mSCOA Project: Position Paper on Restatement of Comparatives, Historical Information and Prior Period Errors

Contents

BACKGROUND

1. One of the primary objectives to be achieved by the implementation of the Regulation on the Standard Chart of Accounts for Local Government (mSCOA) is the seamless alignment between “budgeted information and the actual achievements in financial position and/or performance” by the municipality.
2. Achieving this objective requires the design of the content of the standard chart of account on uniform data sets to be applicable to municipalities and municipal entities.
3. The uniform data sets ensconced in the segments making up mSCOA had the consequential effect of being vastly different to the chart of accounts used by municipalities in the presentation of annual financial statements, budgeting and in-year reporting for periods prior to implementing mSCOA.
4. Municipalities were allowed discretion in populating the respective budget returns and in-year reporting tables. Annual Financial Statement presentations are done within the judgement allowed to management provided for in the Standards of GRAP.
5. Comparisons between current period information based on mSCOA and prior period information compiled pre-mSCOA may be compromised by the standardisation of information, accounts resort within in standardised groupings that maybe different to groupings and aggregations applied by the municipality.
6. Aggregation of accounts used in the presentation of financial statements information as derived from the municipalities pre-mSCOA chart of accounts maybe completely different to the detailed mSCOA. The diverse nature of these differences potentially require restatement of prior period information in the annual financial statements by municipalities implementing mSCOA.
7. Preparation of Budgeting Returns and Annual Financial Statements following the implementation of mSCOA resulted in municipalities assessing their classifications in terms of mSCOA, both on a functional, item or activity basis against its previous classifications.
8. Consequently, the municipalities may find that there are certain classification differences between the mSCOA framework and the municipalities chart of accounts applied in a previous period, specifically impacting on comparative presented in the annual financial statements, budget reporting tables and in-year reporting to National Treasury.
9. National Treasury do not envisage any need for municipalities to resubmit pre-mSCOA periods information following the implementation of mSCOA.

Submitting mSCOA will be prospective with a period of providing dual information. Please refer to the Position Paper on the Local Government Database and Reporting System on the reporting periods.

LEGISLATIVE AND STANDARD OF GRAP REFERENCES

Legislation

10. Section 122(3) of the Municipal Finance Management Act, No 56 of 2003, requires that both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91 (1) (b) of the Public Finance Management Act.

Standard of GRAP references

11. Standard of GRAP 1 Presentation of Financial Statements refer – refer to paragraphs XX above.
12. Standard of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors – refer to paragraphs XX above.
13. Standard of GRAP 24 Presentation of Budget Information requires the municipality to present a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of municipalities. Municipalities make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Standard will ensure that municipalities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and, where the budget(s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

PROBLEM STATEMENT DEFINED IN THE CONTEXT OF THE REQUIREMENTS SET IN THE STANDARDS OF GRAP

Standard of GRAP 1 Presentation of Financial Statements

Fair Presentation and Compliance

14. The Standard of GRAP 1 Presentation of Financial Statements explains that “for financial statements to be fairly presented, the effects of transactions, other events and conditions should be truthfully and accurately represented

in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses. Fair presentation is achieved by:

- complying with all relevant standards of GRAP;
- selecting and applying accounting policies in accordance with the requirements of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors;
- presenting all information in the financial statements in a manner that is relevant, reliable, comparable and understandable; and
- providing additional disclosures where compliance with the requirements of a Standard of GRAP is insufficient to enable the users to understand the impact on the entity's financial position and financial performance.

Problem Statement 1:

1) Concern has been raised by municipalities on the *comparability of information in the financial statements in the year of implementing mSCOA*.

1) Guidance is needed on the disclosures to be made to satisfy the requirements set out in the above Standard of GRAP.

Consistency of presentation

15. Standard of GRAP 1, paragraph 33 has reference. Presentation and classification of items in the financial statements must be consistent, except when another presentation or classification would be more appropriate, or a standard of GRAP requires a change in presentation (comparability should, however, not be impaired).

