

Reference number: RCS/C.6

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## TREASURY CIRCULAR NO. 04/2019

THE PREMIER

THE MINISTER OF ECONOMIC OPPORTUNITIES  
THE MINISTER OF COMMUNITY SAFETY  
THE MINISTER OF CULTURAL AFFAIRS AND SPORT  
THE MINISTER OF EDUCATION  
THE MINISTER OF FINANCE  
THE MINISTER OF HEALTH  
THE MINISTER OF HUMAN SETTLEMENTS  
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING  
THE MINISTER OF SOCIAL DEVELOPMENT  
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

THE SPEAKER: PROVINCIAL PARLIAMENT  
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

THE EXECUTIVE AUTHORITY: WESTERN CAPE GAMBLING AND RACING BOARD (MINISTER IH MEYER)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE NATURE CONSERVATION BOARD (MINISTER A BREDELL)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE INVESTMENTS AND TRADE PROMOTION AGENCY (MINISTER B SCHÄFER)  
THE EXECUTIVE AUTHORITY: SALDANHA BAY IDZ LICENCING COMPANY (MINISTER B SCHÄFER)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE CULTURAL COMMISSION (MINISTER A MARAIS)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE LANGUAGE COMMITTEE (MINISTER A MARAIS)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE HERITAGE (MINISTER A MARAIS)  
THE EXECUTIVE AUTHORITY: CASIDRA (MINISTER B SCHÄFER)  
THE EXECUTIVE AUTHORITY: WESTERN CAPE LIQUOR AUTHORITY (MINISTER A WINDE)

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THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (DR G LAWRENCE)  
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (MR Z HOOSAIN)  
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THE ACCOUNTING OFFICER: VOTE 10: TRANSPORT AND PUBLIC WORKS (MS J GOOCH)  
THE ACCOUNTING OFFICER: VOTE 11: AGRICULTURE (MS J ISAACS)  
THE ACCOUNTING OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MR S FOURIE)  
THE ACCOUNTING OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MR B WALTERS)  
THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (MR G PAULSE)

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THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)  
THE CHIEF FINANCIAL OFFICER: VOTE 14: LOCAL GOVERNMENT (MS B SEWLLALL-SINGH)

For information

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 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HERITAGE (MS B RUTGERS)  
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 THE DIRECTOR: LOCAL GOVERNMENT BUDGET OFFICE (MR M BOOYSEN)  
 THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (VACANT)  
 THE DIRECTOR: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)  
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 THE PROVINCIAL AUDITOR  
 MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT  
 THE DEPUTY DIRECTOR-GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

## **DISCLOSURE OF IMMOVABLE ASSETS TRANSFERRED IN TERMS OF SECTION 42 OF THE PFMA**

### **PURPOSE**

1. To provide guidance on the disclosure of immovable assets transferred from a Department (Budget holder) to the Custodian Department during a financial year in terms of a PFMA and the relevant accounting frameworks.
2. This PT circular should be read in conjunction with PT Circular 10/2007 dated 29 March 2007 and PT Circular 10/2007 (Supplementary 1 of 2007) (see Annexure 1 and 2).

## BACKGROUND

3. PT recognised that the disclosure of immovable assets transferred from a Department (Budget holder) to the custodian Department (Transport and Public Works) in terms of section 42 of the PFMA posed a challenge that required further guidance.

PT issued guidance to departments on the accounting of immovable assets in Treasury Circular 10 of 2007, requesting Budget holders to only transfer final completed assets to the custodian Department after settling all cost i.e. retention cost.

The MCS Chapter (issued May 2018) on the Preface to the Modified Cash Standard, par. 03 states that "Departments and any other entity that claims compliance with the modified cash basis of accounting must adhere fully with the principles, presentation and disclosure requirements contained in this Standard to achieve fair presentation, and compliance with the PFMA and its regulations."

## DEFINITIONS

4. The following definitions extracted from the Immovable Assets Guide (updated March 2018), define terms that are used in this context:
  - 4.1 "**Immovable asset** means any tangible asset acquired or owned by government, excluding any right contemplated in the Mineral and Petroleum Resources Development Act, 2002 (Act No.28 of 2002). Immovable assets may include land, fixed structures such as buildings and infrastructure assets. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair)."
  - 4.2 "**ready for use** when "the project has progressed to the stage where the facility can be occupied for use as intended by management for example, access is available for vehicles, people, etc, to the extent that normal business can be conducted."
  - 4.3 "**final completion** when all contractual obligations under the contract has been fulfilled, including the payment of retention monies, and a final costing can be done and the project closed."
  - 4.4 "**transfer** as "the process of transferring an asset with all relevant documentation as envisaged by legislation (Section 42 of the PFMA). It may not necessarily involve an endorsement of a title deed."

