



Property Management Trading Entity  
Annual Financial Statements  
for the year ended 31 March 2017

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Index

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

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The annual financial statements set out on pages 2 to 59 have been prepared on the going concern basis.

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**Mr Mziwonke Dlabantu**  
**Director-General**

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Statement of Financial Position as at 31 March 2017

	Note	2017 R '000	Restated 2016 R '000
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	3	4 618 039	3 784 046
Receivables from non-exchange transactions	4	66	1 596
Operating lease asset	5	723 715	899 747
Cash and cash equivalents	6	2 934	3 982
		<b>5 344 754</b>	<b>4 689 371</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	7	132 965 539	131 073 890
Investment property	8	5 540 246	5 683 366
Heritage assets	9	646 923	646 923
Intangible assets	10	20 890	11 649
		<b>139 173 598</b>	<b>137 415 828</b>
<b>Total Assets</b>		<b>144 518 352</b>	<b>142 105 199</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	5	712 558	855 195
Bank overdraft	6	1 932 441	1 468 852
Deferred revenue	11	6 418 437	6 227 596
Payables from exchange transactions	12	3 368 380	2 827 220
Retention liabilities	13	283 817	278 255
Finance lease obligation	14	8 455	11 174
Employee benefit obligation	15	188 762	168 524
Provisions	16	1 474 670	1 013 306
		<b>14 387 520</b>	<b>12 850 122</b>
<b>Non-Current Liabilities</b>			
Retention liabilities	13	38 210	21 381
Finance lease obligation	14	8 284	433
		<b>46 494</b>	<b>21 814</b>
<b>Total Liabilities</b>		<b>14 434 014</b>	<b>12 871 936</b>
<b>Net Assets Reserves</b>		<b>130 084 338</b>	<b>129 233 263</b>
Accumulated surplus		130 084 338	129 233 263

\* See Note 37

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Statement of Financial Performance

	Note	2017 R '000	Restated 2016 R '000
Revenue from exchange transactions	17	10 708 257	10 979 654
Revenue from non-exchange transactions	18	4 502 349	4 007 578
Construction revenue	19	254 527	256 288
<b>Total revenue</b>		<b>15 465 133</b>	<b>15 243 520</b>
<b>Expenditure</b>			
Construction expenses	19	254 527	256 288
Depreciation, amortisation and impairments on assets	20	2 759 619	2 604 388
Employee related costs	21	1 500 867	1 310 136
Impairment loss on receivables	22	300 050	472 356
Interest expense	23	88 088	245 407
Loss on disposal/transfer of assets	24	356 928	5 186
Operating leases	25	4 191 408	4 078 024
Property maintenance (contracted services)	26	2 938 144	2 982 061
Property rates		1 030 405	1 125 442
Sundry operating expenses	27	1 194 022	1 761 357
<b>Total expenditure</b>		<b>14 614 058</b>	<b>14 840 645</b>
<b>Surplus for the year</b>		<b>851 075</b>	<b>402 875</b>

\* See Note 37

# Property Management Trading Entity

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## Statement of Changes in Net Assets

		Accumulated surplus R '000	Total net assets R '000
Opening balance as previously reported as at 1 April 2015		105 458 056	105 458 056
<i>Adjustments</i>			
Adjustments to net gain from transfer of functions effective 18 November 2013	38	13 868 215	13 868 215
Adjustments to net gain from transfer of functions effective 30 March 2015	38	(11 874)	(11 874)
Adjustments to surplus due to changes to provisional amounts for transfer of functions	38	9 531 467	9 531 467
<b>Balance at 1 April 2015 as restated*</b>		<b>128 830 387</b>	<b>128 830 387</b>
<i>Changes in net assets</i>			
Surplus for the year		402 875	402 875
Adjustments to surplus due to changes to provisional amounts for transfer of functions		(24 698 281)	(24 698 281)
Total changes		(24 295 406)	(24 295 406)
Balance as previously reported as at 31 March 2016		104 534 984	104 534 984
<i>Adjustments</i>			
Correction of prior period errors and adjustments due to transfers of functions		25 635 903	25 635 903
Correction of prior period errors	37	(925 750)	(925 750)
Adjustments to net gain from transfer of functions effective 30 March 2015	38	(11 874)	(11 874)
<b>Balance at 1 April 2016 as restated*</b>		<b>129 233 263</b>	<b>129 233 263</b>
<i>Changes in net assets</i>			
Surplus for the year		851 075	851 075
<b>Balance at 31 March 2017</b>		<b>130 084 338</b>	<b>130 084 338</b>

\* See Note 37

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Cash Flow Statement

	Note	2017 R '000	2016 Restated* R '000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Accommodation charges - leasehold inter-governmental		4 227 723	3 665 574
Accommodation charges - freehold inter-governmental		6 450 983	6 386 569
Accommodation charges - private		42 027	17 246
Augmentation		3 389 448	3 524 652
Management fee on municipal services		184 783	169 504
Municipal services recovered		3 350 131	3 390 085
Interest, fines, recoveries and other receipts		8 594	88 072
Construction revenue		259 067	244 945
		<b>17 912 756</b>	<b>17 486 647</b>
<b>Payments</b>			
Cleaning and gardening		252 895	211 672
Admin, goods and services		642 267	607 878
Scheduled maintenance		884 767	1 054 100
Maintenance		1 172 157	1 732 331
Municipal services paid		4 164 585	3 731 908
Operating leases		4 266 679	4 078 738
Property rates		1 227 927	1 259 470
Compensation of employees		1 366 306	1 140 657
Municipal services expenditure		356 464	232 440
Construction expenses		259 067	244 945
		<b>14 593 114</b>	<b>14 294 139</b>
<b>Net cash flows from operating activities</b>	<b>28</b>	<b>3 319 642</b>	<b>3 192 508</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment		(3 766 853)	(3 918 340)
Additions to investment property	8	(8 647)	(80 168)
Additions to intangible assets	10	(11 920)	(2 051)
Additions to heritage assets	9	-	(214)
<b>Net cash flows from investing activities</b>		<b>(3 787 420)</b>	<b>(4 000 773)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(12 975)	(7 690)
Finance lease entered into		16 116	12 476
<b>Net cash flows from financing activities</b>		<b>3 141</b>	<b>4 786</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(464 637)</b>	<b>(803 479)</b>
Cash and cash equivalents at the beginning of the year		(1 464 870)	(661 391)
<b>Cash and cash equivalents at the end of the year</b>	<b>6</b>	<b>(1 929 507)</b>	<b>(1 464 870)</b>

\* See Note 37

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## 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
<b>Receipts</b>					
Accommodation charges - leasehold inter-governmental	4 218 751	(73 046)	<b>4 145 705</b>	4 227 723	<b>82 018</b>
Accommodation charges - freehold inter-governmental	6 845 669	(113 068)	<b>6 732 601</b>	6 450 983	<b>(281 618)</b>
Accommodation charges - Freehold Private Augmentation	40 253	-	<b>40 253</b>	42 027	<b>1 774</b>
Augmentation	3 405 414	(15 966)	<b>3 389 448</b>	3 389 448	-
Management fees on municipal services	212 044	(40 754)	<b>171 290</b>	184 783	<b>13 493</b>
Municipal services recovered	-	-	-	3 350 131	<b>3 350 131</b>
Interest, fines, recoveries and other receipts	24 851	(4 050)	<b>20 801</b>	8 594	<b>(12 207)</b>
Construction revenue	-	-	-	259 067	<b>259 067</b>
	<b>14 746 982</b>	<b>(246 884)</b>	<b>14 500 098</b>	<b>17 912 756</b>	<b>3 412 658</b>
<b>Payments</b>					
Cleaning and gardening	250 657	-	<b>250 657</b>	252 895	<b>2 238</b>
Admin, goods and services	705 421	-	<b>705 421</b>	642 267	<b>(63 154)</b>
Scheduled maintenance	921 727	(67 176)	<b>854 551</b>	884 767	<b>30 216</b>
Maintenance	1 212 660	(40 156)	<b>1 172 504</b>	1 172 157	<b>(347)</b>
Municipal services (paid/recoverable)	-	-	-	4 164 585	<b>4 164 585</b>
Operating leases (including rent on land)	4 339 725	(73 046)	<b>4 266 679</b>	4 266 679	-
Property rates	1 161 796	-	<b>1 161 796</b>	1 227 927	<b>66 131</b>
Compensation of employees	1 469 783	-	<b>1 469 783</b>	1 366 306	<b>(103 477)</b>
Municipal services expenditure	260 979	12 937	<b>273 916</b>	356 464	<b>82 548</b>
Construction expenses	-	-	-	259 067	<b>259 067</b>
	<b>10 322 748</b>	<b>(167 441)</b>	<b>10 155 307</b>	<b>14 593 114</b>	<b>4 437 807</b>
				-	-
<b>Capital movements</b>					
Recoverable capital expenditure	3 397 765	(186 776)	<b>3 210 989</b>	2 641 601	<b>(569 388)</b>
Non-recoverable capital expenditure	986 055	107 333	<b>1 093 388</b>	1 115 754	<b>22 366</b>
Machinery and equipment	40 414	-	<b>40 414</b>	30 065	<b>(10 349)</b>
Finance lease	-	-	-	(3 141)	<b>(3 141)</b>
	<b>4 424 234</b>	<b>(79 443)</b>	<b>4 344 791</b>	<b>3 784 279</b>	<b>(560 512)</b>
<b>Cash deficit</b>	-	-	-	<b>(464 637)</b>	<b>(464 637)</b>

Refer to note 29 for the reconciliation and explanations of material differences.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

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### 1. Presentation of 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 Minister of Public Works 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 1 April 2009. The DPW assigned those functions to the PMTE and by virtue of the transfer of functions that occurred on 18 November 2013, and 30 March 2015, 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.

PMTE monitors state land reflected on the Deeds Register on an on-going basis. Land registered in the name of the National Government, that could not be confirmed to be under the custodianship of other National Custodians, is recognised by the PMTE. Any changes in ownership is derecognised accordingly. PMTE discloses a contingent asset for properties identified to be under its custodianship where the property could not be reliably measured due to the extent not being determined through the Office of the Surveyor General.

