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**FROM: K A Ross**

**DATE: 01<sup>st</sup> May 2006.**

**TO: PORTFOLIO COMMITTEE  
ON PUBLIC WORKS (NA)**

**FACSIMILE: (021) 403 8190**

**ATTENTION: COMMITTEE  
SECRETARY  
MR MKHUSELI MBEBE**

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*Sydney.*

**GOVERNMENT IMMOVABLE ASSETS MANAGEMENT BILL ( B1-2006)**

I refer to my fax to you in the above connection, dated 26<sup>th</sup> April 2006, and our subsequent telephone conversation. As you requested, I summarise below information extracted from Departmental 2005 Annual Reports regarding the treatment and disclosure of "Fixed Assets" in the accounting records and Financial Statements of State Departments.

It would appear, from my reading of the 2005 Annual Reports and Financial Statements of the Departments mentioned in my fax of the 26<sup>th</sup>, that expenditure for capital assets is treated as follows:

**1. Department of Public Works:**

- i) Written off in the 2005 Statement of Financial Performance as "expenditure for capital assets:"
 

Buildings and other fixed structures	R292 918 000
Machinery and Equipment	R 42 505 000
Software and other intangible assets	R 24 000
<b>Total expenditure for capital assets</b>	<b><u>R335 447 000</u></b>

- ii) Only "Current Assets" totalling R932 091 000 are reflected on the Statement of Financial Position at 31<sup>st</sup> March 2005.

**2. Department of Transport:**

- i) Written off in the 2005 Statement of Financial Performance as "expenditure for capital assets:"

*Mr Ross is prepared to help where necessary. !!*

Buildings and other fixed structures	R 3 433 000
Machinery and equipment	<u>R10 642 000</u>
Total expenditure for capital assets	<u>R14 075 000</u>

- ii) Only "Current Assets" totalling R131 916 000 and "Non-Current Assets" comprising Investments and Loans totalling R6 089 692 000 are reflected on the Statement of Financial Position at 31<sup>st</sup> March 2005.

**3. Department of Defence:**

a) Vote 22 – Year end 31<sup>st</sup> March 2005

- i) Statement of Accounting Policies and related matters,  
Inter alia:

... "Payments made for capital assets are recognised as an expense in the Statement of Financial Performance ".....

... "Only capital expenditure for buildings and other fixed structures is currently classified under expenditure for capital assets, all other capital expenditure is included in goods and services".

- ii) Written off in the 2005 Statement of Financial Performance as  
"expenditure for capital assets:"

Buildings and other fixed structures	<u>R79 638 000</u>
Total expenditure for capital assets	<u>R79 638 000</u>

Only "Current Assets" totalling R759 093 000 and "Non-Current Assets" comprising Loans totalling R4 502 000 are reflected on the Statement of Financial Position at 31<sup>st</sup> March 2005.

b) **Special Defence Account – Year ended 31<sup>st</sup> March 2005**

- i) Notes to the Financial Statements:

1.2 Fixed Assets:

For the purposes of the Special Defence Account, assets are written off when they are paid for. The cost is brought to account as expenditure. Advance payments made in terms of contracts are expensed at date of payment. The assets are included in the asset register of the Department of Defence at the date of delivery of the asset.

(Query: are the monetary values of the assets included in the asset register?)

- ii) "Expenditure" written off in the 2005 "Income Statement".  
This item totalled R6 829 305 000 – the details of which, shown under Note 8 to the Financial Statements, included inter-alia:

"Major Projects"	R5 808 193 000
"Other Projects"	R 405 554 000

- iii) Only "Current Assets" totalling R 2 257 588 000 are reflected on the Balance Sheet as at 31<sup>st</sup> March 2005.

Conclusion:

An exercise would have to be undertaken for all State Departments in which the details of all capital assets (immovable and movable) written off over the years, would be checked and recorded in detailed schedules – at the same time checking to fixed asset registers – in order that the accounting records and fixed asset registers could be correctly updated.

It is envisaged that obtaining historical detailed information will present problems.

I attach as a benchmark comparison, a copy of a Statement of Financial Position (Balance Sheet) of the Australian Department of Defence.

It will be observed that "Non Financial Assets" such as Land and Buildings, Specialist Military Equipment, Infrastructure, Plant and Equipment etc., are shown as required in terms of generally accepted accounting practice.

  
K A ROSS