## LEGISLATIVE BACKGROUND

5. In relation to the management of assets, the section 38 of the PFMA states that:

"General responsibilities of accounting officers

1. The accounting officer for a department, trading entity or constitutional institution responsibilities: -

(d) is responsible for the management, including the safeguarding and the maintenance of the assets, and for the management of liabilities, of the department, trading entity or constitutional institution; "

6. The PFMA Section 42 states that:

"Accounting officers' responsibilities when assets and liabilities are transferred.

(1) When assets or liabilities of a department are transferred to another department or other institution in terms of legislation or following a reorganisation of functions, the accounting officer for the transferring department must—

(a) draw up an inventory of such assets and liabilities; and

(b) provide the accounting officer for the receiving department or other institution with substantiating records, including personnel records of staff to be transferred.

(2) Both the accounting officer for the transferring department and the accounting officer for the receiving department or other institution must sign the inventory when the transfer takes place.

(3) The accounting officer for the transferring department must file a copy of the signed inventory with the relevant treasury and the Auditor-General within 14 days of the transfer."

7. NTR 10 Asset Management states that:

"10.1 Responsibility for asset management (section 38(1)(d) of the PFMA)

The accounting officer of an institution must take full responsibility and ensure that proper control systems exist for assets and that: -

(a) preventive mechanisms are in place to eliminate theft, losses, wastage and misuse; and

(b) stock levels are at an optimum and economical level.

10.2 The accounting officer must ensure that processes (whether manual or electronic) and procedures are in place for the effective, efficient, economical and transparent use of the institution's assets."

## **MODIFIED CASH STANDARD/ACCOUNTING MANUAL FOR DEPARTMENTS**

8. The MCS Chapter on Capital Assets (issued May 2018):

8.1 Par. 13 states that:

"With regards to immovable assets, consideration should also be given to the legislative requirements relating to specific mandates. Reporting in line with the legislative framework is contained in the guidance on immovable assets, referred to as Accounting and Reporting for Immovable Assets (Property)."

8.2 Par. 91 states that:

"If a new building is constructed or an existing building on which improvements are carried out by the user is owned or accounted for by another department, in accordance with its mandate, all the associated costs should be carried in work-in-progress by the department incurring the costs and once the improvements are ready for use, bring the cost to date into its asset register and report on such until final completion of the project. On final completion of the project, when all the contractual liabilities have been fulfilled, the user must update its asset register to ensure all costs are accounted for. The department that incurred the cost, where only the user, shall then transfer the asset at its total cost to the other department which is mandated to manage and report on the asset."

- 8.3 Par. 91A states that:
- “The provisions of paragraph .91 do not apply in instances where another public sector entity accounts for the work-in-progress funded by the department.”
- 8.4 Par. 92 states that:
- “A department that has a project with elements of repairs and maintenance, upgrading and additions to it will have to assess upfront whether the project is significantly a current or a capital project. The project costs will be recorded as part of the capital asset as set out in paragraph .90 where the project is predominantly capital in nature or expensed where not.”
- 8.5 Par. 93 states that:
- “A department does not include in the carrying amount of a capital asset the costs of the day-to-day servicing of the item. Rather, these costs are recognised in surplus or deficit as incurred and in accordance with Chapter 8 on Expenditure. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the ‘repairs and maintenance’ of the capital asset.”
9. The AMD Chapter on Capital Assets (issued May 2018), lightbulb states that:
- “For detailed guidance on departments that have the responsibility to account for the immovable assets belonging to the state, refer to the Immovable Asset Guide on the Office of the Accountant-General’s (OAG’s) website.” The Immovable Asset Guide takes into account legislation and specific mandates of property holders and guides on the vesting and custodianship of immovable assets.”
10. The AMD Chapter Capital Assets (issued May 2018), par. 8.2 states that:
- “It is important that all contractual obligations are fulfilled to enable the final costing to be done. Where the asset must be transferred to a custodian department, the transferor must update its asset register to agree with the final costing and at that stage initiate the transfer of the asset while complying with the requirements of Section 42 (PFMA).
- Where the transfer is not completed by year-end the transferor should keep the asset in its asset register, report thereon and also complete the relevant note to indicate that the transfer is pending. Once the transfer is complete (Section 42 complied with) the asset will be reported on as a transfer and the asset register updated.”