In terms of paragraph 7.37 of the vesting guidelines issued by Department of Rural Development and Land Reform on 30 March 2017, "for any provincial government to claim ownership of vacant land such province should provide proof of intended use. The absence of such proof automatically means that such land vests in the National Government of RSA". PMTE is thus deemed to have control over such land parcels and has currently recognised unvested land parcels.

PMTE recognises immovable assets where the property will vest with the national government based on the principles contained in the approved vesting guidelines.

Whilst properties (land and buildings) as outlined in the Endowment Act 33, of 1922 are disclosed in the financial statements of Department of Defence (DoD), there are a number of extended structures pertaining to such endowment facilities that have "encroached" onto neighbouring land under the custodianship of PMTE. Whilst such structures are reflected as part of endowment properties by DoD, the underlying land is currently reflected in immovable assets by PMTE until such time as it may be transferred to DoD. Control and or access over such land may be restricted given the DoD facilities thereon.

##### 1.1.2 Assets and liabilities related to the transfer of functions

For initial measurement purposes, assets acquired through the transfer of functions are measured at their carrying amounts as per the records of the DPW. Where those carrying amounts do not represent GRAP compliant amounts, the carrying amounts were estimated using various measurement bases, depending on the type of asset or liability. The DPW transferred functions on two separate occasions, effective 1 April 2013 and 1 April 2014 respectively. For further details refer to note 1.28.



## **Notes to the Annual Financial Statements**

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### **1.1 Significant judgement and sources of estimation uncertainty (continued)**

#### **1.1.3 Useful life and residual values**

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 the value of the service provided to the prestige clients. Therefore, the receivable is classified as a statutory receivable and the revenue is classified as a non-exchange transaction.

#### **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 is 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.

The same terms and conditions included in the underlying lease agreements with the landlord is used to determine the relevant presentation for lease-out arrangements.

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.

## Notes to the Annual Financial Statements

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### 1.1 Significant judgement and sources of estimation uncertainty (continued)

#### 1.1.6 Impairment

##### **Impairment of receivables measured at cost or amortised costs**

The full voted funds for accommodation from client departments are 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.

##### **Impairment of immovable assets**

The PMTE uses the Depreciated Replacement Cost method for assessing the impairment of majority of the immovable assets. The Depreciated Replacement Cost is based on the current building indices factoring in the current condition rating assessed and the impairment indicators.

Assets under construction is considered for impairment when the project is cancelled, halted or delayed.

#### 1.1.7 Significantly delayed projects

Projects are regarded as 'significantly delayed' when a project has been delayed by more than 50% of the planned project period.

Projects are regarded as technically delayed, for financial statement disclosure purposes, when the it has not yet reached practical completion status at reporting date and the 'planned project period' has expired before the reporting date.

Projects that are 'Completed', 'Cancelled' or in the 'Planning and Design stage' are excluded from the population for the purpose of the 'significantly delayed' disclosures.

#### 1.1.8 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, the purpose for which 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.

## Notes to the Annual Financial Statements

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### 1.1 Significant judgement and sources of estimation uncertainty (continued)

PMTE determines the intended use of a facility by evaluating the characteristics of the facility against the criteria for Investment Property. The criteria for Investment Property are as follows

- The current occupant (lessee) is not an organ of state; and
- Future occupants of the facility will most probably not be an organ of state; and
- There is no intention for the facility to be occupied in future by an organ of state for the production or supply of goods or services, for administrative purposes or for executing its mandate; and / or
- The facility is held in its entirety, for long-term/future capital appreciation rather than for short-term sale in the ordinary course of operations; or
- The facility is specifically earmarked as Investment Property (i.e. for rental to occupants that are not organs of state; or for development with the sole intention to be leased to occupants that are not organs of state, or capital appreciation); and / or
- A vacant building/facility is held to be leased out under one or more operating leases on a commercial basis to external parties;
- The intended use is of a dual nature/purpose. A facility will only be classified as Investment Property if the main purpose and most significant use of the facility is to earn rentals or capital appreciation; or
- The facility is being constructed or developed for future use as investment property.

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 DPW, 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 them to deliver on their mandates. 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.

#### 1.1.9 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. 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

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### 1.1 Significant judgement and sources of estimation uncertainty (continued)

#### 1.1.10 Related party disclosure

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

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

In the absence of a pricing strategy for leases, judgement was made to determine the disclosures around related party transactions based on the nature of the transactions and the associated terms. In addition, many services have been rendered in-kind to the PMTE stemming from its relationship with the DPW. 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.

#### 1.2 Receivables from exchange transactions

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

#### 1.3 Receivables from non-exchange transactions

Receivables from non-exchange transactions are recognised when non-exchange revenue is due to the PMTE through legislation (statutory receivables) or in accordance with an agreement (financial assets). Refer to note 1.15 and 1.16 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. The liability is recognised at the lower of the fair value of the leased asset or the present value of the minimum lease payments.

##### 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.

## Notes to the Annual Financial Statements

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### 1.4 Leases (continued)

#### 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 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, strategic or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

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

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

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.

Heritage assets 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 (refer to note 1.8).

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.

## Notes to the Annual Financial Statements

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### 1.6 Property, plant and equipment (continued)

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	indefinite 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.

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.

## Notes to the Annual Financial Statements

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### 1.6 Property, plant and equipment (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).

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 carrying amount, where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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. Depreciation ceases when the asset is disposed.

Item	Useful life
Building and improvements	12 - 100 years
Land	Indefinite

Refer to note 1.6 for a detailed 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.

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).

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.

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.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

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### 1.8 Heritage assets (continued)

Heritage assets are measured at cost.

With the exception of assets acquired through the transfer of functions under common control which is measured at carrying amount, 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, 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 carrying amount, 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.

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:



## Notes to the Annual Financial Statements

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### 1.9 Intangible assets (continued)

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.

#### 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.

## **Notes to the Annual Financial Statements**

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### **1.11 Employee benefits (continued)**

#### **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.

#### **Long service awards**

The PMTE recognises the expected cost of short-term employee benefits in surplus or deficit, in the form of long service awards, when the employees render services for a period that entitles them to long service award benefits as prescribed by DPSA policies.

### **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, unscheduled maintenance and municipal rates and services 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.

### **1.14 Reserves**

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

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

## **Notes to the Annual Financial Statements**

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### **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 legislative 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 legislative 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.

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.

## Notes to the Annual Financial Statements

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### 1.16 Financial instruments (continued)

#### Impairment of assets

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

##### *Financial assets measured at amortised cost:*

If there is objective evidence that an impairment loss on financial assets 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 accounted for directly to the receivables. Financial assets 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 of reversal. 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, availability of funds/budget allocation of clients, probability that the debtor will enter bankruptcy, default of payments and payment history are all considered indicators of impairment.

##### *Non-financial assets measured at cost*

Where the carrying amount of a non-financial asset exceeds its recoverable service amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in surplus or deficit. In assessing the value in use, the PMTE has adopted the depreciated replacement cost approach.

For further details regarding impairment of property, plant and equipment, investment property, heritage assets and intangible assets, refer to note 1.6.

#### 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.

##### *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 Transactions*.

## Notes to the Annual Financial Statements

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### 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; and
- Freehold private, which refers to lease revenue from state owned assets leased to the private sector and individuals

Revenue from construction contracts is classified as revenue from exchange transactions and recognised by reference to the stage of completion of the contract when the outcome of a construction contract can be estimated reliably. When the outcome of a construction contract cannot be estimated reliably, construction revenue is recognised to the extent of contract costs incurred that are likely to be recoverable in the period in which they are incurred. An expected loss on a contract is recognised immediately in the surplus or deficit in the period in which it was incurred. Refer to note 1.20 for further details.

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 DPW in order to fund operations and manage properties under the custodianship of DPW, 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**

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### **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 Construction costs, revenue and receivables**

Expenditure incurred in capital construction projects are classified as construction costs and recognised in the statement of Financial Performance when the amount is recoverable based on the work completed. The revenue is recovered on a full cost recovery basis. The related receivable is recognised when the amount becomes recoverable.

### **1.21 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 and 32. 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.

### **1.22 Related parties**

Management are those persons responsible for planning, directing and controlling the activities of the PMTE, including those charged with the governance of the PMTE 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 PMTE.

Only transactions with related parties not at arms' length or not in the ordinary course of business are disclosed in note 35. Movable assets that have not been transferred specifically to the PMTE are not recognised by the PMTE but are recorded by the DPW.

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 DPW, 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 35), the remuneration is not included in the disclosure. This includes the remuneration of the Chief Financial Officer, the Director-General and the Minister of Public Works.

### **1.23 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 DPW. The PMTE budget is part of the overall DPW vote.

## Notes to the Annual Financial Statements

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### 1.24 Commitments

Items are classified as commitments when the PMTE 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 and maintenance expenditure which has been approved and either contracted for or an order has been issued to the supplier relating to immovable assets. See Notes: 7, 8, 9, 10 for additional disclosure.

### 1.25 Going concern assumption

These annual financial statements have been prepared on the going concern basis. Although the PMTE has a bank overdraft of R1.9 billion (2016: R1.5 billion) and the current liabilities exceed the current assets by R9.0 billion (2016: R8.2 billion), 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 ("DPW") and National Treasury has been informed of PMTE's position accordingly. Management is embarking on a revenue generating drive and has reinforced its efforts in collection of all outstanding debts..

### 1.26 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 37.

### 1.27 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.

### 1.28 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 DPW transferred certain functions to the PMTE on the 1 April 2013 and 1 April 2014 respectively. The transfer of functions were approved by the Accounting Officer on the 18 November 2013 and 30 March 2015 respectively when substantial control of these functions were obtained.

The PMTE acquired the following functions and the related assets and liabilities from the DPW on 30 November 2013:

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

Full compliance is required by the 31 March 2017 for the above transfer.

