TOPIC 1.6: ACCOUNTING FOR EVENTS AFTER THE REPORTING PERIOD

This section of the manual sets out the FSOP's that need to be executed by the municipality regarding events after the reporting period. The FSOP's are drafted in the following categories:

1.6.1 OVERVIEW OF THE ACCOUNTING FOR EVENTS AFTER THE REPORTING PERIOD

When accounting for events after the reporting period the municipality must ensure that the necessary finance standard operating procedures are executed to address the following issues, which are summarised here, but for which the detailed FSOP's are set out in the rest of this section.

Category	**Section FSOP**
Introduction / background. 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. The municipality must ensure that all adjusting and non-adjusting events after the reporting period are identified.	**Section 1.6.2**
The time period during which the municipality should consider the effect of events after the reporting period runs from the **reporting date (30 June)** to the **date on which the financial statements are authorised for issue (31 January).**	**Section 1.6.3**
Adjusting events after the reporting period are those events that provide evidence of conditions that existed at the reporting date. A municipality should adjust the amounts recognised in its annual financial statements to reflect adjusting events after the reporting period.	**Section 1.6.4**
Non-adjusting events after the reporting period are those that are indicative of conditions that arose after the reporting date. A municipality shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period but may need to disclose these events in the notes to the AFS depending on its materiality.	**Section 1.6.5**
Additional procedures should be performed to identify events after the reporting period.	**Section 1.6.6**
The municipality must ensure that all **disclosure requirements for events after the reporting period as listed in IAS 10** are met.	**Section 1.6.7**

Category	Section FSOP
Exemptions related to the implementation of IAS 10. No exemptions from the requirements of IAS 10 have been offered by NT to high capacity municipalities (HCM), medium capacity municipalities (MCM) and low capacity municipalities (LCM), preparing GRAP AFS. **EXEMPTIONS – 30 JUNE 2008** ➢ MCM and LCM can prepare IMFO AFS for 2008, and therefore ignore IAS 10 in totality, but if they prepare GRAP AFS the entire standard should be complied with. **EXEMPTIONS – 30 JUNE 2009** ➢ LCM can prepare IMFO AFS for 2009 and therefore ignore IAS 10 and GRAP 14 in totality. If however the LCM opts to prepare GRAP AFS for 30 June 2009, it must comply with all the requirements of **GRAP 14** on Events after reporting date.	**Section 1.6.8**
IAS 10 and GRAP 14 are compared, and any differences are set out in this section.	**Section 1.6.9**

1.6.2 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.

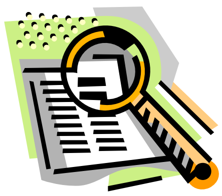
GRAP 14 (previously IAS 10) also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

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.



Adjusting events are those that provide evidence of conditions that existed at the end of the reporting period. Amounts reported in the financial statements are adjusted for material events where either of the following applies:

(a) it is an adjusting event (i.e. it provides additional evidence relating to conditions that existed at the reporting date;

(b) it indicates that it is not appropriate to apply the going concern concept.

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.

(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.

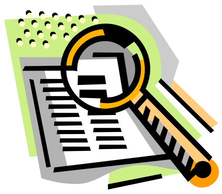
Important aspects to consider:

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.



A **non-adjusting event** is an **event that arises after the reporting date** concerning conditions that did not exist at that time and is material in that its non-disclosure could influence the users' economic decisions taken on the basis of the financial statements.

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

1.6.3 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.

Municipalities 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.

1.6.4 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 year-end.	**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. See **Annexure 1:** Example of memo – Adjusting events after the reporting period 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).

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		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.			

1.6.5 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, non-disclosure 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: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.	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: See **Annexure 1:** Example of memo – Non-adjusting events after the reporting date. 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.	**AP**	**CFO**	31 July each year As close as possible to the date on

#	FMBPR	FSOP	FSOP Type	Responsible Official	Date of Execution of FSOP
		• 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.			which the FS are authorised for issue (31 August).

1.6.6 ADDITIONAL PROCEDURES TO IDENTIFY EVENTS AFTER THE REPORTING PERIOD

Additional procedures to identify events after the reporting date could include:

a) The Head: Legal Services should list all material contracts that the municipality has entered into after 30 June and before 31 January.