Problem Statement 2:

1) Implementation of mSCOA may have resulted in information disclosed pre-mSCOA implementation not being available to maintain the presentation and classification made in the prior reporting period.
2) Presentation changes resulting from mSCOA implementation may not necessary be driven by a requirement from the Standard of GRAP
3) Guidance is needed in designing another presentation being more appropriate as per the above guidance from the Standard of GRAP.

Comparative information

16. Comparative information must be presented in respect of the preceding period for all amounts reported in the financial statements, unless another Standard of GRAP requires or permits otherwise.

17. Comparative information should also be included for narrative and descriptive information when it is relevant to understand the current period's financial statements.

18. Comparative information should be reclassified when the presentation or reclassification of current period items are amended, unless the reclassification is impracticable.

19. When comparative amounts are reclassified, the municipality shall disclose (including as at the beginning of the preceding period):

- the nature of the reclassification;
- the amount of each item or class of items that is reclassified; and
- the reason for the reclassification.

Problem Statement 3:

1) Concern has been raised by municipalities on the availability of information relating to the preceding period for which transactions have not been classified based on mSCOA.
2) Not necessary possible to convert mSCOA information back to the classification applied in the preceding period.
3) Practioners need guidance to assist in presenting comparable information in the municipalities financial statements.

Impracticability

20. Impracticability – paragraph 50 to 51 has reference. When it is impracticable to reclassify comparative amounts, an entity shall disclose:

- The reason for not reclassifying comparative amounts, and
- The nature of the adjustments that would have been made if the amounts had been reclassified.

21. The Standard of GRAP 1 Presentation of Financial Statements paragraphs 50 to 51 have reference. Enhancing the inter-period comparability of information assists users in making and evaluating decisions, from trend analysis and prediction methods. *Circumstances may exist under which it is impracticable to reclassify comparative information for a particular preceding period to achieve comparability with the current period. For example, data*

may not have been collected in the preceding period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

Problem Statement 4:

1) Will the implementation of mSCOA in totality qualify for claiming impracticability in restating of comparatives?
2) If the above is the case how should this be disclosed in the financial statements?
3) Would the above consideration have an impact on fair presentation of the financial statements and potentially result in an adverse or disclaimed audit opinion by the Auditor-General of South Africa?
4) National Treasury to propose wording to be used for claiming impracticability with guidance to assist municipalities in formulating motivations in this regard.

The Standard of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

22. Definitions:

Terminology	Definition
Accounting Policies	Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
Prior Period Errors	Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that: (a) was available when financial statements for those periods were authorised for issue; and (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.
Change in Accounting Estimate	A change in accounting estimate is an adjustment of the carrying amount of an asset

Terminology	Definition
	or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

2. Paragraph 13 has reference. "An entity shall change an accounting policy only if the change (a) is required by a standard of GRAP; or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Problem Statement 5:

1) Defining elements of mSCOA requirements that may potentially qualify as a change in "accounting policy" as defined by this Standard of GRAP.
2) Any potential element of mSCOA Requirements that have the potential to qualify as an "prior period error" as defined by the Standard of GRAP.
3) Any potential element of mSCOA Requirements that have the potential to qualify as an "change in estimate" as defined by the Standard of GRAP

Impracticability

3. Impracticable: applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a restatement to correct an error if:

- The effects of the retrospective application or retrospective restatement are not determinable;
- The retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

23. The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: 1) Provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and 2) Would have been available when

the financial statements for that prior period were authorised for issue from other information.

24. Paragraph 44 states the following: Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

Problem Statement 6:

1) Motivation for claiming impracticability in retrospective adjustment for accounting policy.

4. The table hereunder provide some examples of classification difference based on typical classifications applied by municipalities in comparison to mSCOA Classifications. The list is not exhaustive and will be expanded as issues are identified.