The PMTE acquired the following functions and the related assets and liabilities from the DPW on 30 March 2015:

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

Full compliance is required by the 31 March 2018 for the above transfer.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

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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)

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

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

The provisional amounts used to recognise the assets and liabilities 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 109: Accounting by principals and agents
- 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 effective. 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 17: Service concession agreements where a grantor controls a significant residual interest in an asset
- GRAP 32 Service concession agreements: Grantor



# Property Management Trading Entity

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## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>3. Receivables from exchange transactions</b>		
<b>Financial assets</b>		
Accommodation debtors - leasehold inter-governmental	506 028	529 080
Accommodation debtors - freehold inter-governmental debtors	613 256	347 811
Accommodation debtors - freehold private	29 171	4 601
Municipal services	426 488	521 118
Debt account	5 040	2 169
Revenue accrual	1 986 446	1 539 672
Municipal deposits	15 758	15 160
Other debtors	1 385	8
Recoverable property rates	-	-
	<b>3 583 572</b>	<b>2 959 619</b>
<b>Non-financial asset</b>		
Prepaid expenses	1 034 467	824 427
	<b>4 618 039</b>	<b>3 784 046</b>

The applicable interest rate, for outstanding receivables, for the period is 10.50% (2016: 10.25%).  
Revenue accruals relates to services rendered to our clients but not yet invoiced.

### Receivables past due but not impaired

All receivables past due were considered for impairments. Refer to note 22 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:

	2017 %	Restated 2016 %
Accommodation debtors - freehold inter-governmental debtors	32	49
Accommodation debtors - leasehold inter-governmental	36	34
Accommodation debtors - freehold private	24	25
Municipal services	74	31
Debt account	64	64
Recoverable property rates	100	100

### 4. Receivables from non-exchange transactions

	2017 R'000	2016 R'000
Accommodation debtors - freehold prestige	66	1 596

Certain properties are leased to prestige clients. 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 rental as prescribed.

### Receivables from non-exchange transactions past due but not impaired

There were no receivables past due that were not impaired. Refer to note 22 for impairment loss incurred during the period for receivables from exchange transactions

# Property Management Trading Entity

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## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>5. Operating lease asset/(liabilities)</b>		
Current assets	723 715	899 747
Current liabilities	(712 558)	(855 195)
	<b>11 157</b>	<b>44 552</b>
<b>Total operating lease asset - PMTE as lessor</b>		
Leasehold inter-governmental	686 153	855 195
Freehold private	37 562	44 552
	<b>723 715</b>	<b>899 747</b>
<b>Total minimum lease receipts - PMTE as lessor</b>		
Within one year	2 405 414	3 014 864
In second to fifth year inclusive	3 645 748	4 103 870
Later than five years	353 187	653 003
	<b>6 404 349</b>	<b>7 771 737</b>

### *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, 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).

	2017 R'000	Restated 2016 R'000
<b>Total operating lease liabilities - PMTE as lessee</b>		
Operating lease liabilities - leasehold inter-governmental	<b>712 558</b>	<b>855 195</b>
<b>Total minimum lease payments - PMTE as lessee</b>		
Within one year	2 447 789	2 981 695
In second to fifth year inclusive	3 745 952	4 004 456
Later than five years	305 835	501 514
	<b>6 499 576</b>	<b>7 487 665</b>

The PMTE has 2 597 active leases (2016: 2 459) 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, at financial reporting date, 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.

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	218	234
Bank balance	2 716	3 748
Bank overdraft	(1 932 441)	(1 468 852)
	<b>(1 929 507)</b>	<b>(1 464 870)</b>
Current assets	2 934	3 982
Current liabilities	(1 932 441)	(1 468 852)
	<b>(1 929 507)</b>	<b>(1 464 870)</b>

The interest rate on the bank balance is variable. The average effective interest rate on short term bank deposits is 5.50% (2016: 4.67%).

The bank overdraft carries no interest.

### 7. Property, plant and equipment

	2017			Restated 2016		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Land	42 632 554	-	42 632 554	42 210 085	-	42 210 085
Buildings and improvements	99 537 869	(9 437 214)	90 100 655	95 502 608	(6 897 135)	88 605 473
Furniture and office equipment	111 039	(37 802)	73 237	93 642	(21 439)	72 203
Motor vehicles	151	(82)	69	608	(384)	224
Computer equipment	207 439	(79 952)	127 487	196 937	(43 892)	153 045
Other machinery and equipment	43 308	(11 771)	31 537	40 438	(7 578)	32 860
<b>Total</b>	<b>142 532 360</b>	<b>(9 566 821)</b>	<b>132 965 539</b>	<b>138 044 318</b>	<b>(6 970 428)</b>	<b>131 073 890</b>

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

Figures in Rand thousand

#### 7. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers in/(out)	Additions through assets under construction	Depreciation	Impairment loss	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	42 210 085	481 066	(336 778)	277 704	477	-	-	42 632 554
Buildings and improvements	88 605 473	-	(9 057)	(277 704)	4 323 348	(2 508 967)	(32 438)	90 100 655
Furniture and office equipment	72 203	18 551	(789)	259	-	(16 466)	(521)	73 237
Vehicles	224	-	(31)	-	-	(124)	-	69
Computer equipment	153 045	13 570	(485)	3 181	-	(41 047)	(777)	127 487
Other machinery and equipment	32 860	4 826	(740)	(576)	-	(4 457)	(376)	31 537
	<b>131 073 890</b>	<b>518 013</b>	<b>(347 880)</b>	<b>2 864</b>	<b>4 323 825</b>	<b>(2 571 061)</b>	<b>(34 112)</b>	<b>132 965 539</b>

##### Reconciliation of property, plant and equipment - 2016 Restated

	Opening balance	Additions	Disposals	Transfers in/(out)	Additions through assets under construction	Depreciation	Impairment loss	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	42 202 370	-	-	-	7 715	-	-	42 210 085
Buildings and improvements	86 680 296	-	-	-	4 324 978	(2 390 467)	(9 334)	88 605 473
Furniture and office equipment	70 547	15 663	(877)	(874)	-	(11 628)	(628)	72 203
Vehicles	416	-	-	-	-	(192)	-	224
Computer equipment	163 507	25 056	(887)	(103)	-	(34 193)	(335)	153 045
Other machinery and equipment	33 783	3 358	(257)	(88)	-	(3 836)	(100)	32 860
	<b>129 150 919</b>	<b>44 077</b>	<b>(2 021)</b>	<b>(1 065)</b>	<b>4 332 693</b>	<b>(2 440 316)</b>	<b>(10 397)</b>	<b>131 073 890</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 7. Property, plant and equipment (continued)

#### Additional disclosure relating to assets under construction

	2017 R'000 Cumulative expenditure recognised in carrying value	2017 R'000 Carrying value of projects significantly delayed	2017 R'000 Carrying value of projects halted	Restated 2016 R'000 Cumulative expenditure recognised in carrying value
Land	256	-	-	244
Building and improvements	10 316 911	3 466 181	-	9 873 743

Reasons for construction projects significantly delayed are mainly due to poor contractor performance.

#### Assets subject to finance lease (Net carrying amount)

	2017 R'000	Restated 2016 R'000
Furniture and office equipment	15 673	10 633
Vehicles	69	224
	<b>15 742</b>	<b>10 857</b>

Refer to note 14 for further details regarding the commitments for finance leased asset.

#### Contractual commitments for acquisition and maintenance of Property, plant and equipment

	2017 R'000 Committed for acquisition (CAPEX)	2017 R'000 Committed for maintenance (OPEX)	2017 R'000 Total commitment	Restated 2016 R'000 Committed for acquisition (CAPEX)
Building and improvements	6 317 701	3 556 615	9 874 316	5 730 749

#### Transitional provisions

All classes of property, plant and equipment were impacted by the transfer of functions. Refer to note 38 for further details.

#### Other disclosure

An additional 366 properties were identified on the Deeds download received during May 2017 effective 31 March 2017, whilst 249 land parcels had changed ownership with no formal process or disposal followed. The latter land parcels have been placed under investigation due to the nature of the ownership change (refer to note 24).

PMTE has reconciled its immovable asset register to the other national and provincial custodians and has identified properties under its control where the underlying land was also disclosed by the provinces. These properties mainly relate to instances where both a National and Provincial function structure is located on the same land parcel. Included in the amounts recognised in property, plant and equipment are land parcels that is currently also included in the asset register of the provinces. PMTE will continue to disclose such land until it is surveyed and the portion relating to provincial function is identifiable and transferred where applicable. The table below reflects details as at 31 March 2017:

	Number of properties	Total extent of land (Ha)	Carrying value R000
Gauteng	202	1 851 R	151 717
Mpumalanga	2	4 R	209
North West	3	6 R	839
	<b>207</b>	<b>1 861 R</b>	<b>152 765</b>

Included in the properties recognised under property, plant and equipment there are 235 unvested vacant land parcels (R158 million) and 583 properties (R 540 million) occupied by National government still to be correctly vested.

\* See Note 37

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 8. Investment property

	2017			Restated 2016		
	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	6 147 298	(607 052)	5 540 246	6 138 651	(455 285)	5 683 366

#### Reconciliation of investment property - 2017

	Opening balance	Additions through assets under construction	Depreciation	Total
	R'000	R'000	R'000	R'000
Land	1 386 367	-	-	1 386 367
Building and improvements	4 296 999	8 647	(151 767)	4 153 879
	<b>5 683 366</b>	<b>8 647</b>	<b>(151 767)</b>	<b>5 540 246</b>

#### Reconciliation of investment property - 2016 Restated

	Opening balance	Additions through assets under construction	Depreciation	Total
	R'000	R'000	R'000	R'000
Land	1 386 367	-	-	1 386 367
Building and improvements	4 368 598	80 168	(151 767)	4 296 999
	<b>5 754 965</b>	<b>80 168</b>	<b>(151 767)</b>	<b>5 683 366</b>

#### Additional disclosure relating to assets under construction

	2017 R'000 Cumulative expenditure recognised in carrying value	2017 R'000 Carrying value of projects significantly delayed	2017 R'000 Carrying value of projects halted	Restated 2016 R'000 Cumulative expenditure recognised in carrying value
Building and improvements	74 983	50 532	-	273 746

Reasons for construction projects significantly delayed are due to poor contractor performance.

