



agriculture, land reform
& rural development

Department:
agriculture, land reform & rural development
NORTHERN CAPE PROVINCE
REPUBLIC OF SOUTH AFRICA

Subsequent events Policy

TABLE OF CONTENTS

1	Key definitions & abbreviations.....	2
2	Introduction.....	3
3	Legislative framework.....	3
4	Objectives	3
5	ROLES & RESPONSIBILITIES	4
5.1	Role of the Executive Authority	4
5.2	Role of the Accounting officer.....	4
5.3	Role of the Auditor General	4
6	SCOPE	4
6.1	Types of events	4
6.2	Authorising the financial statements for issue	5
6.3	Recognition and measurement	5
6.4	Recognised subsequent events	5
6.5	Non-recognised subsequent events	6
7	DISCLOSURE	7
7.1	Disclosure of date of authorisation for issue	7
7.2	Updating disclosure about conditions at the reporting date	7
7.3	Disclosure of non-adjusting events after the reporting date	7
7.4	Effective date	8

1. KEY DEFINITIONS AND TERMS

Subsequent events are events or transactions sometimes occur subsequent to book closure, but prior to the issuance of the financial statements that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements.

Management comprises those persons responsible for planning, directing and controlling the activities of the department, including those charged with the governance of the department in accordance with legislation, in instances where they are required to perform such functions.

Reporting date means the date of the last day of the financial year end to which the financial statements relate.

Department means the Department of Agriculture, Land Reform and Rural Development (hereinafter referred to as DALRRD)

Accounting Officer is the Head of the Department.

Generally recognised accounting practice means an accounting practice complying in material respects with standards issued by the Accounting Standards Board.

Main division within a vote means one of the main segments into which a vote is divided and which -

- (a) specifies the total amount which is appropriated for the items under that segment; and
- (b) is approved by Parliament or a provincial legislature, as may be appropriate, as part of the vote.

Unit Head is a member of the Management Team responsible for a sub-programme within the Department of Agriculture, Land Reform and Rural Development.

(Significant items) Materiality: Information is material if its omission, misstatement, or non disclosure could influence the decisions of users made on the basis of the financial statements.

- (a) an amount which is equal to or greater than 5% of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and
- (b) an amount which is equal to or less than 2% of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary.

2. INTRODUCTION

- 2.1. This policy seeks to define and provide a framework for the events after the reporting date of the Department of Agriculture, Land Reform and Rural Development (DALRRD) within the guiding principles of the Public Finance Management Act (PFMA), Treasury Regulations, National Treasury Guidelines, Provincial Treasury Guidelines, Generally Recognised Accounting Practices (GRAP), and Accounting Standards and to promote good financial management practices.
- 2.2. In order to maintain a comprehensive and accurate set of financial statements the financial statements should be updated frequently in order to ensure each event and/or transactions is documented in relation to the above prescripts.

3. LEGISLATIVE FRAMEWORK

Public Finance Management Act, Act No. 1 of 1999 (as amended by Act No. 29 of 1999)

Makes provision for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(a) of the PFMA.

Treasury regulations (issued 30 November 2012)

Section 18.2.2 (f) the accounting officer or accounting authority of a department must ensure that a proper planning is initiated for the preparation and finalisation of interim and annual financial statements, including a process for identifying events after the reporting date requiring disclosure or adjustments to the financial statements.

Generally Recognised Accounting Practice (May 2007)

In terms of GRAP Chapter 14 "*events after the reporting date*" set forth accounting standards for the framework for the preparation and presentation of financial statements.

The Financial Reporting Framework issued by National Treasury (31 March 2012)

The Accounting Officers report should include the nature of any events (adjusting and non-adjusting), favourable and unfavourable that occurred after the reporting date and the date of approval of the Annual Financial Statements.

Include an estimate of the financial effect of the subsequent non-adjusting events or a statement that such an estimate cannot be made.

4. OBJECTIVES

The objective of this policy is to establish principles and requirements for subsequent events.

In particular, this policy sets forth:

- (a) The period after the book closure date during which management of a reporting department shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements.
- (b) The circumstances under which the department shall recognize events or transactions occurring after the book closure date in its financial statements.
- (c) The disclosures that the department shall make about events or transactions that occurred after the book closure.

5. ROLES AND RESPONSIBILITIES WITH REGARDS TO SUBSEQUENT EVENTS

5.1 Executive Authority

The PFMA defines the executive authority in relation to a provincial department the executive authority is the member of the executive council (MEC) of the province who is accountable to the Legislature.

In terms of section 64 of the PFMA any directive by an executive authority of a department to the accounting officer of the department having financial implications for the department must be in writing.

5.2 Role of the Accounting Officer

5.2. The Accounting Officer is in terms of the provisions of this Act responsible:

- To make an announcement regarding the department's intentions in relation to significant events and/or transactions that materialize during the book closure until the authorization of financial statement.
- The announcement should be transparent and should be documented in the annual report under the accounting Officer's report.

5.3 Auditor General

The Auditor-General responsibility is to express an opinion on the financial statements, to express a conclusion on the annual performance report in the management report and to report on material findings relating to compliance with specific requirements in key applicable laws and regulations as set out in the General Notice issued in terms of the Public Audit Act, 2004 (Act No. 25 of 2004).