Typical Classification Pre-mSCOA	mSCOA Classification
Statement of Financial Performance	
Bad-debt written-off adjusted against impairment.	Expenditure line item for bad debt written-off implying that the adjustment made to impairment distinguish between the “potential impairment of the debtors and actual write-off”.
Expenditure line item for Repairs and Maintenance including materials and supplies, contracted services, labour cost, etc.	Repairs and maintenance dealt with as an operational project.
Expenditure line item for Training and Capacity Building, Expanded Public Works Programmes (EPWP), and other typical work stream projects.	Expenditure defined based on what the actually cost is incurred for, linked within typical work stream projects for defining “what the cost is spend on”.
Single classification for all contracted services.	Contracted services split in three categories being, outsourced services, professional services and contractors.
Compensation of Employees not making distinction between “Senior Management and Municipal Staff”.	Compensation of Employees making distinction between “Senior Management and Municipal Staff”.
Property Rates dealt with as a single non-exchange revenue account.	Property Rates consisting of various account based on “rating types”.
Repairs and Maintenance dealt with is an expenditure item.	Repairs considered to be an “Operational Project” with the detail on type of expenditure derived from the expenditure classification.
Statement of Financial Position	

Typical Classification Pre-mSCOA	mSCOA Classification
Property, Plant and Equipment classification based on the Local Government Asset Management Guide.	Property, Plant and Equipment classification derived from the Construction Industry Development Management System (CIDMS).
Trade and other Receivables from Exchange Transactions / Receivables from Non-exchange Transactions consisted of single control accounts.	Trade and Other Debtors from Exchange/Non-exchange Transactions split into various categories according to the type of service.

Presentation of Budget Information in Financial Statements

25. The Standard of GRAP Presentation of Budget Information in Financial Statements require municipalities to present actual amounts on a comparable basis to the budget.

26. An alternative treatment is proposed if the budget is not prepared on a comparable basis. The Budget Reporting Regulations Section 6 paragraph specifically deals with "Consistency in Bases of Measurement and Account Policies". The municipal manager of a municipality must take all reasonable steps to ensure that (a) the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation, its adjustments budgets and supporting documentation, and its in-year reports and (b) any differences or changes between financial years are explicitly noted.

27. Problem Statement 7:

    1) Budget may be prepared on a different version of mSCOA than the version implemented and used for recording actual information for presentation in the financial statements.

    2) At the time of preparing the municipalities budget uncertainty existed, little experience where available and the full impact of some aspects of mSCOA may not have been correctly articulated in the budget tables. Information available to assist in the budget preparation where extracted

on classification not correctly or completely aligned to mSCOA classifications and design principles.

3) The comparison of actual and budget information in the budget statement reveal significant variances, apparently due to mSCOA Implementation.

POSITION OF mSCOA IN THE CONTEXT OF THE PROBLEM STATEMENTS

Fair Presentation and Compliance

Problem Statement 1.1: Comparability of Information in the Financial Statements in the year of implementing mSCOA

28. The mSCOA Classification Framework provides a uniform and standardised classification system for recording transactions in assets, liabilities, revenue and expenses on a standardised bases across all municipalities and municipal entities within the local government sphere.
29. Pre-mSCOA municipalities designed their own chart of accounts with definitions. The information contained in the municipalities unique chart of accounts informed the compilation of financial statements.
30. The mSCOA implementation may have resulted in significant differences in classification pre-mSCOA implementation compared at the end of the first reporting period after implementation. This appears to have placed municipalities in a position of not being able to compare current year with previous year's information at a detailed account level without significant manual intervention.
31. Predominantly the Item Segment provides this information directly relating to this important design principle. The mSCOA Table for the Item Segment are divided in components for Assets, Liabilities, Net Assets, Revenue, Expenditure and Gains and Losses.
32. The Standard of GRAP directs the recognition, measurement and presentation principles inherent to these transactions.
33. Municipalities are advised in the first year of implementation not to attempt to give justice to the extensive level of detail available from mSCOA in compiling financial statements.
34. The approach recommended in Phase 1 of the Position Paper: Reporting serve as guiding principle in support of the above statement.
35. During the mSCOA Project Lifecycle preparation process the municipalities had to prepare an analysis of their existing chart of account compared to the mSCOA requirements. The outcome of this process serve as the departure

point for considering the presentation of information in the financial statements for the first year of implementation.

36. Retaining the pre-mSCOA financial statement presentation to the maximum extent possible will minimalised the extent of restatement of comparatives required.