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

Figures in Rand thousand

#### 8. Investment property (continued)

Amounts recognised in Statement of Financial Performance relating to Investment Property

	2017			2016		
	Revenue generating R'000	Non-revenue generating R'000	Total R'000	Revenue generating R'000	Non-revenue generating R'000	Total R'000
Property maintenance	10	39	49	85	147	232
Municipal services	5 734	429	6 163	701	306	1 007
Property rates	4 739	777	5 516	2 031	473	2 504
Cleaning and gardening	-	37	37	177	-	177
Security	-	430	430	-	407	407
Total direct expenses	10 483	1 712	12 195	2 994	1 333	4 327
Revenue from exchange (Freehold private)	65 674	-	65 674	40 787	-	40 787
<b>Total surplus/(deficit) on investment property</b>	<b>55 191</b>	<b>(1 712)</b>	<b>53 479</b>	<b>37 793</b>	<b>(1 333)</b>	<b>36 460</b>

Contractual commitments for the acquisition and maintenance of Investment Property

	2017 R'000 Committed for acquisition (CAPEX)	Restated 2016 R'000 Committed for acquisition (CAPEX)
Building and improvements	19 507	36 365

#### Transitional provisions

All classes of investment property were impacted by the transfer of functions. Refer to note 38 for further details.

## Notes to the Annual Financial Statements

### 9. Heritage assets

	2017			Restated 2016		
	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	559 346	-	559 346	559 346	-	559 346
Building and improvements	87 577	-	87 577	87 577	-	87 577
<b>Total</b>	<b>646 923</b>	<b>-</b>	<b>646 923</b>	<b>646 923</b>	<b>-</b>	<b>646 923</b>

	Opening balance	Additions through assets under construction	Total
	R'000	R'000	R'000
Land	559 346	-	559 346
Building and improvements	87 577	-	87 577
	<b>646 923</b>	<b>-</b>	<b>646 923</b>

#### Reconciliation of heritage assets - 2016 Restated

Land	559 346	-	559 346
Building and improvements	87 363	214	87 577
	<b>646 709</b>	<b>214</b>	<b>646 923</b>

#### Additional disclosure relating to assets under construction

	2017 R'000 Cumulative expenditure recognised in carrying value	2017 R'000 Carrying value of projects significantly delayed	2017 R'000 Carrying value of projects halted	Restated 2016 R'000 Cumulative expenditure recognised in carrying value
Building and improvements	445	-	-	1 166

#### Restrictions on heritage assets

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

#### Contractual commitments for the acquisition and maintenance of heritage assets

	2017 R'000 Committed for acquisition (CAPEX)	Restated 2016 R'000 Committed for acquisition (CAPEX)
Building and improvements	46	330

#### Transitional provisions

#### Heritage assets recognised at provisional amounts

All classes of heritage assets were impacted by the transfer of functions. Refer to note 38 for further details.



## Notes to the Annual Financial Statements

### 10. Intangible assets

	2017			Restated 2016		
	Cost	Accumulated amortisation and impairment	Carrying value	Cost	Accumulated amortisation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	28 017	(7 127)	20 890	16 269	(4 620)	11 649

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers between DPW and PMTE	Amortisation	Impairment loss	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	11 649	11 871	49	(2 679)	-	20 890

#### Reconciliation of intangible assets - 2016 Restated

	Opening balance	Additions	Disposals	Amortisation	Impairment loss	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	11 506	3 711	(1 660)	(1 885)	(23)	11 649

#### Additional disclosure relating to assets under development

	2017 R'000	2017 R'000	2017 R'000	Restated 2016 R'000
	Cumulative expenditure recognised in carrying value	Carrying value of projects significantly delayed	Carrying value of projects halted	Cumulative expenditure recognised in carrying value
Computer software	15 268	15 268	-	3 397

Reason for the project significantly delayed is due to poor contractor performance relating to the Archibus/SAGE integration software development project.

#### Contractual commitments for acquisition and maintenance of intangible assets

	2017 R'000	Restated 2016 R'000
	Committed for acquisition (CAPEX)	Committed for acquisition (CAPEX)
Computer software	-	11 871

#### Transitional provisions

##### Intangible assets recognised at provisional amounts

All classes of intangible assets were impacted by the transfer of functions.  
Refer to note 38 for further details.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>11. Deferred revenue</b>		
Deferred revenue	6 418 437	6 227 596
This relates to recoverable capital claims for projects that are under construction which will be deferred until the project is complete.		
Opening balance	6 227 596	6 063 187
Plus: Revenue deferred during the year	2 076 947	2 344 152
Less: Revenue recognised during the year	(1 886 106)	(2 179 743)
	<b>6 418 437</b>	<b>6 227 596</b>
<b>12. Payables from exchange transactions</b>		
<b>Financial liabilities</b>		
Accrued expenses - Assets	401 191	252 819
Accrued expenses - Cleaning and gardening	17 157	20 841
Accrued expenses - Leases	418 819	326 860
Accrued expenses - Maintenance	468 259	586 367
Accrued expenses - Municipal services	1 001 975	720 529
Accrued expenses - Other	99 564	190 790
Accrued expenses - Property rates	76 743	33 832
Accrued expenses - Schedule maintenance	221 144	109 704
Accrued expenses - Security	3 381	5 563
Total accrued expenses	2 708 233	2 247 305
Unallocated deposits	4 441	1 346
Trade payables	-	2
Deposits received	17	16
	<b>2 712 691</b>	<b>2 248 669</b>
<b>Non-financial liabilities</b>		
Income received in advance - leases	539 251	510 835
Income received in advance - other services	116 438	67 716
	<b>3 368 380</b>	<b>2 827 220</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>13. Retention liabilities</b>		
Non-current liabilities	38 210	21 381
Current liabilities	283 817	278 255
	<b>322 027</b>	<b>299 636</b>
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	9 714	7 981
- in second to fifth year inclusive	8 895	4 603
	18 609	12 584
less: future finance charges	(1 870)	(977)
<b>Present value of minimum lease payments</b>	<b>16 739</b>	<b>11 607</b>
<b>Present value of minimum lease payments due</b>		
- within one year	8 455	7 274
- in second to fifth year inclusive	8 284	4 333
	<b>16 739</b>	<b>11 607</b>
Non-current liabilities	8 284	433
Current liabilities	8 455	11 174
	<b>16 739</b>	<b>11 607</b>

The finance lease liability relates to vehicles, furniture and office equipment, whereby the PMTE takes ownership of the asset upon completion of the contract. These contracts are typically for a period of 36 months for other equipment and 24 months for cellphones and 3G cards. All contracts have no escalation clauses.

## 15. Employee benefit obligations

<b>Reconciliation - 2017</b>	<b>Opening balance</b>	<b>Utilised during the year</b>	<b>Over/(under) provided</b>	<b>Additions</b>	<b>Total</b>
Leave	110 684	(99 691)	(10 994)	126 198	126 197
Service bonus	34 012	(33 285)	(727)	35 730	35 730
Performance bonus	18 094	(18 170)	76	20 651	20 651
Long service awards	5 734	(2 782)	-	3 232	6 184
	<b>168 524</b>	<b>(153 928)</b>	<b>(11 645)</b>	<b>185 811</b>	<b>188 762</b>
<b>Reconciliation - 2016 (Restated)</b>					
Leave	118 826	(105 935)	(12 891)	110 684	110 684
Service bonus	33 613	(32 093)	(1 520)	34 012	34 012
Performance bonus	18 144	(16 801)	(1 343)	18 094	18 094
Long service awards	5 059	(2 277)	-	2 952	5 734
	<b>175 642</b>	<b>(157 106)</b>	<b>(15 754)</b>	<b>165 742</b>	<b>168 524</b>

## Transitional provisions

Included in the above is employee benefit obligations recognised at provisional amount, refer to note 38 for further details.

## Notes to the Annual Financial Statements

### 16. Provisions

	Opening Balance	Additions	Utilised during the year	Total
	R'000	R'000	R'000	R'000
<b>Reconciliation of provisions - 2017</b>				
Municipal services and property rates	1 000 011	85 992	(154 197)	931 806
Unscheduled maintenance	-	511 407	-	511 407
Legal proceedings	13 295	18 193	(31)	31 457
	<b>1 013 306</b>	<b>615 592</b>	<b>(154 228)</b>	<b>1 474 670</b>
	Opening Balance	Additions	Utilised during the year	Total
	R'000	R'000	R'000	R'000
<b>Reconciliation of provisions - 2016 (restated)</b>				
Municipal services and property rates	-	1 288 719	(288 708)	1 000 011
Legal proceedings	15 551	2 798	(5 054)	13 295
	<b>15 551</b>	<b>1 291 517</b>	<b>(293 762)</b>	<b>1 013 306</b>

#### *Municipal services and property rates*

The DPW 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 claims with the local municipalities to ensure only confirmed and valid claims are settled. The next phase of the project will be to confirm the debt with the relevant departments to settle the remaining liability and to recover over payments to municipalities. National Treasury is being consulted to assist with a uniform approach concerning the settlement of the debt and outstanding interest.

As a result of this project, the PMTE has identified prepayments to municipalities amounting to R177 million (2016: R 135 million) included in the Prepaid expenses in note 3.

Debt owed to/due from municipalities but not confirmed has been included in contingent liabilities and contingent assets respectively (refer to note 30). Included in contingent liabilities is an amount of R 25 million relating to interest charged by municipalities which is still in the process of verification.

#### *Unscheduled maintenance*

The PMTE appoints contractors to perform repair and maintenance services for its properties. These transactions have been classified as a provision as there is a greater element of uncertainty regarding the amounts and timing of the work performed. Management is in the process of engaging with contractors to provide all required documentation to validate invoices.

