Property Management Trading Entity
Annual Financial Statements
for the 6 months ended 30 September 2015

Property Management Trading Entity
Financial Statements for the 6 months period ending 30 September 2015

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The reports and statements set out below comprise the financial statements:

The financial statements set out on pages 2 to 58, which have been prepared on the going concern basis, were approved on 15 December 2015.

Mr Mziwonke Dlabantu
Director-General

Statement of Financial Positionas at 30 September 2015

	Note(s)	2015 Sept R '000	2015 March Restated* R '000
Assets			
Current Assets			
Receivables from exchange transactions	3	4 783 484	2 156 652
Receivables from non-exchange transactions	4	1 196	187 467
Operating lease assets	5	969 732	973 011
Cash and cash equivalents	6	2 226	6 197
		5 756 638	**3 323 327**
Non-Current Assets			
Property, plant and equipment	7	14 112 153	11 930 254
Investment property	8	66 635 087	66 635 087
Heritage assets	9	5 211	3 315
Intangible assets	10	10 911	12 417
		80 763 362	**78 581 073**
Total Assets		**86 520 000**	**81 904 400**
Liabilities			
Current Liabilities			
Operating lease liabilities	5	914 985	916 539
Bank overdraft	6	1 520 965	667 586
Payables from exchange transactions	11	8 743 952	6 127 773
Retention liabilities	12	241 585	222 637
Employee benefit obligation	13	170 057	170 582
Provisions	14	12 250	23 803
Finance lease obligation	15	6 439	1 652
		11 610 233	**8 130 572**
Non-Current Liabilities			
Retention liabilities	12	34 717	34 717
Finance lease obligation	15	4 277	2 397
		38 994	**37 114**
Total Liabilities		**11 649 227**	**8 167 686**
Net Assets		**74 870 773**	**73 736 714**
Net Asset Reserves			
Accumulated surplus		74 870 773	73 736 714
Net Assets		**74 870 773**	**73 736 714**

* See Note 29

Statement of Financial Performance

	Note(s)	6 months Sept 2015 R '000	12 months March 2015 Restated* R '000
Revenue from exchange transactions	16	4 933 075	7 676 716
Revenue from non-exchange transactions	17	1 029 659	2 718 372
Total revenue		**5 962 734**	**10 395 088**
Operating expenses	18	4 214 263	8 291 829
Interest expense	19	1 113	606
Employee costs	20	613 299	1 268 405
Total expenses		**4 828 675**	**9 560 840**
Surplus for the period		**1 134 059**	**834 248**

* See Note 29

Statement of Changes in Net Assets

	Note	Accumulated surplus R '000	Total net assets R '000
Balance at 1 April 2014		**72 660 347**	**72 660 347**
Changes in net assets			
Prior period errors	29	(18 017)	(18 017)
Adjustments to surplus due to changes to provisional amounts for transfer of functions		(2 563)	(2 563)
Adjustments to net gain from transfer of functions effective 1 April 2013	32	145 044	145 044
Adjustments to net gain from transfer of functions effective 1 April 2014	32	14 704	14 704
Total prior period errors and adjustments		139 168	139 168
Surplus for the year as previously stated		854 834	854 834
Net gain from transfer of functions effective 1 April 2014 as previously stated		82 365	82 365
Balance at 1 April 2015		**73 736 714**	**73 736 714**
Changes in net assets			
Surplus for the year		1 134 059	1 134 059
Balance at 1 March 2015		**74 870 773**	**74 870 773**

* See Note 29

Cash Flow Statement

Prepared on cash basis	Note(s)	2015 Sept R '000	2015 March Restated Restated* R '000
Cash flows from operating activities			
Receipts			
Accommodation charges - leasehold inter-governmental		1 636 449	3 717 172
Accommodation charges - freehold inter-governmental user charges		1 973 522	3 605 438
Accommodation charges - freehold inter-governmental projects		809 974	2 142 514
Accommodation charges - private		17 079	25 945
Augmentation		-	673 372
Management fee on municipal services		73 722	180 042
Municipal services recovered		1 474 435	3 600 834
Interest, fines, recoveries and other receipts		26 389	61 678
DPW transfer		1 012 825	-
		7 024 395	14 006 995
Payments			
Cleaning and gardening		92 712	185 902
Bank charges, interest and other expenses		67 052	41 809
Admin goods and services		7 193	-
Scheduled maintenance		605 257	1 203 908
Maintenance (including security)		429 303	1 106 605
Municipal services paid		1 918 993	3 677 091
Operating leases (including Rent on land)		1 998 101	3 780 341
Property rates		586 171	792 777
		5 704 782	10 788 433
Net cash flows from operating activities		**1 319 613**	**3 218 562**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2 176 963)	(3 447 196)
Net decrease in cash and cash equivalents		**(857 350)**	**(228 634)**
Cash and cash equivalents at the beginning of the year		(661 389)	(432 755)
Cash and cash equivalents at the end of the year	6	**(1 518 739)**	**(661 389)**

* See Note 29

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget R '000	Actual Sept 2015 amounts on comparative basis R '000	Annual equivalent R '000	Difference between final budget and actual R '000
Receipts				
Accommodation charges - leasehold inter-governmental	4 003 484	**1 636 449**	3 272 898	**(730 586)**
Accommodation charges - freehold inter-governmental user charges	3 940 223	**1 973 522**	3 947 044	**6 821**
Accommodation charges - freehold inter-governmental projects	2 904 026	**809 974**	1 619 948	**(1 284 078)**
Accommodation charges - freehold private	37 271	**17 079**	34 158	**(3 113)**
DPW transfer	3 584 652	**1 012 825**	2 025 650	**(1 559 002)**
Management fee on municipal services	209 000	**73 722**	147 444	**(61 556)**
Municipal services recovered	-	**1 474 435**	2 948 870	**2 948 870**
Interest, fines, recoveries and other receipts	35 017	**26 389**	52 778	**17 761**
	14 713 673	**7 024 395**	**14 048 790**	**(664 883)**
Payments				
Cleaning and gardening	273 467	**92 712**	185 424	**(88 043)**
Scheduled maintenance (including disallowances)	1 236 318	**605 257**	1 210 514	**(25 804)**
Maintenance (including security)	1 036 480	**429 303**	858 606	**(177 874)**
Municipal services (paid)	-	**1 918 993**	3 837 986	**3 837 986**
Operating leases (including rent on land)	4 101 550	**1 998 101**	3 996 202	**(105 348)**
Property rates	1 056 178	**586 171**	1 172 342	**116 164**
Bank charges, interest and other expenses	2 788	**67 052**	134 104	**131 316**
Compensation of employees	1 288 773	**-**	-	**(1 288 773)**
Admin, goods and services	785 203	**7 193**	14 386	**(770 817)**
	9 780 757	**5 704 782**	**11 409 564**	**1 628 807**
Capital movements				
Recoverable capital expenditure (including DPW capital)	3 677 362	**1 574 760**	3 149 520	**(527 842)**
Non-recoverable capital expenditure	1 224 861	**602 203**	1 204 406	**(20 455)**
Machinery and equipment	30 693	**-**	-	**(30 693)**
	4 932 916	**2 176 963**	**4 353 926**	**(578 990)**
Cash surplus	**-**	**(857 350)**	**(1 714 700)**	**(1 714 700)**

Refer to note 29 for reconciliations and explanations of material differences.

Notes to the Financial Statements

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations and directives issued by the Accounting Standards Board (ASB), unless otherwise indicated, and in accordance with Section 122(3) of the Public Finance Management Act (Act 1 of 1999 as amended by Act 29 of 1999).

1.1 Going concern assumption

1.2 Standards of GRAP issued but not yet effective

Listed below are the Standards of GRAP that have been issued by the ASB, but where the Minister of Finance has not determined an effective date. The standards have not been early adopted by the PMTE. The PMTE intends to adopt the standards when they become effective and applicable.

1.2.1 Standards utilised in developing accounting policies and disclosures

PMTE has utilised the principles of the Standard of GRAP on *Related party disclosures* (GRAP 20) in disclosing related party relationships and transactions, the Standard of GRAP on *Transfer of Functions between Entities under Common Control* (GRAP 105), in accounting for the transfer of functions from the NDPW (main vote) to the trading entity, and the Standard of GRAP on *Statutory Receivable*s (GRAP 108) to account for statutory receivables applicable to the PMTE.

As a result, there will be no impact on the financial statements when the Standards becomes effective.

1.2.2 Other standards not yet effective

Accounting policies have not been developed for the following Standards as the transactions and events within the scope of these Standards are not yet applicable:

GRAP 18 - Segment reporting

Segments are identified by the way in which information is reported to management, both for purpose of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the PMTE. The major classifications of activities identified in budget documentation will usually reflect the segments for which the PMTE reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the PMTE that provides specific outputs or achieves particular operating objectives that are in line with the PMTE's overall mission. Geographical segments relate to specific outputs generated or particular objectives achieved, by the PMTE within a particular region.

The adoption of this Standard is not expected to have an impact on the results of the PMTE, but may result in more disclosure than is currently provided in the financial statements.

It is unlikely that the following Standards and/or amendments to Standards, that have been issued but are not yet effective, will have a material impact on the financial statements of the PMTE once they become effective:

GRAP 106	Transfer of functions of entities not under common control
GRAP 107	Mergers
IGRAP 11	Consolidation - Special purpose entities
IGRAP 12	Jointly controlled entities - Non monetary contributions by ventures
IGRAP 17	Service concession agreements where a grantor controls a significant residual interest in an asset
GRAP 32	Service concession agreements: Grantor

Notes to the Financial Statements

1.3 Significant judgement and sources of estimation uncertainty

1.3.1 Control of immovable assets

In terms of the Government Immovable Asset Management Act (GIAMA), the NDPW is the custodian of immovable assets that vests in national government, except in cases where custodian functions were assigned to another Minister by virtue of legislation before the commencement of GIAMA. With effect from 1 April 2013, the NDPW transferred certain of the property management functions to the PMTE, which operates within the administration of the NDPW. In substance, due to the transfer of function, the PMTE is in control of the immovable assets and collects all revenue relating to leases and incurs expenses relating to the leases of the immovable assets. However, the custodianship of the immovable assets and related legal titles remains with the NDPW.

1.3.2 Assets and liabilities related to the transfer of functions

All assets and liabilities related to the transfer of functions are recognised and measured in accordance with the transitional provisions as per Directive 2 issued by the ASB in May 2010.

For initial measurement purposes, assets acquired through the transfer of functions is measured at their carrying amounts as per the records of the NDPW. Where those carrying amounts do not represent GRAP compliant amounts, the carrying amounts will be estimated using various measurement bases, depending on the type of asset or liability. The NDPW transferred functions on two separate occasions, effective 1 April 2013 and 1 April 2014 respectively. For further details refer to note 32. The PMTE will not comply with the requirements of the specific standards of GRAP for those assets and liabilities until the transitional provisions expire on 1 April 2016 and 1 April 2017 for the respective transfer of functions.

1.3.3 Useful life and residual life

The estimated useful lives of property, plant and equipment, investment property and intangible assets are assessed annually and is dependent on the condition of the assets. Management applies judgement in assessing the condition of the assets. The residual values are estimated to be zero as the PMTE will be utilising these assets over their entire economic life.

Refer to note 2.3 for the accounting policies on estimated useful lives for property, plant and equipment, note 2.2 for investment property and note 2.5 for intangible assets.

1.3.4 Classification of accommodation charges as lease revenue

As the intention of the PMTE is to provide accommodation at values that are directly equal to the value of the service being delivered, the PMTE categorises all accommodation charges, with the exception of prestige accommodation, as revenue from exchange transactions, notwithstanding the fact that this revenue may or may not equal the value of the service delivered.

The amount for prestige accommodation is determined in accordance with the ministerial handbook. The ministerial handbook allows for the ministers to stay free of charge in the first property provided to him or her. For the second property, the ministerial handbook requires the minister to be charged a percentage of his or her salary as a rental fee. This rental fee does not approximate equal the service value of the property provided to the minister. Therefore, the receivable is classified as a statutory receivable and the revenue is classified as a non-exchange transaction.

Notes to the Financial Statements

1.3 Significant judgement and sources of estimation uncertainty (continued)

1.3.5 Classification and measurement of leases

Management uses judgement to determine if a lease is classified as an operating or a finance lease. Management's judgement is based on whether risk and rewards incidental to ownership have been transferred.