Example 1

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37. Typical pre-mSCOA municipalities did not do a distinction in contracted services for outsourcing, professional and contracted services when classifying transactions of this nature. mSCOA introduced this detail classification for future presentation in the annual financial statements as well as the budget statement.

38. The Standards of GRAP 1 Presentation of Financial Statements contain a discussion on "materiality and aggregation". Municipalities may apply discretion in aggregating the more detailed accounts into the classifications applied in the prior year financial statements to avoid attempting to reclassify previous year information.

39. Important to note is retaining supporting working papers linking the current period trial balance to the classification applied in compiling the annual financial statements.

40. The municipality may apply discretion in opting for the alternative approach by restating previous year actuals to meet the more detail mSCOA classification. However, this approach is not encouraged by National Treasury considering the extent of work required to retain auditable information to support the restatement of the prior year comparatives.

Example 2

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41. Typically, municipalities used "maintenance and repair" as a single expenditure line item presented on the face of the statement of financial performance with more detailed information dealt with in a note to the financial statements.

42. mSCOA consider "repairs" to be an operational project with further detail provided for based on level 5 of the CIDMS classification structure. The Item Expenditure within mSCOA provide the detail on the nature and type of expenditure incurred in "doing" asset maintenance. Further to this additional

costs may be allocated as “secondary cost” from the Costing Segment, example workshop overheads, labour, transport, etc.

43. Considering the information available from mSCOA adjustments would be possible to present repairs and maintenance on the same base as in the preceding year making the adjustments from the detail available on the nature of repairs and maintenance to the respective classifications within “expsenditure”.
44. The correcting journal to be done for the purpose of financial statement presentation would thus be:
    - Dt Repairs and Maintenance
    - Ct Personnel Expenditure (various detail accounts in respect of the staff allocated to repairs and maintenance) / Contracted Services / Inventory Consumed / Operational
45. The alternative to the above would be to revise the preceding year by analysing the transactions included in the repairs and maintenance account and adjust these to the respective classification within expenditure thereby, eliminating the repairs and maintenance account. Repairs and Maintenance are dealt with as a disclosure note to the financial statements.

Problem Statement 1.2: Disclosures required to comply with the Standards of GRAP

46. Simplistically explained disclosures and explanations need to be sufficient to guide the user of the financial statements to understand why the comparatives according to the preceding periods financial statements are different from what is presented in the current period financial statements.
47. These explanations maybe done in notes and supplemented with narratives at the discretion of the municipality. Ideally these notes on the changes made to comparatives need to start with the line item and value used in the previous year with an analysis on movement to the restated amounts in the current year financial statements.
48. Presentation may vary from municipality to municipality as the impact of the changes eminent from the mSCOA implementation may substantially vary. Disclosures and explanation can never be “too much”.

Consistency of presentation

Problem Statement 2.1: Implementation of mSCOA may have resulted in information disclosed in pre-mSCOA implementation not being available to maintain the presentation and classification made in the prior reporting period

49. The pre-implementation mSCOA comparison done by the municipality in preparation for the implementation of mSCOA need to be used in determining the impact of these variances on the presentation used in the preceding periods financial statements.

50. These changes need to be evaluated individually to determine the best possible option in minimalising the restatement of comparatives, for example if more information is available from mSCOA but specifically disclosures are not yet required in the annual financial statements adopt the preceding period disclosures.

51. Generally, mSCOA contains more detail than the chart of accounts of municipalities generally contained, for example "Receivables from Non-exchange Transactions" consisting of components for the four main trading services, property debtors, etc. Aggregating the mSCOA accounts should be simple to achieve comparability to the preceding period if this level of detail had not been retained.

Example 3

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52. The high-level classification for Property, Plant and Equipment in mSCOA Version 6 is based on the Construction Industry Development Management Systems Classification. This classification maybe substantially different to what has been used by the municipality.

53. The opening balances on these Property, Plant and Equipment detail accounts had to be restated to reflect the correct opening balance as take-on balance at the time of implementing mSCOA. Accordingly, by doing this "restatement of the opening balance" the information relating to the preceding should be available. Revising the preceding period information in the current annual financial statements may thus be the easier way to go in presenting comparatives.

