



MANTSOPA LOCAL MUNICIPALITY

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TITLE OF POLICY	SUBSEQUENT EVENT POLICY
DEPARTMENT	FINANCE
CUSTODIAN	CHIEF FINANCIAL OFFICER
DATE OF APPROVAL	
EFFECTIVE DATE	As from 1 July 2021
APPROVED BY	MANTSOPA MUNICIPAL COUNCIL
SIGNATURE BY SPEAKER	
VERSION	2021/22 - Draft

SUBSEQUENT EVENTS (EVENTS AFTER REPORTING DATE)

POLICY DEFINITION:

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

Events after the reporting date are those events, favourable and unfavourable, that occur between the end of the reporting date and the date when the financial statements are authorised for issue. The municipality must ensure that all adjusting and non-adjusting events after the reporting date are identified.

The time period during which the municipality should consider the effect of events after the reporting date runs from the reporting date (30 June) to the date on which the financial statements are authorised for issue (31 January).

Adjusting events after the reporting date are those events that provide evidence of conditions that existed at the reporting date. The municipality should adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting date.

Non-adjusting events after the reporting date are those that are indicative of conditions that arose after the reporting date. The municipality shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date but may need to disclose these events in the notes to the AFS depending on its materiality.

Additional procedures should be performed to identify events after the reporting date.

The municipality must ensure that all disclosure requirements for events after the reporting date as listed in GRAP 14 (IPSAS 14) are met.

ACCOUNTING TREATMENT REQUIREMENTS OF GRAP 14 (IPSAS 14)- EVENTS AFTER THE REPORTING DATE

The objective of GRAP 14 (IPSAS 14) is to prescribe when the municipality should adjust its financial statements for events after the reporting date and the disclosures that the municipality should give about events after the reporting date.

GRAP 14 (IPSAS 14) also requires that the municipality should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

According to GRAP 14 (IPSAS 14), events after the reporting date are those events, favourable and unfavourable, that occur between the end of the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting date (adjusting events after the reporting date); and
- (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Adjusting events are recognised in the financial statements of the period just ended, whereas non-adjusting events are not recognised, but are disclosed in the notes to the financial statements.

According to GRAP 14 (IPSAS 14).8 the following are examples of adjusting events after the reporting period that require the municipality to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

- (a) the settlement after the reporting period of a court case that confirms that the municipality had a present obligation at the reporting date. The municipality adjusts any previously recognised provision related to this court case in accordance with GRAP 19 Provisions, Contingent Liabilities and Contingent Assets or recognises a new provision. The municipality does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with GRAP 19.
- (b) the receipt of information after the reporting date indicating that an asset was impaired at the end of the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

For example:

- (i) the insolvency of a debtor that occurs after the reporting date usually confirms that a loss existed at the reporting date on a receivable account and that the municipality needs to adjust the carrying amount of the receivable (such a consumer/debtor would usually already be doubtful at year end, thus provided for as a potential doubtful debt); and
 - (ii) the sale of inventories after the reporting date may give evidence about their net realisable value at the reporting date.
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- (c) the determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting date.
 - (d) the determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another municipality under a revenue-sharing agreement in place during the reporting period.
 - (e) the determination after the reporting date of the amount of performance bonus payments made to staff if the municipality had a present legal or constructive obligation at the reporting date to make such payments as a result of event before that date (refer to GRAP 19 Employee Benefits).
 - (f) the discovery of fraud or errors that show that the financial statements are incorrect.

Important aspects to consider:

Settlement of a court case - the result of a court case given after year end is taken into account, not only in determining whether changes in measurements are required, but also in determining whether a provision should be recognised at the reporting date.

Information that indicates impairment Post reporting date restructurings or discontinuance of operations as well as insolvency of a debtor(s) may not in themselves be adjusting events but may provide evidence of impairment at reporting date.

Fraud, error and other regularities - such irregularities that are discovered after year-end are adjusting items. Prior period adjustments are required where these

irregularities date back to more than one financial year. (Refer to GRAP 3).