#### *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

	2017 R'000	Restated 2016 R'000
Accommodation charges - Leasehold Inter-governmental	3 997 927	4 222 006
Accommodation charges - Freehold Inter-governmental	6 362 928	6 453 929
Accommodation charges - Freehold Private	65 674	40 787
Management fees on municipal services	193 172	182 001
Reversal of impairment loss for receivables from exchange transactions	75 860	47 734
Sundry revenue	7 589	25 922
Interest revenue	4 429	7 265
Recoveries	678	10
	<b>10 708 257</b>	<b>10 979 654</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>17. Revenue from exchange transactions (continued)</b>		
<b>Interest revenue consists of:</b>		
Interest from receivables	4 422	7 261
Interest on bank balances	7	4
	<b>4 429</b>	<b>7 265</b>
<b>18. Revenue from non-exchange transactions</b>		
Augmentation	3 389 448	3 524 652
Goods and service in-kind	27 164	36 938
Contractor fines	2 714	10 546
Accommodation charges - Prestige	1 870	2 013
Revenue from transfer of immovable assets	1 081 153	432 877
Reversal of impairment loss for receivables from non-exchange transactions	-	552
	<b>4 502 349</b>	<b>4 007 578</b>
<b>19. Construction revenue and expenses</b>		
<b>Amount recognised in surplus</b>		
Construction Revenue	254 527	256 288
Construction Expenses	(254 527)	(256 288)
	-	-
The following is included in the Revenue Accrual amount per note 3:		
<b>Gross amount due from clients</b>		
Cost incurred to date	951 043	696 515
Amounts invoiced to date	(936 496)	(676 061)
	<b>14 547</b>	<b>20 454</b>
<b>Amounts not yet billed (Revenue accrual)</b>		
Retentions	7 839	6 173
Accrued expenses	6 708	14 281
	<b>14 547</b>	<b>20 454</b>
<b>20. Depreciation, amortisation and impairments of assets</b>		
Property, plant and equipment	2 605 173	2 450 713
Investment property	151 767	151 767
Intangible assets	2 679	1 908
	<b>2 759 619</b>	<b>2 604 388</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>21. Employee related costs</b>		
Bargaining council	336	317
Basic salary and non-pensionable salary	1 144 790	971 024
Housing allowances	54 996	52 834
Medical aid contributions	72 693	69 141
Overtime	17 641	21 079
Pension fund contributions	114 132	108 625
Performance bonus	22 612	17 318
Service bonus	73 667	69 798
	<b>1 500 867</b>	<b>1 310 136</b>
<b>22. Impairment loss on receivables</b>		
Receivables from exchange transactions	297 917	472 356
Receivables from non-exchange transactions	2 133	-
	<b>300 050</b>	<b>472 356</b>
<b>23. Interest expense</b>		
Interest on overdue accounts	106	888
Interest on municipal services and property rates	85 991	243 577
Interest on finance leases	1 991	942
	<b>88 088</b>	<b>245 407</b>
Interest due on backlog municipal services and property rates has not been paid however has been provided as explained in note 16.		
<b>24. Loss on disposal/transfer of assets</b>		
Property, plant and equipment	356 928	5 186
Majority of the loss on the disposal of property, plant and equipment (amounting to R346 million) relates to the 249 land parcels which has changed ownership during the 2016/17 financial period. These are currently under investigation. Refer to note 7.		
<b>25. Operating lease</b>		
Operating lease - building and improvements	4 105 514	4 003 001
Operating lease - vehicles, furniture and office equipment	61 222	42 453
Rent on land	24 672	32 570
	<b>4 191 408</b>	<b>4 078 024</b>
<b>26. Property maintenance (contracted services)</b>		
<b>Property maintenance expense relates to the following asset categories:</b>		
Property, plant and equipment	2 925 264	2 968 531
Investment Property	49	232
Heritage assets	2 891	2 949
Leased properties	9 942	10 349
	<b>2 938 146</b>	<b>2 982 061</b>

The property maintenance expense constitutes payments to contractors for services rendered relating to repairs and maintenance on properties.

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

		2017 R '000	Restated 2016 R '000
<b>27. Sundry operating expenses</b>			
Advertising		3 041	3 909
Auditors remuneration		28 387	29 776
Bad debts written off		1 877	14 648
Bank charges		303	196
Claims against the state		37	1 429
Cleaning and gardening		250 004	217 999
Communication expenses		14 684	12 614
Computer software related expenses		11 411	19 961
Consulting fees	27.1	322 682	211 036
Consumables		27 165	24 075
Bursaries		4 119	-
Fleet expenses	27.2	12 155	18 486
Losses incurred		62 113	57 211
Municipal service expenses		258 922	809 795
Other contractors		6 467	5 435
Other goods and services		12 150	1 724
Retirement awards		9 086	10 420
Security		76 220	60 948
Service in-kind expenses #	27.3	21 420	5 285
Service in-kind receivable derecognised *	27.4	-	187 183
Travel and subsistence		71 779	69 227
		<b>1 194 022</b>	<b>1 761 357</b>

#### 27.1 Consulting fees

Included in consulting fees is R 149 million (2016: R79 million) paid to Special Investigating Unit for investigation purposes, and R 29 million (2016: R16 million) paid to COEGA Development Corporation for business improvements and process reviews.

#### 27.2 Fleet expenses

The PMTE has entered into operating lease arrangements for vehicles. The operating lease for vehicles is on a month-to-month basis and therefore no operating lease asset or liability exists.

#### 27.3 Service in kind expense

This amount relates to expenses and movable assets paid for by the PMTE but utilised by the DPW.

#### 27.4 Service in-kind receivable derecognised

Previously the PMTE recognised certain expenses which were paid by the DPW as a receivable (e.g. employee benefits due to the employees paid for by the DPW). However, as a result of the transfer of budget, the DPW will no longer be liable to pay for these expenses and benefits due to the PMTE. As a result the receivable was derecognised.

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>28. Cash generated from operations</b>		
Surplus	851 075	402 875
<b>Adjustments for:</b>		
Depreciation, impairment and amortisation	2 759 619	2 604 388
Loss on disposal/transfer of assets	356 928	5 186
Interest expense	88 088	245 407
Interest revenue	(4 422)	(7 261)
Revenue from transfer of immovable assets	(1 081 153)	(428 877)
Impairment on receivables	300 050	472 356
Bad debt written off	1 877	14 648
Reversal of impairment loss on receivables	(75 860)	(48 286)
Service in-kind revenue	(27 164)	(36 938)
Service in-kind expenditure	21 420	5 285
Losses incurred	62 236	57 212
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(1 115 743)	(1 939 688)
Receivables from non-exchange transactions	(603)	186 423
Operating lease asset	176 032	69 081
Operating lease liabilities	(142 637)	(61 344)
Payables from exchange transactions	541 056	698 290
Provisions	375 373	594 087
Employee benefit obligations	20 238	152 973
Retention liabilities	22 391	42 282
Deferred revenue	190 841	164 409
	<b>3 319 642</b>	<b>3 192 508</b>



## Notes to the Annual Financial Statements

### 29. Budget differences

#### Reconciliation of budget to actual

	2017
	R'000
Net cash flows from operating activities	3 319 642
Net cash flows from investing activities	(3 787 420)
	<b>(467 778)</b>
Cash deficit per statement of comparison of budget and actual amounts	(464 637)
Deficit for the year	851 075
<b>Basis difference</b>	<b>386 438</b>

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 2017.

#### Explanations of material variances between actual amounts and final budgeted amount

##### *Accommodation charges - freehold inter-governmental*

The revenue variance is largely attributable to Intergovernmental accommodation charges invoiced for R217m which was not recovered from the User Departments (primarily Correctional Services).

##### *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.

##### *Property rates*

Substantial arrear payments were made as executing units were given approval to settle outstanding debts on arrear rates resulting from the rates verification project. The number of invoices verified on a monthly basis varied which skewed the analysis of spending trends.

##### *Municipal services expenditure*

The 2016/17 allocation was reduced based on savings realised in 2015/16. Expenditure during 2016/17 however increased significantly in the Cape Town and Pretoria regional offices. The 2016/17 budget was therefore under allocated and has been rectified in the 2017/18 Estimates of National Expenditure.

##### *Administrative goods and services, Compensation of Employees and Machinery & Equipment*

Funds were underspent due to the labour intensive claims process between DPW and PMTE. Expenditure reports were not available on a monthly basis to enable effective budget management.

##### *Capital expenditure*

Slow expenditure occurred against the DPW Prestige, Defence and Arts & Culture projects in Cape Town and Pretoria regional offices which lead to the underspending on capital expenditure.

## Notes to the Annual Financial Statements

### 30. Contingencies

<b>Contingent liabilities</b>	2017 R'000	Restated 2016 R'000
Municipal services and property rates	60 544	60 544
Legal claims against the PMTE	50 223	67 358
Projects	6 394	-
	<b>117 161</b>	<b>127 902</b>

#### *Municipal services and property rates*

The DPW embarked on Phase II Invoice Verification project to verify claims made by local municipalities on arrear municipal debts. The project involved detailed investigation of claim with the local municipalities to ensure only valid claims are settled. 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 as well as litigations regarding cancellations of rental leases. The entity's legal advisors are handling the claims on behalf of the PMTE and have assessed 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.

#### *Projects*

Certain projects have reached final completion status however there are disputes regarding the final re-measurements and/or contractual penalties between the contractor, the Quantity Surveyor and the PMTE. No legal action has been taken by any stakeholder at the end of the reporting period. The figure disclosed represents the remaining commitment, after deducting any retentions and accruals at reporting date.

<b>Contingent assets</b>	2017 R'000	Restated 2016 R'000
Municipal services and property rates	828	828
Municipal services - shared savings	75 930	-
Legal claims by the PMTE	193 436	179 134
Retentions and variable contract guarantees	45 742	126 215
Recoverable property rates	-	Undefined
Property, plant and equipment	Undefined	Undefined
	<b>315 936</b>	<b>306 177</b>

#### *Municipal services and property rates*

The DPW embarked on Phase II Invoice Verification project to verify claims made by local municipalities on arrear municipal debts. The project involved detailed investigation of claim with the local municipalities to ensure only valid claims are settled. For further details refer to note 16.