Problem Statement 2.2: Presentation changes resulting from mSCOA implementation may not necessary be driven by a requirement from the Standards of GRAP

54. Example 3 above is a typical illustration of changes required to be made not directly resulting from a Standard of GRAP but from adopting a "uniform classification methodology" in the design principles ensconced in mSCOA.

55. One of the primary objectives strived towards following the implementation of mSCOA is to achieve seemless alignment in reporting throughout the accountability cycle.

56. Achieving this will require changes to be made to the existing reporting formats used in the Budget Reporting Tables, In-year reporting and Annual Financial Statements. The mSCOA Regulation provides for the format of Annual Financial Statements to be potentially regulated by National Treasury in an attempt to achieve this critically important outcome.

57. The compilation and presentation of information in the annual financial statements of municipalities is to a large extend by municipalities within the underlying assumptions of financial statement preparation of materiality and aggregation which is at the discretion of the municipality.

58. The envisage periodically import of municipal information into the revised Local Government Database and Reporting System to a large extent removes the need for regulating the format of financial statements. This seamless link between budgeting, in-year reporting and annual financial statements will be achieved by uploading periodic information in the mSCOA formats.

59. Municipalities is required in terms of the Standard of GRAP 24 Presentation of Budget Information required to include a comparison between budgeted and actual information with explanations on variances. The tabled budgets by the municipality will ultimately in terms of the Position Paper on Reporting be revised to give justice to the substantially improved information set which will also need to be portrayed in the annual financial statements.

Problem Statement 2.3: Guidance is needed in designing another presentation being more appropriate as per the guidance from the Standard of GRAP

60. The need expressed by municipalities are noted for assistance in presenting changes to preceding periods information in the current period financial statements.

61. Pending the outcomes of the accountability cycle and external audit some illustrations or references will be included as an Annexures to the position papers to assist prepares.

62. Some guidance is available from the National Treasury GRAP Implementation Guide Accounting Policies, Changes in Accounting Estimates and Errors.

Comparative information

Problem Statement 3.1: Availability of Information relating to the preceding period for which transactions have not been classified based on mSCOA

63. The Position Paper on Reporting emphasises the principle that municipalities will only be required to present the Budget Reporting Tables, In-year Reporting Return and Annual Financial Statements on a bases giving justice to the full content of mSCOA for the reporting beginning 1 July 2019. This allows sufficient time for collecting historical information to be able to effectively restated comparatives.

64. The transitional proposal is to move towards the Phase 2 full implementation by taking a hybrid approach from the preceding period disclosure, restating possible some of the line items for the Statement of Financial Position.

Example 4

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65. Property, Plant and Equipment, Heritage Assets, Intangible Assets, Investment Property and Biological Assets whilst other balances such as Trade Accounts Payables Unspent Transfers and Subsidies are retained based on the preceding period presentations.

Problem Statement 3.2: Not necessary possible to convert mSCOA information back to the classification applied in the preceding period

66. Refer to Problem Statement 2.2 dealt with in paragraphs XX.

Problem Statement 3.3: Practioners need guidance to assist in presenting comparable information in the municipalities financial statements

67. Also refer to Problem Statement dealt with in paragraphs XX.

68. Careful evaluation need to be made on reasons for variations in comparatives. Due to the more structured groupings of accounts in mSCOA and the detailed analysis process followed by municipalities pre-mSCOA implementation some of the these various may indicate to transactions/accounts always being incorrectly disclosed. Potentially these type of variances need to be dealt with as “prior period errors” in terms of the Standards of GRAP 3 Accounting Policies, Changes in Estimates and Errors.

69. The nature and the reason as required in terms of the Standard of GRAP 1 for restating comparatives may general be as a result of mSCOA’s uniform and

standardised classifications. More specifically indication need to be given to exactly what the changes entails.

Example 5

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70. Bad Debt Written-off had been dealt with as a movement included in the period review of debt impairment and not disclosed separate from the adjustment.

Impracticability

Problem Statement 4.1: Will the implementation of mSCOA in totality qualify for claiming impracticability in restating of comparatives?

