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TREASURY
REPUBLIC OF SOUTH AFRICA

GRAP 2 - CASH FLOW STATEMENT

15 July 2026

Presented by: KZN Provincial Treasury

Overview

- Lessons learned and common challenges
- Alignment of supporting schedules, trial balance and AFS
- Audit readiness and practical application
- Supporting documentation and reconciliation of cash balances
- Key takeaway – enhancing the AFS specimen and disclosure notes
- Practical examples

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LESSONS LEARNED / COMMON CHALLENGES

Question:

- What processes did municipalities in KZN implement to improve cash flow statement preparation quality?
- How important is the alignment between supporting schedules, the trial balance, and the financial statements in getting the cash flow statement right?

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Common Challenges – Why Findings Recur

- Most audit findings relate to cash generated from operations and investing activities, due to the various factors:
  - ❑ Late processing of adjustments and failure to update the cash flow statement
  - ❑ Inadequate understanding of the underlying transactions and root causes of prior-year audit findings
  - ❑ AFS preparation software limitations
  - ❑ Insufficient detail in disclosure notes. Even a well-designed template cannot compensate for inadequate underlying information
  - ❑ Incorrect application GRAP 2 principles
  - ❑ Poorly designed or inadequate cash flow statement working papers
  - ❑ Supporting schedules do not agree to the general ledger or trial balance
  - ❑ Failure to implement review comments and recommendations

Processes Implemented to Improve Quality

- The improvement in the quality of cash flow statement preparation and the reduction in audit findings can be attributed to the following initiatives:
  - ❑ A research conducted on 51 municipalities in KZN
  - ❑ Development of comprehensive cash flow statement guidance material
  - ❑ Several CFO Forums focusing on cash flow statement preparation
  - ❑ Municipalities applied the principles learned from the CFO Forums and other cash flow statement workshops conducted by other stakeholders
  - ❑ Municipalities improved review processes prior to submission to the Auditor-General

Why Alignment with the AFS Is Critical

- Alignment is the foundation of a credible cash flow statement. Without alignment, the cash flow statement cannot be accurately prepared, reperformed, reviewed, or audited
- Cash flow statement draws on the SOFP, SOFPER, notes and schedules
- A reliable cash flow statement requires that:
  - ❑ Supporting schedules agree to the general ledger and trial balance
  - ❑ The trial balance agrees to the AFS and notes
  - ❑ The AFS notes agree to the supporting schedules
  - ❑ Opening and closing balances reconcile
  - ❑ Cash flow statement workings agree to the underlying financial information

AUDIT READINESS AND PRACTICAL APPLICATION

Question:

- For municipalities facing cash flow statement findings, what are the top three actions they should take immediately to prepare for the next audit cycle?
- What supporting documentation should municipalities ensure is readily available to support their cash flow statement figures?
- How should municipalities approach the reconciliation between opening and closing cash balances, and what are the common pitfalls?

Action 1 – Understand the Root Cause

- Review prior-year findings
- Determine the root cause of the finding:
  - ❑ Was it a GRAP 2 misinterpretation?
  - ❑ Was supporting information missing?
  - ❑ Were reconciliations incomplete, or was there a calculation error?
  - ❑ Was it a system limitation or a flawed working paper?
- Develop action plan, responsible officials, target dates and monitoring in an action plan

Action 2 – Enhance Technical Knowledge

- Work through GRAP 2, its NT Implementation Guideline, ASB publications, Treasury material and relevant material from other stakeholders
- Understand that both the face of the AFS and the disclosure notes are used to prepare the cash flow statement
- Understand the calculation and formula behind each line item
- Focus on understanding:
  - ❑ Changes in working capital: capital and retention creditors, debtors with credit balances, leave accruals, VAT, interest receivable and payable
  - ❑ Non-cash transactions, including items not separately presented on the face of AFS, such as leave accrual
  - ❑ Items to include in the Cash generated from operations note

Action 3 – Strengthen the Working Paper

- Enhance or develop a new working paper. Take ownership of the working paper. Avoid relying on a consultant's working paper without a thorough review
- Test and review (internal audit, audit committee, stakeholders)

Cash paid for the acquisition of property, plant and equipment illustrative example:

Item	2026	2025
Opening balance – retention creditors	xxxx	xxxx
Opening balance – payables relating to capital expenditure	xxxx	xxxx
Asset additions during the year	xxxx	xxxx
Less: Lease additions	(xxxx)	(xxxx)
Less: Donated assets	(xxxx)	(xxxx)
Closing balance – retention creditors	(xxxx)	(xxxx)
Closing balance – payables relating to capital expenditure	(xxxx)	(xxxx)
Cash paid for the acquisition of property, plant and equipment	**xxxx**	**xxxx**

