Property Management Trading Entity
Annual Financial Statements
for the year ended 31 March 2016

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The reports and statements set out below comprise the annual financial statements presented to the parliament:

The annual financial statements set out on pages 2 to 56, which have been prepared on the going concern basis, were approved by the accounting authority on 31 May 2016 and were signed on its behalf by:

Mr Mziwonke Dlabantu
Director-General

Statement of Financial Position as at 31 March 2016

	Note	2016 R '000	2015 Restated* R '000
Assets			
Current Assets			
Receivables from exchange transactions	3	3 597 308	2 164 094
Receivables from non-exchange transactions	4	1 596	187 467
Operating lease asset	5	942 381	1 008 127
Cash and cash equivalents	6	3 982	6 197
		4 545 267	**3 365 885**
Non-Current Assets			
Property, plant and equipment	7	105 812 308	104 420 854
Investment property	8	5 258 065	5 412 728
Heritage assets	9	1 336 839	1 156 815
Intangible assets	10	12 413	12 379
		112 419 625	**111 002 776**
Total Assets		**116 964 892**	**114 368 661**
Liabilities			
Current Liabilities			
Operating lease liability	5	855 195	916 539
Bank overdraft	6	1 477 570	667 588
Deferred revenue	11	6 784 364	4 614 678
Payables from exchange transactions	12	2 687 437	2 522 501
Retention liabilities	13	278 437	222 637
Employee benefit obligation	14	169 818	170 583
Finance lease obligation	15	11 174	3 963
Provisions	16	250 667	15 551
		12 514 662	**9 134 040**
Non-Current Liabilities			
Retention liabilities	13	21 381	34 717
Finance lease obligation	15	433	1 916
		21 814	**36 633**
Total Liabilities		**12 536 476**	**9 170 673**
Net Assets Reserves		**104 428 416**	**105 197 988**
Accumulated surplus		104 428 416	105 197 988

* See Note 36

Statement of Financial Performance

	Note	2016 R '000	2015 Restated* R '000
Revenue from exchange transactions	17	8 905 655	9 357 608
Revenue from non-exchange transactions	18	4 005 833	3 140 214
Total revenue		**12 911 488**	**12 497 822**
Expenditure			
Depreciation, amortisation and impairments on assets	19	2 762 162	2 614 959
Employee related costs	20	1 316 488	1 268 405
Impairment loss on receivables	21	355 766	184 390
Interest expense	22	82 972	721
Loss on disposal/transfer of assets	23	5 186	19 768
Operating leases	24	4 084 346	3 923 763
Property maintenance		2 776 546	2 008 466
Property rates		1 019 933	819 792
Sundry operating expenses	25	1 274 518	912 923
Total expenditure		**13 677 917**	**11 753 187**
(Deficit) / surplus for the year		**(766 429)**	**744 635**

* See Note 36

Statement of Changes in Net Assets

	Note	Accumulated surplus R '000	Total net assets R '000
Opening balance as previously reported as at 1 April 2014		72 588 743	72 588 743
Adjustments			
Correction of prior period errors	36	35 564	35 564
Adjustments to net gain from transfer of functions effective 1 April 2013	37	37 280 588	37 280 588
Adjustments to surplus due to changes to provisional amounts for transfer of functions		(5 405 322)	(5 405 322)
Balance at 01 April 2014 as restated*		**104 499 573**	**104 499 573**
Changes in net assets			
Surplus for the year		744 635	744 635
Net loss from transfer of function - 1 April 2014	37	(46 220)	(46 220)
Total changes		698 415	698 415
Balance at 01 April 2015 as restated*		**105 197 988**	**105 197 988**
Changes in net assets			
Deficit for the year		(766 429)	(766 429)
Adjustments to surplus due to changes to provisional amounts for transfer of functions		(3 143)	(3 143)
Balance at 31 March 2016		**104 428 416**	**104 428 416**

* See Note 36

Cash Flow Statement

	Note	2016 R '000	2015 Restated* R '000
Cash flows from operating activities			
Receipts			
Accommodation charges - leasehold inter-governmental		3 665 574	3 717 172
Accommodation charges - freehold inter-governmental user charges		3 902 703	3 605 438
Accommodation charges - freehold inter-governmental projects		2 483 866	2 142 514
Accommodation charges - private		17 246	25 945
Augmentation		3 524 652	673 372
Management fee on municipal services		169 504	180 042
Municipal services recovered		3 390 085	3 600 834
Interest, fines, recoveries and other receipts		88 072	61 678
		17 241 702	14 006 995
Payments			
Cleaning and gardening		211 673	185 902
Bank charges, interest and other expenses		204 277	41 809
Admin goods and services		394 297	-
Schedule maintenance		1 391 102	1 203 908
Maintenance (including security)		772 113	1 106 605
Municipal services paid		3 731 908	3 677 091
Operating leases (including Rent on land)		4 078 738	3 780 341
Property rates		1 259 470	792 779
Compensation of employees		1 140 656	-
Municipal deposits paid		2 525	-
Municipal services expenditure		232 440	-
		13 419 199	10 788 435
Net cash flows from operating activities	26	**3 822 503**	**3 218 560**
Cash flows from investing activities			
Acquisition of assets		(4 634 700)	(3 447 196)
Net increase/(decrease) in cash and cash equivalents		**(812 197)**	**(228 636)**
Cash and cash equivalents at the beginning of the year		(661 391)	(432 755)
Cash and cash equivalents at the end of the year	6	**(1 473 588)**	**(661 391)**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
	R '000	R '000	R '000	R '000	R '000
Statement of Financial Performance					
Revenue					
Accommodation charges - leasehold inter-governmental	4 003 484	697	**4 004 181**	3 665 574	**(338 607)**
Accommodation charges - freehold inter-governmental user charges	3 940 223	(36 799)	**3 903 424**	3 902 703	**(721)**
Accommodation charges - freehold inter-governmental projects	2 904 026	(366 026)	**2 538 000**	2 483 866	**(54 134)**
Augmentation	3 584 652	(60 000)	**3 524 652**	3 524 652	**-**
Management fees on municipal services	209 000	(17 589)	**191 411**	169 504	**(21 907)**
Accommodation charges - Freehold Private	37 271	-	**37 271**	17 246	**(20 025)**
Municipal services recovered	-	-	**-**	3 390 085	**3 390 085**
Interest, fines, recoveries and other receipts	35 017	(5 738)	**29 279**	88 072	**58 793**
	14 713 673	**(485 455)**	**14 228 218**	**17 241 702**	**3 013 484**
Expenditure					
Cleaning and gardening	273 467	(63 368)	**210 099**	211 672	**1 573**
Scheduled maintenance (including disallowances)	1 236 318	(455 167)	**781 151**	780 190	**(961)**
Maintenance (including security)	1 036 481	238 610	**1 275 091**	1 383 025	**107 934**
Municipal services expenditure	-	282 457	**282 457**	232 440	**(50 017)**
Municipal services (paid)	-	-	**-**	3 731 908	**3 731 908**
Operating leases (including rent on land)	4 003 484	93 589	**4 097 073**	4 078 738	**(18 335)**
Property rates	1 056 178	-	**1 056 178**	1 259 470	**203 292**
Bank charges, interest and other expenses	100 853	(100 853)	**-**	204 277	**204 277**
Compensation of employees	1 288 773	-	**1 288 773**	1 140 657	**(148 116)**
Admin, goods and services	785 203	(64 959)	**720 244**	394 297	**(325 947)**
Municipal deposits paid	-	-	**-**	2 525	**2 525**
Payments	**9 780 757**	**(69 691)**	**9 711 066**	**13 419 199**	**3 708 133**
				-	**-**
Capital movements					
Recoverable capital expenditure	2 904 026	377 647	**3 281 673**	3 188 926	**(92 747)**
Non-recoverable capital expenditure	1 998 197	(793 411)	**1 204 786**	1 432 524	**227 738**
Machinery and equipment	30 693	-	**30 693**	13 250	**(17 443)**
	4 932 916	**(415 764)**	**4 517 152**	**4 634 700**	**117 548**
Cash surplus	**-**	**-**	**-**	**(812 197)**	**(812 197)**

Refer to note 27 for reconciliations and explanations of material differences.