Cognisance has been taken of the fact that client departments generally extend the period for which they lease premises through the PMTE where these properties are rented from the private sector. It is difficult to conclude that it is certain that the PMTE (as lessee) will always extend the lease term of leasehold property at inception of the lease because of the general occupation trend of its client departments. Taking everything into consideration, management are of the opinion that even though a lease may be extended for one or two more terms, the total term would still not be considered to be a major part of the economic life of the asset.

As formal lease agreements between PMTE and its client departments do not exist, the same terms and conditions included in the underlying lease agreements with the landlord is used to assess the classification of the sub-lease.

The PMTE considers leases to be month-to-month leases when the underlying lease agreements on leasehold properties have expired and the asset is still being utilised by the client department.

As the lease terms and conditions are not determinable for month-to-month leases and freehold inter-governmental accommodation, no systematic basis can be used to recognise the lease revenue that would be representative of the time pattern which benefit derived from the lease asset is diminished.

1.3.6 Impairment of receivables measured at cost or amortised cost

The full voted funds for accommodation from client departments is allocated to the PMTE and are due within 30 days from invoice date. If client departments do not pay within 30 days, the receivable is considered for impairment.

An impairment loss is recognised firstly on individually significant receivables. Thereafter an impairment loss is recognised on a group of receivables with the same credit risk. Impairment assessments are based on objective evidence as a result of one or more events that occurred during the reporting period. For clients which have defaulted, management made judgements based on history to determine if the receivable/group of receivables have to be impaired. Should the financial condition of the client change actual write-offs could differ significantly from the impairment losses recognised.

The current year impairment is based on management's best estimate of the expected cash flows for amounts that are outstanding for longer than the normal payment terms discounted at the current rate applicable to debts owed to the state. Where management cannot determine the future payment date, management discounts from invoice date for 12 months after year end.

The discount rate used for impairment purposes is not adjusted for the different classes of receivables as the majority of the debt is with government institutions.

Notes to the Financial Statements

1.3 Significant judgement and sources of estimation uncertainty (continued)

1.3.7 Classification of non-financial assets

Judgement is applied when classifying immovable assets between property, plant and equipment and investment property. Consideration is given to the type of property, why the property is held by national government, and the occupant. The main factor considered is whether PMTE holds the assets either for service delivery (in accordance with government objectives), resulting in property, plant and equipment, or for capital appreciation and/or earning of rentals, resulting in investment property. Where state property is rented out to another government entity or public service employees to provide cost effective accommodation services or for social services, these properties are classified as property, plant and equipment rather than investment property as the PMTE holds these assets to deliver on its mandate rather than to earn rentals or for capital appreciation.

GRAP 16 requires undeveloped land, for which no purpose has been determined, to be classified as investment property. However, where the land is acquired for strategic purposes, the land is to be classified as property, plant and equipment. In considering the classification of undeveloped land, the PMTE considers how it acquired the land and whether the land is being used. Where the land was acquired through expropriation or a result of legislation, the PMTE classifies the land as property, plant and equipment rather than investment property, as it is assumed to be acquired for strategic purposes in accordance with government's policies and aims.

For purposes of classifying these non-financial assets, that are subject to impairment, either as cash-generating or non-cash generating, PMTE applied the following criteria:

- The purpose for which the asset is held
- The intention to earn commercial (profit-making) return on the property
- The ability to earn commercial return on the property
- The restrictions on the use of the property by PMTE.

The PMTE, as a trading entity of the NDPW, is accountable for these assets and needs to maintain these assets on behalf of national government. It cannot use these assets for any other purpose than to deliver on its mandate (consistent with GIAMA and the PFMA). The PMTE has to provide accommodation to other departments and to enable it to deliver on its mandate, the PMTE may recover an accommodation charge on certain properties it holds. The accommodation charge is not commercially based, but rather to ensure that the PMTE is operating at a break-even level. Where the PMTE does ask market related rent on property that is not utilised by other departments, it is not considered material and therefore all non-financial assets have been classified as non-cash generating for impairment purposes.

Heritage assets may be used for administrative purposes. Management used judgement to determine whether a significant portion of the heritage asset is utilised for office accommodation. If a significant portion of the heritage asset is utilised for office accommodation, the heritage asset is accounted for as property, plant and equipment under the Standard of GRAP on *Property, Plant and Equipment*.

1.3.8 Principal versus agent relationship

The PMTE's mandate is to manage the accommodation and infrastructure needs of national departments. Consideration was given as to whether the PMTE is acting as an agent on behalf of the client departments, as a result of carrying out these activities.

Should the PMTE be unable to satisfy the accommodation needs of a particular user department through the use of State-owned property, the PMTE would lease the required property from a private landlord, on behalf of the client department, and for their beneficial occupation; and apply the lease agreement to the occupant/sub-leasee.

Management, however, is of the opinion that the decision making ability, the accountability, the credit risk and the value added processes, all rest with the PMTE. This indicates that the PMTE is acting as principal with regards to the sub-lease arrangement.

Client departments occupying properties are liable for the municipal services charges incurred in utilising those properties. The PMTE offers a service of paying the municipal service charges on behalf of the client departments and then recovering those costs directly from the client department. For this service, the PMTE charges a 5% management fee which is invoiced and recovered from the client department. The PMTE is acting as an agent with regards to the payment and recovery of these municipal service charges. The management fee for rendering this service is regarded as revenue for the PMTE.

Notes to the Financial Statements

1.3 Significant judgement and sources of estimation uncertainty (continued)

1.3.9 Related party disclosure

The Standard of GRAP on *Related Party disclosures* (GRAP 20) provides exemption from detailed disclosures where those transactions are on:

- Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the PMTE to have adopted, if dealing with that individual entity or person in the same circumstances; and
- Terms and conditions within the normal operating parameters established by our mandate.

In the absence of a pricing strategy for leases, judgement was made to determine the disclosures around related party transactions based on the nature of the transactions and the associated terms. In addition, many services have been rendered in-kind to the PMTE stemming from its relationship with the NDPW. Due to the nature of these transactions, where amounts could not be measured reliably, only a narrative disclosure was made. This is in line with the principle in the Standard of GRAP on *Revenue from Non-exchange Transactions* (GRAP 23) to not recognise certain services-in-kind. It is difficult to measure the value of these services and they are usually consumed within the period. Where amounts could be reliably measured, these have been recognised.

2. Significant accounting policies

2.1 Transfer of functions between entities under common control

The transfer of functions from entities under common control are accounted for by the PMTE by recognising the assets acquired and liabilities assumed at provisional amounts at the date of transfer. Any difference between the assets and liabilities recognised and consideration paid, if any, is recognised in accumulated surplus or deficit.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where assets and liabilities were acquired through a transfer of functions, the entity is not required to measure those assets and liabilities for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Due to the operationalisation of the PMTE, the NDPW transferred certain functions to the PMTE on the 1 April 2013 and 1 April 2014 respectively.

The PMTE acquired the following functions and the related assets and liabilities from the NPDW on 1 April 2013:

- Asset Investment Management
- Property Management
- Facilities Management
- Key Account Management
- Regional Finance Units.

The PMTE acquired the following functions and the related assets and liabilities from the NPDW on 1 April 2014:

- Inner City Regeneration
- Projects and Professional services
- Regional co-ordination
- Supply Chain Management
- Regional support and Regional Managers

Until such time as the measurement period expires, and the items of assets and liabilities associated with the transfer of functions are recognised and measured, in accordance with the applicable Standard of GRAP, the PMTE does not need to comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1)
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4)
- Leases (GRAP 13)
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

Notes to the Financial Statements

1.3 Significant judgement and sources of estimation uncertainty (continued)

The exemption for applying the measurement requirements of the relevant Standards of GRAP implies that any associated presentation and disclosure requirements does not need to be complied with for the relevant assets and liabilities in accordance with the requirements of the following applicable Standards of GRAP:

- Property, plant and equipment (GRAP 17)
- Heritage assets (GRAP 103)
- Investment Property (GRAP 16)
- Intangible assets (GRAP 102)
- Employee benefits (GRAP 25)
- Provisions, contingent liabilities and contingent assets (GRAP 19)
- Leases (GRAP 13)

The provisional amounts used to recognise the assets and liabilities will be restated once they can be accurately determined. Only then will subsequent measurement requirements be applicable.

Classes of assets and useful lives are preliminary and will only be finalised once the assets transferred have been verified and valued. However, the measurement period exemption shall not exceed the later of three years from the effective date of the Standard and the transfer date.

2.2. Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services,
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost, including transaction costs.

The useful life, depreciation method and residual value for investment property are reviewed annually. Any changes are recognised prospectively as changes in accounting estimates in the surplus or deficit.

With the exception of assets acquired through a transfer of functions (refer to note 2.1), where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Land held for a currently undetermined use is recognised in accordance with the requirements of the Standard of GRAP on *Investment Propert*y until such time as the use of the land has been determined. Once a use has been determined, the land will be reclassified accordingly.

Investment property is subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. Vacant land is not depreciated.

Depreciation is calculated on a straight line basis over the expected useful lives of each item. Depreciation is charged to surplus or deficit. Depreciation commences on assets when they are in the condition necessary for them to be capable of operating in the manner intended by management.

Item	**Useful life**
Immovable properties*	12 - 100 years
Vacant land	Indefinite

* Refer to note 2.3 for detail breakdown of the useful lives of the immovable properties.

The useful life, depreciation method and residual value for investment property are reviewed annually. Any changes are recognised prospectively as changes in accounting estimates in surplus or deficit.

Impairment and reversals of impairment are recognised in surplus or deficit in the period in which the event occurs.

Notes to the Financial Statements

Investment property (continued)

Gains and losses on the derecognition of investment properties, including impairment and impairment reversals, are treated similarly to gains and losses for property, plant and equipment (refer to note 2.3).

2.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost and subsequently at cost less accumulated depreciation and accumulated impairment losses, except for assets under construction, land and heritage assets. These are subsequently measured at cost less accumulated impairment losses.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

With the exception of items of assets acquired through the transfer of functions (refer to note 2.1), where property, plant and equipment is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that the future economic or service potential benefit associated with that item will flow to the PMTE and the cost thereof can be reliably measured..

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. These components are depreciated separately.

Depreciation is calculated on a straight line basis over the expected useful lives of each item. Depreciation is charged to the surplus or deficit, unless it is included in the carrying amount of another asset. Depreciation commences on the asset when they are in the condition necessary for them to be capable of operating in a manner intended by management.

Assets under construction are ready for their intended use once a completion certificate or occupational certificate has been issued. At this point the asset is transferred to an item of property, plant and equipment.

If a part of an item of property, plant and equipment is replaced, the carrying amount of the existing part is derecognised and the value of the new part is recognised.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Heritage assets (refer to accounting policy 2.6) assessed as having a dual function of being a heritage asset and providing accommodation services are recognised and disclosed in terms of the Standard of GRAP on Property, plant and equipment (GRAP 17) and not the Standard of GRAP on Heritage assets (GRAP 103), if a significant portion of the heritage asset is utilised for office accommodation.

The useful life, depreciation method and a residual value for property, plant and equipment are reviewed annually. Any changes are recognised as a change in accounting estimates in the surplus or deficit.

In terms of the transitional provisions set out in Directive 2, depreciation on property, plant and equipment will only commence once the deemed carrying amount of the transferred assets has been determined. Depreciation and provisional amounts will be retrospectively adjusted to the period when the transfer of functions are effective.

Notes to the Financial Statements

Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Immovable properties	
• Low rise buildings (up to 4 floors)	12 - 35 years
• High rise buildings (more than 4 floors)	40 - 60 yeaars
• Warehouse / garage / storeroom	40 - 60 years
• Prisons	100 years
• Barracks	12 - 35 years
• Dwellings	40 - 60 years
• Roads, harbours and mines	12 - 35 years
• Boundary fences on vacant land	15 years
• Water and other infrastructure	20 - 60 years
• Airport runways	40 - 60 years
• Dams and reservoirs	100 years
• Other	12 - 35 years
Dual purpose heritage assets	indefinite useful lives
Other machinery and equipment	5 - 10 years
Vehicles	4 - 7 years
Furniture and office equipment	5 - 15 years
Computer equipment	3 - 5 years

The PMTE shall assess annually at each reporting date whether there is any indication that an asset may be impaired. If such indication exists, the PMTE shall estimate the recoverable service amount of recoverable amount for non-cash-generating and cash generating assets respectively. Any impairment loss recognised where the carrying amount exceeds the asset's recoverable service amount or the recoverable amount.

The PMTE shall assess annually at each reporting date whether there is any indication that an impairment loss recognised in prior period for an asset may no longer exist or may have decreased. If such indication exists, the PMTE shall estimate the recoverable service amount of recoverable amount of that asset. Any impairment loss recognised in prior periods for an asset is only reversed if there has been a change in the estimated use to determine the asset's recoverable service amount since the last impairment loss was recognised. Reversals of impairment is limited to the carrying amount of the asset had no impairment been recognised for the asset in prior periods.