## **ACCOUNTING AND DISCLOSURE OF IMMOVABLE ASSETS TRANSFERRED FROM A DEPARTMENT (BUDGET HOLDER OR USER DEPARTMENT) TO THE CUSTODIAN DEPARTMENT**

### **IMMOVABLE ASSETS – WORK-IN-PROGRESS**

11. Where assets have been completed and certified as “ready for use”, the assets must be maintained in the department’s (Budget holder) asset register until the retention and any other cost has been settled and the transfer finalised. The Budget holder department should keep the asset in its asset register, report thereon and complete the relevant note in the AFS to indicate that the transfer is pending.

The transfer will only be deemed finalised when the custodian department has signed the S42 transfer certificate acknowledging receipt of the transferred asset. The transferred assets must be disclosed appropriately in the relevant note of the AFS of both departments.

**REQUIREMENT ITO NOTE 41.4**

| <b>CAPITAL WORK IN PROGRESS<br/>AS AT 31 MARCH</b> | <b>Note</b>                | <b>Opening<br/>Balance<br/>1 April 20XX</b> | <b>Current<br/>Year WIP</b> | <b>Ready for use<br/>(Assets to the<br/>AR) /<br/>Contracts<br/>terminated</b> | <b>Closing<br/>Balance<br/>31 March<br/>20YY</b> |
|--|----------------------------|---|-----------------------------|--|--|
|  | <a href="#">Annexure 7</a> | <b>R'000</b>                                | <b>R'000</b>                | <b>R'000</b>   | <b>R'000</b>                                     |
| Heritage assets                                    |                            | -   | -                           | -  | -  |
| Buildings and other fixed<br>structures            |                            | -   | -                           | -  | -  |
| Machinery and equipment                            |                            | -   | -                           | -  | -  |
| Intangible assets                                  |                            | -   | -                           | -  | -  |
| <b>TOTAL</b>                                       |                            | -   | -                           | -  | -  |

| <b>Age analysis on ongoing projects</b> | <b>Number of projects</b>                        |  | <b>20XX/YY</b>         |
|---|--|--|------------------------|
|   | <b>Planned,<br/>construction<br/>not started</b> | <b>Planned,<br/>construction<br/>started</b> | <b>Total<br/>R'000</b> |
| 0 to 1 year                             |  |  | -                      |
| 1 to 3 year(s)                          |  |  | -                      |
| 3 to 5 years                            |  |  | -                      |
| Longer than 5 years                     |  |  | -                      |
| <b>Total</b>                            |  |  | -                      |

|   | <b>20XX/YY</b> | <b>20ZZ/YY</b> |
|---|----------------|----------------|
| <b>Accruals and payables not recognised relating to Capital WIP</b>   | <b>R'000</b>   | <b>R'000</b>   |
| [Amounts relating to progress certificates received but not paid at<br>year end and therefore not included in capital work-in-progress] |                |                |
| <b>Total</b>  | -              | -              |

12. The aforementioned legal requirements, accounting framework and accounting guidelines confirm the above reporting requirements. A flow chart is attached to clarify the process flow of the disclosure of immovable assets transferred in terms of section 42 of the PFMA (see Annexure A).

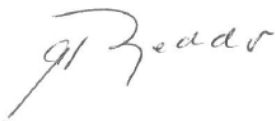
13. The following note must be completed for assets to be transferred to S42 where the transfer could not take place before financial year-end:

**NOTE 41.6 S42 Immovable assets**

| <b>Assets to be transferred in terms of S42 of the PFMA – 20XX/YY</b> | <b>No of Assets</b>  | <b>Value of Assets<br/>R'000</b> |
|---|----------------------|----------------------------------|
| <b>BUILDINGS AND OTHER FIXED STRUCTURES</b>                           | -                    | -                                |
| Dwellings   | <input type="text"/> | <input type="text"/>             |
| Non-residential buildings   | <input type="text"/> | <input type="text"/>             |
| Other fixed structures  | <input type="text"/> | <input type="text"/>             |
| <b>HERITAGE ASSETS</b>  | -                    | -                                |
| Heritage assets   | <input type="text"/> | <input type="text"/>             |
| <b>LAND AND SUBSOIL ASSETS</b>  | -                    | -                                |
| Land  | <input type="text"/> | <input type="text"/>             |
| Mineral and similar non-regenerative resources                        | <input type="text"/> | <input type="text"/>             |
| <b>TOTAL</b>  | <u>-</u>             | <u>-</u>                         |

**CONCLUSION**

14. It is concluded that in terms of the MCS/AMD, the transfer of immovable assets will only be deemed finalised when the custodian department has signed the S42 transfer certificate as acknowledgement of receipt of the asset.
15. All immovable assets that reach final completion as referred in par. 10.3, must be transferred as soon as practically possible.



**ACTING CHIEF DIRECTOR: GOVERNANCE AND ACCOUNTING**

**DATE:** 26 February 2019

## PROCESS FLOW DIAGRAM