Notes to the Annual Financial Statements

1. Presentation of Annual Financial Statements

The annual 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 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand ("R") which is also the functional currency of the Property Management Trading Entity ("PMTE"). Values are rounded to the nearest thousand ("R'000") unless otherwise indicated.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Significant judgement and sources of estimation uncertainty

1.1.1 Control of immovable assets

The NDPW is the legal custodian of all immovable assets vested in national government, except in cases where custodial functions were assigned to other ministers by virtue of legislation before the commencement of GIAMA on 30 April 2009. The NDPW assigned those functions to the PMTE and by virtue of the transfer of functions that occurred on 1 April 2013, and 1 April 2014, the PMTE controls those assets for accounting purposes. The PMTE benefits from the assets in pursuit of its objectives and regulates the access of others to the benefits of the assets (i.e. the PMTE decides who may benefit from the use of the assets. Custodianship includes the ability to acquire, dispose and maintain the assets.

1.1.2 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 1.27. 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.

1.1.3 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 1.6 for the accounting policies on estimated useful lives for property, plant and equipment, note 1.7 for investment property and note 1.9 for intangible assets.

1.1.4 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 Annual Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.5 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 the risk and rewards incidental to ownership is not transferred during the lease term from either the lessee's or the lessor's perspective.

Where a formal lease agreements between PMTE and its client departments does 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.

1.1.6 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 Annual Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.7 Classification of immovable assets

Judgement is applied when classifying immovable assets between property, plant and equipment, investment property and heritage assets. Consideration is given to the type of property, why the property is held by national department, and the occupant. The main factor considered is whether PMTE holds the asset either for service delivery (in accordance with government objective, resulting in property, plant and equipment, or for capital appreciation and/or earning or rentals, resulting in investment property, or for future generations resulting in heritage assets. 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 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.

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 administrative purposes, the asset is classified as property, plant and equipment under the Standard of GRAP on *Property, Plant and Equipment*.

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.

1.1.8 Principal versus agent relationship

The PMTE's mandate is to manage the accommodation and infrastructure needs of national departments. Should the PMTE be unable to satisfy the accommodation needs of a particular client 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-lessee. 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.

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 the principal with regards to the lease arrangement with the respective landlords.

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 recognised as revenue for the PMTE.

Notes to the Annual Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.9 Related party disclosure

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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 where it cannot be measured reliably. 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.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.2 Receivables from exchange transactions

Receivables from exchange transactions are recognised when exchange revenue is due to the PMTE in accordance with an agreement (financial assets) or through legislation (statutory receivables). Refer to note 1.16 and 1.15 respectively.

1.3 Receivables from non-exchange transactions

Receivables from non-exchange transactions are recognised when non-exchange revenue is due to the PMTE in accordance with an agreement (financial assets) or through legislation (statutory receivables). Refer to note 1.16 and 1.15 respectively.

1.4 Leases

The PMTE classifies lease agreements in accordance with risk 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.

Finance leases - PMTE as a lessee

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 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. Where the fair value of the assets are not available to determine the implicit interest rate in the lease, the PMTE uses the rate applicable to debt owed by the state.

Notes to the Annual Financial Statements

1.4 Leases (continued)

Operating leases - 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 recognised month-to-month leases as revenue from exchange transactions as and when the revenue is due.

Operating leases - 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.

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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 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.

Cash and cash equivalents are classified as financial instruments (refer to note 6).

1.6 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 accummulated 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.

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 the 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.

Notes to the Annual Financial Statements

1.6 Property, plant and equipment (continued)

Heritage assets (refer to note 1.8) 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.

With the exception of assets acquired through the transfer of functions under common control which is measured at cost, 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 an asset when it is in the condition necessary for it 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 depreciation will commence.

If a component is replaced, the carrying amount of the existing component is derecognised and the value of the new component is recognised.

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 a transferred asset has been determined. Depreciation and provisional amounts will be retrospectively adjusted to the period when the transfer of functions are effective.

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

Item	**Average useful life**
Building and improvements (including components)	
• Low rise buildings (up to 4 floors)	12 - 35 years
• High rise buildings (more than 4 floors)	40 - 60 years
• Warehouse / garage / storerooms	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
Land	indefinte useful lives
Furniture and office equipment	5 - 15 years
Vehicles	5 - 10 years
Computer equipment	3 - 7 years
Other machinery and equipment	10 - 30 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 or recoverable amount for non-cash- generating and cash generating assets respectively. An impairment loss is recognised where the carrying amount exceeds the asset's recoverable service amount or recoverable amount as applicable.

Notes to the Annual Financial Statements

1.6 Property, plant and equipment (continued)

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 or 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 PMTE is not allowed to dispose of or transfer immovable assets under its custodianship unless approved by the Minister of Public Works or his delegated official, considering the restriction of the State and Land Disposal Act (Act No. 48 of 1961)..

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.

1.7 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 or for
- 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. Investment property is subsequently carried at cost less accumulated depreciation and any accumulated impairment losses, except for land. Land is not depreciated

With the exception of assets acquired through a transfer of functions under common control which is measured at cost, where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Items of investment property assets 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.

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**
Building and improvements	12 - 100 years
Land	Indefinite

Refer to note 1.6 for detail breakdown of the useful lives of the building and improvements.

Assets under construction are ready for their intended use once a completion certificate or occupational certificate has been issued. At this point depreciation will commence.

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 Annual Financial Statements

1.7 Investment property (continued)

The PMTE is not allowed to dispose of or transfer immovable assets under its custodianship unless approved by the Minister of Public Works or his delegated official, considering the restriction of the State and Land Disposal Act (Act No. 48 of 1961)..

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 1.6).

1.8 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 PMTE 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 PMTE, 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 under common control which is measured at cost, 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.

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.

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, a class of heritage assets is carried at its 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

The PMTE assess on an annual basis whether there is an indication that it may be impaired. 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.

The PMTE derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.9 Intangible assets

The PMTE recognises intangible asset when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the PMTE; 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.

With the exception of assets acquired through the transfer of functions under common control which is measured at cost, where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Notes to the Annual Financial Statements

1.9 Intangible assets (continued)

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

The amortisation period, the amortisation method and the residual values of the intangible assets with finite useful lives are reviewed on an annual basis. Intangible assets with indefinite useful lives are tested annually for impairment. Any changes are recognised as a change in accounting estimate in the surplus or deficit.

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.

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

Items of intangible assets 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 intangible assets is included 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 1.6).

1.10 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 an invoice or formal request for payment has not been received at the reporting date.

1.11 Employee benefits

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, investment property or intangible asset item.

Notes to the Annual Financial Statements

1.11 Employee benefits (continued)

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 leave benefits.

The expected cost of accumulating leave benefits 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.

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.

Retirement and medical benefits

Payments to defined contribution plans are charged as an expense to employee cost 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.

1.12 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.

1.13 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date, discounted to present value where the time value of money is expected to be material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Provisions where the timing of the outflow is uncertain is classified as current 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.

Notes to the Annual Financial Statements

1.14 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.

1.15 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 cashflows, 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.

1.16 Financial instruments

Classification, recognition and measurement

The PMTE recognises a financial asset or a financial liability in its statement of financial position when the PMTE becomes a party to the contractual provisions of the instrument.

The PMTE recognises financial assets using trade date accounting.

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.

All financial instruments are initially measured at fair value and subsequently amortised cost using the effective interest method, except for leases (refer to note 1.4).

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

Notes to the Annual Financial Statements

1.16 Financial instruments (continued)

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.

Impairment of financial assets measured at amortised cost

The PMTE assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

The ability to redeem amounts due, based on the payment history, is considered to be indicators of impairments.

If there is objective evidence that an impairment loss on receivables measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of 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 to the original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly to the receivable. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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 bankruptcy and default of payments are all considered indicators of impairment.

Derecognition

Financial assets

The PMTE derecognises financial assets using trade date accounting.