Impairment losses and reversals of impairment losses are recognised in the surplus or deficit in the period in which the event occurs.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

2.4 Retention liabilities

A retention liability is recognised as a financial liability where monies due to a contractor are withheld for a set period of time during which the PMTE has an enforceable right to have defects remedied by the contractor. The measurement of the retention liability is the same as payables from exchange transactions which have been classified as financial liabilities. The liability is derecognised when the liability is settled or when the contractor defaults and is not entitled to settlement.

2.5 Intangible assets

An asset is identifiable if it either:

- is capable of being separated or divided from the PMTE and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability, or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Where the PMTE acquires the rights to use an asset, such as servitudes, other than exercising its rights through legislation, it classifies these as intangible assets.

Intangible assets are initially recognised at cost.

With the exception of assets acquired through the transfer of functions (refer to note 2.1), where an intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of the intangible assets, unless such useful lives are indefinite. Amortisation commences on the asset when they are in the condition necessary for them to be capable of operating in a manner intended by management.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life and recognised in surplus or deficit, unless it is included in the carrying amount of another asset.

The amortisation period, the amortisation method and the residual values of the intangible assets with finite useful lives are reviewed on an annual basis. Any changes are recognised as changes in accounting estimates in surplus or deficit.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Impairments and reversals of impairments are recognised in surplus or deficit in the period that the event occurs. Losses or gains on impairments and impairment reversals are treated similarly to gains and losses for property, plant and equipment (refer to note 2.3).

Notes to the Financial Statements

2.6 Heritage assets

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.

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

Heritage assets are measured at cost.

With the exception of assets acquired through the transfer of functions (refer to note 2.1), where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

The cost of an item of heritage assets is the purchase price and other costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Heritage assets that cannot be reliably measured are not recognised, but relevant information about these assets are disclosed in the notes, if applicable. Any costs incurred subsequently shall be recognised in surplus or deficit as incurred.

After recognition as an asset, heritage assets are carried at cost less any accumulated impairment losses.

Heritage assets are not depreciated as they are regarded as having an indefinite useful life but are annually assessed for impairment. If any such indication exists, the PMTE estimates the recoverable amount or the recoverable service amount of the heritage asset.

An impairment loss is recognised where the carrying amount exceeds the recoverable service amount for non-cash generating assets. Impairment losses and reversals of impairment are recognised in surplus or deficit in the period when the event occurs.

Gains and losses on the derecognition of heritage assets, including impairment and impairment reversals, are treated similarly to gains and losses for property, plant and equipment (refer to note 2.3).

Heritage assets assessed as having a dual function, of which a significant portion is held for the provision of accommodation or administrative purposes, are recognised and disclosed as property, plant and equipment.

2.7 Payables from exchange transactions

The PMTE recognises payables from exchange transactions where liabilities result in counter performance by respective parties as a result of exchange transactions.

Payables from exchange transactions are initially measured at fair value. Where the outflow is expected to be cash or another financial asset, the payable is classified as a financial liability.

The PMTE recognises in payables an amount for accruals where an estimate is made of the amounts due for goods or services that have been received or supplied, but the invoice is outstanding or a formal agreement with the supplier has not been concluded.

The PMTE recognises in payables an amount for deferred revenue where the leasing revenue (accommodation charges - freehold inter-governmental) recognised from client departments is deferred until the project is ready for use and capitalised under immovable assets.

2.8 Basis of preparation

The annual financial statements have been prepared on the accrual basis using historical cost as a measurement basis, unless another measurement basis is required by a Standard of GRAP, as specified in the significant accounting policies.

Notes to the Financial Statements

2.9. Financial instruments

Classification, recognition and measurement

Financial instruments are recognised initially when the entity becomes a party to the contractual provisions of the instruments. The PMTE recognises financial assets and financial liabilities using trade date accounting.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

The PMTE does not offset a financial asset and a financial liability unless a legally enforceable right to offset the recognised amounts currently exists and the PMTE intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Interest relating to a financial instrument or a component of a financial instrument is recognised as revenue or expense in surplus or deficit.

The PMTE's financial instruments consists only of cash and cash equivalents, including the bank overdraft and non-derivative instruments such as leases, receivables and payables with no or minimal transaction costs.

The instruments are measured at amortised cost using the effective interest rate method, except for leases (refer to note 2.12).

Financial instruments are initially measured at fair value. The fair value is the transaction price unless there is a clear indication that the transaction price does not represent the fair value at initial recognition.

Interest is charged on debt outstanding exceeding the normal credit terms at the rate applicable of debt owed to the State, except for debt owed by government institutions.

The effect of payment for short term receivables outstanding for longer than the 30 days is considered during the impairment assessment.

All non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding instruments that have been designated at fair value or are held for trading, are measured at amortised cost. Instruments that do not meet the definition of financial assets or financial liabilities measured at amortised cost are measured at fair value.

Amortised cost is calculated based on the effective interest method.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method, less impairments.

Impairment of financial assets measured at amortised cost

At each end of the reporting period, the PMTE assesses all receivables to determine whether there is objective evidence that the asset or group of assets have been impaired.

The inability to redeem amounts due based on the payment history is considered to be indicators of impairment.

If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. Impairment loss on receivables is impaired directly to the receivables. Receivables at amortised cost are discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition). Impairment losses are recognised in surplus or deficit as expenses.

Impairment losses are reversed when an increase in the receivable's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed does not exceed the carrying amount that would have been recognised had the impairment not been recognised. The amount of the reversal is recognised in surplus or deficit.

Notes to the Financial Statements

Financial instruments (continued)

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankrupcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

Financial liabilities

The PMTE derecognises a financial liability (or a part of the financial liability) from the Statement of Financial Position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expired or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on *Revenue from Non-exchange Transactions*.

Notes to the Financial Statements

Financial instruments (continued)

2.10 Statutory receivables and payables

Classification, recognition and measurement

Statutory receivables and payables arise from the right to receive cash or make payments in terms of legislatory requirements. The PMTE will recognise receivables when it obtains the right to receive assets in terms of legislation, at the amount determined in the legislation (i.e. transaction price), which is the fair value at initial recognition. Thereafter the receivable will be assessed for impairment.

Payables arising from legislatory requirements are measured at the amount determined in legislation (i.e transaction price).

Statutory receivables and payables are not discounted.

Impairment of receivables measured at cost

At each end of the reporting period, the PMTE assesses all receivables to determine whether there is objective evidence that the asset or group of assets have been impaired. The inability to redeem amounts due based on the payment history is considered to be indicators of impairment.

If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred. Impairment loss on receivables is impaired directly to the receivables. Receivables at cost are discounted at a risk free rate adjusted for the risk associated with the debt. Impairment losses are recognised in surplus or deficit as expenses.

Impairment losses are reversed when an increase in the receivable's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed does not exceed the carrying amount that would have been recognised had the impairment not been recognised. The amount of the reversal is recognised in surplus or deficit.

2.11 Functional Currency

The financial statements are prepared in South African Rand ("R") which is also the functional currency of the PMTE. Values are rounded to the nearest thousand ("R'000") unless otherwise indicated.

2.12 Leases

The PMTE classifies lease agreements in accordance with risks and rewards incidental to ownership. Where the lessor transfers substantially all the risks and rewards to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

2.12.1 PMTE as a lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term where the lease term exceeds one month; except where the terms and conditions have not been determined or were re-negotiated. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue. The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. Lease revenue is presented as accommodation charges in the Statement of Financial Performance and notes to the financial statements.

The PMTE recognises finance lease receivables resulting from finance leases as assets on the Statement of Financial Position. Such assets are presented as a receivable at an amount equal to the net investment in the lease. Interest revenue is recognised based on a pattern reflecting a constant periodic rate of return on the PMTE's net investment in the finance lease. The PMTE recognised month-to-month leases as revenue from exchange transactions as and when the revenue is due.

Notes to the Financial Statements

Leases (continued)

2.12.2 PMTE as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term where the lease term exceeds one month; except where the terms and conditions have not been determined or were re-negotiated. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset or liability.

Where the PMTE has assessed itself to be a lessee to a finance lease arrangement, it recognises a finance lease liability and a related leasehold asset, which would be disclosed as part of property plant and equipment. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. The PMTE enters into these finance leasehold agreements on behalf of its client departments and therefore the assumption is made that all finance lease costs incurred are fully recoverable from the client departments, unless there is a specific indication that a lease is paid without recovering the amount from the client department. The PMTE will in its role as finance lease lessor, derecognise this previously recognised leasehold asset (property, plant and equipment) and recognise a finance lease receivable against the respective client department.

The PMTE recognises finance lease liabilities resulting from finance leases as a liability on the Statement of Financial Position. Minimum lease payments is apportioned between the finance charge and the reduction of the outstanding liability. Such liabilities are presented as a payable at an amount equal to the net obligation of the lease. Interest expense is recognised based on the interest rate implicit in the finance lease.

The asset and the liability in the Statement of Financial Position are initially recognised at amounts equal to the fair value of the leased property or if lower, the present value of the minimum lease payments.The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis. The PMTE recognises month-to-month leases as an operating expense as and when the expense is incurred.

2.13 Expenditure

Expenditure is classified in accordance with the nature of the expenditure.

The PMTE recognises expenditure in surplus or deficit when a decrease in future economic benefits or service potential relates to a decrease in an asset or an increase in a liability, other than those relating to distributions to owners.

The PMTE recognises expenses immediately in surplus or deficit when no future economic benefits or service potential are expected or when and to the extent that, future economic benefits or service potential do not qualify or cease to qualify for recognition as an asset in the Statement of Financial Position.

The PMTE also recognises expenses in surplus or deficit in those cases when a liability is incurred without the recognition of an asset, for example, when a liability under a court ruling arises.

Interest expense is recognised as an expense in surplus or deficit in the period in which they are incurred, using the effective interest method.

2.15 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.16. Receivables from exchange transactions

Receivables from exchange transactions are classified as financial assets except for prepayments and advances. Prepayments and advances consist of amounts paid to contractors and employees for which future goods and services are expected to be received.

2.17. Receivables from non-exchange transactions

Receivables from non-exchange transactions are recognised when the PMTE receives non-exchange revenue in accordance with an agreement (financial assets) or through legislation (statutory receivables). Refer to note 2.9 and 2.10 respectively.

Notes to the Financial Statements

2.18 Comparative figures

Comparative figures have been adjusted to correct errors identified in the current year but relating to prior years. The effect of the restatements are disclosed in note 29.

2.20. Contingent assets and liabilities

Contingent assets are disclosed where the PMTE has a possible inflow of resources but the inflow did not meet the recognition criteria of an asset. Contingent liabilities are disclosed where a liability is subject to an uncertain event or the outflow is only assessed to be possible.

Contingent assets and contingent liabilities have been based on the best estimate available at the time of preparing the financial statements.

Contingent liabilities relating to litigations have been based on the assessment of the estimated claim against the PMTE as at the end of the reporting period. Contingent liabilities on retentions, leases and municipal rates are based on management's calculations of the possible inflows/outflows expected but are subject to consultation with respective third parties to determine the amount to be settled.

2.21. Employee benefits

2.21.1. Short-term employee benefits

The PMTE recognises an undiscounted amount of short-term benefits due to employees in exchange for the rendering of services by employees as follows:

- As a liability in cases where the amounts have not yet been paid.
- Where the amount paid exceeds the undiscounted amount of the benefits due, the PMTE recognises the excess as an asset to the extent that the overpayment will lead to a reduction of future payments or a cash refund.
- As an expense, unless the PMTE uses the services of employees in the construction of an asset and the benefits received meet the recognition criteria of an asset, at which stage it is included as part of the cost of the related property, plant and equipment or intangible asset item.

A related receivable and revenue from non-exchange transactions is recognised as the PMTE settles the liability, if the PMTE can recover the expenditure from the NDPW.

2.21.2. Leave benefits

The PMTE recognises the expected cost of short-term employee benefits in surplus or deficit, in the form of compensated absences (paid leave) when the employees render services that increase their entitlement to future compensated absences.

The expected cost of accumulating compensated absences is measured as the additional amount that the PMTE expects to incur as a result of the unused entitlement that has accumulated at the reporting date.

