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FOR YOU

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CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Provincial Treasury

# AFS CONSISTENCY WORKSHOP

Part 1: Audit Preparedness | Part 2: Audit Assertions & AFS Line Items

## Audit Preparedness & Audit Assertions

15 July 2026

# Audit Preparedness in Municipalities

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# Audit Preparedness in Municipalities

**Continuous Audit Readiness**

- Audit preparedness is a year-round discipline ensuring accurate and credible financial information.

**Strong Internal Controls**

- Internal controls with reconciliations and segregation of duties detect and correct errors promptly.

**Benefits of Preparedness**

- Audit readiness leads to efficient audits, fewer adjustments, and stronger stakeholder confidence.

**Transparency and Accountability**

- Preparedness supports transparent reporting and accountability.

# Foundations Supporting Credible Audit Outcomes

**Credible Financial Statements**

- Preparation of Annual Financial Statements compliant with GRAP ensures accuracy in municipal finances.

**Reliable Performance Information**

- Performance indicators aligned to IDP and SDBIP with verifiable evidence ensure credible reporting.

**Regulatory Compliance**

- Municipalities must comply with MFMA, GRAP, supply chain, and performance management regulations.

**Comprehensive Audit File**

- A well-structured audit file contains all necessary supporting documentation for financial disclosures.

# Internal Audit as an Enabler

# Internal Audit as an Enabler

**Review of Financial Statements**
- Internal audit reviews draft financial statements to identify errors, disclosure gaps, and compliance issues before submission.

**Audit File Readiness Assessments**
- Internal audit performs mock audits to assess completeness and adequacy of documentation aligned with MFMA Circular 50 & ISA 230.

**Compliance Audits**
- Audits assess adherence to SCM regulations, contract management, and UIFW processes to reduce compliance risks.

**Performance Information Reliability**
- Internal audit tests validity of performance indicators and supporting evidence to ensure reliability of reported data.

# Internal Audit as an Enabler – cont.

**Support During the Audit**

- Internal audit assists management by coordinating audit queries and clarifying control processes to prevent issues escalating.

**Providing Insight and Independence**

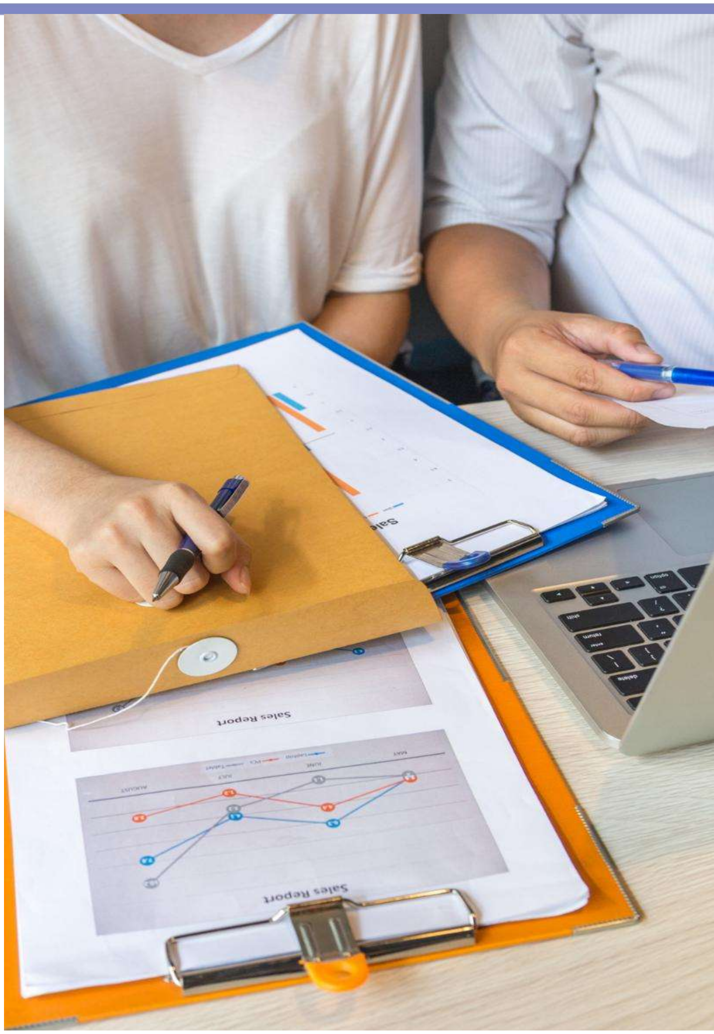
- Internal audit maintains independence while offering insight into controls and past issues aiding management responses.

**Post-audit Monitoring**

- Internal audit monitors the implementation of action plans, verifying corrective actions address root causes effectively.

**Accountability and Follow-up**

- Reporting progress to audit committee strengthens accountability and reduces repeat findings in future audits.



# Common Audit Failures and Best Practice

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# Common Audit Failures and Best Practice


### Common Audit Failures

- Failures arise from poor record keeping, delayed reconciliations, weak controls, and ignored prior audit recommendations.