The PMTE derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the PMTE transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the PMTE, 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 PMTE :
  - 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.

Notes to the Annual Financial Statements

1.16 Financial instruments (continued)

Financial liabilities

The PMTE derecognises a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires 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 Transactio*ns.

1.17 Revenue from exchange transactions

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

Revenue earned from accommodation charges is classified as lease revenue (refer to note 1.4 for further details on recognition and measurement of lease revenue). Accommodation charges are measured based on:

- the cost of leasing in (in the case where property is leased in from the private sector)
- the budget devolution as agreed upon with the client departments (in the case of state owned accommodation leased to client departments); 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:

- 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
- 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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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.

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.

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

The PMTE recognises the inflow of resources from a non-exchange transaction as revenue when it controls the asset, except in cases where a liability or equity is recognised in respect of that inflow. These liabilities are classified as payables from non-exchange transactions until the conditions relating to the revenue 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.

Notes to the Annual Financial Statements

1.19 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.

1.20 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 31 to 30. 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.

1.21 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed in note 34. Movable assets that have not been transferred specifically to the PMTE are not recognised by the PMTE but are recorded by the NDPW.

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), 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.

1.22 Budget information

The 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.

1.23 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. 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.

Notes to the Annual Financial Statements

1.24 Going concern assumption

These annual financial statements have been prepared on the going concern basis. Although the PMTE has a bank overdraft of R(1 478) million as at 31 March 2016 (R(668) million as at 31 March 2015) and the current liabilities exceed the current assets, management maintains their assertion that the PMTE is able to continue on a going concern basis into the foreseeable future. The PMTE operates under the control and support of the National Department of Public Works ("NDPW") and National Treasury is aware of the PMTE's overdraft position. Management is implementing a turnaround strategy for the entity.

1.25 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 36.

1.26 Deferred revenue

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.

1.27 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 1April 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 transitional measurement period for these transferred functions expires on 1 April 2016.

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
- Additional text

The transitional measurement period for these transferred functions expires on 1 April 2017.

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 Annual Financial Statements

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)

he provisional amounts used to recognise the assets and liabilities are 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.

The measurement period exemption shall not exceed the later of three years from the effective date of the Standard and the transfer date.

2. Standards of GRAP issued but not yet effective

2.1 Standards utilised in developing accounting policies and disclosure (with limited impact)

The PMTE has utilised the principles of the Standards of GRAP listed below in disclosing and accounting for relevant transactions. As a result, there will be limited impact on the financial statements when the Standards become effective.

Standard:
- GRAP 20: Related parties
- GRAP 105 Transfer of functions under common control
- GRAP 108: Statutory Receivables

2.2 Standards not yet effective (with possible extended impact)

The PMTE has not applied the standards below which have been approved but not yet effective. 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.

Standard:
- GRAP 18: Segment Reporting

2.3 Standards not yet effective (with no impact)

The standards and interpretations listed below have been approved but are not yet effecitive. It is unlikely that the above Standards, interpretations and/or amendments will have a material impact on the financial statements of the PMTE once they become effective, as the PMTE does not engage in transactions within the scope of these Standards.

Standard/ Interpretation:
- GRAP 106 Transfer of function 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
- IGRAP 32 Service concession agreements: Grantor

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

3. Receivables from exchange transactions

	2016 R '000	2015 Restated R '000
Financial assets		
Accommodation debtors - leasehold inter-governmental	529 080	242 818
Accommodation debtors - freehold inter-governmental debtors	347 811	251 939
Accommodation debtors - freehold private	8 986	6 289
Municipal services	517 331	376 220
Debt account	2 169	15 883
Revenue Accrual	1 271 235	631 574
Municipal Deposits	15 160	12 652
Other debtors	8	8
Recoverable property rates	-	-
	2 691 780	**1 537 383**
Non-financial asset		
Prepaid expenses	905 528	626 711
	3 597 308	**2 164 094**

The applicable interest rate, for outstanding receivables, for the period is 10.25% (2015: 9.25%).

Revenue accruals relates to services rendered to our clients but not yet invoiced.

Receivables past due but not impaired

There were no receivables past due that were not impaired. Refer to note 21 for impairment loss incurred during the period for receivables from exchange transactions.

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 total accumulated impairment from individually significant receivables, as a percentage of the gross receivable balance per class of receivable

	2016 %	2015 %
Accommodation debtors - freehold inter-governmental debtors	49	88
Accommodation debtors - leasehold inter-governmental	34	38
Municipal services	31	50
Debt account	64	67
Recoverable property rates	100	100

4. Receivables from non-exchange transactions

	2016 R'000	2015 R'000
National Department of Public Works (service in-kind)	-	187 183
Accommodation debtor - freehold prestige	1 596	284
	1 596	**187 467**

Certain properties are leased to prestige officials. 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.

Receivables from non-exchange transactions past due but not impaired

There were no receivables past due that were not impaired. Refer to note 21 for impairment loss incurred during the period for receivables from exchange transactions

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

5. Operating lease asset/(liabilities)

Current assets	942 381	1 008 127
Current liabilities	(855 195)	(916 539)
	87 186	**91 588**
Total operating lease asset - PMTE as lessor		
Leasehold inter-governmental	855 195	916 539
Freehold private	87 186	91 588
	942 381	**1 008 127**
Total minimum lease receipts - PMTE as lessor		
Within one year	3 014 864	3 047 973
In second to fifth year inclusive	4 103 870	5 229 472
Later than five years	653 003	781 972
	7 771 737	**9 059 417**

Leasehold inter-governmental

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 based on the contractually agreed upon notice period. The said amounts have been included in the “within one year” ageing bracket.

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

Freehold private

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

	2016 R'000	2015 R'000
Total operating lease liabilities - PMTE as lessee		
Operating lease liabities - leasehold inter-governmental	**855 195**	**916 539**
Total minimum lease payments - PMTE as lessee		
Within one year	2 981 695	3 014 122
In second to fifth year inclusive	4 004 456	5 115 337
Later than five years	501 514	614 323
	7 487 665	**8 743 782**

The PMTE has 2 459 active leases (2015: 2 588) 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. 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

Notes to the Annual Financial Statements

	2016	2015 Restated
	R '000	R '000

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016 R '000	2015 Restated R '000
Cash on hand	234	329
Bank balance	3 748	5 868
Bank overdraft	(1 477 570)	(667 588)
	(1 473 588)	**(661 391)**
Current assets	3 982	6 197
Current liabilities	(1 477 570)	(667 588)
	(1 473 588)	**(661 391)**

The interest rate on the bank balance is variable. The average effective interest rate on short term bank deposits is 4.67% (2015: 4.17%).

The bank overdraft carries no interest.

7. Property, plant and equipment

	2016			2015		
	Cost R'000	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**	**Cost R'000**	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**
Land	44 974 797	-	44 974 797	44 974 772	-	44 974 772
Buildings and improvements	67 737 795	(7 189 550)	60 548 245	63 785 416	(4 626 242)	59 159 174
Furniture and office equipment	100 056	(22 172)	77 884	86 217	(9 562)	76 655
Motor vehicles	608	(384)	224	608	(192)	416
Computer equipment	210 875	(36 538)	174 337	184 644	(12 273)	172 371
Other machinery and equipment	45 233	(8 412)	36 821	41 681	(4 215)	37 466
Total	**113 069 364**	**(7 257 056)**	**105 812 308**	**109 073 338**	**(4 652 484)**	**104 420 854**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance R'000	Additions R'000	Additions through transfer of functions R'000	Disposals R'000	Transfers R'000	Transfers between NDPW and PMTE R'000	Additions through Assets under construction R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Land	44 974 772	-	-	-	-	-	25	-	-	44 974 797
Buildings and improvements	59 159 174	-	-	-	432 878	-	3 519 500	(2 471 151)	(92 156)	60 548 245
Furniture and office equipment	76 655	15 752	-	(877)	-	(784)	-	(11 738)	(1 124)	77 884
Vehicles	416	-	-	-	-	-	-	(192)	-	224
Computer equipment	172 371	27 916	-	(887)	-	(215)	-	(23 966)	(882)	174 337
Other machinery and equipment	37 466	3 978	-	(257)	-	(94)	-	(3 709)	(563)	36 821
	104 420 854	**47 646**	**-**	**(2 021)**	**432 878**	**(1 093)**	**3 519 525**	**(2 510 756)**	**(94 725)**	**105 812 308**