2.21.3. Performance and service bonuses

The PMTE recognises the expected cost of performance or service bonus payments where there is a present legal or constructive obligation to make these payments as a result of past events and a reliable estimate of the obligation can be made. A liability for service bonus is accrued on a proportionate basis as services are rendered. A liability for performance bonus, which is based on the employee's performance in the applicable year, is raised on the estimated amount payable in terms of the incentive schemes. The PMTE considers the present obligation to exist when it has no realistic alternative but to make the payments related to performance bonuses.

2.21.4. Retirement and medical benefits

Payments to the defined contribution plan are charged to the employee costs in surplus or deficit in the same year as the related services is provided. Once the contributions are paid, the PMTE has no further payment obligations.

Notes to the Financial Statements

2.22. Provisions

Provisions are liabilities, excluding accruals and other payables, that are recognised where the PMTE has a present, legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the best estimate of the amount to settle the present obligation at the reporting date, discounted to present value where the time value of money is expected to be material. The likelihood of provisions are assessed annually and any differences are recognised through the Statement of Financial Performance.

Provisions where the timing of the outflow is uncertain is classified under current liabilities.

2.23 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue from exchange transactions

Revenue earned from accommodation charges is classified as lease revenue (refer to 2.12.1 for further details on recognition and measurement of lease revenue). Accommodation charges are measured based on:
- the cost of leasing in (in the case of privately owned buildings);
- the budget devolution as agreed upon with the client departments (in the case of state owned accommodation); or
- the market related rental (in the case of state owned accommodation leased to the private sector and individuals).

Accommodation charges disclosed in the financial statements consists of:
- Freehold inter-governmental, which refers to lease revenue from state owned assets leased to client departments.
- Freehold private, which refers to lease revenue from state owned assets leased to the private sector and individuals.
- Leasehold inter-governmental, which refers to lease revenue earned from assets which are owned by the private sector, which is then sub-leased to client departments.

Revenue from construction contracts is classified as revenue from exchange transactions and recognised by reference to the stage of completion of the contract when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, construction revenue is recognised to the extent of contract costs incurred that are likely to be recoverable in the period in which they are incurred. An expected loss on a contract is recognised immediately in the surplus or deficit in the period in which it was incurred. Refer to note 2.8 for further details.

The PMTE pays municipal services on behalf of the client departments and earns 5% management fee on the value of the invoice. The management fee earned is recognised as revenue from exchange transactions in the surplus or deficit. Any amounts owed or overpaid on the management fee is recognised either as a receivable or payable from the exchange transactions as appropriate.

Interest revenue is recognised using the effective interest method.

Other revenue from exchange transactions is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably. Revenue will be recognised in the surplus or deficit when it becomes due to the PMTE. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts and volume rebate.

Notes to the Financial Statements

Revenue (continued)

Revenue from non-exchange transactions

The PMTE recognises the inflow of resources from a non-exchange transaction as revenue when it controls the asset, except in cases when a liability is recognised in respect of that inflow (except for equity transactions). These liabilities are classified as payables from non-exchange transactions until the conditions relating to the liability has been satisfied. Revenue from non-exchange transactions is measured initially at fair value.

Transfer payments received from the NDPW in order to fund operations and manage properties under the custodianship of NDPW, is referred to as augmentation and is classified as revenue from non-exchange transactions.

Revenue earned from freehold prestige accommodation charges is classified as lease revenue. Freehold prestige accommodation charges are recognised based on the reduced market related rental as per the ministerial handbook.

Where services are received in-kind and a reliable estimate can be made, the PMTE recognises the related revenue. In all other cases, the PMTE only discloses the nature of the transactions.

2.24 Budget information

PMTE presents a comparison of budget amounts and actual amounts as a separate additional financial statement. The approved and final budget amounts are prepared on a modified cash basis. The budget is prepared based on the nature of the revenue and the expenditure. The actual amounts (prepared on an accrual basis) are adjusted for basis differences for comparability purposes. The PMTE budgets for revenue including the transfer payment received through the NDPW. The PMTE budget is part of the overall NDPW vote.

2.25 Related parties

Parties are considered to be related if one party has the ability to control the other party, exercise significant influence over the other party or jointly controls the other party. Specific information with regard to related party transactions is included in note 24. Movable assets that have not been transferred specifically to the PMTE are not recognised by the PMTE but are recorded by the NDPW.

2.26 Reserves

The PMTE's reserves are made up of accumulated surplus.

Accumulated surplus are mainly built up to ensure adequate rehabilitation and maintenance of state owned infrastructure and future infrastructure development.

2.27 Commitments

The current year's estimates are based on unrecognised capital expenditure which has been approved and either contracted for or an order has been issued to the supplier.

2.28. Irregular, fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure, as defined by the PFMA, and material losses through criminal conduct is recognised as expenditure in the surplus or deficit according to the nature of the payment and disclosed separately in notes 22 to 23. When the amount is subsequently recoverable, it is recognised as revenue in surplus or deficit. Any receivables recognised as a result of irregular, fruitless and wasteful expenditure or material losses through criminal conduct, are subject to an annual impairment assessment.

2.30 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

	2015 Sept R '000	2015 March Restated R '000

3. Receivables from exchange transactions

	2015 Sept R '000	2015 March Restated R '000
Financial assets		
Accommodation debtors - leasehold inter-governmental	463 174	242 774
Accommodation debtors - freehold inter-governmental	1 695 714	246 454
Accommodation debtors - freehold private	3 448	6 289
Debt account	773	10 541
Municipal services	742 674	379 895
Revenue accrual	885 250	631 574
Municipal deposits	14 055	12 652
Other debtors	54	8
	3 805 142	**1 530 187**
Non-financial assets		
Prepaid expenses	978 342	626 465
	978 342	**626 465**
	4 783 484	**2 156 652**

The applicable discount rate, for outstanding receivables, for the period is 9.50% (March 2015: 9.25%).

The Revenue accruals relates to services rendered to our clients but not invoiced yet as the payment to the supplier is still outstanding.

Receivables past due date but not impaired

There were no receivables past due that were not impaired. The impairment loss incurred during the period for receivables from exchange transactions was R196 million (March 2015: R99 million).

Individually significant receivables that are impaired

Individually significant receivables are identified if the specific receivable's outstanding balance exceeds 5% of the total outstanding balance for the class of receivable. The factors to identify impairment are similar to the group assessment for impairment.

The analysis below shows the individually significant receivables that were determined to be impaired, as a percentage, of the gross receivable balance per class of receivable.

	2015 Sept %	2015 March %
Accommodation debtor - leasehold inter-governmental	41	38
Accommodation debtor - freehold inter-governmental	90	88
Municipal services	79	50

	2015 Sept R '000	2015 March Restated R '000

4. Receivables from non-exchange transactions

National Department of Public Works (services in-kind)*	-	187 183
Accommodation debtor - freehold prestige #	1 196	284
	1 196	**187 467**

* This receivable relates to the outstanding employee benefits payable by the NDPW on behalf of the PMTE (refer to note 13).

According to the ministerial handbook, prestige officials receive one state owned residence at no charge. If available, prestige officials may occupy a second state owned residence which is charged at a reduced market rental. The PMTE incurs the expenses for maintenance and property rates for these properties.

Receivables from non-exchange transactions past due but not impaired

There were no receivables past due that were not impaired. The impairment loss incurred during the period for receivables from non-exchange transactions relating to prestige debtors was R- million (March 2015: R 1 million).

5. Operating lease assets / liabilities

5.1 Operating lease asset

Total operating lease asset - PMTE as lessor	**Note**		
Leasehold inter-governmental	5.1.1	914 985	916 539
Freehold private	5.1.2	54 747	56 472
		969 732	**973 011**
Total minimum lease receipts - PMTE as lessor			
Within one year		3 101 322	3 034 221
In second to fifth year inclusive		4 541 033	5 190 199
Later than five years		706 491	709 809
		8 348 846	**8 934 229**

	2015 Sept R '000	2015 March Restated R '000

5. Operating lease assets / liabilities (continued)

5.1.1 Operating lease asset - leasehold inter-governmental

Operating lease asset - leasehold inter-governmental	**914 985**	**916 539**
	8 081 653	-
Minimum lease receipts		
Within one year	3 080 022	3 014 122
In second to fifth year inclusive	4 464 000	5 115 337
Within one year	537 631	614 323
	8 081 653	**8 743 782**

Based on the nature of leases that are running on a month-to-month and open-ended basis, the related leasehold commitment, as at 30 September, is based on the contractually agreed upon notice period. The said amounts have been included in the “within one year” ageing bracket

The above operating leases are sub-lease agreements with various client departments and are on the same terms as those applicable to the lease agreements entered into with the landlords on leasehold property (see note 5.2).

As a result of the month-to-month and open-ended leasehold commitments included in note 5.2, the equal and opposite amount is included in the PMTE leases above.

5.1.2 Operating leases freehold private

Operating lease asset - freehold private	**54 747**	**56 472**
Minimum lease receipts		
Within one year	21 300	20 099
In second to fifth year inclusive	77 033	74 862
Later than five years	168 860	95 486
	267 193	**190 447**

The disclosure of the minimum lease payments above relates to state owned properties that are leased out to private parties (accommodation debtor - freehold private).

5.2 Operating lease liabilities

Operating lease liabilities - leasehold inter-governmental	**914 985**	**916 539**
Total minimum lease payments - PMTE as lessee		
Within one year	3 080 022	3 014 122
In second to fifth year inclusive	4 464 000	5 115 337
Later than five years	537 631	614 323
	8 081 653	**8 743 782**

The PMTE has 2342 active leases (March 2015: 2588) included in the current private leasing portfolio. The leasehold commitments reflected above have been determined based on the terms and conditions of the relevant lease agreements. However, based on the nature of leases that are running on a month-to-month and open-ended basis, the related leasehold commitment, as at 30 September 2015, is determined taking into account the contractually agreed upon notice period. These amounts have been included as part of the “within one year” ageing bracket.

	2015 Sept R '000	2015 March Restated R '000

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	599	329
Bank balances *	1 627	5 868
Bank overdraft #	(1 520 965)	(667 586)
	(1 518 739)	**(661 389)**

Current assets	2 226	6 197
Current liabilities	(1 520 965)	(667 586)
	(1 518 739)	**(661 389)**

* The interest rate is variable. The average effective interest rate on short term bank deposit is 4.34% (March 2015: 4.17%).

The bank overdraft carries no interest.

7. Property, plant and equipment

	Sept 2015			March 2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Immovable properties	7 528 838	(113 411)	7 415 427	7 325 249	(84 988)	7 240 261
Dual purpose heritage assets	1	-	1	1	-	1
Assets under construction	6 415 296	-	6 415 296	4 396 348	-	4 396 348
Furniture and office equipment	78 306	(8 810)	69 496	77 135	(6 372)	70 763
Computer equipment	198 603	(32 770)	165 833	194 776	(13 275)	181 501
Other machinery and equipment	57 637	(11 537)	46 100	48 528	(7 148)	41 380
Total	**14 278 681**	**(166 528)**	**14 112 153**	**12 042 037**	**(111 783)**	**11 930 254**

Reconciliation of property, plant and equipment - Sept 2015

	Opening balance	Additions	Additions through transfer of functions	Disposals	Transfers	Depreciation	Total
Immovable properties	7 240 261	-	-	(44 354)	247 943	(28 423)	7 415 427
Dual purpose heritage assets	1	-	-	-	-	-	1
Assets under construction	4 396 348	2 268 788	-	-	(249 840)	-	6 415 296
Furniture and office equipment	70 763	2 035	-	(751)	-	(2 551)	69 496
Computer equipment	181 501	4 332	-	(376)	-	(19 624)	165 833
Other machinery and equipment	41 380	9 324	-	(198)	-	(4 406)	46 100
	11 930 254	**2 284 479**	**-**	**(45 679)**	**(1 897)**	**(55 004)**	**14 112 153**

Notes to the Financial Statements

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - March 2015

	Opening balance	Additions	Additions through transfer of functions	Disposals	Transfers	Depreciation	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Immovable properties	7 172 000	14 214	-	-	102 372	(48 325)	7 240 261
Dual purpose heritage assets	1	-	-	-	-	-	1
Assets under construction	1 198 722	3 299 998	-	-	(102 372)	-	4 396 348
Furniture and other equipment	21 685	5 995	48 039	(65)	-	(4 891)	70 763
Computer equipment	10 412	152 343	30 088	(51)	-	(11 291)	181 501
Other machinery and equipment	10 968	18 461	18 226	(82)	-	(6 193)	41 380
	8 413 788	**3 491 011**	**96 353**	**(198)**	**-**	**(70 700)**	**11 930 254**

Pledged as security

There are currently no property, plant and equipment pledged as securities for liabilities.

Restrictions on property, plant and equipment assets

The PMTE is not allowed to dispose of or transfer assets under its custodianship unless approved by the Minister of Public Works.