Updating disclosures- information received after the reporting date may necessitate the updating of disclosures made in the financial statements e.g. updating or disclosing new contingent liabilities.

According to GRAP 14 (IPSAS 14).10 the following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) Where the municipality has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorised for issue. The fall in fair value does not normally relate to the condition of the property at the reporting date, but reflects circumstances that have arisen in the following period.

Therefore, despite its policy of regularly revaluing, the municipality would not adjust the amounts recognised in its financial statements for the properties. Similarly, the municipality does not update the amounts disclosed for the property as at the reporting date, although it may need to give additional disclosure.

(b) Where the municipality charged with operating particular community service programmes decides after the reporting date, but before the financial statements are authorised, to provide/distribute additional benefits directly or indirectly to participants in those programmes. The municipality would not adjust the expenses recognised in its financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events.

Important aspects to consider:

Post reporting date acquisitions and disposals - GRAP 100 on Non-current assets held for sale and discontinued operations, requires specific disclosures in respect of assets classified as held for sale after the reporting date. Any restructurings commencing after the reporting date and before the approval of the financial statements should be disclosed.

Financial commitments - if the municipality enters into any significant commitment or contingent liability after year-end it must be disclosed in the AFS as a non-adjusting event.

Commitments include:

- Capital commitments (to acquire PPE, intangible assets and for the development or acquisition of biological assets)
- Lease commitments; (for both finance and non-cancellable operating leases)
- Other financial commitments

PERIOD FOR WHICH EVENTS AFTER THE REPORTING DATE SHOULD BE CONSIDERED

According to GRAP 14 (IPSAS 14).5 the process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

The time period during which the municipality should consider the effect of events after the reporting period runs from the reporting date to the date on which the financial statements are authorised for issue.

The reporting date means the date of the last day of the reporting period to which the financial statements relate. The reporting date for all municipalities is therefore 30 June of each financial year.

The date on which the financial statements are authorised for issue is the date on which the financial statements have received approval from the individual or body with the authority to finalise those financial statements for issue. In the case of municipalities this will be the date on which council authorises the financial statements for issue.

In terms of section 127(2) of the MFMA, the annual report containing the financial statements has to be tabled in council within seven months (31 January) after the end of a financial year. In practice the Annual Financial Statements of the municipality may not be changed without the Auditor-General's consent after the audit report has been issued.

In accordance with section 126(3)(b) of the MFMA the audit report must be issued by the Auditor- General within three months after receiving the Annual Financial Statements, that is 30 November. Therefore, if events after the reporting date occur between the date that the audit report has been issued (30 November) and the date that the annual report is tabled (31 January), these events should be dealt with in terms of the requirements of GRAP 14 (IPSAS 14) Events after reporting date and this process should be made transparent to the Auditor-General. A clear audit trail of changes to the AFS therefore will have to be compiled for audit purposes.

The MFMA states in section 126 (l)a) that the accounting officer of a municipality must submit financial statements within 2 months after the end of the financial year to the Auditor-General for auditing.

These financial statements must take into account events after the reporting date (30 June) identified up to the date of submission (31 August).

Furthermore the MFMA states in section 126 (3) that the Auditor-General must audit the financial statements and submit an audit report on those financial statements to the accounting officer of the municipality within 3 months of receipt of the financial statements. The financial statements can be changed on request of the auditors up to the date of the Auditor-General's audit report. Thereafter no changes can be effected to the financial statements.

The PFMA states in section SS(l)b that the accounting authority for a public municipality must prepare financial statements for each financial year in accordance with generally accepted accounting practice, unless the Accounting Standards Board approves the application of generally recognised accounting practice for that public municipality; and in section SS(l)c that those financial statements (must be submitted) within two months after the end of the financial year-

(i) to the auditors of the public municipality for auditing; and

(ii) if it is a business enterprise or other public municipality under the ownership control of the national or a provincial government, to the relevant treasury; and

Entities should however not rely on audit adjustments to correct the AFS. They should be as accurate as possible at the date of submission of the AFS.

DELEGATED POWERS

The policy should be applied with due observance of the Council's policy with regard to delegated powers.