### Year-Round Audit Readiness

- Municipalities adopt continuous audit readiness by resolving findings early and performing regular control activities.

### Focused Internal Audits

- Interim internal audits target high-risk areas to mitigate risks before final audit reviews.

### Final Quarter Preparations

- Final quarter intensifies audit file preparation and review of draft annual financial statements.

# EFFECTIVE AUDIT MANAGEMENT

# Effective Audit Management

**Audit Steering Committee** (ASC)

- ASC meetings are an important tool/platform that facilitates and manages a high performing and structured audit environment. These meetings should be used to:

  - Ensure timely submission of credible **Audit Files**
  - Enhance audit **readiness**
  - Monitor audit progress and findings **(RFI &COMAFs)**
  - Resolve audit issues **proactively**
  - **Strengthen** internal controls and audit evidence
  - Facilitate **effective communication** between AGSA and the municipality

# Connecting the DOTS

# From Audit Preparedness to Audit Assertions

**PART 1: AUDIT PREPAREDNESS**

- ✓ Year-round audit readiness discipline
- ✓ Credible AFS preparation per GRAP
- ✓ Internal audit as an independent enabler
- ✓ Effective audit management & documentation
- ✓ Proactive resolution of audit findings

LEADS TO

**PART 2: AUDIT ASSERTIONS**

- → The Five Financial Statement Elements
- → Mapping assertions to AFS line items
- → GRAP standards per element
- → ISA 230 documentation requirements
- → Practical: evidence per assertion

PART 2

# Audit Assertions

Understanding What Auditors Test — and How to Prepare the Evidence

# The Five Elements of the Financial Statements

The building blocks auditors examine — grouped by the statement they belong to

### 🏛 Assets

Resources controlled by the municipality from past events, expected to yield future economic benefits or service potential — e.g. infrastructure, cash, debtors.

### 📋 Liabilities

Present obligations arising from past events, whose settlement is expected to result in an outflow of resources — e.g. loans, creditors, unspent grants.

### ⚖ Net Assets / Equity

The residual interest in the assets after deducting liabilities — accumulated surplus, funds and reserves.

**STATEMENT OF FINANCIAL PERFORMANCE**

### ↗ Revenue

Inflows of economic benefits or service potential during the period — e.g. property rates, service charges for electricity and water, grants.

### ↘ Expenditure

Outflows or consumption of resources during the period — e.g. employee costs, bulk purchases, depreciation, repairs and maintenance.

# Mapping Assertions to the Financial Statement Elements

Which assertion matters for which element — the auditor's testing lens

| Assertion | Plain-language meaning | Assets | Liabilities | Net Assets/ Equity | Revenue | Expenditure |
|---|---|---|---|---|---|---|
| **Existence / Occurrence** | Item really exists / transaction genuinely happened and relates to the entity | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Completeness** | Nothing that should be recorded has been omitted or understated | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Rights & Obligations** | Entity controls the asset / is obliged to settle the liability | ✓ | ✓ | — | — | — |
| **Accuracy / Valuation & Allocation** | Amounts recorded and measured at appropriate values per applicable GRAP standard | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Classification** | Recorded in the proper accounts and categories | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Presentation & Disclosure** | Appropriately aggregated, clearly described and disclosed in the AFS notes | ✓ | ✓ | ✓ | ✓ | ✓ |
| *Note: Occurrence, Cut-off and Accuracy test classes of transactions (Revenue, Expenditure); Existence, Rights & Obligations and Valuation test account balances (Assets, Liabilities, Equity) — both sets often reinforce each other.* | | | | | | |

# GRAP Standards Behind Each Element

The accounting rules that shape how each figure is recognised, measured and disclosed

### Assets

GRAP 17 — Property, Plant & Equipment

GRAP 16 — Investment Property

GRAP 31 — Intangible Assets

GRAP 12 — Inventories

GRAP 104 — Financial Instruments

GRAP 21/26 — Impairment

### Liabilities

GRAP 104 — Financial Instruments (loans, creditors)

GRAP 19 — Provisions & Contingent Liabilities

GRAP 23 — Revenue (unspent conditional grants)

GRAP 25 — Employee Benefits

GRAP 13 — Leases

### ↗ Revenue

GRAP 9 — Revenue from Exchange Transactions

GRAP 23 — Revenue from Non-exchange Transactions (rates, grants)

### ↘ Expenditure

GRAP 25 — Employee Benefits

GRAP 17 — Depreciation

GRAP 12 — Inventory consumed (bulk purchases)

GRAP 19 — Provisions

**GRAP 109 — Accounting by Principals and Agents (CROSS-CUTTING)**

Determines whether the municipality recognises the full amount (as principal) or only a commission/fee (as agent) — affecting assets, liabilities, revenue and expenditure simultaneously.

AUDITING STANDARD

# ISA 230 Audit Documentation

The record of audit procedures performed, evidence obtained, and conclusions reached — the auditor's proof that the audit was properly conducted.