Notes to the Financial Statements

7. Property, plant and equipment (continued)

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 2 of the GRAP Reporting Framework, as disclosed in note 32, certain property, plant and equipment with a carrying value of R 14 112 million (March 2015: R11 930 million) was recognised at provisional amounts.

The property, plant and equipment transferred from the NDPW are before any adjustments. These values are at provisional amounts. The steps, methods and progress relating to verifying property, plant and equipment is disclosed in note 32.

The date at which full compliance with GRAP 17 is expected, is 31 March 2016 for the transfer of functions effective 1 April 2013 and 31 March 2017 for the transfer of function effective 1 April 2014.

The amounts for March 2015 have been restated. Refer to note 29 for further details.

Further details

Immovable properties consist of sub-classes with the following carrying values:

	2015 Sept R'000	2015 March Restated R'000
Non-residential properties	6 041 482	5 865 240
Residential propertie	1 372 629	1 374 016
Infrasturcture	1 316	1 005
	7 415 427	**7 240 261**

Notes to the Financial Statements

8. Investment property

	Sept 2015			March 2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	66 635 087	-	66 635 087	66 635 087	-	66 635 087

Reconciliation of investment property - Sept 2015

	Opening balance	Disposals	Total
Vacant land	66 370 013	-	66 370 013
Immovable properties	193	-	193
	66 370 206	**-**	**66 370 206**

Reconciliation of investment property - March 2015

	Opening balance	Transfers	Total
Vacant land	66 373 878	(3 865)	66 370 013
Immovable properties	193	-	193
	66 374 071	**(3 865)**	**66 370 206**

Restrictions on investment properties

The PMTE is not allowed to dispose of or transfer investment properties under it custodianship, unless approved by the Minister of Public Works.

Transitional provisions

Investment property recognised at provisional amounts

The investment properties values are at provisional amounts. The steps, methods and progress relating to verifying investment properties is similar to property, plant and equipment and is disclosed in note 32.

The date which full compliance with GRAP 16 is expected, is 31 March 2016.

Notes to the Financial Statements

9. Heritage assets

	Sept 2015			March 2015		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical monuments	1	-	1	1	-	1
Conservation areas	1	-	1	1	-	1
Historical buildings	5 208	-	5 208	3 312	-	3 312
Cemeteries	1	-	1	1	-	1
Total	**5 211**	**-**	**5 211**	**3 315**	**-**	**3 315**

Reconciliation of heritage assets - Sept 2015

	Opening balance	Transfers from completed projects	Total
Historical monuments	1	-	1
Conservation areas	1	-	1
Historical buildings	3 312	1 896	5 208
Cemeteries	1	-	1
	3 315	**1 896**	**5 211**

Reconciliation of heritage assets - March 2015

	Opening balance	Additions	Total
Historical monuments	1	-	1
Conservation areas	1	-	1
Historical buildings	2 122	1 190	3 312
Cemeteries	1	-	1
	2 125	**1 190**	**3 315**

Restrictions on heritage assets

The PMTE is not allowed to dispose of or transfer heritage assets under its custodianship unless approved by the Minister of Public Works.

Transitional provisions

Heritage assets recognised at provisional amounts

Heritage assets disclosed above are at provisional amounts. The steps, methods and progress relating to verifying heritage assets is similar to property, plant and equipment and is disclosed in note 32.

The date at which full compliance with GRAP 103 is expected, is 31 March 2016.

Notes to the Financial Statements

10. Intangible assets

	Sept 2015			March 2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	13 876	(2 965)	10 911	15 747	(3 330)	12 417

Reconciliation of intangible assets - Sept 2015

	Opening balance	Additions	Additions through transfer of functions	Disposals	Amortisation	Total
Computer software	12 417	248	-	(1 091)	(663)	10 911

Reconciliation of intangible assets - March 2015

	Opening balance	Additions	Additions through transfer of functions	Disposals	Amortisation	Total
Computer software	32 904	7 869	6 193	(19 661)	(14 888)	12 417

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 2 of the GRAP Reporting Framework, as disclosed in note 32, certain intangible assets with a carrying value of R 11 million (March 2015: R12 million) was recognised at provisional amounts.

The steps, methods and progress relating to verifying intangible assets is similar to property, plant and equipment and is disclosed in note 32.

The date at which full compliance with GRAP 102 is expected, is 31 March 2016..

Notes to the Financial Statements

	2015 Sept R '000	2015 March Restated R '000

11. Payables from exchange transactions

	2015 Sept R '000	2015 March Restated R '000
Financial liabilities		
Accrued expenses - Assets	364 594	285 223
Accrued expenses - Cleaning and gardening	12 396	15 058
Accrued expenses - Employee cost	653 774	-
Accrued expenses - Leases	404 630	341 148
Accrued expenses - Maintenance	155 511	299 337
Accrued expenses - Municipal Services	641 875	305 773
Accrued expenses - Other accruals	51 010	10 452
Accrued expenses - Property rates	118 401	155 701
Accrued expenses - Scheduled maintenance	103 228	90 649
Accrued expenses - Security	4 214	2 893
Accrued expenses - Service in-kind	37 842	37 842
Total accrued expenses	2 547 475	1 544 076
Deferred revenue	5 458 396	3 954 026
Trade payables	67	67
Contract guarantees	-	90
Unallocated deposits	59 707	50 437
Deposits received	16	2
	8 065 661	**5 548 698**
Non-financial liabilities		
Income received in advance	61 047	51 809
Over claimed lease revenue	617 244	527 266
	8 743 952	**6 127 773**

The amounts for March 2015 has been restated. For further details, refer to note 29.

Notes to the Financial Statements

	2015 Sept R '000	2015 March Restated R '000

12. Retention liabilities

	2015 Sept R '000	2015 March Restated R '000
Non-current liabilities	34 717	34 717
Current liabilities	241 585	222 637
	276 302	**257 354**

13. Employee benefit obligations

	2015 Sept R '000	2015 March Restated R '000
Provision for performance bonus		
Opening balance	18 144	9 535
Obligation due to the transfer of functions - effective 1 April 2014	-	5 790
Service cost recognised in financial performance	9 133	2 819
	27 277	**18 144**
Provision for leave		
Opening balance	118 826	55 815
Obligation due to the transfer of functions - effective 1 April 2014	-	45 521
Service cost recognised in financial performance	(10 234)	17 490
	108 592	**118 826**
Provision for service bonus		
Opening balance	33 613	16 863
Obligation due to the transfer of functions - effective 1 April 2014	-	15 510
Service cost recognised in financial performance	575	1 240
	34 188	**33 613**
Total employee benefit obligations	**170 057**	**170 582**

As a result of the transfer of functions, additional employment benefit obligations were recognised on the 1 April 2014. In accordance with the transitional provisions, per Directive 2 of the GRAP Reporting Framework, as disclosed in note 32, the employee benefit obligations with a value of R 67 million was recognised at provisional amounts as at 1 April 2014.

14. Provisions

Reconciliation of provisions - Sept 2015

	Opening Balance	Additions	Utilised during the year	Total
Legal proceedings	23 803	-	(11 553)	12 250

Provisions for legal proceedings consist of claims and litigations for services that have been delivered without an indication of the timing of settlement or the amount of settlement. The provision is based on the amounts confirmed by the legal advisors of the PMTE.

	2015 Sept R '000	2015 March Restated R '000

15. Finance lease obligation

Minimum lease payments due		
- within one year	7 081	1 799
- in second to fifth year inclusive	4 458	2 512
- later than five years	-	-
Total minimum lease payments due	11 539	4 311
less: future finance charges	(823)	(262)
Present value of minimum lease payments	**10 716**	**4 049**

Present value of minimum lease payments due		
- within one year	6 439	1 652
- in second to fifth year inclusive	4 277	2 397
	10 716	**4 049**

Non-current liabilities	4 277	2 397
Current liabilities	6 439	1 652
	10 716	**4 049**

The amounts for March 2015 have been restated. For further details, refer to note 29.

The finance lease liability relates to machinery and equipment, whereby DPW takes ownership of the asset upon completion of the contract, these contracts are typically 36 months. These have been transferred to the PMTE as a result of transfer of functions

The Department has entered in lease agreements for cellphones and 3G cards for a period of 24 months.

All the contracts have no cost escalation clause.

16. Revenue from exchange transactions

Accommodation charges - leasehold inter-governmental	1 892 720	3 874 050
Accommodation charges - freehold inter-governmental	2 904 814	3 590 063
Accommodation charges - freehold private	24 015	28 613
Management fees on municipal services	107 077	173 830
Interest revenue*	3 319	5 435
Recoveries	6	4 214
Other revenue	1 124	511
	4 933 075	**7 676 716**

*** Interest revenue consists of:**		
Interest from receivables	3 315	5 413
Interest on bank balances	4	22
	3 319	**5 435**

	2015 Sept R '000	2015 March Restated R '000

17. Revenue from non-exchange transactions

Augmentation	1 012 825	673 372
Contractor fines	8 689	3 060
Services in-kind	7 198	2 040 052
Accommodation charges - freehold prestige	947	1 778
Donation received	-	110
	1 029 659	**2 718 372**

18. Operating expenses

Administrative expenses	1 685	43 746
Advertising and communication	1 846	23 844
Amortisation on intangible assets	94	14 983
Bad debts written off	193 064	141
Bank charges	72	165
Cleaning and gardening	89 447	182 541
Computer software related expenses	6 348	13 848
Consulting fees	72 417	44 658
Consumables	8 942	19 847
Depreciation on property, plant and equipment	55 003	71 169
Goods and services	23 677	45 509
Impairment on receivables	196 449	100 349
Loss on disposal of property, plant and equipment	2 985	197
Loss on transfer of intangible assets	-	19 661
Loss on transfer of investment property	-	3 865
Losses incurred	51 069	85 357
Municipal services expenses	400 011	278 736
Operating leases	1 961 940	3 923 763
Other contractors	32 243	73 151
Property maintenance	692 761	2 398 703
Property rates	260 167	835 257
Communication expenses	7 241	-
Fleet expenses	23 037	-
Retirement awards	4 666	-
Claims against the state	117	-
Security	27 762	51 570
Travel and subsistence	28 333	45 153
Under claim of lease expenses	72 887	15 616
	4 214 263	**8 291 829**

The amounts for 2015 have been restated. For further details, refer to note 29.

19. Interest expense

Interest on finance leases	267	470
Interest on overdue accounts	846	136
	1 113	**606**

The amounts for March 2015 have been restated. Refer to note 29 for further details.

	2015 Sept R '000	2015 March Restated R '000

20. Employee related costs

Basic salary and non-pensionable salary	454 222	936 663
Pensionable bonus	9 142	17 548
Medical aid contributions	34 550	59 982
Leave payout	-	17 687
Pension fund contributions	51 935	104 802
Overtime	8 504	18 449
Service bonus	32 505	64 812
Housing allowances	22 290	48 162
Bargaining council	151	300
	613 299	**1 268 405**

The following employee benefit contributions have been incurred and expensed and are included in the costs above:

Government Employees Pension Fund	51 935	104 802
Medical aid contributions	34 550	59 982
Total defined contributions	**86 485**	**164 784**

	2015 Sept R '000	2015 March Restated R '000

21. Contingencies

21.1. Contingent liabilities

Municipal property rates	**-**	**-**

The PMTE is in the process of verifying properties for which it may be liable to pay property rates. Property rates are currently not being paid on approximately 21 360 land parcels out of a total of 33 906 relating to state properties under the custodianship of the Minister of Public Works. The rates are levied by municipalities subject to regulations in terms of applicable legislation. All rateable properties in a municipality must be valued during a general valuation by the municipalities and included in the valuation roll in terms of section 30 of the Municipal Property Rates Act, No 6 of 2014. At this stage, the amount of possible obligations relating to outstanding property rates cannot be determined pending finalisation of valuations rolls by municipalities and the linking thereof to the PMTE asset register

Municipal property rates (backlog)	**889**	**9 680**

Claims relating to backlog municipal property rates received in the previous financial year were paid except for an amount of R 9.7 million disclosed as a contingent liability which needed further investigation and/or authorisation. An amount of R 4.6million was verified, R4.2 million excluded as non-NDPW property. An amount of R 889k still needs further assessment to confirm validity thereof and determine whether the PMTE has an obligation to settle these claims.

Claims against the PMTE	**124 008**	**117 920**

The claims against the PMTE arose from property and maintenance disputes/activities with different third party service providers or tenderers. The entity's legal advisors are handling the claims on behalf of the PMTE. They have assessed the probability of each claim in determining the total amount of the legal contingent liability, and have determined that the outflow of economic benefits is possible as at the reporting date.

