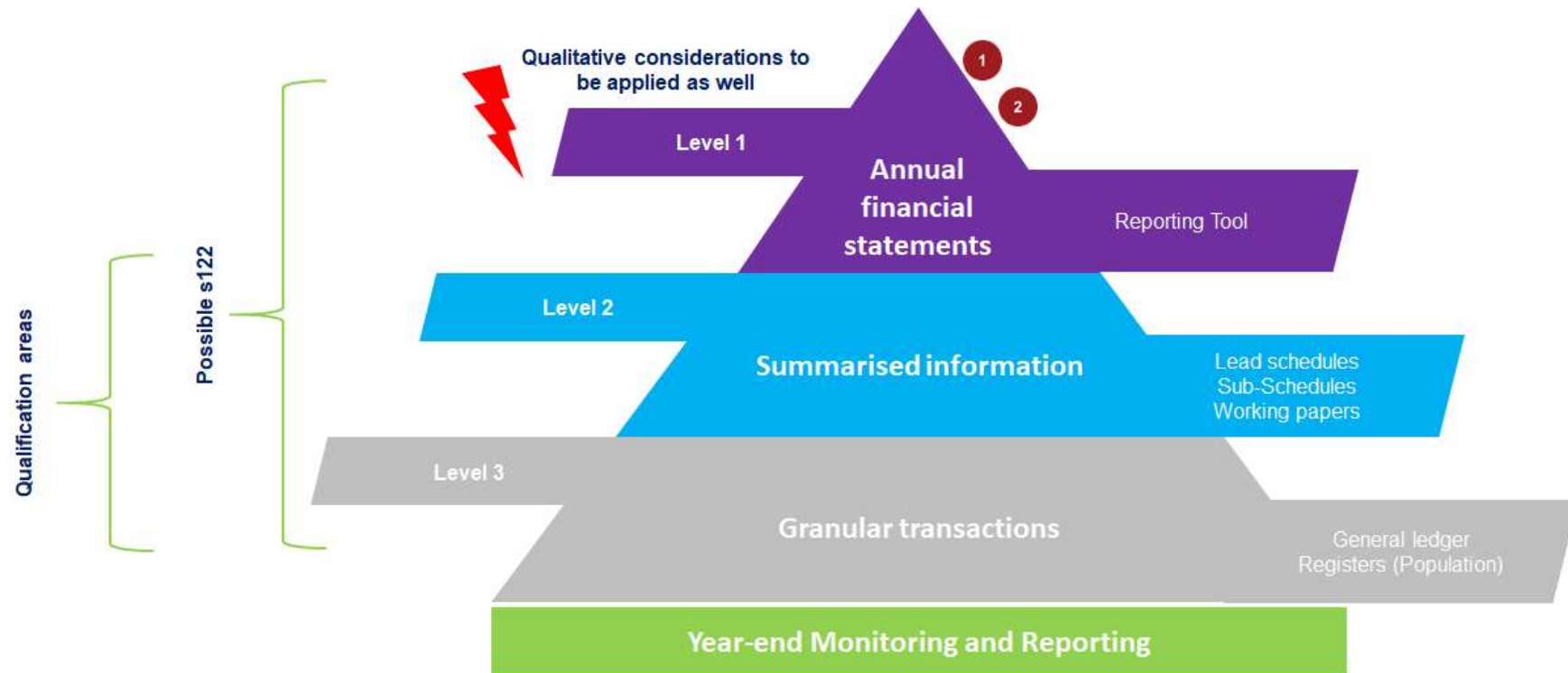
1. Confirm **why** sufficient appropriate audit evidence could not be provided to support the closing balance reported.
2. Specific considerations
 - Purchases/additions
 - transfers out
 - write-off's
 - Year-end count procedures
3. Consider alternatives from contra relationships
4. Consider the end-to-end business process
5. Possible rollback procedures



QUALITY OF THE AFS AND OVERALL AUDIT SUBMISSION



AUDIT SUBMISSION



1

The minimum submission requirements are guided by the AGSA prior to the start of the annual regulatory audit. These communications are issued in advance to allow the entities sufficient time to prepare the necessary submission documents.

2

Build the audit submission file based on the prior year requests for information. This will ensure that all requests are minimised during the audit. Ideally, the only information requested by the AGSA should be the supporting documentation for the transactions sampled by the AGSA.



QUALITATIVE CONSIDERATIONS

Focusing on –

1

Aspects of a qualitative nature that management should assess for financial reporting purposes

Important qualitative aspects to note -

- Matters reported in the AGSA general report

Guidance

- Material irregularities.
- Poor state of financial management - financial health concerns - going concern assessment.
- Poor expenditure management practices – fruitless and wasteful expenditure.
- Widespread non-compliance:
 - Asset management – existence of assets? Occurrence and validity of additions? Recovery of debtors?
 - Revenue management – completeness of billing?
 - Contract management – infrastructure project delays?
 - Consequence management?

QUALITATIVE CONSIDERATIONS

Focusing on –

1

Aspects of a qualitative nature that management should assess for financial reporting purposes


Important qualitative aspects to note -

- Other observations

Guidance

- Alignment between financial and performance reported results.
- Year-on-year movements.





GENERAL QUESTIONS AND ANSWERS?

Thank You.

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