MASILONYANA LOCAL MUNICIPALITY

Events after the reporting date policy

(FINAL)
2019/2020

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1. INTRODUCTION / BACKGROUND

The objective of GRAP 14 (previously IAS 10) is to prescribe when an entity should adjust its financial statements for events after the reporting period, and the disclosures that an entity should give about events after the reporting period.

GRAP 14 (previously IAS 10) also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate. According to GRAP 14 (previously IAS 10), events after the reporting period are those events, **favourable** and **unfavourable**, that occur between the end of the reporting period 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 period **(adjusting events after the reporting period)**; and
b) those that are indicative of conditions that arose after the reporting period **(non adjusting events after the reporting period**).

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 14.08 (previously IAS 10.9) the following are **examples of adjusting events** after the reporting period that require an entity 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 entity had a present obligation at the end of the reporting period. The entity 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 entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with GRAP 19.

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b) the receipt of information after the reporting date indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

i the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the reporting date on a trade receivable and that the entity needs to adjust the carrying amount of the trade 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.

c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

d) the determination after the reporting period of the amount of profit sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (refer to IAS 19 Employee Benefits).

e) the discovery of fraud or errors that show that the financial statements are incorrect.

Important aspects to consider:

Settlement of a count 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.

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According to GRAP 14.28 (previously IAS 10.22) the following are **examples of non adjusting events** after the reporting period that would generally result in disclosure:

a) a major business combination after the reporting period or disposing of a major subsidiary;

b) announcing a plan to discontinue an operation;

c) major purchases of assets, classification of assets as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;

d) the destruction of a major production plant/ other PPE by a fire after the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring;

f) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(g) commencing major litigation arising solely out of events that occurred after the reporting period.

Important aspects to consider:

Post reporting date acquisitions and disposals: IRFS 5 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 a 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

2. PERIOD FOR WHICH EVENTS AFTER THE REPORTING PERIOD SHOULD BE CONSIDERED

According to GRAP 14 (previously IAS 10) 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 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 (previously IAS 10) 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 (1)(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.

3. ADJUSTING EVENTS AFTER THE REPORTING PERIOD

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1.	Adjusting events are defined as: ➢ those that provide evidence of conditions that existed at the reporting date.	Ensure that adjusting events are taken into account when preparing the current year's annual financial statements. The importance here is that, even though confirmation of a condition is obtained after the reporting date, the condition **must** have already been in existence at yearend.	**AP**	**CFO**	31 July each Year
2.	According to **GRAP 14.07**(previously **IAS 10.8**) an entity **shall adjust** the amounts recognised in its financial statements to reflect adjusting events after the reporting period.	1) The Finance section should issue a memo to all section heads requesting them to identify adjusting events after the reporting period and to give Finance sufficient information to make the necessary adjustments in the accounting records of the municipality. 2) The Head of Finance must identify any adjusting events regarding contingent liabilities or provisions at year-end in respect of claims against the municipality by following the steps: • Prepare a schedule of all amounts paid out during the after-reporting date period i.r.o existing claims against the municipality at year-end (contingent liabilities or provisions). • Raise a provision or accrual (as appropriate) i.r.o those claims paid during the after-reporting date period. • Provide all necessary disclosure regarding adjustments to the contingent liabilities of the municipality at year-end.	**AP**	**CFO**	31 July each Year As close as possible to the date on which the FS are authorised for issue (31 August).

		3) Identify receivables whose recoverability at reporting date was doubtful and now needs to be written off as a result of information obtained in the after-reporting date period regarding the recoverability: • The Head: Income could compile a list of all consumer debtors which were liquidated or any deceased estates during the after-reporting date period, which should be considered for impairment or write-off. • Furthermore, files containing correspondence with consumer debtors should be scrutinised to identify debtors that may need to be adjusted/impaired. • Obtain approval for the write off of all irrecoverable receivables. • Pass the necessary journal entries to record the write off of the receivables. Ensure that the write off of debtors is disclosed as a separately disclosable event in the AFS. 4) For damaged or obsolete inventories written off to NRV at financial year-end: Adjust the NRV calculation as at year-end with information on selling prices of inventories sold at auction during the after-reporting-date period.			

4. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
1.	Non - adjusting events after the reporting period are defined in IAS 10 as those that are indicative of conditions that arose after the reporting date. According to **GRAP 14.09**(previously **IAS 10.10**) an entity shall **not adjust the amounts recognised** in its financial statements to reflect non-adjusting events after the reporting period.	Ensure that non-adjusting events after the reporting period are not taken into account (adjusted for) when preparing the current year's financial statements, but may need to be disclosed in the notes to the AFS depending on their materiality.	**AP**	**CFO**	31 July each Year
2.	If non-adjusting events after the reporting period are material, nondisclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall **disclose** the following for each material category of non-adjusting event after the balance sheet date:	1) The Finance section should issue a memo to all section heads requesting them to identify non-adjusting events after the reporting period and to give Finance sufficient information to make the necessary disclosure for each material category of non-adjusting events after the reporting period:	**AP**	**CFO**	31 July each Year

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
	a) the nature of the event; and b) an estimate of its financial effect, or a statement that such an estimate cannot be made.	2) Identify and disclose all non-adjusting events after the reporting date by following these steps. • Draw a report from the asset register of all assets damaged or stolen after reporting date period. List all new claims instituted against the municipality in the period after year-end until the date the annual financial statements are approved. • Consider whether any of these should be disclosed as contingent liabilities. Determine the financial effect of the above and disclose all the necessary information as non adjusting events in the annual financial statements.			As close as possible to the date on which the FS are authorised for issue (31 August).

5. AUTHORITY

Formulation Procedure	:Chief Financial Officer	____________________
Authorisation Procedure	:Accounting Officer	____________________
Ownership and Maintenance Manager	:Manager Budget	____________________