Total contingent liabilities	**124 897**	**127 600**

	2015 Sept R '000	2015 March Restated R '000

21. Contingencies (continued)

21.2 Contingent assets

Claims by the PMTE	**25 611**	**2 657**

The claims by the PMTE arose from various activities with service providers and are being handled by the entity's legal advisors. They have assessed the probability of each claim in determining the total amount of the legal contingent asset, and have determined that the inflow of economic benefits is possible as at the reporting date. During the current year, due to changes in certain cases, the legal advisors reassessed the probability of the inflows and a prudent approach was agreed upon and it was decided not to recognise a contingent asset, hence the reduction from the previous year.

Retentions	**124 560**	**131 311**

Two contract types exist for the construction of properties by the contractors, namely General Conditions of Contract and Joint Building Contracts Committee. Each contract type includes a range of security clauses for the purpose of managing the risk of non-performance by the contractor. These security clauses stipulate that the PMTE is entitled to retain a specified portion of the payment on each invoice received. Management did not apply these security clauses accurately and as a result insufficient amounts were retained on each payment exposing the PMTE to the risk of non-performance by the contractors. Therefore based on the contract requirements the PMTE overpaid the contractors in substance.

Going forward the project managers have indicated that these overpayments will be rectified in the form of retaining larger amounts on future payments to, in substance, recover the previous overpayments. A calculation model has been operationally introduced within the PMTE. The use of this template will control and standardise the calculation of the amount to be retained on each invoice/ payment and will ensure that sufficient amounts are withheld to recover the overpayments.

Withholding an amount on each invoice/payment is an internal mechanism applied by the PMTE to manage risk. Therefore when an insufficient amount is retained on a specific invoice the contractor has no contractual obligation towards the PMTE to refund for the overpayment. In absence of objective evidence that the PMTE will be able to recover these funds from the contractors, the PMTE cannot conclude that future economic benefits will be probable and a contingent asset is disclosed.

Under recovery of accommodation charges - leasehold inter-governmental	**404 630**	**316 270**

Leases were identified where the PMTE did not recover all payments in accordance with sub-leases from client departments. However, as the probability of future benefits cannot be confirmed with sufficient accuracy, the PMTE only discloses a contingent asset relating to the amount due.

Potential state properties	**-**	**-**

The annual Deeds reconciliation process has revealed that there are approximately 600 land parcels which may fall under the custodianship of the PMTE once sufficient information is available to confirm such custodianship. These land parcels will be accounted for once GRAP recognition criteria are met.

Total contingent assets	**554 801**	**450 238**

	2015 Sept R '000	2015 March Restated R '000

22. Fruitless and wasteful expenditure

22.1. Reconciliation of fruitless and wasteful expenditure

Fruitless and wasteful expenditure	261 461	335 177
Fruitless and wasteful expenditure relating to prior year	66	239
Less amounts resolved	-	(73 955)
	261 527	**261 461**

The investigations on fruitless and wasteful expenditure are ongoing. In instances where investigations have been concluded and officials have been found liable, appropriate disciplinary steps have been instituted against them as well as civil claims for recovery of amounts from service providers.

The current yea amount of R 65 000 relates to interest paid on overdue accounts. The expenditure arose due to problems with the migration from BAS to the SAGE accounting system.

22.2. Details of fruitless and wasteful expenditure - current year

	2015 Sept R'000
Interest paid on overdue accounts	65
	65

Further investigations will be conducted by management to deteremine liability and possible recovery. Appropriate actions will be taken against service providers and officials found to have colluded.

23. Irregular expenditure

23.1. Reconciliation of irregular expenditure

	2015 Sept R '000	2015 March Restated R '000
Opening balance	34 087 771	34 417 205
Prior period error	-	(444 899)
Add: Irregular Expenditure - current year	1 691 562	1 233 549
Add: Irregular Expenditure - prior year	-	2 102 595
Less: Amounts condoned - prior years	-	(3 175 554)
Less: Amounts condoned - current year	-	(45 125)
Less: Amounts not recoverable (not condoned)	(28 961 133)	-
	6 818 200	**34 087 771**

Irregular expenditure relating to prior year for the amount of R 2.1 million relates to lease contracts paid in the prior year but discovered during the current period.

The investigations on irregular expenditure are ongoing. In instances where investigations have been concluded and officials have been found liable, appropriate disciplinary steps have been instituted against them as well as civil claims for recovery of amounts from service providers where applicable. Amounts not recoverable (not condoned) relate to the transactions that had gone through the prescribed process in terms of the Guideline on Irregular Expenditure issued by the National Treasury.

23.2 Details of irregular expenditure – current year

	2015 Sept R'000
Leases running on month-to-month	1 230 537
Correct procurement process not followed in prior years	459 871
Correct procurement process not followed in current period	1 153
Prior years	-
	-
	1 691 561

An amount of R460 million incurred in current year relates to muliti-year projects entered into in previous financial years for which payments were made in the current year.

An amount of R1.2 billion incurred in current year relates to expenditure on leases which were not renewed in the current financial year and running on month-to-month basis, and leases renewed where procurement processes were not followed.

23.3 Details of irregular expenditure condoned

Correct process not followed	National Treasury	28 961 133

Notes to the Financial Statements

24. Related party transactions and outstanding balances

The PMTE is controlled through the NDPW at National Government level. Only parties within the national sphere of government and entities reporting to National Departments that are subject to common control, is considered related parties.

The PMTE performs property management services for the state owned and leasehold immoveable assets occupied by National Departments and their related parties, and recognises and recovers accommodation charges from them.

The PMTE operates within the administration of the NDPW and as such all contracts are entered into in the name of the NDPW. The liabilities and obligations arising from these transactions are accounted for by the PMTE if it relates to the PMTE operating activities as these liabilities will be settled using the PMTE funds and resources. As such, these transactions are not considered related party transactions.

The PMTE is exempt from disclosure of related party transactions provided that the services are received/delivered within normal supplier/client relationships, on terms and conditions that is no more nor less favourable than those that would have reasonably be expected to be adopted if dealing with that entity/person in the same circumstances. The extent of those transactions delivered in accordance with the PMTE legal mandate and that meets the exemption criteria, is included in note 16 (accommodation charges - leasehold inter-governmental and management fees on municipal services).

	2015 Sept R '000	2015 March R '000
24.1. National Department of Public Works		
Revenue from exchange transactions		
Accommodation charges - freehold inter-governmental	-	47 723
Revenue from non-exchange transactions		
Service in-kind	7 198	2 042 700
Augmentation	1 012 825	673 372
	1 020 023	**2 716 072**
Receivables relating to the above		
Service in-kind	-	187 183

The related party payables above are unsecured and are expected to be settled within normal course of business.

Notes to the Financial Statements

24. Related party transactions and outstanding balances (continued)

24.1. National Department of Public Works

The PMTE receives free services from the NDPW. The Department paid the following overhead costs for the day-to-day running of the PMTE:

- Computer related expenses
- Certain furniture, office equipment, computer equipment, other machinery and equipment.

Overhead costs that can be measured reliably and have been included in revenue from non-exchange transactions as services in-kind. These costs are not recovered by the NDPW.

As the budget still resides with the NDPW, the NDPW pays for certain municipal services and capital expenditure on vacant properties which are not occupied by the NDPW but are managed by the PMTE. These charges, paid by the NDPW on behalf of the PMTE are related party transactions. During the prior financial period, the total municipal service expense, paid by the NDPW, for vacant properties amounts to R 10.3 million. In the current financial period, all municipal services paid by NDPW relate to properties managed by PMTE.

Other overhead costs include the sharing of corporate services between the NDPW and the PMTE. Due to the nature of these transactions and the operational structures between the PMTE and the Department, the value of these shared costs cannot be reliably measured. These costs, paid by the Department on behalf of the PMTE and not recovered, include the following corporate shared services:

Effective for 2014/15 and 2015/16 financial period

- Supply Chain Management (SCM) for head office functions
- Internal Audit
- Human Resources (Human Resource Management and Human Resource and Organisational Development)
- Gender, people with disabilities, youth and children
- Marketing and Communication
- Information Services
- Legal Services
- Security Management
- International relations and Strategic Management Unit
- Office of the Ministry, Office of the Director General and Office of the Chief Financial Officer
- Monitoring and Evaluation
- Labour Relations

In addition, the Department and the PMTE share the service cost of certain special interventions entered into in support of the turn around strategy. These cannot be reliably separated.

The PMTE receives an augmentation of funds from National Treasury via the NDPW to fund its operations.

24.2 Other related parties

The PMTE recognises accommodation revenue on state owned building based on the amount budgeted by client departments. The level of service delivery relating to this accommodation charge is not linked to the value received, it is likely that some clients may benefit to the disadvantage of others. It is not possible to identify the extent of benefit or disadvantage received. The full amount of the revenue transaction is disclosed in note 16. The related receivables (accommodation debtors - freehold inter-governmental) is disclosed in note 3.

	2015 Sept R '000	2015 March Restated R '000

24. Related party transactions and outstanding balances (continued)

24.2. Other related parties

Revenue from exchange transactions: Accommodation debtors - freehold inter-governmental

Agriculture, Forestry and Fishing	43 170	75 078
Arts and Culture	17 567	30 552
Communications	437	761
Correctional services	486 919	926 600
Defence	457 554	781 714
Higher education	366	637
Environmental Affairs	8 820	15 339
Government Communications	14	24
Health	6 820	11 860
Health (Civitas)	40 483	76 382
Home Affairs	21 045	36 600
Human Settlement	223	388
Independent Police Investigation Directorate	180	345
Justice and Constitutional Development	173 322	331 401
Labour	-	43 004
Rural Development and Land Reform	24 728	20 971
Minerals	15 108	2 377
National Treasury	2 559	4 451
National Treasury - SARS	14 495	25 208
Public Service and Administration	130	226
SA Poice Services	573 379	1 096 327
Social Development	238	415
Sports and Recreation	5	9
Statistics SA	2 658	1 070
Trade and Industry	16	28
Water Affairs	60 481	101 682
National Prosecuting Authority	1 367	-
	1 952 084	**3 583 449**

Gross receivabes from exchange transactions: Accomodation debtors - freehold inter-governmental

Agriculture, Forestry and Fishing	393	393
Arts and Culture	-	14 279
Correctional Services	2 306	-
Health (Civitas)	-	11 549
International Relations and Cooperation	7 258	7 258
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Statistics South Africa	235	-
Trade and Industry	44	28
Water and Sanitation	2 014	-
	12 252	**33 509**

Impairment relating to receivables from exchange transactions

Agriculture, Forestry and Fishing	189	393
Arts and Culture	-	7 292
Correctional Services	225	-
Health (Civitas)	-	984
International Relations and Cooperation	7 258	7 258
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Statistics South Africa	23	3
Trade and Industry	31	3

Notes to the Financial Statements

24. Related party transactions and outstanding balances (continued)

Water Affairs	196	-
	7 924	**15 935**

The PMTE incurs property maintenance costs relating to cleaning and gardening services for leasehold properties occupied by certain client departments. Figures reflected in the tables below reflect the related party transactions applicable per client department. These costs are not recovered from client departments, and therefore considered a free service to them. The related party accruals disclosed below are unsecured and are expected to be settled within the normal course of business.

	2015 Sept R '000	2015 March R '000
	Cleaning and gardening	Cleaning and gardening
Expenditure		
Agriculture, Forestry and Fishing	-	88
Arts and Culture	3 667	8 334
Correctional Services	-	274
Defence	-	205
Justice and Constitutional Development	65 152	143 184
Presidency	-	1 662
SA Police Services	-	311
Water Affairs	-	15
	68 819	**154 073**
Accruals raised		
Agriculture, Forestry and Fishing	-	88
Art and Culture	59	362
Correctional Services	-	274
Defence	534	205
Justice and Constitutional Development	8 220	9 991
Labour	20	-
Parliament	1	-
Presidency	3 296	1 662
SA Police Services	1	311
Water Affairs	-	15
	12 131	**12 908**

Management remuneration

Management of the PMTE is defined as being individuals with the responsibility for planning, directing and controlling the activities of the entity. Key management officials are members of the Executive Committee (EXCO), members of the Minister and Top Management Committee of the NDPW, chairpersons of significant committees, head of units and Regional Managers. Where the remuneration of management is not accounted for by the PMTE (as included in note 20), the remuneration is not included in the disclosure below. This includes the remuneration of the Chief Financial Officer, the Director-General and the Minister of Public Works.