## Purpose

Provides evidence of the basis for the audit opinion and confirms the audit complied with standards; supports planning, review and accountability.

## What must be documented

Nature, timing and extent of procedures; results and evidence obtained; significant matters, judgements and conclusions reached.

## Sufficient & appropriate

Enough detail that an experienced auditor with no prior connection could understand the work done and conclusions reached.

## Timing & retention

Documentation prepared on a timely basis; the final audit file assembled after the report date and retained per the required period.

# Audit Documentation — the Preparer's View

*You build the evidence the auditor tests. Prepare it with the assertion in mind.*

### 1 WHAT to prepare

- Referenced, ordered audit file following the AFS/GRAP structure
- Registers, reconciliations, source documents, confirmations
- Support provided for every trial balance figure in the AFS

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### 2 WHY it matters

- Streamlines the audit and significantly reduces audit queries
- Demonstrates figures are free from material misstatement
- Evidences oversight, internal controls and accountability to oversight bodies

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### 3 HOW it supports assertions

- Registers & physical verification → Existence
- Reconciliations to source → Completeness & Accuracy
- Agreements & title deeds → Rights & Obligations
- Disclosure checklists → Presentation & Disclosure

**MFMA Circular 50:**

The audit file is prepared under the CFO's direction and signed by the Municipal Manager before the audit commences — well-prepared documentation is the preparer's single biggest lever on the audit outcome

# Putting It Together — Assets & Liabilities

PART 1 OF 2

From the element, to the GRAP standard, to the documentation, to the assertion it proves

| Element / Example | GRAP Standard | Documentation to provide | Assertion supported |
|---|---|---|---|
| **ASSET \| Water Reticulation Plant** | GRAP 17 — PP&E | Asset register: cost, acquisition date, useful life & residual value | **Existence · Accuracy / Valuation** |
| | GRAP 17 | Physical verification evidence (signed inspection sheet / site photo) | **Existence** |
| | GRAP 17 | Purchase invoices / construction contracts vouched to cost; depreciation recalculation | **Accuracy · Valuation & Allocation** |
| | GRAP 21 / 26 — Impairment | Impairment assessment workpaper and AFS disclosure note | **Valuation · Presentation & Disclosure** |
| **LIABILITY \| Leased Motor Vehicle** | GRAP 13 — Leases | Signed lease agreement: terms, payment schedule & obligation | **Rights & Obligations · Existence** |
| | GRAP 13 / GRAP 104 | Lease liability amortisation schedule reconciled to trial balance | **Accuracy / Valuation · Completeness** |
| | GRAP 13 | Short-term vs long-term liability split; AFS disclosure note | **Classification · Presentation & Disclosure** |

# Putting It Together — Revenue & Expenditure

Transaction examples: the direction of the test and the documentation that proves the assertion

| Element / Example | GRAP Standard | Documentation to provide | Assertion supported |
|---|---|---|---|
| **REVENUE \| Sales of Electricity** | GRAP 9 — Revenue from Exchange Transactions | Metered consumption records traced to billing system and revenue ledger | **Occurrence · Accuracy** |
| | GRAP 9 | Sample of customer accounts traced from meter reading to invoice to ledger | **Completeness** |
| | GRAP 9 | Year-end cut-off testing of last billing period (straddle test) | **Cut-off** |
| | GRAP 109 — Principals & Agents | Assessment of principal vs agent role for the electricity supply function | **Classification · Presentation & Disclosure** |
| **EXPENDITURE \| Purchases of Bulk Water** | GRAP 12 — Inventories / GRAP 9 | Supplier invoices agreed to goods received notes and to the expenditure ledger | **Occurrence · Accuracy** |
| | GRAP 12 | Goods received notes at year-end traced to invoices (accruals completeness) | **Cut-off · Completeness** |
| | GRAP 12 | Invoice postings checked to correct general ledger accounts and cost centres | **Classification** |

**Know the element → apply the right GRAP standard → prepare documentation with the assertion in mind. Well-prepared evidence drives a cleaner audit outcome.**

# KEY MESSAGE

**Audit readiness is a continuous, year-round discipline**

- Maintain reconciliations, complete audit files and timely evidence to avoid last-minute pressure.

**Internal audit and leadership together drive credibility**

- Internal audit provides independent assurance and actionable insight; senior leadership must own accountability and oversight.

**Apply the right GRAP standard and assertion mindset to every AFS item**

- Know which assertions (existence, completeness, rights & obligations, valuation, classification, presentation) auditors will test and prepare evidence accordingly.

**Strong documentation (MFMA Circular 50) reduces queries and audit risk**

- A referenced, well-structured audit file signed off by management materially shortens audit time and improves outcomes.

**Proactive governance and targeted remediation prevent repeat findings**

- Use ASC/steering mechanisms, interim audits and follow-up to close root causes before year-end.

# Thank you

Thank you for your participation

Part 1: Audit Preparedness 2026 | Part 2: Audit Assertions & AFS Line Items

Western Cape Government — Provincial Treasury | 2026 MFMA AFS Consistency Workshop