   In addition, the municipality's legal council should be contacted to identify and list all current, pending and outstanding legal cases. These cases could indicate provisions that should be raised and contingent liabilities or contingent assets that should be disclosed.

b) The minutes of management meetings should be reviewed for evidence of discussion of possible after- reporting-period events.

c) The terms and conditions of contracts entered into by the municipality and third parties during the after reporting date period should be inspected.

d) The Manager: Asset Management should compile a list of all assets/inventories sold in the after reporting date period. The proceeds of these sales/auctions could give an indication of assets that should be impaired – in cases where the proceeds are lower than the carrying value of the assets - or the sale could give confirmation that assets must be reclassified to non-current assets held for sale in terms of IFRS 5 or as Inventories in terms of GAMAP 12.

e) The Manager: Asset Management could also compile a list of all Insurance Claims submitted by the municipality to its Insurer between 1 July and 31 January (period after the reporting date). This could give an indication of Assets that were stolen or damaged during the after reporting date period.

f) Scrutinising daily newspapers from 1 July to 31 January (period after the reporting date) for articles that may involve the municipality could ensure identification of events which need to be recorded or disclosed. A list should be compiled and the list as well as copies of the articles submitted to the CFO for evaluation.

g) The Head of Salaries should list all performance bonuses or backdated increases that were paid in the period after the reporting date and that pertains to the previous financial year. These events would indicate that the accounting records and AFS of the municipality should be adjusted to include these expenses.

1.6.7 AFS DISCLOSURE REQUIREMENTS

The relevant disclosure requirements are as follows:

Disclosure of Date of Authorisation for Issue.

A municipality should disclose the date when the financial statements were authorised for issue and who gave that authorisation. If another body has the power to amend the financial statements after issuance, the municipality should disclose that fact.

Disclosure of Non-Adjusting Events after the Reporting Date.

Where non-adjusting events after the reporting period are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, the municipality should disclose the following information for each significant category of non adjusting event after the reporting period:

(a) The nature of the event; and

(b) An estimate of its financial effect or a statement that such an estimate cannot be made.

The standard dealing with the presentation of financial statements requires that management make an annual formal assessment of the ability of the entity to continue as a going concern. If it is considered that the **going concern assumption** is no longer appropriate then the financial statements will need to be completely revised, whether or not the condition was in existence at year-end.

The determination of whether the going concern assumption is appropriate needs to be considered by each municipality. In assessing whether the going concern assumption is appropriate for an individual municipality, management needs to consider a wide range of factors. Those factors will include the current and expected performance of the municipality, any announced and potential restructuring of functional units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.

In the case of municipalities whose operations are substantially budget-funded by government, going concern issues generally only arise if the government announces its intention to cease funding the municipality.

Most municipalities are required to be fully or substantially self-funding, and to recover the cost of goods and services from consumers. For such municipalities, deterioration in financial performance and financial position after the reporting date may indicate a need to consider whether the going concern assumption is still appropriate.

1.6.8 EXEMPTIONS RELATED TO THE IMPLEMENTATION OF IAS 10

Refer to section 1.6.1: Overview of the accounting for events after the reporting period, for a discussion on the exemptions related to the implementation of IAS 10.

From 1 July 2008 (reporting date 30 June 2009) **GRAP 14, on Events after reporting date,** becomes effective for High capacity and Medium capacity municipalities, while for Low capacity municipalities it becomes effective from 1 July 2009 (reporting date 30 June 2010).

1.6.9 COMPARISON BETWEEN IAS 10 AND GRAP 14

The recognition and measurement principles in IAS 10 and GRAP 14 do not differ or result in material differences in items presented and disclosed in the financial statements. The following minor differences between IAS 10 and GRAP 14 exist:

- GRAP 14 has incorporated consequential amendments to be consistent with other Standards of GRAP.
- The examples have been changed to make it public sector specific.
- GRAP 14 provides clarification on the meaning of "authorised for issue" by including an example and additional explanatory guidance.
- Definitions of 'management' and 'reporting date' have been included in GRAP 14 as the definitions are relevant to the understanding of the standard.
- Several additional paragraphs on 'going concern', in the public sector context, are included in GRAP 14.

ANNEXURE 1 – Examples of Internal memos

Example of memo - adjusting events after the reporting period

PROTEA MUNICIPALITY
INTERNAL MEMO

TO:	**ALL SECTION HEADS**
FROM:	**CHIEF FINANCIAL OFFICER**
DATE:	**31 JULY 20XX**

ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Finance Section is busy with the preparation of the Financial statements for the year ended 30 June 20XX. To enable us to finalise the Financial Statements we need sufficient information to make the necessary adjustments in the accounting records regarding **adjusting events** after the reporting period.