Notes to the Financial Statements

25. Management emoluments

Sept 2015	Basic salary	Non-pensionable salary	Service bonus	Post employment benefit	Other short term benefits	Total
Employees						
Regional Manager - Bloemfontein	313	65	-	59	64	501
Regional Manager - Cape Town	387	53	-	58	31	529
Regional Manager - Durban	313	142	52	41	125	673
Regional Manager - Johannesburg	322	63	-	52	83	520
Regional Manager - Kimberley	313	136	-	46	32	527
Regional Manager - Mafikeng	313	88	52	41	126	620
Regional Manager - Mthatha	313	142	-	41	-	496
Regional Manager - Nelspruit	322	150	-	53	75	600
Regional Manager - Polokwane	365	31	61	51	95	603
Regional Manager - Port Elizabeth	342	172	56	11	-	581
Regional Manager (Acting) - Pretoria	98	52	13	16	-	179
Chief Director: Financial Planning	313	131	-	52	-	496
EXCO members						
Head of PMTE (Acting)	1 250	-	-	-	-	1 250
Deputy Director General: Key Accounts Management	380	158	63	49	31	681
Deputy Director General: Regional Co-ordination	428	89	71	56	109	753
Head: Real Estate Management and Facilities Management	444	96	12	57	16	625
Head: Real Estate Investment Services	387	79	65	55	98	684
Deputy Director General: Inner City Regeneration	444	60	74	57	36	671
Head: Real Estate Information and Registry Services	501	214	-	-	58	773
	7 548	**1 921**	**519**	**795**	**979**	**11 762**

March 2015	Basic salary	Non-pensionable salary	Service bonus	Post employment benefit	Other short term benefits	Total
Employees						
Regional Manager - Nelspruit	611	282	101	141	-	1 135
Regional Manager - Bloemfontein	593	115	49	113	177	1 047
Regional Manager - Johannesburg	611	110	51	100	161	1 033
Regional Manager - Kimberley	593	258	49	88	71	1 059
Regional Manager - Port Elizabeth	648	325	107	28	-	1 108
Regional Manager - Durban	593	269	49	77	218	1 206
Regional Manager - Cape Town	734	97	61	112	49	1 053
Regional Manager - Pretoria	602	220	51	78	82	1 033
Regional Manager - Mafikeng	593	162	49	77	159	1 040
Head of Finance (Acting)	333	-	-	-	-	333
Regional Manager - Mthatha	593	269	49	77	40	1 028
Regional Manager - Polokwane	692	53	58	98	206	1 107
Chief Director: Financial Planning	593	247	49	99	-	988

Notes to the Financial Statements

25. Management emoluments (continued)

EXCO member						
Head of PMTE (Acting)	842	181	70	109	34	1 236
Head: Real Estate Investment Services	734	150	61	104	104	1 153
Deputy Director General: Inner City Regeneration	841	110	70	110	90	1 221
Deputy Director General: Key Accounts Management	721	297	60	94	30	1 202
Deputy Director General: Regional Co-ordination	812	158	68	106	218	1 362
	11 739	**3 303**	**1 052**	**1 611**	**1 639**	**19 344**

Other short term benefits comprise of housing allowance, travel allowance and bargaining council contributions. Post employment benefits comprises of pension fund and medical aid contributions to a defined contribution plan.

Service contracts

The Acting Head of Finance was appointed for 3 months during the 2014/15 financial period.

The Head of PMTE was appointed for 5 months during the 2015/16 financial year.

Notes to the Financial Statements

26. Financial instruments disclosure

Categories of financial instruments

Financial assets at amortised cost		2015 Sept R'000	2015 March Restated R'000
Receivables from exchange transactions	3	4 783 484	2 156 652
Cash and cash equivalents	6	2 226	6 197
		4 785 710	**2 162 849**

Financial liabilities at amortised cost			
Bank overdraft	6	1 520 965	667 586
Payables from exchange transactions	11	8 743 952	6 110 126
Retention liabilities	12	276 302	257 354
Finance lease obligation	15	10 716	3 868
		10 551 935	**7 038 934**

27. Risk management

Financial risk management

The entity activities exposes it to a variety of financial risks which includes market risk (including interest rate risk), credit risk and liquidity risk.

The Director-General, as the Accounting Officer, is responsible for strategic risk management within the PMTE and tasks the Audit Committee with providing advise thereon. The PMTE has a risk management strategy that has been developed in terms of the Treasury Regulation 3.2. The purpose of the PMTE risk management strategy is to identify the risks and ensure that the overall risk profile remains at acceptable levels. The risk management strategy provides reasonable, but not absolute, assurance that risks are being adequately managed.

The PMTE risk policy sets out the minimum standards of risk management to be adopted and adhered to by all the units within the PMTE. The risk policy is established to identify and analyse the risks faced by the PMTE, to set appropriate risk tolerance levels and controls and to monitor risks and adherence these tolerance levels. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the PMTE activities. The risk management policy contains processes for identifying both the impact and likelihood of such a risk occurring. Risks that have been identified as having a potentially severe impact on the PMTE are regarded as unacceptable and where possible will be avoided. Financial risk is not considered significant with the exception of the overdraft.

Responsibility for adherence to the PMTE risk management strategy rests with the Risk Management unit together with the Internal Audit and Compliance units who engage with the Audit Committee and members of the Executive Committee ("EXCO") regularly.

27. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the PMTE is not able to settle its obligations. The PMTE manages liquidity risk through ongoing review and assessment of client departments' commitment to settle their accounts.

For operating lease liabilities and finance lease liabilities, the maturity analysis is disclosed in note 5 and note 15 respectively. All payments are due within 30 days except tender deposits and retentions which are due when the related contracts expire. These tender deposits are considered immaterial in managing the cash flows of the PMTE and have been excluded from the maturity analysis below:

Sept 2015	Note	1 month R'000	2-12 months R'000	2 years R'000	3 years R'000	> 3 years R'000	Total R'000
Bank overdraft	6	1 520 965	-	-	-	-	1 520 965
Accrued expenses - Assets	11	364 594	-	-	-	-	364 594
Accrued expenses - Cleaning and gardening	11	12 396	-	-	-	-	12 396
Accrued expenses - Leases	11	404 630	-	-	-	-	404 630
Accrued expenses - Employee costs	11	653 774	-	-	-	-	653 774
Accrued expenses - Maintenance	11	155 511	-	-	-	-	155 511
Accrued expenses - Municipal Services	11	641 875	-	-	-	-	641 875
Accrued expenses - Other accruals	11	51 010	-	-	-	-	51 010
Accrued expenses - Property rates	11	118 401	-	-	-	-	118 401
Accrued expenses - Scheduled maintenance	11	103 228	-	-	-	-	103 228
Accrued expenses - Security	11	4 214	-	-	-	-	4 214
Accrued expenses - Service in-kind	11	37 842	-	-	-	-	37 842
Over claimed lease revenue	11	617 244	-	-	-	-	617 244
Deferred revenue	11	5 458 396	-	-	-	-	5 458 396
Trade payables	11	67	-	-	-	-	67
Retentions	12	168 467	81 670	20 984	895	4 285	276 301
Capital commitments - Projects	31	1 785 658	1 952 006	2 793 407	66 327	217 618	6 815 016
Other commitments	31	-	-	-	8 047	-	8 047
		12 098 272	**2 033 676**	**2 814 391**	**75 269**	**221 903**	**17 243 511**

March 2015	Note	1 month R'000	2-12 months R'000	2 years R'000	3 years R'000	> 3 years R'000	Total R'000
Bank overdraft	6	667 586	-	-	-	-	667 586
Accrued expenses - Assets	11	285 223	-	-	-	-	285 223
Accrued expenses - Cleaning and gardening	11	15 058	-	-	-	-	15 058
Accrued expenses - Leases	11	341 148	-	-	-	-	341 148
Accrued expenses - Maintenance	11	299 337	-	-	-	-	299 337
Accrued expenses - Municipal Services	11	305 773	-	-	-	-	305 773
Accrued expenses - Other accruals	11	10 452	-	-	-	-	10 452
Accrued expenses - Property rates	11	155 701	-	-	-	-	155 701
Accrued expenses - Scheduled maintenance	11	90 649	-	-	-	-	90 649
Accrued expenses - Security	11	2 893	-	-	-	-	2 893
Accrued expenses - Service in-kind	11	37 842	-	-	-	-	37 842
Over claimed lease revenue	11	527 266	-	-	-	-	527 266
Deferred revenue	11	3 954 026	-	-	-	-	3 954 026
Trade payables	11	67	-	-	-	-	67
Contract guarantees	11	90	-	-	-	-	90
Retentions	12	169 316	56 392	13 422	156	-	239 286
Capital commitments - Projects	31	806 719	1 368 960	771 474	963 823	-	3 910 976
		7 669 146	**1 425 352**	**784 896**	**963 979**	**-**	**10 843 373**

Notes to the Financial Statements

27. Risk management (continued)

During both the current and prior financial period, the project managers retained insufficient amounts on each payment/ invoice as prescribed by the applicable contracts with the contractors. The retention is used as security to manage the risk of non-performance/ defaulting by the contractors. By not retaining sufficient amounts on each payment/ invoice the PMTE is exposing itself to greater risk as it will not have any bargaining power should the contractors default.

The PMTE has 2342 active leases (March 2015: 2588) included in the current private leasing portfolio. The leasehold commitments reflected have been determined based on the terms and conditions of the relevant lease agreements. However, based on the nature of leases that are running on a month-to-month and open-ended basis, the related leasehold commitment, as at 31 March, is determined taking into account the contractually agreed upon notice period. These amounts have been included as part of the “within one year” ageing bracket. For further commitment disclosure for operating leases, refer to note 5.

The PMTE does not enter into capital and/or lease commitments without ensuring commitment from the client departments to settle its obligations.

The liquidity maturity analysis represents the contractual cash flows and has not been discounted.

Credit risk

Credit risk is the risk of financial loss to the PMTE if a client department or counterparty defaults on its contractual obligations to the PMTE. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position.

The PMTE may have financial assets arising out of transactions with suppliers due to overpayments and non-delivery.

The PMTE manages this risk by requiring retentions and or guarantees before contract work commences.

The credit risk of financial assets arising out of lease contracts as it relates to transactions with other government departments and institutions is actively managed where there are disagreements about inter governmental debt.

The PMTE first engages with the respective client to resolve the issue and if required involves National Treasury to mediate the situation. These various government institutions have no independent credit ratings.

Outstanding debt is assessed for impairment and amounts are not written off unless the authorised process is followed. However, as a result of client departments' inability to accumulate savings to settle debt, a considerable amount of time may expire before the amount is collected.

The PMTE is also exposed to additional credit risk as a result of the transfer of functions as it now also collects monies from the private sector for leases. The extent of these are not considered to be material.

The PMTE makes provision for this in the impairment calculation by discounting the expected future cash flows taking into account the expected period of payment.

The PMTE does not enter into additional leases with any client departments without first assessing the current outstanding debt of the client department.

Amounts that are neither past due nor impaired are considered to be recoverable as it relates to the current invoices not outstanding later than 30 days.

The nature of the PMTE's exposure to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

Notes to the Financial Statements

27. Risk management (continued)

Financial and statutory assets exposed to credit risk were as follows:

	Sept 2015	March 2015
Cash and cash equivalents	2 226	6 197
Receivables from exchange transactions	3 805 142	1 530 187
Receivables from non-exchange transactions	1 196	284
Operating lease asset	969 732	973 011
	4 778 296	**2 509 679**

The carrying values of the above financial assets are net of any impairments and approximate their fair value.

None of the amounts disclosed above have been pledged as security or collateral for liabilities or contingent liabilities.

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The PMTE is exposed to limited interest rate risk from cash balances as it sweeps transactions through commercial accounts to the Reserve Bank account.

The PMTE is exposed to changes in the interest rate applicable to debt owned by the state and is intrinsic to the business. National Treasury determines this rate and manages the risk on behalf of National Government.

28. Subsequent events

There are no subsequent events identified to be disclosed.

Notes to the Financial Statements

29. Prior period errors

Material differences relating to prior years were adjusted and the prior year financial statements have been restated to this effect. The impact of these errors are summarised below with the details shown seperately below:

	2015 March Restated R'000
Increase in payables from exchange transactions	(17 648)
Decrease in property, plant and equipment	(205)
Increase in finance lease liability	(164)
Decrease in net assets	**(18 017)**

Statement of Financial Performance

Increase in operating expenses	(15 369)
Decrease in revenue from non-exchange transactions	(2 648)
	(18 017)
Decrease in opening accummulated deficit	**-**
	(18 017)

29.1. Restatement of accrued expenses

Due to the PMTE not having an appropriate system for recording accrual transactions and accruals were incomplete in the prior period. The restatement was performed as, in some cases the date of the invoice was used to record the transaction and not the date that the goods were actually received. In other cases the information only became available after the financial statements were submitted for auditing. A manual accrual management system has since been developed and prior year accruals restated.