6. SCOPE

The department intends to prepare and present financial statements on the accrual basis of accounting and applies this policy in the accounting for, and disclosure of, events after the reporting date.

6.1 Types of events

Subsequent events are significant events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide additional evidence of conditions that existed at the reporting date, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events); and
- (b) those that provide evidence about conditions that did not exist at book closure but arose subsequent to that date (that is, non-recognised subsequent events).

6.2 Authorising the financial statements for issue

Financial statements are considered "issued" when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with National and Provincial Treasury. The financial statements are "available to be issued" when they are complete in a form and format as determined by Treasury and all approvals necessary for issuance have been obtained.

The date of authorisation for issue is the date on which the financial statements have received approval from management to be issued to the executive authority. The audit opinion is provided on those finalised financial statements.

6.3 Recognition and measurement

The Department recognizes in its financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at book closure, including the estimates inherent in the process of preparing financial statements.

In the period between the reporting date and the date of authorisation for issue, the Accounting officer announces the department intentions in relation to certain matters.

Whether or not these announced intentions would require recognition as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In this regard the announcement of the department intentions will not lead to the recognition of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

6.4 Recognized subsequent events (understated)

The department shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date.

The following items and related items will be regarded as recognized subsequent events.

This will require the department to adjust the amounts recognized in its financial statements (example):

- (a) **Settlement of a Contingency:** In the financial statements for the year ended 31 March 2012, DALRRD has created a provision for damages of R600 000.00 assuming a 60% probability that it will lose the legal case. The court decided that case against DALRRD on 15 May 2012. The financial statements are due for issue on 10 August 2012. The department should adjust the provision upward by R400 000.00 to present a R1 million liability for damages because the judgment has confirmed the amount and existence of present obligation as at 31 March 2012.
- (b) **Indication of existence of impairment loss:**
 - (i) The insolvency of a debtor that occurs after the reporting date confirms that loss existed at the reporting date on a receivable account and that the department needs to adjust the carrying amount of the receivable account; and
 - (ii) Sale of inventories at below cost indicates that the net realizable value was lower than the cost and that inventory was overstated at book closure indicates that the net realizable value was lower than the cost and that inventory was overstated at book closure.

(c) Other

- (i) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date.
- (ii) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another department under a revenue sharing agreement in place during the reporting period.
- (iii) The determination after the reporting date of the amount of performance bonus payments to be made to staff if the department had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date.
- (iii) Discovery of any fraud or errors in the financial statements requires adjustment to the financial statements.

Events that are not recognized in currently issued financial statements but are rather accounted for in the next year financial statements will be regarded as non-adjusting events or non-recognized subsequent events.

6.5 Non- recognized subsequent events

The department shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but that arose after the book closure.

Some non-recognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, the department shall disclose the following:

- The nature of the event
- An estimate of its financial effect, or a statement that such an estimate cannot be made.

The following items and related items will be regarded as non-recognized subsequent events:

- (a) A decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue.
- (b) To provide/distribute additional benefits directly or indirectly to participants in a community service programme.
- (c) Sale of a bond or capital stock issued after the book closure date.
- (d) Settlement of litigation when the event giving rise to the claim took place after the book closure date.
- (e) Loss of plant or inventories as a result of fire or natural disaster that occurred after the book closure date.
- (f) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the book closure date.

7. DISCLOSURE

7.1 Disclosure of date of authorization

The department shall disclose the date through which subsequent events have been evaluated, as well as whether financial statements were authorized for issue and who gave that authorization.

The department will disclose the date through which subsequent events were considered and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The disclosure also requires the date through which the department evaluated subsequent events, as this information is important information for users of financial statements.

7.2 Updating disclosure about conditions at the reporting date.

If the department receives information after the reporting date, but before the financial statements are authorized for issue, about conditions that existed at the reporting date, it shall update disclosures that relate to these conditions, in the light of the new information.

The department needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorized for issue, even when the information does not affect the amounts that it recognizes in its financial statements.

7.3 Disclosure of non-adjusting events after the reporting date

If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, the department shall disclose the following for each material category of non-adjusting event after the reporting date:

- (a) The nature of the event.*
- (b) An estimate of its financial effect, or a statement that such an estimate cannot be made.*

The following items and related items will be treated as non-adjusting events after the reporting date that would generally result in disclosure:

- (a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since reporting date.
- (b) A decision after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact to the department.
- (c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by the department after the reporting date.
- (d) Announcing a plan to discontinue an operation or major programme.
- (e) Major purchases of assets, classification of assets held for, other disposals of asset or expropriation of major assets.
- (f) The destruction of a major building by a fire after the reporting date.
- (g) Announcing, or commencing the implementation of, a major restructuring.
- (h) The introduction of legislation to forgive loans made to entities or individuals as part of a programme.

- (i) Entering into significant commitments or contingent liabilities, for example, issuing significant guarantees after the reporting date.
- (j) Commencing major litigation arising solely out of events that occurred after the reporting date.

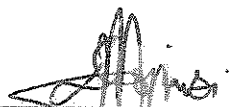
7.4 Effective date

This Standard becomes effective for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(a) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

8. Approval

8.1 The policy on subsequent events has been endorsed by management.

Approved by:



Mr. WVD-MOTHIBI
HEAD OF DEPARTMENT

Date: 31/01/2013