Reconciliation of property, plant and equipment - 2015

	Opening balance R'000	Additions R'000	Additions through transfer of functions R'000	Disposals R'000	Transfers R'000	Transfers between NDPW and PMTE R'000	Additions through Assets under construction R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Land	44 973 419	-	-	-	-	-	1 353	-	-	44 974 772
Buildings and improvements	58 161 042	-	-	-	406 334	-	3 015 569	(2 423 771)	-	59 159 174
Furniture and office equipment	21 267	9 976	53 546	(34)	-	-	-	(8 100)	-	76 655
Vehicles	-	-	608	-	-	-	-	(192)	-	416
Computer equipment	9 777	145 485	27 629	(42)	-	-	-	(10 478)	-	172 371
Other machinery and equipment	10 259	18 283	12 160	(31)	-	-	-	(3 205)	-	37 466
	103 175 764	**173 744**	**93 943**	**(107)**	**406 334**	**-**	**3 016 922**	**(2 445 746)**	**-**	**104 420 854**

	2016	2015 Restated*
	R '000	R '000

7. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2016	2015
Furniture and office equipment	10 633	4 913
Vehicles	224	416
	10 857	**5 329**

Refer to note 15 for further details regarding the commitments for finance leased asset.

Transitional provisions

All classes of property, plant and equipment were impacted by the transfer of functions. Refer to note 37 for further details.

8. Investment property

	2016			2015		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Investment property	5 258 065	-	5 258 065	5 412 728	-	5 412 728

Reconciliation of investment property - 2016

	Opening balance	**Depreciation**	**Total**
	R'000	**R'000**	**R'000**
Land	1 332 407	-	1 332 407
Building and improvements	4 080 321	(154 663)	3 925 658
	5 412 728	**(154 663)**	**5 258 065**

Reconciliation of investment property - 2015

	Opening balance	**Depreciation**	**Total**
	R'000	**R'000**	**R'000**
Land	1 332 407	-	1 332 407
Building and improvements	4 234 562	(154 241)	4 080 321
	5 566 969	**(154 241)**	**5 412 728**

Transitional provisions

All classes of investment property were impacted by the transfer of functions. Refer to note 37 for further details.

Notes to the Annual Financial Statements

9. Heritage assets

	2016			2015		
	Cost	**Accumulated impairment losses**	**Carrying value**	**Cost**	**Accumulated impairment losses**	**Carrying value**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Land	141 985	-	141 985	141 985	-	141 985
Building and improvements	1 194 854	-	1 194 854	1 014 830	-	1 014 830
Total	**1 336 839**	**-**	**1 336 839**	**1 156 815**	**-**	**1 156 815**

Reconciliation of heritage assets 2016

	Opening balance	**Additions through Assets under construction**	**Total**
	R'000	**R'000**	**R'000**
Land	141 985	-	141 985
Building and improvements	1 014 830	180 024	1 194 854
	1 156 815	**180 024**	**1 336 839**

Reconciliation of heritage assets 2015

	Opening balance	**Additions through Assets under construction**	**Total**
	R'000	**R'000**	**R'000**
Land	141 985	-	141 985
Building and improvements	783 055	231 775	1 014 830
	925 040	**231 775**	**1 156 815**

Restrictions on heritage assets

The PMTE is not allowed to dispose of heritage assets under its custodianship.

Transitional provisions

Heritage assets recognised at provisional amounts

All classes of heritage assets were impacted by the transfer of functions. Refer to note 37 for further details.

Notes to the Annual Financial Statements

10. Intangible assets

	2016			2015		
	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000	Cost R'000	Accumulated amortisation and accumulated impairment R'000	Carrying value R'000
Computer software	17 289	(4 876)	12 413	15 697	(3 318)	12 379

Reconciliation of intangible assets - 2016

	Opening balance R'000	Additions R'000	Additions through transfer of functions R'000	Disposals R'000	Amortisation R'000	Impairment loss R'000	Total R'000
Computer software	12 379	3 712	-	(1 660)	(1 995)	(23)	12 413

Reconciliation of intangible assets - 2015

	Opening balance R'000	Additions R'000	Additions through transfer of functions R'000	Disposals R'000	Amortisation R'000	Impairment loss R'000	Total R'000
Computer software	32 904	7 487	6 622	(19 661)	(14 973)	-	12 379

Transitional provisions

Intangible assets recognised at provisional amounts

All classes of intangible assets were impacted by the transfer of functions. Cost has been adjusted by R- million (2015: R- million) and accumulated depreciation by R- million (2015: R- million). Refer to note 37 for further details.

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated* R '000

11. Deferred revenue

Deferred revenue	6 784 364	4 614 678

This relates to recoverable capital claims for projects that are under construction which will be deferred until the project is complete.

Opening balance	4 614 678	4 109 187
Plus: Revenue deferred during the year	2 400 269	1 834 191
Less: Revenue recognised during the year	(230 583)	(1 328 700)
	6 784 364	**4 614 678**

12. Payables from exchange transactions

Financial liabilities		
Accrued expenses - Assets	214 832	591 080
Accrued expenses - Cleaning and gardening	20 839	15 058
Accrued expenses - Leases	326 860	341 148
Accrued expenses - Maintenance	413 561	299 337
Accrued expenses - Municipal services	726 811	305 773
Accrued expenses - Other	189 772	7 001
Accrued expenses - Property rates	33 446	155 701
Accrued expenses - Schedule Maintenance	147 691	153 591
Accrued expenses - Security	5 563	2 893
Accrued expenses - Service in-kind	-	21 240
Total accrued expenses	2 079 375	1 892 822
Unallocated deposits	55 334	50 452
Trade payables	2	62
Deposits received	16	-
Contract guarantees	-	90
	2 134 727	**1 943 426**
Non-financial liabilities		
Income received in advance	41 875	51 809
Over claimed leases	510 835	527 266
	2 687 437	**2 522 501**

13. Retention liabilities

Non-current liabilities	21 381	34 717
Current liabilities	278 437	222 637
	299 818	**257 354**

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated* R '000

14. Employee benefit obligations

	2016 R '000	2015 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	(50)	2 819
	18 094	**18 144**
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	399	1 240
	34 012	**33 613**
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	(1 114)	17 490
	117 712	**118 826**
Total employee benefit obligations	**169 818**	**170 583**

Transitional provisions

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 37, the employee benefit obligations with a value of R 67 million was recognised at provisional amounts as at 1 April 2014.

15. Finance lease obligation

	2016 R '000	2015 Restated* R '000
Minimum lease payments due		
- within one year	7 981	4 155
- in second to fifth year inclusive	4 603	2 218
	12 584	6 373
less: future finance charges	(977)	(494)
Present value of minimum lease payments	**11 607**	**5 879**
Present value of minimum lease payments due		
- within one year	7 274	3 813
- in second to fifth year inclusive	4 333	2 066
	11 607	**5 879**
Non-current liabilities	433	1 916
Current liabilities	11 174	3 963
	11 607	**5 879**

The finance lease liability relates to vehicles, furniture and office equipment, whereby NDPW 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. All contracts have no escalation clauses

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

Notes to the Annual Financial Statements

16. Provisions

Reconciliation of provisions - 2016	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Municipal services and property rates	-	237 372	-	-	237 372
Legal proceedings	15 551	2 798	(5 054)	-	13 295
	15 551	**240 170**	**(5 054)**	**-**	**250 667**

Reconciliation of provisions - 2015	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Legal proceedings	37 615	19 870	(13 389)	(28 545)	15 551

Municipal services and property rates

The NDPW embarked on Phase II Invoice Verification project to verify claims across all regions made by local municipalities on arrear municipal debts. The project involved detailed and extensive investigation and verification of claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised in the second quarter of the year 2016/17 financial year.