Increase in payables from exchange transactions	(14 197)

Increase in operating expenses	(14 197)

Notes to the Financial Statements

29. Prior period errors (continued)

29.2. Correction of finance lease transactions

The PMTE reviewed the leases relating to printer/copier machines, cellphones, 3G cards and vehicles to ensure that the correct classification and recognition according to the Standards of GRAP is applied. As a result, the finance lease and related transactions were restated for the prior period.

	2015 March Restated R'000
Decrease in property, plant and equipment	(120)
Increase in payables from exchange transactions	(3 451)
Increase in finance lease liability	(164)
	(3 735)
Decrease in revenue from non-exchange transactions	(2 648)
Increase in operating expenses	(1 087)
	(3 735)

29.3. Correction of immovable and movable assets

During 2015/16 financial year PMTE discovered that the transfer of completed assets from Assets Under Construction to Property Plant and Equipment and Investment properties were incorrectly calculated and recognised.This process resulted in additional assets being reclassified from Assets Under Construction into Property Plant and Equipment. This classification was subsequently corrected.

PMTE also reviewed the movable property plant and equipment transferred over to PMTE and the associated transactions eminating from it. This resulted in a number of errors being identifed and subsequently corrected.

	-
Decrease in property, plant and equipment	(85)
Decrease in operating expenses	(85)

Notes to the Financial Statements

30. Budget differences

Reconciliation of budget to actual	
Net cash flow from operating activities	1 319 613
Net cash flow from investing activities	(2 176 963)
Net decrease in cash and cash equivalents per the cash flow statement	**(857 350)**
Cash deficit per statement of comparison of budget and actual amounts	(857 350)
Surplus per statement of financial performance	1 134 059
Basis difference	**276 709**

The difference between the cash surplus per the Statement of Comparison of Budget and Actual Amounts and the Statements of Financial Performance relates to non-cash movements. The PMTE's approved budget was for the 12 month period ending 31 March 2016.

Explanations of material variances between actual amounts and final budgeted amount

Accommodation charges - freehold inter-governmental and leasehold inter-governmental
The revenue projection is based on the invoices issued, while the actual represents the amount received in the bank account. The balance of the amount not received is represented in receivables.

Municipal services recoveries
The revenue projection is based on the invoices issued, while the actual represents the amount received in the bank account. The balance of the amount not received is represented in receivables.

Municipal services
The budgeted amount is based on the invoices issued which is based on the payments made for municipal services. Due to the timing difference between the payments and the invoices issued, the actual recoveries may be less than planned.

Maintenance - planned
The budget is based on the cash flow projection of hundreds of projects. These cash flows change constantly due to SCM processes, conditions on site, etc. The fluctuations are managed as much as possible during the year, through interventions where necessary, but the expenditure will not match the budget exactly.

Maintenance - unplanned
This budget relates to day-to-day breakdowns and routine maintenance done on installations such as air conditioners, boilers, water treatment plants, etc. Due to the nature of the expense, the budget is monitored and adjusted to re-align with the actual expenditure, but cannot be fixed as the number of breakdowns cannot be determined beforehand.

Cleaning and gardening
The expenditure is based on payments made to suppliers contracted to deliver these services. Of the amount outstanding as at 30 September 2015, a portion relates to accruals where the service was delivered, but not yet paid for.

Interest expense
The is a nominal amount that cannot be predicted in advance. The budget is adjusted towards year end.

Operating leases
The budgeted amount is based on the invoices issued which are based on payments made for municipal services. Due to the timing difference between the payments and the invoices issued, the actual recoveries may be less than planned.

Property rates
The original budget was supplemented with savings from other items to make provision for the payments of invoices received from municipalities relating to arrear property rates accounts. These accounts are still being verified and reconciled with prior year payments to ensure validity before payment is made. The full amount could not be spent by year end.

Disallowances
The disallowance difference results from payments made which were not recovered or written off.

31. Commitments

31.1 Capital commitments - Projects

Commitments for the acquisition of non-financial assets (consisting of property, plant and equipment, investment property, heritage assets and intangible assets) that are contracted for, but not provided for, in the financial statements, are reflected in the table below. Included in the capital commitments amount of R 7 090 million (March 2015: R 6 978 million) are the CPAP commitment (Contract Price Adjustment Provision) of R 672 million (March 2015: R 531 million), year-end accruals for amounts still owed to the contractors for goods and services already delivered, and finally retentions as illustrated below:

	2015 Sept R'000	2015 March R'000
Gross capital commitment	7 089 833	6 977 863
Retentions	(222 811)	(173 373)
Accrued expenses	(52 005)	(285 185)
	6 815 017	**6 519 305**

Refer to note 27 for the ageing of capital commitments.

31.2 Other commitments

These commitments relate to expenditure which was previously incurred in NDPW's Main Vote. From 1 April 2015, the administrative budget (i.e. Goods and Services and Machinery and Equipment) has been transferred to the PMTE. Hence the actual expenditure linked to the transactions already contracted with and committed to by the NDPW during 2014/15 financial period will be incurred by the PMTE during 2015/16.

Operational commitments resulting from routine business functions of the PMTE are not disclosed per GRAP 19.

	2015 Sept R'000	2015 March Restated R'000
- within one year	-	50 014

Refer to note 27 for the ageing of other commitments.

32. Transfer of functions

The PMTE was established as a trading entity that operates within the administration of the National Department of Public Works (NDPW).The main purpose of the PMTE was to manage properties under the custodianship of the NDPW. In the prior years, the PMTE incurred all the expenses and collected the revenue for the properties which was recognised by the NDPW and not recognised by the PMTE prior to the transfer of functions. To align the expenses and revenue to the underlying assets, the NDPW transferred certain property management functions, including the related assets, liabilities and staff, to the PMTE.

Functions to be transferred from the NDPW have been identified, however, the related assets and liabilities have not been recognised by the NDPW, due to the fact that the department is on a modified cash basis. The PMTE is in the process of identifying and measuring the assets and liabilities per the principles of GRAP. In terms of GRAP 105 and Directive 2, the PMTE has 3 years from transfer date to measure all assets and liabilities transferred. Therefore the values above represent provisional amounts as measurement initiatives are still in progress. These values will be updated to comply with the GRAP requirements in the transitional period.

During the transfer of functions, the assets and liabilities listed below were acquired at no consideration from the NDPW. The provisional amounts were based on the amount disclosed by the NDPW. Where no values existed or values were unreliable, assets or class of assets were initially transferred at R 1 000.

Notes to the Financial Statements

32. Transfer of functions (continued)

The PMTE acquired the following functions and the related assets and liabilities from the NPDW on 1 April 2013:
- Asset Investment Management
- Property Management
- Facilities Management
- Key Account Management
- Regional Finance Units.

Assets and liabilities acquired on 1 April 2013, relating to the above functions, consists of the following:

	Opening provisional amount 1 April 2013 R'000	GRAP adjustments 2014 R'000	GRAP adjustments 2015 March R'000	GRAP adjustment 2015 Sept R'000	Closing provisional amounts R'000
Assets					
Property, plant and equipment *	3 519 437	5 900	2 158 456	12 604	5 696 397
Investment property *	48 988	3 898 647	62 558 500	132 440	66 638 575
Heritage assets #	4	-	261	-	265
Intangible assets #	1	-	40 385	-	40 386
Receivables from exchange transactions *	9 324	1 136	-	-	10 460
Receivables from non-exchange transactions #	77 932	-	8 211	-	86 143
Operating lease asset *	-	47 055	18 931	-	65 986
	3 655 686	**3 952 738**	**64 784 744**	**145 044**	**72 538 212**
Liabilities					
Employee benefit obligations #	(76 014)	-	(8 211)	-	(84 225)
Net gain on transfer of functions - effective 1 April 2013	**3 579 672**	**3 952 738**	**64 776 533**	**145 044**	**72 453 987**
Contingent liabilities transferred to the PMTE	11 597	-	-	-	11 597

* These provisional amounts have been transferred from NDPW at the amounts reflected in its audited financial statements for the period ending 31 March 2013. The amounts have been obtained from reports extracted from the procurement system called LOGIS and/or PMIS.

These provisional amounts have not been recognised in the NDPW's audited financial statements, for the period 31 March 2013.

Notes to the Financial Statements

32. Transfer of functions (continued)

Subsequent to transfer of functions effective 1 April 2013, the NDPW transferred further functions to the PMTE to support the management of the PMTE's properties under the custodian of the NDPW.

The PMTE acquired the following functions and the related assets and liabilities from the NPDW on 1 April 2014:

- Inner City Regeneration
- Projects and Professional services
- Regional co-ordination
- Supply Chain Management
- Regional support and Regional Managers

Assets and liabilities acquired on 1 April 2014, relating to the above functions, consists of the following:

	Opening provisional amount 1 April 2014 R'000	GRAP adjustments 2015 March R'000	GRAP adjustments 2015 Sept R'000	Closing provisional amounts R'000
Assets				
Property, plant and equipment ##	1	81 996	14 127	96 124
Intangible assets ##	1	6 192	476	6 669
Receivables from non-exchange transactions ##	1	66 820	-	66 821
	3	**155 008**	**14 603**	**169 614**
Liabilities				
Employee benefit obligation ##	(1)	(66 820)	-	(66 821)
Finance lease liability ##	(1)	(5 824)	101	(5 724)
	(2)	**(72 644)**	**101**	**(72 545)**
Net gain on transfer of functions - effective 1 April 2014	**1**	**82 364**	**14 704**	**97 069**
Contingent liabilities transferred to PMTE	-	-	-	-

These provisional amounts have not been recognised in the NDPW's audited financial statements, for the period 31 March 2014.

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of the respective GRAP standards, are as follows:

- Identification of properties and its components:
  The PMTE is currently utilising various service providers to assist with the physical verification of assets, including identification of significant components in accordance with its asset management policy.
- Calculate deemed carrying amount:
  Part of the physical verification process, the condition of the asset is assessed to determine the remaining useful live that will be used in determining the estimated useful life for depreciation purposes and determining a carrying amount in accordance with GRAP.
- Recording of assets and measuring items or components in accordance with GRAP:
  Once the physical verification process has been completed, the items must be recorded at a deemed cost (carrying amount) as determined. Moveable assets (computer equipment, furniture and office equipment, other machinery and intangible assets) will be transferred on the LOGIS system to a separate store which is ring-fenced and marked to identify the PMTE's assets. Immovable assets (properties, infrastructure and heritage assets) will be recorded on a separate asset register.

Notes to the Financial Statements

32. Transfer of functions (continued)

To enable the PMTE to account for these assets in accordance with GRAP, PMTE will measure these assets at a deemed carrying amount. To determine the carrying amounts the following different methods will be applied:

- Movable assets with a cost, recorded on LOGIS system, will be depreciated from acquisition date until transfer of functions date taking into account its current condition and remaining useful life. The deemed carrying amount of movable assets with no values will be based on similar assets taking into account the condition and future use of the asset. The NDPW only included values (cost/deemed cost) for movable assets acquired after April 2002. All other assets were included at no values/R1 in their asset register.
- Using the most recent municipal valuations per municipal rolls dated closest to the transfer date, commencing with the 2013 valuations and onwards, taking into account any capital improvements made to the existing property from date of transfer of the assets to date of municipal valuation used, as well as information obtained from the current physical verification process that is taking place. A valuation tool will be applied to calculate the apportionment of deemed estimated carrying amounts to be allocated to identified components of an asset. Where it has been identified that a municipal valuation cannot be used to value a property, the following generally accepted valuation methodologies will be applied, depending on the nature of the asset:
  - Depreciated Replacement Cost (DRC) methodology for the more specialised properties. Whereby the replacement cost is then adjusted using two normative measures to reflect the difference between the existing asset and a new asset of a similar nature. The two normatives are:
    (i) physical condition of the existing asset as compared to the new asset of a similar nature, and
    (ii) functionality of the asset, thus the functional attributes that should form part of a new asset of a similar nature, which may to some extent, be present in the existing asset.
  - Sales comparison method for vacant land and other properties. Land values will be determined taking cognisance of area-based land values differentiating between regions.
- Moveable assets recorded on the LOGIS system will be depreciated from acquisition date till transfer of functions date taking into account its current condition and remaining useful life.

The date at which full compliance with the GRAP standards is expected, is 31 March 2016.