71. The Standard of GRAP 1 Presentation of Financial Statements defines Impracticable as follow:

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- *(a) the effects of the retrospective application or retrospective restatement are not determinable;*
- *(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or*
- *(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that: (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.*

72. The Position Paper on Reporting does not contain a requirement that the reporting for the period of implementation up to 30 June 2017 need to give justice to the full extent of information available in the mSCOA Tables. By implications thus providing for prospective implementation of the mSCOA

detail into the reporting formats, being budget reporting tables, in-year reporting and annual financial statements.

73. Consequently, the "effects of the retrospective application or retrospective restatement" not being determinable could be avoid be considering the guidance given in this Position Paper.

74. Further to the above "the retrospective application or retrospective restatements requiring assumptions about what management's intent would have been in that period" will not entail a complication". Included in this argument is the retrospective application or retrospective restatement requiring significant estimates of amounts being impossible to dtinguish objectively information about these estimates to (i) provide evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

Problem Statement 4.2: If the above is the case how should this be disclosed in the financial statements?

75. Municipalities need to assess the circumstances inherent to the mSCOA implementation and formulate a complete motivation substantiating the "claim to" impracticability". The onus will be on the municipality to motivate impracticability". National Treasury is of the opinion that mSCOA implementation (ignoring factors unique to the environment) is not sufficient to claim "impracticability" in restating comparatives.

76. The Position Paper on Reporting supports the hybrid approach explained in the content of this Position Paper to assist in restating comparative in a simple and effective method moving forward to more detailed reporting in future periods.

Problem Statement 4.3: Would the above consideration have an impact on fair presentation of the financial statements and potentially result in an adverse or disclaimed audit opinion by the Auditor-General of South Africa?

77. As indicated in paragraphs 75 76 the onus is on the municipality to substantiate impracticability to their representatives from the Auditor-General South-Africa.

78. The constitutional independence of the Auditor-General South-Africa need to be respected. Accordingly, the impact of the municipality opting for "impracticability" will be considered on individual merits by the auditors. Imposing any conditions on the work to be done by the auditors may be

considered a limitation in scope and consequently result in a modified audit opinion.

Problem Statement 4.4: National Treasury to propose wording to be used for claiming impracticability with guidance to assist municipalities in formulating motivation in this regard.

79. National Treasury is of the opinion that if the mSCOA implementation process were well managed and implemented according to the requirements set-out in the table the preparation of financial statements, in hybrid fashion will be achievable and consequently no "claims exist for impracticability".
80. Municipalities of the opinion that they face a potential problem need to bring this to the attention of the respective provincial treasury on return to inform National Treasury to investigate and provide guidance on the way forward.

Impracticability

Problem Statement 5.1: Defining elements of mSCOA requirements that may potentially qualify as a change in "accounting policy" as defined by this Standard of GRAP.

81. National Treasury is at present not aware of any classification matters deal with in the mSCOA Tables potentially resulting in a change in accounting policy in the context of the Standard of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors.

Problem Statement 5.2: Any potential element of mSCOA Requirements that have the potential to qualify as an "error" as defined by the Standard of GRAP.

82. Municipalities will need to carefully consider and analyse variation between actual and budget and current and preceding period information. In analysing these accounts practioners need to be aware of the potential for identification of material errors in classification in the preceding period information.
83. If these material errors are identified the guidance contained in the Standard of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors need to be followed.
84. Sufficiently and complete supporting documents need to be retained for audit purposes.

Problem Statement 5.3: Motivation for claiming impracticability in retrospective adjustment for accounting policy.

85. National Treasury is of the view that the implementation of mSCOA should not result in a change in accounting policy. In this regard also refer to paragraphs 83 to 85.

86. Municipalities of the opinion that they face a potential problem need to bring this to the attention of the respective provincial treasury on return to inform National Treasury to investigate and provide guidance on the way forward.

Presentation of Budget Information in Financial Statements

Problem Statement 6.1: Budget may be prepared on a different version of mSCOA than the version implemented and used for recording actual information for presentation in the financial statements.