#### *Municipal services - shared savings*

The PMTE has embarked on a project with service providers to increase usage efficiencies of energy and water resulting in direct and indirect monetary savings to the relevant client departments. The service providers' interventions have reduced their municipal services consumption which is a direct savings against the client department's budget. In addition, the interventions entered into by the service provider has identified billing errors against the client department's municipal accounts. These errors have been corrected and the client department has enjoyed the refunds directly against their municipal accounts. The invoices from the service providers for the interventions undertaken are in the process of being discussed with the relevant client departments for reimbursement purposes.

#### *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 assessed the probability of each claim in determining the total amount of the legal contingent asset and that the inflow of economic benefits is possible at the reporting date.

## Notes to the Annual Financial Statements

### 30. Contingencies (continued)

#### *Retentions and variable contract guarantees*

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. At inception of the contract the PMTE has the choice of either selecting a retention or a guarantee for security purposes should the contractor default. The variable contract guarantee is paid upfront by the contractor while for retentions a percentage is withheld on each payment to the contractor.

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.

#### *Recoverable property rates*

The PMTE is currently paying for property rates on properties of which it is not the registered custodian. In the previous financial period, properties to the value of R 90 million was disclosed to be still under investigation. During the current financial period the process has been concluded and all properties rates have been accounted for accordingly.

#### *Property, plant and equipment*

There are 164 land parcels where the PMTE is working with the Office of the Surveyor General to obtain required data in order to enable the recognition of the relevant assets where applicable.

### 31. Fruitless and wasteful expenditure

#### **Reconciliation of fruitless and wasteful expenditure**

	2017 R'000	2016 R'000
Opening balance	246 736	261 461
Fruitless and wasteful expenditure - relating to current year	119	66
Fruitless and wasteful expenditure - relating to prior year	38	-
Less amounts resolved	(147 620)	-
Less amounts reversed	-	(14 791)
	<b>99 273</b>	<b>246 736</b>

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

Fruitless and wasteful expenditure relating to the current year amount of R 119 000 and prior year amount of R 38 000 relates to instances where accommodation was paid for no-show and interest paid on overdue accounts.

The amounts resolved amounting to R147 million relates to finalised Special Investigation Unit (SIU) cases where there is evidence of corruption between DPW officials and the landlords.

#### **Details of fruitless and wasteful expenditure - discovered in the current year**

	Current year transactions R'000	Prior year transactions R'000
Accommodation paid but no-show	-	5
Interest paid on overdue accounts	114	33
Transport costs	5	-
	<b>119</b>	<b>38</b>

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 been responsible for the expenditure.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>32. Irregular expenditure</b>		
<b>Reconciliation of Irregular expenditure</b>		
Opening balance	5 147 987	31 985 176
Add: Irregular expenditure - current year	11 189	509 676
Add: Irregular expenditure - prior year	251 163	725
Less: Amounts condoned - current year	-	(90 212)
Less: Amounts condoned - prior years	(382 275)	-
Less: Amounts not recoverable (not condoned)	(1 328 863)	(27 257 378)
	<b>3 699 201</b>	<b>5 147 987</b>

Investigations into the instances of the irregular expenditure is an ongoing process. Where investigations have been concluded and officials or service providers have been found liable, appropriate disciplinary steps and civil claims have been instituted to recover amounts.

Prior year amounts condoned relate to transactions where consultants were appointed in terms of the authorised Roster Consultant System (RCS). Because the contracts were multi-year contracts, payments had to continue for the duration of the contracts even after the system was terminated in March 2014.

Amounts not recoverable (not condoned) relate to transactions handled in terms of the Guideline on Irregular Expenditure issued by the National Treasury. Preliminary investigations found that no instances of fraudulent activities had taken place, no loss/damage to the state was incurred, and there was evidence that the goods and/or services were actually delivered to the department and that officials who were involved in these contracts are no longer in the employ of the department. These transactions were identified long after the events had taken place and not in the year in which the irregularity had occurred. In consultation with National Treasury, it was decided to cease further investigation as the costs far outweigh the benefits that would be derived from continuing with the cases.

Furthermore, an amount of R94 million is included in the amount of not recoverable (not condoned) which relate to cases dealt with in terms of the policy on management of financial misconduct and investigated internally and externally by the SIU and the necessary disciplinary proceedings have been undertaken.

### Details of irregular expenditure

	2017 R'000
Correct procurement process not followed in prior year	209 609
Accrued expenditure on transactions emanating from inappropriate procurement processes	41 554
Appropriate approval not obtained from delegated authority	11 189
	<b>262 352</b>

The amount of R251 million incurred in the current year relates to various multi-year contracts where correct procurement processes were not followed in the previous years.

An amount of R11 million incurred in current year relates to day-to-day transactions where emergency services were not authorised by the delegated authority.

### Details of irregular expenditure not recoverable (not condoned)

	2017 R'000
Correct process not followed	(988 351)
Disciplinary proceedings	(94 025)
Prior period errors	(246 487)
	<b>(1 328 863)</b>

The irregular expenditure not recoverable (not condoned) relate to transactions dealt with in terms of the National Treasury Guideline on Irregular Expenditure, Policy on Management of Financial Misconduct and cases investigated internally and externally by the Special Investigation Unit (SIU) where disciplinary proceedings have been undertaken.

## Notes to the Annual Financial Statements

### 32. Irregular expenditure (continued)

#### Details of irregular expenditure - prior year amounts condoned

	2017 R'000 (382 275)
Roster appointments	

Roster appointments relate to a database of professionals appointable as lead consultants on projects. This dispensation was not compliant with the National Treasury prescripts relating to quotation thresholds. The incident was condoned by the Accounting Officer in the previous financial year.

### 33. Financial instruments disclosure

#### Categories of financial instruments

	2017 R'000	Restated 2016 R'000
<b>Financial assets at amortised cost</b>		
Receivables from exchange transactions	3 583 572	2 959 619
Cash and cash equivalents	2 934	3 982
	<b>3 586 506</b>	<b>2 963 601</b>
<b>Financial liabilities at amortised cost</b>		
Bank overdraft	1 932 441	1 468 852
Payables from exchange transactions	2 712 691	2 248 669
Retention liabilities	322 027	299 636
Finance lease obligation	16 739	11 607
	<b>4 983 898</b>	<b>4 028 764</b>

### 34. 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. The Audit Committee provides oversight over the risk management. 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 management. Internal Audit provides reviews of management's compliance to the risk management processes within the PMTE. Internal Audit reports to management and the Audit Committee on a regular basis.

# Property Management Trading Entity

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## Notes to the Annual Financial Statements

### 34. 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 14 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

2017	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	1 932 441	-	-	-	-	1 932 441
Accrued expenses - Assets	12	401 191	-	-	-	-	401 191
Accrued expenses - Cleaning and gardening	12	17 157	-	-	-	-	17 157
Accrued expenses - Leases	12	418 819	-	-	-	-	418 819
Accrued expenses - Maintenance	12	468 259	-	-	-	-	468 259
Accrued expenses - Municipal services	12	1 001 975	-	-	-	-	1 001 975
Accrued expenses - Other	12	99 564	-	-	-	-	99 564
Accrued expenses - Property rates	12	76 743	-	-	-	-	76 743
Accrued expenses - Schedule maintenance	12	221 144	-	-	-	-	221 144
Accrued expenses - Security	12	3 381	-	-	-	-	3 381
Income received in advance - leases	12	539 251	-	-	-	-	539 251
Retention liabilities	13	175 405	108 412	14 870	23 340	-	322 027
Capital commitments - Projects		1 333 155	2 966 159	1 438 493	436 179	163 269	6 337 255
Operating maintenance commitments - Projects		397 127	1 990 176	823 955	288 350	57 007	3 556 615
		<b>7 085 612</b>	<b>5 064 747</b>	<b>2 277 318</b>	<b>747 869</b>	<b>220 276</b>	<b>15 395 822</b>
<b>2016 Restated</b>							
Bank overdraft	6	1 468 852	-	-	-	-	1 468 852
Accrued expenses - Assets	12	252 819	-	-	-	-	252 819
Accrued expenses - Cleaning and gardening	12	20 841	-	-	-	-	20 841
Accrued expenses - Leases	12	326 860	-	-	-	-	326 860
Accrued expenses - Maintenance	12	586 367	-	-	-	-	586 367
Accrued expenses - Municipal services	12	720 529	-	-	-	-	720 529
Accrued expenses - Other	12	190 790	-	-	-	-	190 790
Accrued expenses - Property rates	12	33 832	-	-	-	-	33 832
Accrued expenses - Schedule maintenance	12	109 704	-	-	-	-	109 704
Accrued expenses - Security	12	5 563	-	-	-	-	5 563
Income received in advance - leases	12	510 835	-	-	-	-	510 835
Trade payables	12	2	-	-	-	-	2
Retention liabilities	13	161 279	116 976	14 395	1 283	5 703	299 636
Capital commitments - Projects		1 388 617	3 303 226	804 134	235 819	35 648	5 767 444
		<b>5 776 890</b>	<b>3 420 202</b>	<b>818 529</b>	<b>237 102</b>	<b>41 351</b>	<b>10 294 074</b>

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.

## Notes to the Annual Financial Statements

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### 34. Risk management (continued)

The PMTE has 2 597 active leases (2016: 2 459) 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 year-end, 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

### 34. Risk management (continued)

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

	2017 R'000	Restated 2016 R'000
Cash and cash equivalents	2 934	3 982
Receivables from exchange transactions	3 583 572	2 959 619
Receivables from non-exchange transactions	66	1 596
Operating lease asset	723 715	899 747
	<b>4 310 287</b>	<b>3 864 944</b>

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 owed by the state and is intrinsic to the business. National Treasury determines this rate and manages the risk on behalf of National Government.

