From Recognition to Derecognition: Disposals, Transfers and Write Offs, Eliminating Asset Related Audit Findings Abram Mokgohloa

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The Asset Lifecycle: From Recognition to Derecognition

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Recognition: An asset is capitalized when it is controlled, its cost can be measured, and it is expected to yield future economic benefits.

Depreciation & Valuation: Assets are depreciated over their useful lives to allocate their cost. Carrying values must be continuously reviewed for impairment.

Derecognition: An asset is removed from the financial records upon disposal, or when no future economic benefits are expected from its use or sale.

Disposals, Transfers, and Write-Offs

Understanding the distinction between these events ensures the correct accounting treatment and limits audit exposure

Disposals: Sales/Auctions
The accountant must update depreciation up to the date of disposal, eliminate the asset's original cost and accumulated depreciation, and recognize a gain or loss on the difference between the carrying amount and the proceeds.

Transfers:
Moving an asset physically between departments or locations. This requires an internal transfer form, an updated location tag, and a modification in the Fixed Asset Register (FAR) to ensure the correct department is allocated depreciation.

Write-Offs: The asset holds no further economic value (obsolete, completely destroyed, lost, or stolen) and is reduced to zero. A write-off creates a loss equal to the remaining book value.

Eliminating Audit Findings

- **Mandatory Physical Verification:**
- Conduct periodic, independent physical counts of all assets to reconcile against the FAR.
- **Real-Time Documentation:**
- Maintain a centralized trail of all documentation.
- **Strict Segregation of Duties**
- **Delegation of Authority:**

Audit findings usually happen because the physical reality does not match the accounting ledger.

1. **Strengthening Asset Management**

Move from ‘Register’ to ‘Control’

- Perform reconciliation o Asset register to GL/TB –
- Communication

Asset Technical Committee
Asset Management Steering Committee
Operational Meetings

3. Achieving Audi t Readiness

2. Enhancing Compliance, and

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Build MFMA + GRAP into the system

MFMA/GRAP Rule	System Control	Audit Finding Prevented
s14: Council approval for disposal	Workflow blocks journal without council res upload	Unauthorized write-offs
s63: Full asset record	Mandatory fields: location, class, date	Incomplete disclosure
GRAP 17: Correct depreciation	System auto-calc per asset class	Misstatement of expense

If the system won't allow it, you can't break compliance

Audit Readiness

Keep 3 Folders Ready

Existence and completeness: verification reports where applicable external report (experts)

Valuation: Purchase docs + depreciation schedule + impairment test and other assessment performed during the year.

Rights & Disposals: Title deeds + council resolutions + auction lists

WHEN AGSA arrives, you hand over folders. Not excuses.

AUDIT TRAIL/POE (SUPPORTING DOCUMENTS and schedules)

Common Audit Findings from the floor.

Thank You!

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