Previously, the PMTE raised an accrual, included in the payables from exchange transactions, amounting to R 461 million payments that have been made in the 2015/16 financial year relating to backlog municipal services and property rates. As a result of this project, the PMTE has identified prepayments to municipalities amounting to R 230 million included in the Prepaid expenses in note 3. Verification process of the confirmed debt from municipalities is currently underway and as a result the debt owed to municipalities has been included above, which includes provision for interest charged by municipalities amounting to R 81 million included in note 22.

Debt owed to/due from municipalities but not confirmed has been included in contingent liabilities and contingent assets respectively (refer to note 28).

Legal proceedings

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.

17. Revenue from exchange transactions

	2016 R'000	2015 R'000
Accommodation charges - Leasehold Inter-governmental	4 219 721	3 874 050
Accommodation charges - Freehold Inter-governmental	4 385 192	5 048 521
Accommodation charges - Freehold Private	42 126	28 164
Management fees on municipal services	181 992	192 145
Reversal of impairment loss for receivables from exchange transactions	47 734	204 191
Sundry revenue	21 615	511
Interest income	7 265	5 812
Recoveries	10	4 214
	8 905 655	**9 357 608**

	2016 R'000	2015 R'000
Interest revenue consists of:		
Interest from receivables	7 261	5 790
Interest on bank balances	4	22
	7 265	**5 812**

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

18. Revenue from non-exchange transactions

Augmentation	3 524 652	673 372
Contractor fines	10 546	3 060
Gioods and service in kind	35 193	2 055 669
Accommodation charges - Prestige	2 013	1 778
Donations revenue	432 877	406 335
Reversal of impairment loss for receivables from non-exchange transactions	552	-
	4 005 833	**3 140 214**

19. Depreciation, amortisation and impairments on assets

Property, plant and equipment	2 605 481	2 445 745
Investment property	154 663	154 241
Intangible assets	2 018	14 973
	2 762 162	**2 614 959**

20. Employee related costs

Bargaining council	317	300
Basic salary and non-pensionable salary	977 376	954 350
Housing allowances	52 834	48 162
Medical aid contributions	69 141	59 982
Overtime	21 079	18 449
Pension fund contributions	108 625	104 802
Performance bonus	17 318	17 548
Service bonus	69 798	64 812
	1 316 488	**1 268 405**

21. Impairment loss on receivables

Receivables from exchange transactions	355 766	183 838
Receivables from non-exchange transactions	-	552
	355 766	**184 390**

22. Interest expense

Interest on overdue accounts	888	136
Interest on municipal services and property rates	81 142	-
Interest on finance leases	942	585
	82 972	**721**

Interest due on backlog municipal services and property rates has not been paid however has been provided as explained in note 16.

23. Loss on disposal/transfer of assets

Property, plant and equipment	5 186	107
Intangible assets	-	19 661
	5 186	**19 768**

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

24. Operating lease

Operating lease - building and improvements	4 009 323	3 906 689
Operating lease - vehicles, furniture and office equipment	42 453	-
Rent on land	32 570	17 074
	4 084 346	**3 923 763**

25. Sundry operating expenses

Advertising	3 909	22 710
Auditors remuneration	29 776	-
Bad debts written off	14 648	413
Bank charges	196	163
Claims against the state	1 429	-
Cleaning and gardening	218 005	182 541
Communication expenses	12 614	-
Computer software related expenses	19 961	13 848
Consulting fees	219 472	43 638
Consumables	24 075	18 977
Non recoverable service in-kind	187 183	16 601
Fleet expenses	18 486	16 537
Losses incurred	55 556	78 988
Municipal service expenses	321 460	278 912
Other contractors	5 435	72 912
Other goods and services	1 724	59 118
Retirement awards	10 420	-
Security	60 948	51 570
Travel and subsistence	69 221	40 379
Under recovery of lease expenses	-	15 616
	1 274 518	**912 923**

Notes to the Annual Financial Statements

26. Cash generated from operations

	2016 R '000	2015 Restated R '000
(Deficit) surplus	(766 429)	744 635
Adjustments for:		
Depreciation, impairment and amortisation	2 762 162	2 614 959
Loss on disposal/transfer of assets	5 186	19 768
Interest expense	82 972	721
Interest revenue	(7 265)	(5 812)
Donations revenue	(432 877)	(406 335)
Impairment on receivables	355 766	184 390
Bad debt written off	14 648	413
Reversal of impairment loss on receivables	(48 286)	(204 191)
Service in-kind revenue	(35 193)	(2 055 669)
Service in-kind expenditure	187 183	16 601
Losses incurred	55 556	78 988
Under recovery of leases expenses	-	15 616
Accommodation charges - freehold intergovernmental	-	(33 602)
Changes in working capital:		
Receivables from exchange transactions	(1 433 213)	(299 680)
Receivables from non-exchange transactions	185 871	(88 556)
Operating lease asset	65 746	(79 894)
Operating lease liabilities	(61 344)	47 911
Finance lease obligation	7 211	3 963
Payables from exchange transactions	191 296	721 753
Provisions	235 116	(22 064)
Employee benefit obligations	(765)	88 370
Retention liabilities	55 800	(3 071)
Deferred revenue	2 403 362	1 827 537
Income received in advance	-	51 809
	3 822 503	**3 218 560**

Notes to the Annual Financial Statements

27. Budget differences

Reconciliation of budget to actual

	2016 R'000
Net cash flows from operating activities	3 822 503
Net cash flows from investing activities	(4 634 700)
	(812 197)
Cash deficit per statement of comparison of budget and actual amounts	(812 197)
(Deficit) / surplus for the year	(766 429)
Basis difference	**(1 578 626)**

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 recovered and paid
The PMTE performs the role as agent for all client departments when municipal services are provided. These services are performed for the benefit of the client who remains the principal in this agreement. The principal should account for the amount received or paid. Hence zero amount budgeted for this item. Net effect of payments and recoveries should be zero as municipal services are managed on a cost recovery basis. Payments may exceed recoveries due to delays in invoicing.

Management fee on municipal services
The budgeted amount 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 far as possible during the year, but extremely difficult to match adjustments timeously to external changes.

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 frequently but needs to be flexible as the number of breakdowns cannot be predicted.

Cleaning and gardening
The expenditure is based on payments made to suppliers contracted to deliver these services. Of the amount outstanding as at 31 March 2016, a portion relates to accruals where the service was delivered, but not yet paid for.

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

Property rates
The PMTE spent substantially more on Property rates than originally allocated due to the payment of arrears rates resulting from the rates verification project. 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.

Municipal services
Allocation was based on previous years' expenditure. However in the current year the expenditure was less than anticipated due to a decrease in consumption.

Notes to the Annual Financial Statements

27. Budget differences (continued)

Administrative goods and services and compensation
Funds were underspent due to the claims process followed between DPW and PMTE. Expenditure reports were not available in real time and as a result officials were hesitant to spend funds while they were unsure whether there would still be allocations available

Capital expenditure
The refurbishment and planned maintenance capital expenditure were at 100% of the total allocation. The difference is attributable to the acquisition of Telkom Towers which were purchased using goods and services allocations through the reprioritisation of funds from the Turnaround budget.

R17 million underspending on Machinery and equipment relates to 1 200 laptops that were procured before year end but only paid subsequent to 31 March 2016.

A specific portion was ringfenced in the client capital allocations for BCOCC. These projects could not be executed and as a result funds could not be utilised. The PMTE requested National Treasury to transfer some of these funds to the Department of Home Affairs where the funds could be utilised. On the date National Treasury received the submission there were unfortunately no legislative mechanism to transfer the funds as the Adjusted Estimates of National Expenditure had already been finalised.

