Province of the
EASTERN CAPE
PROVINCIAL TREASURY

CIGFARO Audit Readiness Seminar

Asset Management and Reporting

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Presenter: Mr. A. Nombexeza

HOME OF LEGENDS

VISION: We envision a prosperous province supported by sound financial and resource management.

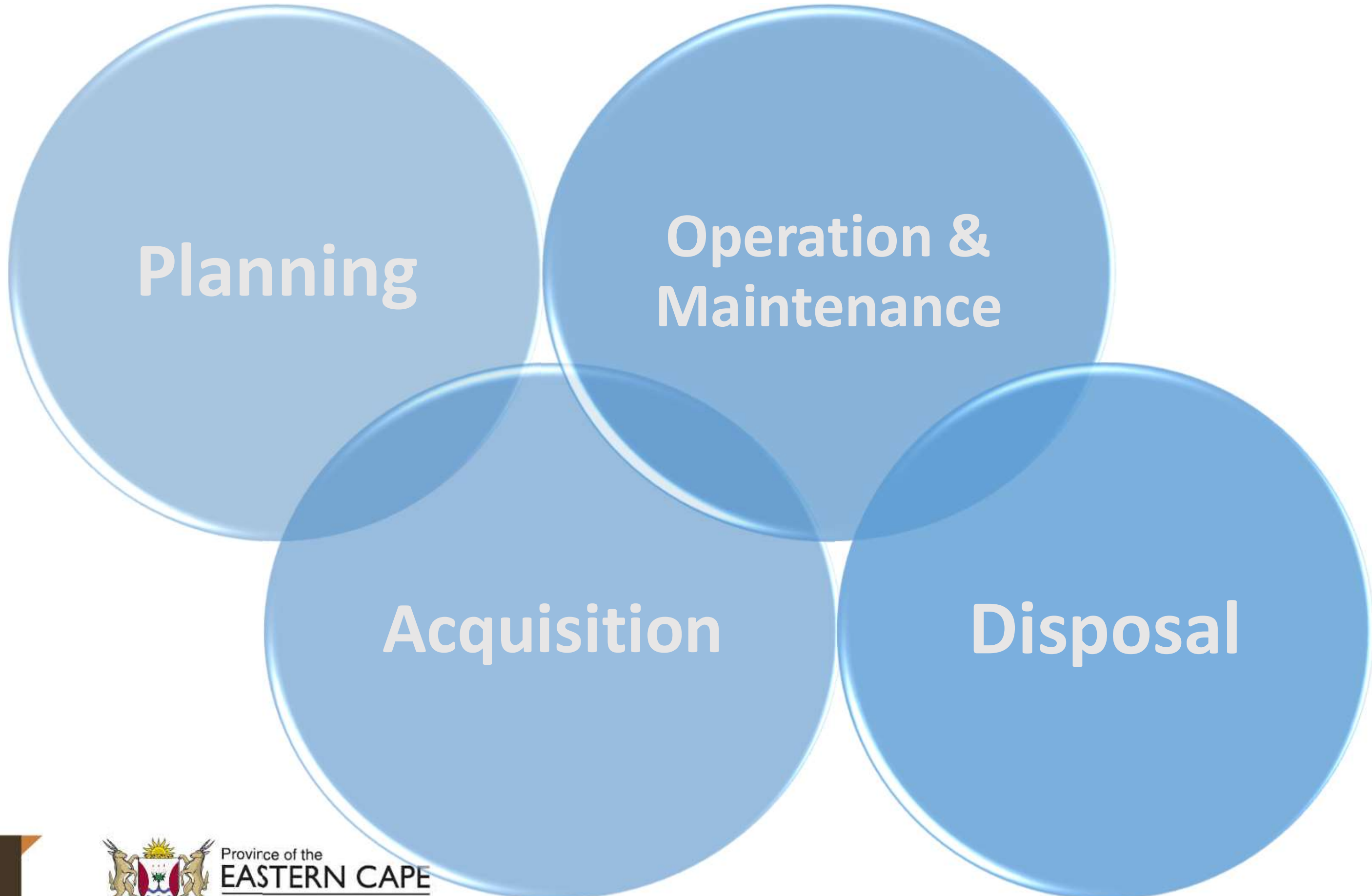
Presentation Outline

- Asset Management Cycle
- Why PPE is High Risk
- Assertions
- Common Blind Spots
- Recommendations
- Conclusion

GRAP Standards for PPE

- ✓GRAP 1 Presentation of Financial Statements
- ✓ GRAP 3 Accounting Policies, Change in Accounting Estimates and Errors
- ✓GRAP 11 Construction Contracts
- ✓ GRAP 12 Inventories
- ✓GRAP 13 Leases
- ✓ GRAP 17 Property Plant and Equipment
- ✓ GRAP 21 Impairment of Non-Cash Generating Assets
- ✓ GRAP 26 Impairment of Cash Generating Assets

Asset Management Cycle



Asset Management Cycle

Planning phase

- Deals with the planning for service delivery that drives the need for assets. This phase will include input into the IDP, budget and asset management plans.
- Balance sheet budgeting is essential to allow for accurate transacting and reporting (mSCOA requirements).