Supporting Documentation for the Audit File

- The extent of supporting documentation required depends on the methodology used to prepare the cash flow statement:
  - ❑ **AFS only**: the cash flow statement working paper is sufficient provided the disclosure notes are complete and sufficiently disaggregated
  - ❑ **AFS and records**: the working paper, plus supporting schedules such as interest received from debtors and a breakdown of trade payables
  - ❑ **Records only**: all schedules supporting each line item presented on the cash flow statement
- Reconciliations and review are required in every case

Reconciling Opening and Closing Cash Balances

- Confirm the prior-year audited closing balance and agree it to the current-year opening balance
- Add net cash generated or used, and agree the closing balance to the cash and cash equivalents note, bank reconciliations, investments and the SOFP
- If not balancing, investigate the common causes of differences:
  - ❑ Incorrect opening balances, unrecorded journals and late audit adjustments
  - ❑ Cash flows classified incorrectly, and receivables and payables not reconciled
  - ❑ Retention creditors and capital payables not being considered separately
  - ❑ Differences between the notes and the financial statements
  - ❑ VAT balances not being appropriately considered
  - ❑ Errors within the cash flow statement working paper

CLOSING “KEY TAKEAWAY” QUESTION

Question:

- If you could change one thing in municipal cash flow preparation nationally, what would it be and why?

Key Takeaway – Enhance the system & AFS Specimen

- The AFS preparation software needs to be enhanced
- AFS specimen and the specific disclosure notes need to be enhanced
- The focus should be on:
  - ❑ System to be updated to incorporate changes in working capital adjustments
  - ❑ Improving the AFS specimen and the supporting schedules
  - ❑ Implementing the proposals on ASB's Research Paper Desktop Review of Cash Flow Statements Presented in the Financial Statements
  - ❑ Updating the GRAP 2 Implementation Guideline
  - ❑ Developing a standard working paper template

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PRACTICAL EXAMPLES

Extracts from the pre-audit and audited AFS of a municipality.

In this section:

- Lack of disaggregation in the disclosure notes
- Non-cash items included in expenditure
- Additions recognised, not cash paid
- The effect on the cash flow statement, and the disclosure changes needed

AFS Snapshot – Lack of Disaggregation

Payables are shown as one line. Neither the AFS nor the note separates operating creditors from capital creditors.

Statement of Financial Position – current liabilities

Liabilities			
Current Liabilities			
Operating lease liability	13	14 541	8 617
Payables from exchange transactions	14	686 894 980	563 502 868
Consumer deposits	15	364 371	368 552
Employee benefit obligation	16	1 482 000	1 140 018
Unspent conditional grants and receipts	17	22 259 634	26 600 510
Provisions	18	1 541 972	820 292
		712 557 498	**592 440 857**

Note 14 – Payables from exchange transactions

14. Payables from exchange transactions

Trade payables	664 466 379	541 222 598
Retentions	6 266 479	6 266 479
Accrued leave pay	5 151 137	4 993 308
Debtors received in advance	3 631 351	3 516 874
Unallocated receipts	137 243	1 324 667
Salary Suspense	5 928 808	4 971 087
13th Cheque accrual	1 313 583	1 207 855
	686 894 980	563 502 868

What each line relates to on the cash flow statement

Trade payables → payments to suppliers, finance costs, and acquisition of assets
Retentions → acquisition of assets
Accrued leave pay, salary suspense, 13th cheque accrual → employees
Debtors received in advance, unallocated deposits → customers

Note: the extracts on this and the next two slides are not split between the pre-audit and the audited AFS. There were no material differences in the position, the performance or these notes.

AFS Snapshot – Finance Costs

Finance costs of R26 341 612 were not paid in cash. The note shows the expense includes non-cash charges.

Statement of Financial Performance – expenditure

Expenditure			
Employee related costs	27	(68 802 172)	(62 296 963)
Remuneration of councillors	28	(3 601 604)	(3 094 715)
Construction contract expenditure (INEP)	53	(797 391)	(27 196 661)
Depreciation and amortisation	29	(14 890 002)	(14 814 212)
Finance costs	31	(26 341 612)	(33 548 952)
Debt impairment	32	5 744 529	(14 558 711)
Bulk purchases	33	(81 004 140)	(72 721 413)
Contracted Services	34	(7 623 725)	(5 799 456)

Note 31 – Finance charges

31. Finance charges

Finance cost post retirement plan	1 898 620	1 828 639
Interest and penalties	23 593 616	29 162 520
Provision of landfill site (unwinding)	392 998	2 097 068
Finance cost long service awards	456 378	460 725
	26 341 612	33 548 952

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2030 NDP

AFS Snapshot – Additions Are Not Cash Paid

The PPE note shows additions of R23 165 212. Additions are recognised, not paid. The figure includes retentions, capital payables and non-cash acquisitions.