### 35. Related parties

The PMTE is controlled through the DPW 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 DPW and as such all contracts are entered into in the name of the DPW. 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

	2017 R'000	Restated 2016 R'000
<b>Revenue from exchange transactions</b>		
Accommodation charges - Freehold Inter-governmental	5 000	-
<b>Revenue from non-exchange transactions</b>		
Augmentation	3 389 448	3 524 652
Goods and service in-kind	27 164	36 938
	<b>3 416 612</b>	<b>3 561 590</b>



## Notes to the Annual Financial Statements

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### 35. 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 DPW. 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 DPW. The DPW 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

Other overhead costs include the sharing of corporate services between the DPW and the PMTE. Due to the nature of these transactions and the operational structures between the PMTE and the DPW, the value of these shared costs cannot be reliably measured. These costs, paid by the DPW 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 DPW 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 DPW to fund its operations.

### Other related parties

The PMTE recognises accommodation revenue on state owned buildings 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.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>35. Related parties (continued)</b>		
<b>Revenue from exchange transactions: Accommodation charges - freehold inter-governmental</b>		
Agriculture, Forestry and Fisheries	99 290	86 340
Arts and Culture	40 405	35 134
Telecommunications and Postal Services	1 006	875
Correctional Services	1 023 940	973 655
Defence and Military Veterans	975 741	915 108
Higher Education	842	732
Environmental Affairs	20 286	17 640
Government Communications	32	28
Government Pension Administration Agency	32 034	-
Health	15 685	13 639
Health (Civitas)	85 823	80 965
Home Affairs	48 403	42 090
Human Settlement	514	447
Independent Complaints Directorate	379	360
Justice and Constitutional Development	360 542	346 645
Labour	56 874	49 455
Rural Development and Land Reform	32 150	29 976
Minerals	3 143	2 733
National Treasury	5 887	5 119
National Treasury - SARS	33 338	28 990
Public Services and Administration	48 520	17 610
SA Police Services	1 207 536	1 146 758
Social Development	548	477
Sports and Recreation	12	10
Statistics SA	4 672	5 155
Trade and Industry	37	32
Water and Sanitation	137 450	120 803
	<b>4 235 089</b>	<b>3 920 776</b>
<b>Gross receivables from exchange transactions: Accommodation debtors - freehold inter-governmental</b>		
Agriculture, Forestry and Fisheries	24 822	-
Arts and Culture	-	8 784
Correctional Services	255 989	-
Defence and Military Veterans	-	737
Health (Civitas)	-	33 735
Independent Complaints Directorate	189	-
International Relations and Cooperation	7 258	7 258
Justice and Constitutional Development	1	1
Public Service and Administration	12 130	65
Rural Development and Land Reform	1	1
Sports and Recreation	3	-
Statistics SA	18	941
Telecommunications and Postal Services	251	-
Trade and Industry	79	60
	<b>300 741</b>	<b>51 582</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

	2017 R '000	Restated 2016 R '000
<b>35. Related parties (continued)</b>		
<b>Impairment relating to receivables from exchange transactions</b>		
Agriculture, Forestry and Fisheries	2 658	-
Arts and Culture	-	1 076
Correctional Services	27 410	-
Defence and Military Veterans	-	112
Health (Civitas)	-	4 745
Independent Complainants Directorate	25	-
International Relations and Cooperation	7 258	7 258
Justice and Constitutional Development	1	1
Public Service and Administration	12 130	8
Rural Development and Land Reform	1	1
Statistics SA	3	130
Telecommunications and Postal Services	27	-
Trade and Industry	62	5
	<b>49 575</b>	<b>13 336</b>

The PMTE incurs 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.

<b>Expenditure</b>	2017 R'000	Restated 2016 R'000
Arts and Culture	15 871	8 620
Correctional Services	797	-
Defence	491	462
Justice and Constitutional Development	166 672	156 699
National Treasury - SARS	-	484
SA Police Services	-	38
	<b>183 831</b>	<b>166 303</b>

<b>Accruals raised</b>		
Arts and Culture	1 756	988
Correctional Services	797	-
Defence	491	-
Justice and Constitutional Development	8 026	13 626
National Treasury - SARS	-	484
SA Police Services	-	38
	<b>11 070</b>	<b>15 136</b>

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

#### 35. Related parties (continued)

Remuneration of management			Basic salary	Non- pensionable salary	Service bonus	Post employment benefits	Other short term benefits	Total
			R'000	R'000	R'000	R'000	R'000	R'000
<b>2017</b>								
<i>Employees: Regional Managers</i>								
Bloemfontein (Acting)	Mr D Gqibela		560	57	47	73	288	1 025
Cape Town	Mr F Johnson		849	121	70	127	52	1 219
Durban	Mr N Vilakazi		645	292	54	83	41	1 115
Johannesburg	Adv J Monare		713	159	61	114	158	1 205
Kimberley (Acting)	Mr S Mabinja		569	201	47	74	176	1 067
Mmabatho	Mr R Matlala		692	207	57	90	193	1 239
Mthatha (Acting)	Mr R Mabandla		571	148	-	96	24	839
Nelspruit	Mr P Mashiane		751	357	-	120	153	1 381
Polokwane	Mr M Ntshani		851	88	70	119	178	1 306
Port Elizabeth	Mr J van der Walt		798	405	-	126	23	1 352
Pretoria (Acting)	Mr M Dondashe		604	324	-	79	75	1 082
<i>Employees: Other officials</i>								
Chief Director: Construction Management Inland	Mr W Hlabangwane		822	342	67	107	133	1 471
Chief Director: PMTE Financial Planning	Ms J Prinsloo		696	293	57	112	2	1 160
<i>EXCO Members: Head of units</i>								
Head of PMTE	Mr P Serote		3 000	-	-	-	-	3 000
Construction Project Management	Mr C Lombaard		222	95	-	-	60	377
Small Harbours	Mr M Govender		908	196	12	118	95	1 329
Real Estate Registry Services	Ms B Matthews		1 031	442	-	-	5	1 478
Supply Chain Management	Ms A Chowan		913	273	-	119	-	1 305
<i>Exco Members: Deputy Director General:</i>								
Real Estate Management Services (Acting)	Mr M Sithole		542	80	-	71	215	908
Asset Investment Management (Acting)	Mr P Chiaspasco		837	172	69	117	196	1 391
Planning and Precinct Development	Mr S Subban		915	126	76	119	81	1 317
User Demand Management	Mr P Mabuza		784	326	65	102	30	1 307
User Demand Management (Acting)	Mr B Kgasoane		378	145	53	68	26	670
Project Management	Ms K Khumalo		74	32	-	-	-	106
Project Management Office	Mr M Thobakgale		916	366	-	-	87	1 369
Facilities Management	Mr P Maroga		1 031	442	-	-	-	1 473
Technical Finance expert	Ms B van der Merwe		911	391	-	-	5	1 307
			<b>21 583</b>	<b>6 080</b>	<b>805</b>	<b>2 034</b>	<b>2 296</b>	<b>32 798</b>

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

#### 35. Related parties (continued)

		Basic salary	Non- pensionable salary	Service bonus	Post employment benefits	Other short term benefits	Total
		R'000	R'000	R'000	R'000	R'000	R'000
<b>2016</b>							
<i>Employees: Regional Managers</i>							
Bloemfontein (Acting)	Mr D Gqibela	574	119	56	107	182	1 038
Cape Town	Mr F Johnson	775	105	65	117	56	1 118
Durban	Mr S Semilane	584	239	49	95	7	974
Johannesburg	Adv J Monare	644	125	54	105	174	1 102
Kimberley	Ms S Moholo	652	285	72	96	83	1 188
Mmabatho	Mr R Matlala	626	177	52	81	262	1 198
Mthatha	Mrs N Tukela	626	284	52	81	1	1 044
Nelspruit	Mr P Mashiane	645	300	-	105	179	1 229
Polokwane	Mr M Ntshani	730	61	61	103	184	1 139
Port Elizabeth	Mr J van der Walt	684	344	-	112	28	1 168
Pretoria (Acting)	Mr M Dondashe	386	207	-	50	58	701
<i>Employees: Other officials</i>							
Chief Director: Construction Management Inland	Mr W Hlabangwane	705	289	59	91	130	1 274
Chief Director: PMTE Financial Planning	Ms J Prinsloo	652	274	54	107	-	1 087
<i>EXCO Members: Head of units</i>							
Head of PMTE	Mr P Serote	2 500	-	-	-	-	2 500
Construction Project Management	Mr C Lombaard	888	380	-	-	30	1 298
Small Harbours	Mr M Govender	888	191	74	115	35	1 303
Real Estate Registry Services	Ms B Matthews	1 001	429	-	-	57	1 487
Supply Chain Management	Ms A Chowan	127	39	-	17	-	183
<i>EXCO Members: Deputy Director General:</i>							
Asset Investment Management (Acting)	Mr P Chiaspasco	774	159	65	109	200	1 307
Planning and Precinct Development	Mr S Subban	888	120	74	115	72	1 269
User Demand Management	Mr P Mabuza	761	315	63	99	45	1 283
Project and Professional Services (Acting)	Mr N Vilakazi	626	284	52	81	284	1 327
Project Management	Ms K Khumalo	889	380	-	-	77	1 346
Project Management Office	Mr M Thobakgale	809	113	-	-	282	1 204
Facilities Management	Mr P Maroga	243	104	-	-	-	347
Regional Co-ordination	Mr B Matutle	857	179	72	111	233	1 452
Technical Finance expert	Ms B van der Merwe	74	32	-	-	-	106
		<b>19 608</b>	<b>5 534</b>	<b>974</b>	<b>1 897</b>	<b>2 659</b>	<b>30 672</b>

## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

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#### 35. 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

Management renamed the following units during the 2016/17 financial period:

- Key Accounts Management was renamed to User Demand Management
- Inner City Regeneration was renamed to Planning and Precinct Development
- Project Management Office was renamed to Construction Project Management
- Real Estate Facilities Management was renamed to Small Harbours
- Property Management was renamed to Facilities Management

During the 2016/17 financial period, the Regional Co-ordination unit was disassembled as the direct line of sight principle was adopted.