Problem Statement 6.2: At the time of preparing the municipalities budget uncertainty existed, little experience where available and the full impact of some aspects of mSCOA may not have been correctly articulated in the budget tables. Information available to assist in the budget preparation where extracted on classification not correctly or completely aligned to mSCOA classifications and design principles.

Problem Statement 6.3: The comparison of actual and budget information in the budget statement reveal significant variances, apparently due to mSCOA Implementation

5. Classification errors resulting from the implementation of mSCOA need to be corrected in the month identified, prior to month-end closure. Would the error be identified in later months these corrections need to be done in the period identified and earlier months not opened for correction if already close?

Restatement of Comparatives / Historical Information

6. Municipalities should understand the reasons for the reclassifications and document them, including the impact on the financial statements and determine its treatment in terms of the Standards of GRAP. The account for recording the transaction may contain more detail. However, this would not necessary imply a restatement at the financial statement disclosure level.

7. If the reclassification is as a result of either the two following reasons, the Municipality will be required to restate the previous year's Annual Financial Statements in terms of the GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error:

    - Change in Accounting Policy as defined due to election of Municipality to adopt a different policy as in the prior year.
    - Prior period error as defined.

8. If the reclassification is an allocation difference within the Statement of Financial Performance and does not constitute mandatory disclosure in terms of the Standards of GRAP, the MFMA or any other legislation, the municipality may phase the disclosure requirements over a two year period, however it must ensure that the requirements of the Standards of GRAP 1 Presentation of Financial Statements are being adhered to, i.e., the municipality will be required to collate the information for a two year period, present the first year on a comparative basis to the prior year, and in the second year, present the financial statements based on the mSCOA Classification.
9. The municipality is encouraged to restate the comparatives in terms of the mSCOA classification should the information be readily available.
10. Reference to be made to the Position Paper on Reporting dealing with the phased approach undertaken for revising the Budget Reporting Tables, In-year Reporting and Illustrated Annual Financial Statements to give recognition to the mSCOA Classification.
11. Any adjustments made to historical information need to be reflected in period 13, 14 and 15 for upload to the Local Government Database and Reporting System.

NATIONAL TREASURY DOCUMENTS TO BE REVISED FOLLOWING THE ADOPTION OF THIS POSITION PAPER

12. None identified as at the date of releasing this Position Paper.

CONCLUSION

13. The requirements of the Standard of GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error apply in the year of implementing mSCOA. By implication comparatives need to be restated provided that a phased approach be followed for presentation on the more detailed requirements of the mSCOA Classification Framework.
14. Municipalities convinced to be in a position to motivate “Impracticability” may do so in consultation with the Office of the Accountant-General, Provincial Treasury and representative from the Auditor-General South Africa.

RECOMMENDATION

15. The mSCOA Project Steering Committee to note:

- Version 1 of this Position Paper on Restatement of Comparatives, Historical Information and Prior Period Errors was discussed and presented to the ICF at the 9 September 2015 meeting.

- Content discussed and agreement reached by the OAG with the ASB on 15 February 2016.
- Comment period offered to the ASB Forum Members and invitation extended to all municipalities / provincial treasuries from beginning of March to 8 April 2016. Comments received up to 10 August 2016 considered in finalisation of the Position Paper.
- Position Paper to be recommended for publishing to the National Treasury Web.

ANNEXURE A: COMMENTS AND QUERIES RECEIVED INFORMING THE PROBLEM STATEMENT

Reference / Date	From	Number	Query	Response
Letter/Email 9 May 2016	uMhlathuze Hilton Renald	1.	Specimen Financial Statement must be provided to show changes on line items no longer required, e.g. repairs and maintenance.	
		2.	Repairs and Maintenance – what line items will be affected by the unbundling of Repairs and Maintenance om the Statement of Financial Performance except inventory as sated, i.e. Repairs and Maintenance to consolidated with which line items.	
		3.	Conditional Grant Expenditure – should it still remain as a separate line item on the face of the Statement of Financial Performance?	
Letter/Email 8 April 2016	ASB Jeanine Poggiolini	4.	The paper is still incorrectly titled "Exchange and Non-exchange transactions.	
		5.	Paragraph 5 indicates that spare parts are accounted for as inventory, yet the section on property, plant and equipment in the Project Summary Document indicates that some spare parts may be property, plant and equipment.	
		6.	Paragraph 15 refers only to the Statement of Financial Performance, yet reclassification also affect the Statement of Financial Position.	