28. Contingencies

Contingent liabilities	2016 R'000	2015 Restated R'000
Municipal services and property rates	9 680	114 198
Legal claims against the PMTE	49 809	117 920
	59 489	**232 118**

Municipal services and property rates

The NDPW embarked on Phase II Invoice Verification project to verify claims across all regions made by local municipalities on arrear municipal debts. The project involved detailed and extensive investigation and verification of claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised in the second quarter of the year 2016/17 financial year. For further details refer to note 16.

Legal Claims against the PMTE

The claims against the PMTE arose from property and maintenance disputes with various third parties and/or service providers. The entity's legal advisors are handling the claims on behalf of the PMTE and have assesses the probability of each claim in determining the total amount of the legal contingent liability and that the outflow of economic benefits is possible at the reporting date.

Contingent assets	2016 R'000	2015 Restated R'000
Municipal services and property rates	9 273	-
Legal claims by the PMTE	179 134	2 657
Retentions	126 809	131 311
Under recovery of accommodation charges - leasehold inter-governmental	-	316 270
Recoverable property rates	-	-
Property, plant and equipment	-	-
Recovery of public spending for private use	-	-
	315 216	**450 238**

Municipal services and property rates

The NDPW embarked on Phase II Invoice Verification project to verify claims across all regions made by local municipalities on arrear municipal debts. The project involved detailed and extensive investigation and verification of claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised in the second quarter of the year 2016/17 financial year. For further details refer to note 16.

Notes to the Annual Financial Statements

28. Contingencies (continued)

Legal claims by the PMTE

The claims for the PMTE arose from property and maintenance disputes with various third parties and/or service providers. The entity's legal advisors are handling the claims on behalf of the PMTE and have assesses the probability of each claim in determining the total amount of the legal contingent liability and that the outflow of economic benefits is possible at the reporting date.

Retentions

Different contract types exist for the construction of properties by the contractors which include 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 however not apply these security clauses accurately resulting in insufficient amounts being retained on each payment.

PMTE Management has the intention to recoup these amounts on future payments. However contractors may not be willing to accept reduced payment and carry the consequences for Management oversight. Therefore in the absence of objective evidence that the PMTE will be able to recover these funds before the projects are completed, the PMTE cannot conclude that future economic benefits will be possible and a contingent asset is disclosed.

The year-on-year balance remained consistent as Management's new retentions model has not yet been implemented successfully by all Project Managers.

Under recovery of accommodation charges - leasehold inter-governmental

Leases were identified where the PMTE did not recover all payments in accordance with sub-leases from client departments. During the financial year ending 31 March 2016, continuing with the leases improvements to clear historical matters meetings were held with client departments to sensitise them regarding the future claims. These claims will be issued to client departments when the matters have been finalised in accordance with the main lease with the landlords.

Recoverable property rates

The PMTE is currently paying for property rates on properties of which it is not the registered custodian. There is a project underway whereby properties are correctly vested with the rightful custodian. The total value of the property rates still under investigation amounts to R 90 million (2015: R 21 million) and therefore, the amount recoverable for these properties cannot be reliably determined at reporting date.

Property, plant and equipment

The PMTE has identified 164 land parcels (not improved) which are registered in the name of National Government of RSA for which no extents are available. These land parcels have not been recognised in the NDPW Asset register as they cannot be reliably measured and hence do not meet the recognition measurement criteria to be accounted for as Immovable Assets in the PMTE financial records.

The PMTE received the deeds register on the 25 May 2016 and is in the process of verifying the information. This could result in additional assets that may have to be recognised and/or assets to be transferred to relevant custodians.

Recovery of public spending for private use

Expenditure incurred that is recoverable by the PMTE for the Nkandla project still has to be determined and finalised by National Treasury. At reporting date the amounts has not been finalised.

Notes to the Annual Financial Statements

29. Commitments

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 below of R 5 815 million (2015: R 6 978 million) are the CPAP commitment (Contract Price Adjustment Provision) of R 6173 million (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:

	2016 R'000	2015 Restated R'000
Gross capital commitment	5 815 125	6 977 863
Adjusted for:		
Retentions	(219 513)	(173 373)
Payables from exchange transactions (accrued expenses)	(214 832)	(631 854)
	5 380 780	**6 172 636**

Refer to note 33 for the ageing of capital commitments.

Operating lease vehicle commitments

	2016 R'000	2015 R'000
Within one year	35 354	-
In second to fifth year inclusive	8 756	-
Later than five years	-	-
	44 110	**-**

The operating lease for vehicles is on a month-to-month basis and therefore no operating lease asset or liability exists. Refer to note 33 for the ageing of other commitments.

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

30. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	261 461	335 177
Incurred during the year	-	239
Fruitless and wasteful expenditure - relating to current year	66	-
Less amounts resolved	-	(73 955)
Less amounts reversed	(14 791)	-
	246 736	**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 year amount of R 66 000 relates to interest paid on overdue accounts. The expenditure arose due to delays experienced in migrating to the new accounting system.

The amounts resolved relates to prior year errors. These amounts were previously accounted for as fruitless and wasteful expenditure and could not be substantiated and confirmed as such due to insufficent information to support the assertion.

Details of fruitless and wasteful expenditure - current year	2016 R'000
Interest paid on overdue accounts	66

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

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

31. Irregular expenditure

Opening balance	31 985 176	34 417 205
Add: Irregular expenditure - current year	505 464	1 233 549
Less: Amounts condoned - current year	-	(45 125)
Less: Amounts condoned - prior years	(90 212)	(3 175 554)
Less: Amounts not recoverable (not condoned)	(27 256 513)	(444 899)
	5 143 915	**31 985 176**

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.

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. Preliminary investigations found that no instances of fraudulent activities had taken olace, no loss/damage to the state was incurred, and there was no evidence that the goods and/or services were actually delivered to the entity. The preliminary investigationsrevealed that officials who were involved in these contracts are no longer in the employ of the entity. These transactions were identified long after the events had actually taken place and not in the year in which the irregularity had occurred. After extensive discussions with the National Treasury, a decision was made to cease further investigation as the costs far outweight the benefits that would be derived from continuing with the cases.

Details of irregular expenditure – current year

	2016 R'000
Correct procurement process not followed in current year	44 094
Correct procurement process not followed in prior year	461 370
	505 464

An amount of R461 million incurred in current year relates to multi-year projects entered into in previous financial years for which payments were made in the current year.

The amount of R44 million incurred in the current year relates to various contracts where correct procurement processes were not followed.

Details of irregular expenditure condoned

	2016 R'000
Correct process not followed	(27 256 513)

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

32. Financial instruments disclosure

Categories of financial instruments

Financial assets at amortised cost		
Receivables from exchange transactions	2 691 780	1 537 383
Cash and cash equivalents	3 982	6 197
	2 695 762	**1 543 580**

Financial liabilities at amortised cost		
Bank overdraft	1 477 570	667 588
Payables from exchange transactions	2 134 727	1 943 426
Retention liabilities	299 818	257 354
Finance lease obligation	11 607	5 879
	3 923 722	**2 874 247**

33. Risk management

Financial risk management

The PMTE's activities expose 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 advice 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.