*The following key management officials were appointed for a period during 2016/17 financial period:*

Deputy Director General: Real Estate Management Services (Acting)	9 months
Deputy Director General: User Demand Management (Acting)	7 months
Deputy Director General: Project Management	1 month
Head of unit: Construction Project Management	3 months

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

#### 36. Events after the reporting date

There are no subsequent events identified to be disclosed.

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

### 37. 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:

	Restated 2016 R'000
Increase in receivables from exchange transactions	81 067
Decrease in operating lease asset	(42 633)
Decrease in property, plant and equipment	(2 933)
Increase in intangible assets	293
Decrease in bank overdraft	8 718
Increase in payables from exchange transactions	(141 853)
Increase in provisions	(822 675)
Increase in employee benefit obligations	(5 734)
<b>Decrease in net assets</b>	<b>(925 750)</b>
<b>Statement of Financial Performance</b>	
Increase in revenue from exchange transactions	5 260
Increase in revenue from non-exchange transactions	1 736
Decrease in depreciation, amortisation and impairments on assets	5 714
Increase in employee costs	(676)
Increase in impairment loss on receivables	(136 644)
Increase in interest expense	(148 773)
Decrease in operating leases	6 322
Increase in property maintenance	(168 632)
Increase in property rates	(37 915)
Increase in sundry operating expenses	(436 665)
<b>Decrease in surplus</b>	<b>(910 273)</b>
<b>Decrease in opening accumulated deficit</b>	<b>(15 477)</b>
	<b>(925 750)</b>

### Restatement of accrued expenses

Due to the PMTE not having an appropriate system for recording accrual transactions, property maintenance 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. A manual accrual management system has been developed and prior period accruals restated.

	Restated 2016 R'000
Increase in payables from exchange transactions	<b>(168 987)</b>
Increase in property maintenance	<b>(168 987)</b>

### Recognising long service awards provision

Management provided for the employee benefit entitled to officials for working in government and reaching the milestone of 20 years, 30 years and 40 years of service respectively.

	Restated 2016 R'000
Increase in employee benefit obligations	<b>(5 734)</b>
Increase in employee costs	(676)
Decrease in opening accumulated surplus	(5 058)
	<b>(5 734)</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

### 37. Prior period errors (continued)

#### Correction of movable assets

Management identified errors in the movable asset register and its calculations. When transferring assets between PMTE and the DPW on the LOGIS system, some assets were transferred at incorrect purchasing prices. This error also affected the depreciation, amortisation, service in-kind revenue from non-exchange and service in-kind expense calculation for the movable assets.

	Restated 2016 R'000
Decrease in property, plant and equipment	(2 933)
Increase in intangible assets	293
	<b>(2 640)</b>
Increase in revenue from non-exchange transactions	1 736
Decrease in depreciation and amortisation	5 714
Increase in sundry operating expenses	(5 285)
Increase in opening accumulated surplus	(4 805)
	<b>(2 640)</b>

#### Corrections of incorrect invoices processed, allocation of unallocated deposits and receivables from exchange

Management embarked on a process of validating the receivables' balance for the reporting period. This included clearing the unallocated deposits against the respective outstanding receivable or recognising the revenue in the statement of financial performance. Erroneously captured invoices and credit notes against the receivables were rectified. In addition, prepayments were correctly recorded and classified separately in the receivables from exchange transactions.

Management corrected invalid invoices which were processed on the system in the previous financial periods. These payment were rejected and remained as unpaid in the bank reconciliation. As a result of the correction, the bank overdraft and accounts payable was affected as indicated below.

	Restated 2016 R'000
Increase in receivables from exchange transactions	13 113
Decrease in payables from exchange transactions	27 134
Decrease in bank overdraft	8 718
	<b>48 965</b>
Decrease in operating leases	6 322
Increase in revenue from exchange transactions	8 594
Decrease in property maintenance	355
Decrease in sundry operating expenses	9
Increase in opening accumulated surplus	33 685
	<b>48 965</b>



## Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

### Notes to the Annual Financial Statements

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#### 37. Prior period errors (continued)

##### Correction of municipal services and property rates provision

The verified municipal debt population used for the calculation of the provision for the 2015/16 AFS did not take into account the constructive obligation of DPW to pay municipal rates for all national Departments up until the budget is officially moved to the other departments. It is anticipated that the budget will move to the respective departments, for the first time, for the 2018/19 financial year.

	Restated 2016 R'000
Increase in receivables from exchange transactions	67 954
Increase in provision	(822 675)
	<b>(754 721)</b>
Increase in impairment loss on receivables	(136 644)
Increase in interest expense	(148 773)
Increase in property rates	(37 915)
Increase in sundry operating expenses	(431 389)
	<b>(754 721)</b>

##### Correction of straight lining for Freehold Private leases

During the financial period management identified calculations errors relating to the straightlining of freehold private leases.

Decrease in operating lease asset	<b>(42 633)</b>
Decrease in revenue from exchange transactions	(3 334)
Decrease in accumulated surplus	(39 299)
	<b>(42 633)</b>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

### 38. Transfer of functions between entities under common control

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

#### Transfer of function effective 1 April 2013

The PMTE acquired the following functions and the related assets and liabilities from the DPW:

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

Movements in provisional amounts relating to the above functions, consists of the following:

	Provisional amount as disclosed on 31 March 2016 R'000	GRAP Adjustments R'000	Amount as at 31 March 2017 R'000
<b>Assets</b>			
Receivables from exchange transactions	106 797	-	106 797
Receivables from non-exchange transactions	86 143	-	86 143
Operating lease asset	65 986	-	65 986
Property, plant and equipment	112 070 204	14 702 019	126 772 223
Investment property	5 711 226	274 332	5 985 558
Heritage assets	610 746	35 257	646 003
Intangible assets	40 423	(5)	40 418
	<b>118 691 525</b>	<b>15 011 603</b>	<b>133 703 128</b>
<b>Liabilities</b>			
Employee benefit obligations	(84 225)	-	(84 225)
Payables from exchange transactions	(1)	-	(1)
Deferred revenue	(3 642 974)	(978 111)	(4 621 085)
Retention liabilities	165 277	(165 277)	-
<b>Net gain on transfer of functions</b>	<b>115 129 602</b>	<b>13 868 215</b>	<b>128 997 817</b>

Contingent liabilities transferred amounted of R 11.6 million.

The extent of deemed cost applied to the following categories of assets amounts to:  
Property, plant and equipment (R 117 billion), Investment Properties (R 5.7 billion) and  
Heritage Assets (R 644 million).

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

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

#### Transfer of function effective 1 April 2015

Subsequent to transfer of functions effective 18 November 2013, the DPW transferred further functions to the PMTE in order to support the management of the PMTE's properties under the custodian of the DPW.

The PMTE acquired the following functions and the related assets and liabilities from the DPW:

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

Movements in provisional amounts relating to the above functions, consists of the following:

	Provisional amount as disclosed on 31 March 2016 R'000	GRAP Adjustments R'000	Closing provisional amount as at 31 March 2017 R'000
<b>Assets</b>			
Receivables from non-exchange transactions	(68 794)	-	(68 794)
Property, plant and equipment	91 905	(10 859)	81 046
Intangible assets	6 624	(1 015)	5 609
	<u>29 735</u>	<u>(11 874)</u>	<u>17 861</u>
<b>Liabilities</b>			
Employee benefit obligations	(66 821)	-	(66 821)
Finance lease obligation	(9 134)	-	(9 134)
<b>Net loss on transfer of functions</b>	<u>(46 220)</u>	<u>(11 874)</u>	<u>(58 094)</u>

#### Effects of transfer of functions on the financial statements

The transfer of functions impacted the financial statements as follows, on a cumulative basis as at 31 March 2016:

	2016 R'000
<b>Statement of Financial Performance</b>	
Revenue from exchange transactions	269 473
Revenue from non-exchange transactions	71 409
Construction revenue	440 227
Construction costs	(440 227)
Depreciation, amortisation and impairments on assets	(235 406)
Impairment loss on receivables	2 747
Property maintenance	(9 760 399)
Property rates	(2 747)
Sundry operating expenses	123 456
	<u>(9 531 467)</u>
<b>Statement of Financial Position</b>	
Receivables from exchange transactions	290 037
Property, plant and equipment	25 312 833
Investment property	434 850
Heritage assets	(683 205)
Intangible assets	(1 020)
Deferred revenue	(50 973)
Payables from exchange transactions	321 517
	<u>25 624 039</u>

# Property Management Trading Entity

Annual financial statement for the period ending 31 March 2017

## Notes to the Annual Financial Statements

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

#### Other information

The assets and liabilities transferred from the DPW were recognised at provisional amounts and adjusted annually to reflect the changes thereto. The following processes resulted in adjustments to the provisional amounts:

#### *Identification of properties and conditional assessments*

The PMTE utilised various service providers to assist with the physical verification of assets, including identification of significant components in accordance with its asset management policy.

#### *Deemed cost*

The PMTE determined deemed cost for items of non-current assets transferred where the carrying amount of the items were not available on the transferred date.

For immovable assets (property, plant and equipment; heritage assets and investment property), deemed cost was determined using the following hierarchy

- Municipal valuations – where a municipal value was available, using the most recent municipal valuations dated closest to the transfer date, commencing with the 2013 valuations and onwards.
- Sales comparison values – where a recent sales value was available for a similar type of asset.
- Depreciated replacement cost – based on the recent building indices and extent of the properties adjusted for the current condition of the asset after considering the remaining useful life.

For movable assets, deemed cost was determined based on the value of similar assets.

#### *Projects and expenditure relating to transfer of functions*

Projects embarked by the PMTE had to be analysed into projects relating to immovable assets transferred, projects conducted on behalf of other custodians and projects relating to maintenance. This enabled correct classification of assets-under-construction, construction contracts and maintenance. The assets-under-construction had to be further analysed to determine the projects that are recoverable in order to determine the revenue that had to be deferred until such projects is completed.