



Fezile Dabi

District Municipality

Subsequent Events Policy

DEFINITIONS:

For the purpose of this policy, the following terms have the meanings attributed below:

Date of the financial statements: The date of the end of the latest financial year covered by the financial statements.

Date of approval of the financial statements: The date on which the financial statements, including the related notes, have been prepared and the board of directors have asserted that they have taken responsibility for those financial statements.

Date of the auditor's report: The date the Auditor-General dates the audit report on the financial statements.

Date the financial statements are issued: The date the audited financial statements and the Auditor-General's report thereon are presented to the municipality's board of directors and the Council of the parent municipality or otherwise made public.

Subsequent events: Events occurring between the reporting date and the approval date of the financial statements and the date of the Auditor-General's report, and facts that become known to the auditor after the date of the auditor's report.

1. OBJECTIVES

- a) To provide for collating, analysing and submission of sufficient appropriate audit evidence regarding subsequent events that require adjustment of, or disclosure in the financial statements, and
- b) To provide a framework that will ensure that subsequent events are appropriately reflected in the financial statements in accordance with the applicable financial reporting framework.

2. LEGISLATIVE CONTEXT

Section 122(1) of Municipal Finance Management Act 56 of 2003 stipulates that every municipality and every municipal entity must prepare annual financial statements which fairly present the state of affairs of the municipality or entity, its performance against its budget, its management of its revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year, and disclose the information required in terms of section 123, 124 and 125.

On the other hand, section 126(1)(a) of Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that the accounting officer of a municipal municipality must submit financial statements within two 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 (i.e 30 June) identified up to the date of submission (i.e 31 August).

3. POLICY PRINCIPLES

- a) Management must at all times ensure that financial statements are prepared within the prescribed accounting framework as issued by the National Treasury from time to time.
- b) Management must ensure that as far as possible, all events applicable as at the end of the financial year (i.e. 30 June) are as far as possible dealt with in the financial statements of the municipality.
- c) Measures must be put in place to provide for detection of any event that arose subsequent to the end of the financial year, which may have effect on the financial statements and reporting of the financial year in question.

- d) Measures must be put in place to ensure timeous amendments of the financial statements in instances where subsequent events necessitates any adjustment, particularly where such events were evidenced prior to the approval of those financial statements and issuing of the Auditor-General's report in relation thereto,
- e) 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,
- f) In terms of this policy, events that provide evidence of conditions that existed at the reporting date shall be regarded as adjusting events and those that are indicative of conditions that arose after the reporting date shall be regarded as non-adjusting events.
- g) Any subsequent event must be dealt with in terms of this policy.

4. CATEGORIES OF SUBSEQUENT EVENTS

Subsequent events are classified into the following three main categories as dealt with in this policy:

- a) Events which became known between the date of the Financial Statements and the date of the Auditor-General's Report;
- b) Events which become known to the municipality after the date of the Auditor-General's Report but before the date the Financial Statements are issued; and
- c) Events which become known after the Financial Statements have been issued

5. IDENTIFICATION OF SUBSEQUENT EVENTS

Management shall, immediately after the end of the financial year, continuously monitor the operations of and events occurring in relation to the business of the municipality, and where appropriate, assess as to whether any subsequent events have occurred that might affect the financial statements.

This monitoring and assessment shall primarily be focused at the current status of items that were accounted for in the financial statements on the basis of preliminary or inconclusive data.

The following matters shall specifically be paid attention to as part of mechanisms to identify subsequent events:

- a) Whether new commitments, borrowings or guarantees have been entered into;
- b) Whether disposal or acquisitions of major capital assets have occurred or are planned;
- c) Whether there have major changes to the mandate of the municipality in terms of the Delivery Agreement entered into with the parent municipality;
- d) Whether any assets have been destroyed as a result of disaster, sabotage, riots, etc.;
- e) Whether there have been any developments regarding contingencies as initially disclosed;
- f) Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements;
- g) Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements;
- h) Whether any events have occurred that are relevant to the recoverability of assets.

6. POLICY FRAMEWORK FOR DIFFERENT CATEGORIES OF SUBSEQUENT EVENTS

6.1 Events which became known between the date of the Financial Statements and the date of the Auditor-General's Report

Management shall put in place measures to identify and report all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements.

Explanations and any supporting evidence that may be required by auditors of any procedures management has established to ensure that subsequent events are identified, must be provided timeously as requested and in the format as may be prescribed or agreed upon with auditors.

Any adjustment of, or disclosure in, the financial statements in relation to the subsequent event, must be communicated and agreed upon with the auditors prior to application thereof.

Adjustments and / or additional disclosures resulting from subsequent events must be in accordance with the applicable financial reporting framework and must approved by the Chief Financial Officer or duly delegated official in writing prior to application thereof to the financial statements.

Adjusted financial statements, together with any relevant supporting documents in relation thereto must be submitted to the auditors at the date and time agreed upon with auditors.

6.2 Events which become known to the municipality after the date of the Auditor-General's Report but before the date the Financial Statements are issued

If, after the date of the Auditor-General's report but before the date the financial statements are issued, a fact becomes known to management, the Accounting Officer shall:

- (a) Promptly report the matter to the Executive Mayor, the MEC for local government in the Province and the Auditor-General;
- (b) Discuss the matter with the Auditor-General;
- (c) Determine whether the financial statements need amendment and, if so,
- (d) Explain to the Auditor-General how they intend to address the matter in the financial statements.

If management amends the financial statements, audit evidence in the amendments, together with the amended financial statements, must be submitted to the Auditor-General.

6.3 Events which become known after the Financial Statements have been issued

If, after the financial statements have been issued, a fact becomes known to management, management shall:

- (a) Promptly report the matter to the Executive Mayor, the MEC for local government in the Province and the Auditor-General;
- (b) Discuss the matter with the Auditor-General;
- (c) Determine whether the financial statements need amendment and, if so,
- (d) Explain to the Auditor-General how they intend to address the matter in the financial statements.

The Accounting Officer must take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and must amend the financial statements in circumstances where the Auditor-General believes they need to be amended.

If management amends the financial statements, audit evidence in the amendments, together with the amended financial statements, must be submitted to the Auditor-General.

7. DUAL DATING OF THE AUDIT REPORT

Management should take cognisance that, in cases where the Auditor-General amends the auditor's report due to subsequent event to include an additional date restricted to that amendment, the date of the auditor's report on the financial statements prior to their subsequent amendment by management remains unchanged because this date informs the reader as to when the audit work on those financial statements was completed.

However, an additional date shall be included in the auditor's report to inform users that the auditor's procedures subsequent to that date were restricted to the subsequent amendment of the financial statements.

8. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.