Notes to the Annual Financial Statements

33. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the PMTE is not able to settle its obligations. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

For operating lease liabilities and finance lease liabilities, the maturity analysis is disclosed in note 5 and note 15 respectively. Operating lease payments for vehicles increases annually based on CPIX. 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

2016	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	1 477 570	-	-	-	-	1 477 570
Accrued expenses - Assets	12	214 832	-	-	-	-	214 832
Accrued expenses - Cleaning and gardening	12	20 839	-	-	-	-	20 839
Accrued expenses - Leases	12	326 860	-	-	-	-	326 860
Accrued expenses - Maintenance	12	413 561	-	-	-	-	413 561
Accrued expenses - Municipal services	12	726 811	-	-	-	-	726 811
Accrued expenses - Other	12	189 772	-	-	-	-	189 772
Accrued expenses - Property rates	12	33 446	-	-	-	-	33 446
Accrued expenses - Schedule Maintenance	12	147 691	-	-	-	-	147 691
Accrued expenses - Security	12	5 563	-	-	-	-	5 563
Over claimed leases	12	510 835	-	-	-	-	510 835
Trade payables	12	2	-	-	-	-	2
Retention liabilities	13	161 279	117 158	14 395	1 283	5 703	299 818
Capital commitments - Projects	29	1 367 172	2 753 912	953 305	287 145	19 246	5 380 780
Operating lease commitments (vehicles)	29	2 946	32 407	8 757	-	-	44 110
		5 599 179	**2 903 477**	**976 457**	**288 428**	**24 949**	**9 792 490**

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	667 588	-	-	-	-	667 588
Accrued expenses - Assets	12	591 080	-	-	-	-	591 080
Accrued expenses - Cleaning and gardening	12	15 058	-	-	-	-	15 058
Accrued expenses - Leases	12	341 148	-	-	-	-	341 148
Accrued expenses - Maintenance	12	299 337	-	-	-	-	299 337
Accrued expenses - Municipal services	12	305 773	-	-	-	-	305 773
Accrued expenses - Other	12	7 001	-	-	-	-	7 001
Accrued expenses - Property rates	12	155 701	-	-	-	-	155 701
Accrued expenses - Schedule Maintenance	12	153 591	-	-	-	-	153 591
Accrued expenses - Security	12	2 893	-	-	-	-	2 893
Accrued expenses - Service in-kind	12	21 240	-	-	-	-	21 240
Over claimed leases	12	527 266	-	-	-	-	527 266
Trade payables	12	62	-	-	-	-	62
Retention liabilities	13	168 923	53 714	28 139	4 539	2 039	257 354
Capital commitments - Projects	29	1 062 596	1 127 610	3 300 175	288 381	393 874	6 172 636
		4 319 257	**1 181 324**	**3 328 314**	**292 920**	**395 913**	**9 517 728**

Notes to the Annual Financial Statements

33. 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 2 459 active leases (2015: 2 588) 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 31March, 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 Annual Financial Statements

33. Risk management (continued)

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

	2016 R'000	2015 Restated R'000
Cash and cash equivalents	3 982	6 197
Receivables from exchange transactions	2 691 780	1 537 383
Receivables from non-exchange transactions	1 596	187 467
Operating lease asset	942 381	1 008 127
	3 639 739	2 739 174

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.

34. Related parties

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 17 (accommodation charges - leasehold inter-governmental and management fees on municipal services)

National Department of Public Works

	2016	2015 Restated
Revenue from exchange transactions	R'000	R'000
Accommodation charges - Freehold Inter-governmental	-	47 723
Revenue from non-exchange transactions		
Augmentation	3 524 652	673 372
Gioods and service in kind	35 193	2 055 669
	3 559 845	**2 729 041**
Receivables from non exchange transactions		
National Department of Public Works (service in-kind)	-	187 183

Notes to the Annual Financial Statements

34. Related parties (continued)

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

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

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

During the prior financial period, the budget for certain municipal services on vacant properties not occupied by NDPW and capital expenditure, still resided with NDPW. These charges, paid by NDPW on behalf of the PMTE, are related party transactions. The total municipal service expense for vacant properties and total capital expenditure paid by NDPW during the prior period was R 10.3 million and R 561 million respectively. In the current year, this budget has been transferred over to PMTE and NDPW does not pay any charges on behalf of 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:

- Supply Chain Management (SCM) for head office
- 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.

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 17. The related receivables (accommodation debtors - freehold inter-governmental) is disclosed in note 3.

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

34. Related parties (continued)

Revenue from exchange transactions: Accommodation charges - freehold inter-governmental	2016 R'000	2015 R'000
Agriculture, Forestry and Fishing	86 340	75 078
Arts and Culture	35 134	30 552
Communications	875	761
Correctional Services	973 655	926 600
Defence and Military Veterans	915 108	781 714
Higher Education	732	637
Environmental Affairs	17 640	15 339
Government Communications	28	24
Health	13 639	11 860
Health (Civitas)	80 965	76 382
Home Affairs	42 090	36 600
Human Settlement	447	388
Independent Complaints Directorate	360	345
Justice and Constitutional Development	346 645	331 401
Labour	49 455	43 004
Rural Development and Land Reform	29 976	20 971
Minerals	2 733	2 377
National Treasury	5 119	4 451
National Treasury - SARS	28 990	25 208
Public Services and Administration	17 610	226
SA Police Services	1 146 758	1 096 327
Social Development	477	415
Sports and Recreation	10	9
Statistics SA	5 155	1 070
Trade and industry	32	28
Water and Sanitation	120 803	101 682
	3 920 776	**3 583 449**

Gross receivables from exchange transactions: Accommodation debtors - freehold inter-governmental		
Agriculture, Forestry and Fishing	-	393
Arts and Culture	8 784	14 279
Defence and Military Veterans	737	-
International Relations and Cooperation	7 258	-
Health (Civitas)	33 735	11 549
International Relations and Cooperation	-	7 258
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Public Service and Administration	65	-
Statistics SA	941	-
Trade and Industry	60	28
	51 582	**33 509**

Notes to the Annual Financial Statements

	2016 R '000	2015 Restated R '000

34. Related parties (continued)

Impairment relating to receivables from exchange transactions		
Agriculture, Forestry and Fishing	-	393
Arts and Culture	1 076	7 292
Defence and Military Veterans	112	-
International Relations and Cooperation	7 258	-
Health (Civitas)	4 745	984
International Relations and Cooperation	-	7 258
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Public Service and Administration	8	-
Statistics SA	130	-
Trade and Industry	5	3
	13 336	**15 932**

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

Expenditure	2016 R'000	2015 Restated R'000
Agriculture, Forestry and Fishing	-	88
Arts and Culture	8 620	8 334
Correctional Services	-	274
Defence	462	205
Justice and Constitutional Development	156 699	143 184
National Treasury - SARS	484	-
Presidency	-	1 662
SA Police Services	38	311
Water and Sanitation	-	15
	166 303	**154 073**

Accruals raised		
Agriculture, Forestry and Fishing	-	88
Arts and Culture	988	362
Correctional Services	-	274
Defence	-	205
Justice and Constitutional Development	13 626	991
National Treasury - SARS	484	-
Presidency	-	1 662
SA Police Services	38	311
Water and Sanitation	-	15
	15 136	**3 908**

Notes to the Annual Financial Statements

Figures in Rand thousand

34. Related parties (continued)

Remuneration of management 2016	Basic salary R'000	Non-pensionable salary R'000	Service bonus R'000	Post employment benefits R'000	Other short term benefits R'000	Total R'000
Employees						
Regional Manager: Bloemfontein	574	119	56	107	182	1 038
Regional Manager: Cape Town	775	105	65	117	56	1 118
Regional Manager: Durban (Acting)	584	239	49	95	7	974
Regional Manager: Johannesburg	644	125	54	105	174	1 102
Regional Manager: Kimberley	652	285	72	96	83	1 188
Regional Manager: Mmabatho	626	177	52	81	262	1 198
Regional Manager: Mthatha	626	284	52	81	1	1 044
Regional Manager: Nelspruit	645	300	-	105	179	1 229
Regional Manager: Polokwane	730	61	61	103	184	1 139
Regional Manager: Port Elizabeth	684	344	-	112	28	1 168
Regional Manager: Pretoria (Acting)	386	207	-	50	58	701
Chief Director: Construction Management Inland	705	289	59	91	130	1 274
Chief Director: PMTE Financial Planning	652	274	54	107	-	1 087
EXCO Members						
Head of PMTE	2 500	-	-	-	-	2 500
Head: Construction Project Management	888	380	-	-	30	1 298
Head: Real Estate Facilities Management	888	191	74	115	35	1 303
Head: Real Estate Registry Services	1 001	429	-	-	57	1 487
Head: Supply Chain Management	127	39	-	17	-	183
Deputy Director General: Asset Investment Management (Acting)	774	159	65	109	200	1 307
Deputy Director General: Inner City Regeneration	888	120	74	115	72	1 269
Deputy Director General: Key Accounts Management	761	315	63	99	45	1 283
Deputy Director General: Projects and Professional Services (Acting)	626	284	52	81	284	1 327
Deputy Director General: Project Management	889	380	-	-	77	1 346
Deputy Director General: Project Management Office	809	113	-	-	282	1 204
Deputy Director General: Property Management	243	104	-	-	-	347
Deputy Director General: Regional Co-ordination	857	179	72	111	233	1 452
Deputy Director General: Technical Finance expert	74	32	-	-	-	106
	19 608	**5 534**	**974**	**1 897**	**2 659**	**30 672**