Reference / Date	From	Number	Query	Response
			Also, he notion that the conclusion on impracticability should be considered in the context of a “reasonable effort” to comply with the requirements of the Standards.	

ANNEXURE B: RESTATEMENT OF COMPARATIVES

Illustration Based on Pilot Municipality Presentation

16. This is an extraction of a disclosure note prepared by a pilot municipality for the first set of financial statements following the mSCOA Implementation.

GRAP 1 states that *“.49 If the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose (including as at the beginning of the preceding period): (a) the nature of the reclassification; (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification.”*

Reclassifications

During the 2015/16 year, the municipality reclassified its account structure to aligned to the SCOA tables in accordance with the Regulations on the Standard Chart of Accounts. This necessitated the reclassification of comparative amounts as previously disclosed to those classifications aligned to the Standard Chart of Accounts.

The high-level effect of the reclassification is as follows:

Revenue and Expenditure items were previously stated as follows on the face of the Statement of Financial Performance:

REVENUE

Revenue from exchange transactions		
Service charges	23	1 058 874 027
Rental of facilities and equipment	24	10 449 695
Interest earned - external investments	25	13 752 436
Dividends - stock	25	15 120
Interest earned - outstanding debtors	25	13 701 549
Other income	27	31 371 034
Revenue from non-exchange transactions		
Gains from assets from non-exchange transactions		2 474 669
Property rates	22	193 848 793
Property rates - penalties imposed and collection charges		1 653 336
Fines		49 704 425
Licences and permits		14 032 427
Government grants and subsidies	26	195 420 954
Other income	27	782 758
Total Revenue		**1 586 081 223**

EXPENDITURE		
Employee related costs	28	412 476 034
Remuneration of councillors	28	19 975 559
Impairment of Financial assets	29	71 708 911
Collection costs		5 790 096
Depreciation and Amortisation	30	166 067 361
Impairment Losses	31	2 041 000
Repairs and maintenance		72 374 094
Interest paid	32	61 024 588
Bulk purchases	33	543 064 879
Contracted services		21 786 059
Grants and subsidies paid	34	2 067 700
General expenses	35	238 914 809
Loss on disposal of property, plant and equipment		1 407 072
Total Expenditure		**1 618 698 161**
Surplus / (Deficit) from continued operations	53	**-32 616 937**
Surplus / (Deficit) from discontinued operations	4	**0**
		-32 616 937

Items have been reclassified as follows:

	Note	2015 SCOA Restated R
REVENUE		
Revenue from exchange transactions		
Service charges	23	
Sales of Goods and Rendering of Services	24	
Rental from fixed assets	25	
Finance income and Dividends	26	
Operational Revenue (Exchange)	27	
Revenue from Agency Services	29	
Revenue from non-exchange transactions		
Property rates	22	
Surcharges and Taxes		
Fines, Penalties and Forfeits	27	
Licences and permits		
Transfers and Subsidies	28	

Operational Revenue (Non - Exchange)	29	
Total Revenue		
EXPENDITURE		
Employee Related Cost	30	
Remuneration of Councillors	30	
Depreciation and Amortisation	32	
Operating Lease expenditure		
Inventory and materials	XX	
Finance costs	34	
Bulk Purchases	35	
Contracted Services	37	
Grants and subsidies paid	36	
Operational Cost	38	
Transfers and Subsidies	36	
Total Expenditure		

GAINS AND LOSSES		
Impairment losses on financial assets	31	
Impairment losses on PPE, IA, IP & HA	33	
Reversal of impairment losses		
Gains /(losses) on disposal of PPE, IA, IP & HA		
Fair value adjustments		
Gains/(losses) on Inventory		
Gains from assets from non-exchange transactions		
Gains/(losses) on Foreign exchange transactions		
Non-revenue Water Losses		
Surplus / (Deficit) from continued operations	53	
Total Surplus / (Deficit) from operations		