Note 10 – Reconciliation of property, plant and equipment (2025)

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	21 402 716	-	-	-	-	-	21 402 71
Buildings	41 561 079	-	-	(2 477 857)	-	32 552	39 115 77
Infrastructure	125 198 409	-	1 251 739	(9 763 650)	(1 251 739)	-	115 434 75
Other property, plant and equipment	3 198 068	202 096	(1 150 000)	(1 175 919)	(32 599)	-	1 041 64
Work in progress	23 339 601	22 963 116	-	-	-	-	46 302 71
Leased assets	1 522 185	-	-	(761 092)	-	-	761 09
Landfill site	1 398 524	-	(536 433)	(698 868)	-	-	163 22
	217 620 582	**23 165 212**	**(434 694)**	**(14 877 386)**	**(1 284 338)**	**32 552**	**224 221 92**

- The same R23 165 212 was reported as purchase of property, plant and equipment, with no adjustment

AFS Snapshot – Pre-Audit and Audited AFS

The same municipality and the same year.

Pre-audit AFS

Payments			
Employee costs		(68 940 458)	(61 637 839)
Suppliers		(31 945 174)	(86 535 458)
Finance charges		(26 341 612)	(4 804 950)
		(127 227 244)	(152 978 247)
Net cash flows from operating activities	37	**27 158 977**	**17 245 039**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(23 165 212)	(18 677 388)
Purchase of other intangible assets	11	-	(14 550)
Movement on financial assets		(102 496)	2 343 558
Other movement in property, plant and equipment		2 241 257	-
Net cash flows from investing activities		**(21 026 451)**	**(16 348 380)**

Audited AFS

Payments			
Employees and Councillors		(72 253 177)	(61 637 839)
Suppliers, Service Providers and Other Suppliers		(96 393 348)	(86 535 458)
Finance charges		-	(4 804 950)
Transfers and Subsidies		(64 200)	-
		(168 710 725)	(152 978 247)
Net cash flows from operating activities	37	**18 651 786**	**17 245 039**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(12 650 365)	(18 677 388)
Purchase of other intangible assets	11	-	(14 550)
Movement on financial assets		-	2 343 558
Net cash flows from investing activities		**(12 650 365)**	**(16 348 380)**

- Finance charges of R26 341 612 were the SOFPER expense. That expense includes non-cash items, and interest payable to Eskom that sits in trade payables. It no longer flows into the cash flow statement
- Purchase of PPE moved from R23 165 212 to R12 650 365 after adjusting retentions, capital payables and non-cash additions
- Only the cash flow statement changed materially. The position, the performance and the notes were not restated
- **The corrections were made through the audit, not through preparation. The audited AFS still does not split trade payables in Note 14, so the corrected figures cannot be traced.**

Proposed Enhancements to the Disclosure Notes

Presentation of disclosure notes to enable accurate calculation of the cash flow statement	
Property, plant and equipment: show additions that are not cash items – donations, finance leases, changes in provisions, and depreciation capitalised to other assets	**Trade ayables and accruals**: show payables relating to capital expenditure (property, plant and equipment, intangible assets, investment property and heritage assets), general expenditure, and interest payable (for example, Eskom)
Receivables from exchange and non-exchange transactions: show interest on outstanding receivables separately	**Advance payments and debtors received in advance**: split between exchange and non-exchange transactions
Irrecoverable debts written off: show write-offs relating to exchange transactions, non-exchange transactions, VAT receivable, and interest received from debtors	**Finance costs**: show finance costs relating to payables (late payments), long service awards, finance leases and borrowings, and landfill site provisions
Prepayments: distinguish prepayments relating to capital expenditure from those relating to operations	**Unspent grants**: split the unspent balance between capital and operational grants
Non-current assets: add details of the VAT input accrual	**Deferred income** (for example, unspent INEP accounted for i.t.o GRAP 11): show the total amount received

Links

- Links to resources:
  - Accounting Standards Board (ASB) GRAP 2 on Cash Flow Statements: Cash Flow Statements (GRAP 2)
  - Accounting Guideline on GRAP 2 on Cash Flow Statements: Accounting Guideline on Cash Flow Statements (GRAP 2)
  - Accounting Standards Board (ASB): Research Paper on The Desktop Review of Cash Flow Statements Presented in the Financial Statements

THANK YOU

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Questions

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