Notes to the Annual Financial Statements

Figures in Rand thousand

34. Related parties (continued)

2015	Basic salary R'000	Non-pensionable salary R'000	Service bonus R'000	Post employment benefits R'000	Other short term benefits R'000	Total R'000
Employees						
Regional Manager: Bloemfontein	593	115	49	113	177	1 047
Regional Manager: Cape Town	734	97	61	112	49	1 053
Regional Manager: Durban (Acting)	561	228	47	92	9	937
Regional Manager: Johannesburg	611	110	51	100	161	1 033
Regional Manager: Kimberley	593	258	49	88	71	1 059
Regional Manager: Mmabatho	593	162	49	77	159	1 040
Regional Manager: Mthatha	593	269	49	77	40	1 028
Regional Manager: Nelspruit	611	282	-	101	141	1 135
Regional Manager: Polokwane	692	53	58	98	206	1 107
Regional Manager: Port Elizabeth	648	325	-	107	28	1 108
Regional Manager: Pretoria (Acting)	602	220	51	78	82	1 033
Chief Director: PMTE Financial Planning	593	247	49	99	-	988
EXCO Members						
Head of PMTE (Acting)	842	181	70	109	34	1 236
Head: PMTE Finance (Acting)	333	-	-	-	-	333
Head: Real Estate Registry Services	674	288	-	-	-	962
Deputy Director General: Asset Investment Management (Acting)	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: Projects and Professional Services (Acting)	593	269	49	77	218	1 206
Deputy Director General: Regional Co-ordination	812	158	68	106	218	1 362
	12 974	**3 819**	**891**	**1 742**	**1 817**	**21 243**

During the 2015/16 financial period, management re-evaluated officials that fall under the definition of key management personnel. For comparative purposes, the management emoluments for the prior period has been restated to align to the 2015/16 assessment.

Figures in Rand thousand

Notes to the Annual Financial Statements

34. Related parties (continued)

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 Deputy Director General: Real Estate Registry Services was appointed for 8 months during the 2014/15 financial period.

The following key management officials were appointed during the 2015/16 financial period:

Key management official	*Appointment period*
Regional Manager - Pretoria (Acting)	8 months
Head of PMTE (Acting)	10 months
Head: Supply Chain Management	2 months
Deputy Director General: Project Management Office	11 months
Deputy Director General: Property Management	4 months
Deputy Director General: Technical Finance Expert	1 month

35. Events after the reporting date

There are no subsequent events identified to be disclosed.

Notes to the Annual Financial Statements

36. 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 separately:

	2015 Restated R'000
Statement of financial position	
No impact on receivables from exchange transactions	-
Increase in operating lease assets	35 115
Decrease in payables from exchange transactions	(14 197)
Decrease in provisions	8 252
Increase in opening accumulated surplus	(35 564)
	(6 394)
Statement of Financial Performance	
Decrease in revenue from exchange transactions	(449)
Increase in revenue from non-exchange transactions	204 191
Increase in impairment loss	(188 726)
Decrease in property maintenance	4
Decrease in property rates	(15 465)
Increase in sundry operating expenses	(5 949)
	(6 394)

Restatement of accrued expenses and provisions

Due to the PMTE not having an appropriate system for recording accrual transactions, 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 transactions and not the date that the goods were received or the services were rendered. In other cases information only became available after the financial statements were submitted for auditing. A manual accrual management system has been developed and prior period accruals restated. In addition, management identified an error where prior period accruals were not adequately reversed and has subsequently corrected payables and the effect on surplus or deficit.

Correcting legal proceedings provisions relating to NDPW erroneously included in PMTE's provision.

Decrease in payables from exchange transactions	(14 197)
Decrease in property maintenance	(8 248)
Increase in sundry operating expenses	(5 949)
	(14 197)

Correction of legal claim provision

Correcting legal proceedings provisions relating to NDPW erroneously included in PMTE's provision.

Decrease in provisions	8 252
Decrease in property maintenance	8 252

Reclassification of reversal of impairments on receivables

Reversal of impairments on receivables was previously erroneoulsy netted off againts the impairment losses.

Increase in revenue from exchange transactions	204 919
Increase in impairment loss	(204 919)

36. Prior period errors (continued)

Correction of operating lease asset

Correction of the straight-lining for freehold private operating lease asset.

	2015 Restated R'000
Increase in operating lease asset	35 115
Increase in opening accumulated surplus	(35 564)
	(449)
Increase in revenue from exchange transactions	(449)

Property rates paid on behalf of other custodians not recovered

The PMTE paid for property rates on properties under the custodianship of other entities. A correction was made to rectify the error and it was assessed for impairment.

No impact on receivables from exchange transactions	-
Increase in impairment loss on receivables	(15 465)
Decrease in property rates	15 465
	-

37. Transfer of functions between entities under common control

Transfer of functions between entities under common control occurring during the current reporting period

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.

Transfer of function effective 1 April 2013

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

- Asset Investment Management
- Property Managementt
- 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:

	Provisional amount as disclosed on 31 March 2015 R'000	GRAP Adjustments R'000	Closing balance as at 31 March 2016 R'000
Assets			
Receivables from exchange transactions	10 460	(5 491)	4 969
Receivables from non-exchange transactions	86 143	-	86 143
Operating lease asset	65 986	-	65 986
Property, plant and equipment	5 683 793	101 839 218	107 523 011
Investment property	66 506 135	(64 966 506)	1 539 629
Heritage assets	265	248 054	248 319
Intangible assets	40 386	37	40 423
	72 393 168	37 115 312	109 673 756
Liabilities			
Employee benefit obligations	(84 225)	-	(84 225)
Retention liabilities	-	165 276	165 276
Net gain on transfer of functions - 1 April 2013	**72 308 943**	**37 280 588**	**109 589 531**

The PMTE previously recorded contingent liabilities of R 11.6 million due to the transfer of functions. No adjustments have been made to this figures.

Notes to the Annual Financial Statements

37. Transfer of functions between entities under common control (continued)

Transfer of function effective 1 April 2014

Subsequent to transfer of functions effective 1 April 2013, the NDPW transferred further functions to the PMTE in order 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 liabilties from the NDPW 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 functions transferred above, are:

	Provisional amount as disclosed on 31 March 2015 R'000	GRAP Adjustments R'000	Closing balance as at 31 March 2016 R'000
Assets			
Receivables from non-exchange transactions	66 821	-	66 821
Property, plant and equipment	81 997	9 908	91 905
Intangible assets	6 193	431	6 624
	155 011	10 339	29 735
Liabilities			
Employee benefit obligations	(66 821)	-	(66 821)
Finance lease obligation	(5 825)	(3 309)	(9 134)
Accumulated surplus	-	(135 615)	(135 615)
Net gain/(loss) on transfer of functions - 1 April 2014	**82 365**	**(128 585)**	**(46 220)**

Effects of transfer of functions on statement of financial performance

The transfer of functions, effective 1 April 2013 and 1 April 2014, impacted the statement of financial performance as follows:

	2015 R'000	2014 R'000
Revenue from exchange transactions	1 681 342	3 086 826
Revenue from non-exchange transactions	215 003	147 536
Depreciation, amortisation and impairments on assets	(2 547 377)	(2 335 684)
Impairment loss on receivables	135 615	-
Interest expense	(83)	-
Loss on disposal/transfer of assets	-	(432)
Property maintenance	381 985	(6 411 719)
Sundry operating expenses	29 710	36 548
	(103 805)	**(5 476 925)**

37. Transfer of functions between entities under common control (continued)

Other information

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

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:t

- 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