Acquisition phase

- Deals with the purchase, construction or manufacture of new assets.
- The use correct SCOA codes is vital in this stage to avoid misallocations.

Asset Management Cycle

Operation and maintenance phase

- Deals with the operation of the assets maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment. This phase includes activities of a capital and current nature

Disposal phase

- Deals with the timing of and disposal of the assets including the disposal costs and specific requirements for the assets, e.g. dismantling costs, medical equipment legal requirements, etc

Why PPE is High Risk

- Typically, PPE has a high material balance in the Annual Financial Statements, so even small errors can have a significant impact
- Complex calculations- depreciation, useful lives, residual values, and impairment which involves estimates and judgement

Risk of incorrect recording- Assets maybe recorded at the incorrect cost, capitalised when they should be expensed, or vice versa

✓Risk of theft or loss- Physical assets can be stolen, damaged, or no longer exist, but may still be recorded in the FAR

✓Additions and disposals that may not be recorded correctly, leading to misstatements.

Assertions

- Are all PPE assets that should be recorded actually recorded?

Completeness

- Are assets recorded at appropriate carrying amounts?

Valuation

- Do recorded assets physically exist?

Existence

Assertions continued

Rights and Obligations

- Refers to legal rights and moral entitlement
- Duties and responsibilities an entity must do or refrain from doing.

IGRAP 18 Recognition and Derecognition of Land

- Assessment of control
- Legal ownership
- The right to direct access to land, and to restrict or deny the access of others to land

Completeness

Blind Spots

- Unrecorded capital expenditure (WIP, additions)
- Completed projects not capitalised
- Assets purchased near year end but recorded in the next period

Recommendations

- Reconcile WIP register with project payment register and Capital Commitments register
- Collaboration between PMU and BTO
- Perform cutoff testing around year end

Completeness continued

Blind Spots	Recommendations
Failure to test repairs and maintenance account for capitalizable items	Monthly review of the repairs and maintenance account
Component accounting not properly applied	Review of BOQ for constructed projects.
	Monthly reconciliation of FAR and GL/TB. Reconcile AFS with TB and FAR at year end. Physical verification from the floor to FAR.

When is an asset under construction complete?

- An asset under construction is complete when it ready for use

The following can be **indicators** that the capital asset is ready for use:

✓ A certificate of practical completion is received. This certificate indicates that all construction work has been done

✓ The budget holder / user department of the capital asset has taken occupation of the capital asset and is operating from or in the premises

✓ The implementing agent indicates formally that the construction phase has been completed

Valuation

Blind Spots

- Impairment assessment not performed
- Incorrect calculation of impairment loss
- Lack of supporting documentation for impairment loss

Recommendations

- Physical verification of assets for conditional assessment and impairment testing
- Review impairment calculations prior to submission of AFS.
- Document the process from conditional assessment and reasons for impairment based on the indicators for impairment.

Valuation continued

Blind Spots

- Residual values and useful lives not assessed
- Incorrect calculation of depreciation and fully depreciated assets included in the FAR

Recommendations

- An entity is expected to assess for any indication for changes in residual values and useful lives
- Alignment of useful lives between accounting policy, FAR and asset management policy.
- Evaluate reasonableness of useful lives, conditional assessment of assets and accuracy of amounts capitalised.

Indicators of changes in useful lives

- In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:

✓The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed

✓ The use of the asset has changed, because of the following:

- The entity has changed the manner in which the asset is used
- The entity has changed the utilisation rate of the asset.
- The entity has made a decision to dispose of the asset in a future reporting period(s).
- Technological, environmental or other changes that occurred during the reporting period that have, or will, change the use of the asset
- The asset was idle or retired from use during the reporting period

Indicators of changes in useful lives

- ✓ The asset is approaching the end of its previously expected useful life.
- ✓ Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed
- ✓ Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution
- ✓ There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period
- ✓ The asset is assessed as being impaired in accordance with GRAP 21 and GRAP 26

Existence

Blind Spots

- Assets listed in the FAR could not be verified during inspection.
- Missing asset tags, GPS coordinates
- Disposed or stolen asset still recorded on the FAR

Recommendations

- As a minimum physical asset verification should performed at each reporting date. (FAR to ground)
- Review of asset register to ensure it is GRAP compliant
- Review disposal documentation and listings. Review insurance claim schedule for any write offs.

Validation of the asset register

- Validation of the asset register involves verification to show that the information contained in the register is complete and accurate as at a certain date.
- During that period, assets will have been acquired, enhanced and disposed of. Validation of figures to be used for opening balances is, therefore, required.
- Lists of additions, enhancements and disposals should be generated and centrally reviewed for reasonableness.
- **Validation is also required on an ongoing basis.**
- In most cases, there will be some asset movements (additions, enhancements and disposals) between the original valuation and loading of information into the asset register and the reporting date.
- This information should be maintained and reconciled and appropriately recorded in the asset register.

Conclusion

- Correct budgeting for capital assets to allow for accurate transacting and reporting.
- Review of accounting policies to ensure alignment with asset management policy and asset register.
- Adherence with AFS plan to allow for early reviews of FAR.
- Timing on appointment of consultants.
- Strengthen partnership with PMU for accurate reporting on projects.
- Accurate disclosure in compliance with GRAP.

THANK YOU