



The importance of applying GRAP 17 appropriately

In this opinion piece, we are going to deal with the importance of property, plant and equipment (PPE) and the appropriate accounting thereon in terms of GRAP 17, *Property, Plant and Equipment*. We will explore the value and advantages of GRAP 17 for both the users of the financial statements and management. We will also demonstrate how some of the key requirements of GRAP 17 which auditees typically receive audit findings on remain important due to their impact and not just merely being seen as non-compliance. To round up the discussion, we offer some recommendations to the accounting officers (AO) and accounting authorities (AA) on effectively implementing the requirements of GRAP 17 to ensure that public sector institutions derive the intended benefits.

The value and benefits of GRAP 17 to the AO/AA and users of the financial statements

The objective of GRAP 17 is to prescribe the accounting treatment of PPE in order to provide useful information on their management and use to users of the financial statements of public sector institutions. The financial statements are intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of financial statements include, among others, members of the legislatures, taxpayers, ratepayers, creditors, suppliers, non-governmental organizations, the media and employees. Applying GRAP 17 correctly can offer several benefits to public sector institutions and the users of financial statements including:

1. **Improved financial transparency:** By following GRAP 17 principles, public sector institutions can enhance their financial reporting thereby providing a clearer and more transparent view of their assets. This increased transparency can help stakeholders make informed decisions.
2. **Enhanced accountability and governance:** Proper application of GRAP 17 improves accountability as it shows that the public sector institution has sound financial management disciplines in place. This helps the institution to adequately keep track of their PPE records thereby ensuring proper governance and reducing the risk of mis-management and fraud.
3. **Reliable valuation:** GRAP 17 prescribes specific valuation methods that an entity may elect when valuing its PPE which will facilitate effective decision making by the entity. This would in turn also give the users of the financial statements confidence in the reported values of those PPE and a better understanding of the public sector institutions financial position.
4. **Comparability:** By adhering to the requirements of GRAP 17 in the recognition, measurement and disclosure of PPE a public sector institution can present information that is comparable over financial periods and across different entities. This enables the users of the financial statements to

evaluate the institution's performance in comparison with entities that are of similar size and nature effectively.

5. **Asset Management:** Adherence to GRAP 17 prompts and enables public sector institutions to maintain accurate records and to perform regular physical verifications and impairment assessments of its PPE and as a result, the institution can make informed decisions on repairs, maintenance and replacement of assets it uses to deliver services
6. **Compliance with accounting standards:** Adhering to GRAP 17 ensures compliance with the applicable financial reporting framework. This enhances credibility and trust in financial reporting thereby benefiting the public sector institution and its stakeholders.

Overall, the application of GRAP 17 enables management to provide credible, comparable and transparent information about an entity's PPE which allows the users to reach informed conclusions about leadership and management stewardship of a public sector institution's assets, its investment decisions as well as its ability to continue to achieve its service delivery obligations through the use of PPE.

The incorrect application of GRAP 17 and its potential to impact on service delivery

Despite the standard first being issued in 2010 and has been implemented by public sector institutions for quite some time even in the most recent audit cycles, we raised various findings on the incorrect application of the requirements of GRAP 17. What follows below is a discussion of how some of the findings we raise stand to impact an entity's ability to deliver on its mandate and provide services to the citizens within its jurisdiction.

- **Assets included on the fixed asset register that could not be physically verified**

There are instances where we could not verify the existence of assets included in the fixed asset register. This resulted in the overstatements of PPE in the annual financial statements and indicates internal control deficiencies around the safeguarding of entities' assets.

When an asset is bought, it is expected that this asset will be used to deliver a specific function or service. If the asset cannot be found, it means that these entities are unable to demonstrate the use of the investment that they have made in PPE which directly impact their ability to deliver services. Additional funds may need to be spent on finding these assets or their replacement whereas those funds could have been better used elsewhere.

The AA/AO must ensure that an entity's asset management policy incorporates regular asset verifications to verify the existence of all assets listed in the fixed asset. In addition, the AA/AO should ensure there is compliance with the asset management policy by ensuring management strictly adheres to it and where deviations occur appropriate action is taken against the responsible officials.

- **Assets not physically verified and assessed for impairment**

The verification of the existence and condition of an entity's assets is important as it affects its ability to carry out its operations and deliver services when assets are not operating as expected or cannot be located. Failure to perform regular asset counts and physical verifications means that an entity may not be able to identify instances where assets are missing/misplaced as well as

instances where there are signs of physical impairment which is what we find during our audits. Failure to perform physical verification of assets also delays in replacing assets that cannot be located or performing timeous repairs of those assets whose damage could have been identified and further damage could have been limited. Often assets that are physically impaired do not operate at an optimal level, left unchecked could also result in further damage or failure, which may also have an impact on the quality of services that are delivered to the public. The AO/AA should ensure that asset counts are performed with sufficient regularity by management to ensure that the results of these asset counts are reconciled to the accounting records to accurately reflect the nature and extent of the assets of the entity. Furthermore, when performing these asset counts, the assets' condition and functionality should be confirmed and where required, in the case of damaged and obsolete assets, impairments or write-offs are considered.

