

# GRAP Valuation Services



DDP has a team of expert Municipal Valuers who understand the highly complicated municipal landscape. Part of DDP's municipal consultancy services include GRAP (Generally Recognised Accounting Practice) compliant asset registers, for which our Valuers are well positioned to deal with requirements by Government.

## Importance

Compliant Asset Registers not only form an integral part in Asset Management and hence, sustainable service delivery but are a constitutional imperative for all municipal governments.

GRAP supports legislation and sustainable service delivery through three core areas: (1) asset identification (2) asset classification and recognition;

and (3) asset measurement. The lack of reliable information on public assets hinders the determination of the assets' value, budgeting for asset management activities and evaluating public asset portfolio performance. It is therefore critical that an updated, correctly categorised and functioning asset register is in place in every company.

## Regulatory Framework

There is a legal framework in place governed by the Municipal Finance Management Act, together with the Municipal Structures Act, Municipal Systems Act, Municipal Property Rates Act and other local government legislation which regulates the following entities:

- Departments



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- Public entities
- Constitutional institutions
- Municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality, and
- Parliament.

We now see that Government has legislated the legal framework around an asset register. DDP specialises in specific types according to GRAP classifications.

## DDP Expertise

### Investment property (GRAP 16)

Investment assets is property (land or a building, or part of a building, or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

### Property, Plant and Equipment (GRAP 17) – Land and Buildings

These are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

### Inventories (GRAP 12)

These assets are:

(a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or distributed in the rendering of services;

(c) held for sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution.

### Heritage Assets (GRAP 103)

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

## Non-Compliance to GRAP Audits

There are several consequences for entities who fail to conduct proper GRAP audits at the designated

interval, or, who fail to implement the findings of a GRAP audit:

### 1. Limits on access to finance.

- Downgrading by ratings agencies
- Increase risk profile, and
- Higher lending interest charges

### 2. Erode investment trust.

- Investors will become cautious to invest in the municipality, this in turn will have severe effects on economic growth in the area and may even lead to an exodus of existing land owners and investors.

### 3. General valuation roll.

- A triggered economic decline may drastically effect the market values of properties in the municipality and hence negatively impact the values in the Valuation Roll.

### 4. Rates and taxes.

- Lower values in the valuation roll can lead to lower income for the municipality that may result in exorbitant increases in rates tariffs to make the budget viable. This in turn can lead to ratepayers withholding rates and taxes and this may escalate to costly legal implications.

## Major Causes for Qualified Audit Opinions

What can result in bad data in an asset register and the resultant qualified audit opinion?

- Incomplete asset identification
- Incorrect GRAP classification
- Lack of componentisation
- Incorrect application of lifecycles and the improper use of EUL and ERUL
- Lack of supportive evidence
- Unsupported estimations / calculations of Replacement Cost, Depreciation and Residual Values
- Limited timeframes to assess, review and complete the GRAP audit

In such instances, DDP Valuers are well-equipped to assist in either;

- A corrective overview, or
- Total reconstruction of the Asset Register depending on the extent of the audit findings.