According to the accounting standards, events after the reporting period are those events, **favourable** and **unfavourable**, that occur between the reporting date (30 June 20xx) and the date when the financial statements are authorised for issue (30 November 20xx). Two types of events can be identified:

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

The following are examples of **adjusting events** after the reporting date:

(a) the settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date.
(b) the receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.
(c) the determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date
(d) the discovery of fraud or errors that show that the financial statements are incorrect.

Do not hesitate to contact me, should you require any further information in this regard.

Pease forward any information on adjusting events after there porting period to my office by no later than 15 August 20xx.

Your co-operation is appreciated

____
CHIEF FINANCIAL OFFICER

Example of memo – non-adjusting events after the reporting period

PROTEA MUNICIPALITY
INTERNAL MEMO

TO:	ALL SECTION HEADS
FROM:	CHIEF FINANCIAL OFFICER
DATE:	31 JULY 20XX

NON ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The Finance Section is busy with the preparation of the Financial statements for the year ended 30 June 20XX. To enable us to finalise the Financial Statements we need sufficient information to make the following disclosure of **non-adjusting events**:

(a) the nature of the event; and
(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

According to the accounting standards, events after the reporting period are those events, **favourable** and **unfavourable**, that occur between the reporting date (30 June 20xx) and the date when the financial statements are authorised for issue (30 November 20xx). Two types of events can be identified:

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

The following are examples of **non adjusting events** after the reporting period:
(a) a major business combination after the reporting date 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 date;
(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 date.

Do not hesitate to contact me, should you require any further information in this regard.

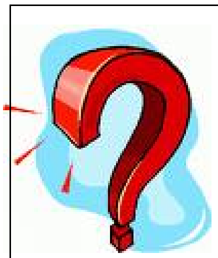
Pease forward any information on non adjusting events to my office no later than 15 August 20xx.

Your co-operation is appreciated

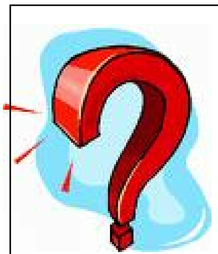
____
CHIEF FINANCIAL OFFICER

ANNEXURE 2 – Illustrative example

The financial statements of SA Municipality for the year ended 30 June 2007 were finalised on 31 August 2007. These financial statements were tabled in Council on 31 January 2008. The following events have taken place since the 30 June 2007:

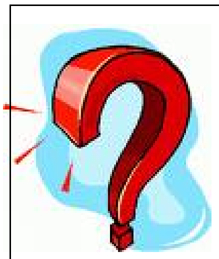
	Event 1 The market value of a listed investment decreased to R 300,000 on 30 August 2007. At the reporting date the investment was shown at R 450,000, which represented the market value at that date.

The reduction in the market value of the listed investment took place after 30 June 2007 and is therefore a non-adjusting event. In terms of IAS 39 (Financial Instruments – Recognition and Measurement) the municipality is obliged to account for such investments at market value. If the event is so material that non-disclosure thereof would affect the users understanding of the financial statements then the disclosure of the event may be appropriate.

	Event 2 A debtor that owed SA Municipality R 300,000 as at 30 June 2007 had their factory destroyed in a fire during June 2007. As a result the debtor filed for insolvency and paid 20% of the balance owing. A letter from the debtor's lawyers to this effect was received by the municipality in August 2007.

The event that caused the debtor to go insolvent was the fire which happened before year-end. It is therefore an adjusting event. The financial statements should be adjusted as follows:

	Debit	**Credit**
Doubtful debts (expense)	240,000	
Debtor		240,000
Expected loss on debtor: R 300,000 x 80%		



Event 3

During July 2007 a bomb exploded at one of the municipal buildings. Damage amounted to R 1400,000 of which R 1,300,000 was to the building and R 100,000 to inventory. The municipality's insurance policy did not cover such an occurrence and therefore a contract was concluded with Company ABC to repair the damage to the building at a cost of R 1,300,000. This was financed from the municipality's own funds.

The bomb explosion at the municipal building did not refer to a condition that existed at the reporting date (30 June 2007) and no loss incurred on that date. Therefore the bomb explosion should be regarded as a non-adjusting event after the reporting period and both the loss to the inventory and damage to the building should be disclosed by way of a note to the financial statements. The non-disclosure of the event will affect the ability of the reader of the financial statements to make proper evaluations and decisions, since the amounts involved are material.

ANNEXURE 2 – Distinguishing between adjusting and non-adjusting events