- **Assets that were physically damaged but not impaired by the entity**

As part of our audits, we identified assets that were physically damaged, however, no impairment assessment is done by management to determine the nature and the extent of the damage and to implement measures to rectify the situation.

The failure to perform an impairment assessment by an entity means that management does not have key information on the state of its assets and is unable to determine the extent of the damage and is not able to put adequate plans in place to either have those assets repaired or replaced to effectively ensure that these assets are working as intended.

The AO/AA should ensure that asset verification processes and procedures include the evaluation of impairment by management thereby ensuring that the entity's assets that are determined to be impaired are appropriately repaired or replaced as required.

- **Assets with a R0.00 carrying amount which are still in use**

Assets carried at R0.00 but are still in use are indicators that management have not appropriately assessed whether a possible revision of the useful lives of those assets over the years was required to reflect the actual period over which they will be used. An updated and accurate estimation and revision of the useful lives of assets is an important part of planning and budgeting for capital expenditure by an entity.

Under these circumstances, an entity also runs the risk of purchasing additional assets where existing assets can still deliver services and takes away from capital expenditure and impacts public spending that could be better used elsewhere. Appropriate planning for the acquisition of assets ensures the continuity of the entity's operations and enables the investment of resources where they are actually required to enable service delivery.

At the end of each reporting period, the AO/AA should ensure management appropriately evaluates whether there are indications that the entity's expectation about the useful lives of assets may have changed. Where such an indication exists, management should revise the expected useful life accordingly and account for the change as prescribed in GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

- **Work-in-progress not fairly presented**

Through physical verifications, there are instances where projects were identified that were capitalised as work-in-progress, however, no work is being performed on the project. This not only resulted in PPE being unfairly presented as required by GRAP 17 but it is also an indication of management's failure to implement a sound project management process which could lead to the entity incurring fruitless and wasteful expenditure.

This means that further funds will need to be spent on these projects to ensure that they continue

and reach completion in order for services to be delivered whilst there is nothing to show for the initial investments that were made on these projects.

The AO/AA should ensure that management establishes adequate project management disciplines to effectively monitor projects and maintain accurate record keeping of the actual costs incurred to support the costs capitalized as work-in-progress.

- **The use of consultants**

Over the past few years, it has been observed that numerous public sector institutions have enlisted the assistance of consultants to support their asset management processes and to comply with GRAP 17. However, the involvement of consultants has not always resulted in the desired outcome, as some of these entities continue to receive qualified audit opinions regarding their PPE.

One of the reasons for this is the insufficient skills within these entities in terms of asset management, including both capacity and competency. This inadequacy necessitates the use of consultants. Furthermore, the consultants often fail to effectively transfer their skills to an entity's staff, leaving them ill-equipped to carry out sound asset management and relying heavily on consultants.

Although consultants play a crucial role in resolving complex asset management issues, we have identified several issues with their appointment that was ineffective:

- Failure to conduct proper needs assessments prior to the appointment of consultants.
- Inadequate monitoring of consultants by the entity to ensure their compliance with the requirements of the memorandum of agreement.
- Incorrect application of GRAP 17 requirements by the consultants.

To address these challenges, it is imperative that the AO/AA assumes oversight responsibility for the utilization of public funds in the appointment of consultants. The AO/AA should ensure internal processes and controls over the appointment and management of consultants are developed and implemented by management and adhered to. This will help reduce reliance on consultants for asset management purposes and ensure the desired outcomes are achieved.

Conclusion on the importance of appropriately applying GRAP 17

The PPE that an entity invests in enables the entity to carry out its activities effectively and in utilizing and monitoring its assets appropriately through the use of sound internal controls enables services to be delivered. This in turn ensures that the entity delivers on its mandate; that the needs of the public are met; and there is adequate accountability.

Information on GRAP 17 and other GRAP standards, such as the standards themselves, guides, fact sheets, frequently asked questions as well as other valuable information is available on the Accounting Standards Board's (ASB's) website.

It is extremely important that the AO/AA, management, internal audit functions and audit committee members of public sector institutions keep up to date with the GRAP standards to enable them to fulfil their respective roles and responsibilities in relation to an entity's annual financial statements and to ensure there is accountability for the custody and effective management of an entity's assets.